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PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
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Finanse i rachunkowość – teoria i praktyka

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TAX POLICY IN TAIWAN (REPUBLIC OF CHINA)

1. Introduction

This article is here to give you a general idea of the tax situation in Taiwan. This is not a definitive guide.

2. Description of Taiwan

The island of Taiwan lies some 120 kilometers off the southeastern coast of mainland China, across the Taiwan Strait, and has an area of 35,801 square kilometers (13,823 square miles). The East China Sea lies to the north, the Philippine Sea to the east, the Luzon Strait directly to the south and the South China Sea to the southwest. The island is characterized by the contrast between the eastern two-thirds, consisting mostly of rugged mountains running in five ranges from the northern to the southern tip of the island, and the flat to gently rolling plains in the west that are also home to most of Taiwan's population. The Republic of China's population was estimated in 2005 at 22.9 million, most of whom are on the island of Taiwan. About 98% of the population is of Han Chinese ethnicity. Over 93% of Taiwanese are adherents of a combination of Buddhism, Confucianism, and Taoism; 4.5% are adherents of Christianity, which includes Protestants, Catholics, Mormons, and other non-denominational Christian groups; and 2.5% are adherents of other religions, such as Islam [3].

Economy

Taiwan now faces many of the same economic issues as other developed economies. With the prospect of continued relocation of labor-intensive industries to countries with cheaper work forces, such as in China and Vietnam, Taiwan's future development will have to rely on further transformation to a high technology and service-oriented economy. In recent years, Taiwan has successfully diversified its trade markets, cutting its share of exports to the United States from 49% in 1984 to 20% in 2002. Taiwan's dependence on the U.S. market should continue to decrease as its exports to Southeast Asia and mainland China grow and its efforts to develop European markets produce results. Taiwan's accession to the WTO and its desire to become an Asia-Pacific "regional operations center" are spurring further economic liberalization [1]. Next tables (No. 1-3) shows some economic data: GDP growth, unemployment etc.

Table 1. GDP Growth Rates

GDP Growth Rates of Major Countries (%)								
Year	Taiwan	Mainland China	Hong Kong	USA	Japan	Canada	Germany	France
2007 p	4.4	10.5	5.3	2.1	2.2	2.2	2.6	2.1
2006	4.68	10.70	6.82	3.32	2.21	2.77	2.68	2.16
2005	4.07	10.24	7.52	3.22	1.87	2.74	0.91	1.19

Source: [4].

Table 2. Per Capita GDP

Per Capita GDP of Major Countries (US$)								
Year	Taiwan	Mainland China	Hong Kong	USA	Japan	Canada	Germany	France
2006	16,030	1,983	26,603	43,993	35,565	38,927	34,973	36,785
2005	15,668	1,691	25,239	41,768	35,623	35,005	33,800	35,153

Source: [7].

Table 3. Unemployment Rates

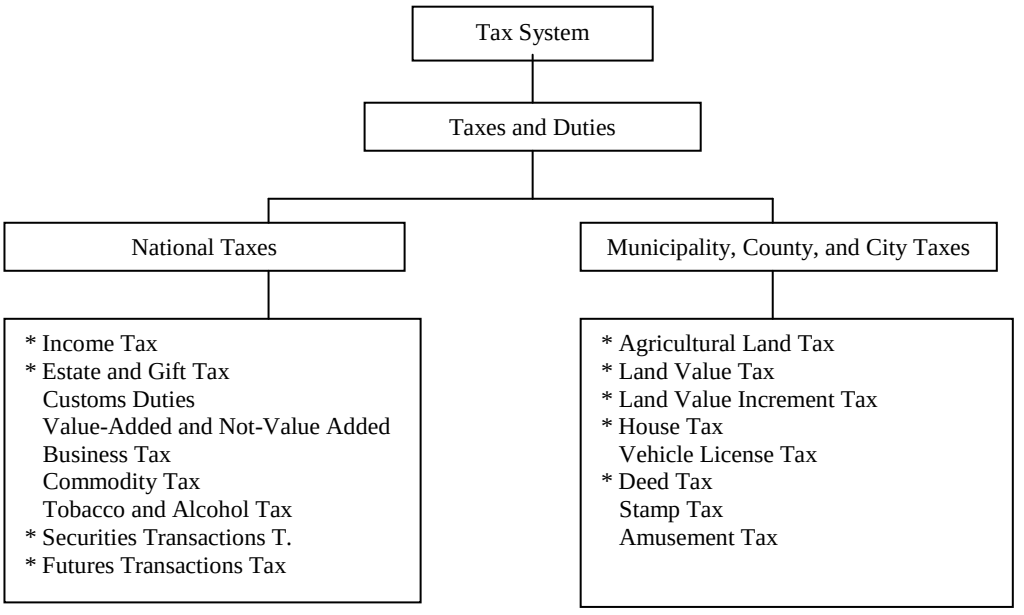
Unemployment Rates in Major Countries (%)							
Year	Taiwan	Mainland China	Hong Kong	USA	Japan	Canada	Germany
2006	3.91	–	4.80	4.62	4.14	6.29	8.10
2005	4.13	–	5.58	5.08	4.43	6.76	9.20

Source: [2].

Other economic data [1]
GDP: purchasing power parity – $631.2 billion (2005 est.).
GDP – composition by sector: agriculture: 1.6%, industry: 29.3%, services: 72.7% (2005).
Population below poverty line: 0.9% (2005 est.).
Inflation rate (consumer prices): 2.3% (2005 est.).
Unemployment rate: 4.2% (2005 est.).
Budget: revenues: $41.67 billion, expenditures: $50.26 billion, including capital expenditures of $14.4 billion (2005 est.).
Industries: electronics, petroleum refining, armaments, chemicals, textiles, iron and steel, machinery, cement, food processing, vehicles, consumer products, pharmaceuticals.

3. Tax system

The political system of Taiwan (ROC) is based on a separation of power between central government and local government, and this therefore is the concept underlying tax system. Thus, in the Law Governing the Allocation of Government Revenues and Expenditures, taxes are either classified as national taxes, municipality, county, or city taxes. National taxes are allocated to the Central Government, while municipality taxes, as well as county and city taxes, are allocated to the local governments of special municipalities, counties, and cities (fig. 1). With independent sources of revenue, each of the various levels of governments under this definition can, at the same time, adjust their local finances by helping one another in either sharing their resources or allocating them in accordance with an overall plan [6].



* Direct Taxes.

Fig. 1. Tax system – Taiwan (Republic of China)

Source: [8].

The proportion of direct taxes in total tax revenue rose from 51.8% to 59.4% during the ten years between 1996 and 2005, while that of indirect taxes declined from 48.2% to 40.6%. Thus, the proportion of direct taxes in that period increased by 7.6% [8]. In more detail in fig. 2.

The tax burden of the people can be measured by the proportions of total tax revenues in both the national income and the gross domestic product. In the decade between 1996 and 2005, the proportion of total tax revenues to our national income was 15.3% on average. There was a tendency from 1996 for the proportion to decrease and it was at 15.8% in 2005. As for the proportion of total tax revenues in the gross domestic product for the same period, the average was 13.8% with a similar tendency to decrease from 1996. The average was15.8% in 1996, while in 2005 it was 14.1%. The overall tax burden, however, still remains relatively low among the nations of the world. If we compare the tax burden of our people with that of people in noted industrial countries, for example the USA and Japan, the proportions of total revenues in the gross domestic product according to data for 2003 were 18.8% in the USA and 15.6% in Japan, both higher than our 12.1% for the same year [8]. Total tax revenue by year from 2001 to 2005 is showed in table 4.

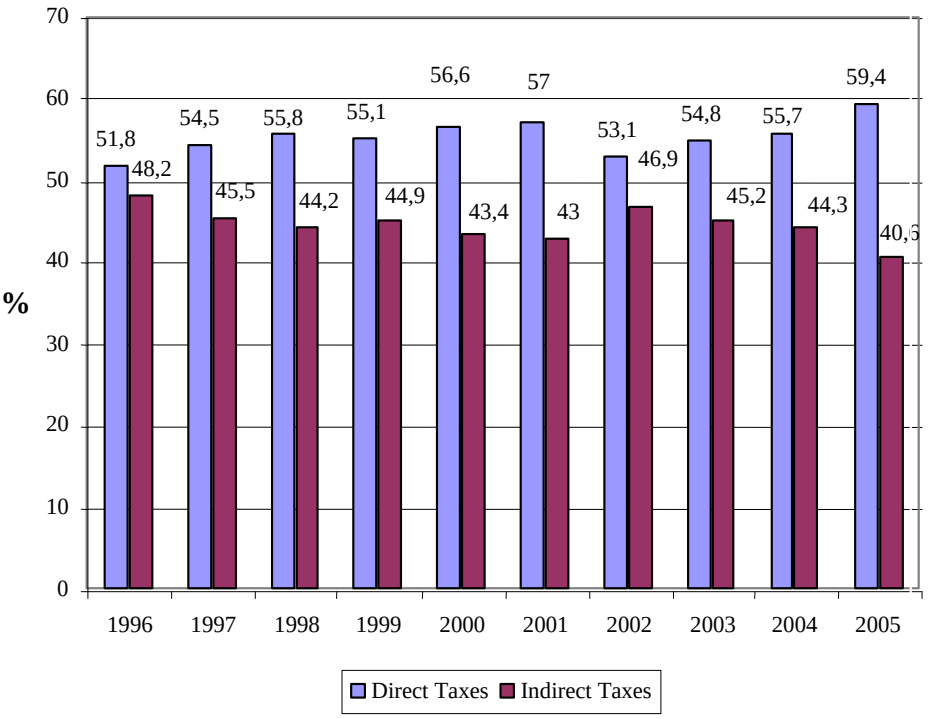


Fig. 2. Direct taxes and indirect taxes (Taiwan 1996-2005)

Source: [8].

Table 4. Total Tax Revenue in Taiwan

Item Unit: NT$ million	2001		2002		2003		2004		2005	
	Amount	Rati %	Amount	Rat %	Amount	Rat%	Amount	Rat %	Amount	Ratio %
Total	1,257,841	100	1,225,601	100	1,252,766	100	1,387,300	100	1,567,395	100
Taxes	1,200,278	95.4	1,190,874	97.2	1,220,116	97.4	1,353,400	97.6	1,531,297	97.7
Customs Duties	92,558	7.4	85,901	7.0	82,783	6.6	78,884	5.7	82,374	5.3
Income Tax	478,636	38.1	392,939	32.1	411,087	32.8	455,913	32.9	625,807	39.9
Profit-Seeking Enterprise Income Tax	233,678	18.6	165,759	13.5	213,683	17.1	241,089	17.4	329,357	21.0
Individual Income Tax	244,958	19.5	227,180	18.5	197,404	15.8	214,824	15.5	296,450	18.9

Commodity Tax	133,883	10.6	143,641	11.7	146,012	11.7	159,643	11.5	168,411	10.7
Tobacco and Alcohol Tax	-	-	41,188	3.4	49,773	4.0	48,336	3.5	50,443	3.2
Business Tax	203,707	16.2	214,735	17.5	197,521	15.8	214,824	15.5	296,450	18.9
Land Value Tax	50,920	4.0	50,169	4.1	50,762	4.1	52,617	3.8	53,706	3.4
Land Value Increment Tax	42,262	3.4	47,900	3.9	61,041	4.9	81,276	5.9	81,664	5.2
Others	198,311	15.8	214,401	17.5	221,137	17.7	243,281	17.5	231,361	14.8
Monopoly Revenues	57,563	4.6	346	-	-	-	-	-	-	-
Financial Enterprises Business Tax	-	-	26,083	2.1	22,433	1.8	24,229	1.7	25,712	1.6
Health and Welfare Surcharge on Tobacco	-	-	8,298	0.7	10,217	0.8	9,611	0.7	10,387	0.7

Source: [8].

4. Some tax

A. Individual income tax

A progressive individual income tax from 6% to 40% exists. Non-resident foreigners who stay in Taiwan for over 90 days must file tax returns. Foreign individuals resident in Taiwan for over 183 days are subject to taxation on all income from Taiwan sources but are not liable for taxes on income earned outside of Taiwan. Personal exemptions of NT$78,000 are allowed for the taxpayer.

B. Profit-seeking enterprise tax

Under the profit-seeking enterprise income Tax law, the national government levies an income tax on all registered enterprises. For taxable incomes of up to NT$50,000, there is no income tax liability. For income between NT$50,000 and NT$100,000, the tax payable is 15%. For income over NT$100,000, the tax is 25%. Any business with its head office located outside of Taiwan but with an office or facility located in Taiwan is taxed upon income derived from Taiwan. If a foreign entity exists without any fixed place of business, a withholding tax on Taiwan sourced gross income of 20% is assessed.

C. Business tax (value added tax)

A business tax (VAT) is in existence. Any transaction of goods or services within Taiwan is subject to this tax. Liability is incurred once an invoice is issued rather than when it is paid. Any transaction involving either the import or export of goods is still considered to be covered by the laws governing this tax although a zero VAT tax rate applies to exports. Most enterprises subject to this tax fall under the 5% tax rate.

D. Commodity tax

Rubber and tires (10-15%); Cement; Non-alcoholic beverages (8-15%); Flat glass (10%); Oil and gas; Electric appliances (10-20%); Automobiles (25-30%).

E. Land taxes

Land Value Tax: A Land Value Tax is assessed on non-farm land. A complex series of formulas are set up for six different classes of land that are taxed.

Land Value Increment Tax: The Land Value Increment Tax is designed to curb speculation and monopolization of what is, in essence, a limited commodity available in Taiwan. The tax is collected on the total incremental value at the time of transfer of title to the land, with total incremental value assessed according to a prescribed set of formulas.

Agricultural Land Tax: The assessment of agricultural land for taxation purposes is based on taxation principles used in China for over 4,000 years! This tax can be paid either in kind or with cash. It is the world´s oldest recorded tax.

F. House tax

The revenue raised from the house tax goes to the local government, and is one of the most important financial resources for special municipalities and counties (or cities). However, each local government is permitted to have its own regulations, according to the various conditions in each county (or city). The actual rates enforced in the Province of Taiwan, the City of Taipei, and the City of Kaohsiung are listed in the following table 5.

Table 5. House tax

Classification of Houses	Max. Rates	Min. Rates	Actual Rates Enforced by the Majority of Counties (Cities)	
Houses for Residential Purposes	2%	1.2%	Taiwan Province Taipei City Kaohsiung City	1.2%
Houses for Business Purposes	5%	3%	Taiwan Province Taipei City Kaohsiung City	3% 3% 3%
Houses for Private Hospitals, Professional Offices, and the Premises of Non-Profit Civil Organizations	2.5%	1.5%	Taiwan Province Taipei City Kaohsiung City	2%

Source: [8].

5. Conclusion

Taxes in Taiwan are categorized into national and municipal according to the allocation of tax revenues. The ultimate authority on matters of taxation in Taiwan is the Ministry of Finance (MOF) [http://www.mof.gov.tw]. It is empowered to draft, enact, and interpret laws and regulations related to taxation, enforce taxation law on an administrative level, formulate taxation policies, and levy and collect taxes. The National Tax Administration (NTA) is a subordinate agency of MOF and is responsible for the enforcement of national tax laws (except for the Customs Law). Currently, there are five NTAs; namely, Taipei National Tax Administration; Kaohsiung National Tax Administration; National Tax Administration of Northern Taiwan Province; National Tax Administration of Central Taiwan Province; and National Tax Administration of Southern Taiwan Province. In Taiwan, each tax is legislated by a specific tax law. For example, income tax is imposed by the Income Tax Law while estate and gift taxes are under the Estate and Gift Tax Law [5].

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POLITYKA PODATKOWA NA TAJWANIE (REPUBLIKA CHIŃSKA)

Streszczenie

W niniejszym artykule przedstawiono politykę podatkową na Tajwanie. W pierwszej części omówiono uwarunkowania geograficzne i ekonomiczne Tajwanu, w drugiej zaś scharakteryzowano

system podatkowy w tym państwie oraz przedstawiono dochody podatkowe uzyskane w latach 2001--2005. W części pracy przybliżono także wybrane podatki, takie jak: podatek dochodowy od osób fizycznych, podatek dochody od osób prawnych, VAT, podatek od towarów czy podatki od nieruchomości i gruntów.