

CHAPTER I

A GENERAL DESCRIPTION OF TAXATION

I. Tax System

Following the teachings of the late Dr. Sun Yat-Sen, the political system of our country is based on a separation of power between central government and local government, and this therefore is the concept underlying our tax system. Thus, in the Act 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. 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.

According to the Act Governing the Allocation of Government Revenues and Expenditures as amended in 1999 and the Specifically Selected Goods and Services Tax Act as promulgated in 2011, current taxes are classified as follows:

A. National taxes consist of income tax (individual income tax and profit-seeking enterprise income tax), estate and gift tax, customs duties, business tax, commodity tax, tobacco and alcohol tax, securities transactions tax, futures transactions tax, specifically selected goods and services tax and mine concession tax (as of 31st December, 2003, the designation of the mine concession tax was changed to mining royalties, which do not belong to national taxes). Ten percent of total revenue from income tax and commodity tax and 40% of total revenue from business tax, after subtracting the prizes awarded to uniform invoice lottery winners, shall be allocated by the central government according to an overall plan of the special municipality and county (or city).

In the case of a special municipality, 50% of total revenue from the estate and gift tax it collects shall be allocated to the special municipality.

In the case of a county (city), 80% of total revenue from the estate and gift tax it collects shall be allocated to the county (city) government.

B. Special municipality and county (city) taxes consist of land taxes (land value tax, agricultural land tax, and land value increment tax), house tax, vehicle license tax, deed tax, stamp tax, and amusement tax. Of these, land value increment tax shall have 20% of its total revenue redistributed by the central government among counties according to an overall plan.

In the case of a special municipality, special municipality taxes take the place of the county and city taxes mentioned above; the total revenue of these taxes goes to the special municipality governments.

Instead of being collected as monopoly revenues, tobacco and alcohol taxes have, since 1st January, 2002, been levied separately and classified as a national tax according to the Act Governing the Allocation of Government Revenue and Expenditures.

Eighteen percent of total revenue from the tobacco and alcohol tax is allocated to the special municipalities and counties in Taiwan Province based on the proportion of population, and 2% of it is allocated to Kinmen and Lienchiang Counties in Fukien Province.

There are eighteen statutory tax items (agriculture land tax except), levied by the two levels of government. Those taxes that come under the category of direct taxes according to conventional taxation theories are profit-seeking enterprise income tax, individual income tax, estate and gift tax, securities transactions tax, futures transactions tax, land value tax, land value increment tax, house tax and deed tax; the remainder are indirect taxes, such as customs duties, commodity tax, business tax, tobacco and alcohol tax, specifically selected goods and services tax, vehicle license tax, stamp tax and amusement tax. (Note: The levying of agriculture land tax has been suspended since 1987.)

II. Tax Structure

The proportions of direct and indirect taxes in a nation's total revenue are often taken as criteria in judging its tax structure; in taxation administration, direct tax is regarded as a taxation levied on investment earnings or commercial or occupational gains, in which the taxation levy is generally assessed according to the taxpayers' declaration. Indirect tax pertains to taxes levied on individual consumption and gains from the transfer of property that occur in the presence of a specific behavior. Thus, under the taxation statistics, direct tax includes income tax, estate and gift tax, securities transactions tax, futures transactions tax, land tax (consisting of agricultural land tax, land valuation tax and land value increment tax), house tax, deed tax, education surtax, with the remainder regarded as indirect tax.

Due to government efforts to improve the tax structure and strengthen the income tax collection system, the relative importance of direct taxes as a percentage of total tax revenue has shown higher than indirect taxes steadily between 2009 and 2013. (see chart B)

Chart A: The Tax System

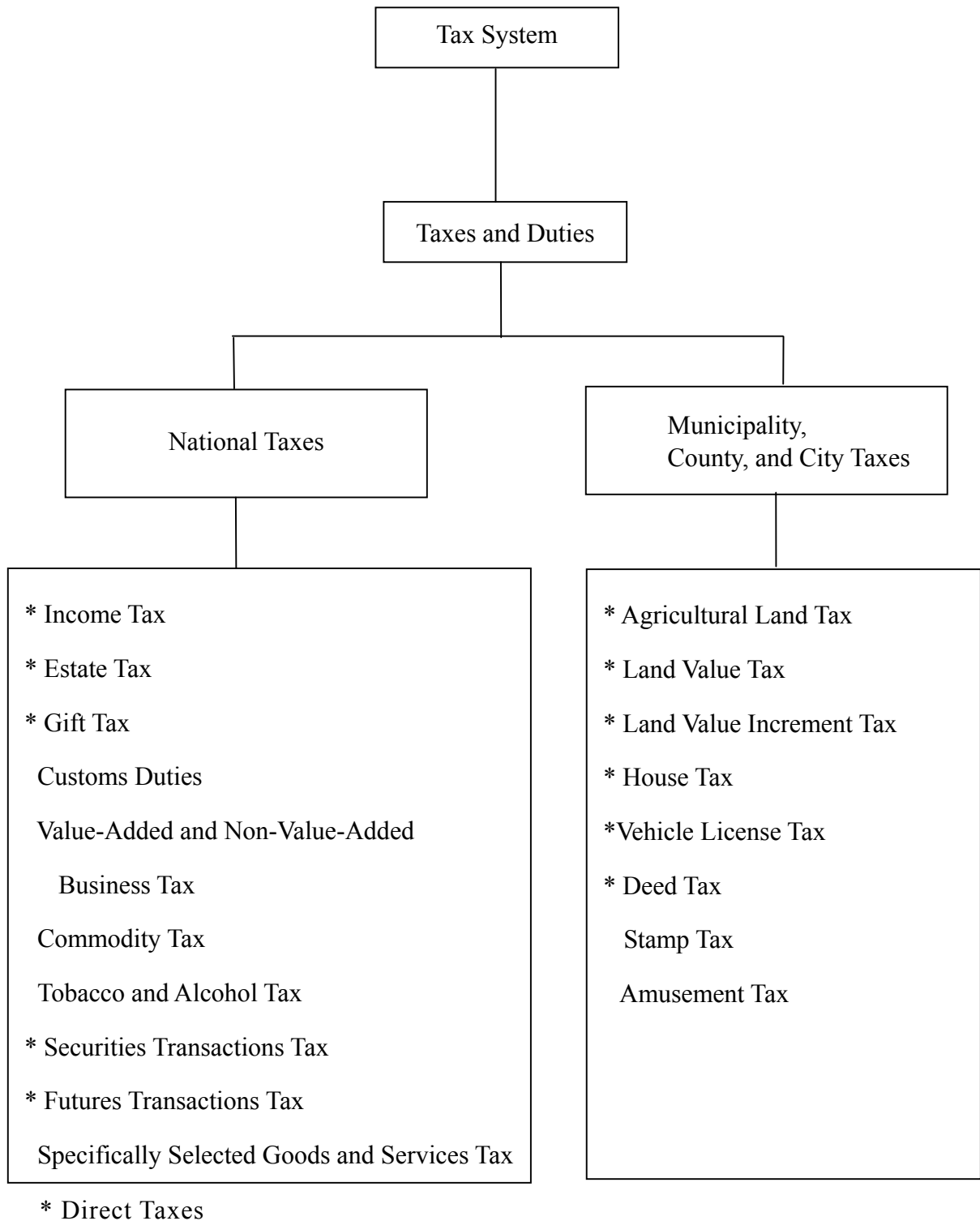
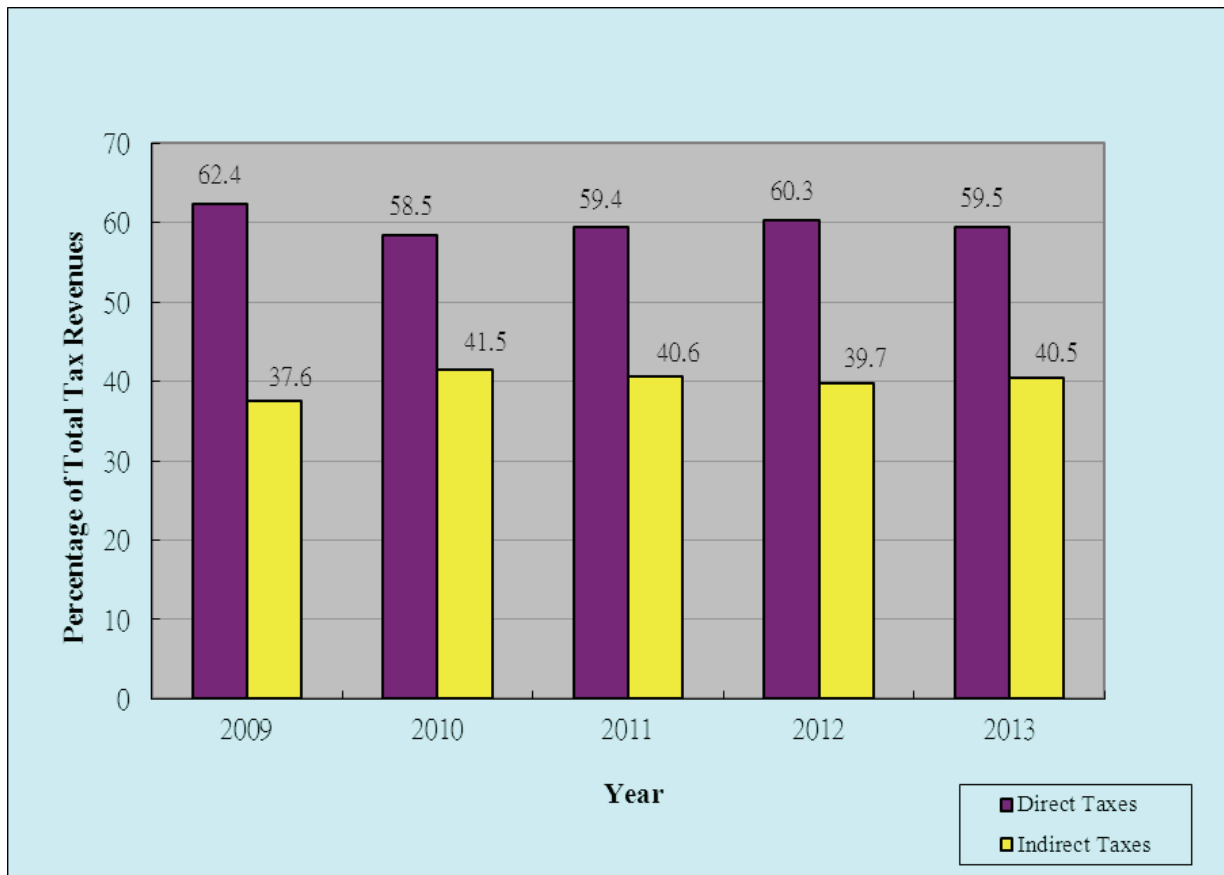


Chart B: The Annual Percentage of Direct and Indirect Taxes of Total Tax Revenues for the Year 2009 to 2013



III. Tax Revenues

Owing to economic development, social progress, and population growth, there has been an increasing demand for services to be provided by the government, and with the expansion of government functions, the magnitude of government expenditure has continued to grow. According to data presented in the Yearbook of Financial Statistics, the percentage ratio of tax revenues to general government net revenues for the period between 2009 and 2013 was on average 72.7%, the highest being 74.7% for the fiscal year 2012, and the lowest 70.2% for the year 2009. There has been remarkable growth in the absolute value of tax revenues (excluding the business tax levied on financial industries, the health and welfare surcharge on tobacco, and the specifically selected goods and services tax), which came to a total of NT\$1,768.8 billion in 2013 as compared with NT\$1,483.5 billion in 2009, an increase of 19.2%. (For details, please refer to Chart C as below.)

In terms of the contribution ratios of tax revenues among governments at all levels, of the total tax revenues for the fiscal year 2009, the central government was apportioned 83.5% and the municipality and county (or city) governments was apportioned 16.5%, and for the

fiscal year of 2013, the central government was apportioned 81.9%, and the municipality and county (or city) governments 18.1%.

Chart C: Total Tax Revenue for the Years from 2009 to 2013

Unit: NT\$ million

Item	2009		2010		2011		2012		2013	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
Total	1,530,282	100.0	1,622,244	100.0	1,764,611	100.0	1,796,697	100.0	1,834,124	100.0
Taxes	1,483,518	96.9	1,565,847	96.5	1,703,988	96.6	1,733,350	96.5	1,768,817	96.4
Customs Duties	68,827	4.5	89,484	5.5	96,323	5.5	94,918	5.3	97,009	5.3
Income Tax	640,967	41.9	590,387	36.4	710,191	40.2	760,810	42.3	743,290	40.5
Profit-Seeking Enterprise Income Tax	334,163	21.8	285,701	17.6	367,186	20.8	367,744	20.5	351,115	19.1
Individual Income Tax	306,804	20.0	304,686	18.8	343,005	19.4	393,065	21.9	392,174	21.4
Commodity Tax	127,879	8.4	150,777	9.3	164,877	9.3	160,897	9.0	162,504	8.9
Tobacco and Alcohol Tax	45,349	3.0	44,516	2.7	44,660	2.5	44,939	2.5	44,769	2.4
Business Tax	223,503	14.6	268,214	16.5	283,884	16.1	281,817	15.7	303,039	16.5
Land Value Tax	59,054	3.9	63,044	3.9	63,374	3.6	62,712	3.5	70,826	3.9
Land Value Increment Tax	53,313	3.5	73,313	4.5	78,608	4.5	81,137	4.5	103,255	5.6
Others	264,626	17.3	286,112	17.6	262,071	14.9	246,120	13.7	244,125	13.3
Financial Enterprises Business Tax	21,853	1.4	21,602	1.3	23,806	1.3	24,720	1.4	24,932	1.4
Health and Welfare Surcharge on Tobacco	24,911	1.6	34,795	2.1	34,609	2.0	34,352	1.9	35,057	1.9
Specifically Selected Goods and Services Tax	—	—	—	—	2,206	0.1	4,275	0.2	5,318	0.3

IV. Tax Burden

The magnitude of the tax burden on the public has been not only a principal basis in reference to which financial authorities determine their taxation policies, but also an indicator by which international comparisons are made between tax burdens in different countries. This

burden directly affects the disposable income and indirectly the consumption level and the standard of living of the people. Thus, in order to enhance public welfare, countries with taxes as their principal source of revenue all take light taxation as the goal of their taxation policies. The magnitude of the tax burden of the people has thus become one of the set of indicators by which the economic well-being of a nation is assessed.

The tax burden of the people can be measured by the proportions of total tax revenues to the gross domestic product (GDP). For the period between 2009 and 2013, the proportion of total tax revenues to GDP averaged 12.5%. The ratio was 12.3% in 2009, while in 2013 it was 12.6%, with the lowest point being 12.0% in 2010. 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 countries, for example in the USA and Singapore, the proportions of total revenues to GDP according to data for 2012 were 18.9% in the USA and 14.1% in Singapore, both higher than our 12.8% for the same year.

Considering the present levels of our economic development and national income, the current level of the tax burden can be called reasonable and there is a potential capacity for additional taxation in the future.

V. Tax Organization

A. Central Government

The MOF, as the highest administrative organ of taxation, lays down taxation policies, enacts tax laws and oversees the levy and collection of taxes. Under the MOF, there are the Taxation Administration, Customs Administration, Fiscal Information Agency, and Training Institute. The Taxation Administration is in charge of drafting, enacting, and interpreting inland tax codes (for taxes other than customs duties), as well as overseeing the levy and collection of inland taxes. The Customs Administration is in charge of drafting, enacting, and interpreting tariff codes, as well as overseeing the collection of customs duties. The Fiscal Information Agency is in charge of filing, checking, and examining the inland tax data of the whole country. The Training Institute is in charge of the pre-job and on-the-job training of public finance personnel. All the above organs are directly subordinated to the MOF, while serving at the same time as staff units for the MOF.

National taxes of the central government are levied in two broad categories: customs duties and inland taxes. Customs duties are the responsibility of the Customs Administration, under which are the customs offices of Keelung, Taipei, Taichung, and Kaohsiung, with branches and sub-branches, and which may, as determined by local conditions and the volume of business, set up collection offices as local level customs units. Inland tax collection comes directly under central government control. Five national taxation bureaus are in charge of the collection of national taxes in different locations, including the National Taxation Bureau of Taipei, the National Taxation Bureau of the

Northern Area, the National Taxation Bureau of the Central Area, the National Taxation Bureau of the Southern Area and the National Taxation Bureau of Kaohsiung. In the past, the collection of business tax was entrusted to the special municipality and county (or city) governments. However, the collection of the aforesaid tax was assumed by the national taxation bureaus as of January, 2003 in order to promote efficiency in collection and improve the cross-auditing of tax information related to the business tax and the profit-seeking enterprise income tax.

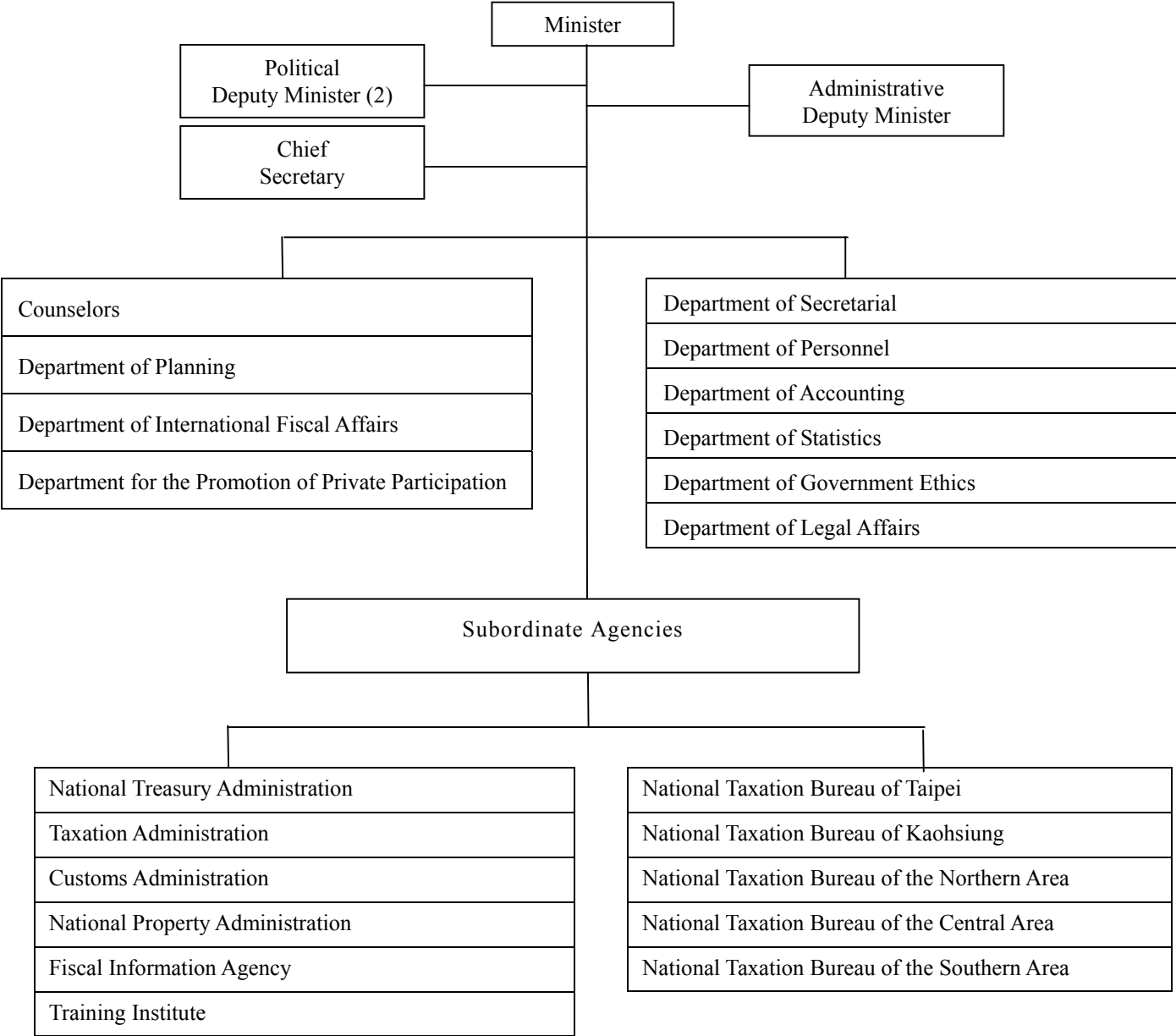
B. Special Municipality Governments

Special municipality tax bureaus are the branches in charge of the levying of special municipality taxes. Under the special municipality tax bureaus are the special municipality tax offices in charge of the collection of special municipality taxes. The tax offices may, in view of the administrative divisions and economic development of an area, set up branch offices as local level tax collection units.

C. County (or City) Governments

County (or city) governments all have their own tax offices in charge of the collection of county and city taxes, respectively. These tax offices may, in view of the administrative divisions and business conditions of the area, set up branches as local level collection units. County and city tax offices are subordinate organs of the county and city governments concerned, performing tax collection tasks on orders from the magistrate of the county or the mayor of the city, and are directed and supervised by the county and city government concerned, as well as the finance bureau.

Chart D: The Organization of the Ministry of Finance



—— Administration System

CHAPTER II

INDIVIDUAL INCOME TAX

I. General Description

Income taxation in the Republic of China (ROC) began with the Income Tax Statute of 1914, which was however, impossible to implement at the time due to widespread hardship. This statute and its Implementation Rules of 1915 were not revised or published until the first National Finance Assembly of 1928. Again, there was no implementation. In 1936, the ROC Income Tax was first adopted as a national tax levied only on business profits, wages, and interest income. An income tax agency was established under the MOF to manage collection and enforcement. There were branches in each province and in important cities. By then, income taxation had been established as a direct tax.

In 1943, rentals and sporadic income were included in the tax base and taxed at a separate rate until 1946, when they were consolidated into a hybrid system. In conformity with the trend of income taxation, the individual income tax became consolidated in 1955 and handled independently from profit-seeking enterprise income tax.

II. Tax Scope

Taxable income is classified into the following ten categories:

A. Business income

1. Cash or stock dividends declared and distributed to shareholders by corporations.
2. Profits distributed to their members by co-operatives.
3. The gross surplus profit payable to partners by partnerships.
4. Profits earned by sole proprietors.
5. Profits from incidental trading activities, i.e., gains earned through the sale or exchange of merchandise by individuals who do not register themselves as a business enterprise.
6. Retail earnings from an individual distributor of a multi-level direct sales business whose total annual purchases exceed NT\$70,000.

B. Income from professional practice

1. Professional practitioners include lawyers, certified public accountants, architects, engineers, doctors, pharmacists, midwives, writers, brokers, scribes, artisans, performers, and persons who make a living by their own profession.