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Taxation in Taiwan

Deloitte, Haskins & Sells

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Taxation in Taiwan

International
Tax and Business
Service

Taxation in Taiwan

International Tax and Business Service

APRIL 1979

This book is based on the latest information available to Deloitte Haskins & Sells as of the above date. T.N. Soong & Co., SGV-Soong & Co., member firms of Deloitte Haskins & Sells International, assisted in the preparation of this book. Their offices in Taiwan are located at the following addresses:

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Taxation in Taiwan is part of a series that presents information on taxation in various countries of the world. The book is intended to supply information of a general character regarding taxation in Taiwan for use as background when considering the conduct of business in that country. Specific questions should be answered by reference to the laws and regulations of the country and by consultation with professional advisors in the light of the particular circumstances.

Taxation in Taiwan is published in two forms: in a loose-leaf edition and as a bound book. Only the loose-leaf edition may be supplemented or revised. These supplements will appear on blue-colored sheets inserted at the end of the book. These supplementary pages will be keyed to the original text by chapter and section numbers and should always be read in connection with the original text. In addition, revised information may be presented on pages inserted in the basic text to replace original pages. Revisions of this type are indicated by a date that appears on the bottom of each replacement page.

Rules governing taxation are subject to change and reinterpretation, in many cases with little or no advance notice. The information in this book is based on material available to Deloitte Haskins & Sells as of April 1979.

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Part 1: The Tax System

Tax Legislation and Administration

1.01 Enactment of Tax Legislation

The tax system of the Republic of China, as it is applied in Taiwan, consists of levies on behalf of the central government, the provincial government, the Taipei City government, and the local subdivisions under the provincial government. Tax revenues are shared among the levels of government in ratios fixed by law. Since the central government moved to Taiwan in 1949, the distinction between national and provincial taxes has lost much of its original significance.

The basic authority on income tax law is the Chinese Income Tax Law originally enacted on February 17, 1943, which has been revised a number of times. It is similar to the United States Internal Revenue Code in that it contains all legislative provisions concerning income taxes. It is not nearly as comprehensive or specific as its United States counterpart, however, nor does it contain provisions relating to other taxes. Separate laws are enacted for other taxes, such as the gross business receipts tax and the stamp tax (Chapter 13).

All tax legislation is enacted by the legislative branch of the government. It is then promulgated for enforcement by presidential decree.

The current Income Tax Law provides that the legislative branch shall annually prescribe the allowable deductions and exemptions for individuals as well as the minimum taxable amounts and tax rates for both individuals and businesses. This must be done prior to the beginning of each fiscal year and has caused a more frequent change in tax rates than otherwise might have occurred.

1.02 Tax Administration

The administration of taxes is under the jurisdiction of the Ministry of Finance, which is part of the executive branch of the government. The head of this Ministry is appointed by the President of the Republic upon recommendation of the president of the executive branch.

The Ministry of Finance has authority to issue regulations under the Income Tax Law. This authority has been exercised and enforcement rules have been issued and amended at various times. These regulations must be approved by the executive branch. The Ministry also has authority to prescribe minimum estimated fixed asset lives and depletion rates, subject again to executive branch approval. The Ministry also prescribes all tax return forms.

Provincial and City Government Tax Bureaus. Customs duties and provincial tobacco and liquor sales are administered by independent agencies, which turn over the amounts collected to the central or

provincial government. National taxes other than the customs duties, including the income tax, the commodity tax, the stamp tax, and the estate tax, collected within the jurisdiction of the Taipei City government are administered by the Taipei City National Tax Bureau created on July 1, 1967. National taxes other than the customs duties in areas other than Taipei City, as well as provincial and local taxes in all areas of Taiwan, are collected for all levels of government by 21 provincial government tax bureaus and their suboffices. Except in the area of Taipei City in respect of national taxes, it is the provincial government bureau's responsibility to enforce all tax laws and regulations of the central, provincial, and local governments within its jurisdictional area. The local collection authority-in-charge issues assessment notices, conducts examinations and investigations, and provides information and guidance to taxpayers.

Administrative Review. Income tax disputes normally arise after an examination of the taxpayer's return by the local tax bureau results in an additional assessment. A taxpayer may then file an application for re-examination by paying 50% of the additional tax resulting from the assessment. If the taxpayer is not satisfied with the result of the re-examination, he may file an administrative appeal with the agencies supervising the local tax bureau. If he is still not satisfied, as a final step he may institute administrative proceedings.

The same administrative review is available to the taxpayer for the assessment of any surcharge for nonfiling or late filing of a tax return, or the underestimation of tax. No administrative review is available, however, in any case involving certain violations of the tax law. The local tax bureau refers such a case immediately to the Tax Court (1.03) for a ruling on the facts determined by the bureau. A taxpayer has the right to be represented by a certified public accountant or an attorney-at-law at all stages of the administrative and the judicial review.

1.03 Judicial Review

A taxpayer who is not satisfied with the result of the administrative review (1.02) may institute proceedings in the Administrative Court. This is a special court in the judicial branch of the government that reviews administrative disputes, including tax disputes, that have not been settled by the administrative review. The judgment of the Administrative Court is final.

Cases involving certain violations of the law and the resulting fines or other penalties imposed are referred directly to the Tax Court, a division of the District Court, for a decision. If the taxpayer or the tax collection office is not satisfied with the ruling, either of them

may file an appeal to the High Court. The judgment of the High Court is then final.

If a law or an executive ordinance cited by a court in a final judgment is deemed unconstitutional, the taxpayer or the authority concerned may request an interpretation by the judicial branch of whether or not the law or ordinance is constitutional. Such interpretation is adopted by a resolution through a meeting of the grand justice headed by the president of the judicial branch.

1.04 Taxes Imposed by Local Authorities

Although there are several taxes imposed solely for the benefit of the local governments, such as building tax, slaughter tax, and feast and amusement tax, none of them are collected by local government agencies. The provincial government tax bureaus (1.02) collect these taxes and distribute the proceeds to the local governments along with their percentage share of the national income tax collections.

The provincial governments impose and collect several taxes on their own behalf. The most important of these are the land tax and the gross business receipts tax (13.01).

Distinctive Features of the Taiwan Tax System

2.01 Summary

The basic theory of income taxation in Taiwan differs from that in effect in the United States in several significant respects. First, the Taiwan system makes much more extensive use of the principle of taxation at source than the United States system; withholding is made applicable to dividends, interest, commissions, rents, and royalties, as well as to wages (Chapter 5). Secondly, under the Taiwan system, gains from the sale of property, including capital assets, are taxed at ordinary income rates. The Taiwan system provides for extensive tax incentives for new or expanded industries under the Statute for Encouragement of Investment (2.05).

There are other minor distinctive features of the Taiwan income tax system, but generally it operates in a manner similar to that of the United States, although based on a much simpler and less detailed statute.

2.02 Classification of Taxpayers

For tax purposes, taxpayers are considered as falling into only two classifications: individuals and business entities. Different tax rates apply to the two groups (Chapter 3). Included in the category of business entities are sole proprietorships, partnerships engaged in business but not professional partnerships (see following heading), as well as corporations (9.01).

Business Partnerships. A partnership engaged in business is considered a separate taxable entity by the Income Tax Law. This means that, unlike its counterpart in the United States, the Taiwan partnership pays a business income tax on its net income. This does not mean, however, that a partnership can be used to accumulate earnings of partners at the lower rates of the business income tax, because the partnership's net aftertax income is then taxable to the partners, whether or not this income is distributed to them (10.02). This, in effect, places a double tax on the earnings of partnerships, just as the income of corporations is subject to a double tax—once at the corporate or business level and once at the individual or personal level.

Professional Partnerships. Physicians, lawyers, accountants, architects, and certain other professionals exercising their profession individually or in partnership are not treated as business entities, but are subject to the personal income tax. Professional partnerships are not required to file an income tax return, but the partners must include their share of the partnership net income in their tax returns.

2.03 Concept of Income Categories

Individuals are taxed only on income that is includable in one or more of nine categories prescribed by the Income Tax Law. Since these categories are broad, however, with one category providing for "other income," the concept of individual income in Taiwan ends up closely resembling that in the United States. Taxable income is derived by subtracting from gross income the ordinary expenses incurred in producing the income (unless the deductions are specifically prohibited). Income may be realized in forms other than cash (Chapter 10).

The use of categories to characterize individual income is not carried over to the business income tax. A unique aspect of the Taiwan income tax, however, is that the business tax rate is applied against not only corporate income, but income of partnerships and proprietorships engaged in business as well (2.02). The concept of business income is similar to that employed in the United States. From gross income, necessary expenses incurred in producing the income are subtracted.

2.04 Tax Year and Base Period

The normal taxable year for business entities is the calendar year, and the due date for filing returns and payment of tax is March 31. Certain businesses may receive permission to use a different taxable year if this is the normal accounting procedure for such an enterprise or if there are special circumstances. In such case, the return and payment must be made on or before the last day of the third month following the close of the fiscal year. An extension of the filing date may be granted in certain circumstances (4.01). The return is filed with the local tax bureau at which the taxpayer is registered (4.05).

If a business operates for less than a taxable year, its income is "annualized" to determine what it would be on a yearly basis, and the amount earned during the shorter period is then taxed at the rate that would have been applied to the theoretical annual income. This procedure might occur, for instance, during the year a business is terminated.

In the same way as business entities, most individual taxpayers must file their return and pay their tax by March 31, three months after the end of the calendar year (4.01).

It should be noted that estimated tax payments must be made by most taxpayers during the taxable year (4.01).

2.05 Tax Incentives

The government of the Republic of China, recognizing the necessity of foreign investment in the continued growth of its economy, in 1960 enacted the Statute for Encouragement of Investment. It was subsequently amended and now provides liberal tax incentives to foreign investors, particularly to those in productive enterprises. The statute defines "productive enterprise" as any of the following types of business that conform to government standards and produce goods or services: manufacturing, handicraft, mining, agriculture, forestry, fishing, animal husbandry, transportation, public utility, tourist hotels of international standard, public housing construction, warehousing, technical services, and heavy machinery construction.

Some of the more important incentives provided by the statute are discussed in the following paragraphs. It should be noted that a number of them are limited to productive enterprises, while others apply to profit-seeking enterprises in general or to individuals. See 4.01 for requirement of filing blue-form returns by profit-seeking enterprises, and 6.02 for limitation of incentives to net operating income.

Tax Holiday. Any newly established productive enterprise conforming to certain criteria is wholly exempt from the business income tax for five consecutive years beginning on the date when it first markets its products or renders its services. A tax holiday for a period of four years is granted for increased income resulting from a plant expansion of an existing productive enterprise, provided the expansion is financed by additional equity capital.

For certain selected industries, the taxpayer may elect to start the income tax holiday from one to four years later than the commencement date of the tax holiday scheduled under tax regulations.

Accelerated Depreciation. A productive enterprise eligible for a tax holiday has the option of applying for a tax holiday or for accelerated depreciation on plant facilities. When accelerated depreciation is elected, machinery and equipment with a statutory service life of ten or more years may be depreciated over five years, machinery and equipment with a statutory service life under ten years may be depreciated over one-half of the statutory service life, and buildings and communication and transportation equipment may be depreciated over two-thirds of their respective statutory service lives. Both a qualified newly established productive enterprise and a qualified existing one undertaking expansion may apply for accelerated depreciation.

Reduced Taxes. The present rates for business income tax are 15% on income between NT\$50,000* and NT\$100,000, 25% on income between NT\$100,000 and NT\$500,000, and 35% on income over NT\$500,000. The Statute for Encouragement of Investment sets the maximum income tax, as a percentage of total annual net income, for productive enterprises as follows: 25% for productive enterprises in general; and 22% for productive enterprises engaged in basic metal manufacturing, heavy machinery manufacturing, petrochemical industries, or capital-intensive or technology-intensive industries, as specifically prescribed by the executive branch of the government.

A profit-seeking enterprise organized as a company limited by shares shall qualify for a 10% reduction in its income tax for a consecutive three-year period if such company issues its entire shares on or after January 1, 1977, as name-bearing shares and these shares are held publicly and are listed on the stock exchange.

The title deed tax on a productive enterprise is levied at 50% of the prevailing rate (13.08).

Income Exclusions. When a profit-seeking enterprise organized as a company invests in the stock of other domestic corporations that are not exempt from the business income tax, the dividends or other income received from the investment are excluded completely from taxable income. The premium received on the issuance of capital stock by a productive enterprise is excluded from income.

Provision for Foreign Exchange Losses. Whenever a productive enterprise incurs a foreign currency debt because of the purchase of productive equipment, it may set up a special reserve for foreign exchange losses resulting from exchange rate fluctuations. In the year the foreign currency debt is incurred, a credit to the reserve up to 7% of the year-end outstanding balance of the loans is exempt from the business income tax. When a partial repayment of the debt is made, the reserve shall be adjusted so that it does not exceed 7% of the unpaid balance of the debt at the current year-end exchange rate. Any unused portion of the reserve is subject to taxation in the year in which the foreign currency debt is fully paid.

Foreign exchange profits are not taxable until they are realized. If an unrealized profit is capitalized, however, it becomes taxable in the year of capitalization.

Import Duties. An exemption from the payment of customs duties is granted for the importation of machinery and equipment by an enterprise that is engaged in one of the approved industries and meets the government's requirements in respect of production capacity and paid-up capital. Approved industries for duty exemption

*NT\$ stands for the Taiwan dollar.

consist of basic metal, electrical, electronic, machinery manufacturing, shipbuilding, chemical, textile dyeing and finishing, coal mining, and garbage treatment. To be eligible for the exemption, the machinery and equipment must be neither manufactured nor available in Taiwan, and must be used for government-approved original plant construction.

A corporation incorporated under the Company Law, engaged in one of the approved industries, and totally export-oriented may import machinery and equipment and defer the payment of import duties for five years from the date of importation. The deferred duties must be secured by collateral for a term of five years starting from the date of importation. The approved industries for deferred payment of duties consist of basic metal, electrical, electronic, machinery, transportation equipment, shipbuilding, chemical, petroleum, mining, precision instruments, metal processing, lumber processing, rubber, and food. There are no specific requirements for the approved enterprise in respect of production capacity and capital amount.

A productive enterprise that does not meet the requirements for duty exemption or deferred payment of duties is entitled to pay duties in instalments on imported machinery and equipment not manufactured in Taiwan. The first instalment of such duties is due one year after the machinery and equipment commence to produce goods or render services.

Depreciation on New Machinery and Equipment. When a productive enterprise replaces or renews its machinery or equipment for the purpose of increasing its productive or service capacity, the service lives of the new machinery or equipment may be reduced to two-thirds of the applicable service lives prescribed by the tax regulations for depreciation purposes (7.02). Such accelerated depreciation is available, however, only for government-approved investments.

Export Encouragement. An enterprise engaged in the export business is exempt from the gross business receipts tax (13.01) to the extent of receipts earned from export activities. Such exemption is granted only on the basis of invoices issued in export transactions. Also, stamp tax on such invoices may be reduced from the normal 0.4% of the invoice amount to 0.1%. Deductions are allowed for expenses of sending personnel abroad to promote export business.

Imported raw materials that are exported after processing in Taiwan are exempt from import duty, harbor tax, and any commodity tax that would otherwise apply. Such exemptions may be obtained by operating in the Kaohsiung Export Processing Zone established in 1966, by using bonded warehouses or bonded factories, or by claiming refunds of any duties or taxes paid.

Investments in Approved Industries. An individual who is an original subscriber for registered stocks or for registered bonds maturing in more than three years of approved industries (see "Import Duties") may deduct such investment up to an amount equal to 25% of his net consolidated income (10.06) in the third year after acquisition.

Deferred Payment for Land Value Increment Tax. The land value increment tax (13.03) may be paid in five equal annual instalments when an individual invests land in a productive enterprise. The deferred payments must be secured either by the land or by share certificates issued in exchange for the land.

Mergers and Consolidations. When a merger or consolidation is approved by government agencies, exemption is obtained from income tax, stamp tax, and title deed tax that might otherwise result.

2.06 Revaluation of Assets

Both the Income Tax Law and the Statute for Encouragement of Investment contain provisions for revaluing fixed assets for depreciation purposes. The provisions are aimed at allowing businesses to recognize the increase in the value of their assets in periods of extreme inflation through increased depreciation charges. Reappraisal surplus resulting from fixed asset revaluation does not constitute taxable income. Revaluation is allowed only when the current price level increases at least 25% over the price level of the year of acquisition or the year of last revaluation. The wholesale price index number of the current year, expressed as the percentage of the wholesale price index number of the year of acquisition or the year of last revaluation, is used to compute appreciation of fixed assets.

Part 2: Income Taxes

Tax Rates

General. The Taiwan income tax consists basically of two types—the consolidated (personal) income tax and the profit-seeking enterprise (business) income tax. Both the individual and business income tax rates are enacted at the beginning of every fiscal year by the legislature and are, therefore, subject to frequent change (1.01).

3.01 Individuals

The Income Tax Law imposes income tax on any individual having income from sources in Taiwan. Thus, if an individual has such income under any one of the categories, he is subject to income tax, regardless of whether he is a resident or a nonresident. Income tax rates applicable to a resident are graduated from 6% to 60%, as shown in the Rate Tables. Nonresident individuals are taxed on their Taiwan income at the withholding rates outlined in Chapter 5.

3.02 Sole Proprietorships, Partnerships, and Corporations

The profit-seeking enterprise income tax (hereafter referred to as the business income tax) is applicable to all kinds of businesses—sole proprietorships, partnerships, and corporations—in the same manner. The rates are graduated from 15% to 35%, as set forth in the Rate Tables, but no tax is payable if the taxable income is less than NT\$50,000. This is the normal rate structure, and does not take into account the rate reductions that a profit-seeking enterprise may receive as tax incentives (2.05).

The graduated rates mentioned above apply to resident businesses. A branch office or an agency set up in Taiwan by a foreign business enterprise is, for tax purposes, treated as a resident business enterprise, and its income from Taiwan sources is also subject to the graduated rates. If a nonresident company does not have a branch office or a business agent in Taiwan, and it has generated Taiwan revenue, such revenue shall be subject to income tax through withholding by the party that effects the payment.

A foreign company that is engaged in international transportation, engineering and construction, technical services, or equipment leasing may apply to the Ministry of Finance for approval to fix 10% of its gross revenue as taxable income and pay income tax in the following manner: (a) If the foreign company has a branch office in Taiwan, income tax shall be paid by the branch on the said 10% income together with the branch's own taxable income at the graduated rates mentioned in the preceding paragraph; (b) if the

foreign company does not have a branch office but has a business agent in Taiwan, the business agent is required to pay income tax for its principal of 25% of the said 10% income; (c) if the foreign company does not have a branch office or a business agent in Taiwan, income tax shall be paid on the said 10% income through withholding at the 25% rate by the party that effects payment.

The tax law prevents excess accumulation of earnings by a corporation in the manner explained at 9.02. For the taxation of professional income, see 2.02.

Returns, Assessments, and Payment of Tax

4.01 Returns and Assessments

Estimated Income Tax. A business enterprise required to pay business income tax and a professional person required to pay individual income tax must make an estimated tax payment based on the estimated annual income. Such payment must be equal to one-half of the annual tax estimated to be due at the end of the fiscal year, or equal to the tax on income of the first six months of the current year, based on the current year's tax rate. The estimated tax return must be filed with the local tax bureau and the required amount of tax must be paid to the public treasury on or before the last day of the seventh month of the taxable year.

If a taxpayer fails to file a declaration of estimated tax within the required time, the local tax bureau is authorized to determine the amount of tax he owes. This determination must be made before the last day of the eighth month of the fiscal year and is based either on the taxpayer's income for the preceding year or, in the absence of that, on the taxation data available. A tax demand notice is then issued to the taxpayer for the tax payment due (one-half of the tax based on the bureau's estimation of the taxpayer's annual income) plus one month's interest calculated at the prevailing rate. Payment must be made within ten days. The taxpayer has no appeal of any kind from the tax due as thus determined by the local tax bureau.

Certain taxpayers are not required to file declarations of estimated tax. These include individuals not residing in Taiwan; businesses with no fixed business location but with an agent in Taiwan; foreign international transportation, engineering and construction, technical services, or equipment leasing enterprises that have been allowed to fix 10% of their revenue as taxable income and pay income tax in the manner described at 3.02; certain small-scale businesses as determined by the local tax bureau; tax-exempt businesses as approved by the Ministry of Finance (2.05); and professional practitioners at least one-half of whose income has been subject to income tax withholding and who have obtained approval for exemption from filing a declaration of estimated tax. If a taxpayer is not required to pay estimated tax as in preceding years because of changed circumstances, a report to this effect must be filed with the local tax bureau before his declaration of estimated tax would normally have been due. Failure to file such a report may lead to a provisional tax assessment by the local tax bureau.

If the difference between the taxpayer's assessed income and estimated income is more than one-third of the assessed income, the difference in excess of one-third of the estimated income is subject to a 5% surcharge for underestimation.

Final Returns and Assessments. Taxpayers must file final returns on or before the last day of the third month following the close of the fiscal year. For most taxpayers, this due date is March 31 for the return covering the income of the preceding taxable (calendar) year. Extensions of the due date for particular taxpayers may be approved by the local tax bureau on a showing of special circumstances requiring the extension. No extension is granted, however, for more than one month for an individual, or more than two months for a business. Taxpayers must file their returns with the local tax bureau at which they are registered (4.05).

Certain individuals are not required to file final income tax returns. An individual whose gross income does not exceed the tax-exempt amount and who has not been required to file a declaration of estimated tax is not required to file a return. If tax has been withheld, however, on any of his income, a return must be filed in order to get a refund. An individual is not required to file a return if at the end of the taxable year he is a nonresident, if tax has been duly withheld from Taiwan-source income subject to such withholding, and if he has voluntarily declared his other Taiwan-source income and has paid tax thereon at the applicable withholding rate (5.01). A nonresident individual is not entitled to exemptions, allowances, or deductions (10.07).

Professional partnerships are not required to file a return, but the partners must include their share of the partnership net income on their individual returns (2.02). See 5.02 for other exemptions from filing.

In the return, the taxpayer lists his income and all deductions claimed, and computes the tax based on rates normally prescribed at the beginning of the year (1.01). Almost all returns are subsequently examined by the local tax bureau (4.03).

If a business changes its taxable year with the approval of the local tax bureau, it must file its tax return within one month after the date of the change. The tax due is computed in the same manner as for a "short year" (2.04).

Upon the dissolution, liquidation, merger, or transfer of ownership of a business enterprise, a tax return must be filed within 45 days, reporting income earned up to the date of the change. The tax due is computed in the same manner as that for a "short year," except in the case of liquidation. Any income from liquidation, less expenses, must be reported, and ordinary business income tax must be paid, within one month after the completion of liquidation.

With approval by the local tax bureau, a business enterprise is permitted to file tax returns on a blue form. The primary purpose of the blue-form return is to enable the taxpayer to be free from arbitrary tax assessment and to benefit from more liberal deductions for entertainment expenses (7.12) and a carryforward of losses for three years (7.08).

Companies listed on the Taiwan Stock Exchange, financial institutions, companies paying the commodity tax based on accounting records, productive enterprises granted tax holidays or accelerated depreciation and each having an annual operating revenue over NT\$50,000,000, and profit-seeking enterprises in general each having an annual operating revenue over NT\$100,000,000 are required, and businesses other than those specified are encouraged, to have their income tax returns reviewed and certified by a certified public accountant. The benefits granted to an enterprise that files its income tax return on a blue form are also granted to an enterprise whose income tax return is certified by a certified public accountant.

Certain information must be filed by taxpayers with their returns. All taxpayers must attach evidence of previous tax payments claimed on their returns, such as estimated tax payments and withholding. In addition, all business enterprises must attach a balance sheet, properties inventory, and profit and loss statement. If a return is being filed in conjunction with a liquidation, a statement of liquidation must also be submitted.

All companies and cooperatives must attach a statement listing the names and addresses of stockholders or members, and the amount of profits or dividends distributed to each. Partnerships engaged in business must file a statement showing the names and addresses of the partners and their individual shares of investment and profit and loss.

4.02 Payment of Tax

Tax must be paid by the due date for the filing of the return. No provision is made for delayed or instalment payment of taxes. If a greater amount of tax is assessed by the local tax bureau than has been declared by the taxpayer, a demand notice requesting payment of the additional tax within ten days is issued to the taxpayer. If the taxpayer objects to the assessment, he must still pay one-half of it in order to appeal the decision through the procedures discussed at 1.02 and 1.03.

Payment of income tax after the original due date or payment of any additional assessed income tax is subject to interest computed from the original due date to the date of payment at the prevailing bank interest rate for one-year time deposits.

If a taxpayer is entitled to a refund, the law requires that the local tax bureau issue a refund check within 15 days after the final determination is made.

Income tax withheld from income subject to withholding must be remitted to the government periodically (5.03).

A nonresident individual leaving the country must obtain a tax clearance certificate verifying that all tax liabilities have been paid.

4.03 Examination of Returns

The local tax bureau with which the taxpayer is registered appoints a person to investigate the annual tax return of a taxpayer after it has been filed, for the purpose of determining the amount of tax actually due. When an individual investigation is not feasible, the local tax bureau may use "spot checks," according to the nature of the business, to determine a standard amount of income. Opinions of trade associations may also be used in determining such standards. When a taxpayer's reported income is above the standard, his return is accepted as a basis for taxation. If the income reported is lower than the standard, however, an individual investigation usually is made.

During such investigation or on reinvestigation, a taxpayer is required to turn over his accounting records and other related documents that will prove the income shown on his return. If these records are not produced, a fine is assessed and the local tax bureau has authority to assess tax based on an amount of income determined either from other available data or from the profit standard as determined for that trade. If the investigation reveals suspicion of tax fraud or evasion, the tax bureau can obtain a search warrant from the local judicial authority for the mandatory inspection of the accounting records and other evidence. The local tax bureau may also require investigation of any concerned person and require him to produce relevant documents if they may bear in any way on the investigation of a taxpayer's income.

The law requires that all information concerning a taxpayer's income or income tax, and any information acquired to support the return, be kept in strict confidence by all governmental tax agencies, including those engaged in administrative review.

4.04 Surcharges and Fines for Late Filing and Late Payment

When a taxpayer does not file his return on time, the local tax bureau sends him a late report notice, giving him 15 days within which to file his return. If the return is filed before the expiration of this time,

the surcharge for late filing is 10% of the tax due, or a minimum amount if no tax is due. If the return is not filed within this time, the local tax bureau makes an assessment of the tax due, on the basis of either the available data concerning the taxpayer's gains, losses, and expenses, or the profit standard of the taxpayer's trade. At this point, a surcharge of 20% of the tax assessed is imposed, and the taxpayer may not appeal the tax assessment made by the tax bureau, but individual taxpayers are not subject to such surcharges. Furthermore, any additional income of the taxpayer that is discovered later is subject to the fines imposed for tax evasion.

A taxpayer who has filed a return but has understated or omitted certain items of income is fined up to twice the amount of the tax evaded. The amount of evasion is the difference between the total tax liability on actual income (declared plus concealed) and tax liability on the portion of income declared by the taxpayer. Corporate profit-seeking enterprises using blue returns (4.01) are allowed to deduct losses of the preceding three years in determining net income for this purpose (7.08). If a taxpayer has filed no return, but has taxable income according to a determination by the local tax bureau, he is liable for a fine of up to three times the amount of tax that has been determined as due. A taxpayer who, fraudulently or otherwise, has intentionally evaded paying income tax, either by understating his income or failing to file a return, may be imprisoned for up to two years in addition to the fines.

A surcharge for the late payment of any income tax or other surcharge due is also imposed at the rate of 1% of the amount for every two days payment is delayed. After 30 days, the local tax bureau may, for a business enterprise, order the suspension of business until payment is made. The 1% surcharge ceases after 30 days, and interest is then imposed on the total amount due until payment is made.

The tax bureau has authority to assess tax on newly discovered taxable income up to five years after the return to which the income applies has been accepted as final. No assessment can be made after the expiration of this period. No collection of any tax, interest, fine, or surcharge can be made more than seven years after the demand notice is issued. If a taxpayer, however, has failed to file a return when he should have, or if he has intentionally evaded payment of income tax by fraud or otherwise, the local tax bureau may make an additional assessment of tax for up to seven years after the original due date of the return.

See 5.03 for penalties for failure to withhold tax or to pay the withheld tax.

Minor fines may be imposed on taxpayers for failure to meet the informational reporting requirements, such as the reporting of dividends and profits paid to stockholders and the reporting of the members and their shares of profit in a business partnership (4.02).

The Taiwan tax system has a supplementary method for enforcing income tax laws. A reward of 20% of any fine collected is offered to persons who supply information concerning the evasion of taxes by fraud, concealment, or other illegal means. The informer's name is kept in strict confidence. The informer is not entitled to the reward if he has participated in the evasion or if he is a public official. Also, a taxpayer involved in a serious tax-evasion case may be deprived of any tax incentives granted (2.05) upon the order of the Ministry of Finance.

4.05 Registration

Any newly established business enterprise and any business continued after merger or transfer of ownership must file for registration with the local tax bureau. This application must be filed within 15 days after the beginning of operations of the business and must contain the name and address of the business, the name of the person in charge, the type of business, capital, names of shareholders, partners, or proprietors and the amount of their investment, as well as certain other required information. Whenever a registered business is dissolved, merged, or purchased by another, or when the information required for the registration changes, an application for cancellation or amendment of the registration must be filed within 15 days. Failure to fulfill these registration requirements gives the local tax bureau authority to impose a fine and to order suspension of operations of the business until the filing requirements are satisfied.

Withholding Taxes

5.01 Withholding of Income Tax on Wages

Withholding at the source of income is one of the main features of the Income Tax Law. The withholding procedure is extended to the payment of many types of income other than salaries, such as dividends, rents, royalties, practitioners' fees, interest, commissions, and winnings of contests or lotteries. It should also be noted that withholding on the income of certain taxpayers, such as nonresident individuals, may make the filing of an income tax return unnecessary (4.01).

All salaries and wages earned by resident individuals are subject to withholding in accordance with a withholding schedule or, at the employee's option, at a flat rate of 10%. A flat withholding rate of 20% is applied to salaries of nonresident individuals.

Any sole proprietor, professional practitioner, partnership, or other entity that pays salaries or wages to others is responsible for withholding. This includes, among others, businesses, schools, nonprofit institutions, and government agencies.

5.02 Withholding on Interest, Dividends, and Other Payments

Withholding on interest and commission payments is at the rate of 10% for resident individuals and entities, and 20% for nonresident individuals and entities.

Withholding on dividends is at the rate of 10% for resident recipients and 35% for nonresident recipients; however, the 35% rate for nonresident recipients may be reduced to 15% if the investments were approved by the Taiwan government on or before December 31, 1973, or to 20% if approved on or after January 1, 1974. Any corporation that distributes dividends is responsible for withholding on such income. No withholding is required, however, from exempt income received by one corporation from its investment in another corporation (6.03).

Partnerships and sole proprietorships engaged in business must withhold tax at the rate of 35% on their profit after income tax allocable to nonresident partners or proprietors, whether or not such profit is distributed to the partners or proprietors.

Tax on rent, royalty, and winnings of contests or lotteries is withheld at the rate of 15% for resident individuals and entities and 20% for nonresident individuals and entities. Tax on practitioners' fees is withheld at the rate of 10% for resident individuals and entities and 20% for nonresident individuals and entities. Profit-seeking enterprises as well as nonprofit organizations making such payments

are responsible for withholding the tax. For nonresident individuals and entities, any income other than those mentioned above is also subject to a 20% withholding tax.

A foreign enterprise that is engaged in international transportation, engineering and construction, technical services, or equipment leasing and that does not have a branch office in Taiwan may obtain the government's approval to fix 10% of its gross revenue generated from Taiwan sources as taxable income and have 25% tax withheld thereon (3.02).

A foreign motion picture enterprise with no office in Taiwan may elect to have 20% tax withheld on 50% of its gross revenue generated from Taiwan sources.

Under circumstances described in the two preceding paragraphs, no returns are required to be filed (4.01).

5.03 Withholding Procedures

Any person or entity responsible for withholding must pay the tax withheld to the local tax bureau within the first ten days of the following month. Once a year, on or before January 31, every withholder must prepare tax withholding certificates for all taxpayers from whom tax was withheld. These certificates must then be submitted to the local tax bureau for verification. Such certificates are due, however, ten days after the separation of any payee or a change in the status of any payor. After verification, the certificates are issued to the taxpayers.

Several penalties are provided for failure to withhold when legally required. A withholder may be required to pay the tax due as well as a penalty equal to the amount that should have been withheld. If the withholder fails to pay the tax withheld by its due date, a surcharge of 1% of the tax due is assessed for every two days it remains unpaid. If it remains unpaid for 30 days, the withholder may be prosecuted for misappropriation of public funds.

Income Subject to Tax

6.01 The Nature of Income—Nontaxables

The Income Tax Law provides for nine categories of income for purposes of the individual income tax (10.02). These categories are sufficiently broad, however, to cover all types of income. Although the law provides no specific definition of income, it is usually defined as the profit from the employment or use of labor or capital. It should also be noted that the receipt of cash is not necessary for the realization of income, which is illustrated by the taxation of stock dividends (6.03).

The Income Tax Law specifically enumerates several categories of income that are exempt from tax. They are as follows:

- (a) Pay of military personnel in active service
- (b) Salaries of employees and teachers of nurseries, kindergartens, and public and private primary schools
- (c) Allowances or compensation received for injury or death
- (d) Retirement pay, pension proceeds, and maintenance payments made to public employees, teachers, military personnel, policemen, workmen, and disabled employees
- (e) Allowances received from the government by public employees, teachers, military personnel, policemen, and workmen
- (f) Insurance proceeds of certain types paid to wage earners or disabled employees
- (g) Scholarships or other monetary awards granted by public organizations or institutions for educational activities
- (h) Income received by foreign diplomats and embassy employees from their own government
- (i) Interest on savings accounts of individuals left on deposit for two years or longer in accordance with government provisions
- (j) Income earned by charitable, civic, and educational institutions used solely for their work
- (k) Property acquired by succession or bequest

the country of the foreign international transportation enterprise from Taiwan, provided that reciprocal treatment is accorded by the country of the foreign international transportation enterprise.

(m) Interest earned by a foreign financial institution owned or jointly owned by a foreign government; interest earned by a financial institution engaged in international economic development on credits extended or guaranty facilities provided to the government or to legal entities in Taiwan; also, interest earned by a foreign

financial institution on credits extended to financial institutions in Taiwan (including the Taiwan branches of the foreign financial institutions) and to legal entities in Taiwan for financing essential economic development projects, which are approved by the Ministry of Finance

(n) Income earned by individuals from writing books, songs, plays, and giving lectures

(o) Royalties earned by a foreign company that, with government approval, provides its patents, trademarks, or various types of franchise rights to an ROC (Republic of China) enterprise for the purposes of introducing into the ROC new production technology, improving product quality, or reducing production cost; and technical service fees earned by a foreign enterprise that assists in the plant construction for an ROC productive enterprise that is recognized by the ROC government as an important enterprise

6.02 Business Income

Business income tax is imposed on net income, which is defined by the income tax law as gross income less costs of sales or services, expenses, losses, and taxes other than business income tax. The tax regulations further divide both gross income and expenses into operating and nonoperating sections. The distinction is important because certain income tax incentives (2.05) apply only to net operating income while net nonoperating income is fully taxable. Investment-type income or loss (next paragraph) is classified as nonoperating. However, certain government bonds contain a tax-exempt provision, and interest income from such bonds is free from tax.

Investment-Type Income. Tax is assessed on nearly every type of investment income, including interest, dividends, rents, royalties, and other types of profit distributed to individuals or corporations. This type of income is generally taxed at ordinary income rates. As noted in 4.01 and 5.02, the withholding tax system applies to such investment-type income and, for nonresident individuals, the withholding rates may be substituted for the ordinary graduated rates.

6.03 Interest Income

As noted in 6.01, certain categories of interest income are exempt from tax and, as noted in 5.02, the withholding tax on taxable interest is 10% for resident taxpayers and 20% for nonresident taxpayers. Certain interest payments may not be deductible for tax purposes (7.07).

6.04 Dividends

Dividends, whether paid in cash or stock, are taxable as ordinary income to the recipient in the year of declaration. Guaranteed dividends on preferred stock must be accrued as income by the shareholder, even if the dividends have not yet been formally declared. The income of corporations is taxed twice—once to the corporation at corporate rates and again to the stockholders when the income is distributed as dividends or in any other form. However, companies with investments in other corporations are exempt from tax on the income from such investments if the distributing corporations were not granted income tax exemptions. This provision prevents dividends and other corporate distributions from being taxed more than once at the corporate level.

6.05 Capital Gains and Losses

In general, all profits derived from transactions in property and property rights are taxable at ordinary income rates. The Income Tax Law does not provide any special treatment for gains and losses derived from capital or other assets. Such nonrecurring capital gains or losses are classified as nonoperating items (6.02), with the exception of transactions having to do with properties disposed of pursuant to governmental regulations concerning the hoarding of war supplies.

To encourage investment, the law provides that one-half of the income derived by an individual (not applicable to corporations) from the sale or trade of stocks and bonds of corporate enterprises is exempt from income tax, provided that such securities have been held for more than one year. If the holding period is less than one year, all gain is treated as ordinary income. (However, for both individuals and business entities not engaged in the business of buying and selling marketable securities, collection of income tax on gains from the exchange of securities is suspended during the years 1976 through 1979. The government announced this as a measure to promote the capital market. The announcement is made on a year-by-year basis.)

In general, gain from the sale of property is measured by the difference between the basis and the value received. Basis is original cost plus any cost for improving the asset. If the property was acquired by gift or inheritance, the basis is the market value of the asset at the time of acquisition plus the cost of any improvements.

6.06 Income from Royalties, Patents, Copyrights, Etc.

A nonresident business entity that derives income from royalties, patents, copyrights, etc., is subject to a 20% income withholding tax (5.01). Such entity is not required to file an income tax return if it has no other types of income from Taiwan.

A resident business entity that derives income from royalties, patents, copyrights, etc., is subject to a 15% withholding tax. Such entity is required to include this income in its income tax return and pay income tax at ordinary rates. The 15% tax withheld from such income can be claimed as a credit.

6.07 Insurance Proceeds and Annuities

The proceeds of life and health insurance policies are not taxable. Insurance recovery for fire or other force majeure is treated as a deduction from the losses claimed.

Annuities received by public employees, teachers, military personnel, policemen, workmen, and disabled persons are tax exempt. Annuities received by others are subject to income tax on one-half the amount, if received in a lump sum.

6.08 Treatment of Variable Income

The law provides special treatment for variable income derived by individuals from copyrights, engaging in forestry on a self-employed basis, and lump-sum retirement or pension payments. Any individual receiving such income is subject to taxation only on one-half of the amount received in the year of realization. The benefit is available only to taxpayers who have filed their returns within the prescribed time.

Deduction Items

7.01 Business Expenses

The Income Tax Law provides generally for deduction of all costs, expenses, losses, and taxes (other than income taxes) of the business. The scope of "business expenses" extends to such items as research for product promotion or improvement, membership dues, and penalties for contract violations. Although this scope may appear very broad, the law somewhat narrows it by specific provisions concerning the major deduction items. For example, long-term investment and exchange losses are not deductible unless realized. On the other hand, these specific provisions also permit certain deductions that otherwise might appear to be nondeductible under the general provision.

The scope of business expenses is also narrowed by not allowing deduction of certain expenses connected with capital assets. Such expenses include any payments made to expand, replace, improve, or repair any building or equipment used in the business when these payments result in an increase in value or efficiency that will not be used up within two years.

Remuneration for Services of Owners, Executives, and Employees. Remuneration for services includes salaries, wages, stipends, annuities, bonuses, retirement pay, termination pay, pensions, subsidies, and cash allowances for meals. There are, however, limitations on the deductibility of such expenses.

No deduction for salaries paid to managing stockholders, directors, or supervisors is permitted unless the salaries are provided for in the articles of incorporation or by a prior stockholders' resolution. Similarly, no deduction is allowed for a salary paid to a partner unless it is provided for in the partnership agreement, or for a salary paid to any regular employee unless it is determined and agreed upon in advance. Furthermore, no deductions are allowed for salaries paid to any person unless they must be paid regardless of whether the business earns a profit or incurs a loss. The salary of a sole proprietor who runs his own business is deductible if it does not exceed the amount generally paid by other similar businesses. It should be noted that the allowance of salary deductions for sole proprietors and partners differs markedly from the treatment given these items in the United States. The reason is that, in Taiwan, sole proprietorships and partnerships engaged in business are taxed under the business income tax law as business entities rather than directly to the owner or partners (2.01).

The average or generally paid salaries referred to above are determined by the local tax bureau and approved by the executive branch of the government. These amounts are made known before the beginning of each fiscal year.

7.02 Depreciation

The law allows depreciation on buildings, fixtures, machinery, equipment, tools, appliances, apparatus, vessels, and other fixed assets. In effect, practically all personal and real property (except land) used in the business enterprise is depreciable. Each asset must be listed in the schedule of properties and depreciated separately.

The tax law allows three different methods of depreciation: straight-line, fixed percentage on declining-balance, and working-hour. Approval from the local tax bureau must be obtained before the fixed percentage on declining-balance method can be used. The working-hour method, as its name implies, is based on the total number of productive hours estimated as the useful life of the specific asset. The use of this method also requires the approval of the local tax bureau. If no application to use either the declining-balance or working-hour method is filed, it is assumed that the straight-line method has been adopted.

Depreciable Asset Lives. The minimum lives of depreciable assets for tax purposes are determined by the table of service life of fixed assets promulgated by the Taiwan government (Appendix A). No shorter lives than those prescribed in the table may be used, unless specifically allowed by the government as a method of encouraging investment.

When used assets are purchased, the allowable depreciation is based on the remaining service lives. When depreciable assets are acquired, if it is obvious that their normal service lives will be shortened because of exceptional circumstances, the shorter life may be used for depreciation purposes upon presentation of documentary evidence to the tax authorities.

If depreciable assets are abandoned before their normal lives have expired, the undepreciated costs may be written off in the year of abandonment, and any proceeds from their sale as scrap are credited to income.

Computation of Depreciation. If the actual cost of a depreciable asset is increased or decreased after a period of use, the depreciation must be adjusted to reflect this change, and depreciation is then based on the increased or decreased cost and on the remaining life of the asset.

The computation of depreciation must take into account the salvage value that an asset will have after its usefulness to the business has ceased. If it can be shown that an asset will have no salvage value, then the full cost of the asset may be depreciated. If the straight-line method is being used and no estimate of salvage value can be made, it will be determined by the following formula:

$$\text{Salvage value} = \frac{\text{Cost of asset}}{\text{Estimated asset life} + 1}$$

If the declining-balance method is used, the salvage value is considered to be 10% of the cost of the asset. If the working-hour method is used, the salvage value must be deducted from the cost of the asset before the rate per working hour is determined.

When a depreciable asset has reached the end of its useful life, and total depreciation taken plus any salvage value does not equal the asset's depreciable cost, depreciation may continue to be taken at the original rate until the asset is fully depreciated.

The amount of depreciation on an asset can be increased when there has been an unusual appreciation in its value. Such increase is based on the changes in the wholesale price index. The increases may be made, however, only upon application to and approval of the Ministry of Finance during the second month of the taxable year for which the change is being sought (2.05).

Amortization of Intangible Assets. Trademarks, copyrights, patents, business rights, and other franchises can be considered assets (and, therefore, amortizable) only if they have been acquired by purchase. Such purchased assets may be amortized on the straight-line method as follows:

Asset	Amortizable Life
Business rights	10 years
Copyrights	15 years
Trademarks	The number of years of useful life remaining after acquisition
Patents and other franchises	Useful life based on license issued by the government

If, for any reason, an acquired intangible asset cannot be amortized on the basis of this table, an application may be made to the local tax bureau stating specific reasons for amortizing in a different manner.

Organization Expenses. Special treatment is provided for organization expenses. The original amount of organization expenses may be amortized over five years on the straight-line method. Expenses incurred, however, for the issue of corporate bonds and any discount arising from the sale of the bonds must be amortized over the full period of the bond issue. Similarly, if a business is organized for a specific number of years, the amortization of organization expenses must be based on the expected life of the business.

7.03 Depletion

As in the United States, Taiwan tax law provides for both cost and percentage depletion. After a method is selected by a taxpayer, however, it cannot be changed later. Cost depletion is computed by dividing the cost of the asset by the estimated number of recoverable units. This provides a unit depletion charge that is multiplied by the units actually recovered in the tax year to arrive at the actual deduction for depletion.

Percentage depletion is determined by applying the rates for percentage depletion for certain mineral deposits (Appendix B) to the gross amount of income received during the year from the sale of the products. The depletion deduction in any one year may not exceed 50% of the current year's net income from the mineral property before the depletion deduction. In addition, the total aggregate depletion deductions in all industries, except petroleum and natural gas, may not exceed the cost of the asset. This, of course, eliminates much of the attraction of percentage depletion. The Taiwan law provides favorable treatment for the petroleum and natural gas industries by allowing depletion at the annual rate of 27.5% of gross income, subject to the limitation of 50% of the net income received from the mineral property before the depletion deduction.

7.04 Bad Debts

Deductions based on the reserve method are allowed for estimated bad debt losses on accounts and notes receivable. The reserve may not exceed 5% of the total outstanding notes or accounts receivable. If securities have been pledged for the outstanding trade receivables, however, then the maximum bad debts reserve may not exceed 2%. In the following year, if the actual losses of the prior year are less than the estimated losses deducted, the current year's deduction for bad debt losses must be adjusted to conform to the 5% and 2% limitations.

An account or note receivable or any other uncollected credit item may be considered an actual bad debt loss in either of two situations: when the outstanding amount is either partially or wholly uncollectable because of bankruptcy, compromise, insolvency, or any

other cause; or when the outstanding amount had been overdue for two years during which no payment thereon has been received despite demands for payments.

If an amount previously written off as a bad debt loss is later recovered, it must be included as income of the year in which recovered.

7.05 Payment of Rents, Royalties, and Technical Assistance Fees

Rent payments, in order to be deductible, must be in agreement with contractual provisions. If there is no contract, no deduction is allowed. Any payment in excess of the amount stated in a contract is not deductible. Rental payments are subject to withholding; they are still deductible in the absence of withholding, but the taxpayer must, within a specified time, pay the tax and a penalty for failure to withhold (Chapter 5).

Royalties are also deductible only to the extent of the contractually agreed amounts. In addition, royalties paid to a foreign business enterprise or a nonresident individual are deductible only if the underlying agreement has been approved by the Ministry of Economic Affairs.

Technical assistance fees are treated in the same manner as royalties. They are deductible only to the extent of the contractually agreed amounts. Technical assistance fees paid to a nonresident are deductible only if the underlying agreement has been approved by the Ministry of Economic Affairs.

Commissions are allowable as deductions only when paid in accordance with contractual provisions. Commission payments to foreign individuals or enterprises must be transferred through banks either by cable or letter.

Although royalties, technical assistance fees, and commissions are subject to withholding, payments from which tax has not been withheld are deductible, but penalties may be incurred for failure to withhold (Chapter 5).

7.06 Taxes

Taxes may be deductible under the general business provision if they can be shown to have been expended for purposes of the business. Therefore, all taxes related to business, except those on income, are deductible. Penalties for late payment, under-reporting, late reporting, and nonreporting (4.04) in connection with taxes are not deductible.

Refunds of taxes that were originally charged to expense are considered as income at the time the notice of the refunds is received.

Income tax paid by a business entity on behalf of its shareholders or employees is not allowed as a deduction under taxes. However, such expense may be allowed if treated as salary expense of the entity.

7.07 Interest

Interest payments on capital investments are considered distributions of profit and, therefore, are not deductible. Similarly, interest paid on loans by an owner or a partner to his proprietorship or partnership do not qualify for deduction. Such loans are considered capital investments for interest deduction purposes. Interest paid during construction or prior to completion of acquisition of business assets must be capitalized.

Interest on all other loans related to business operations is deductible in the year it becomes payable. No deduction is allowed, however, unless the taxpayer has recorded the true name and address of the creditor in his account books. Neither is a deduction allowed for interest paid on loans from sources outside Taiwan, unless the government authority in charge of foreign exchange has given its approval. For loans obtained from sources other than banks, the maximum allowable interest rate is determined by the local tax bureau.

Interest payments are subject to withholding. If tax has not been withheld, the payments are, nevertheless, deductible, but penalties may be incurred (Chapter 5).

7.08 Operating Losses

An operating loss of a business enterprise can be applied against total profits of the same accounting period. As a general rule, however, unused losses may not be carried forward to offset future years' income. There are exceptions. A corporation that keeps a complete set of accounting records and files blue tax returns or whose income tax return is certified by a certified public accountant (4.01) is entitled to carry forward its losses for a period of three years to be applied against the income earned in those years. The law makes no provision for the carryback of losses to prior years.

An individual taxpayer operating two or more unincorporated business enterprises is allowed to offset the losses of one enterprise against the income of the other, but only for the year in which the loss is incurred. Such offsetting in any one year is allowed only when a blue return has been filed by each of the business enterprises and when the individual has filed his consolidated income tax return on time.

7.09 Worthless Stocks, Securities, and Other Assets

A loss resulting from valuing marketable securities at the lower of cost or market is deductible in the year the revaluation is made. Losses incurred on long-term investments, however, are deductible only in the year in which they are realized.

Losses incurred when fixed assets are destroyed or become obsolete are allowed in the amount of their undepreciated value. Any amount received as salvage value or from sale as scrap is correspondingly treated as income (7.02). When a taxpayer acquires fixed assets through an exchange, a loss may be recognized if the carrying value of the asset disposed of exceeds the price of the asset acquired.

7.10 Casualty Losses

Losses caused by earthquake, wind, flood, drought, insects, fire, war, or theft are allowed as deductions, but only to the extent not indemnified by insurance. A report containing a detailed list of casualty loss items and related documents must be submitted to the tax bureau within 15 days after the loss.

7.11 Contributions

Qualifying contributions to any public welfare, charitable, cultural, or educational organization are allowed as deductions up to a maximum of 15% of the taxpayer's net income after such deductions. A qualifying contribution is one that either has been approved by the government or has been made in accordance with a program passed by an organization conforming to the laws relating to public welfare institutions. Contributions to assist national defense construction or to comfort troops are deductible with no maximum limit.

7.12 Advertising, Entertainment, and Travel Expenses

Expenses incurred for advertising in various media, including such things as samples provided to present or prospective customers, are deductible. However, expenses such as those incurred for promoting new products, or for acquiring an exclusive distribution agency, are considered to produce benefits for an indefinite number of future years and must be amortized over three years.

The amount of entertainment expenses that is deductible for tax purposes depends upon the purpose of the entertainment and upon whether or not the taxpayer files a blue return (4.01) or the taxpayer's income tax return is certified by a certified public accountant. Gifts to customers are considered entertainment expenses. The

entertainment expenses must be documented by invoices, receipts, or similar evidence. The allowable deductions are shown below.

Purpose of Entertainment	Normal Limitation	Blue Return Limitation
For purchases	0.15% of annual purchases up to NT\$30,000,000, and 0.1% of purchases in excess of NT\$30,000,000	0.2% of annual purchases
For sales	0.45% of annual sales up to NT\$30,000,000, and 0.3% of sales in excess of NT\$30,000,000	0.6% of annual sales
For transportation	0.75% of annual freight charges up to NT\$30,000,000, and 0.5% of freight charges in excess of NT\$30,000,000	1.0% of annual charges
For consummating transactions for the supply of services and credits	1.2% of annual business income up to NT\$9,000,000, and 0.8% of income in excess of NT\$9,000,000	1.6% of annual business income

Businesses engaged in exports are allowed to claim, in addition to the amounts in the foregoing table, 2% of export sales revenue.

Traveling expenses are deductible if incurred for the benefit of the business. Like entertainment expenses, traveling expenses must be supported by appropriate evidence.

7.13 Legal Expenses

Legal expenses are deductible if incurred in connection with the operation of a business entity and if they are supported by proper documentation.

Legal expenses are subject to withholding. If tax has not been withheld, the payments are still deductible, but penalties may be incurred (Chapter 5).

7.14 Insurance

Premiums paid to insure properties are deductible if the properties are owned by the taxpayer. On properties not owned by the taxpayer, the insurance premiums are deductible only if agreed to in a

contract between the taxpayer and the owner of the properties. Premiums paid by a business entity for insuring its employees under a savings-type group life insurance plan, which provides for the payment of benefits to employees upon maturity of the insurance, must be treated as salaries and wages paid to employees. Premiums paid by a business for insuring employees under a group life insurance plan, which provides only death and disability benefits, are deductible as an insurance expense.

7.15 General and Special Reserves

Business entities may set up a reserve for retirement pay under the conditions outlined at 12.02.

7.16 Nondeductibles

The law provides generally that losses not incurred in the operation of a business are not deductible. Also personal or family expenses are not deductible.

Accounting for Income and Expenses

8.01 Tax Accounting Generally

A domestic profit-seeking enterprise must keep at least two principal books of account: a journal and a ledger. Small profit-seeking partnerships or sole proprietorships are only required to keep a journal. A profit-seeking enterprise subject to the Business Accounting Law must keep additional subsidiary books, and a manufacturing enterprise must also keep additional cost records. Books of account are submitted to local tax authorities for registration and stamping before use. One of the two principal books of account must be bound. Accounting records must be kept in the Chinese language, but bilingual records are acceptable.

All accounting entries must be supported by original documents. Primary supporting documents for purchased goods and services and expenses can be the purchaser's copies of uniform invoices issued by the seller. Primary supporting documents for sales and other revenue are the file copies of uniform invoices issued by the seller. Uniform invoices are under the strict control of the tax authorities. They are printed, prenumbered, and bound in book form under the supervision of the tax authorities. Business enterprises may request blank uniform invoices at the beginning of each month, and must account for unused invoices of the preceding month. Receipts, certificates, or ordinary invoices may be used as legal supporting documents for business transactions for which uniform invoices are not applicable.

8.02 Accrual of Business Income and Expenses

Corporations must determine their income and expenses on the accrual basis. The cash basis is generally not allowed. However, a business enterprise not organized as a corporation may, with the approval of the tax authorities, use the cash basis if this has been the existing practice of the business or if the volume of business is small. An unincorporated taxpayer may change its method of accounting provided that it reports the change to the local tax bureau three months before the beginning of the fiscal year.

8.03 Long-Term Contracts and Instalment Sales

The law requires that income received from construction contracts taking 36 months or more to complete be computed and reported each year in proportion to the stage of completion. The deductible costs or expenses are the actual costs of the portion completed in the taxable year. On contracts that take less than three years to complete, the same method may be used or the entire profit or loss may be reported in the year of completion.

Income from sales on the instalment basis may be determined under any one of three methods.

Income derived from total sales on the instalment basis, less cost of sales thereof, regardless of collection, may be reported in the taxable year in which such sales take place.

Income reported in the taxable year may be determined by multiplying instalment collections in the taxable year by the gross profit ratio of instalment sales of the year in which such sales take place. This method, however, may be used only by dealers in personal property, regularly selling on instalment plans that generally mature in 13 or more months after the date of sale.

Instalment sales at cash sales prices, less cost of sales thereof, may be reported as income of the year in which such instalment sales take place. The difference between cash sales prices and actual contracted prices is reported as income each year in proportion to cash collections.

8.04 Inventories

In general, inventories of raw materials, goods in process, finished goods, by-products, scrap, wastes, and any other items are to be kept on an actual cost basis. Actual cost includes all expenses necessarily incurred in acquiring goods and preparing them for use. Interest on loans to purchase inventory items must be expensed and may not be included in inventory cost. If the cost is greater than market value, the taxpayer may choose the lower of cost or market as an optional valuation method. If the cost or market value is not otherwise determinable, the local tax bureau may make the determination either by expert opinion or by appraisal.

The taxpayer may use any of the following methods in the determination of cost: first-in first-out, last-in first-out, weighted average, moving average, and simple arithmetical average. When the last-in first-out method is used, however, the inventory may not be valued at the lower of cost or market.

The writeoff of inventory losses, either during transit or during manufacture, is permitted only for enterprises using the perpetual inventory system. Such loss must be supported by adequate documentation.

8.05 Valuation of Assets

Most assets are valued at cost, which is defined as the acquisition price plus all expenses relating to the acquisition and installation of the asset. If the asset is manufactured rather than purchased, cost

includes all materials, labor, and other expenses incurred in designing, constructing, and installing the asset. An increase in the cost basis is allowed for costs incurred in expanding, replacing, improving, or repairing the asset, to the extent of the increase in value or efficiency directly resulting from the expenditure.

In some cases, assets may be valued at the lower of cost or market. One such class of assets is short-term marketable securities. If the securities decline in value, the taxpayer need not sell them in order to be able to recognize the loss for tax purposes (7.09). This, of course, is different from the United States taxation of such losses, where the asset must generally be disposed of before loss can be recognized.

It should be noted that upon consolidation, merger, dissolution, or transfer of ownership of a business, its assets must be valued either at current value or at the actual price paid in the transaction.

Provisions Peculiar to Business Entities

9.01 Resident and Nonresident Business Enterprises Compared

In general, a domestic business enterprise is subject to business income tax on all income, regardless of source, and a foreign enterprise is subject to tax on its Taiwan-source income.

A domestic business enterprise maintaining its main office in Taiwan is required to declare its entire income, regardless of source, in its income tax return. Income accruing in foreign countries to overseas branch offices of a domestic enterprise must be included in the taxable income of the home office. Income tax paid by the overseas branch offices to foreign governments may be claimed by the home office as a credit against its total income tax liability (11.02).

A branch office or agency in Taiwan of a foreign business enterprise is considered a domestic business enterprise for tax purposes. Such branch office or agency is taxable on any portion of its income generated in Taiwan. Revenue generated by the foreign head office from goods sold to or services rendered in Taiwan is treated as revenue of its Taiwan branch, which is subject to business income tax and gross business receipts tax. However, this rule may not apply if the foreign company can prove that the transactions are not handled by or through its branch in Taiwan. Administrative expenses of the foreign head office may be allocated to the Taiwan branch if the head office engages only in strictly administrative functions, and the branch has paid no interest or rent to the head office nor included an allocation of administrative expenses in the cost of purchases.

A foreign business enterprise having neither a fixed place of business nor an agent in Taiwan is subject to withholding of the tax on its Taiwan-source income. Such foreign enterprise is deemed to have discharged its income tax liability by paying the withholding tax, and is not entitled to any exemptions or deductions.

9.02 Tax on Accumulated Profits

The Income Tax Law provides that if accumulated unappropriated earnings of a corporation exceed one-half of the total paid-up capital, such accumulated unappropriated earnings should be distributed or capitalized by way of a stock dividend to its stockholders. In Taiwan, a stock dividend is taxable to the stockholders. If such a stock dividend is not distributed, the local tax bureau must compute the accumulated earnings allocable to each stockholder and assess income tax against each for the current taxable year. This, in effect, is a forced stock dividend. This provision, which is designed to

prevent excess accumulation of profits, differs from its counterparts in other countries that levy a penalty tax on the corporation rather than the stockholders.

9.03 Affiliated Businesses

The Taiwan Income Tax Law does not distinguish between corporate and noncorporate taxpayers. Rather, the important distinction is between business and nonbusiness taxpayers. Therefore, proprietorships, partnerships, and corporations engaged in business are for most purposes treated and taxed alike. The tax is imposed on all three at the business entity level rather than directly on the owners. Individuals and partnerships engaged in professional practice, however, are not treated as business enterprises, but the individual practitioners and partners are subject to the personal income tax (2.02). For business income tax purposes, no consolidated returns are permitted. However, see 7.08 for offsetting profits and losses of two or more noncorporate business enterprises of an individual taxpayer.

9.04 Liquidations and Other Corporate Changes

Based on the Income Tax Law, when an entity is dissolved or closed, it is required to file an income tax return for the period ended on the date of dissolution or closure within 45 days from the date of dissolution or closure. After an entity is dissolved or closed, it is allowed a period of six months for liquidation if it is organized as a company, or three months for a proprietorship or partnership. Within 30 days after a dissolved or closed entity has completed its liquidation procedures, it should file an income tax return for the income generated (or loss incurred) during the liquidation period, and pay any income tax due.

When two entities merge to become one entity, the extinguished entity should follow the liquidation procedures provided in the relevant laws, including the filing requirements described above for a dissolved or closed entity.

For computing liquidation income (or loss), the tax regulations provide as follows:

1. Proceeds from sale of inventories, less cost of inventories, equals income (or loss) from sale of inventories.
2. Income from sale of assets other than inventories, plus income realized from paying-off of debts, plus income from valuation of assets not sold during liquidation, plus other income, equals liquidation income.

3. Loss from sale of assets other than inventories, plus loss incurred from recovery of rights of claims, plus loss from valuation of assets not sold during liquidation, plus liquidation expenses, plus other losses, equals liquidation loss.

4. Income (or loss) from sale of inventories, plus liquidation income, less liquidation loss, equals liquidation income or loss.

5. Liquidation income, less prior years' loss carryforward, less other tax-exempt income, equals taxable liquidation income.

Provisions Peculiar to Individuals

10.01 General

Individuals are subject to a graduated income tax as set forth in the Rate Tables. Individuals are subject to tax only on income earned from Chinese sources; income from foreign sources is exempt from tax.

Income items of a husband and wife must be combined and the tax determined as though the entire income were that of the husband. In other words, a joint return is required for married taxpayers. Also, if a taxpayer claims another person as a dependent, any income earned by the dependent must be included in the taxpayer's return.

The tax is referred to as a consolidated income tax since the tax is determined after consolidating the nine statutory categories of individual income (10.02). These nine categories cover almost every conceivable type of income; there are no significant exclusions from taxable income. The amount of taxable income is arrived at by computing gross consolidated income and then subtracting exempt income, allowances for dependents (10.05), and various deductions (10.03 and 10.06).

10.02 Categories of Income

The Income Tax Law provides that an individual's gross consolidated income is made up of the income received in the following nine categories:

- (1) Income from business—This includes dividends from corporations and distributions of business profits received by owners and partners. Profit earned by a proprietorship or partnership, after deduction of the owner's and partners' salaries and the business income tax, is taxable to the owner or partners (2.02). Income earned from occasional trade is also includable in this category.
- (2) Income from professional practice—A profession is not considered a business (2.02), and all income received from professional activities and performances is included in this category after deduction of all necessary direct expenses. These deductions are allowed only when a journal and supporting documents are kept.
- (3) Income from salaries and wages—This category includes salaries and wages of all kinds, including any income received for the performance of services or labor, as well as all allowances, bonuses, subsidies, annuities, retirement or old age pensions, and other forms of receipts, but any income that is specifically tax exempt is not included (6.01).
- (4) Income from interest—Includes interest received from government bonds, notes, or securities as well as from corporate bonds, deposits, and other loans.

(5) Income from leases and royalties—Income received from the lease of properties situated in Taiwan is includable after the deduction of necessary expenses. Interest is imputed at the prevailing rate on rental deposits received by a taxpayer, and it is included in lease income, unless the taxpayer can prove that income generated from the use of such deposits has been included in his income tax return. This category also includes royalties received from patents, registered trademarks, copyrights, and all types of franchises made available for use by others.

(6) Income from self-employment—This category includes income received from farming, fishing, animal husbandry, forestry, and mining, after the deduction of necessary expenses.

(7) Income from property transactions—Income received from transactions involving any kind of property or right is included in this category. For purposes of determining income, the taxpayer is allowed a basis of cost plus all improvements for purchased assets. If an asset was acquired by inheritance or gift, the basis is the market value of the asset at the time of the inheritance or gift, plus the cost of any subsequent improvements.

(8) Income from winnings in contests or lotteries—This category includes cash or payments in kind awarded to winners of contests or lotteries which take place in Taiwan, after the deduction of necessary expenses.

(9) Other income—This is a “catch-all” category for any income not otherwise enumerated. Deduction is allowed for necessary expenses incurred in earning such income.

When any income in the above categories is realized in a form other than Taiwanese money (for instance, in goods, services, securities, or foreign currencies), the includable income is based on the value or exchange rate prescribed by the government, or the fair market value at time of receipt.

10.03 Itemized Deductions

The Income Tax Law provides for a system of itemized deductions. The major deductions and their limitations are noted below.

Taxes. Land and building taxes are deductible, but income taxes are not deductible.

Contributions and Donations. Contributions or donations to the government or for national defense are deductible without limit. Contributions made to educational, charitable, cultural, or public welfare organizations may be deducted up to a limit of 30% of gross income.

Insurance Premiums. For taxpayers in general, premiums on life

insurance for the taxpayer, his spouse, and his lineal ascendants and descendants are deductible. If the taxpayer is a wage earner, premiums on injury, disability, death, maternity, old age, sickness, and unemployment insurance are also deductible. However, the total insurance premiums deductible is limited to NT\$6,000 yearly per person.

Medical and Maternity Expenses. Medical and maternity expenses for the taxpayer or any dependent living with him, incurred in government hospitals and hospitals that maintain complete and accurate accounting records, are fully deductible.

Casualty Losses. Losses caused by disasters such as fire, war, earthquake, wind, and flood may be deducted if they were not covered by insurance or otherwise compensated.

Losses from Property Transactions. Losses from property transactions are deductible, but only to the extent of income from property transactions (10.02). Losses not offset by income in the same year may be carried forward for three years and charged against the income from property transactions for those years. The basis of property to determine losses is the same as for determining income (6.05).

Salary or Wage Earner's Special Deduction. For salary or wage earners, a special deduction of the lower of 20% of total salaries and wages earned by the taxpayer or NT\$15,000 may be allowed.

10.04 Optional Standard Deduction

The taxpayer is given the choice of either itemizing deductions as enumerated in 10.03 or, alternatively, deducting a standard amount of 10% of his gross income, but such standard deduction cannot be less than NT\$15,000 or more than NT\$21,000. However, a taxpayer who elects to claim the standard deduction may still deduct, on top of the standard deduction, losses from property transactions and salary or wage earner's special deduction. If a taxpayer does not itemize his deductions on his return, it is assumed that he has chosen the standard deduction. Neither itemized deductions nor the optional standard deduction are allowed unless the taxpayer's final return is filed within the prescribed time (4.01).

10.05 Personal and Dependency Allowances

The Income Tax Law provides for a number of dependency deductions and allowances, which are subtracted from gross income. For 1979, single individuals are entitled to an allowance of NT\$20,000, and a married couple NT\$40,000. An additional allowance of NT\$15,000 is granted for each dependent. The following individuals are considered to be dependents:

- (a) Direct ascendants of the taxpayer or spouse who are at least 60

years old, not able to earn a living, and are supported by the taxpayer

(b) Taxpayer's children, brothers, and sisters under 20

(c) Taxpayer's children, brothers, and sisters 20 years or older if supported by the taxpayer because of school attendance, mental or physical disability, or incapacity to earn a living

(d) Other dependents younger than 20 or older than 60 who are supported by the taxpayer because of their inability to earn a living

As with itemized deductions and the standard deductions, these dependency support allowances may be taken only when the taxpayer files his return within the required time (4.01).

10.06 Deductions Relating to Investments in Certain Companies

Dividends Earned from Stock Exchange Listed Companies. Cash and stock dividends earned from investments in stock exchange listed companies may be deducted up to NT\$6,000 per return.

Investments in Approved Industries. An individual may deduct amounts paid for an original issue of registered stocks and corporate bonds, subject to the limiting provisions noted in 2.05.

10.07 Resident and Nonresident Individuals Compared

An individual is considered a resident of Taiwan if he is domiciled in Taiwan, or if he is not domiciled in Taiwan but, for a particular accounting year, has resided there for more than 183 days in that year. All others are considered nonresidents. An individual is not considered a resident, though, if he is domiciled but has not ordinarily resided in Taiwan.

There are basic differences between the taxation of resident and nonresident individuals. A resident individual must file his return and pay tax on all income from sources in Taiwan within three months after the end of the calendar year. A nonresident individual is deemed to have discharged his complete income tax liability if tax on his Taiwan-source income subject to withholding has been duly withheld, and if he has voluntarily declared his other Taiwan-source income on which withholding is not enforceable (for instance, remuneration received from a nonresident employer for the taxpayer's services rendered in Taiwan) and has paid income tax thereon at the applicable withholding rate. This means that nonresident individuals are not taxable at the ordinary graduated rate scale applicable to residents, but are taxed at the fixed withholding rates (Chapter 5). To compensate somewhat for this, nonresident individuals are not entitled to exemptions, allowances, or deductions. The nonresident individual is not required to file a tax return, although he may find it convenient to use an income tax return form in declaring his income received from a nonresident employer (4.01).

Relief from Double Taxation of Foreign Income

11.01 Tax Treaties

No tax treaties are in effect. A treaty is under negotiation with the United States to avoid double taxation, and for the encouragement of investment and trade.

11.02 Credit for Foreign Income Taxes

Business enterprises based in Taiwan that have branches abroad are subject to income tax on their total net income regardless of source (9.01). To provide relief from double taxation, a tax credit is allowed for income tax paid to foreign countries by branches of Taiwan-based enterprises. The tax credit requires documentary proof of payment of the foreign tax, and is allowed to the extent of the Taiwan tax that would have been imposed on the foreign income. Foreign enterprises with one or more branches in Taiwan are subject to the Taiwan income tax only on that portion of their income earned within Taiwan and are, therefore, not entitled to any foreign tax credit.

11.03 United States China Trade Act

Any United States corporation contemplating investment in Taiwan should investigate the provisions of the China Trade Act of 1922, which is referred to in the Internal Revenue Code of the United States. This Act was originally passed to encourage the sale of United States goods in China and has declined in importance in recent years. Nevertheless, some of its provisions are still pertinent. Under the basic provisions, corporations organized under the Act are granted an exemption from United States income tax to the extent of "special dividends" paid to shareholders. It also provides that dividends paid by such companies to Taiwan residents are tax exempt to the recipients.

Pensions, Pension Funds, and Other Retirement Benefits

12.01 Taxation of Retirement Benefits and Contributions

Retirement payments by a profit-seeking enterprise are deductible if the payments do not exceed the official standards (12.02). Individuals who receive a lump-sum pension, retirement allowance, and other allowances of a similar nature are taxable on 50% of the amount received. Such benefits may be fully tax exempt if the recipient is a government employee or laborer.

12.02 Pension Plans

Retirement payments by a profit-seeking enterprise are deductible if the retirement plan is approved by the tax office. The employer is allowed to set aside a retirement reserve of 4% of total salaries and wages. Actual retirement payments must be made in accordance with the retirement plan and charged to the retirement reserve. Any excess of actual retirement payments over the accumulated retirement reserve is charged to current expense in the year such excess takes place.

If the employer has an appropriated retirement fund, which is segregated from its general operating funds, and administered and distributed in accordance with the rules prescribed by the Ministry of Finance, and if the retirement plan is approved by the tax office, the allowable retirement pay expense shall be at 8% of the employer's total salaries and wages paid during the year.

Part 3: Other Taxes

Taxes on Sales, Transactions, Commodities, and Property

13.01 Gross Business Receipts Tax

The so-called "business receipts tax" is levied on behalf of the Taipei City and the provincial governments on the monthly gross business receipts of all business enterprises. The tax is levied on all revenues generated in Taiwan, whether or not the business is a domestic enterprise. Foreign enterprises must pay the tax through their branches or agents. The gross business receipts tax is similar to the sales taxes imposed in other countries.

The tax rates imposed on sales, gross revenues, fees, or other receipts range from 0.75% to 5%, depending on the type of enterprise. Details of the rates and the types of businesses to which they apply are in the Rate Tables.

All businesses must be registered for purposes of this tax. On purchases from a business not yet registered, the gross business receipts tax must be withheld by the buyer.

Exemptions from Tax. A number of businesses are exempt from tax. Among them are producers who have paid the commodity tax (13.02) on their transactions, consumers' cooperatives, philanthropic organizations, and businesses engaged in exporting products but only on their export sales (2.05). A foreign enterprise that does business in Taiwan, but does not have a branch or agent there, is exempt if the home country of the foreign enterprise does not impose similar taxes on a Taiwan business that does not have a branch or agent in that home country.

13.02 Commodity Tax

The commodity tax is an excise duty levied ad valorem on specific commodities produced in Taiwan or imported. The tax is imposed on the manufacturers of domestic goods and the holders of imported goods. The tax is payable on domestic manufactures when they are moved from the manufacturer's premises, and on imports when the import duty is paid. The tax is imposed on the basis of an officially computed taxable value of specific commodities, determined by dividing the average wholesale value by the sum of 1.10 plus the tax rate. For example, if the tax is 20%, the average wholesale value is divided by 1.30.

The rates for specific commodities are in the Rate Tables. An exemption is provided for domestically manufactured goods that are directly exported by the manufacturer. In addition, once commodities have been taxed, a refund of the tax can be obtained if the commodities are subsequently exported. Once the commodity tax has been levied on specific goods, no other tax may be imposed on their transportation or sale (13.01).

13.03 Taxes on Land

Three provincial taxes are imposed on land. The land value tax is levied on both rural and urban land owners on the basis of valuations recorded in the local land register. A fixed rate of 1.5% a year of the official assessed value applies to urban land used for industrial purposes. Urban land for other than industrial purposes is subject to progressive rates ranging from 1.5% to 7% (Rate Tables).

Rural land tax is payable in kind or in cash. The tax assessment is expressed in terms of a tax unit, which is currently 27 kilograms of paddy rice. The number of units leviable is determined by the size and grade of the land. Payment of the tax is made in paddy rice or, in special circumstances, by the cash equivalent of the market price of the required paddy rice.

The land value increment tax is imposed in certain areas announced by the government from time to time. It is payable by the seller of land (or by the recipient if the land is a gift) when ownership is transferred. The tax is applied to the unearned increment in the value of the land, which is defined as the difference between the officially assessed value at the time of sale and at the time of acquisition. The increment is subject to progressive rates ranging from 40% to 60% (Rate Tables). See 2.05 for instalment payments by productive enterprises.

13.04 Building Tax

The building tax is imposed on the assessed value of buildings, regardless of the building's use or by whom it is used. The tax must be paid by the owner of the building. Business buildings are taxed at 3% of assessed value (4% in Taipei City), residential buildings at 1.38% of assessed value, and factory buildings at 1.5% (2% in Taipei City) of assessed value if directly used by the owner for manufacturing purposes. A 30% surtax is charged by local governments (except in Taipei City) on the building tax. The surtax is used for educational purposes.

13.05 Import Duties

Import duties are levied on the importers or owners of specified imported goods at ad valorem rates. Duty-paying value is based on the wholesale market value of the goods in local currency at the port of entry, and is determined by dividing the wholesale market value by the sum of 1.20 plus the duty rate. Thus, if the duty rate is 20%, the wholesale market value is divided by 1.40. In the absence of an ascertainable wholesale market value at the port of entry, the wholesale market value is based on either the price prevailing in the

principal markets, the actual cost plus 20%, or a value determined by the customs authorities. Selected tariff rates are in the Rate Tables.

Import duties on machinery may be exempted or paid in instalments if imported by an industrial enterprise that meets certain requirements of the Statute for Encouragement of Investment (2.05).

13.06 Stamp Tax

A national stamp tax is levied on the following types of documents: sales invoices, receipts, job contracts, contracts for sale or division of property, admission tickets to amusement grounds, and contracts for future delivery of goods and services. The cost of the stamps varies with the type of document to which they are affixed. For stamp tax rates, see Rate Tables.

13.07 Harbor Tax

The harbor tax is a provincial tax levied at the rate of 4% on imports. It is payable with the customs duty (13.05) at the port of entry.

13.08 Title Deed Tax

A deed tax is levied on the transfer of title to real estate through sale, lease, exchange, donation, division, or occupancy. It is payable at the time of the transfer. The rates and the taxpayers are as follows:

(a) Transfer through sale, donation, or occupancy—7.5% of the value of the real estate. The tax is paid by the buyer, the donee, or the occupant.

(b) Transfer through a special type of lease under which title is transferred to the lessee—5% of the value of the real estate. The tax is paid by the leaseholder.

(c) Transfer through exchange—2.5% of the value of the real estate. The tax is paid by each of the parties to the exchange.

(d) Transfer through division—2.5% of the value of the real estate. The tax is paid by the owners after the division.

Productive enterprises using real estate directly for productive purposes are subject to the deed tax at one-half the statutory rate (2.05).

A 30% surcharge is levied on the deed tax by local governments, and is used to meet educational costs. A certification fee of 1% of the value of the real estate transferred is charged by the local government wherein the real estate is situated.

In areas where the land value increment tax (13.03) is collected, the title deed tax is not levied.

13.09 Vehicle License Tax

A vehicle license tax ranging from NT\$900 to NT\$11,520 a year is levied on owners of all types of vehicles. In addition, car owners are required to pay a quarterly fee to the Provincial Highway Bureau for the privilege of purchasing fuel. Both the tax and the fee are based on the total piston displacement volume of the vehicle.

Employment Taxes

14.01 Employees' Insurance Benefits

Under the Taiwan Labor Insurance Law, employees eligible for labor union membership in establishments employing five or more workers must enter into labor insurance contracts with the Labor Insurance Bureau, a government entity. The following insurance benefits are provided:

- (1) Payments for injuries or childbirth
- (2) Sickness and hospital benefits for the insured person
- (3) Payments for partial or complete physical disability
- (4) Old age payments to the insured person
- (5) Payment to the insured person on the death of family members, and payment to the family on the death of the insured person

Labor insurance coverage consists of two types: ordinary-risk insurance and occupational-risk insurance. Premium for the ordinary-risk insurance coverage is 6%-8% of the employee's monthly salary or wage, 80% of which is borne by the employer and 20% by the employee. Premium for the occupational-risk insurance coverage is paid entirely by the employer. Industries which are required to carry occupational-risk insurance are prescribed by the government.

14.02 Employees' Welfare Fund

A business enterprise employing 50 or more workers is required to contribute to a welfare fund for its employees. Other businesses may or may not organize a welfare fund. These welfare funds are regulated by the Statute of Employees' Welfare Fund. This statute provides that compulsory or voluntary contributions to such a fund must not exceed the following:

1. 1% to 5% of paid in capital at the time of establishment and of subsequent increases in capital. For income tax purposes, such appropriations can be amortized at a rate not exceeding 20% per year.
2. 0.05% to 0.15% of monthly operating revenues.
3. 20% to 40% of proceeds from the sale of discarded materials.

In the case of compulsory welfare funds, these amounts are deductible for tax purposes, and employees are required to contribute at the rate of 0.5% of compensation, which amount is withheld by the employer. In the case of voluntary welfare funds, the deductions cannot exceed the amounts listed above. If a welfare fund is not established, employers may deduct actual welfare expenses, but not in excess of the above percentages of operating revenue and proceeds from the sale of wastes.

14.03 Termination Payments

In 1960, the Executive Yuan promulgated regulations governing the termination of factory and mine workers. Under these regulations, employers are required to make the following termination payments:

1. After employment of from one to three years, an employee is entitled to a termination payment equal to his last monthly compensation for each year of employment.
2. After employment of more than three years, an employee is entitled to three months' compensation for his first three years' employment (as above), plus 10 days' compensation for each additional year of employment.

Termination payments within the foregoing limitations are deductible by the employer. Termination payments received by the employee may be treated as variable income, which is taxable on only 50% of the amount received (6.08).

Estate and Gift Taxes

15.01 Estate Tax

The estate tax is imposed on the estate of a decedent who was a resident of Taiwan or had property within Taiwan. If the decedent was a resident at the time of his death, the tax is levied on all his property, wherever located. If the decedent was a nonresident, the tax is levied only on property located in Taiwan.

The base for the estate tax is the fair market value of property. Land and buildings are valued at the officially assessed value determined by the relevant government agencies. Agricultural land is assessed at 50% of its value, if the heirs continue to use the land for agricultural purposes.

The estate exemption for residents of Taiwan is NT\$600,000. Other deductions from total taxable property are: NT\$600,000 for the decedent's surviving spouse, NT\$90,000 for each of the decedent's surviving dependents, taxes and penalties owed by the decedent, debts incurred by the decedent, funeral expenses, and other necessary expenses to probate the will and administer the estate.

Certain property is not subject to estate tax. Among the exclusions are proceeds from life insurance policies with designated beneficiaries, furniture and farming tools up to a certain amount, books and artistic articles, and donations to educational, cultural, public welfare, and charitable institutions. The net estate after exclusions, deductions, and exemptions is taxed at graduated rates ranging from 3% to 50% (Rate Tables).

The administrator or executor of the estate, or the successor in the absence of an administrator or executor, must file an estate tax return with the local tax bureau within six months after the inheritance, and the tax bureau must complete the tax assessment within two months after it receives the return. Payment of the tax is due within two months after the receipt of the tax demand notice. When the tax is more than NT\$300,000, the taxpayer may pay the tax in two to six instalments with an interval of two months for each instalment, or he may pay in commodities. A taxpayer who is not satisfied with the assessment may seek relief through administrative and judicial reviews.

15.02 Gift Tax

A tax is imposed on gifts by a donor who is a resident of Taiwan. A nonresident is subject to the gift tax only on properties located in Taiwan.

As with estates, gifts are valued at the fair market value of the gift. Land and buildings are valued at the officially assessed values determined by government agencies.

An exemption of NT\$150,000 per year is allowed for taxable gifts. Exclusions from total taxable gifts include: donations to the government; to educational, cultural, public welfare and charitable organizations; and to state-owned enterprises. The net gift, after exclusions and exemptions, is taxed at graduated rates (Rate Tables).

The donor must file a gift tax return with the local tax bureau within 30 days after making the gift if, after the gift, total gifts during the past 365 days exceed NT\$150,000. The local tax bureau must complete the tax assessment within two months after it receives the return. Payment for the tax is due within two months after the receipt of the tax demand notice. When the tax is more than NT\$300,000, the taxpayer may pay the tax in two to six instalments with an interval of two months for each instalment, or he may pay in commodities. When a taxpayer is not satisfied with the assessment, he may seek relief through administrative and judicial reviews.

Part 4: Rate Tables and Appendices

Individual Consolidated Income Tax

(For 1979)

Taxable Income Bracket (NT\$)	Tax on Lower Amount (NT\$)	Percentage on Excess over Lower Amount
0- 45,000	None	6
45,000- 90,000	2,700	8
90,000- 150,000	6,300	10
150,000- 210,000	12,300	12
210,000- 320,000	19,500	15
320,000- 430,000	36,000	18
430,000- 600,000	55,800	22
600,000- 800,000	93,200	26
800,000-1,000,000	145,200	30
1,000,000-1,200,000	205,200	34
1,200,000-1,500,000	273,200	39
1,500,000-2,000,000	390,200	44
2,000,000-2,500,000	610,200	49
2,500,000-3,000,000	855,200	54
3,000,000-upward	1,125,200	60

Business Income Tax

(For 1979)

Taxable Income Bracket (NT\$)	Tax on Lower Amount (NT\$)	Percentage on Excess over Lower Amount
0-100,000	None	15
100,000-500,000	15,000	25
500,000-upward	115,000	35

Notes:

1. No business income tax is payable if the taxable income is less than NT\$50,000.
2. Maximum income tax rates of 25% or 22% are available for qualifying productive enterprises (2.05).

Estate Tax (15.01)

Taxable Amount of Net Estate (NT\$)	Tax on Lower Amount (NT\$)	Percentage of Excess over Lower Amount
0- 150,000	None	3
150,000- 300,000	4,500	4
300,000- 600,000	10,500	5
600,000- 900,000	25,500	7
900,000- 1,200,000	46,500	9
1,200,000- 1,500,000	73,500	11
1,500,000- 1,950,000	106,500	14
1,950,000- 2,400,000	169,500	17
2,400,000- 3,000,000	246,000	20
3,000,000- 4,500,000	366,000	23
4,500,000- 6,000,000	711,000	26
6,000,000- 9,000,000	1,101,000	30
9,000,000-15,000,000	2,001,000	34
15,000,000-21,000,000	4,041,000	38
21,000,000-30,000,000	6,321,000	42
30,000,000-60,000,000	10,101,000	46
60,000,000-upward	23,901,000	50

Gift Tax (15.02)

Taxable Amount of Net Gift (NT\$)	Tax on Lower Amount (NT\$)	Percentage of Excess over Lower Amount
0- 150,000	None	4
150,000- 300,000	6,000	5
300,000- 600,000	13,500	6
600,000- 900,000	31,500	8
900,000- 1,200,000	55,500	11
1,200,000- 1,500,000	88,500	14
1,500,000- 1,950,000	130,500	17
1,950,000- 2,400,000	207,000	20
2,400,000- 3,000,000	297,000	23
3,000,000- 4,500,000	435,000	26
4,500,000- 6,000,000	825,000	30
6,000,000- 9,000,000	1,275,000	35
9,000,000-18,000,000	2,325,000	40
18,000,000-30,000,000	5,925,000	45
30,000,000-upward	11,325,000	50

Gross Business Receipts Tax (13.01)

Type of Enterprise	Rate (%)
Merchandising, manufacturing, handicraft, agriculture, animal husbandry, fishing, mining, newspapers, and publications	0.75
Printing, public utilities, food, drinks, amusements, and photography	0.875
Decoration and advertising	1.5
Repairing, processing, operating hotels, cleaning, and servicing	1.875
Warehousing and service agency	3
Banking, managing trusts, surveying, inspection, insurance, brokerage, and consulting	5
Transportation	1.25

Commodity Tax on Selected Items (13.02)

Item	Rate (%)
Cigarettes, wine, and beer	120
Sugar	60
Cotton yarn	20
Woolen yarn	20
Artificial and synthetic fiber	20
Hides and leather	15
Plastics	23
Automobiles	15
Rubber tires	20
Steel bars	10
Cement	30
Nonalcoholic beverages	40
Cosmetics	20 to 100
Paper	5
Oil and gas	10 to 55
Appliances	10 to 15
Electric bulbs and tubes	20
Monosodium glutamate powder	29
Plate glass	23
Sewing machines	10

Urban Land Tax (13.00)

(For Nonindustrial Urban Land)

Official Assessed Value of the Taxpayer's Holdings of Urban Land (Percentage of the Base)	Tax Rate on Land Value (%)
0- 100	1.5
100- 500	2.0
500-1,000	3.0
1,000-1,500	4.0
1,500-2,000	5.0
2,000-2,500	6.0
2,500-upward	7.0

Note:

The tax is levied at graduated rates on the official assessed value of the taxpayer's total holdings of urban land situated in one jurisdictional area, expressed as a percentage of the base, which is equivalent to the official assessed value of 700 square meters of urban land of average grade situated in the same area.

Example:

Suppose that the base of urban land tax applicable to a certain jurisdictional area for a particular year is NT\$40,000 and the official assessed value of the taxpayer's total holdings of urban land situated in the same area is NT\$300,000. The urban land tax levied on the taxpayer would be NT\$6,800, computed as follows:

Value of Urban Land Held by Taxpayer (NT\$)	Tax Rate (%)	Tax (NT\$)
40,000	1.5	600
160,000	2.0	3,200
100,000	3.0	3,000
<u>300,000</u>		<u>6,800</u>

Land Value Increment Tax (13.03)

Land Value Increment (Percentage of Registered Land Value Before Increment)	Tax Rate on Land Value Increment (%)
0-100	40
100-200	50
200-upward	60

Note:

The tax is levied at graduated rates on the increment in land values expressed as a percentage of registered land value.

Example:

Suppose that the officially assessed value of a piece of land at acquisition is NT\$50,000 and the officially assessed value of the land at the time of sale is NT\$180,000. The tax levied on the seller of the land would be NT\$63,000, computed as follows:

Land Value Increment (NT\$)	Tax Rate (%)	Tax (NT\$)
50,000	40	20,000
50,000	50	25,000
30,000	60	18,000
<u>130,000</u>		<u>63,000</u>

Import Duties on Specific Commodities (13.05)

Item	Duty Rate (% of Duty- Paying Value)
Agricultural machinery and parts	7-19
Wheat	13
Soybeans	13
Maize	6
Scientific and medical instruments	19-52
Electric high voltage machinery and equipment	13-65
Electric low voltage machinery and equipment	13-65
Prime movers and steam boilers	7
Other machinery and parts	13, 19, or 33
Machine tools	13 or 19
Office equipment	10, 39, or 52
Automobiles	46-75
Trucks	46 or 65
Clocks and watches	20 or 26
Appliances	46-65
Perfumes and toiletries	26-156
* Raw cotton	16
* Cotton piece goods	55-60
* Artificial staple fiber	20-72
* Synthetic staple fiber	20-72

* These are representative commodities that are imported with the intention of export after processing. Such commodities are subject to import duties when imported; however, the duties and surcharge will be refunded if they are exported after processing.

Stamp Tax (13.06)

Type of Transaction	Paid by	Basis of Tax	Rate (%)
Sales invoices:			
Domestic	Seller	Invoice amount	0.4
Export	Seller	Invoice amount	0.1
Receipts	Recipient	Cash received	0.4
Job contracts	Each contracting party	Contract amount	0.1
Contracts for sale or division of property	Party acquiring the property right	Property value	0.1
Admissions to amusement grounds	Seller	Ticket price	5.0
Contracts for future delivery of services or goods	Seller	Contract amount	NT\$12.00

Depreciation Rates

Service Lives for Some Assets in Common Use

Categories	Service Lives (Years)
Buildings, Installations, and Fixtures:	
Buildings	4-60
Building facilities	3-17
Other structures and installations	3-80
Communication and Transportation Equipment:	
Vessels	5-20
Aircraft	2- 6
Land transportation vehicles	3-22
Machinery and Equipment:	
Food processing	9-16
Fiber	7-15
Timber	8-16
Paper-making	9-15
Chemical industry	5-13
Ceramic industry	3-15
Rubber industry	10-13
Leather industry	11
Metals	10-16
Manufacture of metal products	8-15
Manufacture of machinery	10-14
Manufacture of electric appliances	7-11
Other manufacturing industries	4-15
Machinery and equipment for power generation and distribution, and for communication	8-20
Construction equipment	8
Machinery and equipment for mineral industries	7-10
Farming machinery and equipment	8-10
Other machinery and equipment	2-30

Rates of Percentage Depletion for Certain Mineral Deposits

Minerals	Percentage of Gross Income from the Property
Petroleum and natural gas	27.5
Uranium, radium, iridium, titanium, thorium, zirconium, strontium, vanadium, manganese, tungsten, chrome, molybdenum, bismuth, mercury, cobalt, nickel, brimstone, tin, asbestos, mica, rock crystal, diamond	23
Iron, copper, antimony, zinc, lead, gold, silver, platinum, aluminum, ferric sulphide	15
Coal	12.5
Jewel stone, calcium fluoride, aquamarine, borax, niter, sodium nitrate, heavy spar, natural alkali, alunite, rock salt, gypsum, arsenolite, phosphorus, potassium, marble, magnesia	10
China clay, feldspar, talc, clay, silt, kaolin	5

Note:

Percentage depletion is limited to 50% of net income from the mineral property.

Specimen Tax Computation of a Taiwan Resident Corporation

Part I

	Note No.	
Net profit for year ended December 31, 1978, per books	1	NT\$1,800,000
Add:		
Provision for income tax	2	NT\$1,098,414
Depreciation in excess of the limitation	3	128,200
Parent company allocated administrative expenses	4	110,000
Traveling expenses, not adequately supported	5	42,500
Entertainment expenses in excess of the limitations	6	14,000
Interest incurred for the acquisition of fixed assets	7	1,600
Personal income tax paid for the account of the company's general manager	8	53,500
Bad debts not adequately supported	9	67,700
Total		<u>1,515,914</u> 3,315,914
Deduct:		
Depreciation in the form of amortization of interest in- curred for the acquisition of fixed assets	7	160
Preoperating expenses charged to current year	10	6,000
Taxable income		<u>6,160</u> <u>NT\$3,309,754</u>

Part II

Income tax payable (by nonproductive corporations):

NT\$100,000 × 15% + 400,000	
× 25% + 2,809,754 × 35%	<u>NT\$1,098,414</u>

(continued)

Income tax payable (by productive corporations not qualified for income tax exemption):

$$\begin{aligned} & \text{NT\$}100,000 \times 15\% + 400,000 \\ & \times 25\% + 2,809,754 \times 35\% \\ & = \text{NT\$}1,098,414 \end{aligned} \quad (\text{A})$$

$$\begin{aligned} & \text{NT\$}3,309,754 \times 25\% \\ & = \text{NT\$}827,439 \end{aligned} \quad (\text{B})$$

The smaller of (A) and (B)
(Note 11) NT\$ 827,439

Income tax payable (by productive corporations partially qualified for income tax exemptions):

Taxable income	NT\$3,309,754	
Less: Tax-exempt income (Note 12)	<u>1,654,877</u>	(assuming 50% of income is tax exempt)

Taxable income (less tax-exempt income) NT\$1,654,877

$$\begin{aligned} & \text{NT\$}100,000 \times 15\% + 400,000 \\ & \times 25\% + 1,154,877 \times 35\% \\ & = \text{NT\$}519,207 \end{aligned} \quad (\text{A})$$

$$\begin{aligned} & \text{NT\$}3,309,754 \times 25\% \\ & = \text{NT\$}827,439 \end{aligned} \quad (\text{B})$$

The smaller of (A) and (B)
(Note 11) NT\$ 519,207

Income tax payable (by productive corporations entirely exempt from income tax):

Taxable income	NT\$3,309,754	
Less: Tax-exempt income (Note 12)	<u>3,309,754</u>	

Taxable income (less tax-exempt income) 0

Income tax at regular corporate income tax rates is 0 (A)

$$\begin{aligned} & \text{NT\$}3,309,754 \times 25\% \\ & = \text{NT\$}827,439 \end{aligned} \quad (\text{B})$$

The smaller of (A) and (B)
(Note 11) 0

(continued)

Notes:

1. The profit for the year ended December 31, 1978, forms the basis of income tax liability for the tax year 1978.
2. There is no provision for deducting income tax in arriving at a corporation's taxable income.
3. A corporation is required to depreciate its assets based on the service lives prescribed in the tax regulations (7.02). Depreciation expense in excess of the limitation based on the prescribed service lives may not be allowed in the current year.
4. Parent companies are not permitted to allocate administrative expenses to their subsidiaries, but head offices may allocate their administrative expenses to the branches if certain conditions are met.
5. Generally, all transactions of a corporation must be adequately supported in accordance with the tax regulations. For example, airfare must be supported by the passenger's copy of air tickets or boarding certificates issued by an airline company.
6. Entertainment expenses in excess of the limitations are not deductible (7.12).
7. Interest incurred for the acquisition of fixed assets is required by tax regulations to be added to the cost of fixed assets (7.07).
8. Individual income tax paid by a corporation on behalf of its employees is not tax deductible (7.06).
9. Bad debt losses may be deducted only when properly supported.
10. Preoperating expenses must be amortized over five years.
11. A productive enterprise (2.05) pays income tax at the smaller of the following two amounts: (a) taxable income (less tax-exempt income, if any) at the regular corporate income tax rates, or (b) income (no deduction for any tax-exempt income) multiplied by the percentage set for determining maximum tax liability (2.05, Reduced Taxes).
12. Income tax exemption is granted to qualified productive enterprises (2.05, Tax Holiday).

Taxes on Representative Earned Incomes for 1979

(Assuming the standard deduction and a major part of taxpayer's income is from salaries or wages)

Earned Income (NT\$)	Single Person (NT\$)	Married Couple (NT\$) (no children)	Married Couple (NT\$) (two children)
30,000	None	None	None
50,000	300	None	None
75,000	1,500	300	None
100,000	3,100	1,800	None
150,000	7,300	5,500	3,100
200,000	11,800	9,800	6,800
300,000	24,600	21,600	17,580
400,000	40,320	36,720	32,100
500,000	58,880	54,720	49,320
600,000	80,880	76,480	69,880
700,000	104,640	99,440	91,880
800,000	130,640	125,440	117,640
900,000	158,400	152,400	143,640
1,000,000	188,400	182,400	173,400
1,200,000	254,160	247,360	237,160
1,500,000	368,360	360,560	348,860
1,800,000	497,560	488,760	475,560
2,000,000	585,560	576,760	563,560
2,500,000	827,760	817,960	803,260
3,000,000	1,094,960	1,084,160	1,067,960
3,500,000	1,391,600	1,379,600	1,361,600

Note:

Any income in excess of NT\$3,000,000 is taxed at the rate of 60%.