

**Introduction to Taiwan's Taxation System:
Major Problems and Reform**

By Ting-An Chen

President

Chunghua Association of Public Finance

Taipei, Taiwan

January 19, 2008

1. Introduction

The prevailing tax system in any country reflects its socio-economic development status and characteristics. The tax system, the tax burden, and the tax structure in a developing country will differ from its developed partners. Going along with the process of economic development and social progresses of a nation, changes in taxes and taxation happen constantly.

The purpose of this paper is to provide an overall, concise yet comprehensive introduction to the tax system in Taiwan, as to provide a background for more in-depth discussions on different aspects related to the business income tax and other taxes in this island economy which is the top capital exporting country to mainland China. In addition to introduction focusing on the tax systems, problems and issues of the current taxes, possible directions of major reforms will also be given in this paper to solicit for more meaning discussions and exchanges of opinions.

2. Overview of the Current Tax System, Tax Revenues and Tax Burden

2.1 Characteristics of the Taiwan Tax System

As in most of other countries, Taiwan's taxes consist of internal taxes and cross-border taxes, and are assigned to as national government taxes and local government taxes. As shown in Figure 1, national taxes includes (1) income taxes, that is profit-seeking enterprise income tax (business income tax) and consolidated income tax (individual income tax); (2) custom duties; (3) valued-added and non value-added business taxes; (4) commodity tax; (5) tobacco and alcohol taxes; (6) securities transaction tax ; and (7) futures transactions tax. Local taxes are comprised of (8)

agricultural land tax¹; (9) land value tax; (10) land value increment tax; (11) house tax; (12) vehicle license tax; (13) deed tax; (14) stamp tax; and (15) amusement tax.

A major difference of the business income tax implemented in Taiwan from the corporate tax system in other countries' is the coverage of taxpayers². Business income taxes are imposed on companies, corporations, as well as business organizations in the forms of sole proprietorship, and partnerships where in most of the cases, only companies or corporations, the so-called judicial personal, are subject to this tax in other countries. The broader coverage of the profit seeking enterprise income tax in Taiwan can be traced back to the mid-1950 when the income tax law was stipulated. In its early stage of economic and business development, very small number of taxpayers would exist if the business income tax had been administered as a corporate income tax.

Broader tax coverage also occurs in Taiwan's commodity tax system. In 2007, a total of seven categories of manufactured products, including rubber tires, cement, non-alcoholic beverage, glasses, gasoline, electrical appliances, and automobiles are subject to different rates of taxes. Due to revenue objective, Taiwan's commodity taxes are excises, or special sales taxes, on specific commodities, with a much broader coverage of taxable items than the excise tax system in other countries imposing a VAT.

The VAT system applies differential rates to various transactions and even different tax bases. Values-added is the base for VAT on general transactions, but gross receipts for financial transactions. The 5% tax rate does not apply to financial transactions, wholesale markets transaction on agricultural produces, and selected dining and

¹ The government had suspended the collection of agricultural land tax since the second installment 1977. Formally, this tax is still an individual item in Taiwan's tax system and not legally abolished.

² The scope of business income tax, taxpayers covered, is broader than other countries. In 1955 when this tax was introduced, there were few business organizations in the form of company or corporations. To secure the collection of tax, other forms of business entities were put into the tax net.

drinking businesses.

Agricultural land tax is the oldest tax in Chinese tax history³. Taiwan retains this special form of land tax. Since 1985, the collection of this tax has been suspended to lower the tax burden on farming sector. Capital gains from land transactions are generally treated as a type of income in countries applying a comprehensive income concept in grossing up the taxable income. Contrarily, we impose a specific capital gains tax on land transactions or taxable transfers, the land value increment tax, as a measure to capture and distribute the benefit from land value appreciation and the land right. The most notable characteristic of this tax is the base for tax liability calculation. Rather than based on the real market transaction gains, a publicly assessed value system is used which is called the Officially Assessed Present Value (OAPV).

Finally, the real property tax system in Taiwan works with separate taxes applied to buildings and land. House tax is collected on buildings, structures and constructions while land value tax is imposed on the value of land, or land related to the taxable buildings subject to house tax. To further complicate the matter, a different publicly assessed value of the taxable land, the Government Announced Public Value (GAPV), significantly lower than the OAPV in land value increment tax (LVIT), is used for land value tax. Reassessment of the GAPV is done once every three years while a new OAPV is provided every year for all taxable land.

2.2 Tax Revenue

Table 1 gives the collection of all taxes in Taiwan from 2001 to 2005. It shows that tax revenue increased, unsteadily, from NT\$ 1,258 billion to NT\$ 1,567 billion within

³ See Yu and Wang (2007), pp. 36-37.

this five year period. Income taxes, business and individual income tax combined, contributed the biggest share which in 2005 amounted to 39.9% of total tax revenue. Business tax was the second most important revenue generating item. Also in 2005, a collection of NT\$ 237.5 billion from business tax contributed 15.2% to total taxes. It followed by commodity tax with NT\$ 168.4 billion and a share of 10.7%.

The item of monopoly revenues in Table 1 is excises charges on tobacco and alcohol production or consumption. Beginning 2003, this special excise charge system was replaced by tobacco and alcohol tax, a term accepted by our government during the negotiations with the World Trade Organization (WTO) and its members when Taiwan was applying for the membership. Finally, an earmarked surcharge on health and welfare is added on tobacco tax.

The land value increment tax, according to international tax classification standard, is an income tax on capital gains from land transactions. Adding revenue from land value increment tax to income taxes, all three types of income taxes had total proceeds of NT\$ 725.9 billion, or 45.1% of total tax collection in year 2005.

Land value tax and land value increment tax are local government taxes. Total receipts from the two land tax items was lower than the commodity tax, however, they are the most important local government tax revenue.

Following the process of liberalization in economic development, the importance of custom duties as a revenue means declined. In the 1950's, custom duties was always the top revenue producing tool. In 2005, the government collected NT\$ 82.37 billion on imports, or 5.3% of total tax revenue, lower than those from land taxes.

2.3 Tax Structure

We can group all tax items into the four categories as (1) income tax; (2) property tax; (3) sales tax; and (4) other taxes. Table 2 shows changes in shares among the different categories of taxes over the years. Within the ten year period, income tax increased from 28.6% to 39.4%, property tax slid from 16.5% to 11.8%, sales tax from 39.8% to 31.7%, and the remaining other taxes pushed up from 15.1% to 16.6%.

A comparison of Taiwan's tax structure with developed nations may reveal that the income tax share is lower in Taiwan, yet it has been increasing, and the shares of sales tax and property tax are both declining.

Taiwan's indirect tax decreased from 48.2% in 1996 to 40.6% in 2005, whereas direct tax increased from 51.8% in 1996 to 59.4% in 2005. By observing the change trends, indirect taxes have been basically falling, while direct taxes have been rising (see Figure 2).

2.4 Tax Burden

There are two internationally recognized indicators for tax burden. One is the ratio of a country's total tax revenue to GNP, named national rate of tax burden. Another is the ratio of total tax revenue to population, named tax burden per person. The tax burden per person is a nominal indicator, so it becomes the real tax burden after being deflated.

Figure 3 shows the weight of Taiwan's tax revenue (excluding social security surcharge) in GNP from 1980 to 2004. The weight reached the peak 20.1% in 1990 and had been falling to 11.9% in 2003 that was the lowest burden rate of tax in

Taiwan's history. It was also the lowest one in comparison with most countries in the world (see Table 3).

As shown in Figure 4, Taiwan's tax burden per person increased from NT\$ 15,000 in 1980 to NT\$ 64,000 in 1998. It had been falling since the year 1998 (except 2000) and had dropped to NT\$ 61,000 in 2004. On the other hand, the national rate of tax burden fell first and then raise later; it fell from 19.6% of the year 1981 to 15.12% of the year 1986 and then raise to the peak 20.1% in 1990. However, the rate has kept falling afterwards. All of rates have been below 15% since the year 2000. Based on these change trends, we observe the unusual phenomenon that individual tax burden and national tax burden have been lighter and lighter since 1990s.

A too low tax burden indicates Taiwan's tax revenue does not grow simultaneously with the GNP. This phenomenon reflects the fact that Taiwanese government overuses the policies of tax reduction. For instance, the government implemented the "Statute of Encouraging Investment" in 1960, and its main intension was tax reduction. Thirty years later, the government used the "Statute of Promoting the Industrial Upgrading" as the substitute. Though the government claimed the new statute provides incentives based on functions rather than industries, but it still uses tax reduction as a device in one's heart of hearts. This changes only the form but not the content. It even gets worse when the incentives cover more industries and wider categories.

Internationalization and liberalization have forced Taiwan's custom duties to fall constantly; its average rate was 30.8% in 1984 and fell below 4% in 2005. The highest rate of profit-seeking enterprise income tax was 35% in 1985 and then dropped to 25%, while the highest rate of individual income tax also dropped from 60% to 40%. Moreover, integration of individual and business income taxes was implemented in

1998 in order to avoid double taxation on dividend incomes. The government stopped levying taxes on farm lands in 1987, so the revenues of local government were out at the elbows. Besides, the government proclaimed the statue of small and medium enterprise development in 1991. Similarly, it used taxes as favorable tools. The government once again sacrificed tax revenues to handle the financial crisis of the year 1998. It lowered the rate of business tax for financial service industry from 5% to 2%⁴. In 2002, the government decided to cut half the rate of land value incremental tax for three years using recovering the real estate as the excuse. However, the half rate policy finally develops to the forever reduction policy without any modification or reform of reassessment method.

3. Issues and Problems in Taiwan's Tax System

3.1 Income tax

3.1.1 The side effect after integrated income tax system

Beginning from the year 1998, the integration of individual income tax and profit-seeking enterprise income tax has reduced the double taxation issue of dividend income to a certain extent. But the businessmen still complain about the additional ten percent profit-seeking income tax levies on undistributed surplus earnings. The main purpose is to avoid the firms use undistributed surplus earnings as tax shelter.

3.1.2 The issue of profit -seeking income tax

If the total taxable income of a profit-seeking enterprise is less than NT\$ 100,000,

⁴ The government had decided to exempt financial transactions from business tax in 2008. The decision had reverted afterward because of tax revenue and equity consideration.

the income tax rate will be 15%. If the total taxable income is more than NT\$100,000, the income tax rate shall be 25% on the portion of taxable income more than NT\$ 100,000. In order to enhance the international competitiveness and compete with Hong Kong's 17.5% and Ireland's 12.5%, the economic affairs authority officers and the big owners of private enterprise suggest adopt lower flat rate.

3.1.3 High tax burden on individual income tax

Beginning from the tax reform of 1986 in the U.S., there is a tendency toward lower income tax rate around the world. Although individual income tax bracket has been reduced from 13-tier to 5-tier classes and the highest marginal tax rate has been reduced from 60% to 40%, it still has space to simplify bracket and lower tax rate.

3.1.4 Taxation on securities transaction gain

Income tax on gains derived from the securities transactions ceased to be imposed with effect from 1996⁵. Based on the data from Financial Data Center Ministry of Finance, among the 40 top income individuals, 8 of them do not pay individual income tax at all⁶. Most of them have higher proportion of securities transaction gain.

3.1.5 AMT

Owing to some tax preferential treatments, a lot of high income individuals and big private enterprises do not pay income tax⁷. To uphold tax equity, to ensure tax revenue for the country, and to establish the basic requirements of corporations and individuals

⁵ On June 1st, 1996, the legislature passed the bill on restoration of capital gains from security transactions as taxable income. A special 14% tax rate was introduced to collect the taxes on this type of income. Consequently, the Taiwan stock market dived heavily which made the legislature freeze the passed bill.

⁶ See Chu (2006).

⁷ See Yang et al. (2007).

in regard to their obligation to fulfill their income tax burden as a contribution to public finance. Income Basic Tax Act came into force on January 1, 2006.

3.2 Sales Tax

3.2.1 VAT tax rate

Beginning from 1985, Taiwan enforced value-added business tax. The government set business tax rate to the lowest level as 5%⁸. For enterprises engaged in banking, insurance, investment trust, securities, futures, commercial paper and pawnshops, the business tax rate went down to 2%. The business tax revenue collected from the financial industries shall be supplied exclusively to the Financial Reconstruction Fund and shall be used for the improvement of financial institutions with financial crises.

3.2.2 Tax Scope of commodity tax

In 1969, Taiwan's first tax reform proposed to integrate business tax, commodity tax and stamp tax as VAT. The more taxable goods of commodity tax are included in the VAT, the lower the VAT tax rate could be, vice versa. However, the officials worried about huge scope tax reform will cause price to fluctuate significantly; thus, a graduate reform was suggested. Taiwan currently does not change too much on the commodity tax system except the cosmetic commodity tax was repealed and the tobacco and alcohol tax was imposed independently. Now taxable commodities include seven categories which are rubber tires, cement, beverage, flat-glass, oil and gas, electric appliances, vehicles under the traditional sales tax system. Because of the "double

⁸ The Business tax Law stipulates that the business tax rate be between 5 to 10%. It is up to the discretion of the Executive Yuan to determine the actual collection rate. The 5 % rate has been applied for the last twenty some years since the administration of the VAT.

taxation” and “tax on tax” problems, it is indeed to reconsider the taxable objects of commodity taxes along with the tax rates of the VAT.

3.2.3 Commodity tax vs. energy tax

One of the taxable commodities is oil and gasoline⁹. The tax amounts are gasoline (NT\$6,830 per 1000 liter (KL)), diesel oil(NT\$3,990 per KL), kerosene(NT\$4,250 per KL) fuel oil for aircraft(NT\$ 610 per KL), fuel oil (NT\$ 110 per KL), dissolving oil (NT\$ 720 per KL), liquefied petroleum gas(NT\$ 690 per metric ton). Taiwan is an oil imported country but after tax oil price lower than other countries. During energy shortage and crude oil price rising period, Taiwan government should use oil commodity tax as an energy saving and pollution prevention policy tool.

3.3 Property Tax

3.3.1 Should the estate and gift tax be abolished or not?

Estate tax has the function to moderate uneven distribution of wealth¹⁰. In order to avoid those who transfer his wealth during his lifetime, gift tax is an accompaniment. There are a lot of methods to avoid estate tax burden. Besides, estate tax and gift tax revenue only has NT\$ 30 billion which is about 2% of total tax revenue. Therefore, employing estate tax as an income distribution policy tool is fruitless.

3.3.2 Land tax and house tax issue

Property taxes include agriculture land tax, land value tax, land value increment tax and house tax. Agriculture land tax is based on the annual yield or value per unit

⁹ Status of Commodity Tax, Article 10.

¹⁰ See Chen (2007), p.7.

area of land. Agriculture land tax ceased to be imposed twenty years ago. The land value between agriculture land and non- agriculture land has huge difference. Most of the urban nearby agriculture land owners wish to change their land category from agriculture purpose to residential or commercial purpose. The tax base for land value increment tax is assessed present value of land. Land value increment tax based on the total amount of land value increment at the time of transfer of land title. Because the assessed present value of land is much lower than the market value of land, most of the land capital gain was belonged to the land owner.

4. The Features and Difficulties of Tax Reform in Taiwan

4.1 The Reform of Income Tax

“Flatness” becomes the international trend of the income tax reform. Taiwan has been the member of the WTO; thus the income tax reform in Taiwan also goes along on this direction. However, according to the past experiences, there is still a gap to reach the tax system with a flat tax rate. The business income tax in Taiwan only has two tax rates, 15% and 25%; besides, it is in fact not too high compared to other countries. Thus, it is not impossible to amend it to a flat rate system, like a rate of 17.5% in Hong Kong or 12.5% in Ireland. However, the reform in which we can change from a multiple-rate schedule with higher rates to a flat rate system with a lower rate has one condition, that is, we are now able to have a broader tax base than before. The current challenge is that some business leaders¹¹ only advocate a flat and a lower tax rate without supporting a broader tax base accordingly¹².

¹¹ The three influential industrial and commerce associations in Taiwan: the Chinese National Association of Industry and Commerce, the Chinese National Federation of Industries, and the General Chamber of Commerce of the Republic of China.

¹² The Ministry of Economic Affairs commissioned a project to Chunghwa Institute of Economic

The same situation also exists in the reform of the individual income tax. Some people suggest that we can decrease the current highest marginal tax rate from 40% to 25%. However, they disagree to repeal some exclusions or tax benefits under the current tax codes. For example, the income of military personnel and teachers, and the gains derived from the securities transactions are all exempted in Taiwan. It is well known that the revenue neutrality is the fundamental principle when a state undertakes a tax reform. Therefore, lowering the tax rate should be accompanied by a broader tax base; otherwise, it will make the fiscal situation worse instead.

Taiwan adopted Imputation Tax System to integrate its business income tax and individual income tax in 1998. However, an additional 10% tax on retained earnings was also imposed to soak up part of the potential tax loss of the tax system change, and to curb tax avoidance activities via accumulating corporate earnings. This retained earnings tax has been widely criticized by the public. The implement of additional 10% on retained earnings in fact results from the situation where the difference of tax rates between the business income tax (25%) and individual income tax (40%) is too large. Thus, the essential solution is to narrow the difference of them. However, the difficulty in practice is that it is impossible to increase the business income tax rate and also implausible to decrease the individual income tax rate without enlarging the tax base.

4.2 The Reform of Sales Tax and Energy Tax

After enacting the VAT system, most commodity taxes should be integrated with

Research to draft the “Three Laws for Industries.” The Statue for Industrial Innovation and Value-added, among the three drafted laws, will be established as replacement for the current Statue for Upgrading the Industries, which will be expired in 2009. In a seminar held by the institute, the author had a feeling that tax preferential provisions were even more generously provided in the new law than the one being replaced.

the VAT system. Compared to other countries, the VAT tax rates in Taiwan are at a relatively low level. Therefore, it is difficult to improve its fiscal role by collecting more revenues due to low tax rates.

Some scholars and legislators recently speak in favor of the energy tax¹³. Actually, Taiwan already has imposed taxes on energy under different tax laws. For example, the fuel user fee, the air pollution control fee and the commodity tax on oil and gasoline. The efforts that need to be undertaken for the energy tax in the future are: (1) we should levy on more types of energy, like coal and nuclear energy; (2) we should enact a special energy tax law which incorporates all existing taxes with the nature of the energy tax. By doing so, it will be in reality as well as in name. The difficulty of proposing the energy tax in Taiwan is that it will involve too many reforms interacted with other taxes, especially with the commodity tax.

Some researchers propose that we could use the revenues collected from the energy tax first to improve the environment, and secondly to cover the tax loss due to a decrease of the individual income tax rate. With a lower tax rate, not only tax burden can be lessened but saving and investment can be encouraged. Thus, we can gain the “double dividend” or even “triple dividend”¹⁴.

4.3 The Reform of Estate and Gift Tax

Compared to the income tax rates, the tax rates of estate and gift tax are too high in Taiwan. Currently, the highest marginal tax rate of the individual income tax and estate and gift tax are 40% and 50%, respectively. High tax rates will affect households' saving incentives. Thus, Taiwan government plans to lower the tax rate of the estate

¹³ See Huang and Lo (2006), pp. 65-88.

¹⁴ See Huang (2007), p.8.

tax to the level of the individual income tax. It also plans to change the 13-tier tax rates schedule under the estate tax to the schedule with only 5 classes. On the other hand, a fixed amount of exemption is also suggested for the gift tax; in addition, it can be used multiply before or after death.

Lots of business leaders¹⁵ argue that if the estate and gifts tax is abolished, it will attract more foreign capital back to Taiwan. We have some concerns on this argument. First, it is lack of empirical evidence to support the hypothesis. Second, Taiwan does not have enough foreign investment currently but still have high foreign exchange reserves. Thus, Taiwan is not short of capital; instead, it lacks good investment environment and plans for foreign investors. Third, although the U.S government plans to annul the estate tax in the future, it still maintains the gift tax and imposes the wealth transfer tax alternatively¹⁶. In other words, it does not simply repeal the estate tax only.

4.4 The Reform of Land Tax

The levy of the agriculture land tax is now suspended in Taiwan, and it is not expected to become in force again in the future. If it is the case, we suggest that the agriculture land tax could be replaced by the land value tax, where allowing a certain exemption amount and a relatively lower tax rates on the land for the agriculture purposes only.

For the long-term reform, it would be better that we can integrate the land value tax and the house tax as the real estate tax. The tax base is the assessed current value

¹⁵ The three influential associations support this argument.

¹⁶ See Ho (2005) and Chen (2007).

of the real property along with a proportional tax rate. In order to have an appropriate tax base, the span of reassessment periods should not be too long.

In terms of its nature, the land value increment tax is a form of income tax. Thus, we suggest that the capital gains from the sales of lands could be titled as one source of income. Thus, the land value increment tax can be incorporated with the income tax. In order to reflect the proper capital gains, the real market exchange price should be adopted instead of the assessed present value. In order to eliminate the possibility of “lock-in” effect, a proportional tax schedule is suggested.

5. Conclusion

The special format of various land taxes in Taiwan owes to Taiwan’s Chinese heritage, and its specific socio-economic and cultural background, while income and sales taxes are basically affected by modern tax system in industrial countries such as the States and European Union.

Leading by the process of liberalization and internationalization, and within the framework of a global village, tax systems in individual countries tend to harmonize and more homogenized. Following this tendency, the unique element within Taiwan’s tax system will fade out gradually. To improve its international competitiveness, flattening of the income taxes is an indispensable objective in future tax reform. However, to reduce the degree of progressivity, or the top marginal income tax rates, the complementary measure of broadening the tax base must also be adopted. It will be rather unrealistic to advocate a policy of tax reduction without at the same time to hold a firm position on eliminating those over-generous preferential treatments. It can only be done if the further impounding effect on hurting the already troubled

government financial position is ignored. To narrowing the gaps between the nominal rates and the effective rates of the income tax system will certainly be one of the most important aspects of Taiwan's tax reform. Removing the preferential provisions in the income taxes, the necessity of the supplemental alternative minimum tax imposed since 2006 will cease to exist. Furthermore, we can expect for a much less complicated income tax system and lowering tax administration costs.

To adjust the current tax structure which skews more toward the income taxes for revenue goal, a readily available means is to increase the collection of sales tax, especially the value-added tax. Other reform measures related to the consumption taxes involve changing the petroleum and gasoline taxation within the commodity tax to specific taxes, i.e., taxes based on quantity, and the integration of these two taxable goods with other energy resources into an energy tax system. Finally, all remaining commodity taxes should be eliminated with the reform of the value-added business tax.

As regards the estate and gift taxes, even though the two contribute to a rather insignificant share to total tax collection, it is still a major financial source for the local governments. A fundamental change of these two taxes may call for a merge of the two into a lifetime wealth transfer tax where a deduction of fixed amount is provided for transfers before or after death, without any restriction on number of transfers. Tax changes take time and the proposed changes in estate and gift taxes will not be an exception. Before the changes are implemented, re-shaping the elements of tax base, tax rates, and provisions on exemptions and deductions, is a much more pragmatic policy option than a blunt abolishment of the taxes.

For the land taxes, the desirability of incorporating the land value increment tax into the income taxes has long been discussed and advocated. However, given the fact

that this tax is stipulated in our constitution, the first best reform choice is politically difficult which can by no means be used as an excuse for failing to correct the caveats of the tax in its current format. For example, as having been discussed for a very long period of time, the system of GAPV, significantly under-assessed compared to the market value, must be improved in order to enhance the equity and efficiency performance of this unique tax. Merging the house tax and land value tax into a real estate or immovable property tax with a more realistic assessment on land value is also among the front-running items for reforming the property tax system.

Table 1: Total Tax Revenues by Years (2001 — 2005)

Unit: NTS million

Item	2001		2002		2003		2004		2005	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
Total	1,257,841	100.0	1,225,601	100.0	1,252,766	100.0	1,387,300	100.0	1,567,395	100.0
Taxes	1,200,278	95.4	1,190,874	97.2	1,220,116	97.4	1,353,400	97.6	1,531,297	97.7
Customs Duties	92,558	7.4	85,901	7.0	82,783	6.6	78,884	5.7	82,374	5.3
Income Tax	478,636	38.1	392,939	32.1	411,087	32.8	455,913	32.9	625,807	39.9
Profit-Seeking Enterprise Income Tax	233,678	18.6	165,759	13.5	213,683	17.1	241,089	17.4	329,357	21.0
Individual Income Tax	244,958	19.5	227,180	18.5	197,404	15.8	214,824	15.5	296,450	18.9
Commodity Tax	133,883	10.6	143,641	11.7	146,012	11.7	159,643	11.5	168,411	10.7
Tobacco and Alcohol Tax	—	—	41,188	3.4	49,773	4.0	48,336	3.5	50,443	3.2
Business Tax	203,707	16.2	214,735	17.5	197,521	15.8	233,459	16.8	237,531	15.2
Land Value Tax	50,920	4.0	50,169	4.1	50,762	4.1	52,617	3.8	53,706	3.4
Land Value Increment Tax	42,262	3.4	47,900	3.9	61,041	4.9	81,276	5.9	81,664	5.2
Others	198,311	15.8	214,401	17.5	221,137	17.7	243,281	17.5	231,361	14.8
Monopoly Revenues	57,563	4.6	346	—	—	—	—	—	—	—
Financial Enterprises Business Tax	—	—	26,083	2.1	22,433	1.8	24,229	1.7	25,712	1.6
Health and Welfare Surcharge on Tobacco	—	—	8,298	0.7	10,217	0.8	9,661	0.7	10,387	0.7

Source: *Guide to ROC Taxes 2007*, Ministry of Finance, R.O.C., p.9.

Table 2 : Tax Structure in Taiwan (1996 v.s 2005)

				Unit: %
Tax Item	1996	2005	% Change	
Income Tax	28.6	39.9	+11.3	
Individual Income Tax	16.7	18.9	+2.2	
Profit-Seeking Enterprise Income Tax	11.9	21.0	+9.1	
Property Tax	16.5	11.8	-4.7	
House Tax	3.3	3.2	-0.1	
Land Tax	13.2	8.6	-4.6	
Sales Tax	39.8	31.7	-8.1	
Business Tax	18.3	15.2	-3.1	
Stamp Tax	0.6	0.5	-0.1	
Commodity Tax	12.4	10.7	-1.7	
Customs Duties	8.5	5.3	-3.2	
Monopoly Revenues and Others	15.1	16.6	+1.5	
Monopoly Revenues	4.9	0	-4.9	
Financial Enterprises Business Tax	0	1.6	+1.6	
Health and Welfare Surcharge on Tobacco	0	0.7	+0.7	
Other Taxes	10.2	14.3	+4.1	
Total	100	100		

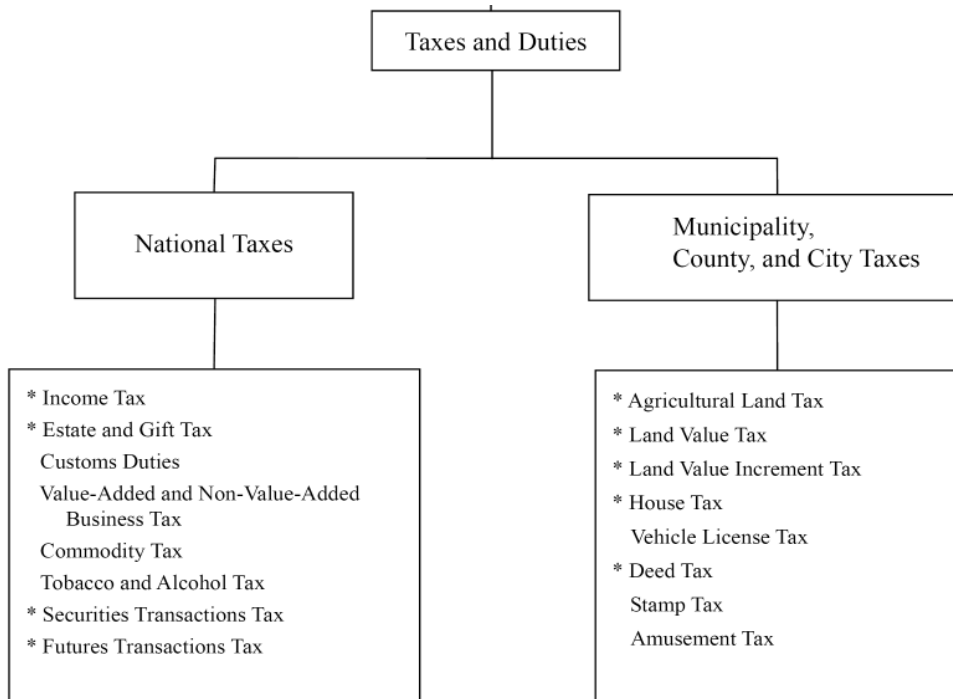
Source: *Guide to ROC Taxes 2007*, Ministry of Finance, R.O.C., p.3.

Table 3: Total Tax Revenues as Percentage of GDP (Excluding Social Security Contributions) Unit : %

Year	R.O.C	Australia	Canada	France	Germany	Japan	Korea	Singapore	UK	USA
1965	14.2	21.7	24.2	22.7	23.1	14.2	--	--	25.7	21.4
1970	17.2	22.1	27.8	21.5	22.5	15.3	--	--	31.9	22.7
1975	17.3	26.5	28.1	21.1	23.3	14.8	14.9	--	29.1	20.3
1980	19.2	27.3	27.7	23.1	24.6	18.0	17.1	--	29.3	20.6
1985	16.0	29.1	28.7	24.0	23.6	19.1	16.1	17.4	31.0	19.1
1990	20.1	29.3	31.5	23.6	22.3	21.4	17.9	15.7	30.3	20.5
1995	17.7	29.8	30.6	24.5	22.7	17.7	18.1	16.5	28.9	20.9
2000	12.9	32.1	30.8	28.4	22.7	17.2	19.6	15.8	31.1	23.0
2003	12.1	31.6	28.6	27.0	21.1	15.6	20.4	12.8	29.0	18.8

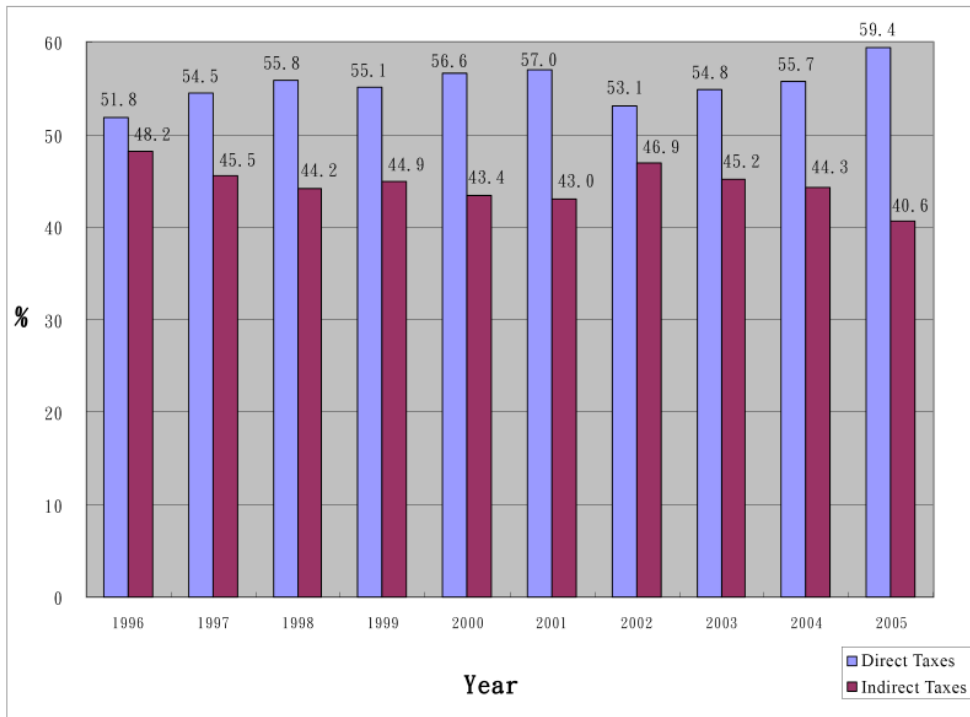
Source: *Yearbook of Financial Statistics 2005*, Ministry of Finance, R.O.C.

Figure 1: The Tax System of Taiwan



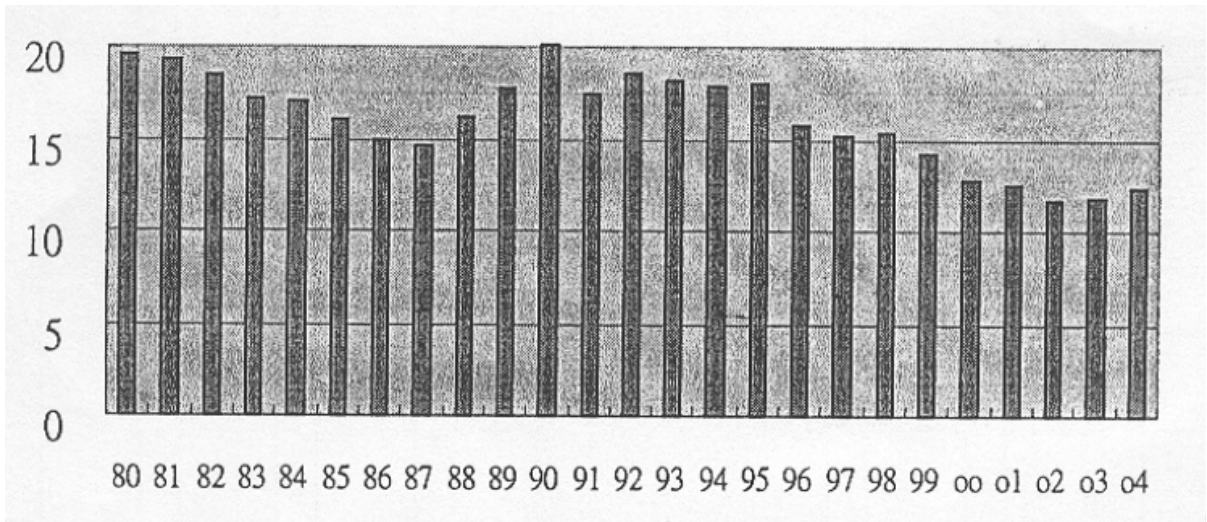
Source: *Guide to ROC Taxes 2007*, Ministry of Finance, R.O.C., p.8.

Figure 2: Direct Taxes and Indirect Taxes



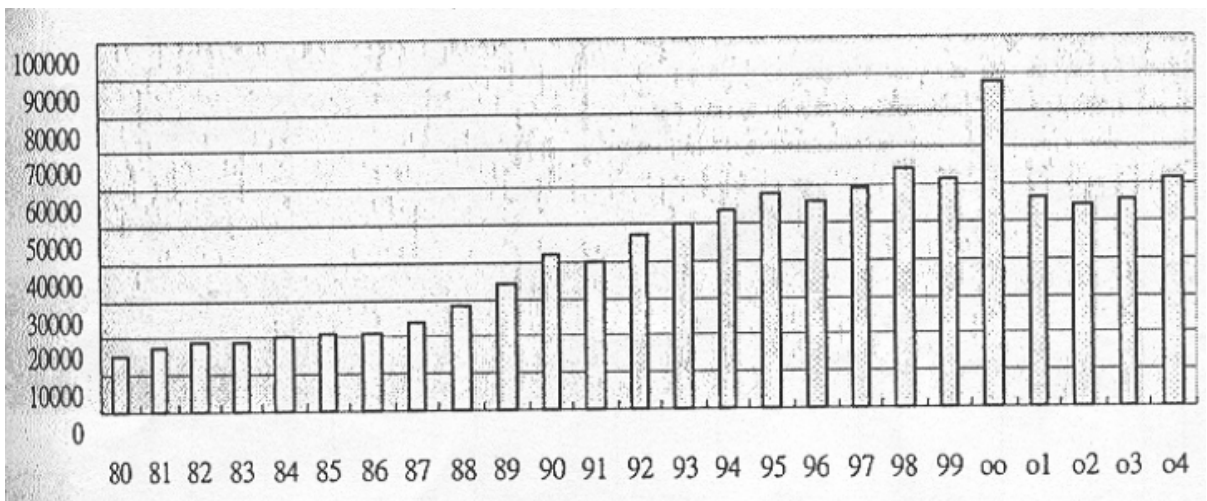
Source: *Guide to ROC Taxes 2007*, Ministry of Finance, R.O.C., p.10.

Figure 3: The Ratio of Tax Revenue to GDP



Source: *Yearbook of Financial Statistics 2005*, Ministry of Finance, R.O.C.

Figure 4: Tax Burden Per Capita (Tax Revenues/Population)



Source: *Yearbook of Financial Statistics 2005*, Ministry of Finance, R.O.C.

References

- Chen, T.A. (1993), "Changing the Land Value Increment Tax: Efficiency and Equity," *Public Finance Research*, 25:1, pp. 1-6.
- Chen, T.A. (1995), "Reforms and Impacts of Tax Policies," in Kao, H.C. (ed.), *Repositioning the Taiwan Experience*, 1st edition, pp. 196-231, Taipei: the Commonwealth Publisher.
- Chen, T.A. (1996), Capital Flows from/to Taiwan and Taiwan's Tax Policy, Conference on Strengthening Taiwan's International Association, a conference organized by Leeds University, Hong Kong: Hong Kong Polytechnic University.
- Chen, T.A. (1997), "Tax Reform and Sound Government Finance," in Yu, T.S. and K.L. Sun (eds.), *Fiscal Balances and Financial reforms: An Assessment of the Taiwan Experience*, pp. 249-302, Taipei: Chunghwa Institute of Economic Research.
- Chen, T.A. (1997), "The Integration System and Its Impacts," *Papers and Proceedings, Conference on Tax Integration*, Taipei: Chunghwa Institute of Economic Research.
- Chen, T.A. (1997), "An Analysis of the Taxation on Land Transaction Income," in *Government Finance and Tax Laws Conference Papers*, pp. 266-279, Taipei: The National Taiwan University Law Foundation.
- Chen, T.A. (1997), "A Comparative Study on the Sales Tax Systems across the Taiwan Strait: Focusing on the VAT," *Public Finance Research*, 29:5, pp. 71-85.
- Chen, T.A. (2002), "Tax Reduction and Tax Reduction Policy," *The Sino-Pac Financial Quarterly*, vol. 17, pp.1-16.
- Chen, T.A. (2006), "Rethinking the Estate and Gift Tax Reforms: A Comment," *Tax Journal*, No. 1975, pp. 15-17.
- Chen, T.A. (2007), "Reforming the Estate and Gift Taxes," *Public Finance Research*, 39:6, pp. 1-11.
- Huang, Y.H., S.W. Lo, and W.S. Hsieh (2006), "A Study on Issues and Reforms in Tax Burdens on Taiwan's Enterprises," in *The 2006 Chunghua Association of Public Finance Tax Conference Papers*, The Chunghua Association of Public Finance (ed.), pp. 89-120.
- Huang, Y.H. and S.W. Lo (2006), "A Study on Issues and Reforms on Energy Taxes in Taiwan," in *The 2006 Chunghua Association of Public Finance Tax Conference*

Papers, The Chunghua Association of Public Finance (ed.), pp. 65-85.

Ho, Henry C.C. (2006), "Rethinking the Estate and Gift Tax Reforms," in Shaw D.J. and T.S. Yu (eds.), *Lecture Series in Memorial of the Late Dr. Ta-chung Liu*, pp. 247-273, Taipei: The Dr. Ta-chung Liu Memorial Educational and Cultural Foundation.

Huang, Y.H. (2007), "To Foster an Environment of Broad Tax Bases, Low Tax Rates and Simple Tax Administration," in *The 2007 Chunghua Association of Public Finance Tax Conference Papers*, The Chunghua Association of Public Finance (ed.), pp. 1-12.

Tax Reform Commission (1989), *General Report on Tax Reform*, Taipei: The Tax Reform Commission.

Yang, C.C. et al. (2007), An Overall Review of the Tax Incentive Scheme in the Statute for Upgrading Industries, Integration, and Alternative Minimum Tax System, report of project commissioned by the Taxation Agency, Ministry of Finance.

Yu, T.S. and K.L. Wang (2007), *Evolution of Taiwan's Tax System*, unpublished mimeo.