

The Business Income Tax in Taiwan

Comments

Motohiro Sato

First of all...

- Hitotsubashi University has organized series of international symposium since 2000 on various policy issues of Asian countries including tax policy and reform.

- We have some idea of what business taxes in Asia are.

=> What are special about Taiwan business tax?

What key features of Taiwan BIT?

- Taiwan business income tax = Profit seeking Enterprise Income Tax (PEIT)
- PEIT is levied not only on corporate company but also other forms of business organization such as sole proprietorship (self-employed) and partnership.

What key features of Taiwan BIT?

- Tax structure is moderately progressive.
- Tax rate
 - = 0% for taxable income $<$ TWD50,000
 - = 15 % for TWD50,000 $<$ taxable income $<$ TWD100,000
 - = 25% for taxable income $>$ TWD100,000.

What key features of Taiwan BIT?

- Imputation credit system applied to avoid double taxation on dividend

=> Integration of PEIT and PIT.

- 10% of surtax levied on undistributed earnings.

=> Maximum tax rate equal to 35%(?) but less than top tax PIT rate of 40%.

What key features of Taiwan BIT?

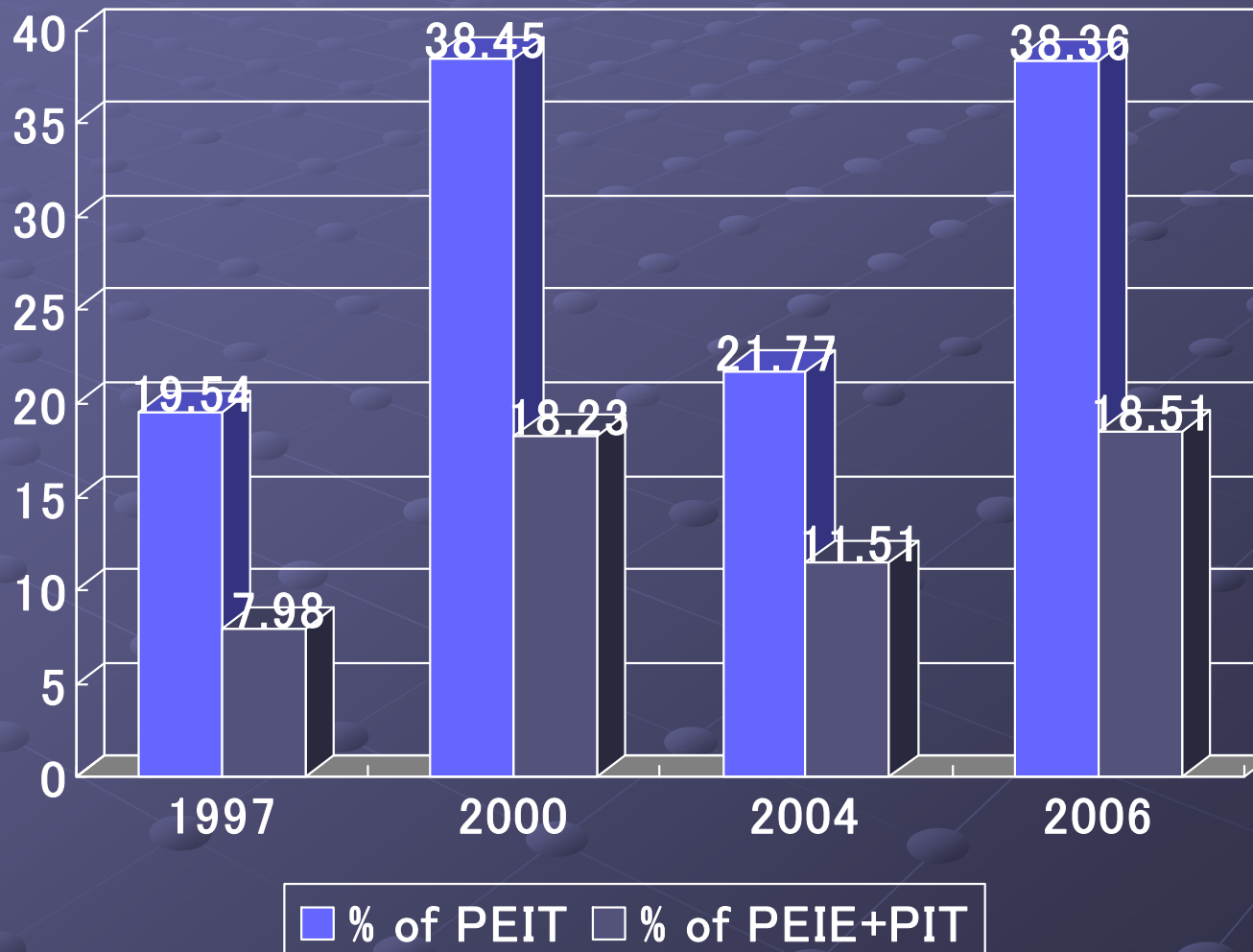
- Two major tax incentives
 - (a) The Statute for Encouragement of Investment
 - - expired in 1999
 - (b) The Statute for Up grading Industries
 - - effective since 1991 and expired in 2009.

Is Taiwan BIT important revenue source ?

2004	CIT/GDP	CIT/Tax %
Taiwan	2.18%	17.81%
Korea	3.5	14.3
Japan	3.8	14.2

Source: Tsui (2007)

What is revenue loss due to tax incentives?



What are issues?

- It seems that revenue loss due to the tax incentives is considerable
- Any evidence that the tax incentives contributes to economic development and to employment/job creation?
- What are policy options after The Statute for Upgrading Industries is expired?
=> Tax rate cut with tax base broadening?

Business income tax in globalization era

- A small country assumption may apply to Taiwan economy (with some remarks)..
- In globalization, Taiwan economy will be confronted with capital and profit mobility.
- Can Business income tax survive?
- What is option of tax reform in Taiwan?

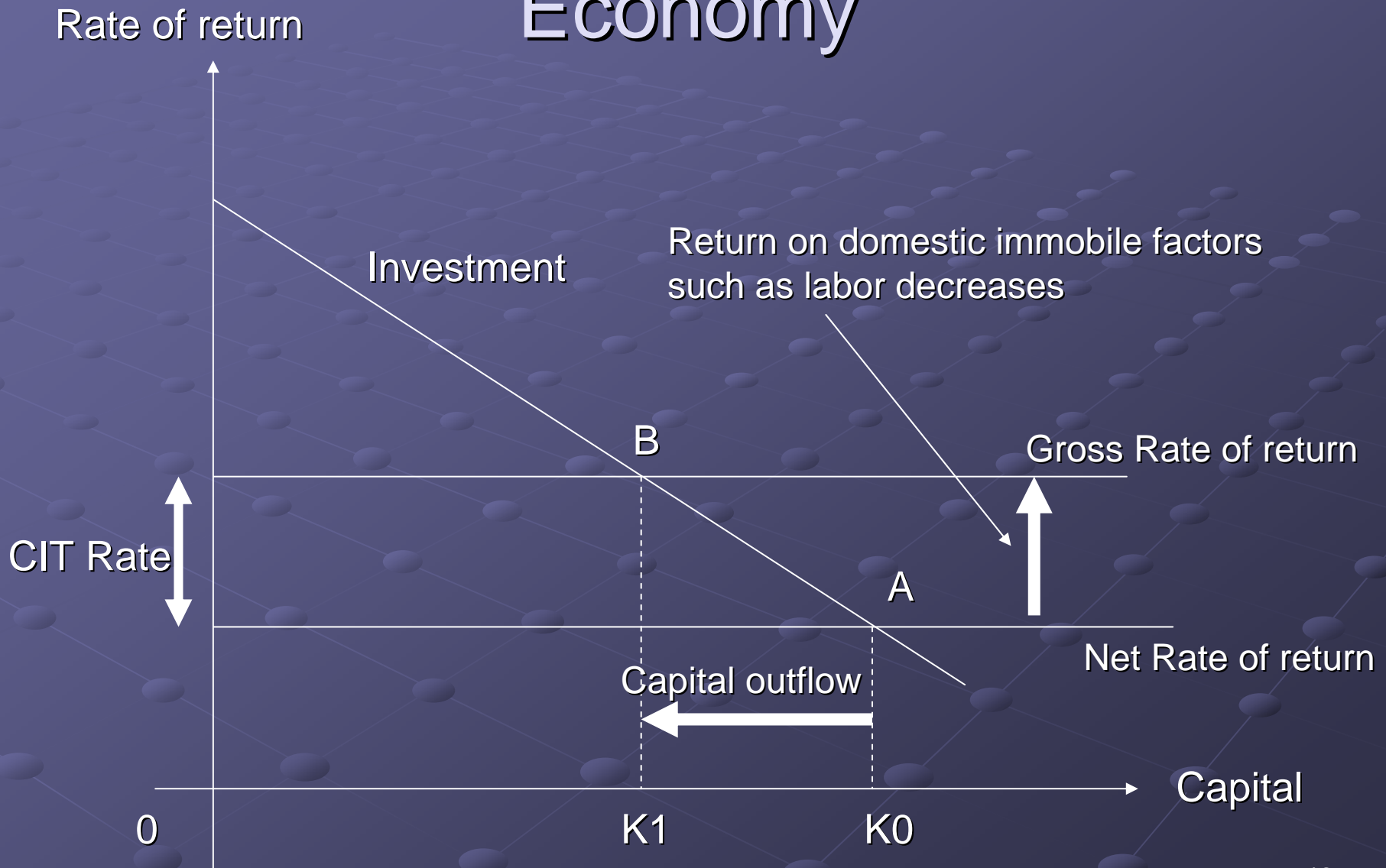
Table 1. Characterising capital income tax systems

Location of tax base	Type of income subject to business tax		
	Full return to equity	Full return to capital	Rent
Source country	1. Conventional corporate income tax with exemption of foreign source income	4. Dual income tax 5. Comprehensive Business Income Tax	6. Corporation tax with an Allowance for Corporate Equity 7. Source-based cash flow corporation tax
Residence country (corporate shareholders)	2. Residence-base corporate income tax with a credit for foreign taxes		
Residence country (personal shareholders)	3. Residence-based shareholder tax		
Destination country (final consumption)			8. Full destination-based cash flow tax 9. VAT-type destination-based cash flow tax



Who collects tax?

Tax Incidence in Small Open Economy



CIT Ratio to GDP

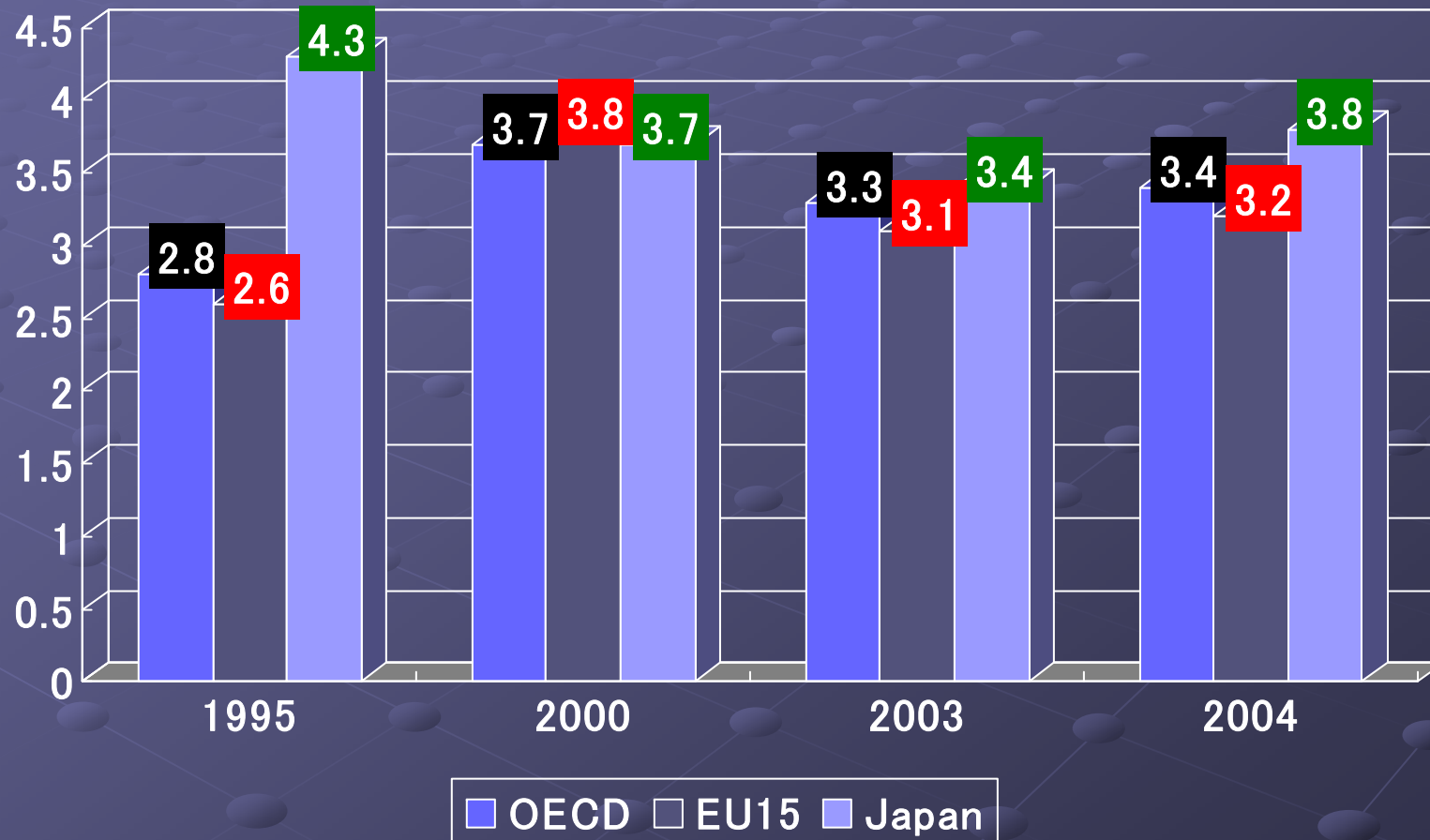
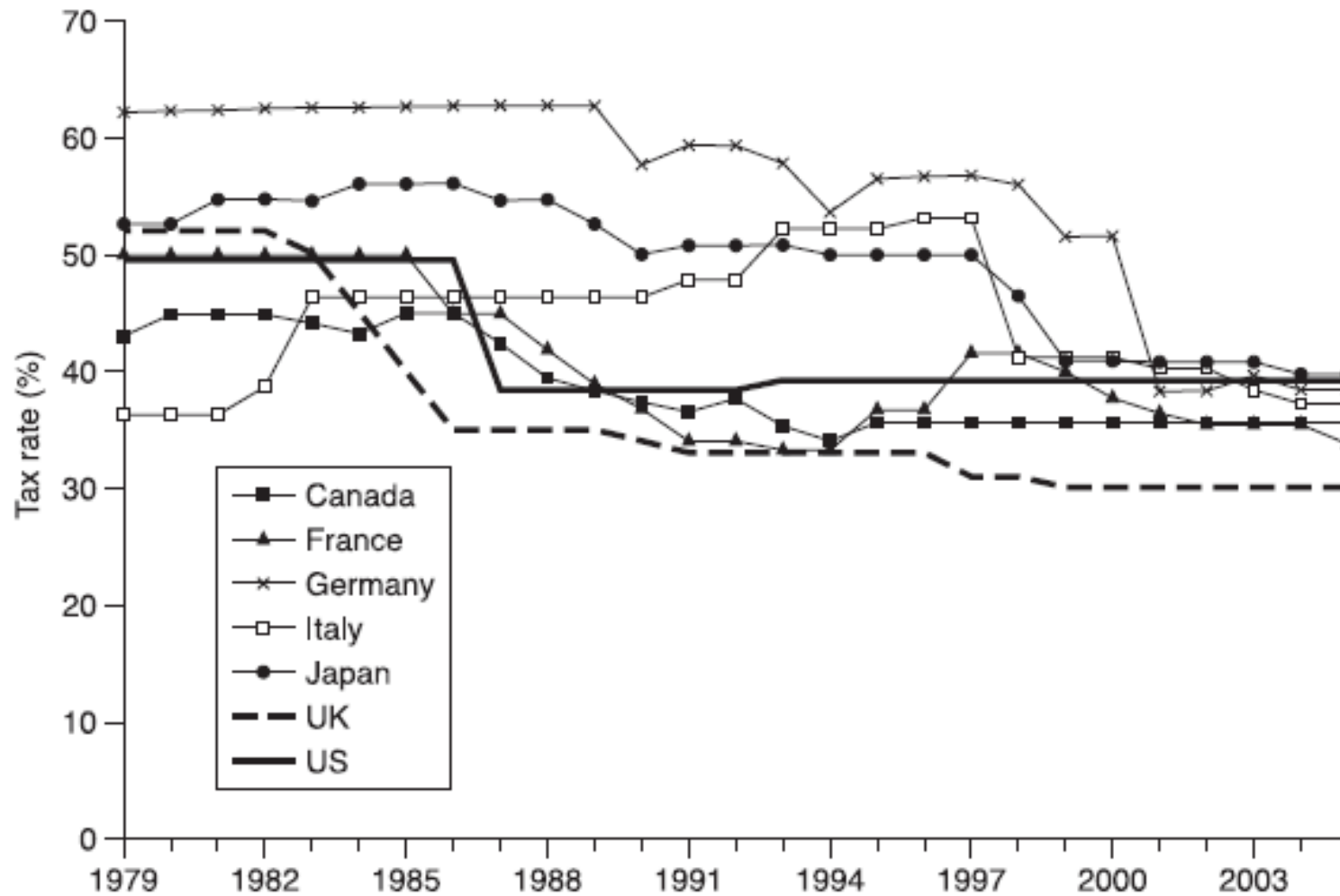


FIGURE 2

Statutory corporate tax rates



Source: Devereux, Griffith and Klemm (2002), as updated on the IFS website, August 2005, table A1 (http://www.ifs.org.uk/publications.php?publication_id=3210).

Empirical Study of Tax Competition

(DS-DI/GDP)

- With capital being more mobile, countries compete one other to attract capital/ investment.



- Tax competition leads to the race to the bottom.

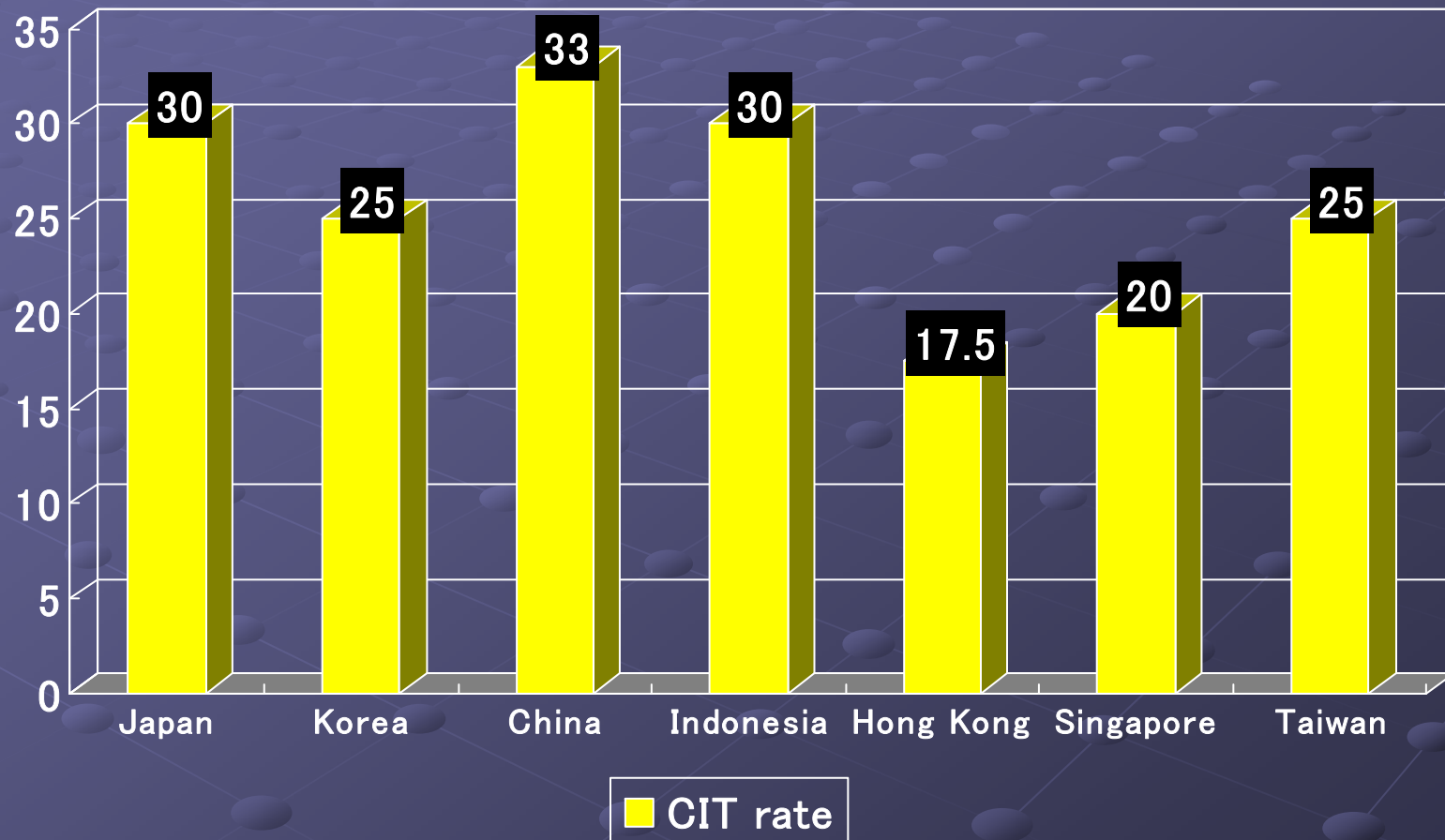
1965 ~2000

OECD

	Capital taxes CAP
Capital mobility	-0.180*** (0.060)
Country size	0.017*** (0.005)
GDP (lagged)	0.066*** (0.017)
Inflation (lagged)	-0.030 (0.037)
Unemployment (lagged)	-0.498*** (0.112)
Debt ratio (lagged)	0.108* (0.060)
Observations	693
Countries	23

Source: WINNER (2005)

Is PEIT too high?



Source: Japan MOF

What is future of Taiwan business tax?

- How does Taiwan tax system compete with other countries?
 - Another tax concession and benefit?
 - Low tax rate and tax base broadening?
- Big thinking, what is fundamental tax reform?
 - Flat tax
 - Dual income tax
- Develop other taxes, away from business tax?

What can we learn?

- What are common challenge of business tax reform in the globalization economy between Japan and Taiwan?
- What are unique challenge for Taiwan?