

Income and Consumption Taxes in Taiwan

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Presentation Outline

Overview of tax trends

Recent Consumption Tax Reforms in Taiwan

Recent Income Tax Reforms in Taiwan

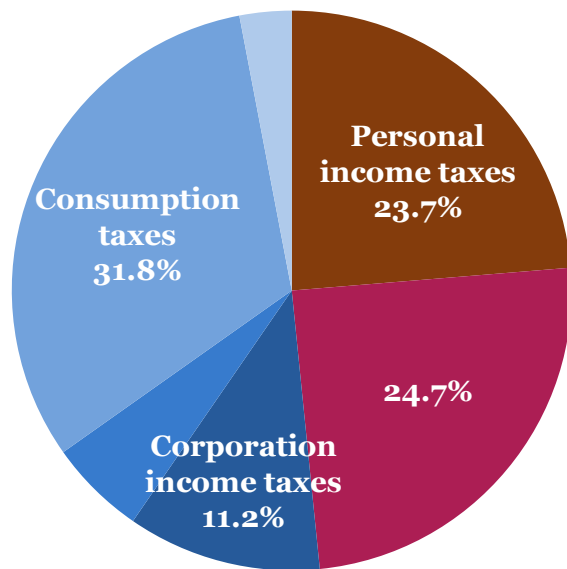
Concluding Remarks

Overview of tax trends

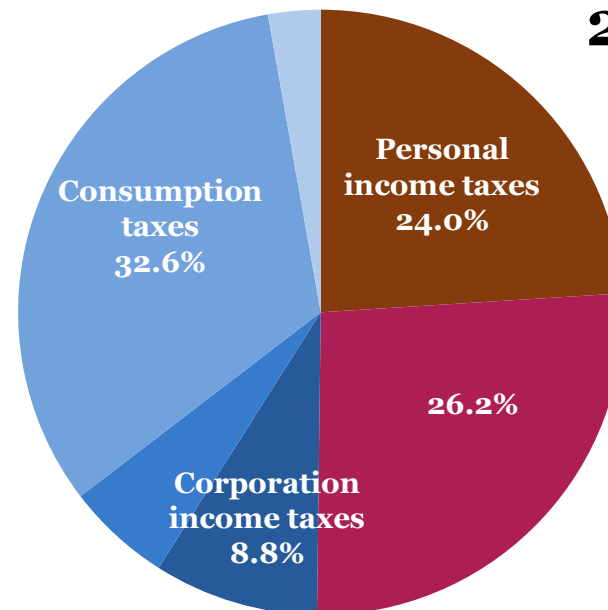
Breakdown of OECD tax revenue-average

■ PIT ■ SSCs ■ CIT ■ Property ■ Consumption taxes ■ Other taxes

2007



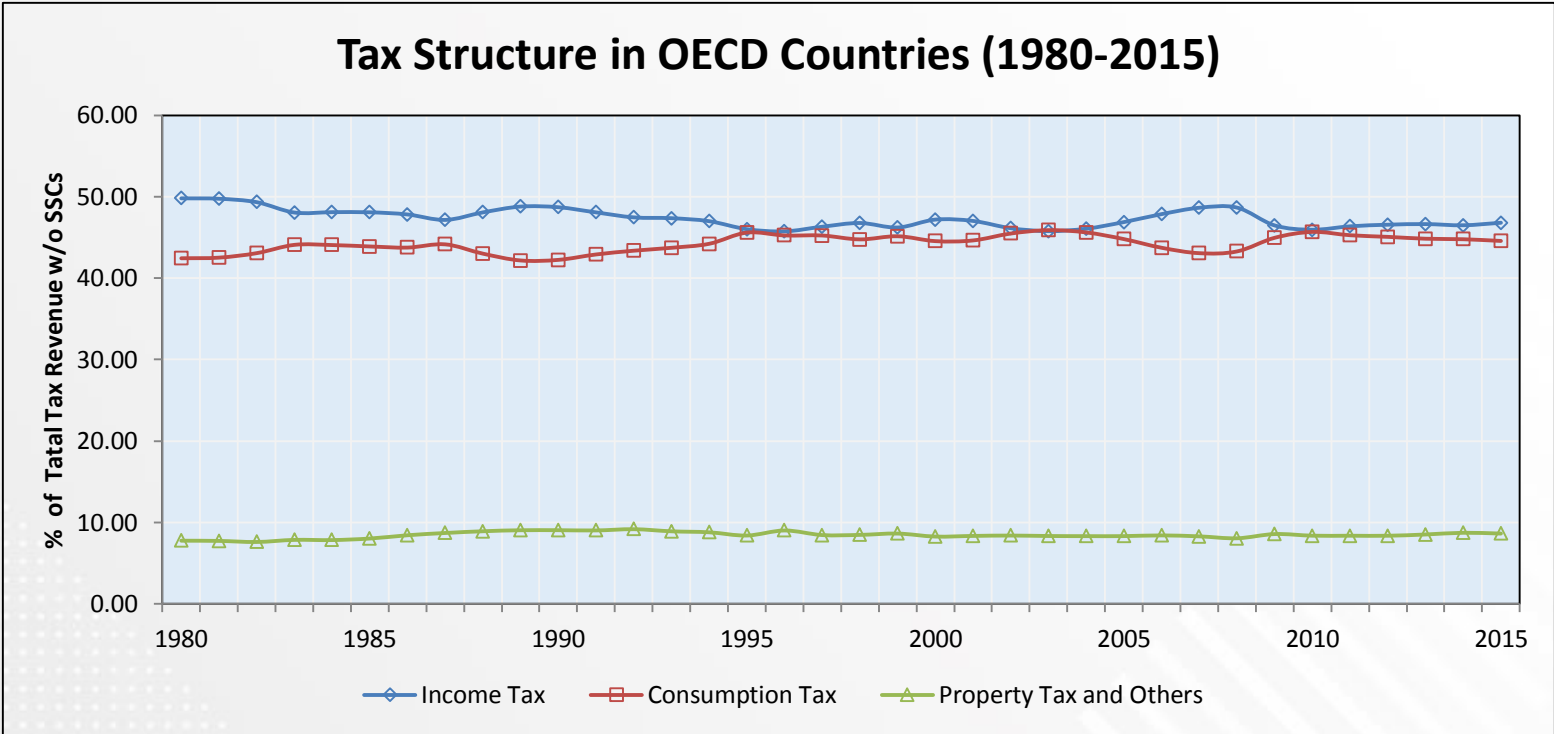
2014



Source : OECD Revenue Statistics

Overview of tax trends

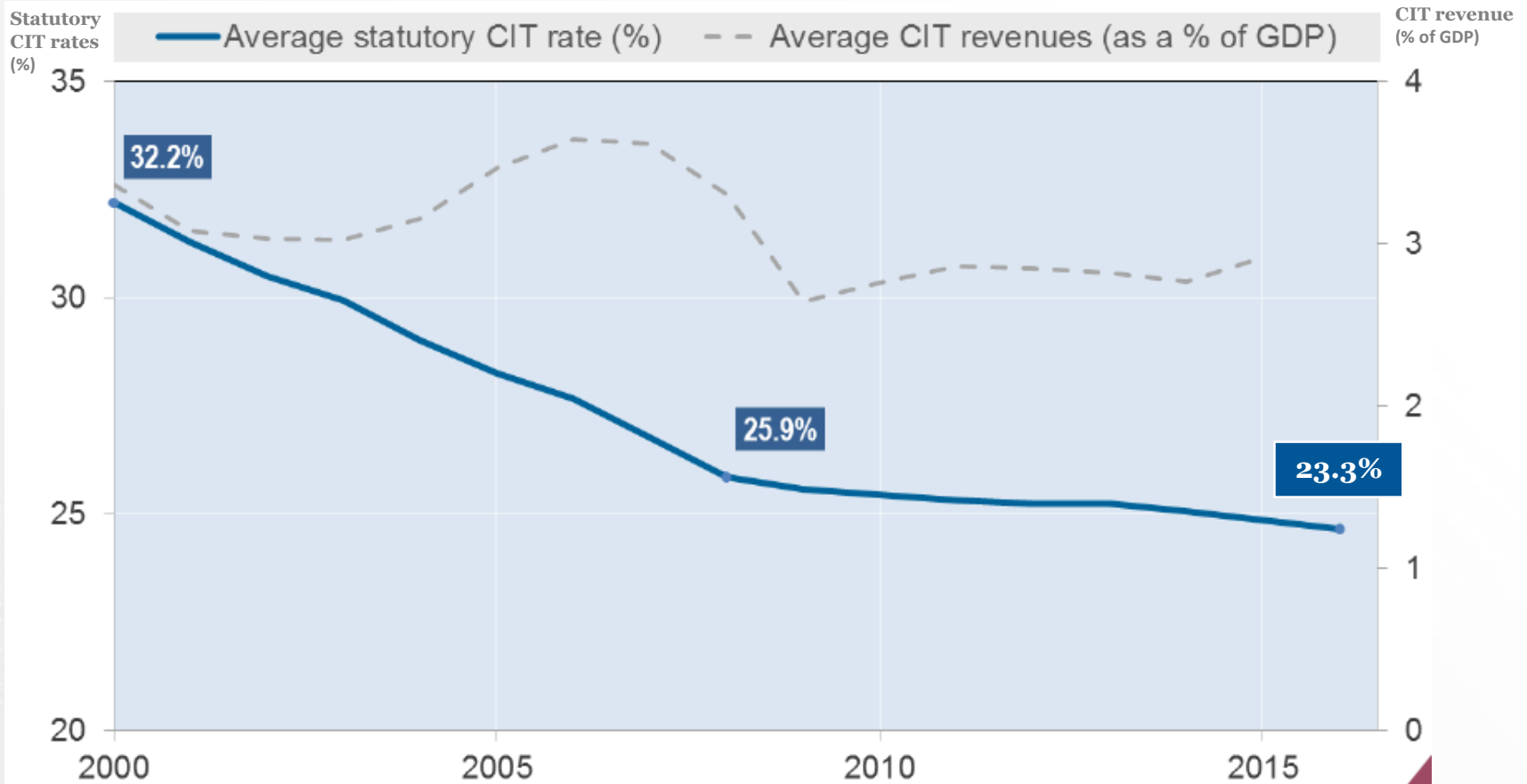
Breakdown of OECD tax revenue-average



Source : OECD Revenue Statistics

Overview of tax trends

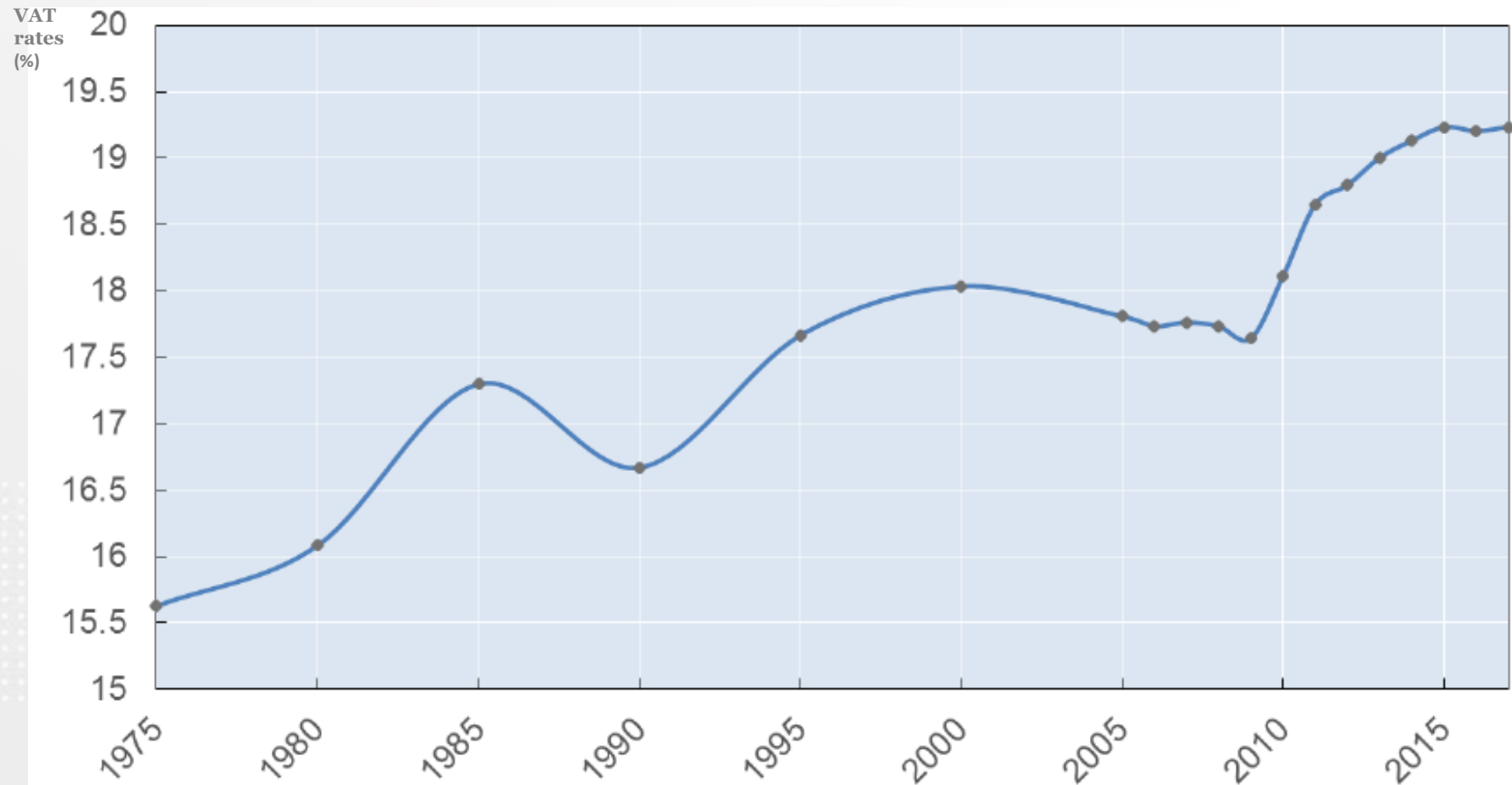
Evolution of the average statutory CIT rates and CIT revenues in the OECD



Source : OECD Tax Policy Reforms 2017

Overview of tax trends

Evolution of the average standard VAT rate in the OECD



Source : OECD Tax Policy Reforms 2017

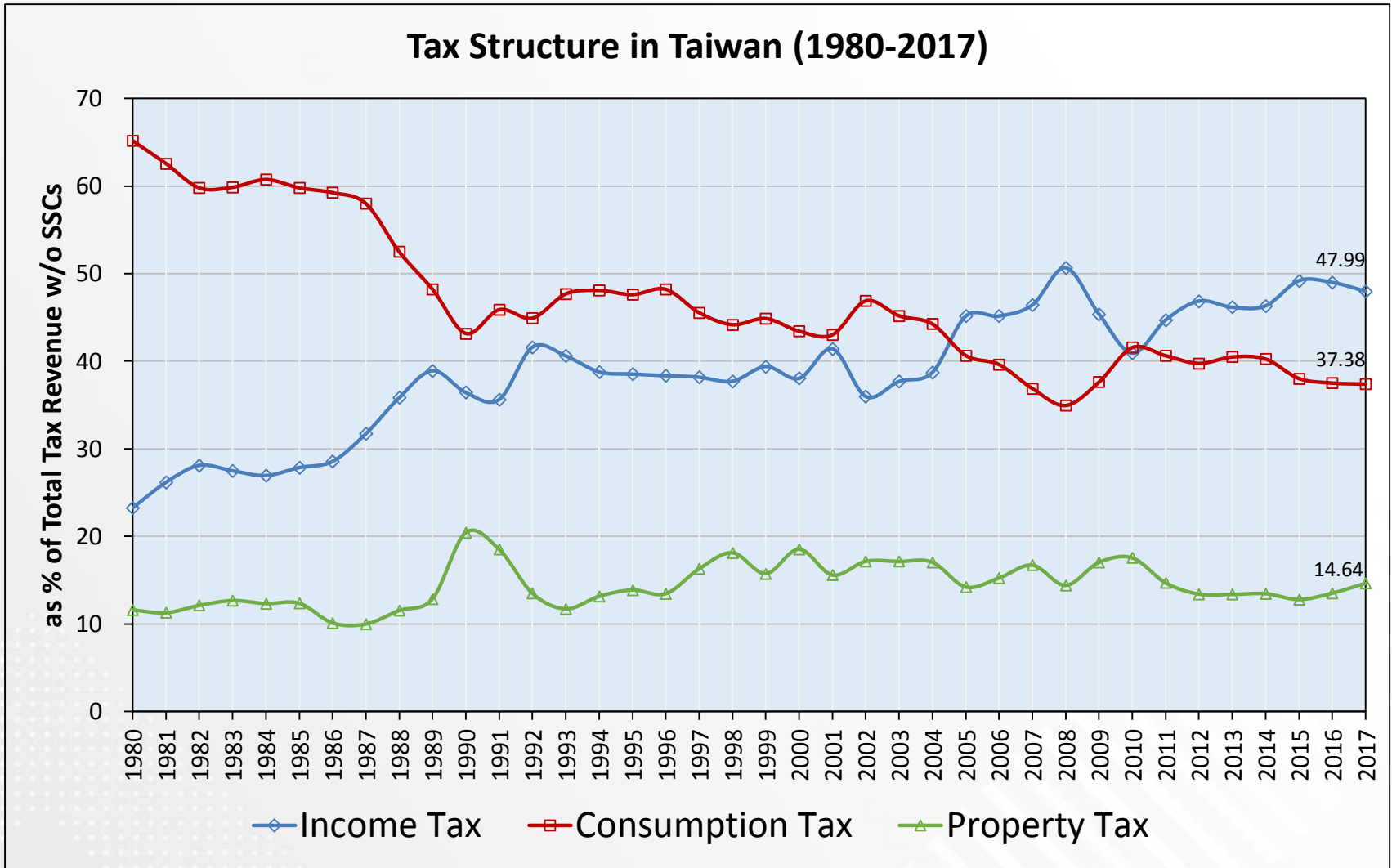
Overview of tax trends

- Many countries have recently amended their tax rules on cross-border sales of services and intangibles
- Many countries have recently aligned tax reforms on new taxes on the environment and health (such as tobacco, sugar-sweetened beverages, and transport fuel)

Overview of Tax System in Taiwan

- The income tax and business tax (VAT) are the two main tax items, which account for 43.8% and 17.1% of total tax revenue in 2017.
- The profit-seeking enterprise income tax rate is 20% and slightly lower than the average tax rate of 23.32% of OECD countries.
- The VAT tax rate is 5%, which is the lowest among the developed countries implementing VAT.

Overview of Tax System in Taiwan



Recent Consumption Tax Reforms in Taiwan

1. VAT on cross-border sales of electronic service by foreign suppliers

- According to the VAT Act, starting from May 1, 2017, foreign companies selling cross-border electronic services to domestic individual consumers in Taiwan shall register and pay VAT.
- Till now, 76 foreign companies have registered.

2. Provide three years of tax incentive measures to promote mobile payment

- In order to promote mobile payment, a preferential business tax rate at 1% is offered to small businesses selling goods or services without using uniform invoices and accepting mobile devices payment.

Recent Income Tax Reforms in Taiwan

1. Income Tax Reform from 2018

- To raise the amount of four deduction items in individual income tax
- To reduce the highest marginal individual income tax rate from 45% to 40%.
- To abolish the partial imputation tax system on dividends and adopt a new dividend tax regime
- To raise the tax rate on the profit-seeking enterprise income from 17% to 20%
- To reduce the surtax rate on corporate retained earnings from 10% to 5%

Recent Income Tax Reforms in Taiwan

2. Income tax on cross-border sales of electronic service by foreign suppliers

- We issued a new income tax interpretive rule on January 2, 2018, which requires foreign suppliers selling cross-border electronic services to domestic purchasers and having income from sources in Taiwan to pay income tax.
- The income tax regime provides clear and simplified rules for the calculation of income derived from sources in Taiwan

3. Anti-tax avoidance measures

The anti-tax avoidance measures we have adopted recently are as follows:

- Controlled Foreign Company (CFC) Rule
- Place of Effective Management (PEM) Rule
- Three-tiered Transfer Pricing Documentation (TP)

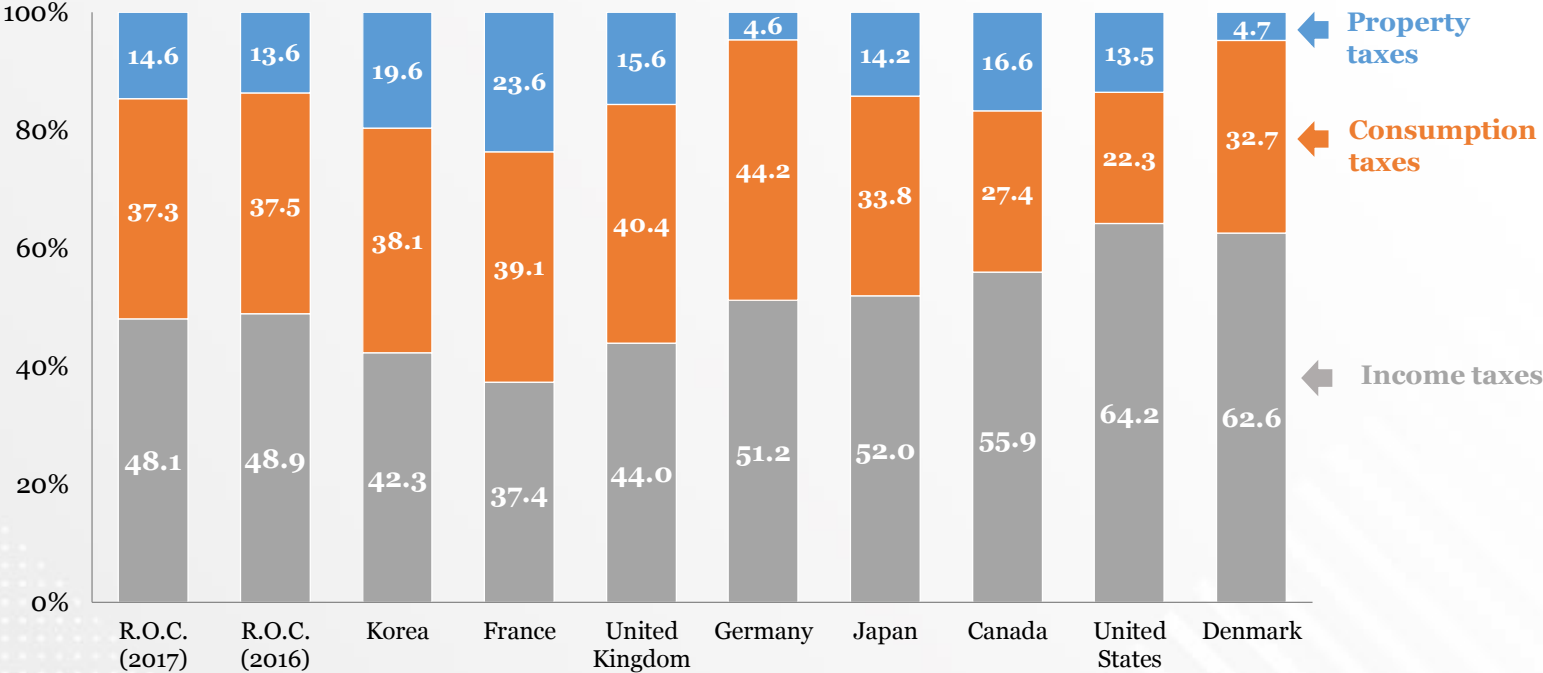
Recent Income Tax Reforms in Taiwan

4. Increase international information transparency

- We established an information exchange mechanism for tax purposes in line with the new international standard on information transparency.
- It will enhance the benefit of international tax cooperation, increase the efficiency of investigation on international tax avoidance cases, maintain tax fairness, and protect our tax revenue.

Concluding Remarks

1. Similar Tax Structure to OECD Average



Source : OECD Revenue Statistics
 Note: R.O.C. personal income tax includes the land value increment tax.

Concluding Remarks

2.The Lowest Tax Burden among Advanced Economies

Country (Year)	R.O.C. (2016)	Korea (2016)	France (2016)	Germany (2016)	Japan (2015)	United States (2016)	Singapore (2016)
(Without social security contributions)	13%	19.4%	28.5%	23.4%	18.6%	19.8%	14.1%

Source : OECD Revenue Statistics

In response to the development of new forms of internet transactions, changes in population structure, as well as environmental and health policies, Taiwan will continue to refer to trends in international taxation reforms and adjust its tax system taking into account tax justice, economic efficiency, simplification of tax administration, and fiscal revenue.

Concluding Remarks

3. Structural Reforms

- Issues
 - Broadening the Tax Bases (the scale of underground economy is about 25% of GDP)
 - Increasing the Revenue Share from Consumption Tax (from 30% to 40%)
 - Green Tax in lieu of Commodity Tax
- Challenges
 - Feasibility for Political Agenda
 - Supportiveness to Economic Development
 - Adequacy for Revenue Requirement
 - Trade Off between Fairness and Simplification

The End

Thank you for your attention