CHAPTER II

INDIVIDUAL INCOME TAX

I. General Description

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

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

II. Tax Scope

Taxable income is classified into the following ten categories:

A. Business income

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

B. Income from professional practice

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

2. The income from professional practice is taxable to the extent of the remuneration from work performed after deduction of office rentals, salaries, necessary transportation fees, and other direct and necessary expenses.

3. Individual income derived from written articles, copyright books, musical compositions, musical productions, dramas, cartoons, or as remuneration for speeches and lectures on an hourly basis are considered as income from professional service.

C. Salaries and wages

1. Any compensation received for services rendered by civil or private employees.

2. Any payments paid for a task or work.

3. The payments mentioned in the preceding items include, but are not limited to, salaries, wages, allowances, bonuses, annuities, awards, and/or any other similar subsidies or compensations, but exclude the voluntary pension contribution and the voluntary annual insurance premiums according to the Labor Pension Act of up to 6% of an employee's monthly wage or salary.

D. Interests

1. Any interest received from government bonds, corporate bonds, financial bonds, any short-term commercial papers, deposits, and other loans. The government bonds thus mentioned include notes, bonds, securities, and certificates issued by the government at all levels.

2. From 1st January, 2007, interest received by an individual from government bonds, corporate bonds, and financial bonds shall not be included in the gross consolidated income, but withheld at the rate of 10% separately.

3. From 1st January, 2010, the following income received by an individual shall not be added to the gross consolidated income, but withheld at the rate of 10% separately:

(1) The portion of the pecuniary amount realized by short-term commercial papers at their maturity in excess of the selling price at their initial issuance.

(2) The interest distributed from beneficiary securities or asset-backed securities issued in accordance with the Financial Asset Securitization Act and the Real Estate Securitization Act.

(3) The interest derived from repo (RP/RS) trade whereby an individual purchases the aforesaid bonds, securities, or short-term commercial papers at the net amount of the sale price at their maturity in excess of the original purchase price.

E. Rentals and royalties

1. Income from leases and royalties: Any income from the lease of property, from utilization of money obtained as the price of a lien on property, or from royalties on patents, registered trademarks, copyrights, secret formulas, and all kinds of franchise made available for use by others.
2. Any income derived from long-lasting tenant right and superficies created for fixed terms shall be deemed as income from lease.
3. Money received in the form of a rental deposit or in other similar forms for lease of property, and for money received as the price of a lien created on property, the deposit multiplied by the one-year-term deposit interest rate is deemed as a rental.
4. A rental income is computed on property lent to others for use in line with the local prevailing rental standard, unless it can be verified that no payment has been made and the property in issue is not being used for business or for the carrying out of professional services.
5. In the event that the rental reported by the lessor is obviously lower than the local prevailing rental standard, tax offices may make adjustment in accordance with the local prevailing rental standard.

F. Income received from self-undertaking in farming, fishing, animal husbandry, forestry, or mining by individuals or families which is not in the form of a business enterprise, shall be taxed as the whole year's income after the deduction of necessary expenses.

G. Income from property transactions includes the following:

1. Gains received from the sporadic sale, exchange or other disposition of property or right by a taxpayer who possesses properties other than through engagement in regular trade of such properties for profit-seeking purposes.
2. Gains received through the sale or exchange of stocks or other securities.

H. Prizes or awards obtained from contests, games, or lotteries shall be taxed on the amount received less the necessary expenses. Prizes from lottery tickets under the auspices of the government, except that tax payable shall be withheld at the rate of 20%, shall not be included in the gross consolidated income.

I. The retirement pay, severance pay, separation pay, resignation pay, life-time pension, the pension not covered by insurance benefits and the insurance payment made under annual insurance according to the Labor Pension Act, but not including that part of the receipt from the savings or the voluntary annual insurance premiums according to the Labor Pension Act made by the said person from taxable income of his or her salary every year, and/or the interest accrued from such savings and premiums.

J. Other income

Income not listed in the above-mentioned categories is taxable on the gross income less the necessary costs and expenses incurred in the production of such income. However, the reward for information or accusation and income from transactions in structured products between individuals and securities firms or banks shall not be added to the gross consolidated income, but withheld separately. Examples of such income can be illustrated as follows:

1. Income received by individuals through the operation of language, automobile driving, and other technical training programs.
2. Bonuses received by employees from an employee benefit committee in the event of marriage, childbirth, hospitalization, festivals, and the like.
3. Bonuses or subsidies received by an individual distributor of a multi-level direct sales business from the business concerned due to his or her purchases being made up to a fixed standard.

III. Taxpayers

Individual income tax shall be levied on the individual income derived from ROC sources unless exempt under the provisions of the law. Individual taxpayers are divided into two categories: residents and non-residents.

A. Residents

1. One who maintains a domicile in the ROC and is ordinarily residing in the ROC.
2. One who resides in the ROC for 183 days or more in a taxable year, even if he or she does not maintain a domicile in the ROC.

B. Non-residents: Individuals who do not qualify as residents.

Aliens and overseas Chinese are characterized either as residents or non-residents for tax purposes. The ROC source income received by aliens or overseas Chinese is taxed depending upon the status of the recipients, namely, resident or non-resident.

1. Non-resident aliens or overseas Chinese

   a. For aliens or overseas Chinese who reside in the ROC for 90 days or less in a taxable year, the income received from ROC sources is subject to withholding tax at a rate fixed by regulations. However, for the remuneration paid by their foreign employer, the exclusion applies.

   b. For aliens or overseas Chinese who reside in the ROC more than 90 days but less than 183 days in a taxable year, the income received in the ROC is subject to withholding tax at a rate fixed by regulations. With regard to the remuneration paid by their foreign employers, taxpayers shall file a tax return and make tax payment calculated at a rate of 18%.

2. Resident aliens or overseas Chinese

   For aliens or overseas Chinese who reside in the ROC 183 days or more in a taxable year ("residents"), the income received in the ROC together with the remuneration paid by their foreign employers for services rendered in the ROC shall be reported and taxed after deduction of personal exemptions and other deductions.

IV. Exemptions and Deductions

Exemptions and deductions are prescribed under the ROC Income Tax Act for various reasons, e.g., incentives conferred on certain occupations or status, for economic development, for the promotion of social policy, for the promotion of education and culture, for international reciprocity or demonstrable courtesy, under the requirement of equity, or as a consequence of tax convenience. The exemptions and deductions allowed for each particular category of income are elaborated as follows:

A. Exemption for Professional Service Income

The income received through the provision of professional services, such as lectures, writing songs, drawing cartoons, etc., (see II. B. 3.) shall be exempt to the extent of NT$180,000 annually.

B. Exemption for Wages

1. Full Exemption

   a. Monthly salaries received by persons currently in military service. (This exemption shall be terminated on 31st December, 2011 due to the amendments of Articles 4 and 126 of the Income Tax Act.)

   b. Salaries received by teachers and personnel of nurseries, kindergartens and private or public primary or junior high schools. (This exemption shall be terminated on 31st December, 2011 due to the amendments of Articles 4 and 126 of the Income Tax Act.)

c. Scholarships and subsidies granted by the ROC government or foreign governments, international institutes, educational, cultural or scientific research organizations, associations, or other private or public associations for the encouragement of advanced studies, research or participation in scientific or professional training, provided, however, that such exemption does not include the remuneration received in the form of scholarship subsidies for services rendered.

d. Income received by foreign diplomats, consuls, and other officials entitled to diplomatic treatment.

e. Income received by alien employees, other than diplomats, consuls, or other officials entitled to diplomatic treatment, of a foreign embassy or its subsidiary agencies located in the ROC, provided, however, that reciprocal treatment is accorded to ROC employees serving at the embassy or consulate of the ROC or its subsidiary agencies located in the foreign country concerned.

f. Salaries defrayed by foreign government agencies, associations, educational or cultural institutes to foreign technicians or professors of foreign colleges or universities for services rendered within the ROC under technical co-operation or cultural or educational exchange programs between such foreign government agencies, associations, educational, or cultural institutes and ROC government agencies, associations, or educational institutes.

g. Various payments paid to personnel engaged in handling various kinds of examinations held by government agencies or institutes commissioned by the government, and entrance examinations held by public or private schools at various levels.

2. 50% Exemption

   Exemption is granted in respect to half of the income received by the employee for ocean fishing at the end of each voyage.

3. Fixed or Limited Deductions

   a. Special deduction for wage income

   (1) A special NT$104,000 deduction against wage income is available for each taxpayer for 2011.

   (2) The taxpayer or his/her spouse who has the amount of tax payable on his or her wage income computed separately, is entitled to claim a personal

exemption and special deduction for wage income.

b. The travel expenses or daily allowance received by the employee for performance of his or her work employed for the benefit of the employer shall be exempt to the extent prescribed by regulation.

c. The daily allowance for disbursement of food, lodging and other living expenditures received by alien technicians hired by ROC government agencies or private enterprises to render service in the ROC, shall be regarded as incurred in the performance of his or her work and shall be exempt to the extent of NT$2,000 daily. However, such persons should work in the ROC for less than 90 days, and the daily payment should be set in the hiring contract.

d. Overtime Pay

(1) The overtime pay received by employees of government agencies or private enterprises shall be exempt to the extent not exceeding the standard prescribed by regulation.

(2) The overtime pay received by employees of public or private enterprises subject to the application of the Labor Standards Law shall be exempt to the extent that the pay does not exceed the ceiling of overtime pay and the aggregate overtime does not exceed the hours allowable each month to each employee under the law.

(3) The overtime pay received by employees of public or private enterprises for performance of work on national holidays, weekends or vacation/leave shall be exempt to the extent not exceeding the standard prescribed by regulation.

e. Meal Allowance

A monthly meal allowance received by an employee in the form of cash or food provided by the employer shall not be included in the wage of the employee to the extent of NT$1,800. The excess, however, is taxed as the employee’s wage income.

4. Other Excluded Wage Income

a. In the case where the employer provides a dormitory at his, her, or its own expense, such benefit is not regarded as the wage of the employee.

b. Premiums paid by the employer for the benefit of employees insured under labor insurance, national health insurance, or civil servants’ insurance programs are not regarded as the wage of the employee.

c. The premium paid by the employer in a group insurance program under which the insured employee is entitled to death benefit, disability payment, or maternity payment, is not regarded as the wage of the employee as long as it is not more than NT$2,000 per month.

d. The expenditure incurred by the employer in a year-end celebration party is not considered the wage of the employee.

C. Exemption for Interest Income

1. Interest paid for mandatory deposits set aside under the requirement of law.
2. Interest received by individuals derived from deposits operated under Article 20 of the Postal Savings and Remittances Act.
3. Interest received from financial institutions, profits generated from trust funds having the nature of savings received by taxpayers and their spouses and dependents who file income tax returns jointly shall be exempt to the extent of an amount of NT$270,000 annually. However, interest from postal passbook savings, government bonds, corporate bonds, financial debentures, short-term commercial papers, and beneficiary securities or asset-based securities issued according to the Financial Asset Securitization Act and the Real Estate Securitization Act is not included.

D. Exemption for Royalties

Royalties received from the license of patents or copyrights on computer software to corporations for use in the ROC and invented or developed by nationals provided the license has been approved by the government agency in charge of the said corporation. (The tax incentives provided under the Statue for Upgrading Industries were terminated on 31st December, 2009.)

E. Exemption for Income from Self-Undertaking in Farming, Fishery, Animal Husbandry, Forestry, or Mining

1. Half of the income from self-undertaking in forestry.
2. The exemption referred to in the preceding item does not include forestry income derived from the practice in which logs are harvested yearly or by rotation.

F. Exemption for Gains from Property Transactions

1. Gains derived from the sale of land and family necessities such as garments, furniture, etc.
2. Gains derived from the sale of stocks or corporate bonds of a company limited by shares obtained before 31st December, 1973 shall be exempted to the extent

of the amount accrued before 31st December, 1973.

3. Income tax on gains derived from securities transactions ceased to be imposed with effect from 1st January, 1990; at the same time, losses on securities transactions were no longer to be deductible from the amount of income derived from such transactions.
4. Gains derived from futures transactions; at the same time, losses on futures transactions shall not be deductible from the amount of income derived from such transactions.
5. Gains derived from the sale of registered stocks, registered corporate bonds issued by various levels of government, and development bonds issued by government-designated banks shall be exempt to the extent of half of the gains realized on condition that the sellers hold such stocks for at least one year.
6. Losses realized from the sale of property are only deductible against the gains originating from the sale of property. In the case where none of the gains derived from the sale of property are available for deduction, such losses may be carried forward to the first three years immediately following the year in which the original loss was incurred and are only deductible against the gains derived from the sale of property.
7. Income tax levied on the gains derived through the sale of an owner-occupied residence is refundable or allowable as credit against income tax payable in the year in which the taxpayer/seller purchased and registered another owner-occupied residence within two years where the purchase price is in excess of the previous sale price, provided, however, that such tax refunds or credits are not allowable when the gains derived through the sale of the owner-occupied residence have been offset by losses incurred from the sale of other properties. The above tax refunds or credits are allowable in the event that the taxpayer purchases another residence for him or herself prior to selling his or her original owner-occupied residence.
8. Gains derived from the sale of patents to corporations for use in the ROC and invented or developed by Chinese nationals with the approval of the government agency in charge of the enterprise shall be exempt from income tax. (The tax incentives provided under the Statue for Upgrading Industries were terminated on 31st December, 2009.)

G. Exemption for Prizes or Awards Won from Contests, Pageants, or Lotteries

1. Any prize under the amount of NT$2,000 won from a lottery sponsored by the government shall be exempt from income tax. Prizes amounting to over NT$2,000 shall be subject to a withholding rate of 20% and need not be

reported in the recipient's annual income tax return.

2. The necessary expense incurred in attending the competition or contest is deductible.
3. The cost incurred in participation in lottery games is deductible.

H. Exemption for Retirement Pay or Severance Pay

1. If received in one lump sum, the income amount is calculated as follows:

   a. If the total amount received in one lump sum is less than NT$169,000 for 2011 multiplied by the number of service years at the time of separation, the income amount shall be considered zero;

   b. If the total amount received in one lump sum is more than NT$169,000 for 2011 multiplied by the number of service years at the time of separation, half of the portion over NT$169,000, but less than NT$339,000 for 2011, multiplied by the number of service years at the time of separation shall be the income amount;

   c. The portion over NT$339,000 multiplied by the number of service years shall in total be considered the income amount.

2. If received in installments, the income amount shall be the balance of the total amount of all the installments received in one year with a deduction of NT$733,000 for 2011.
3. If one portion of the separation income is received through apportionment of the lump sum and the other portion in installments, the deductible amount aforementioned shall be calculated proportionally with both the amount received in one lump sum and in installments, respectively.

I. Exemption for Other Income

1. Compensation for death or injury, or compensation received under the National Compensation Act shall be exempt from income tax.
2. Payments received under life insurance, labor insurance, or the insurance covering military personnel, civil servants, or teachers shall be exempt from income tax.

J. Exemptions and Deductions

Income earned by the spouse of the taxpayer and dependents claimed in the taxpayer's income tax return shall be consolidated and reported together with the income received by the taxpayer. The following exemptions and deductions may generally be deducted from the above consolidated income in order to calculate the net consolidated income:

1. Exemption - For 2011, the amount of exemption for each taxpayer, spouse, and his or her dependents is NT$82,000. In addition, for the father or mother or any lineal ascendant of the taxpayer or his or her spouse, themselves being aged over 70, the exemption is 150% of the above amount.

2. Deductions - Taxpayers are allowed to choose either one of two methods for the calculation of deductions, i.e., the standard deduction or itemized deduction, provided, however, that the standard deduction becomes mandatory in the event that the taxpayer is not required to file an annual income tax return or he or she fails to file an annual income tax return.

   a. Itemized deductions

      (1) Donations: A deduction for donations to officially registered educational, cultural, charitable, and public welfare organizations or associations is allowable to the extent of 20% of the above gross consolidated income before deduction of the said donation. A deduction for donations made to the government or to boost military morale or for the purpose of national defense, however, is not subject to the above 20% limitation. In the case of political contributions, for contributions to political parties, political associations, and persons planning to participate in campaign, the deduction should not exceed NT$200,000 and 20% of the gross consolidated income per filing unit. The contribution to the same persons planning to participate in campaign should not exceed NT$100,000 in a taxable year. The deduction for donations to private schools through the foundation referred to in the Private School Law shall not be more than 50% of the taxpayer’s gross consolidated income, however, the deduction for a donation that is not designated to any specific private school is not subject to the above 50% limitation.

      (2) Insurance premiums: Premiums paid by the taxpayer, his or her spouse or lineal dependent(s) on life insurance, labor insurance, national pension insurance, and insurance for military personnel, public servants, or teachers shall be deductible to the extent of NT$24,000 per person. However, there is no limitation for premiums paid for national health insurance.

      (3) Medical and childbirth expenses: Medical or childbirth expenses incurred and paid for by the taxpayer, his or her spouse or dependent(s) to public hospitals, the hospitals or clinics appointed under national health insurance, or hospitals which have complete and accurate accounting records as recognized by the MOF are deductible. However, no deduction shall be made for the portion covered by the insurance payment.

(4) Disaster losses: Losses incurred by the taxpayer, his or her spouse and dependent(s) due to force majeure are deductible when not compensated by insurance payment or not covered by other benefits.

(5) Mortgage interest: Interest incurred and paid by taxpayers to financial institutions on loans acquired for the purchase of an owner-occupied residence shall be deductible up to NT$300,000 per filing unit.

(6) Campaign expenses: Candidates officially registered to run for political office may deduct expenses which are not paid by donators and the government and are within the amount prescribed by the government.

(7) Rental expenses: Rental expenses incurred and paid by the taxpayer, his or her spouse and lineal dependent(s) shall be deductible up to NT$120,000 per filing unit.

b. Standard deduction: If the taxpayer does not choose itemized deductions as stipulated in documents, alternatively he or she is entitled to a standard deduction of NT$76,000 for 2011. If the taxpayer files a tax return with his or her spouse, the amount of the standard deduction is NT$152,000 for 2011.

c. Special deductions: The taxpayer is entitled to the following special deductions irrespective of whether he or she selects the itemized or standard deduction.

(1) Loss from property transactions: The losses realized from the sale of property incurred by the taxpayer, his or her spouse and dependents are only deductible against the gains originating from the sale of property. (See IV. G. 5.)

(2) Special deduction for wage income. See IV. C. 3a.

(3) Special deduction for savings and investment. See IV. D.3.

(4) Special deduction for the disabled or handicapped: There is a NT$104,000 deduction for 2011 for each taxpayer, spouse, and dependent who is a physically or mentally disabled citizen.

(5) Special deduction for tuition: For the children of a taxpayer who are supported by reason of college or university attendance, the amount of deduction for educational expenses is NT$25,000 per child per year, except when the educational expenses are for the Open University or Open Junior College, the first three years in a five-year junior college, or when a subsidy or scholarship has been received from the government.

3. Should the taxpayer die or depart from the ROC, the income tax return shall be

filed on his or her behalf or by him or herself. The above-mentioned exemptions and standard deductions shall be deducted in proportion to the days the taxpayer lived or stayed in the ROC in the tax year concerned.

K. Tax Preferences for Foreign Professionals

1. To encourage foreign professionals to work within the territory of ROC and accelerate the internationalization of the economy of ROC, the scope of application for tax preferences for foreign professionals is issued by the MOF and come into force on 1st January, 2008.

2.The tax preferences specified in the above scope denote that payment made, in accordance with the content of an employment contract, by any organization, institution, school or enterprise which hires foreign professionals who meet certain requirements, may be claimed as expenses by the employer, such as the round trip air fare of the foreign professional and his or her family, home leave vacation pay according to contract, home-moving expenses, utility bills, cleaning bills, telephone bills, house rentals, repair costs for place of residence, and educational scholarships for children. These items are excluded in the taxable income of the foreign professionals.

V. Tax Rates

A progressive tax rate system has been adopted for ROC individual income tax. The tax rate system for the taxable year 2011 is structured as follows:

Brackets (Unit: NT$)			Rate (%)
0	-	500,000	5%
500,001	-	1,130,000	12%
1,130,001	-	2,260,000	20%
2,260,001	-	4,230,000	30%
4,230,001 and over			40%

VI. Indexation

The amounts for brackets, exemption, standard deduction, special deduction for wage income, special deduction for the disabled or handicapped, and for limited amounts as stipulated in retirement pay or severance pay (see IV-I) shall be adjusted according to the consumer price index if the total increase of the index has reached a figure of 3% or higher compared to the index of the year of previous adjustment. In addition, the criteria for these deductions and the exemption are evaluated every three years according to income levels and the changes in basic living expenditures.

VII. Tax Returns and Payments

A. Deadline and Procedures

The taxpayer shall file an annual tax return from 1st May to 31st May of each year by filling out and filing with the local tax collection authority-in-charge an annual income tax return declaring therein the items and amounts that make up his or her gross consolidated income for the preceding year together with the tax deductions/ exemptions, and/or offsets associated therewith, if any. The taxpayer shall further calculate the amount of income tax actually payable by him or her by deducting from the amount of income tax payable for the withholding tax, the amount of credit tax, and shall make payment voluntarily of the same before filing the annual income tax return.

B. Cases Exempt from Filing Return

In the event that the consolidated income received by a resident does not exceed the aggregate amount of the exemption and standard deduction, he or she may be exempt from filing an annual tax return; however, a resident who wishes to apply for a tax refund is required to file a tax return.

C. Consolidated Returns

Income earned by taxpayers, their spouses, and qualified dependents claimed in the tax returns shall be consolidated. However, the taxpayer can elect to calculate the tax payable either on his or her wage income or his or her spouse's wage income separately. (See IV. C. 3. a. (2).)

D. Returns Filed Before the Taxpayer's Departure or After the Death of the Taxpayer

In the event that the resident taxpayer dies during a tax year, unless otherwise provided, the executors, heirs or administrators of the taxpayer shall, within three months after the death of the taxpayer, file an income tax return for the income received prior to death and pay the income tax thereupon. However, the spouse of the deceased taxpayer may, instead file a joint income tax return including the income of the taxpayer in the period prescribed for annual return, provided that the surviving spouse is resident in the ROC. The executors, heirs, or administrators may, in an exceptional situation, apply for an extension of the above period but in no event can the period be extended beyond the period for filing the estate tax return.

In the event that the resident taxpayer waives his or her residence in the ROC and departs, an income tax return shall be filed by him or her before departure, provided, however, that the spouse of the taxpayer continuing to be a resident in the ROC shall file a joint tax return including the income of the taxpayer in the period prescribed for the annual tax return.

E. Tax Returns and Payments by Non-Residents

If a non-resident has income not subject to tax, and intends to leave the territory of the ROC prior to the time limit prescribed for filing a tax return in the taxable year, he or she shall file a tax return prior to his or her departure and pay tax according to the prescribed tax rate. In the case that he or she does not leave within the time limit prescribed for filing an income tax return in the taxable year, he or she shall file a tax return and make payment in accordance with the regulations concerned.

F. Forms of Annual Report

Forms for the individual income tax return can be classified as follows:

1. Simplified Form: To be used by those who choose a standard deduction, no tax credit, and receive only wages, dividends, interest, and income from published articles limited to NT$180,000.
2. General Form: To be used by those who are not qualified to use the simplified form.

G. Service of the Pre-Calculation of Consolidated Income Tax Returns

In order to provide further excellent tax service, the pre-calculation service will be put into practice in 2011 for the first time. Individual taxpayers who meet certain requirements will receive pre-calculation income tax notices and tax bills. If taxpayers confirm the calculation or pay tax as stated on the tax bills, they are deemed to have finished their income tax return filing. However, if taxpayers have any other income or apply for extra exemptions, deductions or tax credits which are not provided on the income tax notice, they still need to file their income tax returns as legally required.

VIII. Withholding

A. Withholding Agent

A withholding agent is a person who pays income to taxpayers and withholds tax from the said income. The withholding agents for various incomes are as follows:

1. For dividends distributed to non-resident shareholders by corporations, profits distributed to non-resident members by co-operative organizations, profits distributed to non-resident partners by partnerships, profits earned by non-resident proprietors, the withholding agent shall be the person in charge of those corporations, co-operative organizations, partnerships, and sole proprietorships, respectively.

2. For wages, interest, rentals, commission, royalties, income from professional practice, prizes or awards obtained from competition, contests, or lotteries, income from payments for retirement or severance (see II. I.), old-age pension not covered by insurance benefits, reward for information or accusation, and income paid to foreign enterprises having no fixed place of business or business agent in the ROC, the withholding agent shall be the person in charge of tax withholding of the organization, school, association, etc., or the person in charge of the organization, the trustees of bankrupt estates, or professional practitioners.

B. Income Subject to Withholding

1. Dividends distributed to non-resident shareholders by corporations, profits distributed to non-resident members by co-operative organizations, profits distributed to non-resident partners by partnerships, and profits earned by non-resident proprietors.

2. Wages, interest, rentals, commission, royalties, income from professional practice, prizes or awards obtained from competition, contests, or lotteries, income from payments for retirement or severance (see II. I.), old-age pension not covered by insurance benefits, reward for information or accusation, and income paid to foreign enterprises having no fixed place of business or business agent in the ROC.

C. Time of Withholding

The withholding agent shall withhold taxes in accordance with the various withholding rates prescribed by the regulations upon payment of income to the taxpayer.

D. Withholding Rates

Type of Income	Withholding Rates	
	Resident	Non-Resident
Dividends Distributed by Companies and Profits Distributed by Co-Operatives	—	20%
Profits Paid to Partners or to the Owner of a Sole Proprietorship	—	20%
Wages and Salaries	(1) To be withheld in accordance with “The	(1) 5%, in the case of the portion of the total monthly payment

<table>
<tr><th rowspan="2">Type of Income</th><th colspan="2">Withholding Rates</th></tr>
<tr><th>Resident</th><th>Non-Resident</th></tr>
<tr><td></td><td>Regulations Governing the Withholding of Tax on Wages", or
(2) 5%</td><td>exceeding NT$30,000 for civil servants employed by the government to work abroad;
(2) For individuals described other than in (1):
(a) 6%, in the case of salaries not exceeding 1.5 times the monthly basic salary as assessed by the Executive Yuan
(b) 18%, in the case of salaries exceeding 1.5 times the monthly basic salary as assessed by the Executive Yuan</td></tr>
<tr><td>Commission</td><td>10%</td><td>20%</td></tr>
<tr><td>Interest</td><td>10%</td><td>(1) 20%;
(2) 15%, to be taxed on interest from the portion of the pecuniary amount realized by short-term commercial papers at their maturity in excess of the selling price at their initial issuance;
(3) 15%, to be taxed on interest from securities issued under the Financial Asset Securitization Act or the Real Estate Securitization Act;
(4) 15%, to be taxed on interest from government bonds, corporate bonds or financial bonds;
(5) 15%, to be taxed on interest from repo (RP/RS) trade whereby a taxpayer purchases the aforesaid bonds, securities or short-term commercial papers at the net amount of the sale price at their maturity in excess of the original purchase price</td></tr>
<tr><td>Rental</td><td>10%</td><td>20%</td></tr>
<tr><td>Royalties</td><td>10%</td><td>20%</td></tr>
<tr><td>Income from Professional Practice</td><td>10%</td><td>20%</td></tr>
<tr><td>Reward for</td><td>20%, to be taxed separately</td><td>20%, to be taxed separately from</td></tr>
</table>

Type of Income	Withholding Rates	
	Resident	Non-Resident
Information or Accusation	from ordinary income	ordinary income
Awards or Prizes from Participating in Contests, Games, or Lotteries, Etc.	(1) 10%; (2) 20%, to be taxed separately for a prize received from lotteries sponsored by the government in the case that the prize exceeds NT$2,000 per ticket	(1) 20%; (2) 0%, in the case that the prize received is from lotteries sponsored by the government and is no more than NT$2,000 per ticket
Income from Payments for Retirement, Severance, Etc.	6%, to be taxed on the excess amounts as prescribed by the Income Tax Act	18%, to be taxed on the excess amounts as prescribed by the Income Tax Act

E. Returns and Payments of Tax Withheld

The withholding agent shall, prior to the tenth day of each month, pay to the Treasury the taxes withheld the previous month and file a withholding report and the receipts with the tax offices not later than the January of the following tax year, specifying the payment made and the tax withheld in the previous year. For income paid to non-residents or foreign businesses having no fixed place of business in the ROC, the withholding agent shall pay to the Treasury the taxes withheld and file a withholding report and the receipts with the tax office within ten days after withholding.

F. Penalty Provisions

1. In the event that a withholding agent fails to withhold taxes, withholds less tax due, and/or fails to submit a withholding report, the collection authority-in-charge shall notify the agent to pay the deficiency and file a correct report within a specified period, and he or she shall be subject to a penalty of no more than the amount which has not been withheld. If the withholding agent fails to follow this requirement, he or she shall be subject to a penalty of no more than three times the amount of tax which has not been withheld.
2. In the event that the withholding agent has withheld taxes and paid such to the Treasury, but fails to submit or file a withholding report and receipt to the tax office, the collection authority-in-charge shall notify the agent to file a correct report within a specific period, and a penalty of 20% of the taxes withheld, being not less than NT$1,500 and not more than NT$20,000, shall be levied upon the withholding agent. However, the said penalty shall be reduced to half

of the amount in the event that the withholding agent submits or files a withholding report and receipt before receiving the notice from the tax office. In the event that the withholding agent fails to submit an accurate withholding report and receipt within the period prescribed in the said notice, the penalty shall be increased to three times the tax withheld, being not less than NT$3,000 and not more than NT$45,000.

3. In the event that persons in charge of accounting for a government agency, enterprise, organization, or school fail to submit a withholding report and receipts within the period prescribed by law, or fail to submit an accurate withholding report and receipts, they shall be subject to punishment at the request of the tax office. In the event that a private enterprise or business fails to submit a withholding report and receipts or fails to submit an accurate withholding report and receipts within the period prescribed by law, it shall be subject to a penalty of NT$1,500 and a further penalty of 5% of the payment, being not less than NT$3,000 and not more than NT$90,000, whichever is higher, if it fails to submit or to file a withholding report and receipt within the period prescribed in the notice from the tax office.
4. In the event that a withholding agent appropriates the tax withheld; fails to pay or underpays the tax withheld; or fails to withhold any tax through fraudulent or other undue action, he or she shall be subject to a punishment of imprisonment for up to five years, or detention and/or fines up to NT$60,000.

IX. Other Provisions

A. Penalties for Failure to Report or Omissions

In the event that a taxpayer has submitted an annual income tax return and failed to disclose or omitted all or certain part of the income, the taxpayer shall be subject to a penalty of up to two times the tax levied upon the unreported income. In the event that the taxpayer fails to submit an annual income tax return and the tax office discovers that he or she has received taxable income, the taxpayer shall, in addition to payment of the tax levied upon the said income, be subject to a penalty of up to three times of the said tax.

B. Surcharges Levied Upon Late Payments

In the event that a taxpayer delays the payment of any deficient tax or penalty for failure to report, the taxpayer shall be subject to a late surcharge to be calculated at 1% of the tax unpaid for every two days of default up to thirty days of default. The tax office shall refer the case to the court for enforcement if the taxpayer fails to pay the deficiency within the thirty-day period.