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**Working Party on the
Accession of Chinese Taipei**

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ACCESSION OF CHINESE TAIPEI

Notification Pursuant to Article XVI.1 of the GATT 1994 and
Article 28.1 of the Agreement on Subsidies and
Countervailing Measures

Industrial subsidies

Revision

The following communication has been received from the Representation of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu with the request that it be circulated to members of the Working Party.

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1. Title of the Programme

Tax credits for the creation of internationally recognized brands.

2. Period Covered by the Notification

Fiscal years 1995-1997(July 1994 to June 1997)

3. Policy objective and/or purpose

The primary goal of the tax incentive is to encourage private enterprises to create their own internationally recognized brands.

4. Background and responsible authorities

(a) Law:

- Statute for Upgrading Industries (hereinafter referred to as the "SUI"), Article 6.

The SUI was promulgated on December 29,1990 and amended on January 10, 1995, and will cease to be effective on December 31, 1999.

(b) Responsible authorities:

**Industry Development Bureau, Ministry of Economic Affairs
Ministry of Finance**

5. Form

Credit against Corporate income tax

6. To whom and how assistance is provided

All companies invested in the creation of internationally recognized brands are eligible for tax credit. Up to 15 per cent of expenditure spent for promoting in the international market any trademark, service mark or certification mark created by company itself and registered with Bureau of National Standards, MOEA, can be deducted from payable corporate income tax.

If the total expenditure reaches NT\$3,000,000 in the same taxable year, 10 per cent thereof may be deducted from the corporate income tax payable for that year; if such total expenditure reaches NT\$5,000,000 and "Taiwan Exquisite Product Mark" authorized by MOEA is used with the brand, 15 per cent of the total expenditure may be deducted from the income tax payable for that year. In case the amount of corporate income tax levied for the current year is less than the amount of tax credit, the balance of tax credit may be carried over to the ensuing four years.

The regulation on creation of international brands will be amended to be consistent with WTO requirements, upon accession, without any recourse to a transition period. Any future programme in this area would be consistent with WTO requirements and would not reintroduce prohibited subsidies.

7. **Amount**

Not available

Unit: thousand NT

Year	No. of Cases	Tax Deduction Amount
1994	16	16,304
1995	31	31,574
1996	34	18,987
Total	81	66,865

8. **Duration**

The programme was initiated in 1991 and will terminate when the Statute expires.

9. **Trade effects or related statistical data**

In light of the scope and nature of the programme, it is not possible to determine what, if any, trade effects which may result from this programme.

1. Title of the programme

No duty and tax is to be refunded for imported machinery and equipment resold to a Science-Based Industrial Park ("the Park").

2. Period covered by the notification

Calendar year 1998

3. Policy objective and/or purpose

The legislative background of this policy is to enhance administrative efficiency by reducing administrative burden and waste of resources in keeping track of the imported machinery and equipment. To illustrate hypothetically, the actual importer (located outside the Park) of the machinery and equipment should be the legitimate receiver of any tax/duty refund due when the imported products are resold to the Park. However, prior to the re-selling, the imported goods may have undergone several transactions, or "change of hands" before the imported machinery and equipment are resold to the Park. In this regard, it would be difficult to trace the actual importer, the legitimate recipient of any tax/duty refund, of the machinery and equipment after a series of transactions.

4. Background and the responsible authorities

(a) Laws and regulations:

- Paragraph 1, Article 18, Statute for the Establishment and Administration of a Science-Based Industrial Park (the "SSP").

(b) Responsible authorities:

- The Science-based Industrial Park Administration, National Science Council
- Directorate General of Customs, Ministry of Finance

5. Form

Favourable tax/duty treatment for domestic machinery and equipment.

6. To whom and how assistance is provided

When a firm located in areas where tariff is leviable sells goods to the Park enterprises, the goods shall be deemed as export commodities. The firm is not eligible for customs duty and commodity tax refund if the good is imported machinery and equipment which have been duly taxed. On the other hand, refund is not an issue for the sale of domestic machinery and equipment to the Park as no customs duty and commodity tax is leviable on domestic machinery and equipment sold to the Park.

7. Amount

Not available

8. Duration

- (a) According to Articles 5 to 12 of the Statute for Commodity Tax, machinery and equipment is not subject to commodity tax. Thus, “no commodity tax refund shall be made for imported machinery and equipment which have been duly taxed” provided for in Article 18 of the SSP is actually not implemented.
- (b) Chinese Taipei does not permit the refund of customs duty unless clearly mandated by the laws in order to ensure the stability and predictability of the tax regime. This is not an uncommon practice in the world. The laws provide for very few situations for duty refund. One example is Article 36 of the Customs Law.
- (c) Chinese Taipei will amend Article 18 of the SSP by deleting “[n]o customs duty and commodity tax refund shall be made for imported machinery and equipment which have been duly taxed” upon Chinese Taipei’s accession to the WTO.

9. Trade effects or related statistical data

Most of the machinery and equipment utilized by Park enterprises tend to be of high technology and of high precision nature which are not manufactured by local manufacturers. Therefore, these machinery and equipment are mostly directly imported from abroad by Park enterprises. In 1997, the total amount of machinery and equipment imported by Park enterprises was US\$ 3.4 billion and only US\$ 32 million worth of machinery and equipment are procured locally, including domestic machinery and equipment. The rate of procurement locally is only 0.94 per cent, which clearly indicate the trade effect is *de minimis*.

1. Title of the programme

No duty and tax is to be refunded for imported machinery and equipment resold to the economic processing zone (EPZ).

2. Period covered by the notification

Calendar year 1998

3. Policy objective and/or purpose

The legislative background of this policy is to enhance administrative efficiency by reducing administrative burden and waste of resources in keeping track of the imported machinery and equipment. To illustrate hypothetically, the actual importer (located outside the EPZ) of the machinery and equipment should be the legitimate receiver of any tax/duty refund due when the imported products are resold to the EPZ. However, prior to the re-selling, the imported goods may have undergone several transactions, or “change of hands” before the imported machinery and equipment are resold to the EPZ. In this regard, it would be difficult to trace the actual importer, the legitimate recipient of any tax/duty refund, of the machinery and equipment after a series of transactions.

4. Background and the responsible authorities

(a) Laws and regulations:

- Paragraph 1, Article 17, Statute for Establishment and Management of Economic Processing Zones

(b) Responsible authorities:

- the Economic Processing Zone Administration, Ministry of Economic Affairs
- Directorate General of Customs, Ministry of Finance

5. Form

Favourable tax/duty treatment for domestic machinery and equipment.

6. To whom and how assistance is provided

When a firm located in areas where tariff is leviable sells goods to EPZ enterprises, the goods shall be deemed as export commodities. The firm is not eligible for duty/tax refund if the good is imported machinery and equipment which have been duly taxed. On the other hand, refund is not an issue for the sale of domestic machinery and equipment to the EPZ as no duty/tax is leviable on domestic machinery and equipment sold to the EPZ.

7. Amount

Not available

8. Duration

- (a) According to Articles 5 to 12 of the Statute for Commodity Tax, machinery and equipment are not subject to commodity tax. Thus, “no tax paid for imported machinery and equipment is to be refunded” provided for in Article 17 of the EPZ Law is actually not implemented.
- (b) Chinese Taipei does not permit the refund of customs duty unless clearly mandated by the laws in order to ensure the stability and predictability of the tax regime. This is not an uncommon practice in the world. The laws provide for very few situations for duty refund. One example is Article 36 of the Customs Law.
- (c) The provision in Article 17 of the EPZ Law which reads, “[n]o duty and tax paid for imported machinery and equipment is to be refunded” will be deleted upon Chinese Taipei’s accession to the WTO.

9. Trade effects or related statistical data

There are no related statistical data for imported machinery and equipment sold to in-zone enterprises by firms in areas where tariff is leviable. Therefore, it is not possible to determine what, if any, trade effects may result from this subsidy regulation.

1. Title of the Programme

Tax credits for the purchase of automation and environmentally-friendly equipment

2. Policy objective and/or purpose

The primary goal of the tax incentive is to achieve economic growth through industrial restructuring by encouraging investment in certain desirable areas such as automation, energy conservation, pollution control, reclamation of resources and reuse of industrial water.

3. The date of establishment of the programme

The programme was commenced in 1990.

4. Background and responsible authorities

(a) Law:

- Statute for Upgrading Industries (hereinafter referred to as the "SUI"), Article 6.

The SUI was promulgated on December 29, 1990 and amended on January 10, 1995, and will cease to be effective on December 31, 1999.

(b) Responsible authorities:

Companies are required to obtain a certificate from the relevant government agency before they can apply for the tax credits with the tax collection authorities. The government agencies involved for the issuance of such certificates are as follows:

- i. For the manufacturing industry and technical services industry: The Industrial Development Bureau of the Ministry of Economic Affairs("MOEA");
- ii. For energy saving: The Energy Commission, Ministry of Economic Affairs;
- iii. For the construction industry: The Construction & Planning Administration, Ministry of the Interior;
- iv. For the wholesale industry: The Commerce Department, MOEA
- v. For agricultural industry: The Council of Agriculture, Executive Yuan.
- vi. Ministry of Finance

5. Form of Subsidy

Credit against Corporate income tax

6. To whom and how assistance is provided

A firm may gain credits up to twenty percent of the amount of fund disbursed for any of the following purposes against the amount of corporate income tax payable for the current year:

- (a) investment in equipment for automation of production;
- (b) investment in the equipment used for reclamation of resources and/or pollution control;
- (c) investment in the equipment for energy saving and/or recycling of industrial water.

In case the amount of corporate income tax levied for the current year is less than the amount of tax credit, the balance of tax credit may be carried over to the next four years. The total amount of investment credit against tax in each year should not exceed fifty percent (50 per cent) of the amount of corporate income tax levied in the then current year. However, this limitation should not apply to the final year.

The scope of application, implementation period and tax credit rate should be prescribed by the Executive Yuan and is subject to adjustment once every two years.

All firms, regardless of their industry categories, are eligible for the tax credit; therefore, the support should not be specific within the meaning of Article 2 of the Agreement.

For the manufacturing industries, the rate of investment credit available is 20 per cent for procurement of domestically manufactured equipment for automation, and 10 per cent for foreign manufactured equipment, respectively. The rate of investment credit available for procurement of domestically manufactured equipment for pollution control is 20 per cent, and 10 per cent for foreign manufactured equipment. The discrepancy of the rate of investment credit between domestic and foreign equipment will be eliminated upon Chinese Taipei's accession to the WTO.

The amount of investment credit for the most recent three years are listed as follows:

(Unit: thousand NT)

	FY 1997		FY 1996		FY 1995	
	No. of Cases	Amount of Tax Reduction	No. of Cases	Amount of Tax Reduction	No. of Cases	Amount of Tax Reduction
Investment credit for procurement of foreign manufactured equipment for Automation	2,164	3,613,817	3,489	2,471,107	2,269	2,149,039
Investment credit for procurement of domestically manufactured equipment for automation	14,371	4,809,894	953	1,847,189	770	1,810,162
Investment credit for procurement of domestically manufactured equipment for pollution control	458	245,370	155	263,808	133	207,732
Investment credit for procurement of foreign manufactured equipment for pollution control	77	70,558	49	60,557	39	48,963

1. Title of the programme

~~Tax deduction for self-designed components of automobile~~ **automobiles and motorcycles using domestic design of certain automobile and motorcycle components**

2. Policy objective and/or purpose

The primary goal of the incentive is to encourage ~~self~~ **domestic** design, research and development capability of automobiles, **motorcycles and their components.**

3. The date of establishment of the programme

The programme commenced in 1984.

4. Background and responsible authorities

(a) Law:

Statute for Commodity Tax, Paragraph 2, Article 12

(b) Responsible authorities:

- Ministry of Economic Affairs (MOEA)
- Ministry of Finance (MOF)

5. Form

~~For the self-designed components of the automobile (vehicle engines, bodies or chassis) a review will be conducted by the relevant experts commissioned by the MOEA and the MOF. Upon their approval, each item may enjoy a 3 per cent commodity tax reduction.~~

Automobiles and motorcycles using domestic design of certain components may enjoy commodity tax deduction.

6. To whom and how assistance is provided

~~In order to upgrade the independent auto design capability of Chinese Taipei, the vehicle engines, bodies or chassis designed by its domestic companies may, from the time the first vehicle is out of factory, enjoy a 3 per cent commodity tax reduction, upon the review and approval of the relevant experts, the MOEA and the MOF.~~

In order to upgrade the automobile and motorcycle design capability of Chinese Taipei, upon review and approval by the MOEA and the MOF, automobiles using domestic designed engines, chassis or bodies, for each of the used item, the automobiles will, from the date the model rolls out, enjoy a 3 per cent commodity tax deduction for a period of 4 years. In addition, motorcycles using self-developed brand and domestic designed engines, frames and models certified by the MOEA, may enjoy a 3 per cent commodity tax deduction for a period of 3 years from the date the model rolls out.

7. Amount

FY1995		FY1996		FY1997	
No. of Case	Amount of Tax Reduction	No. of Case	Amount of Tax Reduction	No. of Case	Amount of Tax Reduction
3	425,607	3	340,192	3	264,868

Unit: thousand NT

		FY 1995		FY 1996		FY 1997
Domestic Design of Components	No. of cases	Amount of Tax Reduction	No. of cases	Amount of Tax Reduction	No. of cases	Amount of Tax Reduction
Body of Automobile	1	86,371	2	49,172	2	21,534
Chassis and Body of Automobile	2	339,260	1	289,184	1	242,525
The Frame, Engine and Body of Motorcycle	12	264,475	10	217,601	11	121,032
Total	15	690,106	13	555,957	14	385,091

8. Duration

Chinese Taipei will repeal ~~the tax incentive provided for domestic design and use of automotive parts~~ **the relevant provisions of its law related to the tax incentive provided for automobiles & motorcycles using domestic design of components, specifically, the engine, chassis (or frame) and body** by December 31, 2000. Chinese Taipei will not expand the programme through, for example, increasing the ~~parts~~ **components** covered or the amount of the incentive. In addition, the grant of incentives to additional companies will be limited to the extent permitted by Chinese Taipei's law.

9. Trade effects or related statistical data

Take FY 1997 for example, the production value of whole ~~vehicles~~ **automobiles** in Chinese Taipei was NT\$200.3 billion. The reduced commodity tax was NT\$ ~~264,868,000~~, **385,091,000** which was 0.19 per cent of the yearly motor vehicles production value.