REPUBLIC OF CHINA

Provisions in the law of the Republic of China on tax incentives for savings and investment and on the taxation of capital gains are contained in the Income Tax Law, promulgated and put into effect on February 17, 1943, and in the Statute for Encouragement of Investment, promulgated September 10, 1960, as last amended on July 26, 1977. The texts of these laws used herein are the English translations appearing in Current Tax Laws of the Republic of China, Taipei, Taiwan Industrial and Taxation Publishing Co., 1977.

I. Savings

Incentives for saving are found in Article 4 of the Income Tax Law, wherein it is provided that income derived from the following types of saving shall be exempted from income tax: interest on savings of a compulsory nature made in accordance with law or ordinance and income derived by individuals from interest on saving deposits of a fixed term of two years or longer with a banking institution handling saving deposits in accordance with the provisions of the Chapter on Savings Bank in the Banking Law. Article 21 of the Statute on Encouragement of Investment also contains a provision offering tax incentives for saving. This article reads:

> Article 21. The interest earned by an individual from any of the following shall be exempt from withholding and payment of consolidated income tax:
>
> 1. Fixed-term saving deposits or postal savings for two years or more by an individual in an institution handling saving deposits under the chapter on Savings Banks of the Banking

Law or under the Post Office Savings Law, or monthly saving deposits or postal savings in an amount not exceeding four hundred _yuan_ for each month for a period of a year or more to be withdrawn in the gross;

2. Trust funds with the nature of savings for a period of two years or more;

3. Saving deposits for tax payment made by an individual in accordance with the provisions prescribed by the government for the purpose of paying various kinds of taxes; or

4. Construction saving debentures maturing in not less than three years issued and listed on the market by a financial institution pursuant to the instruction of the government.

II. Investment

Tax incentives for investment are found primarily in Chapter II of the Statute for Encouragement of Investment. There is also a separate statute for encouragement of investment by foreign nationals. A xerox copy of both Chapter I and Chapter II of the Statute for Encouragement of Investment is attached.

III. Capital Gains

According to Article 14 of the Income Tax Law, the gross consolidated income of an individual shall include "income from property transaction--Any income derived from transactions of property and rights." Such property transactions are described in Article 14 as follows:

(1) Where the property or right was originally acquired at a price, amount of the income shall be the transaction price after deduction of original cost and all expenses necessary for acquisition, improvement and ownership transfer of that asset.

(2) Where the property or right was originally

acquired through succession or donation, amount of the income shall be the transaction price after deduction of value prevailing at time of succession or donation and all expenses necessary for acquisition, improvement and ownership transfer of that property right.

(3) One-half of the amount of income of an individual derived from transactions in registered stocks or registered corporate bonds issued by a company limited by shares, or public bonds issued by government of all levels, or development bonds issued by banks under the approval of government, if the individual has held such stocks or bonds for a period of one year or longer, shall be considered as part of his income in the taxable year, while the other one-half shall be exempted from income tax.

A tax incentive relative to the holding of securities is also found in Article 15 of the Statute for Encouragement of Investment. Article 15 provides as follows:

<u>Article 15</u>. Where registered share certificates or corporate bonds publicly issued by a profit-seeking enterprise and listed on the stock market, or government bonds or development bonds issued by the government of various levels or by an industrial bank, which were purchased or otherwise acquired before December 31, 1973 and held for more than one year, are sold, the portion of gains realized from such a sale but accrued during the period before December 31, 1973 shall be excluded from the taxable income.

Beginning January 1, 1974 where an individual sells registered shared certificates or corporate bonds of a company limited by shares, or government bonds issued by the government of various levels or development bonds issued by a bank with the authorization of the government, which he purchased or otherwise acquired and has held for more then [sic] one year, one half of the gain realized from such a sale shall be regarded as the income of the current year, and the other one-half shall be exempt from income tax; computation of gain or loss from such sales, and the offsetting of such gains and losses shall be governed in accordance with the provisions of the Income Tax Law.

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