

Impact of Luxury Tax Policy on the Real Estate Market in Taiwan How Does the Implemented Luxury Tax Policy Affect the Real Estate Market Inflation in Taiwan?

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새 밀레니엄의 도래와 함께 찾아온 버블 경제를 따라, 수많은 내수 그리고 국제 경제의 하락이 있었고, 특정 국가의 세금 정책이 바뀌었고, 은행의 대출 정책이 변경되며 사람들은 유동 자산에 대한 확신을 잃으며 부동산 시장에 돈을 투자하는 경향을 보이게 되었다.

과거에는 조금 더 느슨하고 편안한 부동산 관련 세금 정책 덕분에, 많은 추측성 투자자들이 은행에서 대출 받은 돈으로 단기 부동산 투자를 했고

자신의 돈은 하나도 투자하지 않은 채 많은 수익을 냈다. 부동산 시장은 굉장히 빠르게 팽창했고, 이는 많은 사회적 문제를 야기했다 - 부동산이 실제 거주를 위한 것이 아닌 투기를 위한 것이 되자 많은 젊은 세대는 적당한 가격에 살 수 있는 집을 찾을 수가 없었다. 부익부 빈익빈이 심해졌다.

타국에서 적용 가능한 세금 정책을 검토한 대만 정부는 “특정 재화와 서비스에만 부과되는 세금”(일명 럭셔리세)를 2011년 6월 1일 도입했고, 이는 건물 또는 땅을 2년 이하로 보유하고 있었던 판매자에게 10에서 15 퍼센트의 럭셔리세를 부과하는 것이었다. 입법의 목적은 부동산 가격의 안정 그리고 단기 투기성 부동산 거래를 줄이는 데 있었다. 우리가 수집한 통계에 따르면, 럭셔리세의 도입으로부터 지금까지는 럭셔리세의 도입이 부동산 시장에 영향을 끼치기는 하였지만, 아직 그리 큰 충격을 주지는 않았다. 그러므로 추가 수정이 필요하다.

이 글은 대만의 부동산 시장 변화의 큰 그림을 제공할 것이다. 부동산 시장의 배경으로부터 시작하여 문화, 럭셔리세 법안의 내용, 정부 발표문, 실제 시장 조사 내용 그리고 부동산 시장에 끼친 럭셔리세의 영향을 파악하기 위한 다른 국가와의 비교 그리고 추가 제안을 찾을 수 있을 것이다.

[주제어] 버블경제, 세금 정책, 부익부 빈익빈, 부동산 시장, 대만, 럭셔리세

I. Real estate and residential market inflation background

1. Land is REAL property

In the famous 1939 American epic historical romance movie “Gone with the Wind” adapted from Margaret Mitchell’s Pulitzer-winning 1936 novel, lead character Scarlett’s father Gerald O’Hara said: “Land is the only thing in the world worth working for, worth fighting for, worth dying for because it is the only thing that lasts.” There is also a traditional Chinese idiom: “Along with land comes with wealth”(有土斯有財) In the capitalism mainstream, land has been deemed as the tangible perpetual property that

can ensure our property value and can inherent to our issues. There are only limited habitable lands in the world so we started building mansions, houses, apartments, high-rise buildings, and luxurious condos to satisfy different groups' living demands. The real estate market has always been a big issue in capitalist countries, especially in places influenced by Asian culture. We have heard many reports about how Chinese people have distorted regional real estate markets by purchasing houses with cash at seemingly inflated, irrational prices; this has reportedly caused dangerous real estate bubbles, in China, Hong Kong, Taiwan, other Asian countries, and in other parts of the world.

2. 1990's to 2000 (millennium bubble)

Tracing back to the 90's which was the blooming era for high tech start-up companies. As Microsoft and Apple took the lead, anything relating to Personal Computers, laptop, software and even mobile phones was gaining popularity. Investors put money in computer related industrial enterprise. Meanwhile, in 2000, the millennium bubble burst, investors did not receive their expected returns and lost significant capital. Investors, inventors, innovators and even entrepreneurs lost confidence to the industrial field. The wealthy started to seek other "safer and stable investment income" rather than spending money in Research and Development or trying to improve management or compatibility of business. Taiwan's economic and industrial growth hit a bottleneck, and since then people preferred to invest in real estate.

3. SARS in 2003

The next big economic downturn happened in 2003 and was caused by an outbreak of Severe Acute Respiratory Syndrome (SARS), SARS is a contagious and sometimes fatal respiratory illness. SARS first appeared in China in November 2002.¹⁾ Between November 2002 and July 2003, an outbreak of SARS in southern China caused an eventual 8,273 cases and 775 deaths reported in multiple countries with the majority of cases in Hong Kong (9.6% fatality rate).²⁾ Within weeks, SARS spread from Hong Kong to 37 countries in early 2003.³⁾

SARS dramatically triggered an Asian real estate market crash. Real estate prices collapsed and the amount of transactions declined. Banks in Taiwan started to advertise low interest mortgage rates to encourage people to borrow money to purchase highly priced real property. Hoping to stimulate the market, the government did not interfere with banks' solicitation. The real property market became active again because almost anyone could make big returns with a very small investment in a short amount of time, as long as they passed the basic credit check and dared to take the risk of borrowing most of the real property payment from the bank—which is not even a risk

1) Mayo Clinic, "Definition of Severe acute respiratory syndrome", <http://www.mayoclinic.org/diseases-conditions/sars/basics/definition/con-20024278>, 2014.

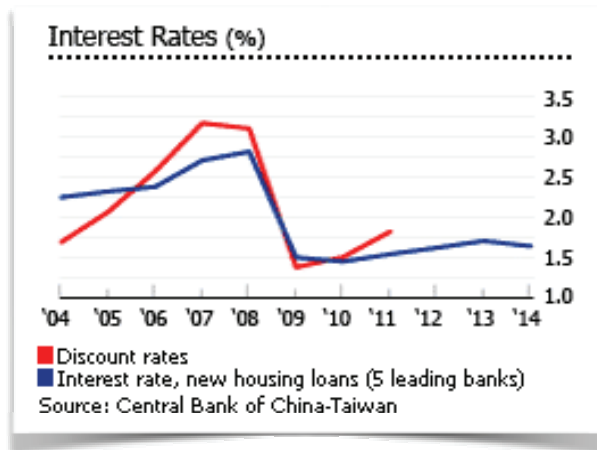
2) World Health Organization (WHO), "Summary of probable SARS cases with onset of illness from 1 November 2002 to 31 July 2003", http://www.who.int/csr/sars/country/table2004_04_21/en/, 2004.

3) Smith, Richard, D., "Responding to global infectious disease outbreaks, Lessons from SARS on the role of risk perception, communication and management", *Social Science and Medicine* 63, Elsevier, 2006, (12):3113-3123, <http://www.sciencedirect.com/science/article/pii/S0277953606004060>

because the return is massive. As a free trade market, Taiwan had no specific tax regulation regarding real property trade. Therefore, many speculators were flipping real estate within a few months and some were able to double their investments.

4. Global financial crisis of 2007-2008

The global financial crisis in 2007-2008 was another big strike. Taiwan real estate markets became extremely quiet due to the global financial crisis. In 2008, Taiwan, heavily dependent on exports, was severely affected by the U.S. economic recession. The key interest rate was reduced from a five-year peak of 2.625% in August 2008 to the historic low of 1.25% in February 2009. Taiwan's Central Bank kept its benchmark interest rate unchanged for the 11 straight quarters at 1.875%.⁴⁾



4) Global property guide, "Taiwan's efforts to smash the house price bubble intensify, causing sales to plummet", June 11, 2014.
<<http://www.globalpropertyguide.com/Asia/Taiwan/Price-History>>

Therefore, on December 5, 2008, a special statute for the issuance of “consumption vouchers”(消費券) was passed into law. This statute aimed at promoting private consumption as a means of keeping the economy growing. Three weeks later, on December 26, the Legislative Yuan passed a special budget of 85.7 billions NTD for the issuance of consumption vouchers to every member of the population, regardless of their personal financial situation. Each person would be given vouchers with a face value of 3,600 NTD, valid for use until the end of September 2009. The vouchers were distributed to 23,128,527 people, constituting 99.4% of those eligible to receive them. 82.93 billion NTD worth of vouchers were used and redeemed, constituting 99.6% of the value of the vouchers issued.⁵⁾



5) National Development Council, “Issuing Consumption Vouchers”, Oct 4, 2011.
 <<http://www.ndc.gov.tw/encontent/ml.aspx?sNo=0015990#.VFY6iIct2FI> >

5. Slash of inheritance and gift taxes on real estate brought back big capital flow

The slashing of inheritance and gift taxes on real estate in 2009, in addition to the loose monetary policy and low interest rates abroad, brought back big speculative capital flows and led to high realty prices and property bubble. Before the luxury tax was introduced, a property could change multiple hands on the same day.

On January 12th, 2009, the Legislative Yuan approved the Inheritance and Gift Tax Act, reducing the tax rate to a single level of 10 % from the previous maximum of 50%.⁶⁾ [Previously], inheritance and gift taxes were levied at rates of up to 50%, which prompted many wealthy Taiwanese to shift their money offshore, particularly to low-tax Hong Kong and Singapore.⁷⁾

A sizable amount of overseas funds held by Taiwanese people, estimated at 5 trillion to 6 trillion NTD, is expected to return to Taiwan for investment in the real estate market or bank deposits, which, in turn, would generate tax revenue for the national coffers, according to the Ministry of Finance officials.⁸⁾ The implementation of the new inheritance tax does encourage

6) The China Post news (January 13, 2009) "Legislature cuts inheritance, gift tax rate to 10%", <http://www.chinapost.com.tw/taiwan/business/2009/01/13/191719/Legislature-cuts.htm>

7) Swire, Mary, (January 12, 2009) "Inheritance Tax Cut Gets Approval in Taiwan", Tax-News, Hong Kong, http://www.tax-news.com/news/Inheritance_Tax_Cut_Gets_Approval_In_Taiwan___34532.html#sthash.83oCMHQL.dpuf

8) The China Post news (January 13, 2009) "Legislature cuts inheritance, gift tax rate to 10%", <http://www.chinapost.com.tw/taiwan/business/2009/01/13/191719/Legislature-cuts.htm>

many Taiwan people to move their overseas funds back to Taiwan. Most of that money flowed into the real estate market which caused a rapid increase in prices and trade volume.

Property prices kept climbing despite an oversupply and low-occupancy rate in Taiwan's real estate market. Since the financial crisis, almost all major economies have coupled low interest rates with loose monetary policy, causing a huge increase in capital flow and money supply and freeing up funds for speculative investment in real estate. In Taiwan the incentive to invest has been even stronger due to a sudden drop in estate and gift taxes after amendments to the relevant laws in 2009.

While investors competed to put this easy money into property, it was easy for those in the housing business and speculators to ramp-up prices. This spurious investment demand created a false impression of a hot market, causing home buyers to jump in for fear of being left out in the cold. Simply put, the increase in property prices in the past four years is purely a result of hot money.⁹⁾

II. Luxury tax(奢侈稅) policy

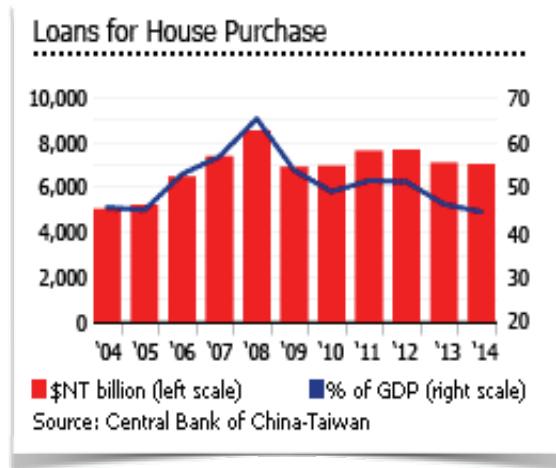
-The Specifically Selected Goods and Services Tax Act (特種貨物及勞務稅條例)- in Taiwan

1. Why “luxury tax”?

When the gross domestic product(GDP)¹⁰⁾ does not grow much but the

9) Economic Daily News, “Taiwan must tackle its property bubble”, 15 June, 2013, <<http://www.taiwantoday.tw/ct.asp?xitem=206369&CtNode=426>>

real estate market does, many societal problems gradually revealed themselves. The young generation in their 30's could not afford the highly priced houses without family support while the wealthy elder generation made money by short term real estate trades. The wealth gap becomes bigger, and the majority—middle class—is also struggling whether they should jump into the crazy real estate investment trend with their limited saving, nobody wants to be the last mouse. Therefore, the Taiwan government decided to draft a new tax specifically focused on the real estate problems. “The Specifically Selected Goods and Services Tax Act”¹¹⁾ (hereinafter “luxury tax”) was announced on May 4th, 2011.



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- 10) Gross domestic product (GDP) is defined by OECD (Organisation for Economic Co-operation and Development) as “an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs).”
- 11) Full content see “The Specifically Selected Goods and Services Tax Act”, Tax Related Laws & Regulations, Taxation Administration, Ministry of Finance, R.O.C. <<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=G0340128>>

Investopedia defines luxury tax as “[a] tax placed on products or services that are deemed to be unnecessary or non-essential. This type of tax is an indirect tax in that the tax increases the price of the good or service and is only incurred by those who purchase or use the product.”¹²⁾

US Legal defines luxury tax as “[a] luxury tax is a levy on articles that are expensive, nonessential items. The luxury tax can make certain products and services more desirable—there is a prestige in owning an item that is considered a luxury. A downside to luxury taxes is that they can be too effective. When luxury taxes become too steep, people may choose to stop purchasing a particular product.”¹³⁾

When purchasing a residential house is no longer for personal living, the house loses its original function—fulfilling people’s basic living necessity in daily life. When real property becomes a regularly short term trading commodity, like an investment vehicle that can be traded as easy as a liquid asset, the economy of the society becomes unstable and the bubble forms. Real property that is defined as unnecessary falls under the scope of “luxury goods”. Besides, this tax act is specially designed to be levied on highly priced real estate, luxury houses from speculators. Therefore, this tax act is also called “luxury tax” in Taiwan.

Real estate agents and the property sector have opposed the luxury tax. They feared it could hurt sales. But surveys show most Taiwanese people favor the move.

12) Investopedia, “Definition of luxury tax”, 2014.

〈http://www.investopedia.com/terms/l/luxury_tax.asp〉

13) US Legal, “Luxury Taxes Law & Legal Definition”, 2014.

〈<http://definitions.uslegal.com/l/luxury-taxes/>〉

2. “The Specifically Selected Goods and Services Tax Act” contents- real estate

On June 1, 2011, “The Specifically Selected Goods and Services Tax Act” went into effect, marking a giant step forward in the government’s efforts to stabilize the country’s housing market and tackle tax inequality. “The special sales tax aims to remedy the existing unfair low-tax and even tax-free treatments of short-term real estate transactions,” Minister of Finance Lee Sush-der said. The minister added that the “luxury tax” is also designed to placate public discontent with conspicuous consumption and rising prices.¹⁴⁾ The tax is the most drastic measure the government has taken to tackle property prices that have sky-rocketed to a level that is unaffordable for average wage earners.

To sum up, a tax rate of 10-15 percent will be imposed on the sales price of short-term luxury real estate investments that are not for personal use and are re-sold within 24 months.

This Act covers goods including buildings and land, passenger cars, yachts, airplanes, helicopters, ultra-light vehicles, and furniture. Followings are the contents regarding real estate, i.e. buildings and land:

- Article1: Items that shall be imposed tax in accordance with this Act—specifically selected goods and services. “A specifically selected goods and services tax shall be imposed, in accordance with the provisions of this Act, on the sale, manufacture, and import of specifically selected goods or the sale of specifically selected services within the territory of the Republic of China.”

14) Chang, Meg, “Taiwan’s luxury tax takes effect June 1”, Taiwan Today, June 1, 2011. <<http://taiwantoday.tw/ct.asp?xItem=166318&CtNode=436>>

- Article 2, paragraph 1, subparagraph 1: Scope of specifically selected goods that should be imposed tax—units of buildings and land that has been held for a period of no more than 2 years. “The specifically selected goods regulated by this Act are the following: 1. Buildings and land: Any unit of a building and the share of land associated with the unit, or any urban land for which a construction permit may lawfully be issued, that has been held for a period of no more than 2 years.”
- Article 3, paragraph 1, subparagraph 1: Definition of sales of units of buildings and land within the territory of R.O.C. “As used in this Act, the “sale of units of buildings, land, [and ...]within the territory of the Republic of China” respectively means the following: 1. Units of buildings and land: The sale of any unit of a building or land located within the territory of the Republic of China.”
- Article 4, paragraph 1: Definition of the taxpayer in sale of the units of buildings and land. “The taxpayer in a sale of the specifically selected goods of Article 2, paragraph 1, subparagraph 1 is the original owner, and the specifically selected goods and services tax is collected at the time of sale.”
- Article 5: Special waiver under the listed special circumstances—only one house in one household; owned 2 units while swapping houses; job transfer and relocation; first time transfer of building after completion of construction by the business entity; other involuntary causes, etc. Among the listed circumstances, subparagraph 1,2,4,5,7,10,11 relates to buildings and lands. “Under any of the following circumstances, a good is not regulated by this Act:1. The owner and owner’s spouse and lineal relatives of minor age, have only one unit

of a building and the land associated with the unit, have completed household registration, and during the holding period neither provide it for business use nor lease it out. 2. The owner or the owner's spouse under the preceding subparagraph purchases a unit of a building and the land associated with the unit, such that they now hold a total of two such units of buildings and land, and, within 1 year after the date on which transfer registration for the newly acquired building unit and land is completed, they sell the originally acquired building unit and land, or sell the newly acquired building unit and land because of a job transfer, involuntary separation from employment, or any other involuntary cause, and they remain, after the sale, in conformance with the requirements of the preceding subparagraph. 3. The commodity is sold to or by a government at any level. 4. Non-imposition of the land value increment tax has been approved. 5. Land designated as reserved for public facilities under the Urban Planning Act is transferred prior to expropriation. 6. A commodity obtained through inheritance or legacy is sold. 7. A unit of a building is transferred for the first time after completion of construction by the business entity. 8. The commodity is sold in a forced sale pursuant to the Compulsory Execution Act, Administrative Execution Act, or other law. 9. The commodity is the subject of a disposition pursuant to Article 76 of the Banking Act or other law, or pursuant to an order of the competent authority for the relevant industry. 10. An owner, using his or her own residence and land, demolishes and rebuilds or enters into a joint construction and allocation project with a business entity and sells his or her share. 11. A unit of a renewed building and the share of land associated with the unit, which were obtained through distribution

in an urban renewal project implemented through rights transformation pursuant to the Urban Renewal Act, are sold.”

- Article 7: The tax rate—15% for buildings and lands held for no more than 1 year; 10% for holding period is no more than 2 years. “The tax rate for the specifically selected goods and services tax is 10 percent, provided that the tax rate for the specifically selected goods of Article 2, paragraph 1, subparagraph 1 is 15 percent if the holding period is no more than 1 year.”

- Article 8: Definition of ‘selling price’—all consideration collected at the time of sale, including all fees and taxes, but excluding the specifically selected goods and services tax for this time. ““Selling price,” with regard to a taxpayer’s sale or manufacture of a specifically selected good or specifically selected service, means all considerations collected at the time of sale, including all fees collected in addition to the price, with the exception of the specifically selected goods and services tax provided for herein.

If the specifically selected good or specifically selected service of the preceding paragraph is subject to the commodity tax or business tax, the selling price shall include the commodity tax and business tax.”

- Article 16, paragraph 1: Taxpayers’ obligation— Declare selling price, calculate the tax payable on the sale within 30 days from the day following the sales contract date, fill out payment form, and pay tax. “A taxpayer that sells a specifically selected good of Article 2, paragraph 1, subparagraph 1 shall calculate the tax payable on the sale within 30 days from the day following the day on which the sale contract was entered into, and shall on its own initiative fill out a payment form and pay the tax to the government treasury. The

taxpayer shall declare with the competent tax authority the selling price and the tax amount by filling out a declaration form and attaching the payment receipt, contract, and other relevant documents.”

- Article 17, paragraph 1: Define the location of competent tax authority—taxpayer shall declare the selling price and tax amount payable to the competent tax authority at the location of the taxpayer’s headquarter, house registration place, or where the goods located at. “A taxpayer that sells a specifically selected good of Article 2, paragraph 1, subparagraph 1 shall declare the selling price and tax amount payable to the competent tax authority at the location of the taxpayer’s headquarters or other fixed place of business or place of household registration. If the taxpayer has no headquarters or other fixed place of business or place of household registration within the territory of the Republic of China, the taxpayer shall declare the selling price and the tax amount to the competent tax authority of the place where the specifically selected goods are located.”
- Article 19: Tax payment notice service and payment due date—Competent tax authority shall issue payment notice to taxpayer and taxpayer shall pay the tax within 15 days after payment notice is served. “The competent tax authority shall issue a payment notice for the payment of any tax amounts assessed by it in accordance with this Act, and the taxpayer shall pay the tax to the government treasury within 15 days from the day following the day the payment notice is served.”
- Article 21: Penalty of failing to pay the tax—surcharge and interest charge. “When a taxpayer fails to pay the tax within the prescribed time limit, a 1 per cent surcharge shall be imposed on late payment

for every 2 days in arrears, starting from the day following the expiration of the time limit. If payment is not made more than 30 days after the time limit, the competent tax authority may refer the case for compulsory execution procedures. The amount of tax payable under the preceding paragraph shall be subject to interest charges for the period from the date of expiration of the time limit for late payment to the date the taxpayer makes payment or the tax is collected through compulsory execution. The interest shall be calculated per diem at the one-year time deposit rate for postal fixed savings set on January 1st of that year.”

- Article 22: Penalty of failing to report the tax—In addition to collection to the tax owed, an administrative fine up to three times the amount of the tax evasion will be imposed if taxpayer fails to report, under-reports, or does not report in accordance with regulations the sale of the specifically selected goods. “If a taxpayer fails to report, under-reports, or does not report in accordance with regulations the sale of the specifically selected goods or specifically selected services of Article 2, paragraph 1, subparagraph 1, the taxpayer will be subject to an administrative fine of not more than three times the amount of the tax evasion in addition to collection of the tax owed. If a taxpayer sells the specifically selected goods of Article 2, paragraph 1, subparagraph 1 through a nominee, the taxpayer will be subject to an administrative fine of three times the amount of the tax evasion in addition to collection of the tax owed.”

3. “Actual Price Registration System(實價登錄)” for real estate transactions

The Ministry of the Interior also announced the launch of an actual price registration system for real estate transactions¹⁵⁾ on August 1, 2012. Registration of real estate transactions must be completed within 30 days of the transaction. Until then, accurate information on sale prices in the real estate market was hard to obtain, enabling land developers and real estate brokers to manipulate real estate prices. This system allows online inquiry of real estate transaction value, date, and situation regarding the unit involve. This will make real estate transactions information more transparent, reduce transaction disputes, and prevent price-gouging.

The Taiwan government hoped the new implementation of luxury tax and the launch of actual transaction price registry system would effectively curb speculation in the real estate market, and control both property trading volume and price.

III. How did the real estate market change in Taiwan after the implementation of luxury tax?

1. Reports from official statistics and government news released:

According to Ministry of Finance statistics,¹⁶⁾

15) Ministry of the Interior, R.O.C., “Actual price registration system for real estate transaction” (“內政部不動產交易實價查詢服務網”) Web site in Chinese, 2014, <<http://lvr.land.moi.gov.tw/N11/homePage.action#dialog>>

i) The real estate transaction volume of 2012 had reduced 18.92% compared with 2011(before implementation of luxury tax). Among the five major metropolitan areas, Taipei City and New Taipei City had the biggest reduction rate (reduced 39.11% and 36.08% respectively).

ii) Transaction prices stopped soaring, and housing prices had been stabilized. The unit price (per ping¹⁷⁾) of October 2012 had even dropped 6.26% compared with January 2011(before implementation).

iii) Speaking of motivations of purchasing houses, investment oriented transaction had gradually dropped: there were only 12.1% investment oriented transactions while 87.9% transactions were for personal residence use (including first-time purchasing or swapping houses) in the 3rd quarter of 2012, compared with the 18.5% and 81.5% respectively in the 3rd quarter of 2010. It was proven that luxury tax did not affect transactions motivated by personal residence use.

“The luxury tax has been proven effective because there have been fewer real estate transactions and stable housing price. Housing prices will not soar, and the future tax amendment will not hurt those who purchase real estate for personal residence use”, Finance Minister Chang Sheng-ford (張盛和) said in May 2013.¹⁸⁾

16) Taxation Administration, Ministry of Finance, “Ministry of Finance explained the effects of implementation of Special Selected Goods Tax Act, with no assumption of future amendment strategy.” See original news released by Ministry of Finance in Chinese, “財政部說明特銷稅成效 未來檢討方向無預設立場”, February 27, 2013, <<http://www.etax.nat.gov.tw/etwmain/front/ETW118W/CON/384/5825863377972905651?tagCode=>>>

17) 1 Ping (坪) = 3.3 square metres = 36 square feet

18) Liu, John, “Luxury tax to be amended in June: minister”, The China Post, May 24, 2013. <<http://www.chinapost.com.tw/taiwan/business/2013/05/24/379352/Luxury-tax.htm>>

2. Reports from polls and statistics by real estate companies:

Meanwhile, real estate companies have different reports as follows:

According to the polls conducted by a trade publication called *My Housing Magazine*, pre-construction home prices in Greater Taipei had continued to increase, with unit prices averaging 800,000 NTD (27,000 USD) a ping¹⁹⁾ in Taipei and 340,000 NTD(11,500 USD) in New Taipei City in the 1st quarter of 2012, both broke previous records. As for used homes, prices grew 7% to 8% in both Taipei and New Taipei City over 2011, while prices increased by 10% in Taoyuan and 4 to 5% in the southern Tainan and Kaohsiung.²⁰⁾

The statistics by *Evertrust Rehouse Co.* (永慶房屋), one of Taiwan's leading property sales agencies, said transactions of shops, offices and homes in the two major cities in northern Taiwan, Taipei and New Taipei city, grew 15.8% month-on-month in July 2013, two years after the luxury tax was implemented. *Evertrust* researcher Andy Huang (黃舒衛) said that many sellers put their properties bought before the tax implementation up for sale because they were no longer subject to the tax levy. On the back of an increased supply in the market, the total number of property sales in Taipei was 4,043 units [in July 2013], rose 20% from June, while transactions in New Taipei rose 13.7% from a month earlier to 8,066 units.

Statistics compiled by *Sinyi Realty Inc* (信義房屋), another property agency, as reporting that sales of residential and commercial properties for [July 2013] in Greater Taichung and Greater Tainan rose 17% and 12%

19) 1 Ping (坪) = 3.3 square metres = 36 square feet

20) The China Post, "Data show Taiwan's luxury tax more a failure than success", May 14, 2012. <<http://www.asianewsnet.net/news-30595.html>>

respectively, from the previous month to hit 5,198 units and 2,163 units.²¹⁾

iv) According to *Sinyi Real Estate Planning and Research*, Taiwan's Lutheran home price index rose by 12.6% (11.28% inflation-adjusted) during the year to end-Q1 2014. House prices have risen continuously in Taiwan since 2009.²²⁾

3. Other reference: The House Price to Income Ratio (PIR) reports

Statistics released by the *Construction and Planning Agency (CPAMI)* on April 16, 2014 showed Taipei City's home price to income ratio (PIR) stood atop the globe at 15.01 in 4th quarter of 2013, branding itself as the most unaffordable city to buy property.²³⁾

According to the *10th Annual Demographia International Housing Affordability Survey* published in January 20, 2014,²⁴⁾ Hong Kong (PIR: 14.9) branded the most unaffordable, followed by Vancouver (PIR: 10.3) and San Francisco (PIR: 9.2).²⁵⁾ Other asian countries: Japan (PIR: 4), Singapore

21) Taipei Times "Taipei property sales up over 15% two years after luxury tax first introduced", Aug 3, 2013,

〈<http://www.taipeitimes.com/News/biz/archives/2013/08/03/2003568790>〉

22) Global property guide, "Taiwan's efforts to smash the house price bubble intensify, causing sales to plummet", June 11, 2014,

〈<http://www.globalpropertyguide.com/Asia/Taiwan/Price-History>〉

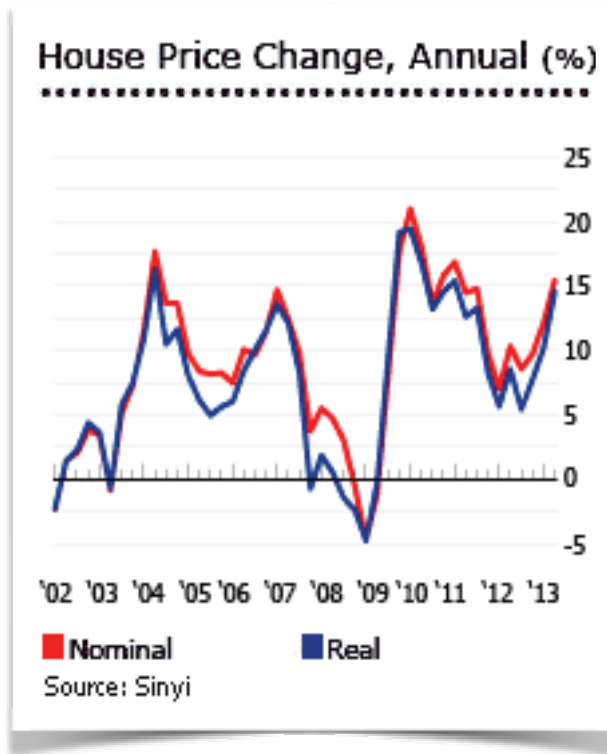
23) Construction and Planning Agency, Ministry of the Interior, R.O.C., "CPAMI released home price to income ratio statistics report of 2013 4th quarter" Original news release in Chinese, "內政部營建署發布102年度第4季房價負擔能力指標統計成果", April 16, 2014,

〈http://www.cpami.gov.tw/chinese/index.php?option=com_content&view=article&id=17478&catid=83&Itemid=54〉

24) Cox, Wendell (Demographia) and Pavletich, Hugh (Performance Urban Planning), *10th Annual Demographia International Housing Affordability Survey* (2013 3rd Quarter), 2013, 〈<http://www.demographia.com/dhi.pdf>〉

(PIR: 5.1).

The survey said that Hong Kong's average home price rose to 14.9 times gross annual median household income from 13.5 times in 2013, the highest ever level recorded by the survey in its 10-year history.



With the PIR at 15.01 and 12.67, Taipei City and New Taipei City have edged out Hong Kong and Vancouver for the top and second spots among the world's most unaffordable cities to buy property.

25) <<http://www.demographia.com/dhi.pdf>> Page 32, 10th Annual Demographia International Housing Affordability Survey, 2013 3rd Quarter

IV. Case Study— Shuhui Linliu v. National Taxation
Bureau of Taipei, Ministry of Finance, R.O.C.
(102 Suit No. 1903, Taipei High Administrative Court)²⁶⁾

1. Decision: The plaintiff's suit is denied; litigation fee paid by the plaintiff.

2. Facts/Issues

Facts: Plaintiff Shuhui Linliu (hereinafter “Ms. Linliu”) received a two-story house and land (hereinafter “subject property”) located at Taipei City [address concealed due to confidentiality] as spousal gift and recorded the deed transfer on May 24th, 2012. Ms. Linliu sold the subject property for 70 million NTD (2.3 million USD) on June 26th, 2012. Ms. Linliu was levied a special selected goods and services tax (hereinafter “luxury tax”) which is 15% of the full sales price, amount to 10.5 million NTD (equals to 350,000 USD), and an administrative fine in an amount of her tax liability due to her tax evasion. Ms. Linliu contested the ruling and appealed, but the decision was upheld; as a result, Ms. Linliu brought the administrative lawsuit to this court.

Issues: 1) Whether second home owner resold within 1 year should subject to a luxury tax? 2) Who is the property owner? 3) Whether an administrative fine should be imposed to one who fail to report and pay off the luxury tax?

26) Search original full court verdict in Chinese at:

〈<http://jirs.judicial.gov.tw/Index.htm>〉 The Judicial Yuan of Republic of China, Law and Regulations Retrieving System; search 判決書查詢

3. Arguments and counterarguments

— *Ms. Linliu's Argument:*

i) Ms. Linliu's husband Zhiyi Lin (hereinafter "Mr. Lin") obtained and recorded the subject property on January 21st, 1997, and entrusted a third party Guanchuen Lin to represent him to sign the sales contract with buyer Zhongping Liu (hereinafter "Mr. Liu") on May 21st, 2012. The sales contract was negotiated and made by Mr. Lin; therefore, the actual seller was Mr. Lin. Even though the bestowal deed transfer of the subject property was recorded, and Ms. Linliu obtained the ownership on May 24th, 2012, she had never been a party of this sales contract. The defendant (hereinafter "Taipei Taxation Bureau") defined Ms. Linliu as the taxpayer simply because the "*Gong chi*"²⁷⁾ listed her as the seller and the subject property was sold within 2 years. Ms. Linliu claimed that "*Gong chi*" was just a document for land office administrative work need, which did not reflect the actual legal relationship was between [seller] Mr. Lin and buyer Mr. Liu; therefore, Ms. Linliu was not the actual seller and should not be the taxpayer of this luxury tax.

ii) Ms. Linliu was not involved in making the sales contract, neither was she the actual beneficiary of this transaction. The consideration of this transaction, after deducting the mortgage of the subject property and other necessary fees, was used to pay off the debt of Mr. Lin, the actual seller,

27) Direct translated from Chinese term: 公契,

〈http://www.lawtw.com/article.php?template=article_content&area=free_browse&parent_path=,1,2169,510,2241,&job_id=173977&article_category_id=2247&article_id=98403〉, the custom sales contract made only for deed registration to the authorities (government office), the actual transaction are based on the private sales contract signed by both parties.

therefore, no economical benefits were left to Ms. Linliu. According to J.Y. Interpretation No. 420,²⁸⁾ Tax Collection Act²⁹⁾ Article 12-1,³⁰⁾ Paragraph 1, 2,³¹⁾ and 4,³²⁾ Ms. Linliu should not be the taxpayer of this case.

iii) According to The Enforcement Rules of the Specifically Selected Goods and Services Tax Act,³³⁾ the legislative purpose is to contain the short term speculative activities and correct the over priced real estate market. The factual finding shows that Ms. Linliu and Mr. Lin have resided in the subject property since Mr. Lin purchased and recorded it on January 21st, 1997. Taipei Taxation Bureau imposed a large luxury tax on Ms. Linliu solely based on the bestowal fact conflicted with not only the legislative

28) "In relation to laws involving taxation, they should be construed in accordance with the principle of taxation by law and the respective purposes of the laws, balancing therewith the economic purposes and the principle of substantive fairness of taxation," quote from J.Y. Interpretation No. 420, see full content at <http://www.judicial.gov.tw/constitutionalcourt/EN/p03_01.asp?expno=420>

29) See full content of Tax Collection Act, Law and Regulations Database of The Republic of China
<<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=G0340001>>

30) "In relation to laws involving taxation, such laws should be construed in accordance with the principle of taxation by law and the respective purposes of the relevant laws, balancing therewith the economic purposes and the principle of equality in substantive taxation," Tax Collection Act Article 12-1, paragraph 1

31) "The tax collection authority acknowledges that the constituent elements and facts of the tax assessment shall be based on the existence of actual economic relationships and their related interests," Tax Collection Tax Article 12-1, paragraph 2

32) "The obligation of taxpayers to assist the reporting of the required information according to this Act and any relevant tax acts is not exempted from the provision in the preceding paragraph," Tax Collection Tax Article 12-1, paragraph 4

33) See full content of The Enforcement Rules of the Special Selected Goods and Service Tax Act at
<<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=G0340129>>

purpose of the above mentioned law and regulations, but also the Fairness Doctrine. Ms. Linliu requests that the appellant decision and administrative fine be vacated.

— *Taipei Taxation Bureau's Arguments:*

i) Taxation: Mr. Lin had transferred the subject property to Ms. Linliu on May 24th, 2012. Soon Ms. Linliu sold it to Mr. Liu for 70 million NTD on June 4th of the same year. Ms. Linliu only held this subject property from the date she recorded this gift transfer (May 24th, 2012) till the sales contract date (June 4th, 2012), which was less than 2 years. Furthermore, when Ms. Linliu sold the subject property, she owned another house located at Taipei City, this house could be verified from property list and index. The waiver in Article 5 paragraph 1 of The Specifically Selected Goods and Services Tax Act³⁴⁾ does not apply here. Therefore the subject property Ms. Linliu sold falls under the scope of special selected goods which was held for less than one year, according to The Specifically Selected Goods and Services Tax Act (hereinafter "Luxury Tax Act") Article 2 Paragraph 1 Subparagraph 1, Article 3 Paragraph 1 Subparagraph 1, Paragraph 3, Article 5 Paragraph 1, 2, and Article 7, the luxury taxation amount should be counted as 15% of the actual sales price (70 million NTD) which amounts to 10.5 million NTD.

ii) Administrative fine: According to Caibei National Taxation Zhongbei Commercial One Zi No. 1018045479 letter dated December 6th, 2012, Zhongbei office, where Ms. Linliu resides, notified Ms. Linliu to recalculate and pay off the tax she evaded by December 17th, 2012. Meanwhile, Ms.

34) See full content of Special Selected Goods and Service Tax Act at
<<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=G0340128>>

Linliu did not recalculate and pay off the tax by the due date, which proves that she either intentionally or negligently evaded the tax, and she is therefore liable for breaching the duty under Administrative Penalty Act Article 7 paragraph 1.³⁵⁾ According to the Taxation Violation Case Penalty Fee or Multiple Penalty Index³⁶⁾ and under The Luxury Tax Act Article 22, an administrative fine equals to the evaded tax amount, 10.5 million NTD, was issued. Taipei Taxation Bureau requests to deny Ms. Linliu's lawsuit.

4. Rules and court analysis

i) Rules— The Luxury Tax Act clauses that apply to this case include: Article 1; Article 2, Paragraph 1, Subparagraph 1; Article 3, Paragraph 1, Subparagraph 1; Article 5, Paragraph 1 and 2; Article 7; Article 8, Paragraph 1; Article 11; Article 16, Paragraph 1; Article 22, Paragraph 1.

ii) Ms. Linliu received the subject property as a gift from her husband Mr. Lin, and recorded the deed transfer to obtain the ownership on May 24th, 2012, and soon she sold it to Mr. Liu for 70 million NTD. The sales contract was signed on June 4th, 2012, and the deed of the subject property was transferred to and recorded under Mr. Liu's name on June 26th, 2012. Ms. Linliu did not calculate the tax payable on the sale within 30 days from the day following the day on which the sale contract was entered into;

35) "An act in breach of duty under administrative law is not punishable unless committed intentionally or negligently.", see full content of Administrative Penalty Act at

〈<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=A0030210>〉

36) See full content in Chinese: 稅務違章案件裁罰金額或倍數參考表—特種貨物及勞務稅, 〈<http://www.dot.gov.tw/dot/home.jsp?mserno=200912140006&serno=200912140020&menudata=DotMenu&contlink=ap/law/lawrulesshow.jsp?mclass=200912100017&mname=200912130257&level2=Y&qclass>〉

neither did she fill out a payment form and pay the tax to the government treasury. The fact could be proved by the following attached documents: Land and Constructive Improvement Ownership Bestowal and Transfer Contract, Real Estate Sales Contract, Land Ownership Sales and Transfer Contract, Constructive Improvement Ownership Sales and Transfer Contract, [Real Estate] Change Index Search Database, Land and Property Search Database, Entire Household Document Search List, Certificate of Gift Tax not Calculated into total Gift Amount. (See pages 80-108 in original [administrative] decision, and pages 12-20 in this court documents.)

The period Ms. Linliu owned the subject property should be counted from the date she completed the deed transfer and recordation on May 24th, 2012 till the date of sales contract signed on June 4th, 2012, the ownership period is therefore less than two years. Referring to the above-mentioned rules, the subject property falls under specifically selected goods classified in The Luxury Tax Act.

Furthermore, the legislative purpose of Article 5 of The Luxury Tax Act is to stabilize real estate market. Therefore, after examining Land Tax Act Article 28 and Article 34,³⁷⁾ Article 5 of The Luxury Tax Act waived some reasonable, normal and involuntary real estate transfer conditions. Paragraph 1 of Article 5 adopts the “one house in one life” rule in Land Tax Act Article 34. Paragraph 2 is designed for those who need to change houses.

In this case, Ms. Linliu owned another house located in Taipei City while she sold the subject property and signed the real estate sales contract on June 4th, 2012, referring to Property List and Change Index Search Database

37) See full content of Land Tax Act at
<<http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=G0340096>, Law and Regulations Databases of The Republic of China>

in the attachments provided in Taipei Taxation Bureau's thread (See pages 82-83 in original decision). This does not meet the elements of Article 5, paragraph 1 of The Luxury Tax Act, and therefore cannot apply the waiver rule in paragraph 2. Since the subject property Ms. Linliu owned is the specifically selected goods which was held for a period of less than 2 years, a luxury tax of 15% of the sales price 70 million NTD should be levied pursuant to the rules we stated in the beginning.

Furthermore, Taipei Taxation Bureau issued Caibei National Taxation Zhongbei Commercial One Zi No. 1018045479 letter on December 6th, 2012 to request Ms. Linliu to recalculate and pay off the evaded tax by December 17th, 2012, but Ms. Linliu did not recalculate and pay off the evaded tax by the due date. The original decision, after evaluating the violation condition, issued an administrative fine equals to the evaded tax amounts 10.5 million NTD. According to the rules we stated in the beginning, the decision was correct.

iii) The issue here is whether Ms. Linliu is the actual owner and held the subject property for less than two years. Ms. Linliu claims that the subject property sales contract was actually made between Mr. Lin and Mr. Liu, and she herself was not the actual party of the sales contract, and therefore she should not be the taxpayer of the luxury tax. Republic of China adopts recordation doctrine in real estate law according to Civil Code³⁸⁾ Article 758, Paragraph 1, which provides: "The acquirement, creation, loss and alternation of rights in rem of real property through the juridical act will not effect until the recordation has been made." and Article 759 also provides:

38) See Civil Code, Article 758~759 at

〈<http://law.moj.gov.tw/Eng/LawClass/LawSearchNo.aspx?PC=B0000001&DF=&SNo=758-759>〉

“A person, who has acquired rights in rem of real property by succession, compulsory execution, taking, a judgment of the court or other non juridical act before recordation, shall only dispose of such rights until recordation has been made.” Real property ownership can be changed through juridical act along with recordation, and recordation is required to resume a new right on real property.

In this case, even though the subject property was originally owned by Mr. Lin, Ms. Linliu had obtained the ownership of the subject property thereafter because he bestowed it to Ms. Linliu on May 24th, 2012 and completed deed transfer recordation. Not only was the authenticity of ownership assumed by the recordation, but Ms. Linliu also did not disagree that she was the actual owner. The subject property was sold to the third party Mr. Liu, on June 4th, 2012, and the parties who signed the sales contract was Ms. Linliu and Mr. Liu, and they completed the transfer recordation on June 26th, 2012. Therefore, Ms. Linliu was the de facto owner and held the subject property for a period of less than two years which falls under the taxpayer scope of the luxury tax.

On the other hand, Ms. Linliu claimed that the sales contract signed by her and Mr. Liu was “*Gong chi*”, which was just a document for land office administrative work need, and did not reflect the actual parties. Meanwhile, in reality “*Gong chi*” is the real property transfer contract signed when the parties record the real property transfer, which is a “legal and effective” property contract, but not just a document for administrative work need. Therefore, this sales contract should exist between Ms. Linliu and Mr. Liu without a doubt. As for whether the sales contract of subject property was signed without the parties approval or legal delegation, Ms. Linliu did not argue. It is not reasonable to waive Ms. Linliu’s obligation to pay the luxury

tax simply because this sales contract was handled by her husband Mr. Lin without any evidence. Therefore, Ms. Linliu did not establish substantial evidence, and this court rejects Ms. Linliu's arguments. This case was denied.

5. Conclusion

It is clear that Mr. Lin bestowed the subject property to Ms. Linliu so that bank could not seize his property to repay his debt. It is believed that Mr. Lin also separated his property from Ms. Linliu's property so that they could minimize their total property loss. Meanwhile, the holding period will resume to count from the recordation date even though it was a spousal bestowal. Many people thought they could trick to evade tax, however, luxury tax has been effectively implemented through multiple government offices that supervised real estate transactions in private market. The administrative fine will be imposed if any tax evasion happened and there is no room for negotiation.

V. Summary and comparisons

After reviewing both the government official report made with national statistics data, and private realty agency market report collected separately by each company's transaction data, it is proven that the luxury tax does have its limited effect but apparently not a big impact to the market yet. The luxury tax has been implemented for more than 2 years since June 2011, with only limited effects, it will need more thorough amendments.

1. Analysis of current luxury tax:

i) Pros: effectively reduce the transaction volume and stabilize real estate prices

When the tax was introduced, the Ministry of Finance used the abnormal transaction volume of a speculative housing bubble as its basis for calculating expected revenue. That resultant revenue fell “short of predictions” is precisely proof that the tax was effective in controlling volume. Volume has fallen by more than 90%, purchases for investment purposes are below 15% of total transactions, and more people are buying property to live in it. This shows that spurious demand has been controlled while genuine residential buyers have not been affected, averting a worsening housing bubble.

After the implementation of the luxury tax, prices of some “fake” upscale apartments (properties that are not situated in prime location or lack desirable views) in the Greater Taipei area have fallen 30% to 40%. With transaction prices going down, local housing prices have become more stabilized, and transaction volumes have dropped. March 10, 2014, MOF report.

ii) Pros: expected big tax income to mitigate wealth gaps

As of the end of May of 2014 Ministry of Finance collected luxury tax totaling 9.03323 billion NTD (301.11 million USD) in 16,575 real estate transactions, with per-unit average revenue of 545,000 NTD (18,167 USD).³⁹⁾ Those tax income had been mostly used in social welfare to mitigate the wealth gaps in Taiwan.

39) Li, Judy, “Taiwan’s luxury tax on real estate totals US\$9B in three years”, cens.com, September 24, 2014,
(http://www.cens.com/cens/html/en/news/news_inner_47124.html)

iii) Cons: there are many ways to evade the tax

Because the luxury tax code stipulates that the tax will be levied on those who already own two properties and sell the third one within two years, some sellers have faked divorces so that the husband and wife may each keep one property and sell the third one tax-free. Some, meanwhile, have sold their properties owned less than two years to buyers and have them sign the contract and close the deal after the statutory period expires. This method has gained popularity among speculators, and the government needs to fix this loophole.

2. The amendment of luxury tax passed in 2014

With upward pressure remaining on real estate prices and economic uncertainties lingering at home and abroad, the Ministry of Finance consulted researchers and experts in various sectors and the proposals⁴⁰⁾ were passed by the Legislature's Finance Committee on March 10, 2014.

Article 2 amendment levy a luxury tax on real estate located in areas zoned for industrial use, hoping to help stabilize the price of industrial use land and real property.

Article 5 amendment allows the Ministry of Finance to evaluate real estate transactions individually in order to prevent the tax from being levied on those who purchase properties for personal use but not for short-term speculative investment.

40) Office of Information Service, Executive Yuan, R.O.C., "Cabinet moves to reinforce luxury tax", December 19, 2013,
 <http://www.ey.gov.tw/en/News_Content2.aspx?n=1C6028CA080A27B3&s=3F0F2C7C61E7A7C9>

3. Comparisons with other Asian countries:

Hong Kong and Singapore

Taiwan is not the only country in the region that levies a luxury tax. Hong Kong and Singapore had launched similar measures—Stamp Duty to control the property bubbles.

Hong Kong—

i) Special Stamp Duty (SSD): With effect from 20 November 2010, any residential property acquired on or after 20 November 2010, either by an individual or a company (regardless of where it is incorporated), and resold within 24 months (the property was acquired on or after 20 November 2010 and before 27 October 2012) or 36 months (the property was acquired on or after 27 October 2012), will be subject to a Special Stamp Duty (SSD). SSD is calculated by reference to the stated consideration or the market value of the property (whichever is the higher, at the following rates for different holding periods of the property by the seller or transferor before disposal.)

i) Buyer's Stamp Duty (BSD) : The Stamp Duty (Amendment) Ordinance 2014⁴¹⁾ was gazetted on 28 February 2014. Among others, the Amendment Ordinance imposes Buyer's Stamp Duty (BSD)⁴²⁾ on residential property transactions with effect from 27 October 2012. Unless the transaction is exempted from BSD, any agreement for sale or conveyance on sale for acquisition of any residential property executed on or after 27 October 2012

41) See full content of “Stamp Duty (Amendment) Ordinance 2014” at
<<http://www.gld.gov.hk/egazette/pdf/20141809/es1201418092.pdf>>

42) Section 29CB

will be subject to BSD. BSD is charged on residential property transactions, on top of the existing ad valorem stamp duty and the special stamp duty, if applicable. BSD is charged at 15% on the stated consideration or the market value of the property (whichever is higher)⁴³⁾

Hong Kong SSD and BSD rate:

Holding period	SSD rate The property was acquired on or after 20 November 2010 and before 27 October 2012	SSD rate The property was acquired on or after 27 October 2012	BSD rate The property was acquired on or after 27 October 2012
6 months or less	15%	20%	15%
More than 6 months but for 12 months or less	10%	15%	15%
More than 12 months but for 24 months or less	5%	10%	15%
More than 24 months but for 36 months or less	—	10%	15%

Singapore—

i) Seller's Stamp Duty (Residential)⁴⁴⁾: Property that is resold within four years is considered a speculative investment and subject to stamp duty of up to 16%. (Properties acquired before 20 Feb 2010 will not be subject to SSD.)

a) In February 2010, the Government imposed a seller's stamp duty (SSD) on sellers who buy (or acquire) residential properties on or after 20 February

43) Full Hong Kong Stamp Duty calculation:

〈http://www.gov.hk/en/residents/taxes/stamp/stamp_duty_rates.htm, Hong Kong government〉

44) See detail of Seller Stamp Duty (Residential) at

〈<http://www.iras.gov.sg/irasHome/page04.aspx?id=10212>, Inland Revenue Authority of Singapore, Singapore government〉

2010 and sell (or disposed of) them within one year of acquisition. The amount of SSD is computed based on the same rates as the buyer's stamp duty.⁴⁵⁾

b) On 30 Aug 2010, the Government further announced that SSD will be payable on residential properties which are acquired (or purchased) on or after 30 Aug 2010 and disposed of (or sold) within 3 years of acquisition. The amount of SSD for the holding period of 1 year is computed based on the same rates as the buyer's stamp duty, but will be reduced to 2/3 and 1/3 of the amount of buyer's stamp duty for holding period of 2 years and 3 years respectively.

c) On 13 January 2011, the Government announced the extension of the holding period for imposition of SSD on residential properties from 3 years to 4 years based on new rates. The new SSD rates will be imposed on residential properties which are acquired (or purchased) on or after 14 January 2011 and disposed of (or sold) within 4 years of acquisition, as follows :

Singapore Seller's Stamp Duty (SSD):

Holding Period	Residential property acquired on or after 20 February 2010	Residential property acquired on or after 30 August 2010	Residential property acquired on or after 14 January 2011
within 1 year	same as BSD	same as BSD	16%
more than 1 year and up to 2 years	—	2/3 of BSD	12%
more than 2 years and up to 3 years	—	1/3 of BSD	8%
more than 3 years and up to 4 years	—	—	4%

45) See "what are the Stamp Duty rates" at
<http://www.iras.gov.sg/irasHome/page.aspx?id=8996>

ii) Buyer's Stamp Duty (BSD)⁴⁶⁾: Stamp duty will be computed on the purchase price or market value of the property (whichever is the higher amount).⁴⁷⁾

BSD Rate: 1% on the first \$180,000, 2% on the next \$180,000, 3% on the remainder.

iii) Additional Buyer's Stamp Duty(ABSD) on Purchase of Residential Properties⁴⁸⁾: Singaporeans buying a second home must pay an additional 7% to 10% tax, and foreigners buying any property must pay an additional 15%.⁴⁹⁾ Since Singapore divides the taxpayers by their legal status, and there was an amendment made in January 2013, here is the table for easier understanding:

Singapore Additional Buyer's Stamp Duty (ABSD) and Buyer's Stamp Duty (BSD)

46) See details of "Buyer Stamp Duty" at
 <<http://www.iras.gov.sg/irasHome/page04.aspx?id=1904>>

47) See "Stamp duty rates and computation" at
 <<http://www.iras.gov.sg/irasHome/page04.aspx?id=8748>>

48) See details of "Additional Buyer's Stamp Duty" at
 <<http://www.iras.gov.sg/irasHome/page04.aspx?id=12832>>

49) Full Singapore Stamp Duty calculation:
 <<http://www.iras.gov.sg/irashome/page01.aspx?id=724>>

Status of buyer (residential property)	ABSD rate Between 8 Dec 2011 and 11 Jan 2013 (both date inclusive)	ABSD rate From 12 Jan 2013(new)	BSD rate before 22 Feb 2014	BSD rate on and after 22 Feb 2014
Foreigners (FR) and entities buying any property	10%	15%	1) \$1 on Every \$100 or part thereof of the first \$180,000; 2) \$2 on Every \$100 or part thereof of the next \$180,000; 3) \$3 on thereafter, every \$100 or part thereof	1) 1% on the first \$180,000; 2) 2% on the next \$180,000; 3) 3% on the remainder
Singapore Permanent Resident (SPR) buying 1st property	—	5%	same as above	same as above
SPR buying 2nd and subsequent property	3%	10%	same as above	same as above
Singapore Citizen(SC) buying 1st property	—	—	same as above	same as above
SC buying 2nd property	—	7%	same as above	same as above
SC buying 3rd and subsequent property	3%	10%	same as above	same as above

Comparison and other proposals—

Hong Kong government launched Special Stamp Duty in 2010, which was one year before Taiwan, and they raised the SSD rate, extended the holding period and added Buyer's Stamp Duty on property acquired after October 27, 2012 in the Stamp Duty Ordinance 2014. The current regulation

impose Stamp Duty to both buyers and sellers. A big impact to the real estate market was expected after the Stamp Duty regulation was amended. Meanwhile, the housing market is still so unaffordable in Hong Kong because there are many mainland Chinese purchasing real estate properties. The next amendment should raise a higher tax rate on buyers and sellers who do not physically reside in Hong Kong.

Singapore amended SSD and BSD regulations three times within one year, which shows how they efficiently adjusted the policy after observing the effects and market stability. Extending the holding period to four years and imposing luxury tax on both buyers and sellers, the change is big enough to cause impact to the real estate market. Even though they classified the buyers by legal status which might discriminate certain groups of people, this design could prevent foreign speculative investors from interrupting the stability of national real estate market. After briefly examining the relevant luxury tax regulation of Hong Kong and Singapore, here are some proposals for Taiwan's further amendments:

- 1) Luxury tax should be extended to resales within four years.
- 2) Second home buyers should also pay luxury tax and higher deed tax.
- 3) Impose higher luxury tax to foreign buyers and sellers, including individuals and entities.
- 4) Tax office needs to perform due diligence, i.e. examining the background and shares distribution of each entity buyer and seller, domestic or foreign, to prevent foreign buyers and sellers from evading tax under the cover of domestic entities.
- 5) Use the luxury tax income to build affordable units to balance the market demand and supply. Prioritize young generations (under 40 years old without property) buyers.

VII. Conclusion

The luxury tax's effects have been positive but requires amendment. The goal is to make Taiwan's housing prices reasonable and maintain taxation justice.

The luxury tax cannot produce a sound real estate market on its own. Besides the above proposals to current luxury tax, future revisions of tax laws must focus on the property tax, with a reasonable increase in taxes on second homes. In the medium term, the property tax should be calculated based on 'actual transaction prices' but not the current quoted 'publicly announced current value of properties', therefore, an authentic price report system should be established. It is only when property taxation has been thoroughly revised that it will be time to retire the luxury tax.

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[Abstract]

Impact of Luxury Tax Policy on the Real Estate Market in Taiwan

How Does the Implemented Luxury Tax Policy Affect the Real Estate Market Inflation in Taiwan?

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Following the millennium bubbles, numerous regional and global economic downturns, specific country tax policy changes, and bank mortgage policy changes, people lost their confidence in liquid assets, and instead tended to put money into the housing market.

In the old days, due to loose, relaxed, short-term real estate tax policy, many speculative investors used borrowed mortgage money from banks to purchase and sell real property within a short time and made huge profits without paying a penny from their own pockets. The housing market inflated rapidly which caused serious societal problems—when residential properties are not for living but are used as investment tools, young generations cannot find housing at a reasonable price. The rich get richer, and the poor get poorer, the wealth inequality widens.

After examining other countries's applicable tax policies, Taiwan government implemented "The Specifically Selected Goods and Services Tax Act" (so-called "luxury tax") on June 1st, 2011, which imposed a 10- to

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15-percent luxury tax on sellers who held buildings and land for a period of less than 2 years. The legislative purpose stabilization of housing prices and lowering the volume of speculative short term real estate transactions. According to the statistics we collected from the implementation of the luxury tax to date, it is proven that the luxury tax does have some effects in the real estate market, but not a big impact yet. Therefore, further amendments are needed.

This article will give a big picture of the real estate market change in Taiwan. Starting from the background of the real estate market, culture, luxury tax Act contents, government reports, real market surveys, and comparisons with other countries to summarize the impact of the luxury tax policy on the real estate market in Taiwan and further proposals.

[Key Words] millennium bubbles, tax policy, the housing market, Taiwan, luxury tax