

## **Our Tax Policy Vision**

### **Centrality, Fairness, and Sustainability**

Tax revenue has long been the most vital source of income for Taiwan's state finances. But observation of changes in the country's fiscal situation over the past 20 or 30 years reveals that as Taiwan becomes monopolized by the thinking of the pursuit of economic growth, its tax system has undergone distorted development.

First of all, as a result of long-term implementation of tax exemption measures to pursue economic growth and enhance international competitiveness, the current tax system has failed to adequately raise tax revenue through more economic growth and has found it hard to cope with the increasing fiscal spending required by the expansion of state capacity. Consequently, government finance has been running in the red over the years. Secondly, long-term tax reductions for particular taxpayer segments or industries have not only caused the tax system to lose its comprehensiveness and centrality, but have led to the continual aggravation of the problem of unequal income distribution while the economy develops. Thirdly, because of concerns about economic growth and international competitiveness, the government has been dithering over whether to enact environmental and natural resources taxes and thus has made a negative effect on the accumulation of environmental capital as well as damaging the country's sustainable development in the future.

Tax revenue is a key component of the state's sustainable existence. The proposal in *National Financial Policy* of the multi-volume set entitled *The Taiwan Brain Trust's National Policy Vision for Taiwan* has presented a vision to "build citizen-oriented national finance." In adherence to this vision and for the purpose of advancing this nation's lasting development and its people's well-being, this article suggests that Taiwan's current tax system should completely discard the warped policy thinking of the past, be oriented toward satisfying the financial needs that the country's ongoing, stable, and healthy development would occasion, and establish three core values: 1. The tax system must have centrality so that it can acquire adequate fiscal revenue. 2. Tax levies must demonstrate fairness in order to establish solid social foundations. 3. The revenue structure has to be sustainable so as to support the country's development in the long run. These core values should form the foundation on which fundamental reforms are carried out.

Many problems exist in Taiwan's current tax system and tax revenue structure. For

example, the country's tax revenue growth rates have long been far lower than its economic growth rates and annual growth rates in spending, which made it difficult to solve the long-term deficit problem. For nearly two decades, the citizens' tax burden ratios (tax revenue as a percentage to GDP) have been declining year after year, showing that the prospects of tax revenue are less-than-optimistic. The failure of the theory of "raising geese to produce eggs" (in reference to Minister of Finance Lee Sush-der's argument to defend the government's tax cuts) has increased the government's financial burden. The weakening of the income distribution effects of taxation, the ineffectiveness of trickle-down economics, the disappearance of the Kuznets curve, and the loss of the comprehensiveness and centrality of taxation caused by extended tax exemptions are all problems that need urgent solutions. Therefore, the TBT believes that based on the three major core values mentioned above, the government should thoroughly revamp the current tax system, with the reform of income tax as the focus, so as to make the structure of the tax system sound and healthy and maintain the financial resources that the country's sustainable development would need.

With regard to income taxation, the government should properly expand tax classifications, review regulations such as tax exemptions and deductions that erode the tax base, and broaden the tax base by levying land value increment tax as part of individual income tax. These will strengthen the accumulateness and comprehensiveness of the tax base. Meanwhile, the government should remove securities transactions tax exemptions as it reevaluates the integrated income tax system. As to property tax, the government should remove estate and gift taxes and apply progressive tax rates to inheritance and donation taxes instead; besides, a donee's donation income should be put in the same category as gift income from profit-seeking enterprises and be included in the net taxable individual income so that the social justice of wealth distribution may be achieved. In terms of excise tax, the government should both adjust business tax rates and reexamine the function of commodity tax. Regarding green taxation, the authorities should launch "green" financial reform to integrate the current complex tax regulations on environmental and natural resources levy and to proactively promote plans to levy green tax in order to create a triple-win situation for environmental justice, social justice, and sustainable development. Only so can the citizens' tax burden ratios be raised and the national financial vision of adequate tax revenue, sustainable finance and environment, and distributional fairness realized.