

Taiwan

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July 2009

Announcements

Employment Terms and Conditions

Taiwan's Legislative Yuan has approved new parental leave, unemployment, and early retirement provisions.

Amendments to the *Employment Insurance Law* will provide up to six months of parental leave to care for children under age three (refer to the July 2008 and September 2008 Updates for further information). Each parent is eligible for the benefit, paid by Employment Insurance. Eligible employees will receive 60% of their covered pay. Under the revised law, workers who are disabled or over age 45 will be eligible for longer unemployment benefits. An effective date has not been set. The Legislative Yuan also approved revisions to the *Labor Standards Law* that will make employees eligible for early retirement at age 60 with ten years of service with the same employer. No effective date has been announced.

April 2009

Health Care System

The Taiwanese government is drafting a long-term home care insurance proposal.

Under its plan, the government would establish a system similar to the national health insurance system. A bill is expected to be introduced by the end of 2009.

February 2009

About This Material

This report provides a summary of statutory requirements related to employment. The material focuses on the factual legal requirements, without editorial comment.

Hewitt Associates prepares and maintains these summaries for more than 80 countries. The material is gathered from public and private sources to provide background information relevant to compensation and benefit planning.

Hewitt Associates does not provide legal or tax advice. Before specific decisions or plans are implemented, professional counsel should be obtained.

The currency abbreviations used in this report are the internationally standardized abbreviations published by ISO (the International Organization for Standardization).

Please note that in East Asia (and certain Southeast Asian countries), names are commonly written in the order of surname, followed by first name. Where this report discusses individuals from these countries, the report follows this practice.

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Economy and Government

Government

From 1949 until 1991, Taiwan was ruled by an authoritarian government led by a single party, the Kuomintang (KMT, also referred to as the Nationalist Party). The KMT was organized in mainland China as an opposition movement to the Qing dynasty, which lasted from 1644 until 1911. After a brief alliance, the KMT and the Communist Party struggled for control over the mainland until 1949, when Mao Zedong founded the People's Republic of China, and the leader of the KMT, Chiang Kai-shek, moved to Taiwan and declared Taipei a "provisional capital." Beginning in 1991, the government initiated a gradual process of democratization that lasted for most of the decade. The first democratic election for the National Assembly was held in 1992. The mayors of Taiwan's two largest cities, Taipei and Kaohsiung, and the governor of the province of Taiwan, were elected in 1994 by popular vote. The first presidential election was held in 1996, and additional local elections took place in 1997. Chen Shui-Bien of the opposition Democratic Progressive Party (DPP) was elected to the first of two terms as president in 2000. The KMT's Ma Ying-jeou was elected president in March 2008.

The constitution divides the government into five branches (yuans)—executive, legislative, judicial, control, and examination (the latter two monitor and administer the civil service system). The president and vice president are elected for four-year terms; they can serve only two consecutive terms. The president leads the government and acts as commander in chief of the military. He appoints the "president" of the executive yuan and its members (ministers). The executive yuan is responsible for developing and administering policies.

The Legislative Yuan is unicameral. Under constitutional amendments passed in 2005, the number of seats in the Legislative Yuan was reduced to 113 beginning with national elections held in 2008. Henceforth, of the 113 seats, there are 34 "at-large" seats; 73 members elected from special municipalities, cities, and counties; and six seats reserved for aborigines.

The voting system also was changed to a single member two-vote per district system in which the electorate votes twice, once for a legislator and again for a party. At-large seats are based on party lists (for parties that receive at least 5% of the votes). The term in office increased to four years. Female legislators must account for at least one-half of elected members from each party list.

The amendments abolished the National Assembly, which had steadily lost its legislative and consultative powers, and provided for the electorate to confirm or reject constitutional amendments passed by the Legislative Yuan.

The 2008 elections returned control of the Legislative Yuan to the KMT. Currently, the KMT holds 86 seats to the DPP's 27. The parties differ most on the issue of independence, with the DPP calling for the formal independence of Taiwan while the KMT nominally supports reunification with China.

Legislative Process

The Legislative Yuan holds two sessions each year. The first session begins in February and ends in May, while the second session begins in September and ends in December. Extraordinary sessions may be convened. Most bills are introduced by the ministers. They are generally assigned to a legislative committee for review, voted upon at a meeting of the general assembly, and, if approved, returned to the Executive Yuan. If the Executive Yuan determines that a bill is difficult to implement or that changes made to the bill

by the legislature make implementation difficult, the bill can be returned to the Legislative Yuan for review. To override this veto, more than one-half of the members must approve the bill within fifteen days.

The Legislative Yuan cannot propose expenditure increases to budgetary bills.

Legal System

The Judicial Yuan consists of “grand justices,” the Supreme Court, the high court, an administrative court, and district courts. The grand justices form the Constitutional Court; they review national, provincial, and county laws, and they have the power to dissolve political parties if the parties’ goals or activities threaten the security of the country. Since 2003, the 15 grand justices, including the president and vice president of the Judicial Yuan are nominated by the president and approved by the Legislative Yuan. They serve only one eight-year term. The grand justices who serve as the president and vice president of the Judicial Yuan serve one four-year term.

The high courts and district courts are divided into civil and criminal divisions. The administrative court hears all cases dealing with an alleged violation of rights by any central or local government agency.

Economy

Since the 1980s, Taiwan has been a member of a select group of Asian “dragons”—fast-growing economies, whose primary productive base shifted from agriculture to labor-intensive manufacturing and then shifted again to capital-intensive manufacturing and services. In Taiwan and the other Asian dragons, this transformation has been due to substantial government intervention in the economy, particularly through industrial policy and trade and foreign investment restrictions. However, in Taiwan, the rapid economic transformation also has been the result of a strong entrepreneurial spirit, demonstrated by the large number of small-scale, family-run manufacturing businesses that exist in the country.

The Taiwanese economy is closely linked to the economies of the United States and China. In 2003, China replaced the United States as Taiwan’s largest trading partner. As of 2008, China (including Hong Kong) accounted for over 27% of Taiwan’s total trade and almost 40% of exports (U.S. State Department data).

Japan and the United States are now Taiwan’s second and third largest trade partners, respectively. China (including Hong Kong), Japan, and the United States, account for over one-half of Taiwan’s total trade.

Table 1: Economic Indicators

	Real GDP Growth	Inflation (CPI)	Unemployment
2006	4.8%	0.6%	3.9%
2007	5.7	1.8	3.9
2008	0.1	3.5	4.1
2009 (forecast)	-5.7	-1.3	6.6
2010 (forecast)	2.5	0.8	7.0

Source: Economist Intelligence Unit (EIU)

Key Industries

Services constitute the largest economic sector in Taiwan, contributing an estimated 73% of total GDP in 2008 (EIU data). The fastest growing service industries are banking, insurance, and transportation.

Industry accounts for 25% of GDP with capital- and technology-intensive industries predominant. Electronic and computer products are the cornerstones of manufacturing. Three of the top ten manufactured products are integrated circuits, personal computers, and computer peripherals. Five of the top ten manufacturing firms supply electronic and computer products. Taiwan is one of the world's leading suppliers of monitors, keyboards, video and sound cards, scanners, disk drives, and semiconductors.

Petrochemicals, chemicals, machinery, and metal products also are growing industries. Labor-intensive industries, such as the manufacture of toys, footwear, umbrellas, and garments have moved to cheaper locations.

International Memberships

Taiwan's participation and membership in many international organizations has been restricted by the ambiguity surrounding its political status vis-à-vis the People's Republic of China. In the absence of consulates and embassies, Taiwan has trade offices in over 90 countries.

Taiwan is a member of the Asia-Pacific Economic Cooperation (APEC) forum and the Asian Development Bank as Taipei, China. It is a member of the World Trade Organization (WTO) as a special customs territory. It has observer status at the Organization of Economic Cooperation and Development (OECD).

Taiwan is seeking membership in the United Nations.

Currency

The Taiwanese currency is the dollar.

The exchange rate to the U.S. dollar is USD 1.00 = TWD 32.86. The exchange rate to the E.U. euro is EUR 1.00 = 46.21 (July 31, 2009).

Labor Environment

Employment terms and conditions are determined primarily by law. While collective bargaining is permitted, it is not mandated, and relatively few employees are covered by agreements.

Labor Relations

Labor relations are generally peaceful in Taiwan. A number of factors contribute to this stability. First, unions are subject to extensive government oversight and intervention. In negotiations with management, discussions are usually limited to fringe benefits and working conditions. Second, unemployment has been low historically. (During the late 1980s and early 1990s, there was an acute labor shortage, which was filled by foreign workers.) Third, until recently, wages were increasing steadily.

Unions

The right to organize trade unions is protected by the constitution. However, there are a number of laws and regulations limiting association: civil servants, teachers, and defense workers are prohibited from joining unions, and unions are required to submit their constitutions and by-laws to the government for review. The government reserves the right to dissolve unions that do not meet certification standards or if union activities disturb the public order.

Only one industrial or occupational union can organize in a single factory or given geographic area. A union is constituted when there are more than 30 members; all members must be employed in the same factory or work in the same area or occupation. If the threshold cannot be reached, workers can organize a union with workers in other factories or areas. Workers age 16 and older can join an existing union. However, only workers age 20 and older can organize a new union.

Labor laws permit the formation of union shops. All workers within the jurisdiction of a union are required to become members of the union.

Unions can join confederations, but no district (city, county, or province) can have competing confederations. There had been only one national union federation since the founding of Taiwan, the Chinese Federation of Labor (CFL), which is closely associated with the ruling Kuomintang Party (KMT). However, on May 1, 2000, the first independent national federation was organized, the Taiwan Confederation of Trade Unions (TCTU), which currently represents over 200,000 employees and 21 unions.

There are over 4,600 unions in Taiwan with approximately three million members. Two factors account for these high rates. Many unions or “occupational associations” are formed by self-employed professionals who may be eligible for lower contribution rates to the National Health Insurance (NHI) system. (The government pays 40% of an individual’s contribution to the NHI system if he or she is a member of a recognized professional association.) The presence of union shops also increases the rate of unionization.

Employee Representation

Employers and employees are required to convene “labor-management conferences” (LMCs) to discuss and negotiate relevant issues. The LMC is composed of an equal number of representatives from both sides. Usually, a committee has six to 18 representatives. If the number of employees exceeds 100, there must be a minimum of five representatives per side. If branch offices have more than 30 employees, a separate conference must be convened for the branch office.

While the labor management conference engages in negotiation, it does not participate in collective bargaining.

Employers' Associations

There are a number of trade and industrial associations in Taiwan. The primary representative of employers at the national level is the Chinese National Federation of Industries (CNFI). The CNFI lobbies the government on issues such as changes in labor and employment laws or in the formulation of employment policies.

Collective Bargaining

The *Collective Agreements Law*, passed in the 1930s, provides for collective bargaining but does not mandate it. The law does not delineate the issues subject to bargaining. Instead, it states that agreements specifying "labor relations" may be concluded. All agreements must be submitted to the government for approval.

Collective bargaining occurs at the enterprise level and is limited to mostly large enterprises. The percentage of workers covered by agreements is small. Employers typically set wages and establish terms and conditions of employment that are consistent with the market. According to the Council of Labor Affairs (CLA), only 46 private sector employers had signed a collective agreement as of the end of 2008.

Labor and Employment Laws

The *Labor Standards Law (1984)* (LSL), as amended, establishes minimum standards for employment conditions, mandatory benefits, retirement programs, and severance pay. Coverage of the law was extended in 1998, and virtually all employees are protected by it (exceptions include doctors, lawyers, accountants, architects, and employees in state-run businesses).

Other laws governing labor relations and employment terms and conditions include:

The *Company Law (1928)*, as amended, requires companies to pay a percentage of after-tax earnings to employees as a bonus.

The *Settlement of Labor Disputes Law (1928)*, as amended, provides mechanisms for the arbitration and conciliation of labor disputes.

The *Labor Union Law (1929)* regulates the creation, governance, and activities of labor unions.

The *Collective Agreements Law (1930)*, as amended, provides for collective bargaining.

The *Labor Insurance Act (1958)*, as amended, provides for social security and health insurance.

The *Labor Safety and Health Act (1974)*, as amended, sets health and safety standards.

Convocation Rules of the Labor Management Conference (1985), as amended, establish guidelines for the election of labor management conferences and the activities of the LMCs.

Rules on Leave Taking by Workers (1985), as amended, expand the issue of leave introduced in the LSL; provisions for sick leave, personal leave, wedding leave, bereavement leave, and leave for sickness or injury are established.

The *Vocational Training Act (1986)* regulates training and apprenticeships.

The *Disability Protection Act (2001)* establishes incentives for employers to employ disabled individuals.

The *Gender Equality in Employment Act (2002)* prohibits discrimination on the basis of sex with regard to employment, training, employee benefits, and compensation and requires employers to implement measures to prevent sexual harassment in the workplace.

The *Employment Insurance Act (2002)* expands the unemployment program under social security to include all workers.

The *Employment Services Act (2002)*, as amended, regulates the employment of foreign workers.

The *Massive Layoff Protection Law (2002)* regulates the procedural requirements for collective dismissals.

The *Labor Pension Act (2004)* establishes a new system of mandatory portable pension accounts for private-sector employees to replace retirement indemnities under the LSL.

Cost of Employment

Social security contributions finance old age, death, disability, cash sickness (accident and sickness), maternity, unemployment, and medical care benefits.

Participation is compulsory for employees age 15 to age 60 in all companies with at least five employees. Employees of companies not required to participate in social security may do so on a voluntary basis.

Table 2: Social Security and Other Payroll Taxes

Program	Employer	Employee	Monthly Earnings Ceiling
Labor Insurance ¹	4.55%	1.3%	TWD 43,900
Labor Pension Fund or Retirement Indemnity ³	6.00% 2.00%–15.00%	— ² —	150,000 Total payroll
Workers' compensation	0.27 ⁴	—	Total payroll
NHI ⁵	2.73	1.365	131,700
Employment Insurance ^{1,6}	0.70	0.200	43,900
Welfare fund ⁷	1%–5% of initial paid-in capital + 0.05%–0.15% of monthly operating revenues + 20%–40% of proceeds from the sale of “discarded materials”	0.500 ⁸	—

¹The total cost is funded 70% by employers, 20% by employees, and 10% by the government. Beginning in 2011, the combined premiums for Labor Insurance and Employment Insurance will increase 0.5% per year until reaching 10% and then increase 0.5% every two years until reaching 13% in 2027.

²Employees can contribute up to 6% of covered pay.

³See **Employment Terms and Conditions**.

⁴Average rate; actual rates based on occupational risk and range from 0.06% to 3.0%.

⁵The government pays 0.455%, which represents 10% of the total cost (4.55%) of the NHI program.

⁶Employers with fewer than five employees are required to contribute 1% of pay per employee for Employment Insurance.

⁷Required for companies with more than 50 employees under the *Employees' Welfare Funds Act*.

⁸Not deducted from year-end bonuses.

In addition to the employee's contribution for health insurance, employees pay 1.365% for each covered dependent up to a maximum of three dependents. More than three dependents may be covered, but the total contribution for dependents is limited to 4.095%. Employers pay an additional 1.91% of earnings for dependent(s).

Under the *Labor Standards Law* (LSL), companies are generally required to pay termination indemnities upon both voluntary and mandatory retirement for all employees (see **Employment Terms and Conditions**). However, from July 1, 2005 to July 1, 2010, employees have the option of moving to the new Labor Pension Fund (LPF) system (see **Social Security and Other Required Benefits**) or continuing coverage under the retirement indemnity provisions of the LSL. The choice to join the LPF is irrevocable. Individuals joining the labor force or changing employers after July 1, 2005 are required to join the LPF.

Employment Terms and Conditions

Employment Contracts

Employment contracts can be concluded orally or in writing. A contract must indicate the place of work and a description of the job; working hours, rest periods, leave and holidays; salary and how it is calculated; allowances and bonuses; termination and severance pay; retirement; compensation for injury and sickness; safety and health; development and training; disciplinary procedures; and any other matters concerning the rights and obligations of employees and the employer.

Fixed-term contracts are contracts concluded for temporary, short-term, seasonal, or special work. A fixed-term contract is converted to a permanent contract if, at the end of the contract, the employee continues to work and the contract is not renegotiated. Temporary and short-term contracts also convert to permanent contracts when, upon the creation of a new contract, the prior contract and the current contract cover a period of more than 90 days and the gap between the two contracts does not exceed 30 days.

Work Rules

The role of the individual employment contract has been limited in Taiwan, although individual employment contracts have become more common over the past decade. Under the Enforcement Rules of the *Labor Standards Law*, enterprises with 30 or more employees must establish work rules that specify the terms and conditions of employment and register rules with local authorities within 30 days. The work rules generally substitute for contracts and collective agreements, even though they are not subject to negotiation. The government can order changes to the work rules if they are determined to be inconsistent with the law. After registration, each employee must receive a copy of the rules, which also must be posted for display in the workplace.

Disabled Workers

The *Disability Protection Act* requires private-sector employers with 100 or more employees to:

- Employ disabled individuals in numbers equal to 1% or more of the employer's total workforce; or
- Contribute to the local government's Handicapped Persons Employment Assistance Fund according to a specified percentage of company payroll.

Acquired Rights

If an employer repeatedly grants a benefit to employees, it may assume the status of an acquired right, unless the employer explicitly states that the benefit is granted at its discretion.

During a merger or acquisition, if employment contracts are transferred from the seller to the buyer, the buyer must recognize the employees' years of service and any rights conferred by years of service.

Working Hours

The standard workweek is 84 hours every two weeks. However, with the employee's agreement, employers can schedule flexible work hours over an eight-week period with a maximum of 48 hours per week and ten hours per day (12 hours including overtime). Total work time cannot, however, exceed 84 hours over two consecutive weeks.

Employees are entitled to one rest day every seven days.

Overtime

An employer must obtain the consent of the union or the employees for overtime. The maximum number of overtime hours per month is 46 hours (32 hours for women). Per day, the maximum number of overtime hours is three hours for men and two hours for women. In some industries, the maximum number of overtime hours per day is four hours.

If overtime is required because of an accident or other unexpected occurrence, prior consent is not necessary. However, within 24 hours, the employer must inform the union or, in the absence of a union, the local labor office.

Compensation

Minimum Wage (Basic Wage)

The monthly minimum wage is TWD 17,280. It was last increased July 1, 2007.

Overtime, Holiday, and Vacation Pay

An employee is entitled to receive one and one-third times the regular wage for the first two hours of overtime worked per day, and one and two-thirds times the regular wage for additional overtime worked in a day. An employee who agrees to work during his or her vacation time or on a public holiday is entitled to two times the regular rate of pay.

Profit Sharing

The *Company Law* requires companies to establish, in their articles of incorporation, a percentage of after-tax earnings that will be given to employees as a bonus. The percentage is not specified; it is determined by the shareholders.

When registered stock is increased through means other than a capitalization of earnings, a company is required to offer 10% to 15% of its shares to employees. This requirement is waived if foreign investors own 45% or more of the registered stock.

Bonuses

The *Labor Standards Law* requires employers to pay an allowance or bonus to employees who have not committed "misconduct" during the year. This allowance or bonus is paid out of net profits at the end of the business's fiscal year. The *Labor Standards Law* does not specify a minimum allowance or bonus payable.

Bonuses are commonly paid to employees during the Chinese New Year. Monetary gifts also may be distributed to employees before the Dragon Boat Festival in June and the Moon Festival in August. Bonuses and gifts are not statutorily required.

Termination of Employment

The *Labor Standards Law* provides for the termination of employees both with and without notice. Employees cannot be fired because of age, gender, ethnicity, religion, party affiliation, physical disability, or union position. An employer is not required to give notice when:

- Employees misrepresent facts at the time of hire and this misrepresentation causes damage to the employer;
- Employees commit acts of violence against the employer, the employer's family members, agents of the employer, or other employees;
- Employees commit gross violations of the employment contract or work rules;

- Employees ruin machinery or other property of the employer, or disclose technological or confidential information thereby causing harm to the employer;
- Employees are absent, without proper cause, for three consecutive days or six days during a month; or
- Employees are imprisoned.

Employees must receive notice in the following circumstances:

- Business operations cease or are reassigned;
- Company suffers an operating loss or there is a contraction of business;
- Business operations are suspended for more than one month due to force majeure;
- Nature of the business changes requiring a reduction in the number of workers, and the workers cannot be reassigned; or
- Employer can prove (through performance appraisals or other processes) that an employee is incapable of performing the tasks to which he or she is assigned. This proof should be in written form and give historical evidence (signed warning letters regarding poor performance or other documents demonstrating the steps taken to improve performance) that the situation has persisted over a period of time.

Notice Period

The length of the notice period is a function of service. The minimum notice periods are:

Table 3: Minimum Required Notice Period

Length of Service	Notice Period
3 months to 1 year	10 days
1 to 3 years	20 days
3 years or more	30 days

During the notice period, employees are entitled to two days' paid leave per week to search for another job. Compensation can be paid in lieu of notice.

Severance Benefits

Employees dismissed with notice also are entitled to severance benefits. The benefit is based on the average monthly pay over the last six months of employment, including overtime, subsidies, and allowances. (The Enforcement Rules of the *Labor Standards Law* permit certain exceptions.) Under the Law, employees are entitled to one month's average pay for each full year of service. The benefit is calculated proportionally for service of less than one year. Service periods of less than one month are computed as a full month.

Employees who joined the Labor Pension Fund (LPF) on or after July 1, 2005 retain their right to the severance pay benefits accrued under the *Labor Standards Law* (assuming they remain with the same employer) for service prior to implementation of the LPF (see **Social Security and Other Required**

Benefits). Severance pay for service after July 1, 2005 is equal to half average monthly salary for each year of service and is capped at six months' average pay.

Retirement Indemnity

Companies are required to pay termination or retirement indemnities upon both voluntary and mandatory retirement for those employees who choose to remain subject to the *Labor Standards Law's* retirement provisions. Employees who join the LPF are entitled to receive a retirement indemnity for their period of service covered by the *Labor Standards Law*. Employees changing employers or joining the workforce on or after July 1, 2005 are automatically enrolled in the LPF.

Labor Standards Law Indemnity

Companies subject to the *Labor Standards Law* are required to pay termination indemnities upon voluntary and mandatory retirement. Voluntary retirement is possible at age 55 with 15 years of service or at any age with 25 years of service, though service must be with the same employer or employer group. Retirement can be required at age 60 or at any age if the employee is physically or mentally incapacitated.

Employers must establish a fund with an approved financial institution and make monthly contributions to this fund. The fund is supervised by a Retirement Fund Supervision Committee, at least two-thirds of which are employee representatives.

The contribution rate is determined on the basis of:

- Years of service with the company;
- Salaries and expected salary increases;
- Rate of turnover during the last five years; and
- Expected number of retirements during the next five years.

The contribution rate is generally in the range of 2% to 15% of payroll. The annual rate of return is guaranteed to be at least the annual return on a two-year savings deposit in a local bank.

The minimum benefit is equal to two months' final average salary per year of service up to 15 years, plus one month's pay for each additional year of service (maximum benefit of 45 months' pay). A period of under six months is counted as six months, and service in excess of six months is counted as one year. The benefit is based on average earnings over the last six months of service, including wages, salaries, allowances, bonuses, etc. (Certain exceptions are permitted under the Enforcement Rules of the *Labor Standards Law*.)

If retirement is due to mental or physical disability caused by an occupational accident, the benefit is increased by 20%. The benefit is paid as a lump sum. The government may permit employers to pay the indemnity in installments, if the employer can demonstrate that lump-sum payments create financial difficulty.

If a retirement fund or insurance policy for indemnities was established before the *Labor Standards Law* was enacted, benefits are paid according to the rules that established those plans.

Labor Pension Fund Indemnity

The LPF, effective July 1, 2005, is a new mandatory retirement plan created to replace the retirement indemnities under the *Labor Standards Law* as a vehicle for retirement savings (see **Social Security and Other Required Benefits**).

Collective Dismissals

Under the terms of the *Massive Layoff Protection Law*, employers must notify the government, labor union, and employees at least 60 days in advance of a planned “massive layoff,” generally defined as the termination of employment of one-third or more of the employees within a 60-day period (one-fifth or more for employers with 500 or more employees). Notification must detail the number of workers to be laid off, their departments, termination date(s), and reasons for the layoff(s).

Employers also are required to consult with the employees on any unpaid wages, retirement pay, severance pay, social security contributions, and other outstanding employee compensation within ten days of notification.

Mergers and Acquisitions

During a merger or acquisition, if the new owner does not accept all employment contracts, the former owner is responsible for giving notice and paying severance benefits to dismissed employees. For the retained employees, continuity of service is assumed; the new owner must recognize their years of service.

Required Time Off

Vacation

Vacation time is determined by length of service:

Table 4: Vacation Time by Length of Service

Length of Service	Vacation Time
1 to 3 years	7 days
3 to 5 years	10 days
5 to 10 years	14 days
10 or more years	14 days plus 1 additional day for each year in excess of ten years (overall maximum of 30 days)

Employees are entitled to compensation in lieu of unused paid vacation time at the end of the calendar year or upon termination of the employment contract.

Holidays

Employees are entitled to paid holidays on “commemoration” days, Labor Day, and other days designated by the central government. The following are national paid holidays set annually by the government (in addition to those generally observed by business):

Table 5: 2009 National Holidays

Holiday	Date
Foundation Day	January 1 and 2
Lunar New Year Eve	January 25 ^{1,2}
Chinese New Year Day	January 26 ^{1,2}
Memorial Day	February 28
Tomb Sweeping Day	April 4
Labor Day	May 1
Dragon Boat Festival	May 28 ¹
Mid Autumn Festival	October 3 ¹
National Day	October 10

¹Varies from year to year.

²Companies typically provide additional leave during Chinese New Year. Date varies from year to year.

Companies provide their employees with other holidays on a discretionary basis.

Sick Leave

Employees receive a maximum of 30 days' sick leave per year, if not hospitalized, and a maximum of one full year if hospitalized. Total sick leave (inpatient and outpatient treatment) cannot exceed one year. During normal sick leave (not hospitalized), employees receive 50% of their regular pay from their employer and 50% from social security. If social security cash sickness benefits do not equal 50% of salary, the employer is required to make up the difference.

Maternity Leave

Female employees are entitled to eight weeks of maternity leave. Employees who miscarry after three months of pregnancy are entitled to four weeks of maternity leave.

Employers are required to pay full earnings to employees on maternity leave who have at least six months of service. Employees with fewer than six months of service are entitled to 50% of pay.

Following maternity leave, a female employee with a child under age one is entitled to two 30-minute periods each day to nurse her child. The nursing time is considered to be working time.

Paternity Leave

Male employees of employers with more than five employees are entitled to three days' paid leave for the birth of a child following the passage of amendments to the *Gender Equality in Employment Law*.

Parental Leave

Employees with children under age three are eligible for up to two years of unpaid leave for care of the child. Leave must be for a minimum of six months. Employees covered by Labor Insurance with more than one year of insurance coverage are eligible for a parental leave allowance (see **Social Security & Other Required Benefits**).

Family Leave

Employers with more than five employees must grant employees seven days of paid leave per year for the personal care of family members.

Personal Leave

Employees also are entitled to additional days of paid leave, including eight days for marriage and three to eight days upon the death of a relative, depending on the relationship. Employees may receive a maximum of 14 days' unpaid leave annually for personal business. Employees must be granted leave if called for military duty.

Workplace Privacy

Data Protection

The *Computer-Processed Personal Data Protection Law* regulates "the computerized processing of personal data so as to avoid any infringement of the rights pertaining to an individual's personality and facilitate reasonable use of personal data."

Under the law, personal data is defined as the name, birth date, identification number, special features, fingerprints, marriage, family, education, profession, health condition, medical history, financial condition, and social activities of a person, as well as other data sufficient to identify the person.

Nongovernmental organizations cannot collect data, unless the data collection is for a specific purpose and satisfies one of the following conditions:

- Concerned party has granted written consent;
- Contractual or quasi-contractual relationship exists and it does not create "harm" or potential harm to the individual;
- Personal data is already in the public domain and is not "harmful" to the individual;
- Data is collected for academic research and is not "harmful" to the individual; or
- Certain laws require that the data be collected.

An individual has the right to have access to and correct his or her data and to have data erased. When there is a dispute about the accuracy of data, processing should stop until the dispute is resolved. Data should be held only as long as it is necessary to fill the purpose for which it was collected.

The government can place restrictions on the international transmission of data to countries lacking adequate laws or ordinances that protect personal data.

Social Security and Other Required Benefits

Social security in Taiwan consists of “Labor Insurance” and “National Health Insurance.” Labor Insurance is governed by the *Labor Insurance Act*, which was enacted in 1958. Participation is compulsory for employees age 15 to age 60 in all companies with at least five employees. In addition to businesses in the private sector, the Act covers employees in private and nationalized factories, mines, communications and transportation enterprises, public utilities, nonprofit organizations, certain occupations in the fishing industry, and the self-employed who are members of a professional union. Employees working in companies with fewer than five employees are covered in the event of an occupational injury or unemployment. Employees in companies or industries not specifically covered by the Labor Insurance program may participate on a voluntary basis. Most government employees and teachers are covered under separate programs.

Benefits are financed by employer and employee contributions and government subsidies (see **Cost of Employment**).

There are broad categories of Labor Insurance benefits:

- “Ordinary injury” insurance provides maternity, parental, nonoccupational injury and sickness, disability, unemployment, old age, and death benefits; and
- “Occupational injury” insurance provides occupational injury and sickness, medical, disability, and death benefits.

Medical care for reasons unrelated to an occupational disease or accident and the delivery expenses from the maternity benefit are covered by the NHI program (see **Health Care System**).

The Council of Labor Affairs at the national level, along with provincial and municipal governments, is responsible for overall supervision of the Labor Insurance program. A Labor Insurance Supervisory Commission, consisting of representatives of government, employers, employees, and relevant “specialists,” is responsible for operation of the program. The Bureau of Labor Insurance (BLI) acts as insurer (premium collection, payment of benefits, related recordkeeping, etc.). The government subsidizes the BLI’s administrative expenses.

In 2007, the government established the National Pension system to provide old age, disability, and death benefits for individuals age 25 and age 65 who are not covered by Labor Insurance. The system becomes effective October 1, 2008. Contribution rates are identical to Labor Insurance and are paid by the individual and the government at a ratio that depends on the individual’s income. Employees must contribute to this system on behalf of a nonworking spouse. Insured members are entitled to a monthly pension at normal retirement age (age 65).

Labor Insurance

Benefits are generally based on an employee’s average monthly salary (up to a ceiling of TWD 43,900) for the six months (36 months for old age) prior to the first day of the month in which the insured event occurs.

Old Age Benefit

Eligibility

An old age benefit is payable if any one of the following conditions is met:

- Males age 60 and females age 55 with one year of contributions;
- Twenty-five years' service and contributions with the same employer (no age requirement);
- Age 50 with 25 years of contributions;
- Age 55 with 15 years of contributions; or
- Age 55 and at least five years of covered employment in hazardous or arduous work.

Under amendments to the *Labor Insurance Law* passed in 2008, the minimum pension age will be set at age 60 until 2017 when it will rise a half year annually until it reaches age 65 in 2026.

Amount

Individuals who joined the Labor Insurance system prior to January 1, 2009, may choose between a lump-sum payment and a monthly pension for life. The lump sum payment is equal to one month's average insured salary per year of contributions up to 15 years, plus two months' average insured salary per year of contributions in excess of 15 years. The maximum benefit is 45 months' insured salary for coverage below age 60.

If a participant chooses a monthly pension, he or she may select one of the following payment methods:

- Average monthly insurable pay x years of insurance x 0.775% + TWD 3,000; or
- Average monthly insurable pay x years of insurance x 1.55%.

Benefits are based on the participant's 60 highest months of insured salary.

Individuals who joined after January 1, 2009 receive a monthly pension upon retirement.

A lump sum is payable equal to one month's average insured salary per year of contribution for participants age 60 or above who have fewer than 15 years of contributions.

A subsistence pension is payable to low-income retirees, age 65 and older (age 55 for aboriginal Taiwanese) who are ineligible for employment pensions, government allowances, subsidies, or pensions; an income test applies.

Early Retirement

Effective January 1, 2009, participants are eligible for early retirement at age 55. However, they are subject to a 4% reduction in benefits for each year prior to age 60.

Deferred Retirement

If an employee continues to work after age 60, one additional month of insured salary is payable for each additional year of contributions up to age 65 (maximum increase of five months' insured salary).

Under amendments to the *Labor Insurance Law*, effective January 1, 2009, participants deferring retirement receive a 4% increase in benefits for each year beyond age 60 that retirement is delayed.

Survivors' Benefits

Eligibility

The survivors of an insured person are entitled to a benefit, in order of priority—spouse and children; parents; dependent grandparents; grandchildren; and brothers and/or sisters.

Amount

If the insured had coverage prior to January 1, 2009, the benefit is a lump sum calculated as a multiple of average insured salary as follows:

Table 6: Survivors' Benefits

Years of Contributions	Benefit
Less than 1 year	10 months
1 to 2 years	20 months
2 or more years	30 months

Survivors are eligible for a pension if the deceased joined the Labor Insurance system after January 1, 2009.

- A benefit equal to 1.55% of average monthly insured salary per full year of insurance coverage is payable if the insured was an active contributor.
- If the insured was a recipient of an old age or disability pension or had more than 15 years of contributions, survivors are entitled to a benefit equal to one-half of the insured's pension.

The insured is entitled to lump-sum benefits of one and one-half to three months' average insured salary upon death of a parent, child, or spouse.

Funeral Grant

Upon death of an insured employee, a lump sum of five months' average insured salary is payable to cover burial expenses. If dependents do not meet eligibility criteria for the survivors' benefit, they may claim a lump sum funeral grant equal to ten months' average insured salary.

Long-Term Disability Benefits

Eligibility

An insured person with total or partial permanent disability is eligible for a lump-sum benefit based on degree of disability. The disability must be one specified in the Disability Benefits Payment Schedule and certified by a BLI hospital or a hospital under contract with the BLI.

Amount

Participants with coverage prior to January 1, 2009 may elect to receive a lump sum. For total and permanent disability, the lump sum equals a maximum 40 months of average insured salary. For partial disability, the lump sum varies from 1 to 33-1/3 months of average insured salary depending on the degree of disability.

The disability pension benefit is calculated by multiplying 1.55% times the number of coverage years times average monthly insured salary.

Cash Sickness Benefits

Eligibility

An insured employee incapacitated and hospitalized due to nonoccupational illness or injury is eligible for benefits after a three-day waiting period.

Amount

Fifty percent of average insured salary is payable twice a month for up to six months. If the employee has at least one year of contributions, benefits are payable for 12 months.

The employer is required to continue 50% of the employee's salary regardless of whether the employee is hospitalized for up to 30 days in any one year. If the employee is eligible for cash sickness benefits, but receives less than 50% of his or her salary, the employer is required to make up the difference.

Maternity Benefits**Eligibility**

An insured female employee with 280 days of coverage or the wife of an insured male employee with 280 days of coverage is eligible.

Amount

A benefit of one month of average insured salary is payable. Benefits are increased proportionately in the event of a multiple birth.

Employers are required to provide maternity leave benefits (see **Employment Terms and Conditions**).

Parental Leave Benefits**Eligibility**

An employee with one or more years of coverage is eligible for the allowance to care for a child under age three. Each parent is eligible for the benefit.

Amount

An allowance equal to 60% of average monthly salary is payable. The allowance is paid for a maximum of six months per child.

Workers' Compensation

Employers and Labor Insurance are jointly liable for compensation for occupational accidents and diseases. Employers are responsible for all relevant medical expenses.

Short-Term Disability Benefits

If the disability is due to occupational injury or illness, the employer is required under the *Labor Standards Law* to pay compensation to the employee at his or her original wage rate. In the event the insured is not receiving salary payment on account of occupational injury or illness, 70% of average earnings is payable twice a month for up to one year and 50% of average earnings for up to one additional year. There is a three-day waiting period for benefits. The disability must be one specified in the Disability Benefits Payment Schedule and must be certified by a BLI hospital or a hospital under contract with the BLI. If after two years, the employee is still unable to perform his or her former duties due to the injury or illness but is ineligible for long-term disability benefits, the employer may pay a lump-sum equal to 40 months' average wages in lieu of continuing pay.

Long-Term Disability Benefits

In the event of permanent disability, the insured is entitled to a lump-sum benefit equal to 1.5 to 50 months of average insured salary (according to the degree of disability) for partial disability. For permanent total disability, the insured is entitled to a lump-sum benefit of 60 months of average insured salary. Depending on their situation, permanently disabled individuals also may be eligible for "living allowances" for disability, occupational diseases, and vocational training, and assisted living subsidies.

Survivors' Benefits

If a worker dies due to occupational injury or illness, the employer must provide a funeral payment equal to five months' average wages and a lump-sum settlement equal to 40-months' average salary, payable in order of priority to the employee's spouse, children, parents, grandparents, grandchildren, or siblings.

Employment Insurance

Individuals for whom employment was involuntarily terminated are entitled to a monthly benefit of 60% of their average monthly insured salary for a maximum period of six months (nine months if over age 45 or disabled). The benefit is increased by 10% for each eligible dependent (maximum of two). Workers reemployed before the end of the six-month period can claim 50% of unpaid unemployment benefits as a reemployment benefit. Individuals, who are participating in full-time vocational training, are eligible for a vocational training living allowance. Individuals receiving unemployment benefits are not required to contribute to National Health Insurance.

Welfare Fund

Firms with 50 or more employees must contribute monthly to a welfare fund for their employees regulated by the Statute on Employee Welfare Fund (see **Cost of Employment**). The welfare fund is used to provide lunchrooms, housing, clinics, training, child care, or recreational facilities for employees. Voluntary funds may be set up by firms that are not required to have one, and contributions to such funds are tax deductible as long as they do not exceed the requirements for the mandatory funds.

Other Required Benefits

Labor Pension Fund (LPF)

Under the *Labor Standards Law*, employers are required to pay retirement indemnities upon voluntary or mandatory retirement to employees age 55 or older with at least 15 years of service (see **Employment Terms and Conditions**). Due to the long service requirement, the Council on Labor Affairs estimates that only 10% of employees will actually receive a retirement indemnity. Therefore, to increase the percentage of the working population with employer-provided retirement benefits and reduce reliance on social security benefits, the government passed the *Labor Pension Act* in 2004. The Act, effective July 1, 2005, established the LPF system of portable, defined contribution pension accounts to replace the retirement indemnity system.

Employees have the option of continuing coverage under the *Labor Standards Law* or moving to the LPF. Employees that did not join the LPF at implementation have a five-year grace period from that date during which they can switch to the LPF. The choice to join the LPF is irrevocable. Individuals joining the labor force or changing employers after July 1, 2005 are required to enroll in the LPF.

According to the Bureau of Labor Insurance, almost three-quarters of the employee population in the private-sector had opted to join the LPF; 26% have chosen to stay in the old system.

Contributions

Employers are required to contribute at least 6% of monthly pay up to TWD 150,000 (see **Cost of Employment**) to their employees' individual pension accounts with an approved financial institution. For employees with monthly wages below the minimum threshold (TWD 1,500), contributions are based on 6% of TWD 1,500. Monthly wages include bonuses, overtime premiums, and allowances. Employees may contribute up to 6% of TWD 150,000, on a tax-deductible basis. Plan members are permitted to change their contribution rate two times per year and are fully vested in their own and employer contributions from the date of employment.

Employees direct the investment of their accounts based on a "positive list" of permissible investments which includes foreign and domestic deposits, stocks, bonds, mutual funds, goods, and real estate. Within limits, investments in foreign currency deposits, securities, and derivatives also are permitted. Accounts are

valued annually on December 31; the results must be allocated to the accounts by March 31. Participants are entitled to information regarding their accounts such as the total amount of contributions and fund profits, which may be provided via paper documentation, interactive voice-response systems, or the Internet.

Benefits

Normal retirement age is age 60 with 15 years of contributions. The minimum guaranteed annual rate of return on contributions to the LPF must be equal to the interest paid by a local bank on a two-year term savings deposit (identical to the investment guarantee for retirement indemnities). The account balance will be used to pay a monthly benefit and purchase annuity insurance.

Employees with fewer than 15 years of contributions are entitled to a lump-sum payment. Survivors of employees in active service or receiving a pension in retirement are entitled to a lump-sum payment equal to the balance of the account.

Supplementary Provisions

Employees who join the LPF retain their right to the severance and retirement benefits accrued under the *Labor Standards Law*, assuming they remain with the same employer. Employers must make monthly contributions to a pension reserve fund with the Central Trust of China for five years, to the extent necessary to fund retirement indemnity obligations fully for employees that remain in the *Labor Standards Law* system and employees whose service prior to the establishment of the LPF must be recognized.

If all of a company's employees join the LPF, management and employees may agree to cash out the entitlement at a rate not less than the retirement indemnity under the *Labor Standards Law* with the funds deposited in the employees' individual pension accounts. The employer is entitled to retain any money left in the *Labor Standards Law* fund.

Annuity Insurance

Employers with 200 or more employees have the option of offering annuity insurance in lieu of contributing to the LPF, provided that the employer obtains the consent of the union or more than one-half of the employees if no union is present. Employer premiums for monthly annuity insurance cannot be less than 6% of covered pay. Employees cannot be forced to select annuity insurance; they may instead opt for individual pension accounts. If an employee originally covered by annuity insurance begins a new job with an employer that does not offer annuity insurance, the employee can either retain the annuity insurance or opt for a one-time transfer of the insurance proceeds to an individual pension account. Employees with individual pension accounts joining an employer who offers annuity insurance have the option of a one-time transfer of the pension account's principal and interest to the annuity insurance plan.

Health Care System

Health Care Delivery

Public health and health policy are organized at three levels in Taiwan—national, provincial, and county. Delivery of services is primarily at the county and municipal levels. At the national level, the Department of Health (DOH) has overall responsibility for public health and health policy in five areas—medical affairs, pharmaceutical affairs, food sanitation, communicable disease control, and health promotion. A provincial health department is responsible for planning and administration of public health in each of the three provinces (the cities of Taipei and Kaohsiung and the rest of Taiwan). Each county has a health bureau. Taipei and Kaohsiung are further divided into health districts.

Medical Care Network

In the mid-1980s, the government created the Medical Care Network as a means of providing sufficient and consistent health care throughout the country. Under the network, the country was divided into medical regions and sub-regions. The DOH monitors the medical facilities in these regions and restricts new development in areas where services are considered adequate and encourages development where services are needed.

Financing of Health Care

The National Health Insurance (NHI) system is a single-payer national health insurance plan financed by premiums and taxes.

Currently, medical expenses are paid on a fee-for-service basis. The government maintains two schedules—one for western medicine and dentistry and one for Chinese medicine. Western medicine and dentistry are further divided into schedules for basic diagnosis and treatment; home care; psychiatric patient community rehabilitation; special diagnoses and treatments; special medical supplies and devices; preventive health services; and cases paid on a case-by-case basis. The NHI Reference List for Drugs is the basis for all reimbursements of prescription drug expenses.

Resources and Quality

The majority of health services are provided through the private sector. Most hospitals and clinics are private facilities. “Medical centers” provide the most advanced types of care. Regional and district hospitals provide basic care. Primary care is provided through health stations, “group practice centers,” and the outpatient departments of hospitals. Almost all western medical hospitals and clinics (over 90%) are under contract with the NHI program.

The ratio of physicians who practice western medicine to population is less than 1.0:1,000 (Statistical Yearbook 2006), low for any country but particularly so for a developed country. A majority of doctors are in Taipei, the largest city where the ratio of physicians to population is about 4.0:1,000. Physicians practicing a specialty are required to be licensed separately in that specialty and must renew the license on a regular basis to ensure that they are keeping up with advances in their field. This, combined with low fee levels and/or high malpractice risk, may contribute to a general shortage of certain types of specialists including emergency care, obstetrics/gynecology, surgery, and pediatrics.

Quality

Overall, the quality of health care services in Taiwan is high. There is an accreditation system for hospitals, and almost three-quarters of all hospitals have been accredited. The level of expertise of physicians is very high. Under the Medical Care Network, targeted increases in the numbers of doctors and acute care beds have been met. According to the government, shortages of nurses and skilled medical technicians represent the major challenge in delivering quality health care.

NHI

The NHI system was instituted in 1995. The DOH is responsible for overall policy and supervision. The Bureau of National Health Insurance (BNHI), an agency of the DOH, is the program insurer and administrator.

The cost of insurance is expressed as a percentage of payroll and is currently split 60%/30%/10% between the employer, employees, and the government, respectively (see **Cost of Employment**).

Eligibility

All citizens of Taiwan with at least four months of residence in the country and foreign nationals legally residing in Taiwan for four months, or legally employed, and their dependents are required to enroll in the NHI program. Upon enrollment, each insured over age six is issued an NHI card. The card is stamped upon each doctor's visit. When the card is full (six spaces stamped) or after one year, whichever occurs first, a new card must be issued; this can be done through the insured's employer or directly at one of the BNHI's offices or municipal or provincial hospitals under contract with the BNHI. A "children health handbook" is issued for children under age six; this has room for "health inspection records" and medications. Other "handbooks" are issued for pregnant insured women and for insureds diagnosed with a "major" illness or injury (as defined by the NHI).

Covered Expenses

In order to be covered, all services must be provided by practitioners or at facilities under contract with the BNHI. Categories of covered services include:

- Hospitalization;
- Outpatient;
- Chinese medicine;
- Dental;
- Childbirth;
- Physical therapy;
- Home care;
- Hemodialysis;
- Emergency care;
- Psychiatric; and

■ Preventive:

- Health assessment for children under age seven;
- Health assessment for adults age 40 to age 65, once every three years;
- Health assessment for adults age 65 and over, every year;
- PAP smear examination for women age 30 and over; and
- Pre- and post-natal care.

Patient Cost Sharing

Copayments are required on all inpatient and outpatient services except in the case of childbirth (delivery) expenses, preventive health services, medical care for insureds in remote island and mountain areas, and major diseases (for example, kidney disease). The copayment rate for hospitalization is 10% per person up to TWD 30,000 per stay under 30 days (TWD 50,000 in a calendar year for cumulative stays of 30 days or less). The rate increases to 20% after 30 days and 30% after 60 days, with no ceiling.

Patients pay 10% of home care services.

Copayments for prescription drugs are a function of the cost of the medicine:

Table 7: Prescription Drug Copayments

Cost of Drug		Copayment	
TWD	100 and under		—
	101–200	TWD	20
	201–300		40
	301–400		60
	401–500		80
	501–600		100
	601–700		120
	701–800		140
	801–900		160
	901–1000		180
	1,001 and over		200

Note: Separate rules apply for “serious” treatments, chronic illnesses, children, “high-frequency” patients, veterans, and low-income households.

Drug prices are regulated and published in the Drug Pricing Standard. Based on the Drug Pricing Standard, the NHI sets the reimbursement rate for covered drugs.

“User fees” apply for outpatient services according to the type of care and facility:

Table 8: Outpatient User Fees

Facility	Outpatient Care ¹		Emergency Care		Traditional Medicine		Dental	
Teaching hospital (A level)	TWD	360	TWD	450	TWD	50	TWD	50
Regional hospital (B level)		240		300		50		50
District hospital (C level)		80		150		50		50
Clinic (D level)		50		150		50		50

¹The copayment in the event of physical therapy reduces to a flat TWD 50 per visit for the second through the sixth visit. The copayment for “high-frequency” patients is TWD 50 per visit for up to 156 visits and TWD 100 for 157 or more visits, regardless of the type of facility.

Taxation of Compensation and Benefits

Residents are subject to taxation on Taiwan-source income only. A resident is defined as an individual domiciled in Taiwan or anyone who has resided in Taiwan for 183 days or more in one calendar year. Taiwan-source income is defined as income that stems from a service carried out in Taiwan (regardless of where the payer is located).

Nonresidents and persons living in Taiwan for between 90 and 183 days are taxed at a flat rate of 20% on all Taiwan-source income, with no exemptions or deductions. Nonresidents who reside in Taiwan for less than 90 days are subject to a flat withholding tax of 20% on Taiwan-source income that is paid by a Taiwanese employer.

Taiwan imposes tax on the worldwide income of profit-seeking enterprises with headquarters in Taiwan. Individuals and branches of foreign companies are liable for individual income tax and profit-seeking enterprise income tax, respectively, but only on income generated from sources within Taiwan. Foreign-earned income is not taxable in Taiwan. There are no local or provincial income taxes.

The tax year is January 1 through December 31 for individual taxpayers. Residents are required to file their returns for the previous year by May 31.

Personal Income Tax

Taxable income includes the following:

- Salaries or wages, including allowances and bonuses;
- Professional fees;
- Income from leasing and royalties;
- Interest;
- Pensions and annuities;
- Gains on disposal of property, other than land and securities, located in Taiwan;
- Commissions, lottery winnings, etc.;
- Income from farming, fishing, forestry, and mining; and
- Other income.

Tax-Free Income

According to the *Income Tax Law* and related rules and regulations, several categories of income largely related to salaries and benefits for government personnel are not subject to tax. In addition, certain benefits in kind and lump sum payments of pension and severance benefits are fully or partially tax-free, including:

- Employer-provided housing, if the employer signs the lease with the landlord, and furnishings, if owned by the employer;

- Reimbursement of relocation expenses;
- Monthly meal allowances up to TWD 1,800;
- Home leave travel expenses;
- Club memberships;
- Overtime pay and pay for work performed on national holidays, weekends, and vacation to the extent the payments do not exceed overtime rates established by regulations;
- Use of company car;
- Tax reimbursements, provided they are not claimed as a deduction by the employer;
- Lump-sum pension, retirement pay, and severance pay (totally or partially excluded from taxation depending upon years of service); and
- Compensation for death or injury.

Exemptions

Residents are entitled to the following exemptions:

Table 9: Personal Exemptions

	Exemption Amount
Taxpayer	TWD 82,000
Spouse	82,000
Each dependent	82,000

Dependents include the taxpayer's children to age 20 (older if students or disabled); the taxpayer's or spouse's brothers and sisters, if supported by the taxpayer, to age 20 (older if students or disabled); and the taxpayer's or spouse's parents, if supported by the taxpayer, over age 60 or incapable of earning an income. The exemption increases by 50% if the taxpayer's or spouse's parents are age 70 or older.

Deductions

A single taxpayer is eligible for a standard deduction of up to TWD 76,000. A husband and wife filing a joint return are eligible for a standard deduction of up to TWD 152,000. If a taxpayer chooses to itemize expenses, rather than take the standard deduction, the following deductions are permitted:

- Charitable donations up to 20% of gross income;
- Mortgage interest on loans from financial institutions up to TWD 300,000 for purchase of primary residence;
- Interest on deposits with financial institutions, up to TWD 270,000 for taxpayer and dependents combined;

- Insurance premiums (Labor Insurance and National Health Insurance (NHI) for taxpayers and dependents);
- Employer-paid premiums for group insurance providing death, disability, or maternity benefits up to TWD 2,000 per month;
- All unreimbursed medical and maternity expenses incurred in government-approved facilities by the taxpayer, his or her spouse, and dependents;
- Special deduction for disabled dependent (maximum TWD 104,000);
- Special deduction for educational expenses (up to TWD 25,000 per year per student);
- Pension installment payments up to TWD 733,000; and
- Special deduction for rent payers who do not own housing units, up to TWD 120,000 per household.

All salary and wage earners are entitled to a special deduction of TWD 104,000 or actual salary, whichever is less. When both husband and wife have employment income, they may calculate their taxes separately, and each is entitled to a deduction.

Personal income tax rates are:

Table 10: Individual Income Tax Rates

Taxable Income Per Share		Tax on First Column	Percent on Excess
TWD	0–410,000 ¹	TWD 0	6% ²
	410,001–1,090,000	24,000	13 ²
	1,090,001–2,180,000	112,400	21 ²
	2,180,001–4,090,000	341,300	30
	4,090,001 and over	914,300	40

¹Will increase to TWD 500,00 for the 2010 income tax year.

²Will be reduced by 1% beginning with the 2010 income tax year.

Alternative Minimum Tax

Effective January 1, 2006, Taiwan instituted an Alternative Minimum Tax (AMT) modeled on the U.S. AMT. Under the AMT, taxpayers with annual income above TWD 6,000,000 have to calculate taxes due on AMT income (which include some types of recaptured income) at a flat rate of 20% and taxes due under the standard income tax regime and pay the greater of the two amounts. Types of income subject to recapture include employee stock bonuses, insurance benefits, and capital gains from the sale of unlisted shares.

Taxation of Social Security

Employer-paid social security premiums are tax free to employees. Employer contributions to social security (Labor Insurance and NHI) are deductible to employers.

Capital Gains

There is no capital gains tax upon sale of Taiwanese stocks. In addition, gains from the sale of foreign securities are considered foreign income, which is not taxable in Taiwan.

Inheritance/Gift Tax

Inheritance and gift taxes are levied on assets in Taiwan that are granted or left by a Taiwanese national or resident foreign national and any asset granted or left by a Taiwanese national normally domiciled in Taiwan during the two years prior to the date of death or donation. The standard exemption is TWD 12,000,000. Surviving spouses are entitled to an additional exemption of TWD 4,450,000. The annual gift tax exemption is TWD 2,200,000. Effective January 23, 2009, inheritance and gift taxes are a flat 10%.

Taxation of Employee Benefits

Employers

Employers covered under the *Labor Standards Law* may take a tax deduction (subject to the approval of local authorities) of up to 15% of total payroll for their contributions to retirement indemnity funds, and interest earned on the reserves is not taxable. For employers not covered under the *Labor Standards Law*, the employer may deduct contributions of up to 8% of total wages and salaries for the year if plan assets are entirely separated from those of the sponsor and the fund is administered by a pension administration committee with two-thirds employee representation.

Actual payments must be in accordance with the plan document filed with and approved by the tax office. Any excess actual payments over the accumulated reserve amount may be considered a business expense for the current year.

Contributions to book reserves and for all other qualified plans are deductible up to 4% of payroll.

Mandatory employer contributions to the Labor Pension Fund (LPF) are tax deductible.

Employees

Employee group life, disability, and maternity insurance premiums paid through payroll deductions are tax deductible to the employee up to TWD 2,000 a month. Voluntary employee contributions to the LPF are tax deductible up to TWD 9,000 per month (6% of pay up to a ceiling of TWD 150,000 per month).

Condolence payments are exempt from tax if the death is work related.

If retirement and severance payments are received as lump sums, a portion or all of the payment is tax free, depending on years of service as follows:

- Tax free, if received in one payment of less than TWD 169,000 multiplied by years of service;
- Fifty percent of the amount in excess of TWD 169,000 (but less than TWD 339,000) multiplied by years of service is subject to income tax; and
- One hundred percent of amounts in excess of TWD 339,000 times years of service are subject to income tax.

If paid in installments, the taxable amount is equal to the total payments received, less a deduction of TWD 733,000. If paid in a combination of installments and one lump sum, the deduction is calculated in proportion to the amounts received in lump sum and installments, respectively.

Stock Options

According to rules issued on April 30, 2004 by the Ministry of Finance, the difference between the exercise price and fair market value (FMV) of the underlying shares is taxable at exercise as "other" income, subject to normal income tax rates. FMV is based on the closing price of the shares on the date of exercise (for publicly traded shares) or the net asset value per share based on the company's most recent audited financial statements (for private companies). The new rules apply to options exercised on or after

January 1, 2003. The rules did not clarify the extent to which they were applicable to options issued by foreign companies to employees of their subsidiaries in Taiwan.

On May 17, 2005, the Ministry of Finance issued new rulings on foreign stock options which confirmed that stock options issued by foreign companies are subject to the same tax treatment. However, employees who are nonresident in Taiwan can apportion the income as Taiwan and non-Taiwan sourced income based on the number of days they are in Taiwan between the grant and vest dates. Employers are not required to withhold income tax unless the foreign company charged some or all of the spread to the local entity in Taiwan. In that case, the employer must report a nonwithholding of income tax to the authorities.

Taxation of Payments in Kind

Fringe benefits such as cost-of-living, housing, child education, and annual leave allowances are considered taxable income to residents with the exception of the following benefits which are tax free:

- Travel expenses or daily allowances for the performance of work that benefits the employer, to the standard amount prescribed by regulation. Training expenses are limited to a certain percentage of this amount;
- Company car, including maintenance and insurance, provided by and registered in the name of the employer;
- Medical expenses paid by the employer;
- Employer-provided housing;
- Meal allowances provided by the employer, in cash or food, up to TWD 1,800 per month; and
- Overtime pay, provided that pay does not exceed the ceiling of overtime pay and the aggregate income does not exceed the allowable number of hours per month as prescribed by the *Labor Standards Law*.

For nonresidents, any payment or reimbursement for actual expenses (for example, food, lodging, and other living expenses) is tax free up to TWD 2,000 per day, if certain requirements are met.

Issues for Expatriate Employees

Documentation Required

Short Term—Business Visitors

Citizens of Australia, Austria, Belgium, Canada, Costa Rica, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Portugal, South Korea, Singapore, Spain, Sweden, the United Kingdom, and the United States who travel to Taiwan for 30 days or less for business purposes do not need a visa to enter Taiwan as a business visitor. The individuals must have an airplane ticket for return or onward travel, and their passport must be valid for six months beyond the intended period of stay.

Various treaties exist between Taiwan and other countries which exempt certain foreign nationals from obtaining a visa prior to arrival in Taiwan. Nationals of other countries should check with the consulate general or embassy of Taiwan or Taipei Economic and Cultural Office with jurisdiction over their residence to determine whether a business visa is required prior to arrival in Taiwan.

Stays under a visa exemption cannot be extended beyond 30 days. Required documents for a visitor visa for business purposes for Taiwan include a passport (valid for at least six months after the expiration date of the visa), a confirmed round-trip ticket, a travel itinerary, proof of sufficient funds for support (for example, a copy of a recent bank statement or a letter of reference from a bank), a company letter of support indicating a financial guarantee from the sponsoring company, the purpose of the travel and duties to be performed, and the name and reference to be visited in Taiwan.

Business visas are typically processed by the consulate general or embassy of Taiwan or Taipei Economic and Cultural Office in one week. A visitor visa for Taiwan is usually valid from three months to up to one year from the date of issue for a period of stay not to exceed three months.

Foreign nationals who have an employment authorization application pending in Taiwan are allowed to enter Taiwan as business visitors for business purposes while their application is under consideration.

Greater China Region Nationals

Peoples' Republic of China (PRC) Nationals

PRC nationals must be invited by a domestic sponsor to enter Taiwan for business purposes and must meet certain professional requirements based on the nature of the sponsor's business. Professional categories include, among others, business, construction/architecture, banking/finance/accounting, legal, hygienic/medical, telecommunications/transportation, and scientific/technical.

Approved applicants are issued single-entry travel permits, which are valid for three months and permit the holder to stay in Taiwan for a period of two months (may be extended an additional four months under certain circumstances).

Beginning in 2002, entry restrictions for technology and (certain) business professionals from the PRC were eased by the creation of a renewable travel permit, which may be changed to a multiple-entry visa valid for six years upon arrival in Taiwan. The government also eased restrictions on trainees and intra-company transfers from the PRC. Multinational companies with "sizeable" operations, income, or assets and domestic companies meeting certain net income requirements can sponsor PRC nationals as intra-company transfers or trainees. Approved intra-company transferees are issued travel permits, which

are valid for up to three years. Trainees are issued travel permits, which are valid for up to one year. Both permits may be extended by one-year increments on a yearly basis, after the initial period of validity.

Hong Kong SAR/Macau SAR

The government does not recognize citizens of Hong Kong and Macau as PRC nationals or foreign nationals and thus has different procedures for visiting or working in Taiwan. SAR citizens must apply for entry and exit permits to visit or immigrate to Taiwan. Applicants wishing to immigrate to Taiwan also must obtain residency approval and a “Republic of China” identification card. Requirements for an entry and exit permit include residence in either SAR for at least four years and an identity card issued by the relevant SAR authorities and valid for at least six months. Permits are valid for six months for an initial stay of up to three months and may be subsequently renewed for varying periods. Revised rules issued in 2002 also allow SAR citizens who hold a valid single, renewable, or multiple entry and exit permit, or who have previously been admitted to Taiwan under one of those permits, to apply upon arrival for temporary entry in Taiwan for up to 14 days.

SAR citizens can be approved for employment in Taiwan. However, procedures differ based on whether or not the individual has an “overseas Chinese” identity card. Generally, SAR citizens who do not have an “overseas Chinese” identity card follow the procedure for foreign nationals to receive long-term employment authorization. Individuals with “overseas Chinese” identity cards must, like PRC nationals, be invited to work in Taiwan by a local sponsor unless they have already been approved for residency.

Long Term—Employment Authorization

Foreign nationals wishing to stay and work legally in Taiwan must obtain a work permit and resident visa before entering Taiwan and an “alien resident certificate” for residence purposes after entering Taiwan.

Foreign nationals who will provide or receive training also must obtain work authorization prior to arrival in Taiwan.

Work Permits

Work permit applications must be submitted by the local employer directly to the appropriate government agency that regulates the foreign national’s work or profession in Taiwan. The branch office of a foreign company in Taiwan must have minimum capital of TWD 2,500,000 to apply for work authorization for a foreign national.

Required documents for the work permit application include the employment contract, a resume, diplomas, health certificate, biographical data report, position description, a letter of support from the foreign company (for foreign branch offices), a letter of support from the company in Taiwan, the financial standing of the sponsor company (income tax returns, trading profit and loss account, profit tax return), the business registration certificate of the company in Taiwan, and a copy of the articles of association.

Typically, it takes approximately two months to process a work permit application. Generally, a work permit for Taiwan is issued for two years and may be renewed yearly, if necessary.

Once the work permit application is approved, the appropriate government agency in Taiwan issues an employment authorization letter which enables the foreign national to obtain a resident visa for employment purposes from the consulate general or embassy of Taiwan or Taipei Economic and Cultural Office overseas.

Resident Visa

Required documents for the resident visa for employment purposes include an original valid passport (valid at least six months after the expiration date of the visa), a company letter of support, a job description, resume, and an employment authorization letter issued by the appropriate government agency in Taiwan.

Dependent resident visas are available for dependents of foreign nationals with employment authorization. A dependent of a foreign national is not authorized to work in Taiwan without first obtaining individual employment authorization.

After arrival in Taiwan, foreign nationals who have received approval for work and their dependents must obtain an alien resident certificate (ARC) from the local city/county police headquarters, permitting temporary residence in Taiwan, within 15 days of arrival in Taiwan. Typically, the ARC is valid for one year from the date of issue. Usually, it takes approximately three days to process a request for ARC. Holders of an ARC who need to leave and return to Taiwan should apply for a single or multiple reentry permit at the local city/county police headquarters before their departure.

Note: *The material above contains general information regarding visas, work permits, and residence permits required to stay and work legally in Taiwan. Readers should seek professional advice regarding the particular facts and circumstances involved in their case.*

Social Security

Foreign nationals who are legally employed and hold a valid resident alien permit are eligible to join the National Health Insurance (NHI) and the Labor Insurance programs. The Taiwanese branches of foreign companies are entitled to participate in the NHI program and both their Taiwanese and foreign employees are required to be enrolled.

Foreign employees are excluded from participation in the new Labor Pension Fund.

Social Security Totalization Agreements

Taiwan has not entered into any social security totalization agreements.

Taxation

Taxation of Earnings Abroad

There is no taxation of earnings abroad imposed on Taiwan residents.

Nonresident Taxation

Nonresidents who reside in Taiwan for fewer than 90 days in one tax year are subject to a 20% withholding tax on Taiwan-source income from Taiwanese employers only. The individual does not have to file a tax return.

Nonresidents who stay in Taiwan for more than 90 days but fewer than 183 days are subject to a 20% withholding tax on all Taiwan-source income. Dividends are taxed at 20% or 30%, and property transactions are taxed at 20%.

Resident Taxation of Foreign Nationals

Residents are individuals who live in Taiwan for more than 183 days in one tax year. Tax is assessed at the progressive rates of 6%, 13%, 21%, 30%, and 40%. Resident aliens are eligible for exemptions and deductions (see **Taxation of Compensation and Benefits**).

Certain employer-paid expenses, including relocation costs, utilities, house rental, and educational scholarships for children are tax-free to certain expatriate employees in Taiwan and a tax-deductible expense to the employer. To qualify, the expatriate employee must remain in the country for at least 183 days in a fiscal year, not hold dual nationality, work in certain professional sectors, and earn at least TWD 100,000 per month.

Double Taxation Treaties

Taiwan has taxation treaties with the following countries:

Australia	Malaysia	Swaziland
Belgium	Netherlands	Sweden
Denmark	New Zealand	United Kingdom
Gambia	Senegal	Vietnam
Indonesia	Singapore	
Macedonia	South Africa	

Treaties with Paraguay, the Philippines, Poland, and Thailand have been signed, but not yet ratified.