

NARRATIVE REPORT ON TAIWAN



PART 1: NARRATIVE REPORT

The first detailed analysis of Taiwan as an offshore centre emerged in July 2017 with the publication of the analysis of offshore sinks and conduits compiled by the CORPNET group of researchers at the University of Amsterdam.¹ Researchers found that Taiwan was a significant tax haven one of the most prominent destinations for offshore capital in the world. At the time of the publication of the report, the research team noted that previous studies which relied on IMF data missed Taiwan, since the country — under pressure from China — does not participate in IMF statistics.

Looking at the importance of Taiwan in the offshore world, the researchers noted that

“The prominence of Taiwan is driven by Taiwanese technological companies, which often own Chinese firms through Hong Kong (33 per cent) and Caribbean Islands (20 per cent), or own Hong Kong firms through Caribbean Islands (12 per cent).”²

The Tax Justice Network started covering Taiwan in our [2015 Financial Secrecy Index](#) and by the 2018 edition it had risen to No. 8. In that edition, the data we found on the country was too poor to include it in our main ranking.

Taiwan is ranked 13th on the 2020 Financial Secrecy Index, based on a secrecy score of 66 combined with a small scale weighting due to the fact that the Taiwan accounts for 0.59 per cent of the global market in offshore financial services.

Offshore Financial Business in Taiwan

To a large extent, the offshore industry in Taiwan has been driven by the political difficulties with China.

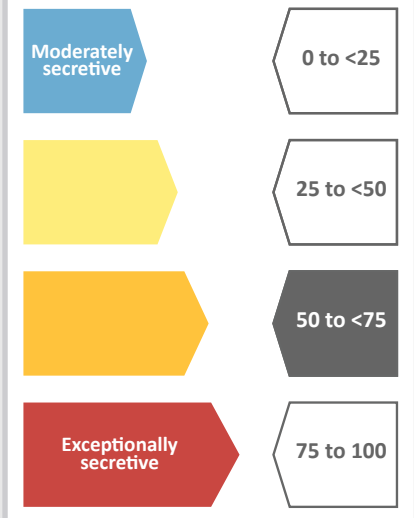
Due to the long-term political hostility with China, domestic companies which would like to do cross-strait business often set up offshore subsidiaries in a third country (usually a tax haven) to facilitate their cross-strait business operations.³

This offshore trade was facilitated by Taiwanese Offshore Banking Units (OBU), a financial structure first permitted in 1983.⁴ OBUs were a classic offshore vehicle designed to compete with unregulated foreign currency markets in London and Singapore, they allowed foreign companies and individuals to trade in foreign currency units via Taiwanese banks with minimal supervision, little regulation, secrecy and no taxes.⁵

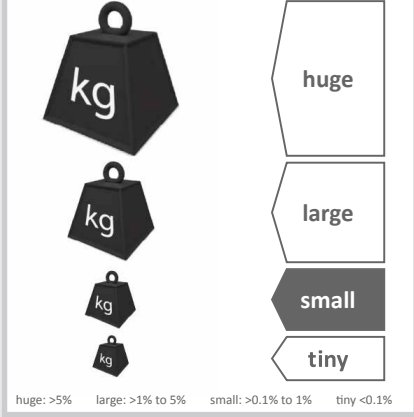
At the beginning, OBUs could not be used by Taiwanese residents. As a result, in the early years the OBU business did not go well, as Taiwanese banks could do little to break into the space dominated by better-known international players. However, Taiwanese companies were able to use OBUs via their offshore subsidiaries. With the emergence of China’s economy after the 1980s, the opening up of overseas business units to trade related banking services in the early 1990s and the increasing overseas investment activities by Taiwan’s enterprises, Taiwan’s offshore economy grew enormously.

Rank: 13 of 133

How Secretive? **66**



How big? **0.59%**



Taiwan accounts for 0.59 per cent of the global market for offshore financial services. This makes it a small player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.
 Full data is available here: <http://www.financialsecrecyindex.com/database>.
 To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.
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As a result, OBUs have served as a major channel enabling domestic Taiwanese companies to engage in overseas business operations (including cross-strait operations) through their offshore subsidiaries. By June 2019, the total assets of OBUs reached more than US \$218 billion,⁶ up from 173 billion in December 2015⁷ — a 26 per cent increase.

The next tax and money laundering haven in South-East Asia? It could be

In light of the Taiwanese National Money Laundering/Terrorist Financing Risk Assessment Report (NRA),⁸ offshore companies have about 97 per cent of OBU account numbers (3 per cent are foreigners or dual-citizens' individual accounts), and among offshore company accounts, almost 70 per cent have Taiwanese citizens/companies behind them.

The practice of Taiwanese citizens or domestic companies using OBUs via offshore companies as a mechanism for avoiding domestic taxation has come in for criticism in Taiwan. The mass media in Taiwan generally labels those who deliberately conduct their business via non-resident companies as “fake foreign investment.” For the past 30 years, however, the government has done little to tackle the problem. There were no reports of prosecutions for “fake foreign investment” until 2014, when the first was confirmed by the Taiwan Financial Supervisory Commission (FSC).⁹ It has long been rumoured that FSC will investigate banks and require them to submit a list of beneficial owners for each OBU account, but that has not yet happened or no further tax audit occurred. That significantly increases the financial secrecy of beneficial owners and the number of opportunities for money laundering and other illicit transactions.

All of this means that Taiwanese citizens are relatively heavy users of offshore structures. According to a report published by a local Taiwanese media outlet, which participated in the Offshore Leaks investigation by the International Consortium of Investigative Journalists (ICIJ), there are 16,856 individual Taiwanese clients found in the database — 25 per cent more than from Hong Kong and 80 per cent times more than from China.¹⁰

The country is a member of the Asia Pacific Group (APG) of the Financial Action Task Force (FATF), where it is called Chinese Taipei. The group started evaluating the country in 2007 and placed it on the ‘regular follow-up’ list as a result of inadequate controls on money laundering and ineffective supervision of financial institutions. FATF placed the

country on the ‘enhanced follow-up’ list in 2011, and then on the ‘transitional follow-up’ list in 2014 for further evaluation of Taiwan’s progress.

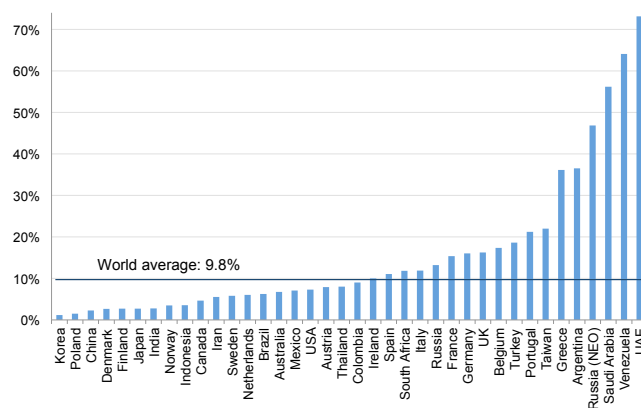
In addition, the US imposed a \$180 million USD fine on one of Taiwan’s government-affiliated banks for not complying with AML regulations in August 2016. In particular, a substantial number of customer entities were reportedly formed with input from Mossack Fonseca,¹¹ the most prominent character in the Panama Papers.

US \$5 billion in taxes the Taiwanese government can’t collect

Long before tax evasion was codified as a money-laundering activity in an amendment of the AML act in June 2017, tax crime was rampant in Taiwan. From 2014 to 2016, illicit taxable income due to tax-evasion activities amounted to NT\$ 75 billion (around US \$2.4 billion) — far more than the illicit income derived by any other crime activities, such as drug trafficking, fraud, smuggling and organized crime, which are labelled as ‘very high’ level threats in the overall ratings list of the ML/TF Threat profile of Taiwanese NRA.

For Taiwanese tax-resident individuals, offshore income should be subject to individual Alternative Minimum Tax (AMT) at a rate of 20 per cent, per Taiwanese law. How much tax do they evade?

Figure 5: Offshore wealth, % of GDP



Taiwanese household wealth hidden offshore amounts to almost 22 per cent of Taiwanese GDP in 2017. That is double the world average of 9.8 per cent, and ranks Taiwan seventh in the world for wealth offshore.¹²

Taiwan’s GDP in 2017 was US \$574,9 billion based on IMF data, the estimated wealth hidden offshore amounts to US \$126,48 billion. Assuming a 20 per

cent profit rate and 20 per cent AMT tax rate, the estimated amount of tax evasion could reach US \$5,06 billion in 2017 alone. In the same spirit, that amount could increase in 2019 to US \$5,29 billion, which would be about 32 per cent of Taiwan's 2019 social welfare expenditures.¹³

Tax loophole- lopsided Offshore Funds Repatriation Act ("the Act")

In July 2019, the Taiwanese government passed an act to lure resident corporations and individuals to repatriate their offshore funds, offering them lower tax rates of 8 per cent in the first year or 10 per cent in the second year (though repatriation requires approval from concerned authorities).¹⁴ Onshore investment of such funds is eligible for an additional refund of half of the tax amount so the effective tax rate would be merely 4 per cent or 5 per cent, instead of as high as 40 per cent of an individual's taxable income from China or other offshore jurisdictions; or 20 per cent of a corporation's taxable income from any other jurisdiction.¹⁵

The Act says getting the preferential tax rate requires compliance with AML and terrorism funding laws (tax evasion is regarded as one type of money laundering activity), and also asks the receiving bank to perform the related inspection. Nevertheless, as an individual who has overseas income and has successfully evaded domestic taxation obligation (i.e. AMT) within the statute of limitations, he/she could instead seize this opportunity to apply for approval and transform the illegal tax evasion income into legal and government-welcomed funds.¹⁶

The Act permits repatriating funds to a specified domestic bank provided that no AML violation/risk is identified and that a certificate of AML examination is issued by a bank. Since 25 per cent of the repatriated funds can be invested in financial products, every bank's management would face a dilemma between the thoroughness of AML scrutiny and the growth of its own key performance indicators, not to mention whether they even have the capability to perform AML due diligence.¹⁷

No matter what the main purpose of the Act is — stimulating the domestic economy, giving up cost-and-time-consuming tax investigations under the bilateral Common Reporting Standards regime or preparing for the upcoming presidential election in January 2020 — an estimated NT \$ 1.79 trillion of funds will come back to Taiwan in the first two years after the Act. In other words, a gigantic tax loophole has been tailor-made for the rich by the Taiwanese government.¹⁸

Political Isolation

No complete analysis of the financial policies of Taiwan is possible without understanding the unique international position of the country.

Taiwan was the home of the Kuomintang government of China after it lost the Chinese Civil War. Both the People's Republic of China in mainland China and the Republic of China in Taiwan continue to claim sole sovereignty over China in its entirety.

At the same time, China has been the biggest trading partner for Taiwan for more than a decade. In 2018, 41 per cent and 20 per cent of Taiwan's total exports and imports were to and from China.¹⁹ Still, the US, which has supported Taiwan, is its third-biggest trading partner and is responsible for approximately 12 per cent of Taiwan's total exports and imports. In addition, the US has been selling large numbers of weapons to Taiwan for decades. Consequently, both the US and China are major factors in Taiwan's planning and implementation of international relations.

Aside from its economic dependence on China, Taiwan has always struggled to connect and interact with international institutions or organizations and to be recognized as an official country — not only in substance, but in form as well. In pursuing its "One China policy"²⁰ the People's Republic of China has used its international influence to prevent Taiwan from joining all kinds of international institutions. Today, Taiwan is one of the world's largest economies that is not a member of the United Nations. Other UN organisations such as the World Health Organisation and the OECD have rejected Taiwan's admission.²¹ Some have granted Taiwan admission only via a different name such as "Chinese Taipei," "Taiwan, China" or "Taiwan, Province of China" — all names which suggest that Taiwan is not an independent country but part of mainland China.

Even though Taiwan cannot join the UN, it still follows and implements some prominent international conventions into domestic law, for instance:

1. UN Convention Against Corruption²²
2. UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances²³
3. UN International Convention for the Suppression of the Financing of Terrorism²⁴
4. UN Convention Against Transnational Organized Crime²⁵

Taiwan is not a member of the OECD's global forum on transparency and exchange of information for tax purposes, a body which reviews the progress of countries in bringing their laws up to international standards. However, as discussed below, it has committed to implementing many of the international standards into domestic law.

Taiwan's dilemma when considering applying CRS

The issue of the OECD's Common Reporting Standards (CRS) demonstrates the difficulties facing the country. It would be evidently more practical for Taiwan to apply CRS through a Multilateral Competent Authority Agreement (MCAA). However, this will put Taiwan into quite an unfavourable position given the "One-China policy": neither Taiwanese citizens nor their government would accept joining MCAA with the name "Taiwan, China" or "Taiwan, province of China."

In light of this, it seems that Taiwan could apply CRS only by following Hong Kong's current model and signing Bilateral Competent Authority Agreements (BCAA) under either the existing framework of Double Taxation Agreements (DTA), or new Tax Information Exchange Agreements (TIEA). It would take much longer to sign BCAAs and negotiate conventions of DTAs or TIEAs with each jurisdiction, especially because China pressures countries not to enter into international agreements with Taiwan. This will consequently raise the chances of Taiwan appearing on lists of non-cooperative jurisdictions.

No matter which way Taiwan goes in the future, Taiwan has begun to include CRS's legal basis into domestic law to follow and implement the Standard for Automatic Exchange of Financial Account Information in Tax Matters and has planned to implement CRS starting in 2019 and to initiate information exchange in 2020 by promulgating or drafting relevant statutes and regulations.

Initially, exchange will only take place within jurisdictions that have signed a DTA or TIEA with Taiwan. Countries that have not signed, e.g. China, South Korea, or Mexico, will not receive or be capable of requesting any tax or financial account information or vice versa. This means Taiwan will still be at risk of being a non-cooperative jurisdiction and will raise doubts about its financial transparency. The issue will be particularly important to financial flows between China and Taiwan. Companies interested in doing business in China may indirectly invest in China through a Taiwanese subsidiary company without tax and financial information being disclosed or exchanged with China's government. The irony of

the situation is that China's tense relationship with Taiwan perpetuates financial secrecy, leading to tax leakage from Taiwan and perhaps China itself.

Is the world ready to put Taiwan in the same boat?

The Taiwan situation puts the OECD in a difficult position. The OECD has warned that jurisdictions which do not follow CRS will be put on a list of non-cooperative jurisdictions and may be subject to defensive measures. That said, the OECD has unsurprisingly refused to allow Taiwan to join the organization and has ignored Taiwan by not including the country in its Global Forum review and the subsequent list of cooperative and non-cooperative jurisdictions in June 2019.²⁶

In its Global Forum Annual Report 2018,²⁷ the OECD further announced its future attitude:

"In addition to a wider scope of issues covered, the new round will also have a more global coverage as membership in the Global Forum has increased: all 154 Global Forum members are scheduled to undergo the assessment by 2021 and any future members or jurisdictions considered relevant to the work of the Global Forum will also be reviewed [9] Note: The Global Forum reviews also non-members that are considered relevant to its work, to ensure a level playing field."

As to a level playing field, would Taiwan have a chance to be covered in the Global Forum and the assessment by 2021 based on the above language? Is the OECD's position sustainable? Confirming Taiwan had still not been invited to the World Health Assembly in 2017, its Minister of Health said, "The control and prevention of diseases and epidemics should go beyond boundaries."²⁸ In a similar spirit, when pursuing the restraint of multinational illicit activities and advocating international tax transparency, should Taiwan not be allowed by the international community to go beyond boundaries and even beyond the One China policy?

Yet there were important improvements

In preparation for the FATF Asia Pacific Group's (APG) mutual evaluation in 2018, almost 10 years after receiving the mutual evaluation report from APG and being added to the watchlist, the Taiwanese government took action to improve anti-money laundering controls. It:

1. Amended AML regulation (Money Laundering

Control Act) in 2016²⁹

2. Revised the regulations governing the OBUs in May 2017³⁰
3. Revised the rules governing Offshore Insurance Units (OIUs) in July 2017
4. Revised the governing Offshore Securities Units (OSUs) in July 2017
5. Drafted the Whistleblower Protection Act in May 2019³¹
6. Implemented Company Act amendments regarding disclosure of de facto beneficial owners in November 2018³²
7. Passed the Foundations Act in August 2018³³

The amendments to AML regulations were mainly based on the recommendations of APG’s mutual evaluation report in 2007 and the following rounds of assessment. The amendments of OBU, OIU and OSU regulations seem to increase financial transparency by paying attention to disclosures of substantial beneficiaries and Know Your Customer (KYC) rules, and consequently require each bank to re-examine all of their OBUs’ existing accounts and to submit beneficial-ownership information by December 2017.

The work of Taiwan’s government has not gone unnoticed. In July 2017,³⁴ Taiwan was removed from APG’s transitional follow-up list of Asia-Pacific jurisdictions and further advanced to the “regular follow-up” list in June 2019.³⁵

Justice: Light like a feather, heavy as lead

Nevertheless, the long-expected draft clause in the Company Act on de facto beneficial owner disclosure, due to the work of lobbyists, has been a crippled version since 2018. Only a company’s direct and major shareholders are required to be disclosed to the concerned authorities — on a government platform that is not made public.

A similarly ironic situation happened with transparency in the real-estate market with the amendment of reporting regulations for the public transaction-disclosure platform. The draft version of these amendments, which were originally intended to request that pre-sale house transaction amounts should be made public shortly after the sale is concluded, was abandoned in the reviewed version by Taiwan’s Legislative Yuan. People still need to wait another two years to know the actual transaction

price of a property — a huge playroom maintained for real-estate developers.

In addition, even though the latest draft of whistleblower protection regulations is applicable, not only to the public sector but also to the private sector,³⁶ there will likely be more interference from interested parties when the regulations are reviewed by Taiwan’s Legislative Yuan in the near future.

Despite the fact that foundations in Taiwan can only be created for public-benefit purposes, the law has been criticised for decades. Due to the design flaw of a foundation’s control on directors, Taiwanese foundations have become loopholes for wealthy individuals to hide their fortune or to get tax deductions when making a donation to a foundation that is controlled directly or indirectly by them.

The Foundations Act in June 2018 does not seem to tackle the above issues, though it ostensibly regulates them:

“a foundation shall not transfer to, or use its property for, the endower or their related party, or other profit-seeking enterprise that the endower or the endower’s related party is the responsible person, a director, a supervisor or a manager”.³⁷

A monetary trust that particularly does not have to register nor report to the concerned authority or an arrangement of two-layer corporations could easily bypass the above limitations.

In short, although the Taiwanese government has made certain efforts to revise or draft many regulations in the very recent years, it is crystal clear that there is still a long way to go.

Endnotes

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PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

- 34 1. Banking Secrecy
- 50 2. Trust and Foundations Register
- 100 3. Recorded Company Ownership
- 75 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 90 8. Country-by-Country Reporting
- 50 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

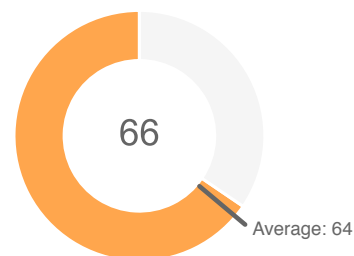
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 75 11. Tax Administration Capacity
- 75 12. Consistent Personal Income Tax
- 0 13. Avoids Promoting Tax Evasion
- 25 14. Tax Court Secrecy
- 50 15. Harmful Structures
- 50 16. Public Statistics

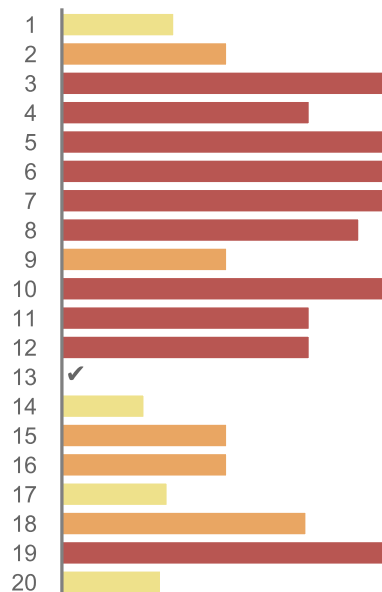
INTERNATIONAL STANDARDS AND COOPERATION

- 32 17. Anti-Money Laundering
- 74 18. Automatic Information Exchange
- 100 19. Bilateral Treaties
- 30 20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrityindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrityindex.com>.