

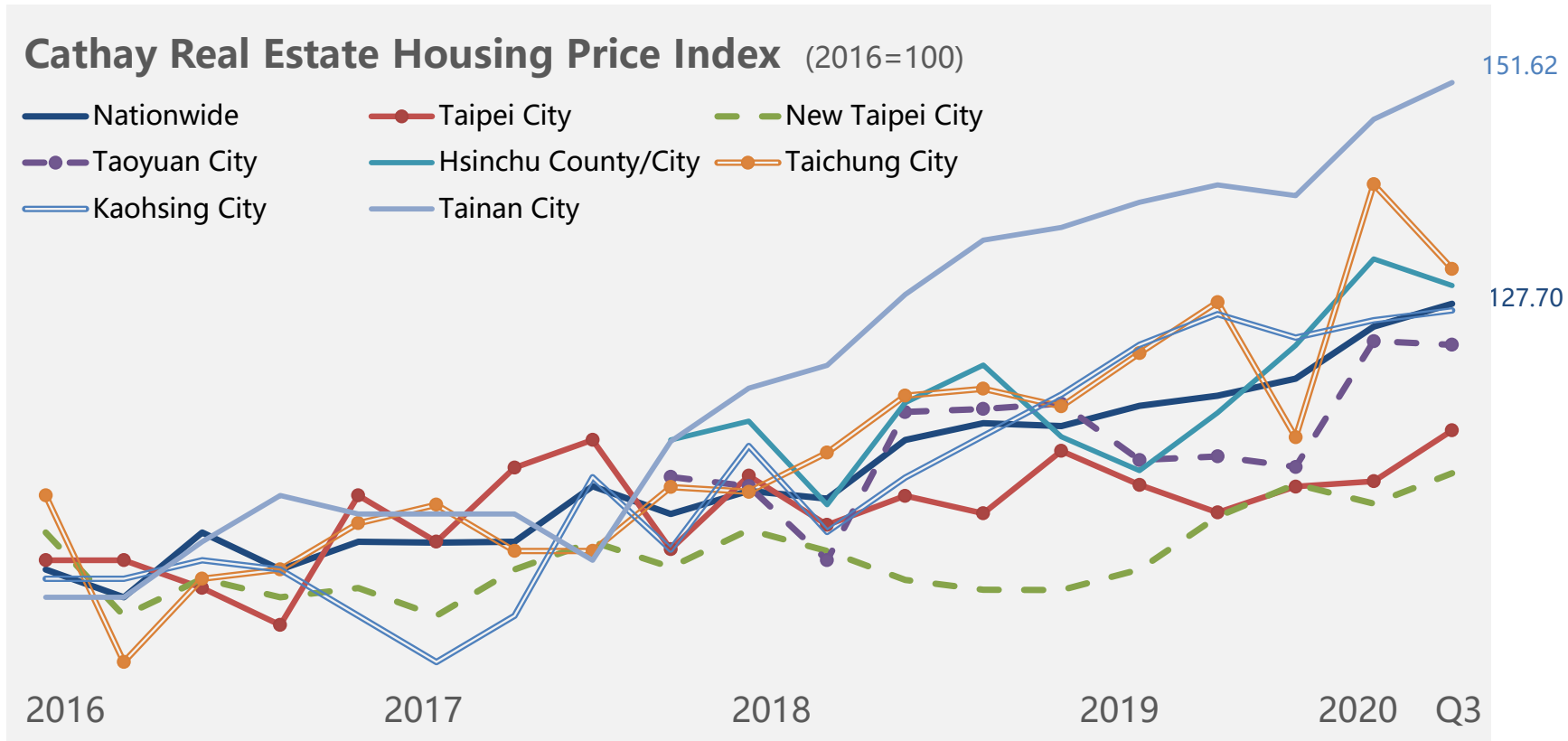


Healthy Real Estate Market Plan



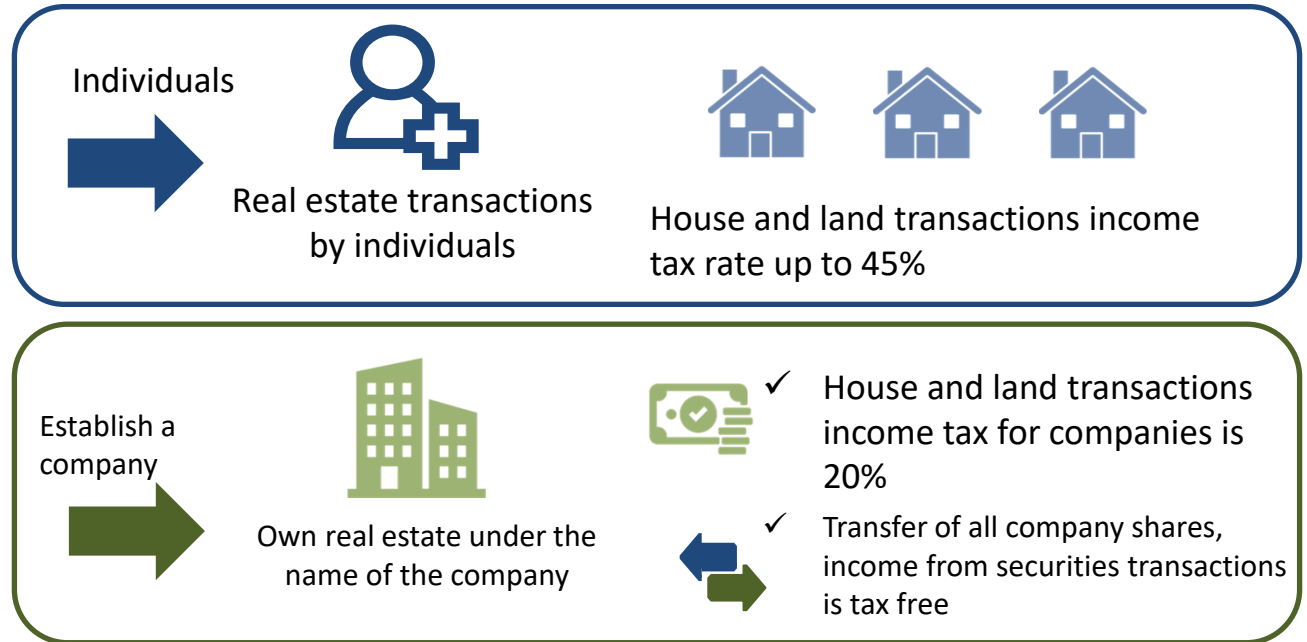
National Development Council

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Pre-sold house prices rise significantly without control, so management must be strengthened as soon as possible

- According to the Cathay Real Estate Housing Price Index (price of new project), the national growth rate reached 9.46% in Q3 2020, and Hsinchu (18.25%), Taoyuan (11.23%), and New Taipei City (10.49%) were higher than the average, so management must be strengthened as soon as possible.
- In practice, the price of pre-sold house purchase order transactions is hard to obtain, making it hard to manage.



Individuals establish a company or transfer shares to evade real estate tax

- Individuals may establish a company to buy and sell real estate at a lower tax rate, or transfer company shares to achieve the effect of transferring real estate, **using tax free income from securities transactions to evade house and land transactions income tax.**
- There are currently no restrictions on legal persons purchasing houses, so private legal persons can easily be used for speculation in the housing market.

For example: Current house value is NT\$5 million

**TAX
\$\$\$**



Divided into:
Smaller
properties
and multiple
tax bills

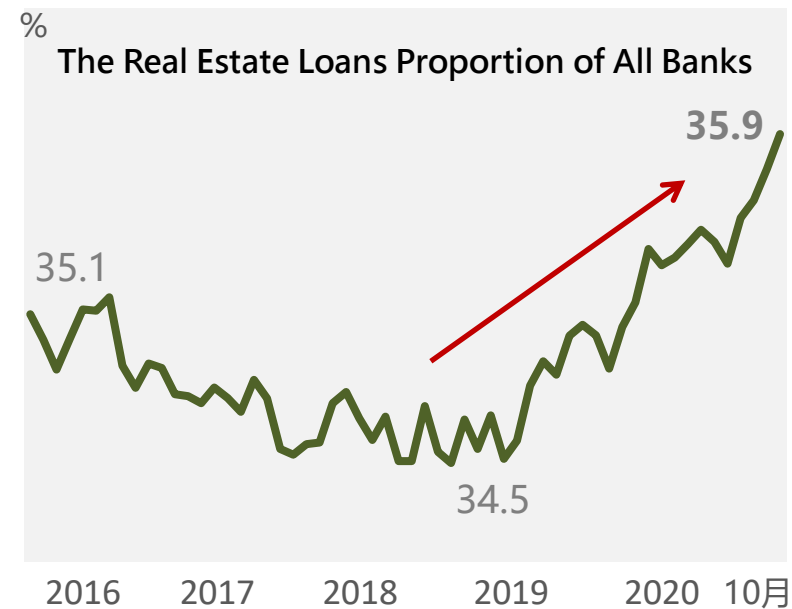
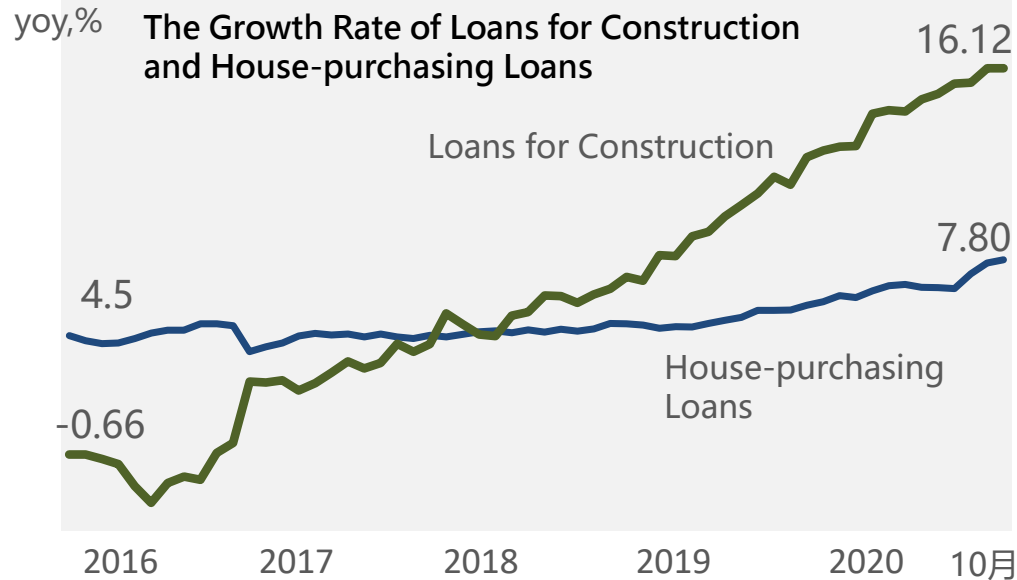
Current value is lowered to NT\$90,000, NT\$90,000, NT\$90,000, NT\$90,000....

**TAX
FREE !!!**



The owner evades house tax by dividing a single unit into small properties

- Pursuant to Article 15 of the House Tax Act, houses with current value of NT\$100,000 or less are exempted from house tax. The purpose of the article was originally to reduce the burden of economically disadvantaged people living in simple housing, but also exempts small or old houses from taxes.
- Some owners have divided a single unit into small properties, making the current value of each property lower than NT\$100,000 to evade house tax.



Following the continued easing of the credit market, supervision of unreasonable real estate situations must be intensified

- Current credit indicators are good:

As of the end of October 2020, the ratio of non-performing loans for house purchases was 0.14% (overall ratio of non-performing loans was 0.25%). Provision for bad debt in the housing market was 1.56% (at least 1.5%). Construction loans account for 26.82% of all loans provided by banks (must be lower than 30%).

- A few financial institutions provided longer loan contracts with higher loan-to-value ratio when providing loans for house purchase. The real estate loans proportion of all banks was near the record high of 37.9% (October 2009) at the end of October, and therefore needs to be closely monitored and cautiously supervised.

Note: Pursuant to Article 72-2 of the Banking Act of The Republic of China, the total amount of loans extended for residential construction and construction for business purposes by a Commercial Bank shall not exceed thirty percent (30%) of the aggregate of such Commercial Bank's deposits and Bank Debentures issued at the time such loans is extended. Source: Central Bank, FSC, financial statistics announced on November 26, 2020.

MEASURES FOR STABILIZING THE REAL ESTATE MARKET

Short-term or Immediate implementation

- ✓ Regularly inspect the housing market situation
- ✓ Pre-sold house and housing market speculation

- 1.1 Establish real estate market diagnostic indicators
- 1.2 Step up audits on sales of pre-sold houses
- 1.3 Accelerate the amendment to actual-price registration laws
- 1.4 Step up audits of profits from real estate transactions

Discourage speculation

- ✓ Individual using a company to evade taxes
- ✓ Dividing single units into separate properties to evade taxes

- 2.1 Prevent individuals from using companies to evade real estate tax
- 2.2 Revise the current house value tax exemption standard

Prevent tax evasion

- ✓ Housing market flooded by capital
- ✓ Mortgages should be within the borrowers ability
- ✓ Sound credit decisions

- 3.1 Effective allocation and reasonable utilization of credit resources
- 3.2 Control banks' credit risks
- 3.3 Strengthen financial supervision

Prevent the housing market from being flooded by capital

Create quality homes to achieve housing justice

- ✓ Strengthen social housing and rent subsidy

- 4.1 Improve housing subsidies and assistance

Continued implementation and mid/long-term discussion

- ✓ Actual house use does not comply with requirements
- ✓ Pre-sold house and housing market speculation
- ✓ Reasonable house tax
- ✓ House purchase by private legal persons

- 5.1 Inspection of actual house use
- 5.2 Tighten control over sales of pre-sold houses
- 5.3 Continue to review the house tax rate
- 5.4 Establish a system for approving house purchases by private legal persons

Short-term or Immediate implementation (1/3)



Regularly inspect the housing market situation

1.1 Establish real estate market diagnostic indicators

- Integrate real estate financing, market, and policy indicators, and establish a **diagnostic indicators** system to diagnosis the real estate market's supply and demand and whether transactions are healthy.

[MOI, Central Bank, FSC, MOF, NDC]



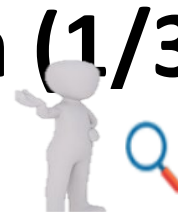
Pre-sold house and housing market speculation

1.3 Accelerate the amendment to actual-price registration laws

- The sale of pre-sold houses by the owner or agent must be controlled, transactions must be reported before and after, the specific house number must be disclosed, and more severe penalties must be imposed for reporting false prices.

[MOI]

Pre-sold house and housing market speculation



1.2 Step up audits on sales of pre-sold houses

- **Establish a pre-sold house management team**
 - ✓ The Ministry of the Interior (MOI), Executive Yuan's Consumer Protection Committee (CPC), and Fair Trade Commission (FTC) formed a task force to establish effective management and auditing measures. [MOI, CPC, and FTC]
- **Investigate speculation**
 - ✓ Continue to conduct joint investigations of pre-sold house sales, advertisements, contract, construction management, and taxes. [MOI]

Pre-sold house and housing market speculation



1.4 Step up audits of income from real estate transactions

- **Tax audit**
 - ✓ Enhance audits of pre-sold house transactions.
 - ✓ The MOI and MOF established a reporting mechanism, and the MOF conducts audits and collects taxes in accordance with the law.

[MOF]

Short-term or Immediate implementation (2/3)



Individual using a company to evade taxes

2.1 Prevent individuals from using companies to evade real estate tax

- **Implement the Profit-seeking Enterprise Real Estate Transaction Auditing Project**
 - ✓ The MOF enhances audits of individuals establishing profit-seeking enterprises for tax evasion and speculation, and enhances its auditing techniques and tax information collection to maintain fairness in taxation.
- **Amend the Basic Income Tax Act**
 - ✓ The MOF drafted amendments to Articles 12 and 18 of the Basic Income Tax Act, and plans to include income from transactions of unlisted stock in the taxable amount of basic income. [MOF]



Dividing single units into separate properties to evade taxes

2.2 Revise the current house value tax exemption standard

- **Discuss the amendment to Article 15 of the House Tax Act, and revise the current house value tax exemption standard**
 - ✓ Add restrictions on the number of natural person housing units (the number of houses is based on the local government's data, calculated separately from the number of houses used for residential purposes) and exclude legal persons to eliminate tax evasion. [MOF]

Short-term or Immediate implementation (3/3)



Prevent the housing market from being flooded by capital

✓ Housing market flooded by capital

3.1 Effective allocation and reasonable utilization of credit resources

Prevent credit resources from flooding the real estate market

- Urge individual banks to carefully consider loans for investing in real estate for non-residential purposes, and loans for construction companies to construct new houses (available for sale).

Adopt selective credit control measures when appropriate

- The Central Bank will adopt selective credit control measures in accordance with the Central Bank of the Republic of China (Taiwan) Act when necessary.

[Central Bank, FSC]

✓ Mortgages should be within the borrowers ability

3.2 Control banks' credit risks

Help customers evaluate their ability to afford and repay loans

Enhance internal audits of banks and management of real estate credit extension

- Banks must properly conduct credit investigations, tracking, and evaluation.
- Send letters requesting banks make improvements for deficiencies found in financial inspections of real estate loans.

[FSC]

✓ Building sound credit decisions

3.3 Strengthen financial supervision

Strengthen real estate business risk management and financial inspections

- Carefully supervise individual banks to determine if they have more relaxed loan terms.
- Plan financial inspections for projects.

Capital requirements and alignment with international standards

- Use the LTV method, and loans with higher LTV have higher risk weight.

[FSC] 9

Create quality homes to achieve housing justice

✔ Strengthen social housing and rent subsidy



4.1 Improve housing subsidies and assistance

- The government directly constructs social housing, with the central government responsible for constructing 66,000 housing units.
- Provide landlords with greater incentives, in order to accelerate the implementation of social housing subletting management.
- Expand rent subsidies with the goal of reaching 120,000 housing units a year.

[MOI]





Continued implementation and mid/long-term discussion

- ✓ Actual house use does not comply with requirements



5.1 Inspection of actual house use

Intensify inspections of house use and applicable tax rate

- The MOF urges local governments to inspect actual use of houses to prevent tax evasion.

[MOF]

- ✓ Pre-sold house and housing market speculation

5.2 Tighten control over sales of pre-sold houses

Discuss an amendment to tighten control of real estate market information and sale of purchase reservation

- Amend the Equalization of Land Rights Act, so that pre-sold house purchase contracts require actual-price registration.

[MOI]

- ✓ Reasonable house tax



5.3 Continue to review the house tax rate

Discuss the amendment to Article 5 of the House Tax Act at an appropriate time: Adjust the tax rate for houses used for non-residential purposes.

[MOF]

- ✓ House purchase by private legal persons

5.4 Establish a system for approving house purchases by private legal persons

Restrict house purchase by private legal persons: Discuss the amendment to the Equalization of Land Rights Act, and add a system for approving house purchase by private legal persons.

[MOI]

Conclusions

- The real estate market's healthy development is a matter of concern to citizens' right to adequate housing. Speculation and irrational pricing may result in resource misallocation and further widen the wealth gap, which will impact the financial system's stability as well as social and economic development.
- The government immediately implemented measures for issues of the domestic real estate market; tightened controls over speculation using house purchase orders and tax evasion in transactions done under a company name or where single units are subdivided into separate properties; expanded social housing and rent subsidy to ensure the real estate market's health development and reasonable resource allocation.
- House tax rate, house purchase by private legal persons, and sale of pre-sold homes will continue to be reviewed in the mid-term and long-term, so that timely adjustments can be made.