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From Income Inequality to Wealth Concentration: Taiwan's Distribution Challenges and Directions for Tax Reform

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The Prosperity Paradox

Driven by the global AI boom, Taiwan's economy has delivered impressive headline numbers in recent years: record-breaking exports, a stock market index surpassing 48,000 points, single-day trading volumes topping NT$1.8 trillion, and a sharp rise in securities transaction tax revenue. Yet beneath these booming aggregates, a widening crack has emerged: even as the stock market and financial assets repeatedly hit new highs, economic prosperity has become increasingly disconnected from the distribution of its gains.

The Widening Wealth Gap

Notably, Taiwan's income distribution has remained relatively stable, with no significant worsening in household income gaps. The real problem lies elsewhere: in wealth distribution. As stock and property markets continue to rise, asset owners continue to accumulate wealth through capital gains, dividends, rental income, and asset appreciation, while those who rely solely on wages simply cannot keep pace. This helps explain the growing public sentiment that “working no longer pays off compared to investing” and that “wages can't catch up with assets.” Statistics show that the wealth gap between Taiwan's richest and poorest 20% of households has widened dramatically: from 16.8 times three decades ago to nearly 67 times today.

An Emerging Generational Divide

Even more concerning, this wealth gap is increasingly becoming a matter of intergenerational inheritance. As wealth is passed down primarily through inheritance and family resources, children of affluent families are far more likely to remain in the upper end of the wealth distribution. This means that even highly educated and hardworking young people face greater difficulties in purchasing a home, accumulate wealth slowly, or find upward mobility difficult: simply because they lack family assets behind them. Distributional inequality, in other words, is no longer merely an economic issue; it has become a structural challenge affecting generational fairness and social mobility.

The Tax System's Structural Imbalance

At the root of this problem lies a long-standing imbalance in Taiwan's tax structure — one that places a heavier tax burden on labor income than on capital income. Wage income is subject to progressive taxation, but capital gains from stock trading remain exempt from income tax altogether. Dividend income can opt for a lower separate tax rate, and even day-trading transactions enjoy a 50% discount on securities transaction tax. This institutional design reinforces the public perception that hard work is rewarded less generously than financial speculation. Meanwhile, Taiwan's tax-to-GDP ratio — excluding social security contributions — stands at just 13.3%, far below most advanced economies, underscoring how limited the government's fiscal tools are for correcting this imbalance.

The Path Forward

This paper proposes that the government should establish an independent National Fiscal Reform Commission to comprehensively review outdated elements of the tax system. In particular, the temporary day-trading tax discount should be allowed to expire as originally scheduled, restoring tax neutrality between short-term and ordinary trading. Should political realities require its extension, the standard securities transaction tax rate and capital gains taxation framework should be reviewed in tandem, so that capital income contributes more fairly to public finance. Dividend taxation should also be gradually adjusted to narrow the gap between capital and labor tax burdens, closing loopholes that allow high earners to minimize taxes through dividend income.

As AI-driven capital accumulation reshapes Taiwan's economy, the country's policy challenge is no longer confined to income inequality, but increasingly centers on wealth concentration and intergenerational mobility. Building a fairer tax system — one that balances the taxation of labor and capital — will be essential to ensuring that economic growth translates into broadly shared prosperity rather than increasingly concentrated wealth.