

Crapo Statement at Taiwan Tax Legislation Markup
September 14, 2023

Washington, D.C.--U.S. Senator Mike Crapo (R-Idaho), Ranking Member of the U.S. Senate Finance Committee, delivered the following remarks at an open executive session to consider the *United States-Taiwan Expedited Double-Tax Relief Act*.

As prepared for delivery:

“Thank you, Mr. Chairman, and thanks to you and your staff for your efforts to craft solutions for the very unique circumstance we are addressing today.

“Without question, deepening ties with Taiwan and its vibrant democracy is in our nation’s best interests.

“More than 90 percent of the world’s most advanced memory chips—used in everything from digital devices to AI-enabled data centers to cutting edge defense technology—are produced in Taiwan.

“Thus, this Committee has a strong interest in ensuring Taiwan remains economically and defensibly secure.

“This summer, the Senate demonstrated support for Taiwan by unanimously passing legislation I co-led with the Chairman approving the first trade agreement signed under the U.S.-Taiwan Initiative on 21st-Century Trade.

“Today, we convene to further strengthen the economic partnership between the U.S. and Taiwan by addressing double taxation to encourage cross-border investment.

“Taiwan is our largest trading partner with whom we do not have an income tax treaty.

“Normally, Congress enters into a tax treaty with a country to alleviate the double tax burden on cross-border investment. However, Taiwan’s unique status precludes it from dealing with double tax issues through a traditional tax treaty.

“The process we are considering today should not be viewed as a new template to shortcut or end-around tax treaties.

“Absent this very unique circumstance, the proper path for considering bilateral income tax treaties should be through the Foreign Relations Committee, led by Chairman Menendez and Ranking Member Risch.

“However, Taiwan’s very unique status requires a very unique solution: it requires this Committee’s expertise to make direct changes to the tax code to deliver treaty-like benefits for American and Taiwanese workers and businesses operating across our borders.

“These direct changes to the tax code will unlock cross-border investment and provide businesses and workers much-needed certainty in four main areas, all of which are in the scope of a traditional tax treaty.

“First, the bill will significantly reduce withholding taxes on dividends, interest and royalties paid on cross-border investments.

“According to a 2020 survey by the American Institute in Taiwan, almost four out of five Taiwanese companies with a U.S. presence consider the current 30 percent dividend withholding tax to be a considerable factor preventing additional U.S. investment.

“These additional investments are especially crucial in enhancing our onshoring capabilities for advanced manufacturing.

“Over the past few years, supply chain shortages, and surge in demand for computing power, have highlighted the critical importance of Taiwan’s semiconductor industry to the basic functioning of products we rely on for everyday life.

“While those additional investments by established chipmakers will bolster our economic and national security, those larger companies cannot operate in isolation—they rely on a large network of small and medium size suppliers.

“The second part of this bill—applying permanent establishment rules to create a higher threshold for taxation in the source country—would reduce barriers for smaller and mid-sized Taiwanese companies to conduct certain activities in the U.S., fortifying our domestic supply chains.

“This bill not only encourages business cross-border investment; it also provides relief and certainty for workers.

“For Taiwanese workers performing services in the U.S., this bill provides they can spend up to half of a year in the U.S. before subjecting their wages to U.S. income tax, encouraging those workers to invest more time in U.S. operations.

“Finally, to provide additional clarity, the bill offers a set of tie-breaker rules to ensure workers who are residents of both U.S. and Taiwan are not double taxed on their income.

“Importantly, all of these items are subject to a reciprocity clause: these benefits are contingent on Taiwan agreeing to provide reciprocal benefits to U.S.-based companies and individuals investing and working in Taiwan.

“While foreign direct investment from Taiwan into the U.S. has surged over the last few years, Taiwan is also a key destination for U.S. exports.

“Last month, back home, I heard firsthand how Taiwan is a critical ally for Idaho businesses.

“Taiwan is the second largest export destination for Idaho products, increasing by 16 percent from 2021 to 2022. And 70 percent of those exports involve electrical equipment and machinery.

“Both in Idaho and throughout our country, our economic and strategic relationship with Taiwan is as important as ever.

“This bill will help workers and businesses of all sizes get ahead in both the U.S. and Taiwan.

“Again, thank you to the Chairman, and all of the members of this committee, for their hard work and support to strengthen our long-term partnership with Taiwan.

“I also thank and recognize the staff of the Joint Committee on Taxation (JCT) for their tireless work. The Finance Committee cannot properly function without JCT’s technical expertise.

“So, thank you to Tom Barthold, JCT’s Chief of Staff, who is with us today and to the policy staff at JCT who helped all Finance members prepare for today’s markup: Kristine Roth, Jared Hermann, Jeff Arbeit, Carol Wang and Chia Chang, and many others who worked behind the scenes. Your hard work over the past few months is greatly valued and played an indispensable role to make this markup possible.

“Once the Finance Committee reports this bill, I look forward to continue working with Senators Menendez and Risch and their colleagues on the Foreign Relations Committee on this issue. I am encouraged by recent progress we have made, and confident we will be able to find an appropriate path forward for each committee.

“Thank you, Mr. Chairman, and I yield back.”