Michael R. Splinter
Chairman of the Board

Senator Robert Menendez
Honorary Co-Chair

Senator Lisa A. Murkowski
Honorary Co-Chair

Rupert J. Hammond-Chambers
President

SPECIAL COMMENTARY:
TAIWAN TAX LEGISLATION
October 25, 2023

Rupert Hammond-Chambers
President
US-Taiwan Business Council

The United States Congress is currently undertaking an effort to pass legislation encouraging a more favorable bilateral tax environment between the U.S. and Taiwan, or even authorizing the Biden Administration to negotiate a formal tax agreement with Taiwan. This effort is focused on reciprocal avoidance of double taxation for U.S. and Taiwan businesses and workers to promote commerce and cross-border investments. The effort consists of several versions of bills currently making their way through the Committees on Finance and Foreign Relations in the U.S. Senate and through the Committee on Ways and Means in the U.S. House.

The US-Taiwan Business Council sent a letter to the U.S. Senate Committee on Finance to underscore the importance of resolving outstanding tax issues in the U.S.-Taiwan relationship – including alleviating double taxation burdens — and expressing our support for a bilateral commercial tax regime for this crucial top-ten U.S. trading partner. A copy of the October 19, 2023 letter is attached.

Although there are significant differences between the various versions, bipartisan support across the board means that those differences do not represent insurmountable hurdles to the passage of a final consolidated bill on this issue. When passed, this tax legislation could boost the U.S.-Taiwan economic relationship, especially for Taiwan semiconductor investments in the United States, aligning with a core strategic goal both for the Biden Administration and for Republicans.

Countries across the globe — including the U.S. – are currently working to attract specific technology sectors. This investment focus is intended to create clusters of excellence and provide top-paying jobs, while supporting economic and national security goals. Such clusters also promote innovation and entrepreneurship, support intellectual property development, and provide the economic security that can only come from basing crucial production on shore. The semiconductor sector is the best example given its prominence in American neo-industrial policy, and the recent economic challenges created by supply chain disruptions.

The executive and legislative branches of the U.S. government both accept the need to accelerate inbound investment in semiconductors and in other critical sectors. The Trump and Biden Administrations have prioritized re-shoring leading-edge semiconductor design, manufacturing, packaging, and systems integration. The commitment by Taiwan's flagship foundry Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC) to build up to six fabrication plants near Phoenix, Arizona is a testament to that progress. MediaTek, GlobalWafers, and other leading Taiwan companies have also stated their intent to make U.S. investments. The U.S. CHIPS & Science Act provides significant resources to expedite such investments — including for TSMC's Arizona fabs — and the U.S. Department of Commerce expects to announce who is receiving what support soon.

But attracting TSMC and other leading producers is not enough to achieve cohesiveness in the U.S. semiconductor supply chain, or to build the types of clusters needed to put the U.S. on a path towards meeting its industrial goals. According to a study conducted by the American Institute in Taiwan (AIT) in 2020, almost 4/5 of Taiwan companies with existing investments in the U.S. cited the present tax regime as a disincentive for further investment. The current U.S.-Taiwan tax environment is antiquated and uncompetitive, and it does little to improve the investment situation for the myriad companies — more than 1,000 in Taiwan alone — that need to join TSMC and other investors to create the clusters necessary to support the entirety of the U.S. semiconductor manufacturing process.

Among the top 10 U.S. trading partners, only Taiwan does not have a bilateral tax agreement. This results in discriminatory tax treatments when Taiwan companies seek to deploy their capital in the United States. The ongoing effort to pass Taiwan tax legislation showcases that Congress has long expressed bipartisan support for Taiwan, and displays their focus on developing domestic leading-edge chip manufacturing. The intent is to enhance U.S. economic power by basing critical component development and production on U.S. shores, while fortifying a critical partner in the Asia Pacific – a partner presently facing coercive political, economic, and military actions by China.

Taiwan technology companies have often been content with operations focused on Taiwan and China. But the U.S. shift in its China policy under former President Trump — and China's increasingly coercive and antagonistic behavior — has led to a substantial change. Taiwan companies are no longer reflexively focused on investing in China. Taiwan's government and industry recognize the need for supply chain diversification and the utility of basing operations near their U.S. and European customers.

Taiwan sees its companies internationalizing outside the Taiwan-China binary while raising their net value and global reach. The expanding U.S. partnership provides some balance for Taiwan. A properly globalized semiconductor sector, with Taiwan companies central to the health of the overall industry, provides Taiwan with global political leverage. It raises Taiwan's profile, offers a seat at discussions on global industry issues, and enables economic and political alignment with key allies. At the same time it reduces the vulnerabilities inherent in Taiwan's proximity to China, thereby supporting the goals of the United States.

If the goal is to attract inbound investment into the U.S. to support its policy priorities — while expanding U.S. opportunities on the island — the current U.S.-Taiwan tax arrangements are punitive and self-defeating. With semiconductors ranking among the top U.S. industrial priorities, and because Taiwan is a leading global semiconductor power, this provides political momentum to the current congressional discussion on changes to the bilateral tax environment. These are valuable and substantive discussions that would have been unimaginable two or three years ago. Should legislation for a bilateral tax agreement pass, it would represent the most important progress in U.S.-Taiwan commercial ties since Taiwan acceded to the World Trade Organization in 2002.

US-Taiwan Business Council
1700 North Moore Street, Suite 1703
Arlington, Virginia 22209
Tel: (703) 465-2930
council@us-taiwan.org
www.us-taiwan.org
www.twitter.com/ustaiwan