

# ***Senate Committee Backs Bill to Deepen U.S. Economic Ties With Taiwan***

Legislation to end double taxation between Taiwan and the United States is intended to spur semiconductor investment but is likely to rankle U.S. relations with China.

By Alan Rappeport  
New York Times

The Senate Finance Committee on Thursday passed a bill that would deepen economic ties between the United States and Taiwan and effectively create a tax treaty that is expected to pave the way for more Taiwanese investment in the American semiconductor industry.

The effort by Congress could inflame tensions between the United States and China at a time when the Biden administration has been working to stabilize the relationship. President Biden dispatched [three cabinet officials](#) to Beijing this summer to improve dialogue between the world's two largest economies.

In a rare demonstration of bipartisanship, the tax-writing committee passed the bill unanimously. Although Republicans and Democrats have vastly different views on most areas of tax policy, the two parties are united in their support for Taiwan and antipathy for China — which denies the island's independence.

The legislation would end the double taxation between the United States and Taiwan that has strained business ties for years. Currently, Taiwanese companies and individuals doing business in the United States are taxed in both places, and vice versa for U.S. companies, making it expensive for the businesses to invest in one another.

The United States has tax treaties with many countries that eliminate double taxation, but it has been unable to form such a treaty with Taiwan because the two governments do not have official diplomatic ties. The United States [established diplomatic ties with China in 1979](#) and broke off formal relations with Taiwan. Since then, every U.S. administration has

tried to maintain an ambiguous position on Taiwan based on the [“One China” policy](#).

Usually, U.S. administrations strike tax treaty agreements with other countries that are ratified by the Senate. To circumvent the normal tax treaty process, Congress has been working on legislation that would change the tax code directly as long as Taiwan enacts similar benefits for Americans who want to do business there.

The bill was drafted with input from House lawmakers and it could become law this year, if the full Senate and House approve it and President Biden signs it. The Biden administration has expressed support for ending double taxation with Taiwan.

Lawmakers view the legislation as a way to bolster American manufacturing and accelerate investment in the U.S. semiconductor industry. Congress approved more than \$50 billion in support for the sector as part of the CHIPS Act legislation that was enacted last year and Taiwan, which is a global leader in the production of microchips, has been planning to build manufacturing facilities in the United States.

Senator Ron Wyden, Democrat of Oregon, who chairs the Senate Finance Committee, said on Thursday that the legislation would help make those plans possible.

“To ensure that our country continues to grow these investments in America, relief of double taxation between the U.S. and Taiwan is an important next step,” Mr. Wyden said. “We do not want these investments to fall through or go to other countries because we are not providing double-tax relief.”

Taiwan Semiconductor Manufacturing Company has been planning a new chip production facility in Arizona, but the project has been delayed amid concerns about labor shortages. The company said last year that the lack of a bilateral tax treaty had [increased the cost of investing in the United States](#).

Closer business ties are only part of the appeal of the tax legislation for lawmakers.

Mr. Wyden said it would also reinforce U.S. support for Taiwan at a moment when Beijing is showing increased aggression toward the island, which it considers part of China.

“Not only is Taiwan a critical trading partner; it is a democracy that shares our values and faces a growing threat,” he said.

Republicans on the Senate Finance Committee also voiced support for closer economic ties with Taiwan.

Senator Chuck Grassley, Republican of Iowa, noted that Taiwan was a major importer of corn and soybeans from his state and said that the tax agreement would send a strong message to China.

“I look forward to the expanded opportunities for economic cooperation with Taiwan that this bill affords Iowa businesses,” Mr. Grassley said. “More importantly, strengthening our ties with our democratic allies in Asia, as this bill does, is exactly the type of step this committee should take to counter the global ambitions of an increasingly hostile China.”

China criticized the legislation on Thursday and suggested that it was a breach of the “One China principle.”

“China is always against any country negotiating economic and trade agreements of sovereign implication or official nature with China’s Taiwan region,” said Liu Pengyu, a spokesman for the Chinese embassy in Washington. “The U.S. must not negotiate agreements with sovereign implication or official nature with China’s Taiwan region or send any wrong signal to the ‘Taiwan independence’ separatist forces in the name of trade and economic interactions.”

The Senate Foreign Relations Committee passed a separate bill this summer to address double taxation with Taiwan, and a compromise may need to be reached between the committees. Lawmakers on Thursday expressed optimism that the legislation could be passed and sent to Mr. Biden in the coming months.

“We very much share your goal to make sure that firms that are engaged between the U.S. and Taiwan are not subject to double taxation,” Jay

Shambaugh, the Treasury under secretary for international affairs, told the Senate Foreign Relations Committee in July.

He added, “It’s an incredibly important supply chain, it’s an incredibly important trading relationship, and its important that we don’t have double taxation issues.”