

NATIONAL FOREIGN TRADE COUNCIL, INC.

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January 9, 2006

The Honorable Eric Solomon
Acting Assistant Secretary, Tax Policy
Department of the Treasury
1500 Pennsylvania Avenue
Washington, DC 20220

Dear Mr. Solomon:

On behalf of the member companies of the National Foreign Trade Council, I am writing to ask you to consider commencement of discussions regarding a bilateral income tax agreement with respect to Taiwan.

We believe there are several reasons why such an income tax agreement would be of mutual benefit, and furthermore, we understand there is real interest in Taiwan in proceeding with discussions for such an agreement. Taiwan boasts a highly educated workforce, sophisticated infrastructure and impressive economic growth backed by a high level of political stability. This agreement would remove non-trade barriers to the flow of exports and investment between the United States and Taiwan. Specifically, the reduction or elimination of high rates of withholding taxes on cross-border payments of dividends, royalties, and interest would increase the flow of equity investment between the United States and Taiwan, as well as encourage greater trade flows.

The reduction in withholding taxes should have a number of beneficial effects. For example, Taiwan appears to be allowing more foreign investment in the local banking sector as part of its effort to consolidate and strengthen the delivery of financial services. The U.S financial services sector is the current world leader and the opportunities in Taiwan are significant. Reduced withholding taxes will also enable start-up firms such as those in the U.S. technology sector to become global players and enter the Taiwanese market where high-caliber engineering and technical talent is prevalent. Other U.S. industry sectors such as film and media will also greatly benefit from reduced tax costs and greater certainty for investment in Taiwan. Moreover, U.S. corporate borrowers will benefit from reduced withholding tax rates on interest and Taiwanese borrowers will in turn be encouraged to borrow from U.S. banks. As you know, foreign borrowers typically bear the incremental cost of withholding tax on loans from U.S. banks because the interest payment is grossed up by the amount of the withholding tax.

The existence of a bilateral income tax agreement will mean greater certainty for investors, as well as an enhanced dispute resolution of tax cases in Taiwan. At present, tax disputes in Taiwan are very hard to resolve to the satisfaction of all parties, and as a result, U.S. companies may be faced with double taxation.

These are just a few of the significant reasons to consider beginning discussions regarding a tax agreement with respect to Taiwan. Such considerations have undoubtedly motivated our major trading partners such as the United Kingdom, to successfully negotiate recent bilateral tax agreements with Taiwan. The NFTC and its member companies are willing to offer all possible assistance to bring any discussions to a successful and timely conclusion.

Sincerely,

A handwritten signature in cursive script that reads "Judy Scarabello".

Judy Scarabello
Vice President for Tax Policy