January 9, 2024

H.R. 5988, United States-Taiwan Expedited Double-Tax Relief Act

As reported by the House Committee on Ways and Means on December 12, 2023

By Fiscal Year, Millions of Dollars	2024	2024-2028	2024-2033
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	0	*	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	No
		Mandate Effects	
		Contains intergovernmental mandate?	No
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No	Contains private-sector mandate?	No

* = between zero and $500,000.

H.R. 5988 would amend portions of the Internal Revenue Code and authorize the Administration to negotiate with and enter into one or more bilateral agreements with Taiwan to provide relief for certain income tax filers.

Title I would amend portions of the code to specify the tax treatment of income from U.S. sources that is earned or received by qualified residents of Taiwan. Those changes would define the sources of income subject to taxation, the relevant tax rates for each source, and anti-abuse and anti-avoidance provisions. The title would align the tax treatment of income in the United States and Taiwan with the treatment typically offered by the United States under bilateral tax treaties and would provide for language in the tax code that is based on the U.S. Model Tax Treaty, a framework used to relieve double taxation when jurisdictions' rules overlap.[1] The title's provisions would take effect only after Taiwan provides comparable tax relief for income from Taiwanese sources that is earned or received by U.S. residents.

1. For more information, see Internal Revenue Service, "United States Tax Model—Tax Treaty Documents," (September 19, 2023), https://tinyurl.com/5n9yt3ke.

Income sources that would be subject to U.S. taxation under H.R. 5988 include interest, dividends, royalties, and capital gains as well as income from employment. Title I would specify the treatment of income that is considered to be effectively connected with a U.S. permanent establishment; that is, a fixed location through which business is at least partly conducted. The title also would define the requirements for someone to be considered a qualified resident of Taiwan, specify reciprocity requirements necessary for the changes to come into effect, and authorize the Secretary of the Treasury to develop and issue regulations as necessary.

Once the Secretary determines that Taiwan has taken sufficient reciprocal action for the provisions of title I to take effect, the Administration would be authorized under title II to negotiate with and enter into one or more tax agreements with Taiwan to provide tax relief beyond that provided under title I. Any subsequent agreements would still need to conform to the treatment typically offered by the United States under bilateral tax treaties. Title II would establish standards for communication between the Administration and the Congress during negotiations and the approval process. Title II also would specify requirements that would need to be met before any agreement could be approved and implemented.

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. The revenue estimates for the bill were provided by JCT.[2]

The changes in taxation specified by the bill would not take effect unless Taiwan implemented comparable relief for U.S. residents. Furthermore, title II would require the Congress to approve and implement any subsequent tax agreements. Because of those conditions, JCT estimates that the bill would have no effect on federal revenues over the 2024-2033 period. However, CBO and JCT anticipate that if the required actions occurred and the bill took effect, U.S. taxes on income from U.S. sources earned by qualified residents of Taiwan would be reduced. Taiwanese taxes on income from Taiwanese sources earned by U.S. residents also would be reduced, thus increasing collections of U.S. taxes because of reduced foreign tax credits claimed by those U.S. taxpayers.

CBO estimates that implementing the bill would increase federal costs by less than $500,000 over the 2024-2028 period; any spending would be subject to the availability of appropriated funds.

---

2. For JCT's discussion and estimates of the bill, see Joint Committee on Taxation, *Description of H.R 5988, the "United States-Taiwan Expedited Double-Tax Relief Act,"* JCX-52-23 (November 28, 2023), www.jct.gov/publications/2023/jcx-52-23; *Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 5988,* JCX-55-23 (November 29, 2023), www.jct.gov/publications/2023/jcx-55-23.

On November 9, 2023, CBO transmitted a cost estimate for S. 3084, the United States-Taiwan Expedited Double-Tax Relief Act, as reported by the Senate Committee on Finance on October 19, 2023. Similar to title I of H.R. 5988, S. 3084 would amend the Internal Revenue Code with respect to the treatment of income associated with Taiwan and would require further action from Taiwan for that bill's provisions to take effect.

On August 10, 2023, CBO transmitted a cost estimate for S. 1457, the Taiwan Tax Agreement Act of 2023, as reported by the Senate Committee on Foreign Relations on July 25, 2023. Similar to title II of H.R. 5988, S. 1457 would establish a process for the Administration to negotiate a separate tax treaty with Taiwan and would require further action by the Congress.

All three bills would establish a process for aligning the tax treatment of the income of residents and businesses in the United States and Taiwan to be consistent with typical bilateral tax treaties. None of those bills would affect federal revenues without some further action by the Congress or by the government of Taiwan. Implementing any of the three bills would cost less than $500,000; that spending would be subject to the availability of appropriated funds.

The CBO staff contact for this estimate is Jennifer Shand. The estimate was reviewed by H. Samuel Papenfuss, Deputy Director of Budget Analysis and John McClelland, Director of Tax Analysis

Phillip L. Swagel
Director, Congressional Budget Office