

COMMENTS ON “BILATERAL TAX TREATY AND TAIWAN’S FDI ACTIVITY”

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- Review of the paper
- Characteristic features of tax treaty
- Relationship between tax treaty and FDI
- Issues on empirical study

Review of the paper (1)

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- current status of tax treaty network
 - ▣ Taiwan and other countries, Korea 70 treaties
- bilateral tax treaty
 - ▣ principles, OECD and UN models, functions, benefits and costs
 - ▣ functions: Blonigen and Davies(2004)
 - (1) harmonizing tax rules, (2) reducing tax avoidance, (3) prevent treaty shopping, (4) affecting tax burden of MNCs

Review of the paper (2)

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- Taiwan's Tax Treaties
 - starting with Singapore in 1981
 - 17 countries until 2007
 - some countries with agreements on int'l transportation income: USA, Canada, Japan
 - China, Hong Kong not in the treaty network
 - political issues
 - withholding taxes 10-15% or higher

Review of the paper (3)

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- Taiwan's Foreign Direct Investment
 - ▣ more than 70% of outbound FDI to China
 - ▣ Caribbean islands, USA, Singapore, Hong Kong are the major destinations
- The relationship btw treaty and FDI
 - ▣ the effect of FDI on treaty
 - ▣ the effect of Treaty on investment abroad
 - Planning an empirical study

Characteristic features of tax treaty

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- purposes
 - ▣ to prevent/eliminate double taxation
 - ▣ to prevent double non-taxation
- methods
 - ▣ Limitation on source country taxation
 - ▣ home: foreign tax credit/exemption/deduction
 - can be implemented by a host country unilaterally
- another chance for tax avoidance

Relationship btw treaty and FDI (1)

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- Treaty lowers effective tax burden
 - ▣ low tax rates, no double taxation
 - ▣ chance for treaty shopping
 - ▣ negative effect: no double non-taxation
- But many countries have unilateral measure to eliminate double taxation
 - ▣ exempt foreign source income: many in EU
 - ▣ foreign tax credit: 50% in Korea

Relationship btw treaty and FDI (2)

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- low withholding tax rates: important for passive investment
- effects of tax burden on FDI
 - ▣ Tax may not be an important factor.
- summary
 - ▣ Treaty may affect FDI but not much.

Issues on empirical study

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- industrialized countries : wide network
 - ▣ Taiwan is relatively new in treaty.
- transactions with tax haven
- other reasons for treaty : political reason
 - ▣ Which is more important?
- data issues
 - ▣ FDI to a single country may depend on one or more big events.