MOF says politics did not stop tax deal

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The Ministry of Finance yesterday said the breakdown of cross-strait negotiations on a tax pact on Monday was mainly the result of a dispute over levying income tax on China-based Taiwanese businesspeople according to where they reside or where they get paid.

The ministry said the breakdown was not related to sovereignty, apparently contradicting comments a day earlier by Premier Wu Den-yih (□□□), who said the deal was delayed because the treaty would have treated Taiwan the same as Hong Kong.

In a statement yesterday, the ministry said the two sides had engaged in several rounds of talks on the deal since October.

“The two sides took a cautious approach and reached a basic consensus,” it said. “The mainland authorities later had other considerations on several technical issues. After further negotiations, the two sides failed to reach an agreement.”

Both sides have dismissed speculation that the failure was related to sovereignty.

But Wu told reporters at National Taiwan University Hospital’s International Convention Center on Tuesday that the reason the deal fell through was that Beijing asked Taiwan to follow similar deals it had with Hong Kong that levy income tax in the country where the income is earned.

Wu said China proposed the “source-based taxation” regime, backing away from the planned “residence-based” regime.

“Suddenly there were dissenting opinions on the Chinese side, suggesting [that Taiwan and China] sign the tax pact following the Hong Kong model — but the status of Taiwan is different from that of Hong Kong,” Wu said.

Wu said the government would hold out on the deal until the Chinese side agrees to residence-based taxation.

The agreement was intended to prevent double taxation in Taiwan and China of income earned by Taiwanese businesses based in China.

However, it had raised concerns from businesspeople, who feared that China would gain access to tax information to make unfounded tax evasion claims they say officials sometimes use to harass foreign businesses.

But Wu said any deal would not put China-based Taiwanese businesspeople at risk.

“There will not be a problem with tax inspections as long as they pay tax in accordance with regulations,” Wu said.

Chien Yao-tang (□□□), a member of the pro-independence Taiwan Thinktank, said the tax deal would have caused more harm than good.

The deal would have increased the tax burden on businesspeople and limited their options to legally minimize their tax payments, Chien said.

Most China-based Taiwanese businesspeople do not have problems with tax investigations currently, Chien said.

The two sides signed three agreements on Tuesday covering the fishing industry, quality checks of agricultural products, and standardizing inspections and certification.

The Bureau of Standards, Metrology and Inspection yesterday dismissed speculation that the last of these would pave the way for a “one-China market.”

Nor would the pact on inspection of agricultural products denigrate sovereignty or open the door to an influx of Chinese produce, the Council of Agriculture said in a statement yesterday.

The administration will not drop its ban on 830 agricultural products from China, while the agreement will expedite inspections of Taiwanese products and maintain inspection standards, it said.

The council also dismissed reports claiming that the agreement would lift the ban on hairy crabs from China, at the same time noting that imports of hairy crabs were allowed in 2001 when the previous administration was in power.

Future imports would need to meet national safety requirements for seafood, the council said.

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