Tax Update

Amendments to the Regulations Governing Reviews of Applications for Exemption from Income Tax on Royalty and Technical Service Fees Collected by Foreign Profit-Seeking Enterprises from Manufacturing Industries, Technical Service Industries and Power-Generating Industries

Summary:

On May 13, 2026, the authority promulgated amendments to the "Directions Governing Reviews of Applications for Exemption from Income Tax on Royalty and Technical Service Fees Collected by Foreign Profit-Seeking Enterprises from Manufacturing Industries, Technical Service Industries and Power-Generating Industries" (the "Directions"). The amendments revise and supplement the detailed rules governing applications by foreign profit-seeking enterprises ("foreign enterprises") for income tax exemption under Article 4, Paragraph 1, Subparagraph 21 of the Income Tax Act. The key amendments include expanding the scope of eligible industries, introducing measures to prevent double non-taxation, specifying the application deadline, and establishing the applicable period for the tax exemption.

Analysis:

Under Article 4, Paragraph 1, Subparagraph 21 of the Income Tax Act, royalties paid to a foreign enterprise for the use of its patent rights, trademarks, and/or various kinds of special licensed rights in order to introduce new production technology or products, improve product quality, or reduce production cost under the approval of the competent authority as a special case, as well as remuneration paid to a foreign enterprise for the provision of technical services in construction of a factory for an important productive enterprise determined and approved as such by the competent authority, the aforementioned royalty and remuneration may qualify for income tax exemption. The amendments to the Directions introduce four key changes to the administration of this tax incentive, including:

1. Expanding the Scope of Eligible Industries

   To align with Taiwan's industrial development policies and its net-zero emissions objectives, the amendments expand the scope of eligible industries by adding the "Hydrogen Fuel Cell Industry," "Aviation and Unmanned Aerial Vehicle (UAV)," and "Shipbuilding Industry," while removing the "Intelligent Living Industry" and "Information Services Industry."
   Following the amendments, a total of 21 industries are eligible under the Directions. Biotechnology and pharmaceutical, IC design, wind and solar power generation, cloud computing, and optoelectronics industries are expected to remain the primary users of this tax incentive, as they frequently obtain technologies or license intellectual property from foreign enterprises.

2. New Restrictions for Low-Tax Jurisdictions

   In line with international anti-tax avoidance trends and to prevent situations of double non-taxation arising from foreign enterprises benefiting from this tax incentive in both their jurisdictions of residence and Taiwan, foreign enterprises will not be eligible to apply for this income tax exemption if the statutory income tax rate levied on such royalty or technical service fee in their jurisdictions of residence is below 15%.

3. Specifying the application deadline

   Foreign enterprises shall submit an application to the Industrial Development Administration or the Energy Administration of the Ministry of Economic Affairs ("MOEA") before the effective date of the agreement or during the term of the agreement. Upon approval, the foreign enterprises shall apply to the tax authority for the income tax exemption within two months from the day following the issuance date of the approval letter.

4. Establishing the applicable period for the tax exemption

   The tax exemption period shall be three years from the date of application submitted to the MOEA. If the application is submitted before the effective date of the agreement, the tax exemption period shall instead be three years from the effective date of the agreement and shall not exceed the term of the agreement or the period for technology licensing or plant construction. If the agreement remains effective after the expiration of the approved tax exemption period, the foreign enterprise shall submit an extension application before the expiration of the approved period.

The amendments support the government's key industrial development policies. Going forward, enterprises in the aviation, UAV, hydrogen energy, and related industries may benefit from the withholding tax exemption when introducing technologies or making royalty payments. Meanwhile, to reflect international anti-tax avoidance principles, foreign enterprises receiving royalty payments through low-tax jurisdictions will no longer be eligible for the income tax exemption. Moreover, Enterprises should strengthen contract management to ensure timely filing of applications and avoid losing the tax incentive due to procedural issues.

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