

Industrial Innovation Statute Amendment: Fueling AI Transition Across All Sectors

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As global industry pivots toward intelligence and decarbonization, artificial intelligence (AI) has become the linchpin for business process reengineering, efficiency gains, and competitive strength. AI facilitates upgrades in manufacturing, R&D, services, and management. However, high computational requirements and technical hurdles result in significant AI implementation costs, making adoption particularly difficult for small and medium-sized enterprises (SMEs). Consequently, the investment tax credit under Article 10-1 of the Industrial Innovation Statute, originally set to sunset at the end of 2024, has been extended through 2029. The amendment adds “Artificial Intelligence” and “Energy Saving and Carbon Reduction” to support the industrial “twin transition.”

While Taiwan is a global AI facility production hub—boasting a comprehensive supply chain spanning servers, chip foundries, cooling systems, ABF substrates, and data center modules—it lags in AI applications. Tech giants, including NVIDIA, AWS, Google, and Meta, rely heavily on Taiwanese manufacturing. Yet, a 2025 Microsoft Research survey indicates Taiwan’s corporate AI adoption rate remains at 20–25%, trailing most advanced economies and ranking outside the global top 20. This creates a dichotomy where Taiwan’s AI export demand is robust while domestic demand remains weak.

SMEs comprise over 98% of Taiwan’s enterprises, totaling 1.69 million firms, most of which face severe cost constraints regarding AI integration. A 2025 survey by KPMG found that while 54% of firms intend to or have introduced AI, only 12% have deeply integrated it into operations, and a mere 8% possess a comprehensive AI roadmap. AI implementation involves substantial upfront data cleaning, cross-system integration, talent training, and maintenance. These investments often range from tens of millions to hundreds of millions of New Taiwan dollars, creating a financial burden that serves as the primary driver behind the low AI penetration rate.

To facilitate adoption, the newly added AI category in Article 10-1 of the Industrial Innovation Statute explicitly lists eligible technologies, including machine learning, deep

learning, large language models (LLMs), and natural language processing (NLP). These tools are essential for process optimization, quality inspection, and intelligent management. Since building proprietary high-performance computing is feasible only for large corporations, a 2025 sub-law regulation (Article 8, Paragraph 2) allows subscription-based AI software licenses to qualify for tax credits if recognized as intangible assets under accounting standards. This significantly lowers the AI entry threshold for SMEs.

Subscription models have become the global standard for AI adoption. Research from Mordor Intelligence (2025) shows that AI subscriptions helped increase AI usage among U.S. SMEs from 4.6% to 5.8% in a single year. Given that SMEs represent 98% of Taiwan's industrial structure, including subscription fees in tax credit eligibility will drastically reduce implementation barriers and broaden AI applications.

Integrating AI into Article 10-1 represents a critical policy pivot in the global AI race. Although Taiwan is an indispensable link in the AI supply chain, its domestic application remains insufficient. By utilizing tax incentives and expanding credits to subscription costs, the government aims to lower implementation barriers. This shift encourages deeper application development and proprietary language models, ensuring AI becomes a primary driver of Taiwan's long-term productivity, industrial competitiveness, and technological standing.