New Challenges in Taiwanese Companies' Global Expansion: Tax Burdens and Response Strategies for Cross-Border Technical Services

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From the late 1980s to the early 2000s, Taiwanese companies invested overseas mainly to reduce land, labor, and production costs. Many relocated their production bases to China and Southeast Asia. Their overseas subsidiaries generally handled processing and manufacturing, while their Taiwan-based parent companies retained control over product design, R&D, and key technologies. Demand for cross-border technology licensing was therefore relatively limited. In recent years, US-China technology competition, heightened geopolitical risks, global supply chain restructuring, and rapid advances in AI, semiconductors, and advanced manufacturing have shifted Taiwanese companies' global expansion strategies from a cost-driven model to a technology-driven one. Overseas operations now undertake product development, process optimization, and technology application in addition to production. As a result, technical collaboration between Taiwan-based parent companies and their overseas subsidiaries has grown increasingly close.

Taiwan continues to control core patents, process technologies, and highly skilled talent. Overseas subsidiaries therefore generally require their parent companies to provide technology licensing, process transfers, and ongoing technical support when establishing plants, introducing new products, and building new production processes. Cross-border technology licensing and technical support have become key components of Taiwanese companies' global expansion. As a result, their tax concerns have gradually shifted from customs duties on merchandise trade to withholding taxes on royalties arising from cross-border technology licensing and technical services.

Between 2017 and 2025, Taiwan's total trade in intellectual property rights increased from approximately US$5.5 billion to US$8.426 billion. During the same period, its intellectual property trade deficit widened from US$2.1 billion to US$3 billion. This largely reflects Taiwan's efforts to import more advanced technologies for industrial upgrading, develop new technologies through independent R&D, and export these innovations overseas. The technological competitiveness of Taiwanese industries has also continued to strengthen.

The destinations of Taiwan's technology exports have changed significantly in recent years, reflecting shifts in global supply chains. China's share fell from approximately 35% in 2017 to 25% in 2023. By contrast, the shares of New Southbound Policy countries such as Singapore and Thailand increased considerably. The US share also rose from 3.6% to 12.8%. This growth reflects increased US investment by semiconductor and high-tech companies, with Taiwan-based parent companies providing technology licenses to support research, development, and mass production at their US manufacturing sites.

By industry, electronic components, computers, electronic and optical products, and electrical equipment collectively account for approximately 70% of Taiwan's technology trade. These sectors form the backbone of such trade. The electronic components and electrical equipment industries both maintain technology trade surpluses. This demonstrates that Taiwan's electronics industry can both absorb and export technologies, making it a crucial pillar of the country's technological competitiveness.

However, the expansion of cross-border technology licensing has made royalty withholding tax a major cost for companies investing overseas. Royalty withholding tax rates in key investment destinations such as China, Singapore, Thailand, and Malaysia are generally 10%. The United States, however, has yet to conclude a comprehensive income tax agreement with Taiwan. Royalties are therefore subject to a 30% withholding tax rate, and some foreign taxes cannot be fully credited in Taiwan. This relatively heavy tax burden has become a high cost for Taiwanese companies expanding their US operations. The government should continue negotiations on a comprehensive Taiwan-US income tax agreement to reduce royalty withholding rates and double-taxation costs. Such an agreement would facilitate technology exports and overseas investment while further strengthening Taiwan's competitive position in the global high-tech supply chain.