

Not Just the “Netflix Tax”!

Five Hidden Surprises in Cross-Border Taxation: Decoding How Taiwan Collects Taxes from the World

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Have you ever purchased professional software online, subscribed to the latest streaming service, or booked your next trip through an overseas travel website? Behind these seamless digital transactions lies a complex question: how is the tax on what you pay actually calculated?

How can Taiwan’s tax laws reach foreign companies whose servers are thousands of miles away and who have no physical offices in Taiwan? These seemingly ordinary transactions are, in fact, governed by a sophisticated and often surprising set of cross-border tax rules.

This article will uncover the five most astonishing — and counterintuitive — aspects of Taiwan’s cross-border taxation system.

Surprise #1: The Tax Divide in the Digital World — Why Is Streaming a Movie Taxable, but Downloading an E-Book Isn’t?

Many people instinctively believe that all forms of digital consumption should be treated equally. However, under Taiwan’s tax law, there is a clear dividing line.

According to the Income Tax Act, when a foreign enterprise provides electronic services characterized by “real-time interaction, convenience, and continuity” to Taiwanese consumers, the income derived is considered Taiwan-source income and is therefore taxable. This includes familiar services such as online gaming, streaming platforms (like Netflix), online music, and cloud-based subscription services.

In contrast, another category of digital transactions is treated quite differently. If a foreign company merely delivers a completed digital product — such as standalone software or an e-book — that is produced abroad and simply downloaded once by the user for local storage and use, the resulting income is not regarded as Taiwan-

source and is thus exempt from income tax.

However, there's an important exception: if the one-time delivery requires participation or assistance from a person or business entity within Taiwan, the income is reclassified as taxable Taiwan-source income. For instance, if the purchased software must be installed or technically supported by a local distributor in Taiwan, that transaction becomes taxable.

Analysis and Reflection:

The key distinction lies not in whether the product is digital, but in the continuity and interactivity of the service. The law asks whether the consumer is purchasing a static digital product (like an e-book) or subscribing to a dynamic, continuously updated service (like a streaming platform).

This subtle distinction explains why a Netflix subscription is taxable, while buying a Kindle e-book is not — a surprising revelation for those who tend to view all digital spending as the same.

Surprise #2: The Hidden “Made in Taiwan” Rule — Why Services Provided Abroad Can Still Be Treated as Taiwan-Source Income

Most people instinctively believe that “you pay tax where the work is done.” However, Taiwan’s tax law breaks away from this purely geographical notion.

According to the Regulations Governing the Determination of Income Derived from Sources in the Republic of China (ROC), even if a service is entirely performed outside Taiwan, the resulting income may still be considered Taiwan-source — if its completion requires the participation or assistance of individuals or entities located within Taiwan.

Importantly, “participation or assistance” does not merely mean simple communication or coordination. The law explicitly defines it as the provision of resources such as equipment, manpower, expertise, or technology from within Taiwan. In other words, whenever Taiwanese resources become an indispensable part of completing a cross-border service, a tax nexus with Taiwan is established — even if the work itself takes place entirely abroad.

Analysis and Reflection:

This rule reveals the deeper logic behind Taiwan's tax system: taxation is based not only on geography but on the substantive economic connection. When Taiwan's resources and involvement are essential to completing a global service, the profit derived should reasonably be shared with Taiwan.

For businesses engaged in increasingly interconnected cross-border projects, this represents a subtle yet crucial "invisible rule" — one that's often overlooked until the tax bill arrives.

Surprise #3: The Chef's Secret — The Subtle Line Between "Technical Services" and "Royalties"

In cross-border business contracts, whether a payment is classified as "technical service fees" or "royalties" can lead to dramatically different tax consequences. This distinction is crucial because the tax treatments diverge significantly: royalty income is generally subject to a 20% withholding tax on the gross payment, while technical service income, once approved under Article 25 of Taiwan's Income Tax Act, is taxed only on 15% of the gross revenue as deemed profit, resulting in a much lower effective tax rate. The legal definitions are often surprisingly fine-grained.

Here are two examples drawn from the Ministry of Finance's review principles:

- **Chef's Services:** Hiring a foreign master chef to serve as a guest chef at a hotel in Taiwan is considered technical service. However, if the contract also stipulates that the chef must provide his special recipe for the hotel's continued use, the payment for that recipe constitutes royalty income.
- **Training Services:** When a foreign consulting firm conducts staff training for a Taiwanese company, the payment is treated as technical service. But if the training materials or course content involve the company's proprietary know-how or secret methods and the Taiwanese company is granted the right to use them afterwards, that portion of the payment becomes royalty income.

Comparison Table: “Electronic Services vs. Royalties”

EVALUATION ASPECT	ELECTRONIC SERVICES	ROYALTIES
REAL-TIME INTERACTION	Yes	No
AUTHORIZATION FOR REPRODUCTION	No	Yes
PRICING BASED ON USAGE	Yes	Possible
TAX RATE	Approx. 3%–10% (may apply for reduction)	20% withholding

Analysis and Reflection:

The core criterion in tax determination lies in the nature of the payment — is the payment made in exchange for someone’s service performance, or for the right to use an intangible asset? The former compensates human expertise; the latter compensates intellectual property rights.

This seemingly subtle distinction has profound tax implications for all cross-border contracts involving intellectual property, technology transfer, or know-how sharing — a fine line that can decide whether a company enjoys tax relief or faces a hefty withholding tax bill.

Surprise #4: The Tax Officer’s Shortcut — When the Government Lets You “Estimate” Your Profit

Calculating the exact cost and profit of a multinational enterprise operating in Taiwan can often be an extremely complex task. To address this challenge, Taiwan’s tax law provides, in certain cases, a pragmatic “quick calculation formula” that allows foreign enterprises to estimate their taxable profit using a deemed profit rate instead of actual accounting records.

- **Scenario 1: Cross-Border E-Commerce**
For foreign enterprises engaged in cross-border electronic services — such as cloud computing or online advertising — if they cannot provide complete books and records to substantiate their costs, the tax authority may

directly deem a net profit rate of 30%.

Furthermore, if part of the service process is conducted outside Taiwan, the domestic profit contribution ratio may be recognized at 50%.

In this situation, the formula for calculating taxable income is simplified as follows:

Taxable income = Total revenue × 30% (net profit rate) × 50% (domestic profit contribution)

- **Scenario 2: Specific Industries**

Under Article 25 of the Income Tax Act, foreign enterprises engaged in international transportation, construction contracting, technical services, or leasing of machinery and equipment may, when their costs cannot be accurately allocated, apply in advance to the tax authority for approval to use a fixed ratio of income as taxable profit.

For example, in the case of providing technical services, this ratio can be set at 15% of revenue.

Analysis and Reflection:

These two “shortcut formulas” serve different policy purposes.

The 30% deemed profit rate for cross-border e-commerce is a default mechanism used by the tax authority when the taxpayer cannot provide sufficient documentation — a practical safeguard to ensure taxation fairness.

By contrast, the 15% deemed profit rate for specific industries is a preferential regime that foreign enterprises may apply for proactively, designed to encourage certain types of cross-border business cooperation.

Together, they demonstrate the flexibility and pragmatism of Taiwan’s tax administration — balancing administrative efficiency with incentives for genuine commercial activity.

Surprise #5: The Forgotten Right — A Refund Claim Period That Lasts Up to Ten Years

Tax law is not only about paying taxes—it also protects taxpayers’ rights. One of the most beneficial yet often overlooked provisions is the ten-year period for claiming tax

refunds.

Under Taiwan's rules, for income earned in 2017 (ROC Year 106) and thereafter, a foreign enterprise selling cross-border electronic services may apply for a tax refund within ten years from the date of income receipt. This applies when the enterprise, due to unfamiliarity with the law or failure to apply for a reduced deemed profit rate, has had excessive withholding tax deducted compared to the amount that would have applied under the correct calculation.

Analysis and Reflection:

This generous ten-year lookback period provides significant protection for foreign enterprises that may have overpaid taxes due to the complexity of Taiwan's tax system. Notably, the refund period was extended from five to ten years in recent years, reflecting a clear policy intention to strengthen taxpayer rights.

It not only gives taxpayers ample time to review and correct past filings but also demonstrates that Taiwan's tax regime, while stringent in enforcement, incorporates a balanced and fair mechanism for redress — ensuring both compliance and justice within the system.

Conclusion: The Next Step in the Digital Tax Era

From the tax differences between streaming a movie and downloading an e-book, to the redefinition of where a service is deemed performed; from the subtle boundary between a chef's service and a royalty payment, to the pragmatic formula for estimating profit, and even the ten-year right to claim tax refunds — Taiwan's cross-border tax framework is full of intricate details worth exploring. These provisions reflect the government's ongoing effort to adapt tax law to the realities of the global digital economy.

As technology continues to evolve and new business models emerge, we are prompted to ask: when AI consulting services or virtual asset transactions in the metaverse become commonplace, what new tax rules — unimaginable today — will arise?

This transformation surrounding the digital economy and taxation has only just

begun. The next chapter of cross-border tax evolution is already being written, and those who understand its direction now will shape how fairness and innovation coexist in tomorrow's global marketplace.