

The Music Industry & Cross-Border Royalty Taxation



An Introductory Overview

Topics: Revenue & streaming era · How royalties work · Double taxation · DTAs & withholding tax · OECD / BEPS · Who is affected

From Physical to Digital

The music industry transformed entirely over one decade. People stopped buying CDs and started streaming — restructuring how billions of dollars flow across borders every single day.



A simple shift with profound tax consequences.

USD 29.6 bn

Total revenues 2024 — 10th consecutive year of growth (IFPI)

~50%

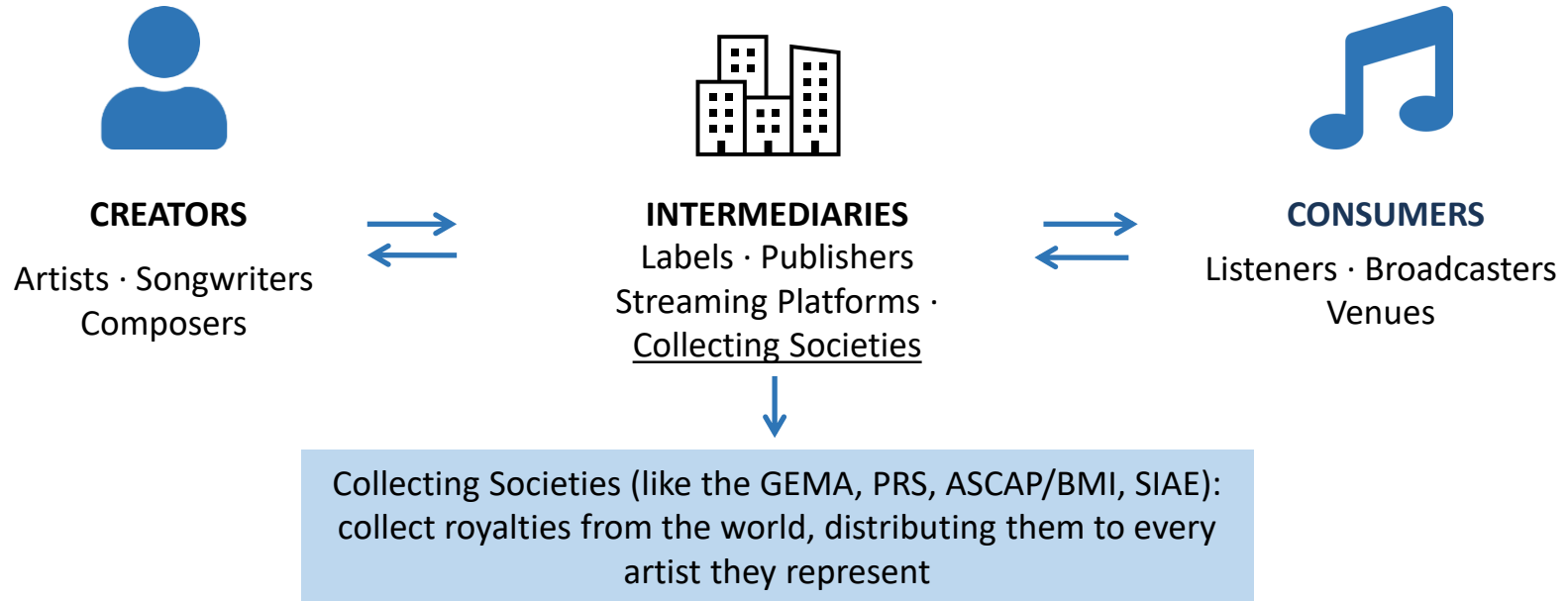
from paid subscriptions

+11.2%

subscription growth 2023

02 HOW THE MUSIC INDUSTRY WORKS

Three groups — and money flows between all of them



As soon as any party is in a different country — which in the streaming era is basically always — tax law kicks in.

03 HOW ROYALTIES WORK

Royalty: A payment made in exchange for the right to use intellectual property — the category of income at the heart of international tax treaty disputes.

Every song contains TWO separate copyrights



COPYRIGHT 1

The Composition

The melody and lyrics — think of the notes and words written on a page.

Owned by: songwriter / publisher



COPYRIGHT 2

The Sound Recording

The specific recorded performance — what you actually hear on Spotify.

Owned by: record label (or artist)

When Spotify plays a song → it pays royalties TWICE → to two different rights holders → potentially in two different countries.

03 TYPES OF ROYALTIES

1

Mechanical Royalties

Paid whenever a composition is reproduced — originally on a physical disc, today when streamed on demand (the listener actively chooses the track).

Trigger: on-demand streaming, physical reproduction

2

Performance Royalties

Paid whenever music is performed or broadcast publicly — on radio, TV, in a shop or café, at a concert venue, or streamed online.

Trigger: radio, TV, streaming, public venues

For this lecture: mechanical and performance royalties are most relevant — they flow across borders constantly in the streaming model.

04 WHY GLOBAL SUCCESS CREATES A TAX PROBLEM

When a US platform pays a German songwriter — which country taxes the money?



SOURCE STATE

The country where the payment originates — taxes on the logic that income arises there.

VS

RESIDENCE STATE

The country where the rights holder lives — taxes worldwide income of its residents.

Under most domestic tax laws: BOTH. This is double taxation — the default outcome.

Solution: Double Taxation Agreements (DTAs) — bilateral treaties that assign taxing rights between countries, typically reducing source-state withholding to 5–15% or eliminating it.

Where a DTA eliminates source-state withholding entirely: exclusive residence-state taxation — the source state surrenders its taxing rights by treaty.

05 THREE CORE PROBLEMS

1

Double Taxation

Both source and residence state claim the same income. The default under domestic law — unless a DTA intervenes.

DTAs reduce or eliminate source-state withholding (commonly 5%, 10%, or 15%).

2

Treaty Network Complexity

3,000+ bilateral DTAs globally, each with different royalty definitions, rates, and rules. Many predate streaming entirely.

The same payment may be classified differently depending on which treaty applies.

3

Withholding Tax Burden

Source states deduct flat-rate taxes upfront: Germany 15% (§50a EStG), USA 30% (IRC §1441) — before money leaves the country.

Even where relief is available, rights holders may wait years for a refund.

OECD Model Tax Convention

The template that most countries use as the starting point when negotiating bilateral tax treaties.

Key issue: The Model has been updated many times. Older treaties reflect older versions — the same streaming payment may be classified differently depending on which version applies.

BEPS Project

Base Erosion and Profit Shifting — launched 2013

BEPS Project was designed to prevent multinationals from shifting profits to pay little or no tax – raises active questions for how labels structure royalty flows

07 WHO IS AFFECTED



Major Labels & Publishers

- Have specialist international tax departments.
- Can manage compliance and pursue refund claims.
- Significant cost and burden — but manageable.



Independent Artists & Small Labels & Collecting Societies

- Withholding deductions in every country they earn from.
- Must pursue relief claims per jurisdiction — different languages, procedures, deadlines.
- Transaction costs can consume a meaningful share of income.
- Many don't claim treaty relief they're legally entitled to.

08 THE BIGGER PICTURE

Why music illustrates the global IP tax problem so clearly:



1

Billions of micro-transactions daily — each theoretically generating a royalty

2

Millions of individual rights holders — not corporations, but individual people

3

Structural change came fast — streaming arrived before international tax law could adapt

The core challenge: bridging the gap between the global, instant reality of digital music commerce and the slow, bilateral machinery of international tax law.