2014

KOREAN TAXATION

Ministry of Strategy and Finance
KOREA

PREFACE

Dear readers,

The Korean economy indicated positive signs in 2013 as the employment rate continued to go up with consumer prices being stable. Despite such improved economic conditions, business sentiment has not improved much due to sluggish recovery in the private sector including weak investor and consumer confidence as well as increasing external uncertainties such as a slow economic growth in emerging economies and the resurfaced European financial crisis.

In an effort to more effectively cope with such an economic environment, the Korean government carried out a tax code revision in 2013 under the vision of achieving "competitive, fair, and principles-based tax system." Specific tax policy directions and strategies under this vision are as follows.

First of all, tax incentives have been expanded in a way that supports the accomplishment of government tasks such as creating growth engine, supporting small and medium sized enterprises, laying a solid foundation for the creative economy, and achieving the employment to population ratio of 70%. Secondly, with a view to ensuring a citizen-oriented tax system, the Earned Income Tax Credit (EITC) has been expanded and the Child Tax Credit (CTC) has been introduced, while measures have been taken to support the low-to-middle income families and to enhance convenience for taxpayers. Last but not least, to enhance fairness in taxation and broaden tax base, measures to switch income deductions toward tax credit for income tax purpose and to bring the shadow economy into the open have been adopted, while eliminating tax incentives the policy objective of which was achieved.

Korean Taxation 2014 covers the most updated overview of Korean tax regime in general. I sincerely hope that this edition will serve as a useful reference for readers both at home and abroad to better understand the reformed Korean tax system.



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Part 1: Introduction

Chapter I: Tax System in Korea

1. Taxes in Korea

Taxes in Korea comprise national and local taxes. National taxes are divided into internal taxes, customs duties, and three earmarked taxes; the local taxes include province taxes and city & county taxes as shown below.

- National Taxes
  - Internal Taxes
    - Income Tax
    - Corporation Tax
    - Inheritance Tax
    - Gift Tax
    - Comprehensive real estate holding Tax
    - Value-added Tax
    - Individual Consumption Tax
    - Liquor Tax
    - Stamp Tax
    - Securities Transaction Tax
  - Customs Duties
  - Earmarked Taxes
    - Transportation· Energy· Environment Tax
    - Education Tax
    - Special Tax for Rural Development
- Local Taxes
  - Province Taxes
    - Ordinary Taxes
      - Acquisition Tax
      - Registration and License Tax
      - Leisure Tax
      - Local Consumption Tax
    - Earmarked Taxes
      - Community Resource and Facility Tax
      - Local Education Tax

City & County Taxes
- Ordinary Taxes
  - Inhabitant Tax
  - Property Tax
  - Automobile Tax
  - Local Income Tax
  - Tobacco Consumption Tax

The national internal taxes consist of direct and indirect taxes and each consists of five internal taxes. Of these ten taxes, Income Tax, Corporation Tax, and Value Added Tax make up the bulk of Korean tax revenue. There also exist three national earmarked taxes, namely the Transportation·Energy·Environment Tax, Education Tax, and Special Tax for Rural Development; the revenues from these sources go directly to pre-designated government programs.

There are eleven local taxes, and they are divided into province and city & county taxes. At the province level, there are four ordinary taxes and two earmarked taxes. At the city & county level, there are five ordinary taxes. In the six large specially designated cities that are run as autonomous local administrative units (independent of the provinces they appertain to), the tax composition is slightly different from that of the provinces and cities or counties, although the residents are required to pay the same taxes.

A person is either a resident or a non-resident of Korea depending on residence or domicile. A resident is liable to income tax on items of income derived from sources both within and outside Korea. On the other hand, a non-resident is liable to income tax only on items of income derived from sources within Korea.

Under the income tax law, income earned by both residents and non-residents is subject to global and schedular taxation. Under global taxation, real estate rental income, business income, earned income, and miscellaneous income attributed to a resident are aggregated and taxed progressively. Interest and dividends are subject to tax withholding. Non-residents are similarly taxed on income from Korean sources. The tax rates on individual income range from 6% to 38%. When a company is incorporated in Korea, it is deemed a domestic corporation and is liable to tax from worldwide income whereas a foreign corporation is liable to tax on Korean source income. The corporate income tax rates are 10%, 20% and 22%. A foreign corporation without a permanent establishment in Korea is subject to withholding tax.

2. Tax Laws and Regulations

A Presidential Decree may be set in order to enforce the tax laws. The Minister of Strategy and Finance also enacts Ministerial Decrees to enforce the Presidential Decree, to make rulings and authoritative interpretations of the laws, and to enforce the decrees. In addition to the Presidential and Ministerial Decrees, the Commissioner of the National Tax Service may issue administrative orders and rules to ensure the consistent application of the laws. The courts of justice have the final authority in interpreting the tax laws, and the rulings and interpretations by tax authorities do not bind. Laws of national taxes are shown in the table below.

The Constitution also provides for the principle of local autonomy. Under this principle, local governments are given the right to assess and collect local taxes. The Local Tax Law, the Presidential Enforcement Decree on Local Tax Law, and the Ministerial Enforcement Decree on Local Tax Law are enacted under the Constitution.

Laws of National Taxes

Classification	Law	Presidential Decree	Ministerial Decree
Income Tax	Income Tax Law	Enforcement Decree on Income Tax Law	Enforcement Decree on Income Tax Law
Corporation Tax	Corporation Tax Law	Enforcement Decree on Corporation Tax Law	Enforcement Decree on Corporation Tax Law
Inheritance Tax and Gift Tax	Inheritance Tax and Gift Tax Law	Enforcement Decree on Inheritance Tax and Gift Tax Law	Enforcement Decree on Inheritance Tax and Gift Tax Law
Comprehensive Real Estate holding tax	Comprehensive Real Estate holding tax	Enforcement Decree on Comprehensive Real Estate Holding Tax Law	Enforcement Decree on Comprehensive Real Estate Holding Tax Law
Value-Added Tax	Value-Added Tax Law	Enforcement Decree on Value-Added Tax Law	Enforcement Decree on Value-Added Tax Law

Individual consumption tax	Individual consumption tax Law	Enforcement Decree on Individual consumption tax Law	Enforcement Decree on Individual consumption tax Law
Liquor Tax	Liquor Tax Law	Enforcement Decree on Liquor Tax Law	Enforcement Decree on Liquor Tax Law
Stamp Tax	Stamp Tax Law	Enforcement Decree on Stamp Tax Law	Enforcement Decree on Stamp Tax Law
Securities Transaction Tax	Securities Transaction Tax Law	Enforcement Decree on Securities Transaction Tax Law	Enforcement Decree on Securities Transaction Tax Law
Transportation ·Energy ·Environment Tax	Transportation ·Energy· Environment Tax Law	Enforcement Decree on Transportation ·Energy ·Environment Tax Law	Enforcement Decree on Transportation ·Energy ·Environment Tax Law
Education Tax	Education Tax Law	Enforcement Decree on Education Tax Law	
Special Tax for Rural Development	Special Tax Law for Rural Development	Enforcement Decree on Special Tax Law for Rural Development	
Basic Rules and Tax Appeal	Framework Law on National Taxes	Enforcement Decree on Framework Law on National Taxes	Enforcement Decree on Framework Law on National Taxes
Tax Collection	National Tax Collection Law	Enforcement Decree on National Tax Collection Law	Enforcement Decree on National Tax Collection Law
Tax Evasion Punishment	Punishment of Tax Evaders Law	Enforcement Decree on Punishment of Tax Evaders Law	
Tax Exemption and Reduction	Special Tax Treatment Control Law	Enforcement Decree on Special Tax Treatment Control Law	Enforcement Decree on Special Tax Treatment Control Law

Coordination of International Tax Affairs	The Law for the Coordination of International Tax Affairs	Enforcement Decree on the Law for the Coordination of International Tax Affairs	Enforcement Decree on the Law for the Coordination of International Tax Affairs
Customs Duties	Customs Law	Enforcement Decree on Customs Law	Enforcement Decree on Customs Law
Drawback of Customs Duties	Special Law for Drawback of Customs Duties	Enforcement Decree on Special Law for Drawback of customs Duties	Enforcement Decree on Special Law for Drawback of customs Duties
Local Tax	Local Tax Law	Enforcement Decree on Local Tax Law	Enforcement Decree on Local Tax Law

3. Tax Administration

The Office of Tax and Customs at the Ministry of Strategy and Finance is responsible for planning tax policies and drafting tax laws, while the National Tax Service carries out the administration enforcement, which includes tax assessment and collection.

a. Office of Tax and Customs, Ministry of Strategy and Finance

The Office of Tax & Customs plans and coordinates overall national tax and customs policies. It is headed by the Deputy Minister for Tax and Customs, assisted by four Directors-Generals and fifteen Division Directors (ten for internal taxes, five for customs and duties). The divisions regarding internal taxes include Tax Policy, Special Tax Treatment, Income, Corporation, Property, VAT, Environment and Energy, Tax Analysis, International Tax affairs, Tax Treaties Divisions. The functions of each division except five divisions for customs and duties are described as below:

(1) Tax Policy Division

- Plans tax policy in general
- Drafts the Framework Law on National Taxes and National Tax Collection Law

(2) Special Tax Treatment Division

- Plans, drafts, and interprets laws, including Special Tax Treatment Control Law, Education Tax Law (Education Tax for Finance and Insurance Businessmen not included), and Special Tax Law for Rural Development
- Estimates and analyzes tax exemptions and reductions

(3) Income Tax Division

- Plans, drafts, and interprets:

  (a) Laws concerning individual income tax and other related internal taxes excluding matters dealt by the Property Tax Division (capital gains tax of stocks, investment shares and other financial assets not included) and the International Tax Division

  (b) The Education Tax Law concerning finance and insurance businessmen and securities transaction tax

(4) Corporation Tax Division

- Plans, drafts, and interprets laws concerning corporation tax and other related internal taxes excluding matters dealt by the International Tax Division

(5) Property Tax Division

- Plans, drafts, and interprets laws and provisions of the Income Tax Law concerning capital gains tax and those of the Corporation Tax Law concerning additional tax on capital gains (excluding capital gains tax of stocks, investment shares and other financial assets)
- Plans, drafts, and interprets laws concerning inheritance tax, gift tax and comprehensive real estate holding tax

(6) Value-Added Tax Division

- Plans, drafts, and interprets laws concerning value added tax and stamp tax

(7) Environment and Energy Tax Division

- Plans, drafts, and interprets laws concerning individual consumption tax, liquor tax, and transportation·energy·environment tax

(8) Tax Analysis Division

- Develops and implement mid-and long-term tax reform measures
- Prepares a revenue budget
- Estimates tax revenue and analyze actual tax revenue

(9) International Tax Division

- Researches, plans, drafts, and interprets laws concerning taxation on income of non-residents and foreign corporations

(10) Tax Treaties Division

- Researches, plans, drafts, and interprets tax treaties with foreign countries
- Promotes international cooperation in the tax area
- Researches foreign tax systems

b. Tax Tribunal

The Tax Tribunal, previously called the National Tax Tribunal, was established as an independent organization under the former Ministry of Finance on April 1, 1975 and is now composed of a General Affairs Division, a Supreme Judge, 6 Permanent judges, 14 non-permanent judges, and 12 Examiners. It is responsible for examining and judging tax appellate cases.

c. National Tax Service

The National Tax Service was established as an external organization for the Ministry of Finance on March 3, 1966, taking over the Taxation Bureau of the Ministry of Finance. It is mainly in charge of the assessment and collection of internal taxes. Headed by the Commissioner, it is responsible for establishing basic policies; and it supports tax administration by directing, supervising, and controlling the Regional, District, and Branch Tax Offices.

The National Tax Service consists of a Planning and Management Controller, a Data Management Controller, an Inspector, eight bureaus, three affiliated organizations, six Regional Tax Offices, 104 District Tax Offices, and 17 Branch Offices.

(1) Internal Organization

(a) The Planning and Management Controller is responsible for policy formulation, planning, budgeting, and the management of tax administration in general.

(b) The Electronic Data Management Controller is in charge of managing and developing data using a computer system located in the main Electronic Data Processing System (EDPS) center in Seoul and three regional EDPS branches.

(c) The International Tax Controller is responsible for collecting and giving out international-tax related information, dealing with cross-border tax issues.

(d) The Taxpayer Service Bureau has four divisions: Tax Collection Division, Taxpayer Advocate Division, and Public Relations Division. The Tax Collection Division covers revenue forecasting, controlling the collection of national taxes, refunds of overpaid taxes, and the management of delinquent taxpayers. The Taxpayer Advocate Division covers tax appellate review and handles civil applications whereas the Public Relations Division covers publicity planning and coordination.

(e) The Legal Affairs & Appeals Bureau consists of four divisions: Legal Affairs Division, Tax Appeals Divisions I, II, and III.

(f) The Individual Taxation Bureau is composed of Value Added Tax Division, Individual Income Tax Division, and Property Related Tax Division. The Corporation Taxation Bureau is made up of the following: Corporation Tax Division, Excise Tax Division, and International Operation Division.

(g) The Corporate Investigation Bureau includes the Investigation Divisions I, II and the Corporate Affairs Division. The First Investigation Division is in charge of policy-making, planning, analyzing, and the evaluation of tax intelligence and investigation programs. The Second

Investigation Division covers the collection, analysis, and management of intelligence and information related to internal tax evasion. The Corporate Affairs Division is in charge of tax investigations of large corporations and their income sources.

(2) Affiliated Organizations

(a) The National Tax Officials Training Institute, an independent organization, undertakes the training of national tax officials.

(b) The Technical Service Institute performs technical analysis of taxable articles such as liquor and chemical products.

(c) The National Tax Consulting Center handles various complaints and queries raised by taxpayers and offers advice and answers over the phone.

(3) Regional Tax Office, National Tax Service

Under the supervision of the National Tax Service, the Regional Tax Office is responsible for the direct guidance and control over the activities of the District Tax Offices. In addition, a Regional Tax Office directly handles the assessment of special-case taxes on certain taxpayers. There are six Regional Tax Offices nationwide, located in the cities of Seoul, Suwon, Daejeon, Gwangju, Daegu, and Busan.

A Regional Tax Office has five bureaus: Collection Support Bureau, Revenue Control Bureau, Investigation Bureaus I, II & III

The Collection Support Division is in charge of tax collection, review of appellate applications and electronic management. The Revenue Control Division consists of Individual Tax Division, Corporation Tax Division. The Investigation Bureaus I, II & III consists of several divisions such as Investigation Management Division and Special Investigations Divisions.

(4) District Tax Office

A District Tax Office is the front-line organization responsible for the assessment, collection, audit, and investigation of all internal taxes. In general, a District Tax Office consists of the Collection Support Division, Revenue Control Division, Investigation Division I, II & III. However, organization of the individual District Tax Offices varies according to the respective scale of the districts they govern.

(a) The Collection Support Division is in charge of personnel administration, accounting, collection, review of appellate applications against unfair taxation, tax consultation, and general affairs.

(b) The Revenue Control Division consists of Individual Tax Division, Corporation Tax Division. The Investigation Bureaus I, II & III consists of several divisions such as Investigation Management Division and Special Investigations Divisions.

4. A Brief History of Taxation in Korea

A modern tax system was introduced after the formation of the Government of the Republic of Korea in 1948, after which the Tax Law Committee was established to supplement modern tax laws.

Eight fundamental tax laws such as the Income Tax Law, Corporation Tax Law, and Liquor Tax Law were enacted in 1948. Later the Inheritance Tax Law, Travel Tax Law, Commodity Tax Law, and six more were added. The new tax system reduced the tax burden imposed on landowners, whose asset value was decreased by the Land Reform.

The Korean War (1950-1953) necessitated a change in the tax system. The Land Tax Law and the Temporary Tax Revenue Expansion Law were immediately introduced, and several existing tax laws such as the Income Tax Law were revised in order to provide for the additional revenue required to finance the war. In 1951, the Special Measure for Taxation and Temporary Land Income Tax Law was enacted, resulting in higher success in collection, and the Law contributed to the strengthening of the tax system. Thus, the land income tax replaced the general income tax as the main source of tax revenue.

Upon signing of the armistice in 1953, the government began to modify the tax system to better accommodate the economic needs during the period of peace. Such efforts led to the Report and Recommendation for the Korean Tax System by H. P. Wald, published on August 25, 1953.

a. Postwar reconstruction (1954-1961)

The Special Measure for Taxation and the Temporary Tax Revenue Expansion Law were abolished with considerable influence from Wald's Report on subsequent reforms of the tax system. The Textile Tax was absorbed into the

Commodity Tax and the License Tax was transferred to the local authorities from the central government. The Income Tax System was divided into schedular taxes with flat rates and global taxes with progressive rates.

As for direct taxes, the short-term payment system, which was based on only the actual business results, was converted into a long-term payment system based on both prior estimation and the actual results. The Liquor Tax was raised substantially to increase the tax revenue. However, due to the difficulties in enforcement, several taxes including the Income Tax and the Liquor Tax were modified before the changes took effect, and resulted in lower revenue than originally planned.

In 1956, the rates on direct taxes were reduced and indirect tax rates were raised in order to alleviate the disincentive effect of high direct taxes on capital accumulation. The Asset Revaluation Tax, Foreign Exchange Special Tax, and Education Tax were introduced in 1958; the first two were abolished later. The Liberal Party initiated a tax reform for the Three-Year Economic Development Plan in 1959 upon the recommendation of a tax consultant group headed by Dr. Hall. As a result, most tax rates were reduced and the tax administration was streamlined. In general, the direct tax rates were reduced but the indirect tax rates were increased due to the tax reform, which was initiated by the Democratic Party in 1960. In addition, tax exemptions and deductions designed to promote exports and capital accumulation were increased substantially.

In order to collect delinquent taxes that were accumulating, the Military Government enacted the Temporary Measure for Tax Collection and the Special Measure for Tax Evasion Punishment. The government reformed the Income, Corporation, and Business Tax Laws, and a new tax accounting system was established.

b. The period of economic development (1962-1967)

At the end of 1961, the government implemented a general tax reform to emphasize the elimination of irregularities within the tax administration. The reform set the foundation for a lasting and modern tax system, and provided strong support for the First Five-Year Economic Development Plan. The basic guidelines of this reform were to simplify tax administration, to promote efficient revenue collection as well as private savings and investment, and to establish an equitable tax system.

In December 1961, improvements were made in the following: Income Tax

Law, Corporation Tax Law, Business Tax Law, Registration Tax Law, Travel Tax Law, Liquor Tax Law, Petroleum Products Tax Law, Admission Tax Law, Stamp Tax Law, Commodity Tax Law, National Tax Collection Law, Punishment of Tax Evaders Law, and Procedure for the Punishment of Tax Evaders Law. In the following year, the Adjustment Law for National and Local Tax and the National Tax Appellate Application Law were introduced. This reform established many features of the present Korean tax system. It resulted in a large increase in revenue and enabled the government to provide more public goods and services.

c. The period of sustained economic growth (1968-1973)

(1) In 1967, another tax reform took place to reflect the progress made in the country's economic growth during the First Five-Year Economic Development Plan. Twelve of the nineteen existing tax laws were modified extensively and the Real Estate Speculation Control Tax Law was implemented. The guiding principles were the promotion of further economic development, tax equity, and rationalization of tax administration. The reform also focused on the need for a more systematic approach to tax laws.

For corporations with outstanding shares, the tax rate was reduced with an objective of mobilizing domestic capital. Tax exemption applied to dividends and interest income from bank deposits, but the rate on interest income from private lending was increased. To encourage development of strategic industries, an investment credit system was adopted and the scope of the special depreciation allowance system was enlarged. To restrict consumption levels, the Liquor Tax was modified to an ad valorem tax and the number of items subject to Commodity Tax was increased. A special Real Estate Speculation Control Tax was introduced to discourage unproductive use of private capital.

To reduce the tax burden of low-income earners, the limit on exemptions was eased and tax credits for businesses and wage or salary earners were also instituted. At the same time, the tax burden on high-income earners (those with an annual income of more than 5 million won) was increased with the adoption of a global tax system with progressive rates.

In 1968, as a step toward a self-assessment system, field auditing of corporations with outstanding shares was abolished, tax penalties were raised, and tax credits for voluntary returns and payments were increased. The prompt refund of overpaid national taxes, supplementation of the tax

deferral system, and improvement in the tax appeal system strengthened the rights of the taxpayers. This was a modification for effective enforcement of the revisions made to the tax laws in 1967.

In 1969, six tax laws including the Corporation Tax Law were revised in order to strengthen the practice of voluntary submission of returns and payments, to incorporate the green return system into law, and to establish the principle of assessment based only on objective evidence.

(2) In 1972, the Emergency Decree on Economic Stabilization and Growth (the so-called “August 3 Special Measure") was introduced, which required business enterprises to report all of their debts and to repay them over a five-year period after a grace period of three years. Some provisions on special tax exemptions and special depreciation of up to 80% were made for strategic industries. In addition, a special tax credit equivalent to 10% of the investment amount was provided for new investments until December 31, 1974.

d. A period of economic downturn and growth (1974-1979)

(1) Korea achieved rapid economic growth during the period of the First and Second Five-Year Economic Development Plans. However, with its heavy dependence on international trade and imports of energy and other raw materials, the economy was inevitably affected by the volatile external economic developments of the 1970s. The price increases in 1973 and 1974 of raw materials, particularly petroleum, and related effects on the economies of industrialized countries led to a significant economic downturn. Although this was rapidly overcome, the global inflation that prevailed during the 1970s had an adverse impact in Korea. Throughout this period, fiscal measures were often undertaken for the specific purpose of counterbalancing the difficulties created by the external developments. In particular, a number of temporary fiscal measures (to stay in effect for up to one year) were adopted in the “Presidential Emergency Measure for Stabilization of National Life” in January of 1974.

Income definitions and tax allowances were regularly revised to reduce the tax burden on medium and low-income earners, which had increased as a result of inflation. At the same time, changes in corporation tax incentives reflected the government's support for heavy industries and chemical industries. Measures were adopted to promote investment by small and medium-sized businesses in overseas resource development and in the infant stock market.

(2) In December 1974, the government undertook comprehensive reform measures of the tax system primarily to improve income distribution. The major features of the reform were as follows.

A full-scale global income tax system replaced the earlier schedular and global income tax system. To reduce the tax burden on low-income earners, generous personal exemptions were also allowed. A new rate structure reduced the tax burden on low-income earners, but the burden increased for those in high-income brackets. A new capital gains tax was also introduced to replace the Real Estate Speculation Control Tax that had been in effect since 1968.

The upward adjustment of taxable income classes and a downward adjustment of the rates applied to non-profit corporations rationalized the tax structure. This was done in order to reduce the tax burden on small and medium-sized enterprises (SMEs), to enhance the consistency of the global income tax rate structure, and to reduce the tax burden on non-profit corporations.

The scope of the tax exemption scheme was restricted to support major and strategic industries such as shipbuilding and heavy machinery. Taxpayers were given a choice of only one of three kinds of tax incentives: direct exemption, investment credit, or special depreciation. As a preliminary step toward the possible introduction of a value added tax, business tax rates were raised by 0.5% to 1% and were combined into six flat rates. Also, withholding taxes were extended to all manufacturers and wholesalers, and the reporting system was reinforced.

The Framework Law on National Taxes was enacted to clarify the legal basis of taxing power and liability to national taxes, to promote fair tax administration, and to protect the taxpayers' rights. The law included provisions for the prohibition of retroactive taxation, the principles of trust and honesty, and assessment based on bookkeeping, and other objective evidence. Under this law, the Tax Tribunal was established as a special independent agency.

The Excess Profit Tax, temporarily introduced by the Presidential Measures in January 1974, was extended beyond its original duration of one year. The tax base and rate were left unaltered.

(3) In July 1975, the Defense Tax Law was enacted to secure adequate funding for national defense. Under this law, most taxpayers of internal direct and

indirect taxes, customs duties, and local taxes, as well as advertising sponsors were subject to the defense tax ranging from 0.2% to 30% based on the relevant tax amounts, import prices, telephone charges, or advertisement rates.

The defense tax was a temporary national tax and was originally planned to stay in effect for 5 years until 1980. However, it has been extended twice until it was finally abolished in December 31, 1990.

(4) In December 1976, the government carried out a large-scale tax reform and introduced the Value Added Tax (VAT) and the Individual consumption tax. Eighteen new tax laws also were enacted or amended under the reform. This tax reform was mainly aimed at stabilizing national life, meeting fiscal requirements for the "Fourth Economic Development Plan," and further modernizing the tax system.

The 1976 amendments to the internal tax laws generally went into effect in January of 1977, except for the Value Added Tax Law and the Individual consumption tax Law, both of which went into effect on July 1, 1977.

The traditional indirect tax system, which included a cascade type business tax, was replaced by a system mainly consisting of a consumption-type VAT and a supplementary individual consumption tax. This was devised primarily to simplify tax administration and to promote exports and capital investment. A single, flexible rate of 13% was applied to all items subject to the VAT. Significant contributions to the development of the new excise tax law based on the self-compliance system were made by the proposals put forth by J. C. Duignan, Dr. C. S. Shoup, and Professor A. A. Tait.

Entertainment and food tax, previously a local tax item, was incorporated into the national tax system. The registration tax, formerly a national tax, was converted into a local tax starting January 1, 1977.

(5) The basic directions of the 1977 and 1978 tax reforms included: 1) reduction of tax burden for wage and salary earners and the middle income class, 2) support for small and medium-sized business enterprises, and 3) supplementary measures to make up for the deficiencies in the VAT and the individual consumption tax.

In the tax reform of 1979, the basic objectives were the improvement in the structure of income tax and inheritance tax rates, the expansion of revenue sources for national defense, and the provision of a number of incentives for investment in the local equity market.

e. The period of recession, recovery, stabilization and liberalization (1980-1989)

Dramatic decline in GNP and high inflation in Korea was caused by another round of major petroleum price increases and the recession in the industrialized economies, not to mention the sluggish domestic economy and a poor harvest in 1980. This was offset in 1981 and 1982, although the growth was moderately volatile. Despite the fact that the government was able to successfully stabilize prices, it was apparent that economic development of Korea had reached a stage where the need for direct state intervention in the economy was not crucial, but the need for gradual liberalization of the domestic market was urgent. The government strongly emphasized welfare development, as reflected in the changes made to the existing taxes and fiscal provisions, such as reductions in tax incentives for some essential industries.

The Education Tax was introduced as an earmarked tax on December 5, 1981 and went into effect on January 1, 1982 to secure sufficient funding for improvement of the public educational system. The education tax was a temporary national tax to be levied for five years until December 31, 1986, but was extended to December 31, 1991. Upon the revision of the Education Tax Law, the Education Tax became a permanent national tax on January 1, 1991.

In light of the global economic downturn in the early 1980s, another tax law revision was made in 1982. Beginning in 1980, the world economy suffered from low growth despite increasing world trade and decreasing unemployment. Korea had been experiencing such problems since 1979 with a sharp decline in industrial output, employment, export, and market competitiveness. The most imperative task for the economy was to recover from the recession and rekindle growth in the 1980s. Fortunately, stable prices and a favorable balance of payments position gave the government greater flexibility in economic and tax policy formulation.

The tax laws were revised in the following directions:

(1) In order to protect the economy from a long-term depression, corporation tax and income tax were lowered and the taxation of presumptive dividends was eased as an incentive for business enterprises to improve their financial positions as well as their structures.

(2) In order to implement the real-name financial transaction system and to prepare for the global taxation of income from financial assets, such income

became separately subject to higher taxation. In addition, financial assets not previously taxed were to be taxed under a new law. A number of existing laws and regulations (e.g., the Secrecy Law for Deposits) were also modified to allow the tax authority to conduct thorough investigations of financial assets for tax purposes.

(3) The categories of preferential tax exemption for specific industries were reduced once again despite the lower corporation and income tax rates. As a result, tax neutrality was further improved by adopting the principle of low tax rates and limited exemptions.

(4) Tax credits were enlarged in order to reduce the burden on the low-income group without reducing the number of income tax payers. The revisions of tax laws in 1984, 1985, 1986, and 1987 reflected the government's intention to emphasize the recovery of growth potential to fuel a new round of economic and social development by means of improving income distribution and implementing social welfare programs.

The main revisions are as follows:

(1) Tax regime encouraging technology development

Investment credit, additional depreciation, and reserves for technological development were permitted for assets related to new technology.

(2) *Assessment of the value added tax*

The Enforcement Decree and Regulation of the VAT Law were amended to widen the scope of zero-rated VAT and VAT exemptions, as well as to simplify the assessment procedures.

(3) *Tax measures to improve corporate financial structure*

(a)The presumptive dividend was phased out.

(b)Deductions in income for capital increases were systemized in the Corporation Tax Law.

(c) Excessive interests paid out were not considered as losses.

(4) *Reinforcement of tax incentives for industrial restructuring*

The Tax Exemption and Reduction Control Law was revised to eliminate the obstacles caused by the tax system for structural adjustment of the national economy.

(5) *Extension of temporary national taxes*

(a) The Defense Tax: Dec. 31, 1985-Dec. 31, 1990

(b) The Tax Exemption and Reduction Control Law: Dec. 31, 1986-Dec. 31, 1991

(c) The Education Tax: Dec. 31, 1986-Dec. 31, 1991

(6) *Tax incentives for newly established small and medium-sized enterprises (SMEs)*

(a) For SMEs newly established in an agricultural or fishing district or those related to technology-intensive businesses, the income tax or the corporation tax on income is exempt from taxation for four years (including the year of organization) and is reduced by 50% for the subsequent two years.

(b) For a venture capital company that has invested in newly organized SMEs, the capital gains from transfer of shares or interests are exempt from corporation tax.

(c) The dividend income of an individual shareholder of an investing company is taxed separately from global income, and is subject to income withholding at the rate of 10%.

(7) *Special treatment for foreign taxes paid*

(a) When a resident or a domestic corporation receives income from foreign sources, the taxpayer is allowed to treat the total amount of foreign taxes paid as losses when calculating the income amount for the respective business year, or to deduct the paid foreign taxes from income tax or corporation tax.

(b) The amount of taxes spared abroad is deemed to be foreign taxes paid, and is eligible for special treatment subject to the provisions of tax treaties.

(8) *Establishment of the Excessive Land Holding Tax*

The Excessive Land Holding Tax was enacted as a local tax on December 31, 1986, but did not go into force until January 1, 1988.

(9) *Establishment of the Excessively Increased Value of Land Tax*

The excessively increased value of land tax was newly established as of December 30, 1989. This tax was applied from January 1, 1990.

(10) *Some property taxes replaced by or incorporated into new tax*

The aggregate land tax had been newly enacted to replace the existing property tax on land and the excessive land holding tax.

f. Tax reform during the period of 1990-1997

Domestic economic circumstances began to change in the latter half of 1988, with an adverse impact on growth, exports, prices, employment, and balance of payments. There were several reasons for this change. First, the rate of economic growth, which had relied mainly on technology transfers and low wages, had reached its extent. Simultaneously, efforts to enhance competitiveness by expanding the infrastructure and by investing in technology development were no longer sufficient, resulting in substantially weak productivity levels in all economic sectors. Second, the lower investment levels and declining willingness to participate in the labor force resulted from economic uncertainty and instability caused by a sudden change in socioeconomic circumstances. Third, investment in real estate became exceptionally popular.

Several different measures were taken in order to correct these problems. The government granted several tax incentives for investments in facilities and technology development, targeted to improve productivity and adjustment of the industrial structure. In addition, the government strongly subdued both inflation and real estate speculation that had been distorting income distribution. Short and long-term policy tools were also prepared to encourage a better work ethic and to establish a satisfactory relationship between employees and employers.

Although the financial crisis of 1997 forced the government to adopt new approaches to economic policies and taxation, the long-term goal of fiscal integrity and efficient tax administration remains intact.

(1) Tax reform in 1989-1992

The major contents of the tax reforms from 1989 to 1992 were as follows. First, the government reduced the burden of wage and salary earners by increasing deductions for wage and salary income, medical expenses, those who do not own homes, and those who lived with aged parents. The government also increased the limits on tax credits for wage and salary earners.

Second, tax equity was enhanced among income brackets and among different types of income by strengthening the taxation on property. Tax rates were raised on financial assets (16.75% 17.75% 21.5%), on inheritances and gifts by revising the appraisal method, and on the self-employed such as doctors, lawyers, and accountants.

Third, the government simplified the personal and corporate income tax structures and lowered the rates. An alternative minimum tax system was also introduced.

Fourth, reinforcing taxation on real estate holdings renewed the property tax system. This included the following: a progressive aggregate land tax consolidating the property tax on land, a tax on excessively increased value of land (even a tax on unrealized capital gains from excessive land holding was levied), a ceiling on ownership of residential land, a tax on profits from regional development projects, and regulations forcing conglomerates to sell excessive holdings of land. In addition, the scope of tax preferences on capital gains from real estate transfers was sharply narrowed. These measures attempted to suppress real estate speculation, promote efficient land use, and stabilize land prices.

Fifth, while the defense tax was repealed as of January 1, 1991, the education tax was permanently set. Additionally, a system was introduced to transfer national tax revenue to local governments for the purpose of supporting the local autonomy, which went into effect in early 1991. The revenue to be transferred consisted of 50% of the excessively increased value of land tax, 15% of the liquor tax, and all of the telephone and education taxes.

(2) Tax reform in 1993

The new administration launched a Five-Year Plan for the New Economy in 1993. It included Korea's economic policy directives targeted for 1997, and it was expected to play a greater role than ever before.

The new Korean government enacted the measure for a real-name financial transaction system on August 12, 1993. This system had the intention of enhancing economic justice and facilitating the sound development of the national economy through normalizing financial transactions by enforcing the conduct of all financial transactions under real names.

It was expected that various tax data of current financial transactions veiled under false names or pseudonyms would be exposed during the implementation of the real-name financial transaction system. This resulted in the increase of the burden faced by such taxpayers.

To alleviate the tax burden increase from the enforcement of the real-name financial transaction system and to induce immediate consolidation of the new system, thirteen tax laws were either amended or newly enacted under the reform, one of which was the Tax Exemption and Reduction Control Law.

Other key points of the 1993 Tax Reform were to enhance tax equity, to secure financial revenue by expanding areas of taxation, and to reduce tax exemptions

by the comprehensive review of the tax support system. The tax reform contributed to the adjustment of tax rates and the tax credit system; various measures were also taken to improve the management environment and the financial structure of corporations.

The main contents of the 1993 Tax Reform are as follows:

(a) To adjust the difference between recognizing profits and losses in both business and tax accounting

(b) To lower the tax rates of the corporation tax, individual tax, and inheritance and gift tax

(c) To adjust methods of taxation on capital gains

(d) To introduce a taxation deferral system in the Tax Exemption and Reduction Control Law

(e) To introduce a marginal tax credit system on VAT

(f) To adjust the rates of the individual consumption tax and the liquor tax

(g) To introduce the transportation tax for social overhead capital investments

(3) Tax reform in 1994-1995

The 1994 tax reform was designed to establish an advanced tax system characterized by low tax rates and a broader tax base. By pursuing a lower-rate/broader-base policy mix, the Korean government planned to establish a fair tax system in terms of horizontal equity. It also hoped to improve the efficiency of the economy by mitigating the effects of distortions caused by government intervention and by encouraging market competition.

The main contents of the 1994 tax reform are as follows.

(a) The income tax system was strengthened by incorporating interest and dividend income into the global income tax system (this has been applied since the beginning of 1996). Until 1995, interest income and dividend income were assessed separately from global income and were withheld at the rate of 20%. The improvement in the income tax system was expected to enhance tax equity for taxpayers with income from different sources.

(b) The self-assessment system for individual income taxes was introduced and went into effect on income reported in 1996. This further simplified the process of tax administration.

(c) Corporation tax rates were reduced to improve the international competitiveness of domestic industries.

Taxable year	Tax rate (private corporations)
1994	Income 100 million won: 18% (19.35%) Income > 100 million won: 32% (34.40%)
1995	Income 100 million won: 18% (19.35%) Income > 100 million won: 30% (31.50%)

* Figures in parentheses include the inhabitant tax.

* An additional tax of 15% is imposed on the accumulated excess earnings of unlisted large-scale corporations.

In order to induce investment, the accumulated earnings tax was improved to exclude the calculation of accumulated earnings as part of the tax amount by establishing a reserve for corporation development.

Under the new corporation tax system, carry-overs of foreign tax credits were allowed for up to 5 years. This change enhanced the competitiveness of Korean companies investing overseas. The scope of Permanent Establishment was also adjusted. The revised version established the duration and characteristics of a PE in a clear manner.

(d) The Individual consumption tax Law (SETL) was redefined. Its categories were simplified and revised in order to improve the equity of different goods. Accordingly, tax rates were simplified from six different rates ranging from 10-60% to three different rates of 10%, 15%, and 25%.

The Korean government designed its 1995 tax reform to ensure the firm establishment of a system based on the "Incorporation of financial income into a global income base." To broaden the base for the global income tax, the Korean government carefully monitored the rapid behavioral changes of individuals and corporations in response to tax reforms; and to reduce the short-term effects of behavioral changes on the economy, the Korean government proposed supplementary measures. For example, certain kinds of interest income were not to be subject to the global income tax. In fact, adjustments of tax brackets resulted in decreased income tax burdens.

At the same time, as a part of the WTO system and the movement toward the globalization of business activities, Korean firms were expected to face severe competition with foreign companies. With these changes already embedded in the economic environment, the Korean government tried to search for some measures to strengthen the competitiveness of Korean firms (e.g., tax incentives for research and development). In 1995, the government improved its international tax system through the application of internationally recognized standards. It also continued to improve Korea's economic efficiency by simplifying the tax system and tax compliance processes that reduce the cost of tax compliance and tax collection.

The main contents of the 1995 tax reform are as follows:

(a) In order to alleviate the income tax burden, the interest on time deposits with a maturity of five years or more was not included in the global income tax base. In addition, interest on one of the checking accounts of a family was not to be included in the global income tax base if the account does not exceed the sum of 12 million won.

(b) Individual income tax brackets were adjusted.

Before		**Revised**	
Income bracket	**Tax rate**	**Income bracket**	**Tax rate**
Not more than 4 million won	5%	Not more than 10 million won	10%
4 - 8 million won	9%		
8 - 1.6 million won	18%	10 - 40 million won	20%
1.6 - 3.2 million won	27%	40 - 80 million won	30%
3.2 - 6.4 million won	36%		
Over 6.4 million won	45%	Over 80 million won	40%

The corporation tax rate was decreased by 2%.

Tax year	**Tax rate (private corporation)**
1995	Income 100 million won: 18% (19.35%) Income > 100 million won: 30% (31.50%)
1996	Income 100 million won: 16% (17.20%) Income > 100 million won: 28% (30.10%)

i) Tax incentives were strengthened for industries such as research and development and intellectual services.

ii) On the condition that the tax treaty for the contracting states allowed for indirect tax credits, foreign tax credits were permitted on dividends from foreign subsidiaries (indirect tax credits).

(c) The VAT burden was mitigated, and tax compliance costs for small businesses were reduced.

i) The tax exemption limit was raised from 12 million won to 24 million won, and the limit for special cases of the VAT (tax rate: 2% of total sales) was also raised from 36 million won to 48 million won.

ii) The proposal introduced a new special case for those with total sales less than 150 million won.

Tax Liability = Total Sales Value Added Rate (announced by the government)
10%

(d) The education tax rate was raised, and the tax base was broadened through the inclusion of tobacco sales.

(e) The proposal simplified the customs clearance process.

(f) The proposal for the legislation of the Law for the Coordination of International Tax Affairs was also submitted to the National Assembly. The purpose of this law was to streamline Korea's international tax system in accordance with international standards.

The law covered the following:

Transfer Pricing

Thin Capitalization

Anti-Tax Havens

Mutual Agreement Procedure

Mutual Assistance in Tax Matters

(4) Tax reform in 1996-1997

In 1996, the government launched tax reforms, resulting in the revision of nine tax laws and fourteen Presidential Decrees. The major tax law changes in 1996 are as follows. In order to bolster corporation competitiveness, the tax law was changed to give tax relief to technology and human resource development of corporations of small and medium-sized companies, in particular.

The Collection System of customs duties was converted from pre-payment & post-compensation to post-payment, based upon exact calculation. To enhance equitable tax burden between different socio-economic classes, tax rates imposed on employees were lowered and inheritance and gift tax rates levied on the middle class were reduced as well. On the other hand, tax

rates on transfer of high valued property were increased.

Another major revision of the tax law in 1996 was the creation of "long-term household savings" and "employee savings through stock," to promote savings and reduce the limit of entertainment expenses in order to curb conspicuous consumption. The procedure of paying taxes was simplified and the method of granting tax relief was streamlined.

g. Financial crisis and tax reform: 1998-1999

The economic crisis of Korea in late 1997 has forced the government to initiate a series of comprehensive economic reform measures to overhaul the economy. Aside from the adverse external volatility of the Asian economic crisis, there were a number of internal factors that are believed to have significantly contributed to Korea's economic crisis. They range from exposure to short-term external borrowing, a debt-laden corporate sector, inefficient financial institutions, rigid labor market, and persistent trade deficit, to excessive government intervention in the economy, which tended to distort market incentives and signals.

Although a series of unprecedented bankruptcies, a credit crunch, and the depletion of foreign currency reserves hastened the Korean economic crisis, internal factors pointed to more fundamental structural weaknesses in the Korean economy, especially in the corporate and financial sectors. The government acknowledged and responded to the crisis by initiating bold measures to restructure the corporate and financial sectors.

One of the most urgent tasks that confronted the government was the liquidation of bad loans held by domestic financial institutions. Support for the unemployed in the form of unemployment insurance payments and other social safety net expenditures were another urgent task that confronted the government as unemployment rose. Not surprisingly, as government spending rapidly grew to meet the expenditure demands necessitated by restructuring and unemployment, the budget deficit level increased at a similar pace.

Despite the expected large budget deficit, the prospect for rising tax revenue is not expected to improve in the short run, given the likelihood of continued recession and shrinking tax revenue. Increasing revenue is not anticipated because of expanded tax exemptions and rate reductions the government has granted to attract foreign capital and stimulate domestic investment and consumption. To prevent the likely result of excessive revenue deficit, the government raised tax rates on items that were believed to have been minimally affected by the economic crisis. Thus, among others, taxes on petroleum and diesel were raised, and the progressive taxation of interest income was switched to a proportional withholding tax.

Soon after Korea reached an agreement with the IMF on macroeconomic and fiscal policy objectives, the government made a number of changes in tax laws in order to facilitate the restructuring process, to stimulate investment and consumption, and to broaden the tax base and tax revenue.

(1) Tax measures for restructuring

From early on, it was decided that tax liability should neither discourage nor prevent companies and financial institutions from undergoing necessary restructuring. Therefore, the government has exempted or reduced taxes on asset transactions for the purpose of corporate and financial restructuring.

Tax incentives to encourage and accelerate restructuring were mostly granted to transaction-related taxes such as Capital Gains Tax, Acquisition Tax, and Registration Tax. They include:

(a) Corporate mergers and acquisitions: Profits resulting from revaluation of corporate assets after mergers and acquisitions are eligible for deferral from corporate income tax until the alienation of the revalued assets. Corporate mergers and acquisitions are also exempt from the Registration Tax.

(b) Business divisions: Capital gains resulting from revaluation of corporate assets after business divisions are eligible for deferral from capital gains tax until the alienation of the revalued assets. Business divisions are also exempt from the Acquisition Tax and the Registration Tax.

i) Business asset swaps: Companies that swap business assets with other companies as a part of their restructuring plan are eligible for deferral on capital gains tax on any gains resulting from business swaps. Such companies are also exempt from the Acquisition Tax and Registration Tax.

ii) Alienation of business assets: Companies that use proceeds from the sale of real estate assets for debt payment to their creditor banks are eligible for exemption from capital gains tax. Where alienation or purchase of real estate assets is initiated for restructuring purposes, the companies making such transactions are eligible for a 50% reduction in capital gains tax.

iii) Contribution by company owners: Where company owners donate personal assets or make capital contributions to their own companies, the recipient companies are eligible for exemption from corporate

income tax on such contributions and a 50% reduction in capital gains tax, as well as exemptions from the Acquisition Tax and Registration Tax.

(2) Stimulating investment and consumption

The withdrawal of foreign capital was one of the principal factors that precipitated Korea's economic crisis. Therefore, restoring the confidence of foreign investors and attracting foreign investment were the overriding priority and concern of the government. The measures that ensued after the agreement with the IMF included accelerated liberalization of domestic markets and removal of restrictions on foreign ownership of shares in domestic companies and real estate properties.

With respect to foreign direct investment (FDI), the enactment of the Foreign Investment Promotion Law (FIPL) in 1998 is noteworthy. In May 1999, provisions dealing with tax incentives for foreign direct investment (FDI) were subsumed into the Special Tax Treatment Control Law (STTCL).

The principal objective of the FIPL is to attract FDI by creating a more liberalized and favorable business environment for foreign businesses and by providing tax incentives to certain types of FDIs. Under the FIPL, foreign businesses and investors who make advanced technology FDI in Korea are eligible for exemption from individual and corporate income taxes for the first seven years, and a 50% reduction for each of the next three years. In addition, foreign businesses and investors are granted exemption from a number of local taxes such as Acquisition Tax, Property Tax, Aggregate Land Tax, and Registration Tax for a minimum of five years, and 50% reduction in the next three years. Imported capital goods are eligible for full or partial exemption from customs duty, individual consumption tax, and value added tax (VAT).

The opening of Korea's long-protected real estate market to FDI is also noteworthy. With numerous revisions to the Foreign Land Acquisition Law in June 1998, the government completely removed restrictions on real estate acquisition by foreign businesses. In an effort to attract large-scale foreign investment, a Foreign Investment Zone (FIZ) system was introduced. The national government formerly granted tax incentives to FDI in pre-designated areas; but currently the FIPL grants local governments the autonomy to designated FIZ for FDI upon the request of foreign investors. This request is based on the amount of investment and the number of

expected jobs to be created from their FDI. Foreign companies that receive the FIZ designation are eligible for government support and tax benefits.

In response to the sharp drop in investment and consumption levels, the government has also revised a number of tax laws to provide tax incentives to small and medium-sized companies in order to stimulate employment and technology investment. They include:

(a) Tax exemption on stock options: For employees of venture capital companies who elect stock options, the individual income tax on income from stock options is exempt from tax.

(b) Tax credit and exemptions on R&D: High value-added service industries have been made eligible for tax credits and exemptions, which are normally given to manufacturing companies. Expenditures on research for the millennium bug have also been made eligible for tax credits and exemptions.

(c) Reduced individual consumption tax: The individual consumption tax on consumer electronic goods and automobiles has been cut by 30%.

(d) Reduced automobile tax: The tax on automobiles has been reduced to 220 won per cc from 370 won per cc for those with engine displacement greater than 3,000 cc. Likewise, the tax on automobiles with engine displacement less than 3,000 cc has been reduced to between 20 won per cc and 60 won per cc.

(e) Reduced capital gains tax: In an effort to stimulate the depressed real estate market and to accelerate the restructuring process, the government reduced each of the three brackets of capital gains tax rates from 30%, 40%, and 50% to 20%, 30%, and 40%, respectively.

(3) Broadening tax bases and increasing tax revenue

Tax revenues have been declining significantly since the beginning of 1998. Among the decrease in tax revenue, that from income-elastic tax bases has been particularly pronounced. Therefore, the government has chosen to increase taxes on such income-inelastic goods as cigarettes and gasoline to meet the cost of restructuring and unemployment benefits.

In an effort to broaden tax bases, the government also curtailed tax exemptions and reductions. One notable example is the abolition of the VAT exemption on services supplied by professional service providers such as lawyers and accountants. In addition to enlarging the tax base of the VAT, the new measure is expected to significantly improve the transparency of the

income base of the professional service providers. Other changes made by the government to broaden tax bases include:

(a) Changes in the VAT: Cigarettes became subject to VAT on top of the existing local tax.

(b) Transportation tax increase: The excise tax on petroleum increased three times in 1998. The first increase took place on January 8 from 414 won per liter to 455 won per liter and the second on May 2 to 591 won per liter. The current rate is 691 won per liter.

(c) Withholding tax on interest: The National Assembly suspended the inclusion of interest income in the comprehensive income tax base but started to levy a 20% withholding tax on interest income as of January 1, 1998. The withholding rate has been increased to 22% beginning October 1, 1998.

(d) Streamlining tax exemption laws: In order to broaden the tax base, the Special Tax Treatment Control Law was enacted to control the widely scattered laws that are related to exemption. Tax laws that allow exemptions and reductions are subject to sunset rules-which limit the duration of the exemptions and reductions.

h. Tax reform in 2000~2010

The following contents include a summary of the tax reforms undertaken during 2000-2010.

(1) 2000

The 2000 tax reform focused on strengthening support for the middle and working class and enhancing tax equity within the framework of overall economic policy of restructuring and building up a system based on market principles. Also tax rules, which proved to be ineffective, were revised to improve efficiency of tax system.

First, in order to lessen the tax burden of the middle and working class and improve income inequality, pension contribution was allowed to be deductible from the taxable income and the scope of credits for medical expense and earned income were expanded. Non-taxable savings for the old and the disabled were established. Meanwhile, with the population aging, those who receive pension income is going to increase. Thus the proportion of pension incomes in the total incomes is expected to augment. Pension proceeds, which are currently non-taxable, will become taxable on a gradual basis, enhancing tax equity among various incomes.

Second, the current energy-related taxation system has been based on low energy prices for the sake of price stability and industry support. As a result, during 1991 to 1997, energy consumption in Korea soared 11.4%, eight times of OECD member nations while the consumption for OECD nations was increased by 1.5%. Despite the fact that main contributors to pollutions are factory exhausts and car exhausts, heavy oil used in factories was non-taxable and tax on diesel for automobiles was lower than that of advanced nations. The number of butane gas-powered car sharply increased, as the price of butane gas was only one forth of gasoline price. The large difference among fuels of vehicles contributes to distortion in energy consumption. To address energy waste, pollution and international payment problem arising from these distorted energy prices, taxation system for energy was modified to be in line with the level of international standard. The price rates among gasoline, diesel oil and butane gas will be revised upward to 100: 75: 60 on a gradual basis by July of 2006.

Third, tax incentives were provided to boost local economies and regain Korean economic rigor by narrowing economic gaps among regions. Previously income tax and corporation tax had been reduced by 20% for seven industries such as manufacturing and logistics industry etc. In 2000, a total of 16 types of local small and medium-sized enterprises (SMEs) including construction, retail and wholesale industries were given income tax and corporate tax cuts by 30%.

(2) 2001

The tax reform in 2001 focused on broadening tax base via the reduction of tax exemption and deduction in order to enhance tax equity. At the same time, the tax reform was focusing on building a competitive tax system through tax cuts and business-friendly tax measures. These changes intend to recover economic vigor and secure tax revenue for medium and long term.

First, to encourage entrepreneurship of the self-employed, who had had a hard time in the process of restructuring and to relieve increased tax burdens of the self-employed as a result of expanded usage of credit card, global income tax rates were cut by 10% (10%~40% → 9%~36%) and deduction for taxable income was increased.
Second, to create business-friendly environment, various tax reforms were executed such as relieving tax burdens of corporations. Corporation tax rates of 16% and 28% were lowered by one percentage point each to 15% and 27%, respectively, and the higher corporate income tax levied on profits accumulated by certain corporations in excess of a level set by a tax law was

abolished. Also, requirements for incentives relating to investment in Foreign Investment Zones were eased.

Third, tax regimes found to be stumbling blocks to corporate restructuring such as merger and investment in-kind were lifted. Under the amended tax law, environments have been created where restructuring can be done regularly by companies spurred by their self-regulation and accountability. For example, tax reconciliation items to be carried-over in a merger were expanded. Along with this, various restrictions to doing business, which were embedded in the Korean tax system, were eased. The gap between tax accounting and corporate accounting was narrowed in order to lessen burdens of corporation in reconciling these two accountings.

Forth, tax exemption or reduction was curtailed in an attempt to increase tax revenues and improve tax equity. Especially, excessive reduction or ineffective exemption were reduced or abolished. For instance, foreign investment in specified advanced technology and industry supporting service used to be granted a 100% exemption on corporate income tax and dividend. However, under the revised tax law, exemptions for foreign investment by means of business transfer was reduced since such investment was not effective in creating new employment and facility investment. Meanwhile, exemptions needed for supporting creation of wealth of middle and working classes remained as before.

Fifth, previously in order to crack down on speculation in the real estate market, higher capital gain tax rates were provided. As the environment surrounding real estate market changed, capital gain tax regime was normalized, granting lower tax rates and smaller tax exemptions. By bringing capital gain tax rates on property to the level of global income tax rates (10%~40%→9%~36%), tax burden arising from real estate transaction was alleviated. Also the scope of tax exemption was dramatically reduced to regain the function of capital gain tax as an income tax. While the tax rate for capital gain from the sale of stocks remained the same as before, transfer of stock held for a short term by a large shareholder was subject to a flat tax rate of 30%.

(3) 2002

The 2002 tax reform centered on supporting middle and working classes, stimulating economies of local provinces and boosting competitiveness of corporation sector. Also, taxes that caused tax inequity and tax exemptions

or reductions that were not effective in terms of usage of resource have been phased out to secure funds to meet increasing demands for social welfare, social overhead cost, and a better education system. Through these efforts, tax equity has been enhanced and tax base has been broadened. Main contents of the 2002 tax reforms are as follows.

First, to lessen tax burden of working classes, personnel exemption and income deduction for medical expenses were expanded. The period of income deduction for credit card usage has been extended to November 30, 2005. Additionally with regard to interests arising from long-term loans for house, deductible interest expenses were increased.

Second, to support small and medium-sized enterprise (SMEs) and beef up competitiveness of corporation, type of industries entitled to SMEs special tax exemptions were expanded by nine to 27 and type of facilities subject to tax exemption for investment into productivity boosting facilities were expanded to include supply chain management (SMC) and customer relation management (CRM) and tax credit for such facilities is raised to 7% from 5%. Further, requirements for establishment of holding companies to be provided with special tax treatments were eased to facilitate corporate restructuring.

Third, income redistribution has been worsened since the financial crisis and large corporations were expediently using complicated capital transactions such as merger, a capital increase and a capital decrease to pass the managerial rights to the children of their owners. To address these situations, the scope for deemed gift was extended.

Forth, with the increase of capital movement and e-commerce, tax avoidance and tax evasion on the international arena were prevailing. In an attempt to combat these transactional financial crimes, Korea's 2002 tax reform allowed the exchange of certain financial information related to non-resident and foreign corporation with the foreign tax authorities on a reciprocal basis.

(4) 2003

To stimulate sluggish economy and nurture mid and long-term growth potential, tax incentives amounting to one trillion won were provided via the 2003 tax reform. Corporate tax rates were lowered to relieve corporation tax burden and tax incentives toward small and medium sized company were expanded to boost SMEs' entrepreneurship. Meanwhile, to discourage speculative real estate transactions, capital gain tax on property was raised.

On the international front, tax reforms in 2003 were composed of allowing an exchange of information on financial transactions with other countries, subjecting all international transactions under transfer pricing rules and finally revising rules on thin capitalization and controlled foreign corporations (CFC rules).

Followings are the main 2003 tax reforms done on the domestic front:

(a) To clamp down on the untaxed transfer of wealth by means of legal loopholes, an all-inclusive inheritance and gift taxation system was introduced. Under the previous law, the scope of gift and inheritance under the gift and inheritance tax law includes 14 types of constructive gifts and other similar types as well as transfer of wealth without compensation under the gift contract of Korean Civil Code. However, there were many cases where taxpayers circumvented the gift and inheritance taxes by using new types of inheritance and gift, which were not enumerated as constructive gift types. To block these expedient methods, under the new scheme, effective transfer of wealth without compensation is subject to taxation regardless of whether the transfer constitutes inheritance and gifts under the Civil Code or not.

(b) The requirement for non-taxable 'one household with one house' was strengthened and tax rate on capital gain arising from transfer of property held for a short term was raised. On top of that, owners who fall into the category of 'one household with three houses' were subject to heavy taxation of 60 percent regardless of the holding period. As for the transfer of property located in areas, which are designated as real estate speculation area, capital gain tax was levied on the value of actual transaction.

(c) In order to support Korean economy in securing economic vigor and growth potential by encouraging corporation's investment into facilities and promoting foreign investment, following tax schemes were introduced:

i) To alleviate tax burden of corporations, tax rate 15% applicable to the taxable income of 100 million won and 27% applicable to the taxable income in excess of 100 million won were lowered by two percentage points respectively. This became effective from taxable years beginning after January 1, 2005.

ii) In order to encourage investment into facilities, temporary investment tax credit rate was raised by 5% to 15% and the duration of such tax credits was extended by one year to June 30, 2004.

iii) Foreign expatriates and employees working in Korea are able to opt to apply for a flat tax rate of 17% on their salary income.

iv) In order to buttress SMEs, the alternative minimum tax rates for the SMEs were decreased to 10% from 12%. The alternative minimum tax liability was suspended with respect to R&D investment tax credit enjoyed by SMEs. Thus the total R&D expense was eligible for the R&D investment tax credit.

(d) Various tax incentives were provided in order to support middle and working classes such as farmers and workers.

i) The ceiling for the earned income tax credits provided to temporary workers is raised to 55% of assessed tax liabilities from the previous 45%.

ii) Previously, special deduction for education expense and medical expense had been subject to 3% limitation of the aggregate income of a taxpayer. Under the 2003 tax regime, this limitation was abolished.

iii) Tax incentives to support child's birth and childcare were newly established and extended. For instance, maternity allowance and childcare allowance are not any more taxable (up to 100 thousand won). Also ceiling on education expense for income deduction was raised.

iv) A taxpayer with 25 million won or less of earned income is entitled to deduct marriage, moving and funeral expenses from his taxable income. Under this newly established tax law, one million won per case is a deductible ceiling amount.

(e) Followings are changes made to the 2003 tax reform other than ones described above.

i) The list of taxpayers who fail to pay large amounts of taxes is disclosed in public to encourage tax compliance. The list of delinquent taxpayers whose taxes in arrears are due for more than 2 years and whose national tax exceeds one billion won are subject to this new tax regime.

ii) In order to promote tax compliance of taxpayers by encouraging reports on tax-related illegal activities, a reward is provided to the reports on tax evasion and fraud in which the evaded tax liabilities amount to 0.5

billion won or more and such tax liabilities are collected even if the tax evaders are not punished as a tax criminal.

iii) "Cash receipt system" was introduced to better assess self-employed taxpayers' income. Previously, taxpayers were encouraged to use credit card since it would prevent potential tax-evaders from failing to report cash transaction. With the introduction of the cash receipt system, even cash transaction records are automatically sent to the National Tax Service in the same way as the current credit card system and cash users are allowed income deduction equivalent to 30% of cash receipt expenditure exceeding 25% of total salary and wage. This is effective from Jan. 1, 2013.

iv) Originally transportation tax on gasoline and diesel had been introduced in 1994 to be around for temporary 10 years to finance transportation infrastructure such as roads and railways. However the duration was extended to secure resources for social overhead capital (SOC) needed to grow as the hub of logistics in North- East Asia.

Followings are the tax reforms in 2003 on the international tax area.

(a) With respect to exchanging information on financial transactions with other countries, the Ministry of Strategy and Finance provided the information on a reciprocal basis and upon request from foreign revenue authorities on a condition that the released information is strictly limited for the purpose of imposing tax. And non-residents living in Korea as well as foreign companies and branches operating in Korea come under the scope of the new measure.

(b) As for subjecting international transactions to transfer pricing rules, some international transactions between related enterprises (or associated enterprises) falling under the corporate income tax law and not covered by the law of coordination of international taxes used to be subject to "the rules on denial of unfair transactions" in the past. Under the revised rule all international transactions shall be subject to transfer pricing rules, effective from 2003.

(c) The purpose of thin capitalization is to limit the deductibility of excessive interest payments paid by Korean subsidiaries and branches of foreign companies, which would result in reduced tax base in Korea. More specifically, where a subsidiary or branch borrows from its controlling shareholder or head office located overseas, loans in excess

of 600% of equity in the case of certain financial institutions and 300% of equity in all other cases is not permitted. In other words, the interest relating to the loan exceeding that limit is not deductible for Korean tax purposes.

i) The scope of major foreign shareholders was expanded by adding a brother company of a domestic company as subject to thin capitalization rules. As of April 2003, foreigners owning more than 50% of shares of domestic corporations and those foreign shareholders effectively determining the course of the domestic company were classified as major foreign shareholders subject to thin capitalization rules. Also under the revised tax law, the scope of major foreign shareholders of domestic permanent establishments subject to thin capitalization rules was expanded. Foreign shareholders owning more than 50% of a brother company of the firm concerned shall be subject to thin capitalization rules.

ii) Deemed foreign loan with respect to the rules on thin capitalization rules was revised. In the past, only loans either issued by foreign shareholders or by the third party and guaranteed by the shareholder used to be subject to thin capitalization rules. Now other legal documents such as comfort letter, effectively guaranteeing payment of the issued loan shall be deemed as falling under the scope of foreign loans subject to thin capitalization rules. Thin capitalization rules prevail over other tax laws or transfer pricing rules in the case of divergence of interpretations.

(d) The CFC rules also underwent some changes. The purpose of CFC rules is to impose tax on unreasonably retained profits of subsidiaries located in “tax havens” by treating them as notional dividends paid to the Korean parent. The concept of “tax havens” under the Korean tax law refers to jurisdictions with no tax or those exempting 50% or more of income from tax or with less than 15% of tax rate. The companies falling under the scope of CFC rules are subsidiaries located in low-tax jurisdictions whose share capital is at least 20%, either directly or indirectly owned by a Korean parent.

(e) There also were some major revisions of the foreign investment regime in Korea. The Korean government recognizes the fact that foregin direct investments play an important role in the economy and designates special economic zones to facilitate an inflow of foreign investments. In designated special economic zones, qualified foreign investments on a large scale shall be granted the same benefits as in foreign investment zones.

In the foreign investment zones, companies are exempt from tax for 7 years and enjoy 50% reduction for the next 3 years. In designated special economic zones, qualified foreign investments on a medium scale shall be granted the same benefits as in Jeju Free International City. In Jeju, companies are exempt from tax for 3 years and enjoy 50% reduction for the next 2 years.

What was noteworthy about new measures to promote foreign direct investments was that the proposed measures expanded tax incentives to advanced technologies.
Any company capitalizing upon such technologies as information, bio or nano technologies will be granted the same benefits as in foreign investment zones, regardless of the size of investments made and their locations. Furthermore, foreign employees are able to opt to apply for a flat income tax rate of 17% on their salary income.

(5) 2004

One of the remarkable changes in the 2004 tax reform is the introduction of comprehensive real estate holding tax as a national tax to stabilize real estate markets. Along with these changes, various tax incentives to support creating jobs are main characteristic of the 2004 tax reform. On top of that, on the corporation tax and income tax areas, various amendments are made in order to lend a hand to companies in boosting their competitiveness.

Meanwhile, to enhance the country's competitiveness through inducement of foreign investment, a wide range of foreign investment incentives is provided via the 2004 tax reform. Criteria for industries to qualify for such investment incentives are eased and the scope of industry entitled to foreign investment incentives are expanded.

Finally, with regard to the taxation of foreign corporations and international transactions, the criteria for comparables used to determine arm's length prices have been eased. Along with these changes, various changes including modified criteria to evaluate a tax haven have been made to complement previous tax laws.

Followings are main contents of the 2004 tax reforms on comprehensive real estate holding tax, job-creating tax incentives and corporation tax code.

(a) In order to enhance equity in tax burden and stabilize real estate market, comprehensive real estate holding tax (CREHT) is newly established. With this new tax regime, excessive holding of real estates will be discouraged.

i) Previously, land and residential houses are taxed separately only as a local tax. Under the new tax law, first, property tax (previous aggregate land tax is absorbed into property tax), which is a local tax, is imposed on lands and residential houses and then high-priced lands and residential houses that exceed a certain amount held by one taxpayer across the nation are combined to be imposed with CREHT as a national tax.

ii) Tax bases for land and residential houses are revised to be in more in line with market prices. As holding tax is more strengthened with the introduction of CREHT, registration tax regarding registering transfer of real estate ownership is lowered to 2% from 3% in order to promote real estate transaction.

iii) To facilitate the balanced development of local economy and sound development of national economy, the amount of tax collected is transferred to local autonomous governments. Especially local autonomous governments, which are in more financial need, are allocated first with these tax revenues.

(b) Since the financial crisis, job market was resilient, producing 400 thousand to 500 thousand jobs per year. However, despite about 3% of economic growth in 2003, we saw 30 thousand jobs gone. Against this background, Korean government decides to grant tax reduction and tax credit to a company that creates jobs or retains jobs in the sense that job creation is a fundamental method to address youth unemployment, delinquent credit holders and aggravating income distribution. The main contents of such tax regime are as follows:

i) A company, which starts its operation and creates jobs, is provided with 50% to 100% of income tax or corporation tax reduction. Also, such a company is allowed to carry forward net operating loss (NOL) incurred within 2 years after starting operation for 7 years.

ii) Where the number of a regular employee exceeds that of previous year, one million won per employee in excess of the number of worker from the previous year is deducted from corporation tax or income tax.

iii) Where a company introduces a system to retain employment such as implementing a shift system and shortening working hours, 500,000 won per retained employee is deducted from corporation tax and income tax.

(c) As income tax rates are lowered by one percent, withholding tax rates are lowered by one percent to relieve withholding tax burden. 15% withholding tax rates on interest and distribution from securities investment are lowered to 14% respectively. However, 25% withholding tax rate on non-business loan remained the same as before.

(d) Other related changes in corporation and income taxes:

i) Previously, dividend received from a wholly owned subsidiary was 50% excluded from taxable income of the parent company. However, under the revised tax law, such dividends received are 100% excluded from the taxable income.

ii) Company profits are taxed first in the corporation and then again in the shareholders' hands. So dividend gross-up mechanism is designed to preclude double taxation. As corporation tax rate is reduced by 2% starting from 2005, dividend gross-up rate is reduced to 15% from the previous 19%.

iii) A listed company or a large corporation having 100 billion won in net worth was not allowed to deduct interest expense on borrowings in excess of 400% of net worth of such a company. This provision is abolished as the financial structures of companies get improved.

iv) Tonnage taxation system is introduced in the shipping industry. Shipping companies, which meet certain qualification, can opt for this new tax scheme. Under the new regime, shipping companies' income is divided into shipping income and non-shipping income.

v) Where a bond is sold before maturity, the seller of the bond is required to withhold and remit withholding tax imposed on interest accrued up to the point of sale.

Foreign investment incentives in 2004 tax reforms are as follows:

(a) Foreign engineers and technicians are presently provided a tax incentive to boost Korean economy's competitiveness by introducing advanced technology. Expatriate technicians or engineers employed by Korean companies are exempt from earned individual income tax for five years from the date of employment in Korea. Qualified industries for such incentives are expanded, including logistics industry and market research and public opinion polling.

(b) Tax benefits that are presently granted to foreign investment companies in Free Economic Zones will be provided to foreign investment in foreign-exclusive industrial complexes. To qualify for the tax exemption or reduction, a foreign-invested company should be engaged in the manufacturing or the logistics industry and satisfy a certain minimum investment requirements.

(c) Foreign investment in high technology or industry supporting business should meet certain requirements to be provided with tax incentives. Under the amended rules, an exception to these requirements is provided to foreign investment in the R&D industry.

Followings are with regard to the taxation of foreign corporations and international transactions:

(a) Previously, the scope of comparability to determine the arm's length price for cross-border transaction with related parties was limited to cross-border transaction between the independent companies. Under the revised tax law, a taxpayer is allowed to use domestic transactions with related parties in choosing comparable transaction to determine arm's length prices.

(b) The criteria for evaluating the nature of a low tax country under the anti-tax haven rule have been eased. Under the amended rule, a tax haven is defined as a low tax country where 50% or more of income is tax exempt or where effective tax rates on taxable income for the past three years (previously it was one year) is an average 15% or less.

(c) A foreign corporation in Korea may deduct foreign tax paid or to be paid or may use it as a credit against the Korean corporate income tax. However there was not any specific provision about the carry-forward of excess foreign credit. The revised rules make it clear that foreign corporations in Korea, like domestic companies, will be entitled to carry forward such excess foreign tax credits for five subsequent years.

(d) Korean residents with 20 % or more of interest in a foreign company situated in tax haven are required to report information on investment in the foreign company whose head office or principal office is located in tax haven. Under the revised tax law, the reporting requirements also apply when the effective management of a foreign company is located in a tax haven.

(6) 2005

Tax reform measures introduced for the 2006 tax year are framed around six goals: furthering economic vitality and boosting growth potential; addressing the issues of population aging and widening gap between the rich and the poor; stabilizing real estate market; broadening tax base through the phase-out of non-taxation benefits and tax incentives; promoting balanced development of all areas of the nation; and enhancing convenience for taxpayers.

Highlights of tax changes for the 2006 tax year by goal are as follows:

(a) Furthering economic vitality and boosting growth potential:

i) Tax incentives for corporate reorganization have been reinforced. To begin with, in the case of M&A, conditions to be met for deficit carried over to the subsequent financial year which has been taken over by a transferee company to be deductible have been relaxed. In principle, to be eligible for such deduction, the transferee company is required to maintain separate accounts for assets, liabilities, profits and loss from the business it has taken over, and such deficit carried over is deductible to the extent of income generated from the business concerned. In the case of M&A between companies in the same industry or SMEs, however, deficit carried over which has been taken over by the transferee company is now deductible to the extent of the transferee's portion of the income from the business it has taken over out of total income of the transferee company after the M&A (the proportion is calculated based on the share of assets for the business taken over in whole assets belonging to the transferee company after M&A), even when the condition regarding separate accounting is not met.

Also, under the revised tax law, in the case where two unrelated domestic companies swap assets of the same kind which each of them has used for 2 or more years for their businesses, any gains from the asset swap is deductible as long as they are used for business purpose until the end of the business year in which the swap takes place. Previously, for such gains to be deductible, the exchanged assets were required to be used for the same purpose as that before the swap.

ii) Business taxation has been refined in a more efficient way. Firstly, for certain businesses such as hotel and massage, advertising costs are now deductible in full amount.

Secondly, there have been efforts made to ensure that Korean tax laws regarding international transactions are in line with international

standards. First of all, anti-avoidance rules have been toughened. The substance-over form rule is now specified in the Law for the Coordination of International Tax Affairs with a view to making clear that in the case where investors unduly claim tax treaty benefits by making investments in Korea through a paper company established in tax haven jurisdictions for tax avoidance purpose, they may be taxed in Korea in accordance with the substance-over-form rule.

Another noticeable change in international taxation is the introduction of the special withholding procedure applicable to foreign companies or funds based in certain areas or countries to be designated by the Minister of the Finance and Economy (effective July 1 2006). Under the newly introduced procedure, in case where foreign companies or funds in areas or countries to be designated by the Minister of Finance and Economy derive interest, dividends, royalties or capital gains from the alienation of shares in Korea, they are subject to withholding tax under the domestic tax law, unless they obtain a prior approval of the Commissioner of the National Tax Service to apply benefits under tax treaties. In the case the investor concerned establishes within 3 years that he or she is the beneficial owner of the income concerned, being entitled to a reduced tax rate or non-taxation benefit provided under the relevant tax treaty, the tax authorities, after due diligence, will refund an amount equivalent to any overpaid tax plus interest accrued thereon within 6 months from the application for the refund.

Moreover, changes to make the nation's international taxation system more efficient have been made. For example, when it comes to the rendering of professional services in Korea by non-resident individuals or foreign companies without PE in Korea, expenses such as airfare, accommodations and meal expenses are excluded for withholding purposes under the revised tax law. And the definition of a domestic company has expanded to include those having an effective place of management in Korea.

Anti-tax haven rules have been improved as well. Previously, those countries or areas in which an effective tax rate is 15% or less of actually accrued income used to be judged as tax haven jurisdictions. Now, even when the afore-mentioned criterion is met, those companies with actually accrued annual income of 100 million won or less are not subject to anti-tax haven rules.

Thirdly, there have been some changes in deductions for donations. For example, certain donations as defined under the Corporation Tax Law

which used to be deductible to the extent of total income in the past are now deductible only to the extent of 50% of total income.

Fourthly, taxation on entertainment expense has been improved. In the past, companies were required to collect documentary evidence for entertainment expenses in excess of 50,000 won so that such expenses can be deductible. Under the revised tax law, however, in the case of expenses incurred in relation to matters for congratulations or condolences, such obligation is required only for expenses exceeding 100,000 won.

iii) Tax changes have been made to help the nation's economy regain vitality. A system under which tax benefits are granted when offspring are granted properties as inheritance prior to their parents' death so that such properties can be used for starting a business has been introduced. Not only that, the expiration date of tax credits granted to investment in energy saving facilities has been extended to the end of 2008. And privately-financed projects for facilities of private universities are now exempted from value-added tax under the revised tax law.

(b) Addressing the issues of population aging and widening gap between the rich and the poor:

i) Various measures have been taken with a view to ensuring stable life of retired wage earners. For example, under the revised tax law, retirement pension contributions are deductible so that the use of the retirement pension plan can be promoted. Previously, up to 2.4 million won per year of pension savings contributions was deductible. Now, up to 3 million won per year of pension savings contributions and retirement pension contributions combined is deductible. Also, the ceiling on deductions for retirement pension has been raised to 9 million won from 6 million won while deductions for lump sum retirement allowance has been lowered to 45% from 50% of the allowance amount so that the switch of the lump sum retirement allowance system to the retirement pension system can be encouraged.

ii) There have also been some changes aimed at supporting SMEs and the self-employed. VAT rates applicable to the small-sized self-employed have been cut. The rate has been reduced by 5% for the retailing business with the tax being slashed by 10% in the case of restaurant and lodging businesses (The reduced rates will apply on a temporary basis until the end of December 2007).

iii) With a view to supporting life of middle and low income families, construction of rental-purpose houses has been promoted through the introduction of new tax incentives. For example, dividends paid by real estate indirect investment vehicles investing in houses built for the long term (10 years or longer) rental are now subject to final withholding tax at 14%.

iv) Tax incentives for supporting production activities by farmers and fishermen have been expanded. For example, the expiration date of the period during which equipment for agriculture or fisheries is VAT zero-rated has been pushed back by 3 years to the end of 2008.

c) Stabilizing real estate market:

i) Taxation on capital gains on real estate has been toughened. Firstly, under the revised tax law, capital gains tax is imposed based on the price at which the transaction of real estate is made instead of government-evaluated price (effective across-the-board from 2007).

Secondly, in the case where a household which owns 3 or more houses including the right to live in new apartment to be built taking the place of old apartment transfers any of them, the capital gains from the transfer is now subject to tax at the rate of 60% and is not eligible for special deduction for long-term holding any more (effective from 2007). Previously, the right to live in the new apartment to be built taking the place of old apartment was not counted in for the purpose of capital gains tax.

Thirdly, taxation on capital gains in relation to the transfer of a house by a household owning 2 houses has also been toughened. Under the revised tax law, capital gains tax rate of 50% applies to capital gains from such transfer and, in this case, special deduction for long-term holding is not applicable (effective from 2007).

Fourthly, in the case where capital gains are derived from the transfer of non-business purpose land and farmland, forest and pasture owned by an absentee landlord, the capital gains tax rate of 60% applies beginning from 2007.

ii) Comprehensive real estate holding taxation has also been strengthened. Previously, the comprehensive real estate holding tax was imposed based on the sum of houses or lands owned by a single person. But the imposition of tax is now made with the basis on the sum of houses or lands held by a single household. Also, the threshold for the imposition of the tax has increased to 600 million won and 300 million won for residential house and land, respectively.

(d) Broadening tax base through the phase-out of non-taxation benefits and tax reductions & exemptions: For purpose of broadening tax base, non-taxation benefits and tax relief have been scaled back. Deductions for credit card charges have been lowered to 15% from 20%. Also, the scope of eligibility for tax breaks regarding comprehensive savings has been reduced and, as a result, those under 20 are not qualified for such tax breaks any more. Furthermore, capital gains realized by farmers from the transfer of farmland for the purpose of acquiring another parcel of farmland in its place, which were previously non-taxable, are now 100% tax-exempt with the ceiling of 100 million won for 5 years. Not only that, the non-taxable amount allowed for labor income from foreign sources has been cut to the level of 1 million won per month from 1.5 million won per month. And profit making businesses carried on by the government or local authorities is now subject to tax.

(e) Promoting balanced development of all areas of the nation: The expiration date for tax deferral granted for companies whose factories or head office have been relocated out of large cities and the Seoul metropolitan area, respectively, to provinces has been pushed back to the end of the year 2008. The eligibility criterion for tax credit for companies' phased relocation to provinces has also been relaxed and the sunset date for such tax credit has been extended to the end of 2008. Moreover, the scope of industries eligible for special tax credit for SMEs which are located in areas other than the Seoul metropolitan area has been expanded to include ship management, construction waste disposal service, advertising and etc., while the expiration date for such special tax credit system has been extended to the end of 2008 as well.

(f) Enhancing convenience for taxpayers: The year-end tax adjustment process has been simplified. Under the new system, all the necessary documents are handled online with no papers being involved and the NTS is also able to rely on the computer system in confirming whether or not the taxpayer concerned has been unduly granted deductions.

(7) 2006

Tax reforms conducted in 2006 are aimed at achieving two main goals of supporting sustainable and broad-based economic growth and enhancing competitiveness of the tax regime. Based on these goals, the Korean government has identified five areas which merit particular attention: supporting job creation through furthering economic vitality; supporting the mid-and low-income households; helping better identify hard-to-trace income; streamlining tax incentives to enhance tax neutrality; and rationalizing and advancing the tax system.

The gist of tax changes for the tax year 2007 is as follows:

(a) Supporting job creation through furthering economic vitality

i) Several measures have been adopted to help keep momentum of economic recovery going. Firstly, the sunset date for the tax credits aimed at encouraging investment in facilities has been extended. To be more specific, both tax credit associated with investment in facilities for environment protection and safety (i.e. credit equivalent to 3% of value of investment made) and tax credit associated with investment in facilities for productivity improvement (i.e. credit equivalent to 3% (7% in the case of an SME) of investment value) have been extended for another three years through the end of 2009.

Secondly, special provisions to grant favorable holding tax treatment to land for business use by the service industry have been newly established. Under the new provisions, the value threshold for the Comprehensive Real Estate Holding Tax applicable to such land is 20 billion won and the excess over the 20 billion mark is subject to relatively low rate of 0.8%. Business eligible for this benefit includes amusement facility operation business, ski resort business, public golf course business, distribution center business, etc.

Thirdly, the scope of entertainment expense has been adjusted in favor of companies. Advertising expenses (e.g. expenses incurred for manufacturing samples) to the extent of 30,000 won per annum per client and sales promotion fees paid to unrelated salespeople are not included in the scope of entertainment expense any more and, thus, are now fully deductible, which was not the case prior to the revision of the tax law.

Fourthly, the criteria used for determining applicability of the rule of

denial of unfair transactions have been improved in a way that promotes business activities of companies. Previously, in the case where the payment made between related parties differs from the market price, the rule applied no matter what. However, under the revised tax law, where the difference between the market price and the payment actually made is negligible (i.e., unless the difference is 5% or more of the market price or 300 million won or more), the rule does not apply, except for the case where the market price is obvious (e.g. listed shares).

Fifthly, the withholding tax rate applicable to interest income derived by non-resident individuals or foreign companies from bonds issued by the State, local authorities and domestic companies has been lowered from 25% to 14%, the same level applicable to resident individuals and Korean companies, with a particular aim of encouraging investment in bond markets by foreign investors.

ii) There have been some tax revisions to help expand growth potential. For starters, tax credits for encouraging investment in R&D have been increased or extended. For example, the expiration date of tax credit for investment in research and test facilities, job training facilities and facilities for commercializing new technology (i.e. the amount equivalent to 7% of investment is deductible against the individual income tax and the corporate tax) has been pushed back to December 31st, 2009 from December 31st , 2006.

Tax credit for research & human resources (HR) development has also been increased, and extended for another three years. Previously, the credit amounted to 40% of the excess of the research & HR development expense incurred by a large company for the tax year concerned over the average of such expense over the four years immediately preceding that year. From 2007, in the case of a large company, the tax credit equals the sum of 40% of the excess of expenses incurred for research & HR development conducted by the large company itself for the taxable year concerned over the average expense incurred for research & HR development conducted by the company itself over the four years immediately preceding that year and 50% of the excess of expenses incurred for commissioning SMEs or universities to conduct research & HR development on behalf of the large company for that taxable year over the four-year average expense incurred for commissioning SMEs or universities to conduct research & HR development.

Moreover, the scope of deductible expenses incurred in association with education of preschoolers has been expanded to include the expense paid to sports facilities for preschooler's lesson purpose in order to reduce tax burdens of wage earners and support education of preschoolers.

In the meantime, with a view to encouraging childbirth and providing childcare support, eligibility and amount of extra allowance for income tax purposes have been changed. Prior to the revision of tax law, extra allowance was granted to an income earner who is not claiming any other dependents and to a single income earner with a single dependent eligible for basic allowance, and the amount of allowance was 1 million won and 500,000 won, respectively. Under the revised tax law, however, a resident with earned income or business income who has two or more dependent children eligible for basic allowance are eligible for extra allowance equivalent to 500,000 won plus additional 1 million won per every child added to the first two children (e.g.. 2 children-500,000 won, 3 children-1.5 million won, 4 children-2.5 million won…).

iii) Measures for providing support for SMEs and venture companies have been developed. To begin with, in the case of switch of a line of business by an SME which has been operating for 5 or more years, 50% of the income tax and the corporate tax are exempted in the year in which the new business generates income for the first time and in the subsequent 3 years. In addition, the expiration date for 50% exemption of the income tax and the corporate tax granted to start-up SMEs in the year during which the company generate income for the first time and in the following 3 years has been extended by another three years to December 31st, 2009.

(b) Providing support for the mid- & low-income households

i) Most noticeable change is the introduction of the earned income tax credit (EITC) aimed at financially supporting the working poor and encouraging people to work. To be eligible for this new benefit, a household earning income from employment must have total annual income of less than 17 million won, two or more dependent children under age 18 and own no house, and the total value of the property the household holds must be less than 100 million won. The credit will start to be paid from 2009 based on the income earned in 2008.

ii) Other measures designed to reduce tax burdens of wage earners, the self-employed, farmers/fishermen and the elderly have also been adopted. Conditions to be met to benefit from marriage and funeral expenses-related deduction have been eased. Previously, only those wage earners who are aged 20 or younger or 60 or older were eligible for the deduction. But from 2007, the age requirement does not apply so that the benefit can reach more people than before.

Also, the amount of standard deduction granted to business owners who meet certain requirements such as registering as merchant of credit cards and issuer of cash-receipt and using a business account has been raised from 600,000 won to 1 million won, the same level applicable to wage earners. As for farmers and fishermen, the scope of machinery for agricultural and fishery purposes eligible for VAT refund has been expanded to include three more items for the former category and two more items for the latter category.

Besides, the scope of small size savings account of 30 million won or less, interest or dividend income from which is non-taxable, has been expanded as the age requirement applicable to women has been eased from 60 years or older to 55 years or older.

Meanwhile, in response to rapid population aging, new provisions have been established to make interest income from loan on reverse mortgage extended to the elderly aged 65 or older deductible against pension income to the extent of 2 million won per annum.

iii) With a view to stabilizing the real estate market, taxation on capital gains has been toughened. For example, non-taxation benefit for capital gains involving a newly-built housing has been scaled back. Previously, in the case where an owner of two houses one of which is a newly built house transfers the other house, capital gains were non-taxable as the new house was deemed not to be held by the owner and there was no sunset clause for this benefit. After the revision of the tax law, however, this benefit is applicable only when such transfer takes place by the end of 2007.

(c) Helping better identify hard-to-trace income

i) First of all, various measures have been adopted to enhance identification of income derived by professionals and self-employed businesses. For example, business owners doing transactions directly with consumers and having annual income of 24 million won or more (the income threshold does not apply to those who provide professional services) are now required to register as issuer of cash receipt. If the obligation is not fulfilled, the penalty is charged.

Moreover, from 2007, business owners providing professional services (e.g. lawyer, certified public accountant, doctor, dentist, etc.) are required to adopt the double-entry system of recording transactions, regardless of the size of their income. Prior to the tax law revision, the income threshold of 75 million won applied.

Not only that, the tax law has been revised to prescribe that sole proprietors who are required to adopt the double-entry system and whose annual income reaches a certain level (i.e. 300 million won for retail/ wholesale business, 150 million won for manufacturing, restaurant, lodging business, and 75 million won for real estate rental, service business) should open a business account with bank and use the account for payment or receipt of personnel expense or rents or for transactions payment for which is made through financial institutions.

At the same time, the scope of deductible medical expense has been expanded to include medical expense paid for dependents for treatment at any medical institutions or for purchase of any medicine on or after December 1st of 2006 so that income derived by medical institutions can be better identified by the tax authorities and tax burden of wage earners can be alleviated. One thing to note is that this expanded scope will apply just for two years on a temporary basis.

Meanwhile, to be eligible for bounty for reporting tax evasion, the value concerned should now be at least 100 million won per case compared to 500 million won or more per case prior to the revision of the tax law.

ii) Efforts have been made to ensure that the small size self-employed do not suffer from increased tax burden as a result of the measures to better identify hard-to-trace income. For example, in the case where the income of business owners who meet certain requirements such as using a business account and maintaining adequate books and records for the tax year concerned has increased by more than 120% year-on-year, any tax amount attributable to the excess of that year's income over 120% of the income of the previous year is now deductible against income tax, corporate tax and VAT. Previously, the way to calculate the amount deductible against such taxes was much more complicated and the tax credit was granted over the period of two years.

Similarly, the tax credit equivalent to the amount calculated by multiplying the tax amount estimated by the ratio of 50% of income additionally identified as a result of the acceptance of credit cards, the issuance of cash-receipts and use of other means of similar nature for the taxable year concerned to the total income for that year has been extended for another two years through the end of 2008.

(d) Streamlining non-taxation and tax relief so that tax neutrality can be ensured

Out of fifty five non-taxation and tax reduction/exemption benefits which were due to expire in 2006, thirty two benefits have been extended while the remainder were abolished or scaled back. Besides, six tax incentives with no expiration date have been scaled back or repealed. Most of the benefits which were extended are the ones aimed at encouraging R&D and facility investment associated with expansion of growth potential and reducing tax burden of wage earners, farmers, fishermen and SMEs. In determining whether to repeal or scale back a certain tax incentive, such factors as whether the objective of the benefit concerned has been fully achieved and whether the benefit is in line with international standards were taken into account.

(e) Rationalizing and advancing the tax system

The proportion of deductible dividend income received by a holding company from its subsidiary will be increased in a phased manner from 2007 so that corporate transparency can be further enhanced and companies can be encouraged to change their corporate structure to a holding company. In other words, dividend income derived by a holding company from holding of more than 40% shares in a listed company will be deductible in full from 2009 (Until the end of 2008, the proportion of 90% will be deductible), while in the case where the holding company holds 30-40% shares in a listed company, 70% and 80% of dividend income derived there from will be deductible in 2007 and in 2008 and beyond, respectively.

(8) 2007

The purpose of tax reform in 2007 is to create a simple, fair and pro-growth tax system. Tax reform directions are as follows: expanding support for low-and middle-income families, developing growth engines for the future, broadening tax bases by improving transparency in tax revenue source and advancing tax system.

Highlights of 2007 tax reforms are as follows:

(a) Expanding support for low-and middle-income families and the socially disadvantaged

i) Tax base brackets of global income have adjusted upward.

Before revision		**After revision**	
Tax base	Tax rate	Tax base	Tax rate
Nor more than 10 million won	8%	Not more than 12 million won	8%
10 − 40 million won	17%	12 − 46 million won	17%
40 − 80 million won or less	26%	46 − 88 million won	26%
Over 80 million won	35%	Over 88 million won	35%

ii) Medical and educational cost deduction for self-employed businessmen

Medical and educational costs are deductible for self-employed businessmen, who have paid taxes faithfully. The deduction is allowed sometime between 2008 and 2009 in the form of two-year sunset clause. The deduction has been expanded gradually depending on its performance.

iii) Expanding support for the elderly and the disabled

Deductible items are added to include insurance premiums for long-term elderly care paid by employees. Insurance premiums paid by employers are treated as a necessary cost under the insurance law for nursing senior citizens. The premiums are currently co-paid by employees and employers and the amount is 0.2% of payroll.

Deduction for the disabled is also allowed in the case where the spouse of a lineal descendant, who is disabled, is also a disabled person. The spouse is entitled to deduction.

iv) Expanding support for low-and middle-income families

Individual consumption tax on kerosene has dropped from 181 won per liter to 90 won per liter. The cut is to relieve low income families in rural areas from the cost burden of heating oil.

(b) Developing growth engines for the future

i) Expanded support for venture companies and SMEs

Requirements for tax deduction applied to start-up ventures have been relieved. For example, the period of confirming a SME as a venture company has extended to three years since its establishment. The extension aims to consider the difficulty in meeting the requirements* to be qualified as a venture company in the early period of business launching.

* The requirements: investors need to invest more than 10% of business capital,

invest money needs to be at least more than 50M won and investment needs to continue more than 6 months.

ii) Environment and energy industry support

Sunset clause for bio-diesel tax deduction has extended to December 31, 2010. The extension aims to support alternative energy development.

iii) Partnership taxation system

Partnership taxation system is expected to be introduced to address double taxation issue for *Hapmyong Hoesa, Hapja Hoesa* and limited companies prescribed by the Presidential Decree. Partnership's income is not subject to corporate income tax and each partner' income is subject to the tax upon distributing income.

(c) Broadening tax bases by improving transparency in revenue source

The year 2007 had the end dates of sunset clauses for 22 tax exemptions and reductions. Among them, ten had expired, four had been reduced in its coverage and eight had been extended in its period.

i) Measures to improve transparency in tax revenue source

As part of an effort to enhance transparency, threshold for issuing cash receipt has been eliminated. The threshold was 5,000 won, but it was abolished to improve transparency in small payment in cash.

ii) Clarification of substance-over-form rule to prevent tax evasion

If a third party transaction* turns out to reduce taxes unfairly, it is treated as a direct transaction or a continuous activity or transaction depending on its economic substance. The treatment aims to clarify the legitimacy of taxation on various tax-evading transactions. The ban on tax evasion, which is stipulated in the Law for the Coordination of International Tax Affairs, is also included in Framework Law on National Taxes. Accordingly, the prevention of tax evasion is applied to local trades as well as international trades.

* The evasion of capital gains tax using exchange transactions, the evasion of corporate income tax using the transaction of anomaly derivatives

(d) Advancing tax system

i) Paying national taxes using credit cards

Tax payers are allowed to pay national taxes using credit cards: income tax paid by individuals or individual business owners, VAT, comprehensive real-estate holding tax, and tariffs (travelers, portable items, and freight for moving.) The allowed tax amount is limited to 2 million won or less. The

credit card payment fee (around 1% of transaction) is paid by taxpayers. The adoption of credit card payment aims to help taxpayers pay taxes more easily.

ii) Making tax system easy-to-understand

To help taxpayers understand tax law, tax law has been revised to be easy-to-understand. A total of 326 provisions among 11 laws and enforcement decrees (scheduled to be revised in 2007) have been revised to be easier to read (That is 33% of 985 provisions, the total.) For example, difficult or unfamiliar terms have changed into simple and easy words.

iii) The term Special Excise Tax has changed into Individual Consumption Tax

The name change reflects its tax purpose, which has changed to impose tax for correcting goods inducing negative externality such as automobiles and petroleum. As of 2006, the tax composition is as follows: six kinds of petroleum including kerosene and heavy oil account for 72.9%, automobiles 20.4%, taxable places 5.9%, twelve items including jewelry and precious metals 0.8%.

(9) 2008

The purpose of tax reform carried out in 2008 is to establish a low tax rate and rational taxation system so as to facilitate job creation and secure new growth engines. Based on that goal, the Korean government set the following tax reform directions: supporting the low & middle income families; making a transition toward lower tax rates to promote investment; supporting R&D sectors to improve growth potential; rationalizing tax systems.

Highlights of Tax Reform in 2008 are as follows:

(a) Supporting the low & middle income households

i) Income tax rate has been reduced by 2%p in each tax bracket, and the personal deduction (i.e., the basic deduction and dependant deduction) amount per person has increased to 1.5 million from 1 million won. More deductions for education and medical expenses have also been allowed.

ii) With a view to easing the impact of high oil prices, tax refunds of up to 240,000 won per year have been provided to workers and the self-employed.

iii) Income deduction amount for day laborers and non-taxable income ceiling for overseas construction workers have increased from 80,000 won to 100,000 won per day and from 1 million won to 1.5 million won

per annum respectively. The Earned Income Tax Credit (EITC) has also been expanded from 800,000 won to 1.2 million won per annum while the eligibility for EITC has been eased. For the purpose of supporting the self-employed small businesses, the rate of output tax credit for credit card has been expanded from 1% to 1.3% for general business and from 2% to 2.6% for restaurant & lodging with the ceiling of up to 7 million won. In addition, deemed input tax credit rate of VAT in restaurant business for individuals has been expanded from 6/106 to 8/108.

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iv) Individual consumption tax rate on vehicle has been lowered by 30%. The new measure lowered the 5 percent consumption tax for vehicles with engine of between 1,000 and 2,000 cc to 3.5 percent while the 10 percent tax placed on vehicles with engines of larger than 2,000 cc has been lowered to 7 percent (effective from Dec. 19, 2008 to Jun. 30, 2009).

(b) Making a transition toward lower tax rates to promote investment and benefit all economic players

i) Corporate tax rate has been reduced and tax brackets have been adjusted upward as follows:

① Tax base of 200 million or less: 13%→11% for 2008 and 2009→1% for 2010 and thereafter

② Tax base of more than 200 million: 25%→22% for 2009→2% for 2010 and thereafter

ii) Temporary investment tax credit has been extended one year until the end of December 2009, and new investment in densely-populated metropolitan areas has been added to the scope of application of the tax credit. Such investment tax credit rate has been differently graded between the metropolitan and local areas. (i.e. densely-populated metropolitan areas: 3%, local areas (except densely-populated metropolitan areas: 10%).

iii) Taxation for companies has been eased as well. To be more specific, the documentation maintenance requirement under which a company spending an entertainment expense of 500,000 won or more is required to maintain expenditure details has been abolished. The ceiling of deductible congratulatory/condolatory entertainment expenses for which documentary evidences are not required has been eased from 100 thousand won to 200 thousand won.

iv) Special tax credit for SMEs has been extended 3 years from December 2008 to December 2011.

v) Corporate taxation has been upgraded to the level of global standards. For example, loss carry-forward can now be made up to 10 years, instead of up to 5 years as in the case before the tax reform.

vi) Regarding the long-term stock funds held for 3 years or more, a certain percentage of contributions are deductible and dividends therefrom are non-taxable in the case where the contribution amount does not exceed 3 million won quarterly and 12 million annually per person.

vii) Proactive supports have been provided to service industries (e.g. culture and tourism). Specifically, the scope of business eligible for the temporary investment tax credit has been expanded to cover certain business service industries including automobile, communication equipment repair and advertising service businesses.

viii) To lay the groundwork for 'Green Growth', tax credit rate in respect of investment on environment preservation facility has increased from 7% to 10% of the investment, and individual consumption tax for hybrid cars is now exempt from tax.

(c) Increasing the support for R&D sector to secure a growth potential

At the preparation stage, R&D reserve (3% of sales revenue) is newly introduced. And at the investment stage, tax credit rate for R&D facilities investment increases from 7% to 10%. Moreover, R&D expenditure tax credit for SMEs is also expanded from 15% to 25%. Lastly, at the stage of industrial-academic cooperation, tax credits for contribution to a university for the purpose of industrial-academic cooperation increase as well.

(d) Rationalizing tax system

i) There have been various measures taken to rationalize capital gains tax system. In the case of single home owners, capital gains tax burden has been significantly eased. Firstly, deductions have been expanded for housing held by single home owners for 10 years. Annual deduction for a long-term house holding, which used to increase by 4%, now grows by 8% (ceiling: 80% of capital gains). Secondly, the price level eligible for capital gains tax exemption has been raised to 900 million won from 600 million won. Thirdly, capital gains tax rate (9%~36%) has been adjusted downward in line with personal income tax rate (6%~35%).

ii) Several measures have also been taken to make the Comprehensive Real-Estate Holding Tax (CREHT) more reasonable as follows: the ratio of applying tax base with regard to house and land of general aggregation remains the same at 80% in the previous year, and ceiling of CREHT liability

has been adjusted downward from 300% to 150% compared to the previous year. Besides, value threshold for house has increased from 600 million won to 900 million won. With regard to long-term house holding and the elderly, tax credits of up to 40% and 30% of the calculated tax amounts have also been allowable respectively. For business properties, the value threshold of government-evaluated prices of business-purpose properties has risen from 4 billion to 8 billion won, and its tax rate has been down to 0.5 ~ 0.7%.

iii) Inheritance and gift taxes have been cut in order to encourage entrepreneurship and help address the issue of capital outflow. Deduction of up to 10 billion won has been allowed in the case of inheritance of family businesses in the form of SMEs. Moreover, inheritance deduction has been allowable for those who own a house for a household at a rate of 40% with a ceiling at 500 million won.

(10) 2009

The direction of tax reform carried out in 2009 is three-fold; supporting the low & middle income families; achieving sustainable economic growth; and securing fiscal soundness in a mid-and-long term perspectives. More specifically, the government reduced the lower individual income and corporate income tax rates as planned to spur job growth and enhance the growth potential, and expanded the R&D supports to the world-class level. Under the principle of "Lowering tax rates and broadening tax base", the Korean government is making efforts to improve fiscal soundness while facilitating the economic rebound.

Highlights of Tax Reform in 2009 are as follows:

(a) Supporting the low & middle income households

i) Self-employed small business owners who closed their businesses will be exempted from paying delinquent taxes of up to 5 million won for income tax and VAT amount due treated as written off in the case where they start new businesses or get new jobs until the end of 2010.

ii) Tax incentives for workers without a house will be expanded. The 40% of the monthly rental payments for small houses will be deducted from the earned income, and the annual contributions to the Comprehensive Savings Deposits for Housing Subscription will be deducted from the earned income at a rate of 40%.

iii) The carry forward of an excess amount of designated donation for social welfare, public interest, religion, arts, etc. will be extended to 5 years from only 3years, and workers involved in such donations are also eligible for deduction carried forward for 5 years. In addition, with the aim of

boosting the microcredit business, where a person contributes to the Smile Micro Credit Bank or general microcredit banks, the contribution will be included in the deductible expenses of up to 50% of the earned income (from 5% for corporations, 20% for individual).

iv) The ceiling of national tax amount to be paid with credit card will be raised up to 5 million won from 2 million won for both corporations and individuals.

(b) Securing the future growth engines

i) The R&D expenses for new growth engine industries and source technologies will be eligible for tax credits, and individual consumption tax of 5% will be imposed on high energy consuming home appliances (air conditioner, refrigerator, TV, drum-type laundry machine). Tax exemption on both dividend and interest income is newly provided in regard to funds, term-deposits and bonds that invest more than 60% in government-certified green technologies and projects.

ii) With a view to stimulating corporate reorganization, the M&A tax rules will be amended in line with the level of advanced countries. This change will apply to comprehensive stock transfers/exchanges, and comprehensive asset transfers. In addition, the scope of assets eligible for capital gains tax deferral will be expanded to include all types of assets where a company establishes a new company or increases capital through an in-kind contribution with the assets.

iii) Corporation tax will be deductible for companies which are relocated to local areas (100% exemption for 5 years, 50% deduction for the subsequent 2 years), and underdeveloped and remote areas (100% exemption for 7 years, 50% deduction for the subsequent 3 years).

iv) Residents and domestic corporations will be subject to tax information exchanges between states, which have so far included only non-residents and foreign corporations.

v) The threshold shareholding ratio for claiming an indirect foreign tax credit has been lowered from 20% to 10% in order to facilitate inbound remittance of funds from overseas subsidiaries to domestic companies and to encourage the outbound investment by local companies.

(c) Ensuring the fiscal soundness

i) As for the high-income earners and large corporations, the ceiling of highest individual income and corporate income tax rates were supposed

to be lowered (from 35% to 33%, from 22% to 20% respectively) from 2010, but the reductions will be postponed for another two years until the end of 2011. Meanwhile, the reduction in lower individual and corporate income tax rates will be enforced as scheduled in 2010.

ii) Punishment system on tax criminals will be reinforced to enhance tax filing compliance. Specifically, penalties will be imposed on high-income earners for not issuing cash receipt, and high-profile and frequent tax evaders will be also under more severe punishment. Moreover, the statute of limitation for prosecution of high-profile tax crimes by corporations will be extended to 10 years from 5 years.

iii) The electronic systems to recognize any rental income of commercial properties will be established, and the infrastructure to recognize the incomes for high-income earners like lawyers, tax accountants and patent agents will be diversified.

iv) Interest income from bonds received by financial institutions is again subject to withholding taxes at a rate of 14% in the same way as individual and general corporations. Moreover, in the case where an individual invests in stocks listed in an overseas stock exchange through investment funds, s/he is liable to pay income tax on stock trades and gain or loss on valuation from FY 2010. Moreover, securities transaction tax will be imposed on transfers of beneficiary certification of ETFs, and stocks sold by public funds and pension funds in stock market.

v) The temporary investment tax credit rate for investments made in areas other than Seoul Metropolitan Area is reduced from 10% to 7% of the amount invested in the fiscal year.

(11) 2010

The 2010 revision is aimed at creating jobs and supporting the low-income class. Although the Korean economy posted a 7.6 percent growth in the first half of 2010, the fruit of the economic performance has not trickled down enough to the real economy. Against this backdrop, the Korean government prioritizes creating jobs and supporting the working class in revising the tax system in 2010: Corporations creating jobs are given tax incentives, and non-essential tax exemptions and reductions are lifted to improve fiscal situation as there have been worries over narrowing tax base and increasing welfare spending with the coming of an ageing society. In addition, the government revises the tax system in a way to avoid tax evasion.

Highlights of Tax Reform in 2010 are as follows:

(a) Supporting job creation

i) Temporary Investment Tax Deduction system is abolished and is replaced by a tax policy that facilitates job creation. Tax incentives to investment is given on the basis of the number of people hired rather than on the basis of the amount of money invested.

ii) Ceilings on tax support for regional special districts and foreign investment companies are set at around 50 percent~70 percent of the investment amount. In the cases where those districts and companies increase employment, the ceilings increase up to 20 percent additionally.

iii) Industries with high employment inducement effect including cleaning, security, market and public opinion survey, and personnel supply services are added to the list of SMEs eligible for tax support.

iv) Companies that close down business in foreign countries and return to Korea to establish a new business receive income and corporate tax deductions of 100 percent for the first 3years and 50 percent for the next 2 years.

(b) Supporting the low & middle income class

i) Withholding tax rate for day laborers is lowered from 8 percent to 6 percent to increase their real income.

ii) To stabilize the income of elderly and retired agricultural workers and to support farm growth, the expiration of transfer tax deduction for self-owned farmland that is eligible for Management Transfer Subsidy is extended from the end of 2010 to the end of 2012.

iii) The expiration of the additional tax deductions for sales by credit cards is pushed back from the end of 2010 to the end of 2012 to reduce the tax burden on small-to-medium businesses including accommodations and restaurant businesses. And, the expiration for the additional tax deduction for deemed input VAT in restaurant businesses is also extended until the end of 2012.

iv) To encourage mutual support between large enterprises and SMEs and support stability of SMEs, a new tax deduction system (7percent) for contributions to the Mutual Support Guarantee Fund is created.

(c) Supporting sustainable growth

i) Investment tax deductions for R&D in the fields of new growth engines and fundamental technologies, including LED applications, biopharmaceuticals, and medical instruments are expanded to a level much greater than general R&D investment.

ii) Tariff rate for 46 primary raw materials and components related to new growth engine industries is reduced, while the 50percent tariff rate deduction for digital TV broadcast equipments imported by broadcasting businesses is extended from the end of 2010 to the end of 2012.

iii) Tax support for low carbon, green growth technologies is increased, with related technologies including carbon reduction and environment-friendly vehicles becoming eligible for foreign investment tax deduction.

iv) The expiration of tax support for corporate structural reform is pushed back 2 years to the end of 2012 from the end of 2010 to enhance the competitiveness of the private sector through structural reform.

v) Additional tax deductions for multiple children are expanded to encourage child birth, where families with two children receive a tax deduction of 1 million won (previously 500,000 won), and an extra two million won per child in excess of two (previously 1,000,000 won).

vi) Tax benefits concerning retirement pension increase, with pension exemptions being increased from 3 million won to 4 million won.

(d) Improving fiscal situations

i) Tax exemptions and reductions are lifted or revised when their purposes have been achieved, or their effect is proved not satisfactory.

ii) Individual consumption tax exemption for luxurious restaurants is abolished.

iii) Tax exemptions for dividend yields from stocks owned for more than three years expire by the sunset provisions.

iv) VAT is newly adopted to aesthetic plastic surgeries, veterinarian treatment, and private educational institutions for adults.

(12) 2011

The tax reforms conducted in 2011 are aimed at creating jobs and improving the economic conditions felt by households or people through supporting low &

middle income families, enhancing fairness and fiscal soundness, and rationalizing tax system.

Highlights of Tax Reform in 2011 are as follows:

(a) In order to boost job growth and secure new growth engines, tax measures to induce employment have been taken and tax benefits for R&D and service sectors have been expanded. Temporary Investment Tax Credit system has been replaced by investment tax credit linked with job-creation whereby tax credit is granted in proportion to the number of people newly hired. In addition, tax credits for R&D investment have been expanded to cover service industries.

(b) With a view to supporting the livelihood of the low and middle income class, Earned Income Tax Credit (EITC) has been largely expanded and measures to stabilize housing and consumer prices have been taken. The eligibility for the EITC has been eased to cover households with no dependent children, with the limit of EITC to be paid adjusted upward. Furthermore, as part of efforts to vitalize traditional markets and boost consumption, tax incentives for the credit & debit card charges made in traditional local market have been expanded. Meanwhile, criteria for housing rental businesses to qualify for credit have been eased to a large extent. Furthermore, a special deduction to the extent of 30% of capital gains in respect of the long-term house holding has been extended to multi-house owners.

(c) With growing interests in ensuring fairer taxation and fiscal soundness, gift tax has been levied on business practice granting all the profitable contracts to the affiliates, while ineffective tax reliefs and non-taxation have been lifted or reformed. The scope of disclosure of heavy delinquent has also been broadened. In addition, interest generated from domestically issued foreign currency denominated bond as well as financial instrument linking interest and dividend generating products with derivatives have become subject to tax.

(d) As part of efforts to rationalize the tax system, various measures have been adopted to enhance taxpayers' rights, facilitate international transactions, and adjust the scope of related persons for tax purposes. Preliminary VAT return filing has been abolished to ease the burden on individual business owners. Besides, underlying tax credit has been fully available, regardless of the existence of the tax treaty specifically providing for the benefit therein.

(13) 2012

The 2012 tax reform was carried out under the banner of "robust economy, healthy fiscal conditions, and stable future" with a focus on securing growth engines necessary for sustainable development, creating more jobs, stabilizing the livelihood of low & middle income classes, and boosting domestic consumption.

Highlights of tax reform in 2012 are as follows:

(a) In order to strengthen employment and secure growth engines, the tax credit linked with job creation has been reshaped in a way to enhance job creation effect, and the tax benefits have increased for service industry largely effective in creating employment. Moreover, support for green growth has been beefed up in the form of relaxed eligibility for tax credit in respect of investment in environmental preservation & energy saving facilities. Criteria for corporations to be entitled to deduction available to family business succession for inheritance tax purposes have been eased. The sunset period for R&D investment tax credit has been extended, and the tax credit rate for R&D expenses has been set in favor of High Potential Enterprises. On top of that, tax incentives have been expanded for small- and mid-sized start-ups through increased tax benefits for angel investors and extended sunset period for tax reductions and exemptions.

(b) With a view to invigorating domestic consumption and stabilizing the livelihood of middle and working classes, efforts have been made to promote consumption and to normalize the transactions in real estate, while providing support for the workers and self-employed business owners and keeping the prices in balance. To be more specific, home appliances with high energy efficiency have become exempted from individual consumption tax, and the rule to impose heavy taxes on real estate transfers for those owning more than two houses and land for non-business purposes has become suspended for another one year. In addition, the non-taxable property accumulation savings was introduced to lend a hand to workers in their accumulation of assets, and the deduction for long-term fund has been newly established for income tax purposes. Earned Income Tax Credit has been improved in a way to benefit single-senior households and those left outside the Basic Livelihood Security System, while income deduction for lone parents have been in place.

(c) With the aim of enhancing fiscal soundness, measures have been adopted to ensure sustainable tax base through improved transparency in tax

revenue sources as well as revamped non-taxation and tax reduction/exemption system. More specifically, a monitoring system has been established to check whether public service corporations, which are entitled to non-taxation of inheritance and gift tax in respect of donations they receive, keep satisfying certain conditions. Besides, the reporting system on foreign financial accounts has been reformed, and the ceiling on bounty for reporting tax evasion has been raised. Also, tax incentives whose policy goal was achieved have been eliminated or scaled back, with the income deduction for long-term savings for house purchase being abolished.

(d) Efforts have been made to upgrade the tax regime in a way that preemptively responds to increasing demand for fiscal spending and such changes as falling birthrates and aging population. More specifically, the threshold amount for financial income to be subject to global taxation has been lowered, while the scope of majority shareholders subject to income tax in respect of gains from stock transfers has been expanded to ensure fairness compared with other types of income. In addition, the high-value insurance products have been subject to tax in an attempt to ensure tax equality among varied types of financial instruments. With extended lifespan taken into consideration, tax regime on pension and retirement income has been dramatically reformed as a vital step towards preparation for the era of centenarians.

(14) 2013

The 2013 tax reform was carried out under the vision of "competitive, fair, and principles-based tax system" with the basic directions including supporting national policy agenda, securing citizen-oriented tax system, and achieving fairer taxation and base-broadening.

Highlights of tax reform 2013 are as follows:

(a) In an effort to support national policy agenda, measures have been taken to reinforce growth engines and support SMEs to lay a solid foundation of the creative economy and to achieve the employment-to-population ratio of 70%. For instance, R&D tax incentives for promising service sectors have been expanded and tax credit in respect of R&D expenses has been available to R&D businesses. In a bid to support SMEs, burden of gift tax has been mitigated with regard to profits from transactions between a related party to a parent company and a subsidiary, while those inheriting family businesses have become entitled to deduction for inheritance tax purposes. To induce further investment into start-ups, tax benefits for angel investors have been expanded, and tax credits have been given to M&A for technology

innovation while tax incentives for KONEX market have been introduced, which will in turn help lay the groundwork for creative economy. Furthermore, tax credits for investment associated with job creation have been expanded in relation to part-time workers, and tax benefits have increased to support SMEs hiring more employees.

(b) With a view to ensuring the tax system centered on citizens, Earned Income Tax Credit (EITC) has been expanded and Child Tax Credit (CTC) has been introduced, while tax measures to support low-to-middle income families and enhance taxpayers' convenience have been taken. To be more specific, the eligibility for EITC in terms of property and housing has been relaxed while the scope of single-person household eligible for EITC has been broadened, thereby increasing the number of people who can benefit from EITC. Meanwhile, CTC has been newly established with the intention of helping people finance the upkeep of their children. In addition, tax scheme related to deduction on lease of a house both on a monthly rent basis and a deposit basis has been improved while deduction on the amount of interest redemption in respect of the long-term mortgage loan has been expanded to lessen the burden of housing expenses as well as to invigorate transactions in real estate market. Furthermore, Income Tax Code and Corporate Tax Code have been rewritten in an easy-to-understand manner.

(c) To enhance fairness in taxation and broaden tax base, personal and special deductions for dependent children have been shifted toward tax credit scheme with earned income deduction being adjusted accordingly. Also, tax benefits have been abolished whose purposes have been achieved or which turned out to be no longer effective, and tax benefits, the sunset of which has come, have been maintained after being redesigned if still necessary. The tax base has been secured through such measures as taxation on income derived from cultivation of high-profit yielding crops and position-based allowance for public servants. In the meantime, as part of efforts to bring the shadow economy to the light, the scope of businesses required to issue cash receipt has been broadened, while the ceiling on bounty to be paid to those reporting tax evasion has been raised. In a bid to intensify efforts to prevent off-shore tax evasion, the penalties applicable to taxpayers who violate reporting obligations regarding foreign financial accounts have been toughened and the exchange of financial information with foreign tax administrations has been reinforced.

Chapter II: Income Tax

1. Taxpayer

a. Resident

A person who has a domicile or has resided in Korea for one year or longer is subject to income tax on all income derived from sources both within and outside Korea. Provided, a foreign resident who has a domicile or has resided in Korea for five years or less is subject to income tax on incomes paid within Korea or remitted to Korea in the case the taxable incomes are derived from sources outside Korea. Korean public officials, directors and personnel engaged in overseas service on behalf of an employer who is a Korean resident, or a domestic company and a foreign subsidiary invested wholly by domestic companies are deemed to be residents of Korea.

b. Non-resident

A person who is not a resident of Korea is deemed a non-resident and is subject to income tax only on income derived from sources within Korea.

2. Taxable, Non-Taxable and Tax-Exempt Income

a. Taxable Income

Resident individuals are taxed on their worldwide income. Non-resident individuals are taxed only on Korean-source income. Although similar, the definition of income applicable to non-residents is broader than that of income applicable to residents.

b. Global and Schedular Income Taxation

Income derived by residents and non-residents is subject to global and schedular taxation. Under global taxation, business income, wages and salaries, pension income, and "other income" are aggregated and taxed progressively. Interest and dividends were taxed globally until 1997, but they were temporarily excluded from global taxation until 2000. A combined income of dividend and interest exceeding 20 million won is subject to global taxation. Currently, interests and dividends are subject to withholding tax of 14%.Under

schedular taxation, capital gains and retirement income are taxed separately at varying tax rates.

(1) Global income

Global income denotes income subject to global taxation and includes the following: interests, dividends, business income, wages and salaries, pension income, and other income.

(a) Interest

i) Interest and discount amounts received during a tax year from debentures and securities issued by a nation's government/its local authorities, or a domestic/foreign corporation

ii) Interest and discount amounts received during a tax year from deposits and installment savings payable both within and outside Korea

iii) Interest from non-commercial loans

iv) Savings-type insurance premiums with a maturity of less than ten years

v) Other similar incomes as a compensation according to spending money

vi) Where transactions or activities generating one of the incomes aforementioned are combined with a derivative, income from transactions or activities of such derivative

(b) Dividends

i) Dividends and distributions of profits and retained earnings, and distribution of interest received from a domestic or foreign corporation during construction

ii) Distributions of profits received from a non-corporate entity such as private associations or foundations

iii) Deemed dividends and distributions; See 3.b. (2) ("Dividend Income")

iv) Amounts designated as dividend by the Corporation Tax Law

v) Dividend-yielding financial assets

vi) Other similar incomes as an income distribution

vii) Where transactions or activities generating one of the incomes aforementioned are combined with derivatives, income from transactions or activities of such derivative

(c) Business income

i) Profits from livestock, forestry and fishing industries

ii) Profits from mining and quarrying

iii) Profits from manufacturing

iv) Profits from provision of electricity, gas, and water services

v) Profits from construction business

vi) Profits from wholesale or retail trade, operation of a hotel, or catering

vii) Profits from publishing, image, broadcasting-telecommunications and information services

viii) Profits from banking and insurance

ix) Profits from real estate and leasing services

x) Profits from professional, scientific and technological services, business-facilities management and business-supporting services

xi) Profits from educational services

xii) Profits from health and social welfare services

xiii) Profits from associations and communities, repairing and other personal services

xiv) Profits from arts, sports and entertainment-related services

xv) Profits from employment activities in households

(d) Wage and salary income

i) Wage, salary, remuneration, allowance, bonus, and any other allowance of a similar nature received in return for services

ii) Income, other than retirement income, received due to retirement

(e) Pension income

i) Public pension income prescribed by the relevant laws such as the National Pension Law

ii) Other pension income from any pension account prescribed by the Presidential Decree

(f) Other income

The term "other income" denotes specifically designated categories of income other than interest, dividends, real estate rental income, business income, wages and salaries, pension income, retirement income, and capital gains. Other income includes the following:

i) Prize money awards and other similar money or goods

ii) Money or goods received from participation in a lottery, and any other prize won in a contest

iii) Money or goods received as a prize in a lottery, drawing, or any other contest, including the purse payable to the buyer of a winning ticket for horse racing, cycle racing, motorboat racing, bull fighting and sports betting game

iv) Fees for use of copyrighted materials received by any person other than the creator of the material

v) Royalties given as consideration of using films or tapes for radio or television broadcasting, or from such use of other similar assets or rights

vi) Rent derived from a temporary lease of real estate or personal property, goods, or places

vii) Damages or indemnity payments for breach or cancellation of a contract.

viii) Gains from the alienation of mining rights, fishing rights, industrial property rights, industrial information, industrial secrets, trademarks, goodwill (including certain leases of stores), rights derived from the permission to exploit earth, sand, and stone, the right to exploit and use subterranean water, etc.

ix) Transfer gains of paintings, writings and antiques which exceed 60 million won of transfer price per piece

(2) Schedular income

Retirement income and capital gains are items subject to schedular taxation and thus taxed separately at varying rates.

(a) Retirement income

Lump sum money out of incomes received from retirement and etc.

(b) Capital gains

i) Gains arising from the transfer of land or buildings

ii) Gains arising from the transfer of rights related to real estate

iii) Gains arising from the transfer of shares in a company listed on the Stock Market and the KOSDAQ Market of the Korea Exchange by a large shareholder and the transfer of shares through over-the-counter transactions

* Gains realized by an individual taxpayer on the transfer of shares in a company listed on the Stock Market and the KOSDAQ Market of the Korea Exchange (excluding those traded at over-the-counter market) are not taxable.

* The scope of a large shareholder: ① or ②

① Shareholder or investor and his/her related persons whose combined shares are 2% (4% in the case of shares listed on the KOSDAQ Market, 4% in the case of shares listed on the KONEX Market) or more of the total shares as of the end of the immediately preceding fiscal year of the year in which transfer of shares takes place.

② Shareholder or investor and his/her related persons whose combined market price of shares are 5 billion won (4 billion won in the case of shares listed on the KOSDAQ Market, 1 billion won in the case of shares listed on the KONEX Market) or more as of the end of the immediately preceding fiscal year of the year in which transfer of shares take place.

iv) Gains arising from the transfer of shares in a company not listed on the Stock Market and the KOSDAQ Market of the Korea Exchange

c. Non -Taxable Income

Certain items of income are not subject to income tax. The following categories of income are not taxable.

(1) Income dedicated to public goods: Profits from property placed in trusts for public welfare

(2) Interest, dividend income tax

(a) Interest from long term (over 7 years) home savings less than 3 million won per quarter

(b) Interest from savings account of less than 30 million won with mutual financial institutions of agricultural or fishing associations on condition that the depositor is 20 years or older when opening the account

(c) Interest or dividends from savings account of less than 30 million won held by the elderly (60 years or older) or the disabled

(d) Dividends from stock of up to 18 million won owned for more than one year by employees or stockholders who are minority stockholders

(3) Certain categories of business income

(a) Real estate rental income accruing from using the paddies and dry fields for the production of crops and from the house rent, which is prescribed by the Presidential Decree

(b) Profits from a farmer's auxiliary business

i) Profits from raising livestock up to an amount specified by governmental guidelines: Profits earned from livestock kept more than the number specified in the guidelines are taxable. If the actual number of livestock exceeds the number specified in the guideline, that portion of income is taxed.

ii) Profits not exceeding 20 million won per year from other auxiliary businesses, such as fish breeding, straw production, etc.

(c) Profits from producing traditional wine: profits derived from producing traditional wine in the rural area (in the case the income is 12 million won or less)

(d) Profits from timber to the extent of 6 million won per annum

(e) Profits from farm production not exceeding 1 billion won per year

(4) Wage and salary income and retirement income

(a) Pay received by certain enlisted men in the armed forces, or persons mobilized under law

(b) Compensation or other payments made for consolation received by those injured or debilitated while furnishing a service

(c) Education fees as prescribed by the Presidential Decree

(d) Unemployment benefit under the employment law, the benefit of childcare leave and the benefit of maternity leave after delivery, job search subsidies for supporting veterans under the relevant Act

(e) Wages received by persons serving with a foreign government or the U.N., and organizations thereof; in the case of a foreign government, the principle of reciprocity is applied

(f) Wages in the form of an overseas service not exceeding 1 million won per month, 3 million won for the crew of deep-sea fishing vessels and ships and the construction worker overseas including assistant workers in construction sites

(g) Reimbursement expenses prescribed by the Presidential Decree

(h) Allowances for night shifts, overtime work, and holiday duty received by production workers with monthly wages not exceeding 1.5 million won and the total remuneration in the immediately preceding year not exceeding 25 million won

(5) Pension income

(a) Survivor pension and disability pension under the National Pension Law

(b) Survivor pension, disability pension, war disablement pension under the Government Employees' Pension Law

(c) Pension receivable as a result of industrial accidents

(d) Pension receivable by prisoners of war

(6) Other income

(a) Awards or compensation received under the National Security Law

(b) Prizes of money or other property received upon conferment of a decoration or other public prizes under the law

(c) Compensation received by an employee from an employer for valuable inventions made in relation to performing his duties

(d) Capital gains from the transfer of paintings, calligraphic works, and antiques that were state-designated cultural properties

(e) Gains from the transfer of paintings, calligraphic works, and antiques to museums or art galleries

(7) Capital gains

(a) Capital gains from the disposal of real estate resulting from adjudication of bankruptcy

(b) Capital gains from exchanges, division, or annexation of farmland by the government and local autonomous bodies or from the exchange of land by the owner for his own cultivation

(c) Capital gains from the transfer of one house per household, together with the land upon which the house sits (limited to an area of ten times the floor space of the house, or five times the floor space in a designated urban planning district): To obtain this exemption, the house must not be held by the seller for more than two years, and the house must not be worth more than 900 million won. This exemption is extended to a second house per household in the case where a taxpayer acquires a rural house (located in areas other than Seoul, Incheon or Gyeonggi-do) by inheritance, or for the purpose of returning to a farming lifestyle, or due to rural exodus.

d. Tax-Exempt Income

(1) A taxpayer having any of the following types of income may claim a credit against global taxable income. The amount of credit is calculated by multiplying the tax before exemption by a fraction (the amount of tax computed without application of the credit, multiplied by a fraction (the amount of income described in (a) and (b) below over the total income of the taxpayer)).

(a) Wages received by a foreigner working in Korea under a government agreement, paid by either government or by both

(b) Income earned from overseas transportation business by non-residents and alien residents, provided that reciprocal tax treatment is granted to Korean taxpayers by the country of residence of the alien taxpayer

(2) Capital gains

(a) Capital gains from the alienation of farmland that has been cultivated for eight years or longer

(b) Capital gains realized by farmers from the transfer of farmland for the purpose of acquiring another parcel of farmland in its place

* Ceiling on exempted amount per year:

(a) 200 million won (b) 100 million won

(a+b) 200 million won

* Ceiling on exempted amount for 5 years:

(a) 300 million won (b) 100 million won

(a+b) 300 million won

3. Tax Base and Deductions

a. Basic Rules for Calculating the Tax Base

(1) Substance over form

The provisions governing the calculation of taxable income are applicable based on the actual economic substance rather than upon merely formal distinctions.

(2) Classified calculation

The tax base shall be separately calculated with respect to each class of income earned by the taxpayer, namely, global income, retirement income and capital gains.

(3) Global income tax base

The global income tax base is the amount remaining after deducting personal exemptions from the aggregate of taxable global income, including such items discussed above as interest, dividends, business income, wage and salary income, pension income, and other income.

(4) Non-inclusion in global income

The following items of income are not included in global income but are either assessed separately or are non-taxable

(a) Non-taxable income

(b) Wages of daily workers

(c) Interest income subject to separate taxation that is eligible for withholding rates (See, 7. a. (1) (a) "Interest income")

(d) Interest income and dividend income up to 20 million won

(e) Income categorized as other income, up to 3 million won per year

(f) Pension income from a pension account up to 12 million won per year

(5) Schedular taxation

Retirement income or capital gains are subject to schedular taxation as independent income categories.

(6) Taxable year to which gross income is attributable

Gross income is attributed to the taxable year in which it is settled. The time for attributing amounts of global income to global receipts is shown below.

(a) Interest: the date payment is received

(b) Dividends:

i) Dividends on bearer shares: the date payment is received

ii) Dividends made under the disposal of surplus: The date on which a resolution on appropriation of surplus is made by the company concerned

iii) Deemed distribution: the date of decision of redemption of stocks, the date of decision on the decrease of capital or transfer into capital, or the date of the registration of merger or of final determination of the value of residual assets, or the date of receiving consideration

iv) An amount appropriated as dividend by the Corporation Tax Law: the date on which accounts are settled

(c) Business income

i) Sales of merchandise or products: the date of delivery or of the products reaching a deliverable state

ii) Consignment sales of merchandise or products: the date of sale by the consignee

iii) Sales of merchandise or products on a long-term installment or deferred payment basis: the date of delivery, subject to the matching principle in the case of expenses being incurred after the sale

iv) Performance of personal services: the date of completion of services

v) Sales or transfers of other assets: the date the consideration is received, or, if earlier, the date of registration or delivery

vi) Profits from rental of assets**:** in the case where the payment date is fixed by contract or custom, such fixed day; in the case where payment date is not fixed by contract or custom, the paid day

(d) Wage and salary income

i) Ordinary wage and salary income: the date of services provided

ii) Bonuses given as a result of an appropriation of surplus: the date of the resolution by the Board of Directors to disposal of the surplus

iii) An amount regarded upon as bonus by the tax authorities under the Corporation Tax Law: the date of furnishing services in the relevant business year of the corporation

(e) Retirement income

The date of termination of employment

(f) Capital gains

The date of receiving the consideration giving rise to the gain

(g) Other income

The date of receipt

(7) Taxable period

(a) General rule: Individual taxpayers use the calendar year as tax year; January 1 through December 31

(b) January 1 through the date of death, in the case of a resident's death

(c) January 1 through the date of departure from the country, in the case of a resident who becomes a non-resident

b. Calculation of Taxable Income

Taxable income is computed as the sum of the following items of income

(1) Interest

Amount of income as determined above

(2) Dividends

(a) Dividend income actually distributed to the amount of income as determined above

(b) Deemed distribution

i) The value of stocks or investments acquired by transferring surplus or reserves into capital, except the following:

① Transferring gains on retirement of treasury stock into capital more than 2 years after the retirement

② Transferring asset revaluation reserve into capital (in the case of a listed corporation)

ii) The amount in excess of the investment received by an investor through the liquidation of a corporation or through a reduction of capital

iii) The amount received by an investor upon the merger or consolidation of a corporation more than his investment

iv) The value of stock dividends or additional investment interests acquired by an investor as a result of another investor renouncing his preemptive right to acquire an allocated portion of stock or investment interest following a capital increase of a corporation

(3) Business income

The total amount of income in each taxable period remaining after deduction from gross profits of allowable expenses and losses carried-over from the previous 10 years

(4) Income of wage, salary, etc

The total amount of income remaining after the deduction as specified in the table below: used to calculate the tax base for the income of wage,

salary, etc after the deduction described herein has been made for that taxable period

Deduction for wage and salary income (100,000 won per day for a daily worker), as computed in the table below.

Income of wages, salary, etc	**Deductions**
Not more than 5 million won	70% of wages, salary, etc.
5 - 15 million won	3.5 million won + 40% of the excess over 5 million
15 - 45 million won	7.5 million won + 15% of the excess over 15 million won
45 - 100 million won	12 million won + 5% of the excess over 45 million won
Over 100 million won	14.75 million won + 2% of the excess over 100 million won

(5) Pension income

The total amount of income remaining after the deduction as specified in the table below with the deduction ceiling of 9 million won

Pension income	**Deductions**
Not more than 3.5 million won	Pension income amount in full
3.5 - 7 million won	3.5 million won +40% of the excess over 3.5 million won
7 - 14 million won	4.9 million won + 20% of the excess over 7 million won
Over 14 million won	6.3 million won + 10% of the excess over 14 million won

(6) Retirement income

The total amount of income remaining after the deductions in the following order:

(a) 40% of retirement allowance

(b) Amount determined based on the length of service

Service year	Deductions
Not more than 5 years	300,000 won per year
5-10 years	1.5 million won + 500,000 X (service year- 5)
10-20 years	4 million won + 800,000 X (service year -10)
Over 20 years	12 million won + 1,200,000 X (service year- 20)

(7) Capital gains

Gains arising from the transfer of land, buildings, or rights thereon, stocks, and other assets specifically enumerated in the Income Tax Law shall be taxed separately from global income.

Capital gains may be classified into the following three categories:

(a) Gains arising from the transfer of land or buildings

(b) Gains arising from the transfer of rights to real estate such as surface rights, leaseholds, or rights to acquire real estate

(c) Gains arising from the transfer of stocks

Gains on transfer and the amount of capital gains are calculated as follows:

Gains on transfer = Selling price - Necessary expenses

Amount of capital gains = Gains on transfer - Special deduction for long-term possession of land and buildings - Capital gains deduction

Necessary expenses include acquisition costs, costs of installations or improvements, and other capital expenditures.

Special deductions for long-term holding of land or buildings are calculated as follows:

(a) In the case of transfer of land or buildings in general

Holding period	Deduction rate	Holding period	Deduction rate
3 years - less than 4 years	10/100	7 years - less than 8 years	21/100
4 years - less than 5 years	12/100	8 years - less than 9 years	24/100
5 years - less than 6 years	15/100	9 years - less than 10 years	27/100
6 years - less than 7 years	18/100	Not less than 10 years	30/100

※ Special deductions are not allowable for the long-term holding of land for non-business purposes imposed with capital gains tax, and for unregistered transfer asset

(b) In the case of transfer of a house per household

Holding period	Deduction rate	Holding period	Deduction rate
3 years - less than 4 years	24/100	7 years - less than 8 years	56/100
4 years - less than 5 years	32/100	8 years - less than 9 years	64/100
5 years - less than 6 years	40/100	9 years - less than 10 years	72/100
6 years - less than 7 years	48/100	Not less than 10 years	80/100

A capital gains deduction is 2.5 million won without regard to the amount. However, capital gain deduction is not allowed for unregistered real estate.

(8) Other income

The aggregate amount of income of this category less necessary expenses; remuneration from an independent lecture allows a deduction of 80% thereof as necessary expenses

c. Calculation of Business Income

(1) Taxable business income is the aggregate amount of income in each taxable period remaining after the deduction from gross receipts of necessary expenses and losses carried-over from the previous 5 tax years.

(2) Gross receipts

(a) Gross receipts of a business are the aggregate of money or property receivable in connection with the activities of a business in the tax year.

i) If anything other than money is received, the income amount is calculated as the monetary value thereof prevailing at the time of transaction.

ii) As to prepaid rentals in calculating the amount of gross income of real estate rental income, the aggregate in each year of the amount obtained by dividing such prepaid rentals by the number of months in the contract period shall be the amount of gross income.

iii) The value of returned goods and a discount on sales is offset in the calculation of gross receipts for the year.

iv) Sales discounts in the case of early settlement of an account receivables are deducted from gross receipts.

v) Bounties and other similar sums received from sellers are included in gross receipt.

vi) If tax amounts counted in necessary expenses are refunded, the amount of refund is included in gross receipts.

vii) A decreased amount of liabilities due to exemption or the lapse of a liability is accounted for as gross receipts; however, such an amount used for keeping carried- over deficits in balance are not counted in gross receipts.

viii) Such other amounts of receipts related to the business as have been reverted or are to be reverted to the businessperson in question are counted in gross receipts.

(b) Non-inclusion in gross receipts

The following items are not covered in gross receipts:

i) Amount of income tax or inhabitant tax refunded or to be refunded, used for the payment of other tax amounts

ii) Value of assets received without compensation and amount of decrease in liabilities due to exemption or lapse of debts, used for balancing carried-over deficits

iii) Value of products used by businesses: self-produced raw materials or fuels

iv) Amount of indirect taxes, such as the Value Added Tax, collected from customers to be turned over to the tax authorities

v) Interest on the refund of overpayments of national taxes or local taxes

(3) Necessary expenses

(a) Necessary expenses are the aggregate of expenses incurred in relation to the accrual of gross receipts for each taxable period and include the following:

i) Purchase price of raw materials or goods corresponding to products or goods sold for the year concerned/ Discounts on purchases and purchase discounts are deducted from purchase price

ii) Book value of transferred assets at the time of the transaction (in the case of a real estate sales business)

iii) Salaries and wages

iv) Cost of repairing business assets, including management and maintenance expenses

v) Depreciation of fixed assets of the business

vi) Rent of business assets

vii) Interest on borrowings

viii) Bad debts (including VAT thereon)

ix) Loss on revaluation of assets

x) Mine exploration expenses including development costs

xi) Advertisement expenses and sales promotion expenses

xii) Public contributions, designated donations and entertainment expenses within the prescribed limit

xiii) Deferred expenses such as start-up costs or experimental and research expenses counted in necessary expenses

(b) Tax free reserve

Contributions to the following reserves are considered necessary expenses, within the prescribed limits.

i) Reserves for retirement of up to 5% of total wages paid to employees who have served for one year or more: The accumulated amount of the reserve is limited to 30%* of the estimated retirement allowances payable to all employees at the closing date of the year.

* Such reserves limit will be phased out by 5% each year

2010	2011	2012	2013	2014	2015	2016
30	25	20	15	10	5	0

ii) Reserves for bad debts up to an amount equal to 1% of aggregate sales on credit or accounts receivable and VAT thereon, as of the closing date of the respective year: The amount remaining after offsetting the actual bad debts is included in the gross receipts in the following year.

(c) The following amounts are treated as necessary expenses in the calculation of income for the year.

i) Gains on insurance claims of a resident used for acquisition of the same kinds of fixed assets as the lost or broken fixed assets, and those used for improvement of the acquired fixed assets or the damaged fixed assets (must be within 2 years from the beginning day or the year following the year in which the gains fall)

ii) Amount of subsidy actually used for acquisition or improvement of fixed assets

(d) Non-inclusion of necessary expenses

The following losses and expenses are not counted as necessary expenses in the calculation of the income of a resident.

i) Income tax (including foreign income taxes), inhabitant tax, and tax paid or payable as a result of delinquency in the payment of tax owed (including penalty taxes thereof)

ii) Fines, minor fines, penalty taxes, and expenses for disposition of taxes in arrears

iii) Public imposts, other than those which a taxpayer has an obligation to pay under the law

iv) Losses from revaluation of assets other than inventory or short-term investment assets

v) Expenses deemed by the government not to have any direct connection to the business

vi) Unpaid amounts of liquor tax or other excise taxes on inspected or carried out products not yet sold

vii) Interest on borrowing incurred by a resident and used to fund construction, and interest on private loans of which the sources are unknown

viii) Depreciation amount of the fixed assets allocated for each year, exceeding the amount allowed as necessary expenses

ix) Household expenses and prepaid expenses

x) Value added tax paid on inputs

(e) Non-inclusion in necessary expenses of designated donation

If a taxpayer makes donations other than that designated below, or makes donations in excess of 10% of the taxable income (excluding public contributions and carried-over loss), the amount is not treated as a necessary expense (the amount in excess of such a limit may be carried over for 5 years).

i) Donations to public interest entities, social welfare organizations, and religious organizations

ii) Donations and scholarships for academic research, technical development, and athletic skill development

iii) Other donations to public entities prescribed by the Presidential Decree

<Reference: Income Tax Law 34 ①>

The coverage of designated donation has been revised.

i) In the case of donation to religious organizations: 10% + (the lesser amount of 20% or the donation to organizations other than religious groups)

ii) In the case of donation other than religious organizations: 30%

The following contributions are always treated as necessary expenses in computing taxable income.

i) Value of money and goods donated to government agencies and local governmental bodies without compensation

ii) Contributions for national defense and war relief

iii) Value of money and goods donated for the relief of victims of calamities

(f) Non-inclusion in necessary expenses of entertainment expenses.

i) If a taxpayer's entertainment expenses exceed the aggregate sum of the following amounts, the amount in excess thereof is not to be counted as a necessary expense (Note: Entertainment expenses are allowed only when supported by recognizable regular invoices such as credit card invoices if the one-time expenditure is over 10,000 won):

① An amount calculated by multiplying 12 million won (18 million won in the case of a small or medium-sized enterprise) by the number of months in the respective tax period, divided by 12

② An amount calculated by multiplying the total amount of revenue for the business year by the rates listed in the table below

Revenue amount	**Rate**
Not more than 10 billion won	0.2%
10 - 50 billion won	20 million won + 0.1% of the excess over 10 billion won
Over 50 billion won	60 million won + 0.03% of the excess over 50 billion won

(g) In the case of transactions between related persons which result in an unreasonable reduction of the tax burden, the government may adjust the income amount for each year of said taxpayer, regardless of activities or calculation of the taxpayer.

(4) Depreciation

Depreciation cost is calculated as necessary expenses in computing income, and is determined in accordance with the useful life of fixed assets.

(a) Methods of calculating depreciation

Depreciation of fixed assets is calculated according to the following methods.

i) Fixed percentage method or straight-line method for tangible fixed assets (only the straight-line method may be used for buildings, but either method may be chosen for machinery and equipment)

ii) Straight-line method used for intangible fixed assets

iii) Unit of production method or straight line method for mining rights: Under the unit of production method, the actual output extracted in a tax year is compared to the estimated total amount to have been extracted, and the ratio applies to the book value of the mineral rights to determine the size of the depreciation deduction allowed. (Note: the Korean language uses one word to describe "depreciation," "amortization," and "depletion.")

iv) Unit of production method, fixed percentage method, or straight line method for tangible fixed assets used in mining

(b) Acquisition value of fixed assets

i) In the case of fixed assets purchased, it is the price quoted at the time of purchase (including registration tax, acquisition tax, and other incidental costs, but not Value Added Tax).

ii) In the case of fixed assets acquired by means of one's own construction, fabrication, etc., it is the aggregate costs of raw materials, labor, freight, loading and unloading cost, insurance premiums, fees, public imposts (including registration tax and acquisition tax), installation expenses, and other incidental costs.

iii) iii) In the case of fixed assets other than those referred to in i) and ii), it is the normal price quoted at the time of acquisition.

(c) Useful life and depreciation rate

Refer to the chapter covering the corporation tax law.

(d) Residual value

The residual value of a fixed asset is zero, but becomes 5% of the acquisition value in the case of depreciation when using the fixed percentage method. This amount is claimed as an expense in the final year of depreciation.

(e) Revenue expenditures and capital expenditures

i) Repairing expenses disbursed by a taxpayer either to restore his assets to their original state or to maintain their efficiency are regarded as revenue expenditures.

ii) Repairing expenditures spent either to extend the useful life or to increase the actual value of fixed assets are regarded as capital expenditures.

(5) Accounting for inventory

(a) A taxpayer may select one of the following methods of inventory accounting. The accounting method utilized for filing the tax return shall be reported by the due date for the year in which the business is begun.

i) Cost method

ii) Lower of the cost or the market method

(b) If the cost method applies, one of the following conventions must be used.

i) Specific identification method

ii) First-in, first-out ("FIFO") method

iii) Last-in, first-out ("LIFO") method

iv) Weighted average cost method

v) Moving average cost method

vi) Cost of sales rebate method

(c) Different accounting methods may apply to the various assets by category and place of business, in accordance with the following classes of assets.

i) Products and merchandise

ii) Semi-finished goods and work in process

iii) Raw materials

iv) Goods in stock

(d) In any of the following cases, the head of a tax office may value inventory assets according to the FIFO method (weighted average cost method in the case of securities, specific identification method in the case of real estate held for sale).

i) A taxpayer fails to report his method of accounting for inventory within the time required.

ii) A taxpayer accounts for inventory using a method other than that reported.

iii) A taxpayer changes the accounting method used for inventory without filing a report of such change.

d. Exemptions and Deductions Related to Global Income

There are five exemptions or deductions related to global income.

(1) Basic Exemptions

Residents with global income are entitled to annually deduct an amount equivalent to 1.5 million won multiplied by the number of persons in the taxpayer's family, as determined below.

(a) A resident taxpayer

(b) A spouse with annual income of less than 1 million won

(c) Dependents with annual income of less than 1 million won living in the same household with the taxpayer

* A dependent is a lineal ascendant aged sixty or older, a lineal descendent of the resident aged twenty or less (there is no age restriction for a disabled person), a sibling aged under twenty or over sixty, and all other members of the household supported by the resident.

(2) Additional Deductions

A resident eligible for basic exemption and who belongs to any of the following classes may also deduct 1 million won (b: 2 million won, c: 500,000 won) per year from his/her global income:

(a) A person who is 70 years or older

(b) The disabled, as prescribed by the Presidential Decree

(c) A female head of family with dependents or with a spouse (a person whose global income amount is not more than 30 million won)

(d) A single parent with lineal descendants or adopted children who are eligible for basic exemption*

* Overlapping deductions for (c) and (d) are not allowed. If a resident belongs to both of the classes, he/she shall be deemed to belong to class (d) only.

(3) Special Deductions

Wage and salary income earners may deduct an amount equal to the sum of the following from their income of wage, salary, etc. during the taxable year.

(a) The amount of national pension premiums, medical insurance premiums, and employment insurance premiums paid

(b) 40% of deposits of an account earmarked for purchasing a house, which is held by a person who does not own a house during the year concerned or a person who, at the time of opening such account, owns only one house that is smaller than 85 square miles in size and whose government-evaluated price is 300 million won or less

(c) 40% of repayments of loans including interest accrued thereon borrowed for the purpose of the lease of a house of an appropriate size by a person owning no house who is subscribed to a qualifying savings program for home ownership up to three million won per year.

(d) Interest up to fifteen million won a year of a mortgage loan with the duration of more than 15 years in the case that 70% or more of borrowing is paid as fixed-rate interest or 70% or more of borrowing is amortized without deferment, for the other cases, 5 million won a year

(e) Wage and salary income earners are allowed income deduction equivalent to 15% of credit card expenditure and 30% of debit card and cash receipt expenditure exceeding 25% of total salary and wage. The ceiling for the annual deduction is 3 million won or 20% of the total salary and wage, whichever is less. However, for expenditures spent for traditional markets and public transportation, the allowed deduction is equivalent to 30% of the expenditure, and the ceiling is raised by an additional 1 million won for each.

(f) Loans for house, savings deposits for housing subscription, and investment in employee stock ownership associations or in associations for investment in start-ups are allowed income deduction with a ceiling at 25 million won in total. However, for the amount of designated donations exceeding the ceiling, deduction can be carried forward for 5 years.

e. Scope of Persons Eligible for Personal Exemptions and Determination of Eligibility

Persons eligible for spousal exemption, dependent exemption, or exemption for disabled or aged persons must be (i) a spouse and/or unmarried lineal descendant and (ii) family members who are listed on the registration card of the resident actually living at the domicile or residence. A person who has temporarily left the taxpayer's domicile or residence for reasons of schooling, medical treatment, business, or work may still be entitled to an exemption. The determination of eligibility shall be made based on the existing conditions at the closing date of the tax period concerned.

4. Tax Rates and Credits

a. Tax Rates

(1) The amount of income tax on global income is calculated by applying increasing marginal tax rates to respective tax base, and may be determined by using the following table.

(2) Table of basic tax rates

Tax base of global income	Tax rate
Not more than 12 million won	6% of tax base
12 - 46 million won	0.72 million won + 15% of the excess over 12 million won
46– 88 million won	5.82 million won + 24% of excess over 46 million won
88 – 150 million won	15.90 million won + 35% of the excess over 88 million won
Over 150 million won	37.6 million won + 38% of the excess over 150 million won

(3) The tax amount of retirement income is calculated by dividing the taxable income by the number of years of service, and then multiplying the amount by 5 and applying the tax rates, and again dividing the amount by 5 and multiplying the amount by the number of years of service.

(4) Tax rates on capital gains are as follows:

(a) Real estate and rights thereto (basic tax rates applicable)

* Property held for at least 2 years
(House and the residential right of an association member held for at least 1 year)

Capital gains	Tax rates
Not more than 12 million won	6% of tax base
12 - 46 million won	0.72 million won + 15% of the excess over 12 million won
46 - 88 million won	5.82 million won + 24% of the excess over 46 million won
88 - 150 million won	15.90 million won + 35% of the excess over 88 million won
Over 150 million won	37.6 million won + 38% of the excess over 150 million won

* Property held for at least 1 year and less than 2 years: 40%
(Basic tax rate in cases of a house and the residential right of an association member)
Property held for less than 1 year: 50%
(40% in cases of a house and the residential right of an association member)

i) As for the incomes from the transfer of property, the basic tax rate above applies. Provided, that basic tax rate plus 10% is applied to the properties located in the speculative areas.

ii) Land used for non- business or non-residential purposes:
As for the incomes from the transfer of property by Dec. 31, 2014, the basic tax rate above applies. Provided, that basic tax rate plus 10% is applied to the properties located in the speculative areas.

iii) Unregistered transferred property: 70% applies.

(b) Stocks

Capital gains	Tax rates
i) Shares of non-small and medium sized company which are held by large shareholders for less than one year	30 %
ii) Shares of small and medium sized company	10 %
iii) Shares other than 1) and 2)	20 %

(5) Foreign employees and executives may elect to apply the rate of 17% on their salaries (schedular taxation) or have 30% of their income tax-exempt.

b. Tax Credit

(1) Tax credit for dividend income

Where dividend income of a resident received from a domestic corporation is included in global income, the amount calculated as below is deducted from the global income tax amount.

(a) 11/100 of the dividend income is added to the amount of dividend actually received by the shareholder.

(b) This figure is used in calculating the individual income tax amount of the shareholder.

(c) Thereafter, the amount (11/100 of the dividend income) added to the amount of dividend calculated in (a) above, is credited against the individual income tax amount calculated in (b) above.

(2) Foreign tax credit

Where a resident has paid or is to pay income tax in a foreign country, the tax amount paid or payable is deducted from the amount of Korean

income tax accrued with a limit. This limit is an amount equivalent to that of the income tax owed without the application of this credit, multiplied by the ratio of income from foreign sources to total taxable income. If the foreign tax amount paid or payable exceeds this limit, the excess portion may be carried over for 5 years.

(3) Tax credit for casualty loss

When a resident loses 30% or more of the total value of his business assets from one or more disasters, an amount equal to the tax due without application of this credit times the ratio of the value of the lost assets over the total value of assets owned prior to a disaster is subtracted from the amount of tax due in the year of the disaster(s) (limited to the value of loss caused by casualty).

(4) Special tax credit for wage and salary income

The credit amount available for wage and salary income earners shall be calculated as the following table shows.

<table>
<tr><th>Calculated tax amount</th><th>Credit amount</th></tr>
<tr><td>Not more than 500,000 won</td><td>55% of global tax amount</td></tr>
<tr><td>Over 500,000 won</td><td>275,000 won + 30% of the excess over 500,000 won
*Ceiling on credit amount
<table>
<tr><th>Total wage and salary income</th><th>Ceiling on credit amount</th></tr>
<tr><td>Not more than 55 million won</td><td>660,000 won</td></tr>
<tr><td>Not more than 70 million won</td><td>The greater of 630,000 won and 660,000 won – [(total wage and salary income − 55 million won) × 50%]</td></tr>
<tr><td>Exceeding 70 million won</td><td>The greater of 500,000 won and 630,000 won– [(total wage and salary income – 70 million won) × 50%]</td></tr>
</table></td></tr>
</table>

(5) Child tax credit

Where a resident with global income has children (including adoptees and children under foster care) who are eligible for the basic deduction, he/she receives annual tax credit of 150,000 won for having a child, 300,000 won for having two children, and 300,000 won plus 200,000 won per an excess child over two in case of having more than three children.

(6) Credit for Pension Insurance Premiums

A resident who paid pension contributions to a pension account may deduct the amount equal to 12% of the premiums paid from his/her global income tax amount, only up to 4 million won.

(7) Special tax credit

(a) Only applicable to residents with earned income

15% of the medical and educational expenses, 12% of the insurance premiums, and 10% of the monthly rent payment are deducted as tax credit.

(ⅰ) Medical expenses incurred exceeding 3% of wage and salary income, up to 7 million won: the deduction ceiling does not apply to expenses paid for the rehabilitation of taxpayers themselves, disabled dependents and senior citizens.

(ⅱ) Domestically incurred educational expenses of an employed taxpayer including the expense incurred in association with expenses paid by the taxpayer for his spouse or lineal descendants eligible for Basic Exemptions. While the educational expenses incurred for the taxpayer himself (including expense for graduate school) is deductible in full, that for his/her spouse, lineal descendants, adopted children or foster children is deductible with the following ceilings: 3 million won annually per children for expenses for kindergarten, nursery school and sports facilities which preschoolers use for lesson purpose, 3 million won annually per student for elementary, junior and high school expenses including school meals and after-class fees, and 9 million won annually per person for college education expenses.

Education expenses incurred overseas for the taxpayer himself may be deducted in full as well. Educational expenses incurred

overseas by spouse or lineal descendants are eligible for deduction, subject to the following limits (annually, per student): 3 million won for kindergarten, 3 million won for elementary, junior, and high schools, and 9 million won for college.

Special education cost for the disabled: No ceiling

(iii) insurance premiums paid, up to 1 million won. Additionally, insurance premiums of insurance exclusively offered for disabled persons, up to 1 million won.

(iv) Monthly rents paid by a person who owns no house and earns 70 million won or less during the tax period concerned, up to 7.5 million won per year.

(b) Credit for donation

15% of the amount of donation (in case of the donation exceeding 30 million won, 25% of the excess over 30 million won) is deducted. Provided, that in case of statutory donation, the full amount is deductible, and in case of donation to religious organizations, the ceiling is 10% of the income* plus the lesser amount between 20% of the income and the amount of donation to designated organizations other than religious organizations. In the case of the donation to designated organizations other than religious organizations, the ceiling amounts to 30% of the income.

* The income herein means the amount of global income from which the amount of statutory donation is subtracted (hereinafter refers to "the income" in this paragraph).

(8) Standard Credits

Alternatively, a taxpayer may elect to choose an annual standard credit of 70,000 won (120,000 won for wage and salary earners and business owners meeting certain requirements and), if he or she fails to claim deductions and credits in question or accrues only global income without any wages or salaries earned.

c. Special Case in Calculation of Tax Amount

When the amount of interest or dividend income included in the global income tax of a resident exceeds the amount set forth in the guideline as to global taxation (40 million won per year), the amount of tax on global income shall be the larger of the two shown below.

(1) The sum of the following:

(a) The amount of global income tax calculated on the sum of:

i) The amount by which interest and dividend income exceeds 40 million won

ii) The amount of global income other than interest or dividend income

(b) Six million won, the amount of tax calculated by applying a withholding tax rate of 14% to 40 million won

(2) The sum of the following:

(a) 14% of the total interest and dividend income

(b) The amount of tax computed on global income other than interest or dividend income

5. Tax Returns and Payment

a. General

Under the 1994 tax reform, the individual income tax assessment system was converted into a self-assessment system under which each taxpayer is required to file a return and pay the proper amount of tax by the due date as prescribed by the individual income tax law.

b. Interim Prepayment for Global Income

(1) A resident with global income is subject to interim prepayment of global income tax for interim prepayment periods (from January 1 through June 30) in the amount equivalent to half of the global income tax amount paid or payable in the preceding year, by the end of November.

(2) The "income tax paid or payable in the preceding year" is the aggregate of the tax amount payable for interim prepayment in the preceding year, the tax amount payable upon filing of the return, together with penalty taxes owed.

c. Pre-filing for sales profits from lands of real estate dealers

(1) A real estate dealer is required to file a return to report any taxable profit from the sale of land or buildings within two months from the end of the month that the profit was incurred (mandatory pre-filing). The real estate dealer should include the payment with the filed return, calculated by applying the basic tax rates on capital gains to the taxable profit as income

tax from a real estate dealing business. Penalty is imposed on any real estate dealers whose pre-filing is not made.

* Penalties for non-compliant filing (10% of under-reported amount, 20% of unreported amount)

Penalties for non-compliant tax payment (10.95% per annum)

(2) The taxable profit is calculated by deducting necessary expenses incidental to the sale of land or buildings.

d. Pre-filing for gains from the alienation of real estate

(1) A resident who transfers assets subject to the capital gains tax is required to file a return and pay the tax due on the capital gains within two months from the last day of the month of transfer (mandatory pre-filing).

(2) The amount of tax payable at the time of the interim return is calculated by applying the basic tax rates on capital gains to the profit derived from the transfer. Penalty is imposed on any transferors whose pre-filing is not made.

* Penalties for non-compliant filing (10% of under-reported amount, 20% of unreported amount)

Penalties for non-compliant tax payment (10.95% per annum)

e. Final Returns and Payment

(1) Return on tax base

A resident who has global income, retirement income or capital gains, during the applicable taxable period is required to file a return on the respective tax base between May 1 and May 31 of the following year.

(2) Documentation

Tax returns should include the following documents:

(a) Supporting documents in order to be eligible for personal exemptions and special deductions

(b) Documents in which gross receipts and necessary expenses are recorded together with statements of income amount in the form prescribed by the Ministerial Decrees

(c) For those having rental income or business income, a balance sheet, a profit and loss statement, a compound trial balance, and a reconciliation format, or a summary of income statement

(d) Particulars of tax free reserves

(3) Residents not required to submit a final return

The following residents are not required to submit final returns. However, a resident who has Class B wage and salary income and/or retirement income is not excluded hereunder:

(a) A resident who has only:

i) Wage and salary income

ii) Retirement income

iii) Pension income

iv) A combination of both i) and ii) or both ii) and iii)

(b) A resident with only capital gains and one who has filed a preliminary return thereon

(c) A resident with only:

i) Interest income subject to separate taxation

ii) Dividend income subject to separate taxation

iii) Separate taxation on pension income

iv) Other income subject to separate taxation

(d) A resident with only the types of income enumerated in (a), (b), and (c).

(4) Payment of tax

(a) A resident who has submitted a tax return shall pay any amount remaining after deducting the following items from the amount calculated as tax due on global income, retirement income, or capital gains for each taxable period.

i) Interim prepayment of tax

ii) Estimated taxes paid by real estate dealers, or with respect to capital gains

iii) Additional taxes paid as a result of occasional assessments of tax

iv) Taxes withheld at source

v) Taxes paid through a taxpayers association

(b) A resident whose taxable amount exceeds 10 million won may pay the tax accrued in installments within 2 months from the closing date of the payment period.

i) In the case of tax due less than 20 million won, the amount more than 10 million won can be paid in the extended period of payment.

ii) In the case of tax due of more than 20 million won, 50% or less of the amount of tax can be paid in the extended period of payment.

f. Taxpayer Associations

(1) Organization

Class B wage and salary income earners, meat sellers, grain dealers, and vendors may organize taxpayer associations through which they may pay taxes.

(2) Obligation to collect tax

A taxpayer association shall collect income tax from the members each month.

(3) Payment of tax

Income tax for each month collected by a taxpayer association will be paid to the government by the 10th day of the following month.

(4) Tax credit for payment of tax by taxpayer association: 10%

(5) Penalty tax for non-payment of tax by taxpayer association: 5%

g. Taxpayer Address

A domicile or a residence of a taxpayer is the tax address for the purpose of income tax.

6. Tax Assessment and Collection

a. Determination of Tax Base and Tax Amount

(1) The income tax is to be self-assessed and filed by the taxpayer.

(2) The government will correct the tax base and the tax amount if there are any omissions or errors in the return filed, or if the taxpayer has not submitted the payment statements or the aggregate summary of accounting statements in whole or in part.

(3) In the cases where the government determines or corrects the tax base and the tax amount payable by a taxpayer, the tax base and the tax amount must be determined or corrected according to the law based on the final return and the attachments thereto, or by a field audit.

(4) Determination must be completed within a year from the filing due date, except that the Commissioner allows an extension of time for special investigation, or approves a late determination based on extenuating circumstances.

(5) Occasional assessment

To prevent income tax evasion, the government may, monthly or occasionally, determine a tax base prior to the filing or determination period in the following circumstances:

(a) When a taxpayer frequently moves his business place, domicile, or residence without reporting such movements to the government

(b) When a taxpayer has closed down or has suspended his business operation due to poor business conditions or other reasons

(c) When a taxpayer is located in an area deemed to be a place of frequent moves for place of business, residence, or domicile

b. Minimum Taxable Floor

If the amount of income tax payable is less than the following amount, income tax will not be assessed.

(1) Withholding tax (excluding tax of interest income): 1,000 won

(2) Interim prepayment tax: 200,000 won

c. Notice on Tax Base and Tax Payable

If the government determines or adjusts a tax base or a tax amount, the government shall notify the concerned resident the tax rates and/or any other necessary matter in writing.

d. Collection of Tax

(1) If a taxpayer does not pay the full tax amount for the year in question, the government will endeavor to collect the unpaid tax amount within three months after the due date of payment.

(2) When the income tax amount paid by the taxpayer is less than that determined by the government, the unpaid amount of tax will be collected.

7. Withholding Tax

a. Tax Withholding Obligation

A person paying interest, dividends, business income prescribed by the Presidential Decree, Class A wage and salary income, pension income,

retirement income, or other income is required to withhold income tax due thereon at the time of such payment, and to pay it to the government by the tenth day of the following month.

However, a businessman who has less than twenty employees on average at the end of every month of the preceding year may pay taxes withheld to the government by the tenth day of the following month each half-year, after obtaining the approval of the head of the tax office concerned.

Rates of Withholding are as follows:

(1) Interest income

(a) Interest on a long-term bond with a redemption period of 10 years: 30%

(b) Interest from non-commercial loans: 25%

(c) Other interest: 14%

(2) Dividend income: 14%

(3) Business income from personal services and medical or health services which are exempt from VAT: 3% of total revenue (in the case of pharmacies, 3% * (total income from drug dispensing service less cost of medicine)

(4) Wage and salary

(a) Tax rates: the basic tax rates applicable to global income

(b) Simplified tax table: If wage or salary is paid monthly, the tax amount to be withheld is calculated by the "Simplified Tax Table" attached to the end of the Income Tax Law.

(c) Year-end adjustment: A person subject to tax withholding must calculate the total annual tax amount in February of the following year or at the time of the last payment of income in the year (i.e., when the income earner completes employment during the year) and collect or refund the difference between the tax amount payable. This amount is calculated by applying the basic tax rates and the tax amount withheld, which is explained in the "Simplified Tax Table."

(d) Application for personal exemption: Class A wage and salary income earners who are entitled to personal exemptions must submit an application for personal exemptions, together with documentary evidence in support thereof, to the withholding agent before receiving wage and salary income for February of the following year.

(e) Daily wage: Tax is withheld from the wages of day laborers at a rate of 6 %.

(5) Pension income:

(a) National pension, government employee pension: basic tax rates

(b) Retirement pension, private pension

Category		Tax rate
Age	55 – younger than 70	5%
	70 – younger than 80	4%
	80 or older	3%
Life Annuity		4%
Retirement income		3%

* If a resident belongs to two or more categories, the lowest applicable rate is applied.

(6) Retirement income: Basic tax rates

(7) Other income:

(a) Private pension cancellation: 15%

(b) Private pension cancellation owing to unavoidable circumstances: 12%

(c) Other income: 20%

8. Penalty Tax

In the case of failure to comply with obligations by the tax laws, penalties are imposed as follows:

a. Penalty Tax for Failure to File Returns

When a taxpayer fails to accurately report his tax amount due, he or she is subject to the penalties described below.

(1) An additional tax amount on general understated return

10% × Calculated tax amount × (Underreported tax base / Total tax base)

(2) An additional tax amount on unjustly underreported return: A larger amount between (a) and (b)

(a) 40% × Calculated tax amount × (Unjustly underreported tax base / Total tax base)

(b) 0.14% × Unjustly underreported revenue amount

(3) An additional tax amount on unjustly claimed tax deductions or exemptions

40% × Unjustly deducted or exempted tax amount

b. Penalty Tax for Non-Payment or Underpayment of Tax

(1) When the income tax payable with the final return has not been paid in full, a penalty in the amount of 0.03% of the amount unpaid shall be added to the amount of tax due, for each day the amount remains unpaid.

(2) When a taxpayers association fails to fully pay the income tax due within the time required, a penalty of 5% of the unpaid amount shall be added to the amount of tax due. When tax is not paid in full, penalty will amount to 0.03% of the unpaid amount per day.

c. Penalty Tax for Failure to Withhold Tax

If a person subject to tax withholding fails to withhold tax at source or fails to pay the government tax withheld within the payment period, the greater of (1) or (2) is levied as penalty: (the greater amount of (1) or (2) will be imposed with the limit of unpaid tax liability or the one tenth of underpaid tax liability)

(1) 0.03% × the amount unpaid × number of unpaid days (to the extent of 10% of unpaid tax)

(2) 5% of unpaid tax

d. Penalty Tax for Failure to Report Withholding Invoices

(1) If a concerned person fails to submit a payment report within the reporting period or if the reported facts concerning payment are found to be unclear as specified by the Presidential Decree, a penalty in the amount of 2% of the payment due shall be charged.

(2) If a concerned person fails to issue or submit a proper tax invoice regarding the transaction involved, a penalty in the amount of 1% of the transaction shall be charged.

e. Penalty Tax Related to Gathering Relevant Tax Invoices

(1) If a taxpayer has an obligation to keep double entry books but fails to keep available invoices in the form that is generally accepted (including credit card receipts) as supporting evidence for the payment of goods received and services rendered, a penalty may be imposed in the amount of 2% of the total value of such unsupported transactions. The penalty may be applied even if the expense deduction is sufficiently substantiated to be allowed.

(2) If a taxpayer who has an obligation to keep double entry books does not submit a list of invoices to the tax office, a penalty tax amounting to 1% of the unreported amount shall be charged.

f. Penalty Tax for Failure to Maintain Adequate Books and Records

If a taxpayer operating a business fails to maintain proper books and records, such taxpayer will be subject to penalty equal to 20% of the amount of tax due for the tax year involved multiplied by the following rate "R."

R = Improperly documented portion of taxable income divided by total taxable income

g. Penalty Tax for Failure to Report Details of Place of Business

In the case where a taxpayer engaged in medical, veterinary, or pharmaceutical service business fails to report detailed information on their place of business such as his/her personal information, revenue amount, and facilities, or underreports revenue amount when reporting such information, there shall be added to the tax due a penalty equal to 0.5% of the amount unreported.

h. Penalty Tax for Failure to Submit Schedule of Summary of Tax Invoices by Supplier

Where a taxpayer who is required to adopt the double-entry system of recording transactions fails to submit a schedule of summary of tax invoices by supplier, there shall be added to the tax due a penalty equal to 1% of the value of supply concerned.

9. Bookkeeping, Reporting and Other Obligation

a. Bookkeeping

A taxpayer conducting a business shall maintain books and records adequate to support the computation of the amount of taxable income. Such books and records shall be of sufficient detail to allow an inspector to understand the relevant facts of all transactions conducted by the business.

In particular, those taxpayers engaged in professional service business (e.g. legal service, medical service, dental care service, veterinary service, etc.) are required to adopt the double-entry system regardless of the size of their income.

b. Reporting

(1) Payment reports

Persons who pay the following must submit to the government a report by the end of February of the year following the year in which the payments are made.

(a) Interest

(b) Dividends

(c) Amount withheld from a business

(d) Wages, salaries, and severance pay

(e) Pension income

(f) Other amounts representing income to the recipient

(2) Submitting payment reports

Under the system of global taxation of financial income, persons required to withhold tax must supply information regarding the income subject to withholding by the end of February of the year following the year in which the payments were made.

c. Registration as cash receipt issuer

Business owners with annual income of 24 million won or more who do transactions directly with consumers (in the case of professional service providers, the income threshold does not apply) are required to register as cash receipt issuer.

d. Acceptance of credit card and issuance of cash receipt

At the request of customers, business owners shall accept a credit card or issue a cash receipt, as the case may be. If they turned out to have refused to do so, they are liable to penalty equal to 5% of the transaction amount concerned.

* High-income professionals including lawyers shall issue cash receipt in the transaction of more than 300,000 won per case even without customers' requests.

e. Use of business account

Those who are required to adopt the double-entry system of recording transactions shall open a business account with a bank and use the account, in the case where they make a payment or receive a payment through a financial institution or where they pay or receive personnel expense or rents. When business transactions are designated by the Presidential Decree and their business accounts are difficult to use for the counterparty's reason, they are excluded.

10. Non-Resident Income Taxation

a. General

(1) A non-resident is liable to tax on income derived from sources within Korea. Two methods of taxation are applied: global taxation and separate taxation. Global taxation is applied to non-resident taxpayers who have a place of business in Korea or those with income from real estate located in Korea (excluding capital gains from the transfer of land or buildings, to which scheduler taxation is applied). All domestic source income is subject to global taxation, except for severance pay and capital gains, all of which are taxed in the same manner, with some exceptions, as they would be if earned by a resident. Withholding taxation is applied to each domestic item of income of non-residents who do not have a place of business in Korea and do not have income from real estate located in Korea.

(2) A non-resident's tax address is the domestic business place. In the case of a non-resident who has no domestic business place, its tax address will be the place where such income is derived.

b. Income from Domestic Sources

(1) Interest Income: Interest and discount on bonds or securities issued by the national government or local autonomous bodies and other profit from a trust or non-commercial loan as prescribed by the following subparagraph shall be regarded as a domestic source income. However, interest paid on funds borrowed directly by a Korean resident's permanent establishment (PE) in a foreign country or by a Korean corporation for its business outside Korea shall not be considered as domestic source income.

(a) Interest paid by the national or local government, a resident, a domestic corporation of Korea, a foreign corporation's PE in Korea, or a non-resident's PE in Korea

(b) Interest received from a foreign corporation or a non-resident, where a PE of the concerned party includes the interest paid in computing taxable income as deductible expenses related to its operation

(2) Dividend income: Distributions of profits or surplus, and advance payment of dividends under the Korean Commercial Code without surplus or cumulative earnings received from a domestic corporation or other business entity

(3) Real estate income: Income arising from the transfer of a lease, or any other interest from real estate located in Korea, including titles to the real estate, mining rights, mine lease-holding rights, or quarrying rights located in Korea, excluding income subject to capital gains tax

(4) Income from lease of vessels, aircraft, etc.: Income arising from the lease of vessels, aircraft, registered automobiles or heavy equipment to residents, domestic corporations, or the Korean places of business of non-residents and foreign corporations

(5) Business income: Income arising from performance of services in the following industries: livestock, forestry, fisheries, mining, quarrying, manufacturing, electricity/gas/water services, construction, communications, real estate dealing, services, and professional services (excluding personal service income)

(6) Personal service income: An amount receivable as payment for furnishing or having other utilized personal services such as:

(a) Services provided by actors, musicians, or other public entertainers

(b) Services provided by professional athletes

(c) Services provided by lawyers, certified public accountants, licensed tax accountants, certified architects, public surveyors, patent lawyers, and others in liberal professions, and

(d) Services rendered by persons having expert knowledge or special skills in science, technology, business management, or other fields involving the utilization of such knowledge or skills.

*Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income.

(7) Capital gains: Gains derived from the transfer of land and buildings located in Korea

(8) Wage and salary income including pension or severance pay: The amount received as payment for labor performed in Korea

(9) Royalties, rents, or any other consideration of a similar nature receivable for the use of the following assets or technical information within Korea, or for the right to use such assets or technical information, and income arising from the transfer of said assets or technical information.

(a) Copyrights on academic or artistic works (including motion pictures), patent rights, trademark rights, designs, models, drawings, secret formulae or processes, films and tapes for radio and television broadcasting, and any other similar assets or rights

(b) Industrial, commercial, or scientific knowledge, experience, or skill

(c) Industrial, commercial, or scientific machines, equipment, devices, and fixtures, and such other tools as transport equipment, etc.

(10) Gains arising from the transfer of investment securities or shares invested in a domestic corporation or other securities issued by a domestic corporation or the domestic business place of a foreign corporation.

(11) Other income:

(a) Insurance money, compensation money, or compensation for damages received in connection with real estate or other assets located in Korea, or those related to businesses conducted in Korea

(b) Money, goods, or other economic benefits received as a prize from contests held in Korea

(c) Income from sale of treasure found within Korea

(d) Income from the assignment within Korea of rights established by license, permission, or other similar disposition under the Korean law, or from the transfer of property located in Korea at the time of transfer, other than real estate

(e) Money or goods received as a prize in a lottery, drawing, or any other contest, including the purse payable to the buyer of a winning ticket for horse racing, cycle racing, motorboat racing, bull fighting and sports betting game

(f) Income other than those described above, arising from a business operated in Korea or the provision of personal services in Korea; in addition, this subparagraph includes economic benefits received in connection with assets in Korea (Note that if the amount received from the redemption of bonds issued by the government or banks established under the laws of Korea in a foreign currency exceeds the face value of

such bonds in foreign currency, the balance in value shall not be included under this section.)

c. Domestic Business Place

(1) If a non-resident has a fixed place of business in Korea of a type described in (a) through (e) below, he or she is deemed to have a domestic place of business.

(a) A branch or any other business office

(b) A store or any other fixed sales place

(c) A workshop, factory, or warehouse

(d) A building site, a location of construction, assembly or installation work, or a place for providing supervision of such work, any of which exists for more than 6 months

(e) i) A place for providing services through an employee for a period exceeding 6 months in aggregate out of any 12 consecutive months, or ii) a place for providing similar services for 2 years or more through an employee, if not for a period exceeding 6 months in aggregate out of any consecutive 12 months

(f) Mines, quarries or any other place of exploration or extraction of other natural resources as well as marine natural resources (including those on the sea-bed or subsoil adjacent to the coast within which the sovereign rights of the Republic of Korea may be exercised, outside its territorial waters, in accordance with the international law).

(2) The domestic places of business prescribed in the preceding paragraph do not include the following:

(a) A fixed place used by a non-resident only for the purchase of assets

(b) A fixed place used by a non-resident only for storage or custody of assets for non-business purposes

(c) A fixed place used by a non-resident for advertisement, public relations, collection or furnishing of information, market survey, or other activities of a preparatory or auxiliary nature for a business operation

(d) A fixed place used by a non-resident only for the purpose of having other persons process property of the non-resident; e.g., a foreign person might provide raw materials, title to which remains with the

foreign person, into Korea to be assembled or processed into products for sale in the foreign person's home country; this activity would not give rise to a place of business in Korea

(3) If a non-resident having no fixed place in Korea carries on a business through a person in Korea who is authorized to conclude and regularly does conclude contracts on the non-resident's behalf, such non-resident is deemed to have a place of business in Korea. In addition, a non-resident having no fixed place in Korea who carries on a business in Korea through any of the following persons is also deemed to have a business place in Korea.

(a) A person who regularly takes custody of goods delivered to Korea and delivers them to customers upon receipt of orders

(b) A person who regularly takes orders, carries on consultations, or conducts other important activities specifically for such non-resident

(c) A person who collects insurance premiums or insures risks located in Korea on behalf of such non-resident

d. Tax Withholding on Non-Residents

(1) Unless otherwise provided in an applicable tax treaty, persons paying an amount of income from domestic sources to non-residents (excluding capital gains from real estate, wage & salary income or retirement income derived by non-resident individuals which are subject to the same taxation rules as those applicable to each of the three income items derived by resident individuals) not attributable to a domestic business place, shall withhold as income tax at source of the income the applicable amount enumerated below. The tax withheld must be paid to the government by the 10th day of the month following the month in which such tax was withheld.

(a) Income from lease of vessels, aircraft, etc., and business income: 2% of the amount payable

(b) Personal service income: 20% of the amount payable*

*Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income. Despite the separate taxation provisions on personal service income, the taxpayer may also elect to include income from the rendering of personal service less such amount reimbursed in domestic-source income when filing his/her income tax return in Korea.

(c) Interest income*, dividend income, royalty, and other income: 20% of the amount payable

* Interest derived from bonds issued by the State, local authorities and domestic companies is subject to 14% of withholding tax rate.

(d) Capital gains from the transfer of land or buildings: 10% of the amount payable. However, if the purchase price of the transferred asset can be readily confirmed, the amount of tax withheld at source shall be the lesser of 10% of the amount payable or 20% of the gain on such transfer.

(e) Gains from the transfer of securities or shares: 10% of the amount payable. However, if the purchase price of the securities or shares can be readily confirmed, the amount of tax withheld at source shall be the lesser of 10% of the amount payable or 20% of the gain on such transfer.

If the securities or shares are transferred through a investment trader or investment broker under the Capital Market and Financial Investment Services Act, the trader or broker shall withhold the income tax and pay it to government at the tax office with jurisdiction over the domestic corporation (or the domestic business place of the foreign corporation) that issued the securities or shares.

In the case where the securities or shares are transferred through publicly recognized stock exchanges and the holdings of the non-resident transferor together with his specially-related persons are less than 25% of the total shares issued by or the total investment in a Korean company (the total shares or interests listed or registered on publicly recognized stock exchanges in Korea in the case of shares or interests issued by a foreign company) all the time in the year of such transfer and during the 5 years prior to the year, the capital gains from such transfer are non-taxable.

In the case where the non-resident hold securities or shares through a partnership, whether the non-resident passes the 25% shareholding test or not will be determined based on the partnership's shareholding in the domestic company concerned rather than based on the non-resident's shareholding.

(f) If a non-resident transfers securities of the same issue with different acquisition costs through a securities company, the company shall compute the acquisition value of the securities sold by using the moving average method.

(2) If a non-resident engages in a construction, installation, assembly project, or performs supervisory services related thereto on a short-term basis in Korea, the Korean resident paying for such services shall withhold income tax at source. However, if such non-resident registers its permanent

establishment with the appropriate tax office, the payer will not be required to withhold and pay the tax.

(3) If a resident of Korea pays a non-resident who is engaged in the operation of vessels or aircraft in international transportation and who is not deemed to have a place of business in Korea, the resident shall withhold tax on the Korean-source portion of the amount paid.

(4) If a person subject to tax withholding fails to withhold and pay tax as required on time, a penalty equivalent to 3 ~ 10% of the amount of tax not paid shall be imposed on that person.

(5) Non-resident individuals deriving in Korea income from lease of vessels or aircraft, business income, personal service income, wage & salary income, retirement income, royalties or capital gains from securities (interest and dividends excluded) or their withholding agent who submitted a wage and tax statement within the statutory deadline may request a reassessment of the tax base and the tax amount within 3 years from the end of the deadline.

Chapter III: Corporation Tax

1. Taxpayer

Companies subject to corporation tax in Korea can be classified into two types: domestic or foreign and for-profit or non-profit. For tax purposes, a company with its head or main office in Korea is deemed to be a domestic company and is liable to tax on its worldwide income. Otherwise, it is considered to be a foreign company, and the tax liabilities of foreign companies are limited to Korean-source income.

a. Domestic Corporation

(1) A corporation with its head or main office or place of effective management in Korea is liable to corporation tax on its worldwide income.

(2) A for-profit domestic corporation is liable to tax on the following items of income:

(a) All items of ordinary business income including income from the transfer of real estate property

(b) Liquidation income: income realized upon liquidation of the business due to a cessation of the company as a taxable entity

(3) For a non-profit domestic corporation, the following items of income are taxable:

(a) Income from profit-making businesses under the Korean Standard Industrial Classification

(b) Interests

(c) Dividends

(d) Capital gains from the transfer of stocks, preemptive rights, or shares

(e) Capital gains from the transfer of fixed assets not used directly for nonprofit businesses

(f) Gains from the transfer of bonds and debentures

b. Foreign Corporation

(1) When a corporation has its head or main office located in a foreign country, only its income from domestic sources is subject to corporation tax (only if the corporation has no place of effective management in Korea); however, income from the liquidation of such corporation is not taxable.

(2) For non-profit foreign corporations, no corporation tax is assessed on income other than that from profit making businesses in Korea.

c. Rules and Special Cases Determining Liability

(1) When a corporation to which the corporate income is legally attributed is different from the corporation to which that income actually belongs, the corporation tax shall be assessed on the latter-mentioned corporation.

(2) For income attributable to a trust estate, the beneficiary of the trust is subject to corporation tax.

2. Place of Tax Payment

a. General

(1) Domestic corporation

Domestic corporations shall pay corporation taxes at the place where the head or main office or the place of effective management of the corporation is located.

(2) Foreign corporation

Foreign corporations with permanent establishments (PEs) in Korea shall pay corporate taxes at the location of the PE. If a foreign corporation without a PE in Korea earns income from real estate or mining right transactions, or from the transfer of land or buildings, rights related to real estate or shares, it shall pay the taxes at the respective place where such assets are located. If a foreign corporation maintains two or more PEs in Korea, the place of tax payment shall be the location of its main PE. In such a case, the main PE is the PE earning the largest portion of business revenue in the year when the place of tax payment is initially filed.

b. Designation of Place of Tax Payment

Notwithstanding the aforementioned provision, the government may designate a different place of tax payment when the registered place of tax payment is

determined to be inappropriate. Such a designation may take place in the following cases:

(1) When the physical location of the head or main office of the corporation is different from its registered address

(2) When a tax evasion is suspected based on the fact that the location of the head or main office is not where the corporation's main assets are held or its business is conducted

(3) When a foreign corporation has two or more PEs, and when the place of the main PE is not clearly identifiable or established

(4) When a foreign corporation without a PE in Korea has two or more assets such as real estate, rights to real estate, mining rights or shares and accrues income therefrom, but does not file its place of tax payment

c. Reporting Change of the Place of Tax Payment

When there is a change in the place of tax payment, the corporation must report it to the tax office within 15 days from the date of change.

d. Withholding Taxes

The place of payment of withholding taxes shall be where the head or main office (in the case of an individual or a domestic corporation)or the main PE (in the case of a foreign corporation) of the person responsible for withholding is located. However, if the securities issued by a domestic corporation are transacted between non-residents or foreign corporations outside Korea and capital gains arise from the transaction, the place for payment of the taxes withheld shall be the location of the head or main office of the corporation that issued the securities, notwithstanding the location of the tax withholding agent. Generally, the agent withholding taxes will be the security company when the securities are transacted through the company. In other cases, the seller of the securities may be the withholding agent.

3. Taxable and Non-Taxable Income

a. Taxable Income

The corporation tax is assessed on the following income:

(1) Income during each business year, including income from the transfer of real estate

(2) Liquidation income (non-profit domestic and foreign corporations are exempted)

b. Non-taxable Income

Corporation tax is not levied on income derived from property of public welfare trusts; it does not matter whether the application for non-taxation is submitted or not.

4. Tax Base

a. Income during Each Business Year

The income of a domestic corporation during each business year is the amount remaining after deducting the gross amount of losses from the gross amount of gains in the same business year.

b. Calculation of Tax Base

(1) The basis for corporation tax on the income of a domestic corporation for each business year shall be the income for each business year remaining after the successive deductions of the following items:

(a) Amount of deficits carried forward from the previous 10 years (5 years in the case of deficits carried forward from the business years beginning before Jan. 1, 2009) which were not previously deducted

(b) Non-taxable income in accordance with the Corporation Tax Law and other relevant laws

(c) Deductible income in accordance with the Corporation Tax Law and other related laws

(2) However, the deductible amount specified in Paragraph (1) shall not exceed the amount of income for each business year. In the case of a corporation in deficit, the said amount of deduction shall not apply.

(3) Provisions concerning the calculation of taxable amount of income for the purpose of corporation tax shall be applicable in accordance with the actual details of the transactions.

c. Business Year for Gains and Losses

A business year for gains and losses of a domestic corporation is the business year in which closing of accounts of the said gains and losses takes place. Specific dates are shown below:

(1) Sale of merchandise or products: The date of delivery of said merchandise or products

(2) Transfer of other assets: The date of receiving consideration, or the earliest date among registration, delivery, or utilization of the assets

(3) Sale of assets through consignment: The date of sale by the consignee

(4) Sale or transfer of assets on a long-term installment payment basis: The amount collectible according to the terms of the payment for the business year and the expenses attributable thereto

(5) Long-term contract concerning construction or manufacturing for one or more business years: The completion percentage of the construction or manufacturing of the items

(6) Interest, insurance premiums, or installment payments receivable by banking institutes, insurance companies, securities companies, mutual saving and finance companies: the date that the said gains have actually been received

(7) Losses or gains of revaluation of foreign currency credits and liabilities due to a change in exchange rates: Include or deduct from gross income for the corresponding business year the gains or losses on the translation of foreign currency receivables or payables

(8) Deemed dividends and distribution:

(a) In the case of effacement of stocks, decrease of capital: the date of decision of effacement, or decision thereof by a general stockholders meeting, etc.

(b) In the case of transfer of surplus and reserves into capital except for capital reserve and assets revaluation reserve into capital: the date of decision of transfer thereof by the general stockholders meeting, etc.

(c) In the case of dissolution of a corporation: The date of final determination of the residual value of assets

(d) In the case of merger or consolidation: The date of registration of the merger or consolidation

(e) In the case of corporate division: The date of the registration of the division

5. Gains

a. Gains

Gains denote income and profit from transactions that increase the net value of the assets of a corporation except for paid-in capital and other related activities as prescribed in the Corporation Tax Law.

(1) Income from profit-making businesses excluding sales returns and discounts

(2) Gains from asset (including treasury stocks) transactions

(3) Receipts from asset leasing

(4) Dividends or distributions receivable

(a) An amount, in excess of the amount necessary to acquire stocks or investment receivable by investors as a result of effacement of stocks, decrease of capital

(b) The value of stocks or investment acquired by transferring surplus or reserves into capital with the following exceptions:

i) Transferring paid-in capital over par into capital

ii) Transferring surplus from consolidation or merger into capital

iii)Transferring gains on retirement of treasury stock (the market value of treasury stock shall not exceed the price paid to acquire the treasury stock) into capital two years after the retirement

iv) Transferring asset revaluation reserve into capital

(c) An amount exceeding the price paid to acquire stocks or investment receivable by investors through the distribution of residual property caused by the dissolution of a corporation

(d) An amount exceeding the price paid to acquire stocks or investment of the extinguished corporation due to a merger or consolidation with a newly established or existing corporation

(e) An amount exceeding the price paid to acquire stocks or investment of the divided corporation due to the division of corporation

(5) Gains from revaluation of assets;

(6) Value of assets receivable without compensation, excluding any portion used to cover carried-over losses

(7) Decreased amount of liabilities by exemption or lapse of debts, excluding the portion used to make up for carried-over losses

(8) An amount of disbursed loss that has been returned

(9) An amount of reserves set aside with losses and not by means of appropriating profit

(10) Gains received from related parties as a result of an unreasonable practice of capital transaction

(11) An amount of tax-free reserves in excess of the prescribed limit under the law

(12) An amount of non-designated donations and designated donations in excess of the prescribed limit under the law

(13) An amount of entertainment expenses in excess of the prescribed limit under the law

(14) Other income which has been, or is to be vested in the corporation

b. Non-Inclusion of Gains

Gains enumerated below are not counted as gains for the respective business year in the calculation of income:

(1) An amount in excess of the face value of stocks issued

(2) Profits from capital reduction

(3) Profits from mergers, excluding those from revaluated gains from mergers prescribed by the relevant Presidential Decree

(4) Profits from division, excluding revaluated gains from corporate division prescribed by the relevant Presidential Decree

(5) In the case where a company (Company A) creates another company (Company B) and becomes a wholly owned subsidiary of Company B by transferring all of its shares to Company B, any gains from such share transfer

(6) In the case where one company (Company A) becomes a wholly owned subsidiary of the other company (Company B) based on a contract under which total shares held by shareholders of Company A are transferred to Company B and the shareholders are granted Company A's shares, any gains from such share exchange

(7) Profits carried over

(8) Gains from revaluation of assets. Provided, that gains from revaluation of fixed assets under the law (limited to increase amount), inventory assets, securities, foreign assets held by financial institutions, debts and currency forward and swap are excluded.

(9) An amount of corporation tax or inhabitant tax refundable used for the payment of other tax liabilities

(10) Interest on the refund of erroneously paid national taxes or local taxes;

(11) The value of assets received without compensation and an amount of liabilities decreased due to exemption or lapse of debts, used for balancing deficits carried-over

(12) The output tax amount under the Value Added Tax Law

6. Avoiding Double Taxation on Dividend Income

a. In the Case of a Holding Company

Dividend income received by a holding company established in accordance with the Monopoly Regulation and Fair Trade Law from its subsidiaries is not recognized as gains to a certain extent as the following table shows.

Type of subsidiary	Proportion of shares of subsidiaries owned by their holding company	Proportion of dividend income deductible against gains
Non-listed corporation	Above 80%	100%
	40%-80%	80%
	Not more than 40%	30%
Listed Corporation	Above 40%	100%
	20%-40%	80%
	Not more than 20%	30%

b. In the Case of a Corporation Other Than Holding Companies

Dividend income received by a corporation other than holding companies from its subsidiaries is not recognized as gains to a certain extent as shown below.

Type of subsidiary	Proportion of shares of subsidiaries owned by the corporation	Proportion of dividend income deductible against gains
Non-listed corporation	100%	100%
	Above 50%	50%
	Not more than 50%	30%
Listed corporation	100%	100%
	Above 30%	50%
	Not more than 30%	30%

7. Losses

a. Losses

Losses denote the amount of losses and expenses incurred by transactions that decrease the net assets of the corporation, except for the refund of capital or shares, appropriation of surplus, or what may be prescribed in the Corporation Tax Law.

Losses include the following:

(1) Purchase value of raw materials and incidental expenses against merchandise or products sold, excluding purchase allowances and eligible purchase discounts

(2) Book value of transferred assets at the time of transfer

(3) Salaries and wages

(4) Repair and maintenance costs of fixed assets

(5) Depreciation costs of fixed assets

(6) Rent of assets

(7) Interest on financial debts

(8) Insolvent debts (including output VAT which is not collected and which is not eligible for insolvent debt tax credit under the VAT law)

(9) Losses on revaluation of assets

(10) Taxes and public imposts

(11) Fees paid to entrepreneur organizations that are corporations or registered associations

(12) Exploration expenses in mining businesses including development costs for exploration

(13) Advertisement and sales promotion expenses

(14) Losses on transfer of securities and disposition of fixed assets

(15) Public contributions, designated as donations and entertainment expenses within the prescribed limit

(16) Tax-free reserves

(17) Welfare expenses for employees and directors

(18) Other expenses which have been or are to be vested in the corporation

(19) Acquisition cost, where the acquisition cost for a work of art displayed normally in an office or hallway for the purpose of adornment, where a lot of people appreciate it is treated as deductible loss (the cost should be limited up to five million won per a work of art)

b. Tax Free Reserves

(1) Reserves under the following items are counted as losses within the limit described.

(a) Reserves for retirement allowance: up to 5% of the total amount of wages paid to employees and managing directors (excluding bonuses, which are excluded from deductible expenses) who have been in service for one year or more; however, the accumulated amount of the reserves shall be limited to not more than 15%* of the estimated retirement allowances payable to all employees if they retire on the closing date of the business year.

* Such reserves limit will be phased out by 5% each year.

2010	2011	2012	2013	2014	2015	2016
30%	25%	20%	15%	10%	5%	0%

(b) Reserves for bad debts:

Aggregate amount of debts in the year concerned × rate (%)

Rate: the greater of i) or ii)

i) 1%

ii) Non-redeemable bad debts in the year concerned / Aggregate amount of debts in the previous year.

(c) Liability reserves and emergency reserves prescribed in the Insurance Business Law: up to an amount prescribed in the relevant Presidential Decree

(d) Reserves for interest payment to insurance holders set aside by the insurance company: up to an amount approved according to the standard agreed between the Financial Supervisory Commission and the Ministry of Strategy and Finance

(e) Reserves for nonprofit organizations: Within the scope of the aggregate amount of the following:

i) Interest income including distribution of profit arising from securities investment trusts and dividends

ii) 50% of the income, excluding interest income and dividends mentioned in i), arising from profit making businesses; the remaining amounts after offsetting actual nonprofit use within 5 years are included as gains.

(f) Reserves for the write-off of a compensation claim set aside by trust guarantee funds in each business year: Credit guarantee outstanding multiplied by a smaller one between 1% and indemnity receivables accrual rate* (The remaining amount after offsetting actual losses are included in the gains of the following year)

* Indemnity receivables accrual rate: Indemnity receivables accrued in the business year concerned, divided by credit guarantee outstanding as of the last day of the immediately preceding business year

(2) The amounts enumerated below are counted as losses in calculating income for the business year:

(a) The amount of gains from insurance claims used to acquire the same kinds of fixed assets as the lost fixed assets, or to improve the damaged fixed assets within 2 years after the beginning day of the business year following the business year in which the gains fall

(b) The amount of a beneficiary's share of construction costs received by a domestic corporation engaged in the electricity or gas business, etc., used for the acquisition of fixed assets

(c) The amount of the national treasury subsidies actually used for acquisition or improvement of fixed assets for business

c. Non-Inclusion of Losses

(1) Losses and expenses enumerated under the following items shall not be counted as losses in the calculation of the income amount of a domestic corporation for each business year.

(a) An appropriated surplus which is included in losses and expenses, except for (i) bonus paid out of an entrepreneur's own stocks acquired under the Securities Transaction Tax Law (Article 189-2) (ii) stock option available under the Special Tax Treatment Control Law, and (iii) profit-sharing bonus

(b) Discounts on stocks issued below par

(c) Corporation tax (including foreign corporation tax amount) or inhabitant tax pro rata income paid or payable in each business year: taxes paid or payable for failure to comply with tax laws (including penalty tax) and an input tax amount in value added tax (excluding any tax amount where the value added tax is exempt or in other cases prescribed by the relevant Presidential Decree)

(d) Unpaid amounts of Liquor Tax, Transportation·Energy·Environment Tax, and Individual Consumption Tax on inspected or carried out products not yet sold

(e) Fines, penalty taxes and expenses for disposition of tax barriers

(f) Losses from revaluation of assets other than the revaluation set forth in Article 42-2 and 42-3 of the Corporation Tax Law

(g) Expenses deemed not directly related to a corporation's business

(h) Bonuses payable by a corporation to its directors in excess of the amount prescribed in the Articles of Corporation Tax Law, determined by a resolution of a stockholders' meeting or a general meeting of company members (including bonuses paid to the directors based on an appropriation of retained earnings)

(i) Interest as follows:

i) Interest on debt incurred specifically from construction of business assets

ii) Interest on private loans from unknown sources

iii) Interest or an amount of discount on debentures and securities paid to obscure payees not affirmed objectively

(j) The amount exceeding the limit of the depreciation of fixed assets allocated for each business year of a corporation, set forth in the Corporation Tax Law

(k) The amount of retirement allowance payable to directors by a corporation in excess of the amount as follows:

i)The amount set forth in the articles of incorporation
ii) Total amount of (salary received by the retiring officer for one year) 1/10 (Length of employment of the officer before retirement) (excluding the deductible expenses)

(l) The amount exceeding the limit of business expense incurred to an insurance corporation which is set forth in the Presidential Decrees based on its total premium gains during the same year

(2) Designated donations

(a) The following donations are counted as losses to the extent of 10% of taxable income and any excess over the ceiling may be carried over for 5 years.

i) Donations to public interest entities, social welfare organizations, and religious organizations

ii) Donations and scholarship for academic research, technical development, and development of athletic skills

iii) An amount disbursed by a non-profit corporation engaged in profit-making businesses for its own non-profit business

iv) Other donations to public entities prescribed by the Presidential Decree

v) Foreign non-profit corporations aimed at supporting overseas Koreans, promoting Korea, and enhancing cooperation between Korea and other countries.

vi) International organizations

(b) The following public contributions are counted as losses to the extent of 50% of taxable income and any excess over the ceiling may be carried over for 5 year:

i) Contributions to government agencies and local government bodies without compensation

ii) Contributions for national defense and war relief

iii) Contributions for the relief of disaster victims

iv) Contributions to public educational institutions, including Korean schools abroad to be used as funds for facilities, education, scholarship or research

v) Contributions to public medical institutions to be used as funds for facilities, education, or research

vi) Contributions to non-profit corporations whose main purposes are to raise and distribute funds necessary for social welfare services

vii) Contributions to public institutions (excluding public enterprises) or institutions whose foundation is directly based on individual domestic law whose purpose of foundation is to promote public interest, and a third or more than a third of its gross income comes from government subsidies or contributions

(3) Entertainment expenses

Where the entertainment expenses exceed the aggregate sum of the following, the amount in excess thereof is not to be counted as losses.

(a)An amount calculated by multiplying 12 million won (18 million won for small and medium-sized enterprises) with the number of months in the respective business year divided by 12

(b) An amount calculated by multiplying the amount of gross receipts for a business year with rates listed in the following table (in the case of receipts from transactions between related taxpayers, 10% of the amount calculated by multiplying the receipts with following rates shall be applied)

Amount of gross receipts	**Rate**
Not more than 10 billion won	0.2%
10 - 50 billion won	20 million won + 0.1% of the excess over 10 billion won
Over 50 billion won	60 million won + 0.03 % of the excess over 50 billion won

(4) Arm's length price on transactions by related parties

Where a domestic corporation unreasonably reduces its tax burden in transactions with related persons, the tax authority may calculate the taxable income using the arm's length price.

d. Depreciation

Depreciation is considered as losses in calculating income within the limit of an amount set aside at the depreciation rate according to the serviceable life of the fixed assets when a corporation has counted the depreciation amount of fixed assets in losses.

(1) Methods for calculating depreciation

Depreciation of fixed assets of corporations is calculated according to the methods enumerated below.

(a) Buildings and intangible assets: Straight-line method

(b) Tangible fixed assets (excluding tangible fixed assets used in mining): Fixed percentage method or straight-line method

(c) Mining rights: Service output method or straight-line method

(d) Tangible fixed assets used in mining: Service output method, fixed percentage method, or straight-line method

(e) Research and Development cost: Equally-distributed amount within 20 years after the year when sales or use of merchandise is possible

(f) Assets which are donated to the nation, local provinces, and designated non-profit corporations after having been used: equally-distributed amount during the using period of the assets can be counted as loss

(2) Acquisition value of fixed asset

(a) In the case of fixed assets that have been purchased, it is the price quoted at the time of the purchase (including registration tax, acquisition tax, and other incidental costs).

(b) In the case of fixed assets acquired by means of one's own construction, fabrication, etc., it is the aggregate of raw material cost, labor cost, freight, loading and unloading cost, insurance dues, fees, public imposts (including registration tax and acquisition tax), installation expenses, and other incidental cost.

(c) In the case of fixed assets other than those under the preceding categories, it is the normal price quoted at the time of acquisition.

(3) Serviceable life and depreciation rate

(a) Serviceable life and depreciation rate of fixed assets are calculated according to the guideline for serviceable life of fixed assets prescribed in the Ministerial Decrees whereupon taxpayers may elect the respective serviceable life between 75% and 125% of the guideline.

(b) In the following cases, taxpayers may elect between 50% of the serviceable life and the 100% of serviceable life set forth in the guideline: when a company purchases assets that have been used for equal to or more than 50% of the serviceable life (including assets acquired by merger or split-off).

(c) In the case of assets acquired by the qualified merger, split-off, or comprehensive alienation of assets, the serviceable life and the depreciation rate may be calculated by either one of the following two methods:

i) Calculate allowed depreciation using a predecessor company's depreciation method and service life

ii) Calculate allowed depreciation using an acquiring company's depreciation method and service life

(4) Residual value

The residual value of a fixed asset is zero; but in the case of depreciation by the fixed percentage method, the residual value is regarded as the amount equivalent to 5% of the acquisition amount which is treated as expense at the final year of depreciation.

(5) Revenue expenditures and capital expenditures

(a) Maintenance expenses disbursed by a corporation either to restore its assets to their original state or to maintain their efficiency are regarded as revenue expenditures.

(b) Maintenance expenditures either to extend the serviceable life of fixed assets or to increase their value are regarded as capital expenditures.

(6) Special treatment to companies adopting Korean International Financial Reporting Standards, K- IFRS:

Companies who adopted K-IFRS can adjust their depreciation within the following ceilings

(a) Assets acquired before Dec 31, 2013: The amount of depreciation on each asset before introducing K-IFRS:

(b) Assets acquired after Jan 1, 2014: The amount of depreciation on each asset reflecting serviceable life table in corporate tax laws

e. Valuation of Inventory Assets

(1) A corporation may elect one of the following methods of inventory valuation and submit a report on its valuation method by the due date.

(a) Cost method

(b) Lower of the price estimated by the cost method and the market price estimated by financial accounting standards

(2) In applying the cost method, one of the following is applicable:

(a) Individual cost method

(b) First-in first-out method

(c) Last-in first-out method

(d) Weighted average cost method

(e) Moving average cost method

(f) Cost of sale rebate method

(3) Different valuation methods may be used for the following different categories and different business places.

(a) Products and merchandise

(b) Semi-finished goods and goods in process

(c) Raw materials

(d) Goods in stock

(4) In one of the following cases, the head of the district tax office may value inventory assets according to the first-in first-out method (individual cost method is used in the case of real estate owned for the purpose of sale):

(a) If a corporation has failed to report its valuation method of inventory assets within the reporting period

(b) If a corporation has valued the inventory assets according to an valuation method other than the reported method

(c) If a corporation has changed the valuation method without filing a report on the change thereof.

(5) Valuation of securities

The valuation of securities shall be made using the cost method. For cost method, the following methods shall be applied for the purpose of valuation of securities.

(a) Weighted average cost method

(b) Moving average cost method

* Individual cost method may be used for valuation of bonds.

(6) Inventory appraisal surplus of domestic companies complying with the K-IFRS is excluded from gross income.

(a) In the case of: Domestic companies which reported to change inventory appraisal method from Last-In First-Out to another one in the business year when the companies started to apply the K-IFRS

(b) Amount of exclusion from gross income: The appraised amount of beginning inventory in the business year when the K-IFRS begins to be applied minus the appraised amount of ending inventory in the business year immediately before the business year when the K-IFRS starts to be applied

(c) Follow-up management of the amount excluded from gross income: Divided inclusion in gross income for 5 years from the first day of the business year following that when the K-IFRS is first applied

f. Valuation of Foreign Assets and Liabilities

(1) The scope of foreign assets and liabilities to be valuated

(a) Banks: Foreign monetary assets and liabilities + all currency forward and swap

(b) Other corporations: Foreign monetary assets and liabilities + currency forward and swap aimed at avoiding exchange risk of foreign monetary assets and liabilities

(2) Valuation methods

(a) Banks: Choose between ① and ②

	Foreign monetary assets and liabilities	Currency forward and swap
①	Valuation o	Valuation x
②	Valuation o	Valuation o

(b) Non-banks: Choose between ① and②

	Foreign monetary assets and liabilities	Currency forward and swap
①	Valuation x	Valuation x
②	Valuation o	Valuation o

8. Tax Rates and Credits

a. Tax Rates

(1) A business year commencing during the period between January 1, 2010 and December 31, 2011

(a) Tax base of not more than 200 million won: 10%

(b) Tax base over 200 million won: 20 million won + 22% of the excess over 200 million won

(2) A business year commencing on or after January 1, 2012

(a) Tax base of200 million won or less: 10%

(b) Tax base between 200 million won and 20 billion won: 20%

(c) Tax base over 20 billion won: 22%

(3) Where a business year is less than one full year, the tax amount is computed as follows:

Tax Amount = (Tax Base X 12/NMBY) X Tax Rate X (NMBY / 12), where NMBY = number of months of business year

b. Tax Credits

(1) Credit for tax paid abroad

(a) Where a domestic corporation has paid or is liable to pay foreign corporation tax abroad, the tax amount paid or payable abroad is deducted from the corporation tax up to an amount equivalent to the ratio of the income from foreign sources to the total taxable income. If the foreign tax amount paid or payable exceeds the prescribed creditable limit against the corporation tax payable for the year, the excess portion may be carried over for 5 years.

(b) The foreign tax paid by a qualifying subsidiary is eligible for foreign tax credit against the dividend income of a parent company. A qualifying subsidiary is one in which a domestic corporation owns 10% or more of its shares for at least 6 consecutive months as of the date of dividend declaration.

(2) Tax credit for loss caused by disaster

Where a domestic corporation is deemed to have difficulties in paying tax because it has lost 20% or more of the total value of its assets due to a natural disaster, a tax amount equivalent to the ratio of the value of the asset loss to the value of total assets is deducted from corporation tax. The amount of tax credit available is limited to the value of the asset loss caused by disaster.

9. Tax Returns and Payment

a. Tax Returns

(1) Due dates for filing a tax return

A corporation tax return must be filed within three months from the last day of the business year.

(2) Required documents

(a) Attached to the tax return shall be a balance sheet, an income statement, a surplus appropriation statement, and other necessary documents.

(b) The calculation form of corporation tax and its accompanied documents in accordance with the Presidential Decree.

(c) In the cases where the necessary materials are not attached to the tax return, it is deemed not to have been filed.

b. Interim Pre-Payment

(1) A domestic corporation of which business year exceeds 6 months is liable to interim tax payment by the end of the second month from the end of the interim period (i.e., 6 fiscal months). The amount of pre-payment is computed as shown below:

Tax Amount Payable = {TPY – (a) – (b) – (c)} X 6 / NMPBY

Where TPY = Tax Amount for Preceding Year, and

NMPBY = Number of Months of Previous Business Year

(a) Corporation tax exempted or reduced in the business year immediately preceding the current business year

(b) Withholding tax paid in the business year immediately preceding the current business year

(c) Taxes paid due to occasional assessments in the business year immediately preceding the current business year.

(2) Any corporation that has no tax payable for the immediately preceding business year (excluding corporations that correspond to Article 51-2, paragraph 1 of the Corporation Tax Law) or one whose tax liability for the previous business year has not been determined by the end of the interim prepayment period shall pay an amount of tax for interim prepayment, calculated by deducting the followings from the deemed corporation tax that corresponds to the interim prepayment period:

(a) An aggregate of deductible tax amounts for the interim prepayment period in question

(b) An amount of withholding tax paid as corporation tax for the period in question

(c) An amount of tax for occasional assessment paid as corporation tax for the period in question.

c. Payment

(1) A corporation filing a tax return must pay by the last day of tax return period the amount remaining after deducting the following items from the calculated tax for each business year:

(a) An aggregate of tax credit amounts

(b) Amount of tax for interim prepayment

(c) Amount of tax for occasional assessment

(d) Amount of tax withheld at source

(2) Where the amount of tax payable by a domestic corporation pursuant to the above paragraph exceeds 10 million won, part of the amount of tax payable may be paid in installments within one month (two months in the case of small and medium corporations) from the end of the payment period, in such a manner as prescribed by the relevant Presidential Decree.

10. Tax Computation, Adjustments, and Collection

a. Basic Rule of Determination and Adjustment

(1) As a rule, when a domestic corporation fails to file a return, the government determines the tax base and the amount of corporation tax payable on the income of the corporation for each business year.

(2) Where the government determines or corrects the tax base and tax amount payable of a corporation, the base and tax amount have to be determined based on the business records and other relevant documents maintained by the corporation.

b. Determination and Adjustment of Tax Base and Tax Due

(1) When the tax return that a domestic corporation has filed falls within one of the following categories below, the government may correct its tax base and the tax due.

(a) When there are any errors or omissions in the return filed

(b) When the company fails to submit payment statements or an aggregate summary of accounting statements or an aggregate summary of tax invoices classified by sale place and purchase place.

(2) Determination of the tax base and amount by estimation

Where the government is unable to calculate the tax base and tax amount because of a failure to keep sufficient or reliable accounting records, the tax base and amount of corporation tax are determined according to the

standard income rate or in line with other corporations in the same line of business.

(3) Determination by estimation may take place in the following cases:

(a) Accounting records required for calculation of the tax liability are insufficient or false

(b) The contents of accounting records are explicitly false in consideration of the facilities, number of employees, and the prevailing market prices of raw materials, merchandise, products, or various charges and rates

(c) The contents of accounting records are explicitly false in consideration of the quantities of raw materials used, electric power used, and other operating indicators.

c. Occasional Assessment

(1) If tax evasion by a company is suspected, the government may occasionally assess corporation tax. In particular, the occasional tax assessment may take place if:

(a) The corporation has moved its head office or its main office without filing a report

(b) The company's business operation is suspended or is terminated

(c) Where there is sufficient reason to determine that the corporation intends to avoid or evade taxes.

(2) The government assesses corporation tax by examining the period from the beginning date of the business year to the date of discovery of circumstances, which led to the occasional assessment.

d. Notice of Tax Base and Tax Amount

(1) Where the government has determined or corrected the tax base and tax amount on the income of a corporation for each business year, it shall notify the statement of tax base and tax amount and other relevant statements to the respective corporations.

(2) Where the government has determined or corrected the tax base of a corporation whose location is unclear, it shall serve a public notice thereon.

e. Collection

(1) Where a corporation has failed to pay the amount of corporation tax payable for each business year, in full or in part, the government will collect the unpaid corporation tax within two months from the end of the payment period. In the case of unpaid tax for an interim prepayment period, it will collect the unpaid tax amount within two months therefrom.

(2) Where there are amounts of corporation tax payable as a result of an adjustment or a determination of the tax, the government will collect the tax amount according to the procedures prescribed in the National Tax Collection Law.

(3) Where a tax withholding agent has failed either to collect the amount of tax due or to pay the amount of tax collected within the payment period, the government will collect from the tax withholding agent, the collectible amount as corporation tax according to the procedures prescribed in the National Tax Collection Law without delay.

11. Withholding Tax

A person paying the following income to a domestic corporation is required to withhold corporation tax on the income at the prescribed tax rates at the time of such payment, and pay it to the government by the 10th of the following month.

a. Interest Income

(1) Interest prescribed by the Income Tax Law: 14%

(2) Interest from a non-commercial loan: 25%

b. Distribution of Profit from Securities Investment Trusts: 14%

* If a trust fund receives interest income and a discounted amount on debentures or securities, it should be treated as a corporation with respect to tax withholding.

12. Penalty Tax

A penalty tax for failure to meet the prescribed obligations is added to the tax due.

a. Penalty Tax for Failure to Maintain Adequate Books and Records or File Returns

Where a corporation has failed to file returns or where the obligation of bookkeeping has not been met, the penalty tax equal to 20% of the calculated tax amount determined by the government or an amount equal to 0.07%of the amount of grow receipts, whichever is greater, is imposed. However, where failure to file returns is fraudulent, the penalty tax equal to 40% of the calculated tax amount determined by the government or an amount equivalent to 0.14% of the amount of gross receipts, whichever is greater, is imposed. It should be noted that the penalty tax for the failure to maintain books and records does not apply to non-profit corporations.

b. Penalty Tax for Understatement of Income

When a taxpayer fails to accurately report his tax amount due, he or she is subject to the penalties described below.

(1) An additional tax amount on general understated return

10% × Calculated tax amount × (Underreported tax base / Total tax base)

(2) An additional tax amount on unjustly underreported return: A larger amount between (a) and (b)

(a) 40% × Calculated tax amount × (Unjustly underreported tax base / Total tax base)

(b) 0.14% × Unjustly underreported revenue amount

(3) An additional tax amount on unjustly claimed tax deductions or exemptions

40% × Unjustly deducted or exempted tax amount

c. Penalty Tax for Non-Payment or Insufficient Payment

Where the corporation tax has not been paid in full or in part, the penalty tax is an amount equivalent to 0.03% per day of the amount of corporation tax unpaid or left to be paid.

d. Penalty Tax for Failure to Withhold Tax

(1) Where tax withholders have failed to withhold tax at the source or have failed to pay the withheld tax to the government within the payment period, the penalty tax applied is the larger between:

(a) An amount that multiplies 0.03% by the number of unpaid days (limited to 10% of unpaid or underpaid tax)

(b) An amount equivalent to 3% of unpaid or underpaid tax

(2) Exceptions are made where the tax withholder is the government, local autonomous bodies.

e. Penalty Tax for Failure to Receive Verifying Documents

Where a corporation (except those exempted under the Presidential Decree) is provided with goods or services in connection with the business and does not collect verifying documents required, the corporation is subject to penalty tax equivalent to 2% of the uncollected amount surcharged on corporate income tax, except as otherwise provided in the article. Even when the taxable amount is zero, the penalty tax is still to be paid.

f. Penalty Tax for Failure to Submit the List of Shareholders, etc.

Where a corporation that is supposed to submit the list of its shareholders, etc. has failed to submit it or omitted all or a part of the list, or where the list is unclear, the penalty tax equivalent to 0.5% of the face value of the shares or the amount of investment is imposed. This penalty tax is collected even if there is no calculated tax amount.

g. Penalty Tax for Failure to File a Stock Transfer Status Sheet

If a corporation fails to file a stock transfer status sheet by the due date, or if it is filed by the corporation with incorrect information or omissions of required information, a penalty of 2% of the total par value of the stocks not reported shall be imposed. In the case where the corporation files the sheet within 1 month after the due date, the penalty amount will be reduced by 50%.

h. Penalty Tax for Failure to Meet Reporting Obligation

Where a corporation has failed to submit a payment statement or where the details of transactions submitted by the company are found to be unclear, an amount equivalent to 2% of the amount of the transactions in the reports not submitted or unclear is assessed as penalty tax. In the case where the corporation submits the statement within 1 month after the due date, the penalty amount will be reduced by 50%.

i. Penalty Tax for Unfaithful Account Statement

In the case a corporation falls under one of the following cases, penalty tax equivalent to 1% of supply price (2% for the case (4)) shall be imposed. In these cases, penalty tax is collected even if there is no calculated tax amount. Exception can be made to the situation that was specified above in g. Penalty Tax for Failure to Receive Verifying Documents or where penalty tax is imposed in accordance with the provisions under Article 2 to 5 of the Value-Added Tax Act:

(1) In the case that the whole or part of what should be specified in the account statement is not or differently mentioned

(2) In the case the sum table of account statements by purchasing and selling partners was not submitted by February 2 of the following year, or in the case the whole or part of what should be specified in the sum table is not or differently mentioned (excluding the cases where item (4) is applied)

(3) In the case the sum table of account statements by purchasing partner was not submitted by February 10 of the following year, or the whole or part of what should be specified in the sum table is not or differently mentioned (excluding the cases where item (4) is applied)

(4) One of following cases:

(a) In the case the suppliers of goods or services did not issue account statements

(b) In the case a corporation issued account statements without supplying goods or services

(c) In the case a corporation had account statements issued without being supplied with goods or services

(d) In the case after supplying goods or services, a corporation issued account statements in the name of another corporation that does not actually supply goods or services

(e) In the case after being supplied with goods or services, a corporation had account statements issued in the name of another corporation that does not actually supply goods or services

13. Bookkeeping

Corporations liable to tax payment shall keep account books by double entry bookkeeping method and shall prepare and keep important documents verifying the account books. Non-profit corporations have the same duty in the case where they run a profit-making business set forth in the Corporation Tax Law.

14. Taxation of Liquidation Income

a. Tax Base and Tax Amount

(1) Calculation of tax base

The tax base of corporate income on the liquidation income of a domestic corporation is the amount of liquidation income.

(a) Liquidation income from termination of business

i) For the dissolution of a domestic corporation, the amount of liquidation income is the amount remaining after the deduction of the aggregate of paid-in capital or investment and surplus as of the date of dissolution from the value of residual assets of the said corporation after the dissolution.

ii) The value of residual assets is the amount remaining after deduction of total liabilities from total assets.

(b) In calculating liquidation income, refundable corporation tax is added to the total amount of capital, and the carried-over deficit is offset against the total amount of capital.

(c) In calculating liquidation income, the provisions regarding calculation of income of a domestic corporation during each business year are also applicable *mutatis mutandis* except where otherwise provided thereof.

(2) Calculation of taxable amount

Corporation tax on the liquidation income of a domestic corporation is the amount calculated by applying the tax rates (10%, 20%, 22%) to the income of the domestic corporation for each business year.

b. Tax Returns and Payment

(1) Tax returns

(a) Report on Liquidation Income

i) A domestic corporation in liquidation due to dissolution shall file a return thereon within three months from the end of the month to which the determination date of the value of the residual assets belongs.

ii) In filing a return, the balance sheet of the dissolved corporation and other necessary papers shall be attached thereto.

(b) Interim report on liquidation income

In the cases where residual assets of a dissolved corporation are distributed to shareholders before the value of the residual assets are not determined or where the value of residual assets are not determined until the end of the month to which one year after the registration date of dissolution belongs, the corporation in question shall file an interim tax return within one month.

(2) Payment of tax

(a) A domestic corporation liable to file a return on liquidation income shall pay the government, within the reporting period, an amount of corporation tax on the liquidation income.

(b) Where a domestic corporation which is liable to file an interim report on liquidation income has residual assets that exceed the total amount of its capital as of the date of dissolution, it shall pay the government, within the reporting period, an amount of corporation tax on the excess amount.

c. Determination, Adjustment and Collection

(1) Determination and Adjustment of tax base and tax amount

(a) Where a domestic corporation has failed to file a tax return by the end of the reporting period, the government shall determine the tax base and corporation tax due on the liquidation income.

(b) If the contents of the tax return appear to the government to be unreasonable, the government shall correct the tax base and corporation tax due on the liquidation income.

(c) Where the government has found any omissions or errors in the tax base and tax amount after the determination or an adjustment thereof, it shall immediately re-adjust the tax base and tax amount thereon.

(2) Notice

When the government has determined or corrected the tax base and tax amount, it shall serve a notice thereon to the concerned corporation or its liquidators.

(3) Collection

(a) Where a domestic corporation has failed to pay all or part of the corporation taxes payable upon liquidation, the government shall collect

the unpaid corporation tax in accordance with the National Tax Collection Law.

(b) Where there are amounts of corporation tax payable due to adjustment or determination by the government, the government shall collect the outstanding corporation tax.

(c) With respect to liquidation income, penalty taxes on income of a domestic corporation for each business year are applied *mutatis mutandis.*

15. Consolidated Tax Return System

a. Definition

Consolidated tax return system is aimed to impose corporation tax on the aggregate income of a parent and a subsidiary corporation by deeming them as a tax unit according to their economic substances in the case where the parent corporation and the subsidiary corporation are combined economically.

b. Applicable objects

(1) A domestic corporation and another domestic corporation controlled completely by a relevant domestic corporation. A corporation subject to a consolidated parent corporation may have the consolidated tax return system applied to it excluding the following corporations:

(a) Nonprofit domestic corporations (including a corporation subject to a consolidated subsidiary corporation)

(b) Corporations in the process of liquidation due to dissolution

(c) Corporations applied to dividend-paid deduction system

(d) Corporations being controlled completely by other corporations except nonprofit domestic corporations (including a corporation subject to a consolidated subsidiary corporation)

(e) Corporations to which the special taxation for partnership firms applies

(f) Corporations to which the tonnage system applies

(2) The term “complete control means cases that a domestic corporation possesses the whole (excluding stocks held by the employee stock

ownership association, stocks acquired by workers through the employee stock ownership association, the stocks within 5/100 of the total number of outstanding stocks as stocks issued following the exercise of stock options) of total number of outstanding stocks of the other domestic corporation (including non-voting stocks), and including cases where the sum of stocks, etc. of another domestic corporation possessed by the domestic corporation and its complete subsidiary corporation is the whole of total number of outstanding stocks of such another domestic corporation.

c. Request for application and approval

(1) The domestic corporation that intends to have the consolidated tax return system applied shall submit a request for the application of consolidated tax return system to the head of the competent tax office through the head of tax office having jurisdiction over the place of tax payment by one day before the beginning date of the first consolidated business year.

(2) The head of the competent tax office shall notify in writing whether to approve it by three months after the beginning day of the first consolidated business year, and where he has failed to notify it by such date, it shall be deemed to have been approved.

d. Calculation of consolidated tax base

(1) The tax base of income for each consolidated business year (consolidated tax base) shall be an amount gained by subtracting the amount in the following subparagraphs one after another within the extent of income for each consolidated business year.

(a) Amount that is deficit (including deficit that accrued before consolidated tax return system was applied to a consolidated corporation) in a consolidated business year that began within ten years before the beginning date of each consolidated business year, which was not deducted when tax base for each consolidated business year (including business year) was calculated afterwards. Provided, that the following deficit amounts shall be deducted within the each regulated amount:

i) The deficit accrued before the consolidated tax return system was applied to the consolidated corporation: Income amount reverted to the relevant consolidated corporation from among the incomes for

each consolidated business year (individually reverted amount of consolidated income).

ii) The deficits of the extinguished corporation in the cases where a consolidated parent corporation merges with another domestic corporation: Income accruing from the business succeeded from the extinguished corporation from among the individually reverted amounts of consolidated income of the consolidated parent corporation

iii) Where a consolidated parent corporation succeeds to the assets of a divided corporation following division and merger, the amount that reverts to the business succeeded by the extinguished divided corporation among the deficits succeeded from the extinguished divided corporation: Income accruing from the business succeeded from the extinguished divided corporation from among the individually reverted amounts of consolidated income of the consolidated parent corporation

iv) Amount reverted to the business succeeded from an extinguished corporation (including extinguished divided corporation that has ceased to exist) from among the deficits of consolidated parent corporation accrued within five years from the merger, in the cases where a consolidated parent corporation merges (including divided merger) with another domestic corporation: Individually reverted amount of consolidated income of the relevant consolidated parent corporation

v) Deficit accrued within the five years where applying consolidated tax return system after a domestic corporation is controlled completely by the other domestic corporation: Individually reverted amount of consolidated income of the relevant complete subsidiary corporation.

(b) Total amount of non-taxable income of each consolidated corporation

(c) Total amount of income deduction amount of each consolidated corporation

e. Income for Each Consolidated Business Year

(1) The income for each consolidated business year shall be an amount obtained by adding the income or deficit calculated in the order of the following subparagraphs by respective consolidated corporation:

(a) Calculation of income for each business year by consolidated corporation: Calculation of income or deficit for each business year of each consolidated corporation

(b) Exclusion of consolidation adjustment item by consolidated corporation: Amount equivalent to the received dividend amount of each consolidated corporation that has not been included in gross income shall be included in gross income, and an amount equivalent to the donation and entertainment expense that have not been included in deductible expenses shall be included in deductible expenses.

(c) Adjustment of profit and loss from transaction between consolidated corporations

i) Amount equivalent to dividend amount received by a consolidated corporation from another consolidated corporation shall not be included in gross income, an amount equivalent to entertainment expense paid to another consolidated corporation and an amount equivalent to the allowance for bad debt established on a claim to another consolidated corporation shall not be included in deductible expenses.

ii) Profit and loss derived from the transfer of fixed assets to other consolidated corporation are shall not be included in gross income or shall not be included in deductible expenses, and where the transfer profit or loss deferred asset is depreciated, is transferred, bad debt has incurred to the transfer profit or loss deferred asset, or has vanished, the transfer profit or loss deferred asset shall be included in the earnings or loss of the transferor corporation for the business year to which the date for payment of transferred claim arrives.

(d) Allocation of consolidation adjustment item by consolidated corporation: After calculating the amount of consolidation adjustment item (received dividend, donation, entertainment expense) that is not included in gross income or deductible expenses by deeming the consolidated group as one domestic corporation, the allocation of amount reverted to each consolidated corporation shall not be included in gross income or deductible expenses by consolidated corporation.

(2) Deficits under 15. a. (1) (a) iv) and v) shall not be added to the income of another consolidated corporation when adding the incomes or deficits of each consolidated corporation.

f. Consolidated Calculated Tax Amount

(1) The corporation tax on income for each consolidated business year (consolidated calculated tax amount) shall be an amount obtained by applying the corporation tax rate to the consolidated tax base.

(2) Where a consolidated corporation has transferred land, etc. (including cases where the taxation of the profits from the alienation of the relevant lands is deferred as profit and loss from transaction between consolidated corporations), an amount obtained by adding the corporation tax on the income from the transfer of land, etc. shall be the consolidated calculated tax amount.

(3) The amount reverted to each consolidated corporation among consolidated calculated tax amount (calculated tax amount by consolidated corporation) is calculated by multiplying tax rate of ② to the amount of ①, and where a consolidated corporation has transferred land, an amount obtained by adding the corporation tax on the income from the transfer of land shall be the consolidated calculated tax amount.

(a) Individually reverted amount of consolidated tax base: The amount deducted the following amounts from the individually reverted amount of consolidated income.

i) Amount of deficit deducted from individually reverted amount of consolidated income when tax base for each consolidated business year is calculated (where being deducted from individually reverted amount of consolidated income of 2 or more consolidated corporations, the amount is divided proportionate to individually reverted amount of each consolidated income)

ii) Non-taxable income and income deduction amount of the relevant consolidated corporation

(b) Consolidated tax rate: The rate of the consolidated calculated tax amount for consolidated tax base (excluding the corporation tax on income derived from the alienation of lands etc.)

g. Return and Payment

(1) A consolidated parent corporation shall file a return of tax base and tax amount of corporation tax on the income for the relevant consolidated business year to the chief of the district tax office having jurisdiction over the place of tax payment within four months from the end of the month to which the end of each consolidated business year belongs, and pay an amount obtained by adding the total amount of additional tax calculated by each consolidated corporation to the amount subtracting the following tax rates from the consolidated calculated tax to the district tax office having jurisdiction over the place of tax payment.

(a) Reduced or exempted tax amount for the relevant consolidated business year

(b) Consolidated interim prepayment tax amount for the relevant consolidated business year

(c) Total of withheld tax amounts of each consolidated corporation for the relevant consolidated business year

(2) A consolidated subsidiary corporation shall pay to the consolidated parent corporation an amount obtained by adding an amount calculated by each consolidated corporation to the amount obtained by subtracting the amounts in the following subparagraphs to the calculated tax amount by consolidated corporation, by the deadline of return and payment of the above consolidated tax base and etc.

(a) Reduced or exempted tax amount of the relevant corporation for the relevant consolidated business year

(b) Interim prepayment tax amount by consolidated corporation for the relevant consolidated business year

(c) Withheld tax amount of the relevant corporation for the relevant consolidated business year

16. Taxation of Foreign Corporation

a. General

(1) A foreign corporation is liable to corporation tax only on income derived from sources within Korea. However, no corporation tax is levied on the liquidation income of a foreign corporation.

Corporation tax on income from domestic sources by a foreign

corporation is assessed and collected in the same manner as that applied to a domestic corporation. With respect to the income from domestic sources by a foreign corporation which has no domestic permanent establishment, the full amount of corporation tax withheld thereon at source is payable to the government.

(2) The provisions of tax laws with respect to calculation of taxable income and tax amount, assessment, collection tax withholding, and reporting for domestic corporations are applicable *mutatis mutandis* to foreign corporations having a domestic place of business. However, any special provisions regarding foreign corporations are preferentially applied thereto.

b. Tax Base

(1) Foreign corporation with a domestic permanent establishment

The corporation tax base on income for each business year of a foreign corporation with a permanent establishment, or real estate income in Korea is the amount of income for each business year remaining after the successive deduction of the following items from the gross income from domestic sources.

(a) An amount of deficits (limited to carried-over deficits incurred in Korea) carried-over from the business year which began within 10 years before the beginning day of each business year, which has not been deducted in the calculation of income amounts or tax base in each subsequent business year

(b) Non-taxable income under the Corporation Tax Law and other laws

(c) Income from the navigation abroad of vessels or aircraft, provided that the foreign country in which the head office or main office of the said foreign corporation is located grants the same tax exemption on vessels or aircraft operated by Korean corporations

(2) Foreign corporation without a domestic permanent establishment

(a) Items of income derived by a foreign corporation without a permanent establishment in Korea shall be subject to tax separately, i.e., the income items are not to be aggregated.

(b) Even in the case of a foreign corporation without a domestic permanent establishment, income from the navigation of vessels or aircraft abroad is, on a reciprocal basis, deducted from the income from domestic sources.

c. Income from Domestic Sources

(1) Interest income

Interest and discount received on bonds or securities (excluding interest on deposits and profits received from a trust abroad) and other profit from a trust or non-commercial loan as prescribed by the following sub-paragraphs shall be regarded as domestic source income. However, interest paid on funds borrowed directly by a Korean resident's permanent establishment (PE) in a foreign country or a Korean corporation for its business outside Korea shall not be counted as a part of the domestic source income.

(a) Interest paid by a state or local government, a resident, a domestic corporation of Korea, a foreign corporation's PE in Korea, or a non-resident's PE in Korea

(b) Interest received from a foreign corporation or a non-resident, of whom a PE in Korea included the amount of such interest paid of its deductible expenses as necessary expenses effectively related to its operation

(2) Dividend income

Dividends of profits, distribution of surplus, and interest received from domestic corporations or non-corporate entities

(3) Real estate income

Real estate income arising from the transfer, lease, and any other operation involving real estate in Korea (including rights to the real estate) and mining rights, mining lease-holding rights or quarrying rights acquired in Korea, except income subject to capital gains tax

(4) Income from lease of vessels, aircraft

Income arising from the lease of vessels, aircraft, registered automobiles, or heavy equipment to residents, domestic corporations, or the business places in Korea of non-residents and foreign corporations

(5) Business income

Income from agriculture, forestry, fisheries, mining, manufacturing, electricity, gas, steam and water services, construction, wholesale and retail, transportation and communications, banking and insurance, real estate dealing or professional services (excluding personal service income)

(6) Personal service income

An amount receivable as payment* for furnishing or having others utilize personal services as follows:

(a) Services provided by movie and drama actors, musicians, or other public entertainers

(b) Services provided by professional athletes

(c) Services provided by lawyers, certified public accountants, architects, surveyors, patent lawyers, or other similar professionals

(d) Services provided by persons having expertise or special skills in science and technology, business management and other similar fields, with the utilization of such expertise or skills

*Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income.

(7) Capital gains

Gains on transfer of land, buildings, and other assets located in Korea

(8) Royalties

Royalties, rent, or any other compensation of similar nature receivable as a consideration for the use of the following assets or technical expertise within Korea, or for the right to use such expertise, and income from the transfer of said assets or technical know-how.

(a) Copyright on academic or artistic works (including films), patent rights, trademarks rights, designs, models, drawings, secret formulae or processes, films and tapes for radio and television broadcasting, and any other similar assets or rights

(b) Information or know-how on industrial, commercial or scientific knowledge or experience

(9) Gains from the alienation of securities or shares

Gains from the transfer of shares or comparable interests derived by a foreign corporation without a permanent establishment in Korea are subject to withholding tax, provided that such shares or interests are transferred through publicly recognized stock exchanges and the holdings of the non-resident transferor together with his specially-related persons are less than 25% of the total shares issued by or the total investment in a Korean company (the total shares or interests listed or registered on publicly recognized stock exchanges in Korea in the case of shares or interests issued by a foreign company) all the time in the year of such transfer and during the 5 years prior to the year.

(10) Other Income

(a) Insurance money, compensation money, or compensation for damages received in connection with real estate or other assets located in Korea, or those related to businesses conducted in Korea

(b) Money or the value of other goods to compensate damage exceeding actual damages payment which forms the terms of original contract as indemnification received due to the breach or termination of a contract providing for property rights

(c) Income from receipt of assets located in Korea

(d) Money, goods, or other economic benefits received as a prize from contests held in Korea

(e) Income from sale of treasure found within Korea

(f) Income from the assignment within Korea of rights established by license, permission, or other similar disposition under the Korean law, or from the transfer of property located in Korea at the time of transfer, other than real estate

(g) Money or goods received as a prize in a lottery, drawing, or any other contest, including the purse payable to the buyer of a winning ticket for horse racing, cycle racing, motorboat racing, bull fighting and sports betting game

(h) Income other than those described above, arising from a business operated in Korea or the provision of personal services in Korea; in addition, this subparagraph includes economic benefits received in connection with assets in Korea (Note that if the amount received from the redemption of bonds issued by the government or banks established under the laws of Korea in a foreign currency exceeds the face value of such bonds in foreign currency, the balance in value shall not be included under this section.)

d. Calculation of Income from Domestic Sources

(1) Foreign corporation with a domestic business place

Total amount of gross income from domestic sources for each business year of a foreign corporation which has a domestic business place or real estate income is calculated by applying the provisions regarding the calculation of the tax base of a domestic corporation *mutatis mutandis*. In particular:

(a) Losses are limited to those which are rationally allocated to an amount of income and a value of assets related to income from domestic sources.

(b) Reserves set aside for retirement allowances are limited to those for employees of the respective foreign corporation employed in Korea for the businesses operated by the foreign corporation in Korea, serving permanently at a domestic business place or at the location of its real estate.

(c) Corporation tax, inhabitant tax, fines, minor fines, non-penal fines, penalty tax, disposition fees for tax in arrears, and public imposts which are not counted in losses, including those imposed under foreign laws and regulations

(d) Fixed assets eligible for depreciation are limited to fixed assets for the business owned in Korea, among fixed assets of the respective foreign corporation

(e) If a domestic business place ceased to exist in a business year before receiving all amounts due on a deferred payment or installment arrangement, that portion of the sales or disposition price not yet received, and related costs, shall be included in gains and losses, respectively, in said year

(f) Deferred assets are limited to those of the foreign corporation in question, which are vested either in the business operated in Korea or in the assets owned in Korea

(g) Where a foreign corporation with a domestic business place operates an international transportation business by vessels or aircraft, income from that in Korea is calculated based on revenue and expenses incurred in connection with passengers or cargo originating from Korea, the value of fixed assets for business in Korea, and any other sufficient factors for determining the degree of contributions by its domestic business to the income from the transportation business in question

(h) In granting a tax credit to a foreign corporation for loss from disaster, the total value of assets for business is the total amount said corporation has in Korea.

(2) Foreign corporation without a domestic permanent establishment

Income from domestic sources of a foreign corporation without a domestic business place in Korea for each business year is computed separately by the type of income arising from sources in Korea.

e. Domestic Permanent Establishment

(1) Where a foreign corporation in Korea has a fixed place as described in the following, it is deemed to have a domestic business place:

(a) Branch, sub-branch, office, or any other business office

(b) Store and any other fixed sales place

(c) Workshop, factory, or warehouse

(d) A building site, a location of construction, assembly or installation work, or a place for providing supervision service for such work which exists for more than 6 months

(e) A place (i) where services are provided through any employer for a period exceeding 6 months in aggregate out of consecutive 12 months, or (ii) where similar services are provided through any employer continually or repeatedly throughout more than 2 years, if not for a period exceeding 6 months in aggregate out of consecutive 12 months

(f) Mines, quarries or any other place of exploration or extraction of other natural resources as well as marine natural resources (including those on the seabed or subsoil adjacent to the coast within which the sovereign rights of the Republic of Korea may be exercised, outside its territorial waters, in accordance with the international law)

(2) A fixed place for a domestic business does not include the places such as:

(a) Fixed place used by a foreign corporation only for the purchase of assets

(b) Fixed place used by a foreign corporation only for the storage or custody of non-salable property

(c) Fixed place used by a foreign corporation for advertisement, public

relations, collection and furnishing of information, market surveys and other activities of a preparatory or auxiliary nature for business performance

(d) Fixed place used by a foreign corporation only for the purpose of having others process its assets

(3) If a foreign corporation without a fixed business place in Korea operates a business through a person in Korea (one who is authorized to conclude contracts on the company's behalf and habitually exercises that authority, or any other similar persons enumerated under the following), it is deemed to have a permanent establishment in Korea.

(a) Persons who constantly store assets of foreign corporations and customarily distribute or deliver them on orders from customers

(b) A broker, general commission agent or other independent agent who conducts an important part of sales such as the closing of a contract on behalf of a foreign corporation, as long as the business is entirely or almost entirely devoted to that foreign corporation

(c) Persons who collect insurance premiums (including reinsurance) on behalf of a foreign corporation

(d) Foreign corporations indicated above include major stockholders of the foreign corporation in question, other corporations of which the foreign corporation in question is a major stockholder, and other persons having special relations with the foreign corporation in question.

f. Tax Rates, Returns, Payment, Determination, Adjustment, and Collection

(1) Tax rates

Corporation tax on the income for each business year of a foreign corporation which has a domestic business place or real estate income is calculated by applying the same tax rates as those applicable for a domestic corporation on the tax base.

(2) Return, payment, determination, adjustment and collection

(a) With respect to tax return filing, tax payment, determination, adjustment, and collection of corporation tax on the income for each business year of a foreign corporation with a domestic business place or real estate income, the provisions for a domestic corporation are also applicable *mutatis mutandis.*

(b) Where a foreign corporation that is required to file a return on its tax base is unable to do so within the return period due to the following reasons, it may extend the return period with the approval from the government.

i) Disasters and any other unavoidable occurrences

ii) Failure to finalize the settlement of accounts at the head or main office

(c) The tax payment location of a foreign corporation with a domestic business is the place of its business or that of relevant real estate within Korea.

(3) Foreign companies deriving in Korea income from lease of vessels or aircraft, business income, personal service income, wage & salary income, retirement income, royalties or capital gains from securities (interest and dividends excluded) or their withholding agent who submitted a wage and tax statement within the statutory deadline may request a reassessment of the tax base and the tax amount within 3 years from the end of the deadline.

g. Tax Withholding on Foreign Corporation

(1) Withholding Rate

(a) A person paying an amount of income from domestic sources to foreign corporations (except foreign corporations having capital gains from real estate which is subject to the same taxation rule as that applicable to capital gains from real estate derived by domestic company) not attributed to a domestic business place shall withhold as corporation tax at the source of income an amount enumerated as follows upon making the payment, and pay it to the government by the tenth day of the following month.

i) Business income and income from lease of vessels, aircraft, etc.: 2% of the amount payable

ii) Personal service income: 20% of the amount payable

* Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income. Despite the separate taxation provisions on personal service income, the taxpayer may also elect to include income from the rendering of personal service less such amount reimbursed in domestic-source income when filing his/her income tax return in Korea.

iii) Interest income*, dividend income, royalties, and other income: 20% of the amount payable

* Interest derived from bonds issued by the State, local authorities and domestic companies is subject to 14% of withholding tax rate.

iv) Gains from the transfer of securities or shares: 10% of the amount payable (However, where the acquisition value of securities or shares can be confirmed, the amount of withholding tax at source is 10% of the amount payable or an 20% of an amount remaining after deducting the acquisition value from gains, whichever is less.)

(2) Tax Withholding by Agent

(a) In the case where securities or shares are transferred to a foreign corporation through a securities company, the securities company shall withhold the corporation tax and pay it to the government at the residence place of the domestic corporation (or the domestic business place of the foreign corporation) which issued the securities or shares.

(b) If a foreign corporation transfers securities of the same issue whose acquisition costs are different, a securities company shall compute the acquisition value of the securities sold by using the moving average method.

(c) Any person paying an amount of income from domestic sources (limited to business income, personal service income, interest income, and royalties) with a foreign loan to any foreign corporation having no domestic business place shall withhold tax at the source at the time the income is paid under the payment terms of the contract, even in the case where he or she does not directly pay such an amount of income under the terms of the contract in question.

(d) Where an agency in Korea of foreign corporation, operating vessels or aircraft in services abroad that do not come under a domestic business place, pays the foreign corporation income from the service of vessels or aircraft navigating overseas, it shall withhold tax on the income earned by the corporation from domestic sources.

(e) Where a person subject to tax withholding pays the corporation tax withheld at source after the lapse of the payment period, has not paid the tax within the period or has not withheld the tax at source, he or she shall pay a penalty tax amounting to 10% of the tax amount unpaid or not withheld.

(f) Where a foreign corporation engages in construction, installation, assembly projects, or supervisory services in Korea, it is subject to withholding tax for income arising from these enterprises if the foreign corporation is not registered with the appropriate tax authority.

h. Branch Tax

If the tax treaty between Korea and the country of which the foreign corporation is a resident allows imposition of branch profit tax, the tax is imposed on the adjusted taxable income* of the Korean branch of the foreign corporation. This branch profit tax is levied in addition to the regular corporation tax under the Corporation Tax Law.

Branch profit tax will be imposed at 20% (or at a reduced rate ranging from 5% to 10% as provided in the treaty) on the adjusted taxable income of the foreign corporation (effective from the taxable year that begins on January 1, 1996).

* The adjusted taxable income for each business year is calculated as follows:

Earnings of the business year concerned less (corporation tax due & resident tax due thereon + portion of the earnings acknowledged to be reinvested in branch operations (i.e. increase in Korean net equity)* + non-deductible amount under the Law for the Coordination of International Tax Affairs)

* Net equity is calculated by subtracting Korean liabilities from Korean assets. There is an increase in net equity, if the net equity as of the close of the business year concerned exceeds the net equity as of the start of that business year. There is a decrease in net equity, if the net equity as of the start of the business year exceeds the net equity as of the close of that business year. In the case of the termination of business of the Korean branch, the net equity as of the close of the business year is deemed to be zero.

Chapter IV: Inheritance & Gift Tax

1. Inheritance Tax

a. Taxpayer

(1) A person or a non-profit organization that acquires property through inheritance or bequest is liable to the Inheritance Tax.

(2) A for-profit company is exempt from the Inheritance Tax.

b. Tax Base

(1) From the date of the commencement of the inheritance, the following are deemed taxable inheritance or bequest:

(a) Bequeathed property

(b) Donated property transferred upon the death of the bequeathed

(c) Property donated to the inheritor within ten years of the date of the commencement of the inheritance

(d) Property donated to legal persons other than the inheritor within five years of the date of the commencement of the inheritance

(2) The inheritance tax covers:

(a) All property bequeathed by a resident

(b) All property in Korea bequeathed by a non-resident

c. Deductions

(1) Public imposts

(2) Funeral expenses between 5 million and 10 million won (with an additional deduction of 5 million won if usage fees of burial chamber arise)

(3) Debts left by the bequeathed of the inheritance or legacy for which the inheritor is able to prove that he or she is to assume the responsibility to pay upon the commencement of the inheritance

d. Itemized Deductions

(1) Basic deduction

General: 200 million won

(2) Additional deductions

(a) Inherited family businesses: A larger amount between ① and ②

① A smaller amount between [70% of value of inherited business, 10 billion won*]

② A smaller amount between [Value of inherited business, 200 million won]

* Where the period of an inherited amount among or legacy of

- 10 to 14 years: 10 billion won
- 15 to 19 years: 15 billion won
- 20 years or more: 30 billion won

(b) Inherited farms, fisheries, and forestry: up to 500 million won

(3) Deductions for dependents

30 million won per person

(4) Deductions for minors

Where the inheritor or legatee, or a family member of the inheritor or legatee is a minor, an annual deduction of 5 million won is granted to the minor until he or she becomes 20 years old. There is no limitation on the number of deductions granted to one family.

(5) Deductions for the elderly

Where the inheritor or legatee, or a member of the inheritor or legatee's family is over 60 years old, a -deduction of 30 million won is granted to that person (not applicable to inheritor or legatee's spouse). There is no limitation on the number of deductions granted to one family.

(6) Deductions for the disabled

In the case where the inheritor or legatee, the spouse of the inheritor or the legatee, or a member of the family of the inheritor or legatee is disabled, an annual deduction of 5 million won is granted to that person until he or she reaches the age calculated by reflecting an inheritor or a legatee, or a member of the family of the inheritor or legatee is disabled

e. Lump-Sum Deductions

(1) The taxpayer has the option to select itemized deductions (excluding additional deductions) or a lump-sum deduction.

(2) Lump-sum deduction: 500 million won in general

f. Deductions for Spouse

Where the bequeathed is a resident, the actual amount inherited by his spouse is deductible. This deduction is allowed for amounts that fall within the range of 500 million won to 3 billion won. If the amount inherited is less than 500 million won, the entire amount is tax deductible.

g. Deductions for Financial Assets

(1) Where net financial assets are a part of the inheritance, the following amounts are allowed as deductions.

(a) For amounts less than 20 million won, the total amount of the inherited net financial assets (financial assets - financial debt)

(b) For net amounts that fall within the range of 20 million won and 100 million won, 20 million won

(c) For net amounts that exceed 100 million won, 20% of the total inherited financial assets (However, only deductions up to 200 million won are allowed.)

h. Deductions for Losses

(1) Deductions for Losses Incurred as a Result of Natural Disasters and Other Unforeseeable Circumstances

Deductions are allowed for fires, collapse of buildings, explosions, environmental pollution, natural disasters, etc., which affect the inherited property. They are allowed for an amount equivalent to that of the loss incurred.

i. Tax Rates

Tax base	Tax rate
Not more than 100 million won	10%
100 - 500 million won	10 million won + 20% of the excess over 100 million won
500 million - 1 billion won	90 million won + 30% of the excess over 500 million won
1 - 3 billion won	240 million won + 40% of the excess over 1 billion won
Over 3 billion won	1.04 billion won + 50% of the excess over 3 billion won

j. Inheritance Tax for Bequests that Skip a Generation

Where one designates a grandchild as the beneficiary of a bequest, surtax amounting to 30% shall be levied as inheritance tax.

k. Tax Credits

(1) Gift Tax Credit

A gift tax credit is granted for a gift property that is included as a part of the inheritance property.

(2) Foreign Tax Credit

A foreign tax credit is granted to the tax amount paid to a foreign country as an inheritance tax.

(3) Credit Granted for Inheritances that are successively passed through the Generations in a Short Period of Time

If the inheritance property is passed onto the second generation within 10 years of the commencement of the inheritance for the first generation, a progressive credit is granted to the second generation inheritor or legatee of the inheritance property.

Period of inheritance	Rate of progressive credit
Within 1 year	100%
Within 2 years	90%
Within 3 years	80%
Within 4 years	70%
Within 5 years	60%
Within 6 years	50%
Within 7 years	40%
Within 8 years	30%
Within 9 years	20%
Within 10 years	10%

(4) Credit Granted for Correct Tax Returns

A 10% credit is granted to those taxpayers that submit their tax returns on time.

l. Tax Returns and Payment

(1) Tax Returns

A person who acquires property by inheritance, bequest, or gift must file a tax return within 6 months after the last day of the month when the inheritance or gift is commenced, together with detailed statements about the amount to be deducted. The government determines the taxable value based on the tax return filed.

(2) Cash Payment

In principle, taxpayers should pay taxes in cash at the time of tax returns. However, when the tax payable is a large amount, the taxpayer may pay in installments or annual installments. More specifically, where the tax payable exceeds 10 million won, the taxpayer may pay in two installments, or annual installments for five years or twelve years.

(3) Payment in Assets

Where the portion of the real estate or securities out of the gift property is more than 50% and the inheritance tax exceeds 10 million won, it is possible to pay by a transfer of real estate or securities.

m. Valuation of Inherited or Donated Properties

(1) In principle, inherited and donated properties are assessed by mark to market prevailing at the time of inheritance or donation.

(2) The following methods of valuation are applied when the market price is not available.

(a) Land: Official land value set for an individual piece of land

(b) Buildings: Standard market value set by the NTS

(c) Stocks:

(i) Listed stocks: 4-month average market price, 2 months before and 2 months after the transaction

(ii) Over-the-counter stocks: 4-month average market price, 2 months before and 2 months after the transaction

(iii) Unlisted stocks:

Assessed by the weighted average of 0.4 Net Asset Value and 0.6 Profit Value, where:

Net Asset Value = Net Asset Amount / Total Stock Issued

and

Profit Value = The Weighted Average of the Net Profit Per Capita for the Last Three Years / Rate Determined by the NTS

n. Determination and Adjustment

The government shall determine and notify the inheritor or the legatee of an adjustment of the tax base and tax amount of the inheritance and gift tax within 6 months from the date of the tax return.

2. Gift Tax

a. Taxpayer

(1) Resident donee is obligated to pay the gift tax.

(2) Non-resident donee is obligated to pay a gift tax on assets in foreign financial accounts including checking and savings accounts and shares of foreign corporations whose property in Korea is 50% or more of their total property as well as the property acquired in Korea.

(3) Where a donee is a for-profit company, it is exempt from the gift tax.

b. Tax Base

The following may serve as the tax base for a donee's gift property:

(1) All gift properties that may be changed to certain monetary or economic forms

(2) The economic value of legal and actual rights to the gift property

c. Exclusions

(1) Property given by the central government

(2) Property donated to political parties

(3) Gifts of moderate value (i.e., for medical care and relief)

(4) School fees, scholarships, etc., paid for as a gift

(5) Property donated to the central government or local governments

d. Deductions

In the case where the resident donee receives a gift from the following persons, he or she is granted a deduction (on condition that the combined amount to be deducted for the next 10 years and deductions from the following items does not exceed the sum in each following item):

(1) Spouse (for an amount up to 600 million won)

(2) Lineal family members (for an amount up to 50 million won for all persons except minors for whom an amount up to 20 million won is allowed)

(3) Other family members (for an amount up to 5 million won)

e. Deductions for Losses

Deductions for Losses Incurred as a Result of Natural Disasters and Other Unforeseeable Circumstances

Deductions are allowed for fires, collapse of buildings, explosions, environmental pollution, natural disasters, etc. that affect the gift property. They are allowed for an amount equivalent to that of the loss incurred.

f. Tax Rates

Tax base	Tax rate
Not more than 100 million won	10%
100 - 500 million won	10 million won + 20% of the excess over 100 million won
500 million - 1 billion won	90 million won + 30% of the excess over 500 million won
1 - 3 billion won	240 million won + 40% of the excess over 1 billion won
Over 3 billion won	1.04 billion won + 50% of the excess over 3 billion won

g. Gift Tax for Gifts that Skip a Generation

Where a donor designates a grandchild as his donee, surtax amounting to 30% of the gift tax concerned shall be levied.

h. Tax Credits

(1) Gift Tax Credit

A gift tax credit is granted for that part of a gift property that is included as part of another gift property.

(2) Foreign Tax Credit

A foreign tax credit is granted for a tax amount paid to a foreign country as a gift tax.

(3) Credit Granted for Prompt Tax Returns

A 10% credit is granted to those taxpayers that turn in their tax returns on time.

i. Tax Returns and Payment

(1) Tax Returns

A person who acquires gift properties is liable to file a tax return within 3 months after the last day of the month when receiving the gift, together with detailed statements about the amount to be deducted. The government determines the taxable value based on the tax return filed.

(2) Cash Payment

In principle, taxpayers should pay taxes in cash at the time of tax returns. However, when the tax payable is a large amount, the taxpayer may pay in installments or annual installments. More specifically, where the tax payable exceeds 10 million won, the taxpayer may pay in two installments, or annual installments for five years or twelve years.

(3) Payment in Assets

Where the portion of the real estate or securities out of the gift property is more than 50% and the gift tax exceeds 10 million won, it is possible to pay by a transfer of real estate or securities.

j. Valuation of Gift Properties

(1) In principle, gift properties are assessed based on the market price prevailing at the time the gift is presented.

(2) The following methods of valuation are applied when the market price is not available.

(a) Land: Official land value set for an individual piece of land

(b) Buildings: Standard market value set by the NTS

(c) Stocks:

i) Listed stocks: 4-month average market price, 2 months before and 2 months after the transaction

ii) Over the counter stocks: 4-month average market price, 2 months before and 2 months after the transaction

iii) Unlisted stocks:

Assessed by the weighted average of 0.4 Net Asset Value and 0.6 Profit Value, where:

Net Asset Value = Net Asset Amount / Total Stock Issued

and

Profit Value = The Weighted Average of the Net Profit Per Capita for the Last Three Years / Rate Determined by the NTS

k. Determination and Adjustment

The government shall determine and notify the donee of an adjustment of the tax base and tax amount of the gift tax within 3 months from the date of the tax return.

Chapter V: Comprehensive Real Estate Holding Tax

1. Taxable Objects

Residential houses and land (except villa)

* Under the Comprehensive Real Estate Holding Tax Law, a residential house includes land to which the house belongs.

2. Taxpayer

a. Residential House

A person who is liable to property tax on residential house as of June 1st and the sum of government-evaluated prices of whose residential houses subject to property tax exceeds 600 million won is liable to the comprehensive real estate holding tax.

* A person who owns a house under a single tenancy per household– 900 million won

b. Land

A person who is liable to property tax on land as of June 1st and who falls under one of the following categories:

(1) Land of general aggregate taxable object for property tax (vacant land etc.):

A person the sum of government-evaluated prices of whose aggregate land subject to comprehensive aggregation taxation for property tax exceeds 500 million won is liable to the comprehensive real estate holding tax.

(2) Land of special aggregate taxable object for property tax (land attached to store, office, buildings, etc.):

A person the sum of government-evaluated prices of whose land of special aggregate taxable object for property tax exceeds 8 billion won is liable to the tax.

* Land of separate taxable object: excluded from comprehensive real estate holding tax.

(a) Farmland (dry field, rice paddies, orchard), forests, pasture lots, factory sites within the standard area.

(b) Land for private golf courses and luxury amusement etc.

3. Tax Base

a. Residential House:

The tax base applied to the comprehensive real estate holding tax on housing is calculated by multiplying declared value of house summed up per tax obligor with being 600 million won deducted by fair market value rate, which is declared under the presidential decree within the range between 60% and 100% for each tax payer, considering real estate market conditions and financial status.

* 900 million won is deductible for those who owns a house under a single tenancy per household

** The ratio of fair market value: 80%

b. Land

(1) The tax base applied to the comprehensive real estate holding tax on lands of general aggregate taxable object is calculated by multiplying declared value of the taxable object of land summed up per tax obligor with being 500 million won deducted by fair market value rate, which is declared under the presidential decree within the range between 60% and 100% for each tax payer, considering real estate market conditions and financial status.

* The ratio of fair market value: 80%

(2) The tax base applied to the comprehensive real estate holding tax on lands of separate aggregate taxable object is calculated by multiplying declared value of taxable object of land summed up per tax obligor with being 8 billion won deducted by fair market value rate which is declared under the presidential decree within the range between 60% and 100% for each tax payer, considering real estate market condition and financial status.

* The ratio of fair market value – 80%

4. Tax Rates

a. Residential House

Tax base	Tax rate
Not more than 600 million won	0.5%
Not more than 1.2 billion won	0.75%
Not more than 5 billion won	1.0%
Not more than 9.4 billion won	1.5%
Over 9.4 billion won	2.0%

b. Land

(1) Land of special aggregate taxable object for property tax (vacant land etc.)

Tax base	Tax rate
Not more than 1.5 billion won	0.75%
Not more than 4.5 billion won	1.5%
Over 4.5 billion won	2.0%

(2) Land of special aggregate taxable object for property tax (land attached to store, office, buildings, etc.):

Tax base	Tax rate
Not more than 20 billion won	0.5%
Not more than 40 billion won	0.6%
Over 40 billion won	0.7%

5. Tax Credits

a. Property Tax Exemption

The amount equal to the property tax amount levied as local tax on the excess of the value of property subject to the comprehensive real estate holding tax over value threshold described in 2 above is deductible against the comprehensive real estate holding tax.

b. Tax Exemption for Those Who Owns a House under a Single Tenancy per Household

(1) Tax exemption for holding house for long period of time

A person aged 60 or more who owns a house under a single tenancy per household is exempt from property tax by applying the following age-specific deduction rate to calculated tax amount of the comprehensive real estate holding tax as of the basic date for taxation.

Age	Deduction rate
60 - 64	10%
65 - 69	20%
Over 70	30%

(2) Tax exemption for the elderly

A person who owns a house under a single tenancy per household holds the house over five years is exempt from property tax by applying the following deduction rate depending on holding period to calculated tax amount of the comprehensive real estate holding tax as of the basic date for taxation.

Holding period	Deduction rate
5 to less than 10 years	20%
10 years or more	40%

6. Determination of Tax Obligation

Whether or not a person is liable to the comprehensive real estate holding tax is determined based on status of ownership as of June 1st.

7. Non -Taxation & Exemptions/Reductions

a. Provisions on non-taxation, tax exemptions and reductions for property tax under the Local Tax Code, the Special Tax Treatment Control Law and municipal and county ordinances (except for some non-taxation, exemptions, reductions under municipal and county ordinances) apply mutatis mutandis.

b. Leased house, a company house for employees, unsold houses of housing construction business and child day care centers, unsold new houses which a house builder receives as the construction costs, a house located outside Seoul, Incheon and Gyeonggi province, a house provided by government-sponsored institutions to researchers in the institutions, a house as registered cultural property, unsold houses acquired by corporate restructuring REITs or real estate collective investment vehicles by Dec. 31, 2012, the welfare houses for the elderly, attached land to houses owned by properties of Confucian schools (in the case where the owner of the house and the owner of attached land is different) which meet certain criteria are excluded from the scope of residential houses for the purpose of this chapter.

8. Ceiling on Tax Liability

Where a taxpayer's tax liability (the sum of property tax amount and comprehensive real estate holding tax amount) for the taxable year concerned exceeds 150% of that of the previous year (150% in the case of land of special aggregate taxable object), the excess amount is tax-exempt.

9. Tax Imposition and Collection

The concerned tax office determines tax liability and imposes and collects it from December 1st of the year to December 15th. Tax return is issued until 5 days before the first day of tax payment period. However, reporting and payment are allowed to be made from December 1st of the year to December 15th depending on reporting and payment methods.

10. Transfer of Collected Tax

The collected Comprehensive Real Estate Holding Tax is used for financing local governments.

Chapter VI: Value Added Tax

1. Taxpayer

a. Taxpayer

(1) A person who engages in the supply of goods or services independently in the course of business, whether or not for profit, is liable to value-added tax.

(2) Taxpayers include individuals, corporations, the government and local authorities, associations of local authorities, any bodies of persons, and unincorporated foundations of any other organizations are generally subject to Value Added Tax.

b. Registration

(1) Registration

A person who newly starts a business shall register the required particulars of each business place within twenty days from the business commencement date. The particulars may be registered before the business commencement date. Then the tax office having jurisdiction over the business place of the trader (hereinafter "the competent tax office") shall issue a business registration certificate to the trader concerned.

(2) Notification of change in status

A registered trader who has suspended or closed down the business or who has come to recognize a change in any of registered particulars is required to make a report without delay to the competent tax office. The same applies when a person who has registered prior to the planned business commencement date fails to actually start his business.

2. Taxable Period

a. General

The taxable period for VAT is divided into two.

(1) First period: January 1 to June 30

(2) Second period: July 1 to December 31

b. Simplified Taxation

The taxable period for simplified taxation is January 1 to December 31.

c. Taxable Period for Newly-Established Businesses

The initial taxable period for any person establishing a new business shall be from the starting date of the business to the last day of the taxable period which the starting date falls upon. Where registration is made prior to the commencement of business, the taxable period begins with the date of registration. In many instances, the commencement date of a business is set out in the Enforcement Regulations. For example:

(1) Manufacturing: the date when the manufacture of products begins

(2) Mining: the date when the mining or collecting of minerals begins

(3) Others: the date when the supply of goods or services begins

(4) Where business is converted from tax-exempted to taxable operation due to tax reform, etc.: The date when the business is converted to taxable operation.

d. Taxable Period for Liquidating Business

The last taxable period for any trader liquidating business shall be from the beginning date of the taxable period upon which the closing falls to the date of closing.

e. Taxable Period for a Person who waives the Right to Simplified Taxation

The taxable period for this case shall be from the starting date of the taxable period in which reporting of the waiver of simplified taxation takes place to the last day of the month in which such report is made. The other taxable period shall be from the first day of the month following the month in which the date of report falls on to the last day of the taxable period. These two taxable periods are separate.

3. Taxable Transactions

a. General

(1) Taxable transactions

Value added tax is imposed on the following transactions:

(a) The supply of goods or services

(b) The importation of goods.

(2) Range of goods and scope of services

(a) Range of goods

Goods under the Value Added Tax Law mean all tangible and intangible objects that have values as property. Tangible objects include commodities, products, raw materials, machinery, buildings, and other objects with tangible form. Intangible objects include motive power, heat, other controllable forces of nature, and rights.

(b) Scope of services

Services mean all services and other activities that have values as property, other than goods.

(c) Subsidiary supply of goods and services

The supply of goods or services that takes place necessarily accompanying the supply of goods that is treated as a primary transaction is deemed to be included in the primary supply of goods. The supply of goods or services that takes place necessarily accompanying the supply of services that is treated as a primary transaction is also deemed to be included in the primary supply of services.

b. Supply of Goods

(1) Taxable supplies of goods

A taxable supply of goods means delivery or transfer of goods under a contract or by law.

(2) Self-supplies of goods

Where a trader directly uses or consumes goods that are acquired or produced in the course of his or her business, such direct use or

consumption except for the case of stock-in-trade to use or consume goods as raw materials, is deemed to be a supply of goods to the trader himself/ herself.

(3) Personal use and gifts

Where a trader uses or consumes goods produced or acquired in the course of the business for his or her personal use or for the employees, or where a trader donates such goods to customers or other persons, such use, consumption, or donation is deemed to be a supply of goods.

(4) Inventory goods at the time of liquidation

Inventories owned at the time of liquidation of a trader's business are considered to be supplied to himself/ herself. The same applies where a VAT-registered person fails to actually start a business.

(5) Transactions through a consignee or an agent

The sale or purchase of goods by consignee or agent is deemed same as if the consignor or the principal directly supplies the goods or the goods are supplied directly; however, the preceding provisions of this paragraph do not apply where the consignor or the principal cannot be identified.

(6) Offer of security and transfer of business

Offering goods as a security or alienating a person's business to any other person except for simplified taxpayers is not deemed to be a supply of goods.

c. Supply of Services

(1) Taxable supplies of services

A taxable supply of services includes the rendering of services or the leasing of goods or facilities, or the granting of rights under a contract or by law.

(2) Self-supplies of services

Where a trader directly provides services for his or her own business, such direct supply of services is deemed to be a self-supply of services.

(3) Services involving no consideration and services provided by employees

The rendering of services to other persons, without involving any consideration or under an employment contract, is not treated as a supply of services.

d. Importation of Goods

Importation of goods includes carrying the following goods into Korea or from bonded areas:

(1) Goods arriving in Korea from abroad (including marine products gathered in high seas by foreign vessels)

(2) Goods licensed for exportation.

e. Time of Transaction

(1) Time of supply of goods

Goods are deemed to be supplied at the time as specified in the following:

(a) In the case of the supply of goods that requires the goods to be moved: the time when they are delivered

(b) In the case of the supply of goods that does not require the goods to be moved: the time when they are made available

(c) Where the provisions of items (a) and (b) are not applicable: The time when the supply of goods is confirmed.

(2) Time of supply of goods in detail

Goods are deemed to be supplied at the time as specified in the following. However, if the goods are supplied after the date of the closedown, the closedown date shall be regarded as the time of supply.

(a) Cash or credit sales: The time when goods are delivered or made available.

- The time when goods are delivered in the case where gift vouchers, etc. are sold in cash or charge and then such gift vouchers, etc. are exchanged in-kind

(b) Sales made on long term installment payments: The time when each portion of the proceeds is stipulated as receivable

(c) Supply of goods under terms of payment on percentage of work completed, or under terms of partial payments: The time when each portion of proceeds is receivable

(d) Processing deemed to be a supply of goods: The time when the processed goods are delivered

(e) Self-Supplies or the supply of services for personal use, or gift purposes: At the time of consumption or use of the goods

(f) Business closedown: The time of closedown

(g) Goods supplied through vending machines: The time when the respective businessperson takes money from the machines

(h) Other cases: When goods are delivered or deliverable

(i) Exports: Date of shipping

(j) Where a businessperson within a bonded area supplies goods outside the bonded area in the country and the goods concerned fall under the category of imported goods: Date of export declaration

(3) Time of supply of services

Services are deemed to be provided at the time as described in the following. However, if the time of supply of services comes after the closedown of the business, the date of the closedown shall be regarded as the time of supply.

(a) Normal supply: When the services have been completely rendered

(b) Providing services under the terms of payment based on the percentage of work completed, partial payment, deferred payment, or any other terms: when each portion of the payments is to be received

(c) Where provisions (a) and (b) are not applicable: When services have been completely rendered and the value of the supply is determined

(d) Regarding the deemed rent of deposit for real estate leasehold or advance or deferred payment of rent that a businessman pays upon leasing land, buildings, and other structures built on the land: when the preliminary tax return or the taxable period has been completed

(e) Where receiving the consideration in advance of providing services covering two or more taxable periods as like the case where a person running a gym receives an annual fee first, and allows the members to use facilities: when the preliminary VAT return is filed or the taxable period is terminated

(4) Deemed time of supply

Where a trader has received partial or full amount of the consideration for the supply of goods or services concerned and has issued a tax invoice or receipt for the payment before the time of supply as prescribed above, the time of issuance of the tax invoice/receipt is deemed to be the time of supply. However, in the case of long-term installment sales or supplies with indivisible supply unit, the previous system is maintained.

f. Place of Transaction

(1) The place of supply of goods

A supply of goods is deemed to take place in the place as specified in the following:

(a) In the case of the supply of goods which requires the goods to be delivered: the place where the delivery of goods commences

(b) In the case of the supply of goods which does not require the goods to be delivered: The place where the goods are located at the time of the supply of goods

(2) The place of supply of services

A supply of services is deemed to take place in the place as specified in the following:

(a) The place where services are rendered, or where goods, facilities or rights are used

(b) In the case of international transportation carried on by a non-resident individual or a foreign corporation: the place where passengers get aboard or freight is loaded

4. Zero-Rating and Exemptions

a. Zero-Rating

The following goods and services are VAT zero-rated and the input tax incurred is refundable. Zero-rating is applicable only to traders who are residents or domestic corporations. However, in the case of international transportation service by ships or aircraft, traders who are non-residents or foreign corporations are subject to zero-rating on a reciprocity basis.

(1) Goods for exportation

(2) Services rendered outside Korea

(3) International transportation service by ships and aircraft

(4) Other goods or services supplied for foreign exchange earning

b. Exemptions

(1) The supply of the following goods or services is subject to exemption and the input tax incurred thereon is not refundable. However, traders may elect not to be exempted.

(a) Basic life necessities and services

i) Unprocessed foodstuffs (including but not limited to agricultural products, livestock products, marine products, and forest products that are used for food) and agricultural products, livestock products, marine products, and forest products prescribed by the Presidential Decree that are produced in Korea but are not used for food

ii) Piped water

iii) Briquette and anthracite coal

iv) Passenger transportation services, except for transportation services by aircraft, express buses, express train (KTX), chartered buses, taxies, special automobiles, or special ships

(b) Social welfare services

i) Medical and health services, including services of veterinarians, nurses and midwives, and pharmaceutical services of compounding medicines and human blood.

* From July 1, 2011, taxes are imposed on aesthetic plastic surgery and services of veterinarians (excluding services to livestock such as cows, pigs and horses; fish, shellfish and other marine animals).

ii) Education services prescribed by the Presidential Decree

(c) Goods or services related to culture

i) Books, newspapers, magazines, official gazettes and communication

ii) Artistic works, artistic and cultural events for non-profit purposes, and non-professional sports games

iii) Admission to libraries, science museums, museums, art galleries or botanical gardens

(d) Personal services similar to labor

i) Other personal services rendered independently without structures, instruments used continuously, repeatedly for business (including ones rented) and without employing any worker by actors, singers, radio performers, composers, writers, designers, professional sportsmen, dancers, waitresses, salesmen of books or disks, translators, shorthand writers, etc.

ii) Academic research services

iii) Technical research services

(e) Other goods or services

i) Postage stamps (excluding postage stamps for collection), revenue stamps, certificate stamps, lottery tickets, and public telephone cards

ii) Such goods or services rendered by religious, charitable, scientific, or other organizations which promote the public interest

iii) Goods or services supplied by the government, local authorities, or associations of local authorities

iv) Goods or services supplied, without any consideration, to the government, local authorities, associations of local authorities, or public benefit organizations

v) Lease of house or the land pertaining to the house of an area, which is not larger than 5 or 10 times the floor space of the house

vi) Finance and insurance services

(f) Duty-exempt goods

Importation of the following duty-exempt goods under the Customs Law is exempted from value-added tax.

i) Unprocessed foodstuffs (including agricultural products, livestock products, marine products, and forest products used for food)

ii) Books, newspapers, and magazines

iii) Goods imported for scientific, educational, or cultural use by a scientific research institute, an educational institute, or a cultural organization

iv) Goods donated from a foreign country to a religious, charitable, relief, or any other public benefit organization

(2) Waiver of exemption

In the case where the supply of goods or services eligible for zero-rating is exempt from value-added tax, the traders may, subject to the Presidential Decree, elect not to be exempt from value-added tax. A trader who waives the ordinary exemption is not entitled to the exemption for 3 years after the beginning day of the first assessable year in which the waiver is intended to be applied.

5. Tax Base and Assessment

a. Tax Base

(1) Calculation of tax base

(a) Principle for calculating the tax base

The tax base of value-added tax for the supply of goods or services is an aggregate amount of the value as specified under the following. However, value-added tax is not to be included in the base.

i) If the supply is for a monetary consideration, its consideration

ii) If the supply is for a non-monetary consideration, its open market value

iii) If the actual consideration is considered to be unduly less than that which might reasonably be expected or if there is no consideration, its open market value

iv) In the case of the inventory goods at the time of the closing down of a business, the open market value of the inventory goods

(b) Conversion of foreign currency

Conversion methods for monetary consideration for foreign currency or other foreign exchange:

i) In the case of conversion before the time of supply, the converted amount

ii) In the case of conversion after the time of supply, an amount calculated based on the basic rate or cross rate of customers at the time of supply

(2) Special cases

(a) In the case of sales in installments or sales on deferred payment plans, the tax base is each part of the consideration receivable under the contract.

(b) In the case of credit sales, the tax base is the total amount of supplied goods.

(c) In the case of supply of goods or services on the condition of payment based on work completed, or interim payments, or in the case of continuous supply of goods or services, each part of the consideration receivable under the contract becomes the tax base.

(3) Tax base for self-supply

In the case of ordinary self-supply, the open market price of the goods is the tax base. However, in the case of self-supply of depreciable goods, the market price is one of the following.

(a) Buildings or construction structures

Tax base = Acquisition price x (1-5/100 x Number of taxable periods elapsed following acquisition)

(b) Other depreciable goods

Tax base = Acquisition price x (1-25/100 x Number of taxable periods elapsed following acquisition)

(c) Calculation of the number of taxable periods elapsed following acquisition

i) If the goods are acquired (or if exempt from the value-added tax during a taxable period), the acquisition (or exemption) shall be deemed to have occurred on the commencement date of the taxable period.

ii) The number of taxable periods elapsed applicable to the tax base is limited to 20 for buildings and construction structures, and four for other depreciable goods.

(4) Amounts included and not included in the tax base

(a) The following amounts are excluded from the tax base:

i) Amount of sales allowance

ii) Value of returned goods

iii) Value of goods broken, lost or damaged before they are delivered

iv) National or public subsidies excluding subsidies directly linked to the price of supply,

v) Interest on late payment of consideration for the supply of goods or service as prescribed by the presidential decree, and

vi) Discount on value of supply of goods or services after the supply thereof as prescribed by the presidential decree

(b) The amounts of discount, bad debt, bounty or other similar amounts in relation to the value of supply after the supply of goods or services, is included in the tax base.

(5) Tax base for the importation of goods

The tax base for the importation of goods is an aggregate of the price on which customs duties are chargeable, the customs duties, the individual consumption tax, the liquor tax, the education tax, the special tax for rural development, and the transportation·energy·environment tax thereon. The price on which the customs duties are chargeable is the normal arrival price (CIF price).

b. Tax Rates

(1) The current rate

The rate of value-added tax is 10%.

(2) Application of the tax rate

Where the tax rate is applicable on the VAT exclusive price, the 10% rate is applied. However, in the case of application on the VAT inclusive price of the retailers, the tax rate becomes 10/110. Where VAT is not separately collected at the time of the transaction, the tax rate of 10/110 is applicable on the VAT inclusive price.

c. Collection at Transaction

The value-added tax will be collected where a trader supplies goods or services. It is computed by multiplying the tax base to the tax rate.

d. Amount Payable

(1) Computation of tax amount

The amount of value-added tax is computed by deducting the input tax amount under the following items from the output tax amount chargeable on the goods or services supplied by the taxpayer. The input tax which exceeds the output tax is refundable.

(a) The tax on the supply of goods or services that a trader has used or intends to use for his business

(b) The tax on the importation of goods that a trader has used or intends to use for his business

(2) Input taxes not deductible

The input taxes are not deducted from the output tax where:

(a) A trader has not received a tax invoice, has not submitted to the government an aggregate summary of the tax invoices of every individual supplier, has not recorded the whole or in part the necessary items to be recorded, or where the contents of the tax invoices are proved to be different from the facts (However, where a trader submits the tax invoice received with a revised return on the tax base under the Framework Law on National Taxes, or where a person whose tax base and tax amount

payable or refundable are corrected by the head of a tax office submits to the government the tax invoice and sales slips of credit card and is certified by the head of the tax office, the input tax amount shall be deducted from the output tax amount.)

(b) The input tax amount of expenses are not directly related to the business

(c) The input tax amount on the purchase, maintenance and leasing of small automobiles except for those used in transportation business

(d) The input tax amount on the supply of goods or services is exempted (including the input tax amount in relation to investment)

(e) The amount of entertainment expenses or similar expenses are provided in the Presidential Decree

(f) The input tax is levied before the taxable period to which supply belongs.

* However, if the registration is done within 20 days after the end of the taxable period, the input taxes are deducted.

(3) Deemed input tax deduction

Where goods or services manufactured or processed using as raw materials agricultural, livestock and fishery products, which are exempted from value-added tax, are supplied, the amount that is computed by multiplying the supply prices of agricultural and other products by the following ratios can be deducted from output tax amount:

(a) Restaurant business:

(i) Self-employer: 8/108

(ii) Corporation: 6/106

(iii) Manager of taxable entertainment spot: 4/104

(b) Small- and medium-sized manufacturing business (including individual businesses): 4/104

(c) Other businesses: 2/102

(4) Bad debts tax deduction

In the case where a taxable trader has supplied taxable goods or services on credit but could not collect the account receivables for the supply because the receiver of the supply has dishonored a bill, has become bankrupt, etc. and the trader has treated the account receivables as bad debts, the VAT on the goods or services should be arranged as follows (the scope of account receivables treated to be bad debts is the same as that under the Income Tax Law and the Corporation Tax Law).

(a) The supplier may deduct the uncollected VAT from the output tax amount for the VAT period on which the day of the determination of bad debts falls:

- Deductible VAT = Bad Debts X 10/110

(b) The government shall collect the VAT amount already deducted from the supplier's output VAT from the person who received the supply.

e. Tax Invoice and Bookkeeping

(1) Tax Invoice

(a) Contents of invoice

When a registered trader supplies goods or services, he or she shall issue an invoice to the other party. The contents of the invoice shall contain:

i) The registration number and the name of the individual or corporation trader

ii) The registration number of the other party to the supply

iii) The value of the supply and value-added tax thereon

iv) The date, month and year of issuance of the tax invoice

v) Other particulars as prescribed by the Presidential Decree

(b) Receipts

A trader who carries on businesses such as retail outlets, ordinary restaurants, hotels, passenger transport, etc. may issue a tax invoice in which the name of the other party to the supply and the amount of value- added tax are not recorded separately ("receipts").

(c) E-tax invoice

A corporate trader and an individual trader prescribed by the Presidential Decree shall issue e-tax invoice from Jan 1, 2011 and Jan 1, 2012 respectively.

(2) Bookkeeping

(a) A trader is required to maintain accounting records of all transactions at each business place.

(b) Mixed transactions

Where a trader supplies exempt goods or services together with taxable goods or services, he or she should separately enter the transaction information into the books.

(c) Keeping record

A trader should keep the books in which the transactions are recorded and the tax invoices or receipts issued or received for a period of five years from the date of the final return for the taxable period in which the transactions are filed.

(d) Tax invoices for transactions through a consignee or agent

In the case of consignment sales or sales through an agent, the consignee or agent shall issue the tax invoice. Where the goods are delivered directly by the consignor or the principal the tax invoice shall be issued. In the case of consignment purchases or purchases through an agent, the supplier shall issue the tax invoice to the consignor or principal, In both cases, the registration number of the consignee or agent shall be recorded additionally in the invoices.

(e) Monthly issue of tax invoice

Where deemed necessary, the trader may prepare and issue a tax invoice by aggregating the total receivables of transactions of all parties to the end of the month.

(f) Adjustment of tax invoice

Where there is an error or needs to make corrections in the submitted tax invoice after the issuance of the tax invoice, the trader shall re-prepare and re-issue the tax invoice.

(g) Exemption from obligations to issue tax invoice

Persons carrying on one of the following businesses are exempt from the obligation to prepare and issue tax invoices:

i) Self-supply of goods, personal use of goods, donation for a business purpose, supply at the time of closing down of a business, and self-supply of services

ii) Export of goods, supply of services abroad, and other specific supplies of goods or services earning foreign currency that are subject to zero-rating

(h) Prevention of double issuance of tax invoice and credit card receipts

- When a retailer issued credit card receipts, additional issuance of a tax invoice is not allowed.

(i) Tax invoice at the time of importation

When importing goods, customs collectors are required to prepare and issue tax invoices in accordance with the provisions of the Customs Law.

(3) Cash Register

(a) Installation

Traders who carry on retail businesses, ordinary restaurants, hotels, and other similar businesses shall install a cash register and issue tax invoices on which the consideration for the supply is recorded.

(b) Deemed bookkeeping and taxation on the basis of cash receipts

In the case where a trader issues tax invoices and keeps tapes of audit, he or she is deemed to have performed his obligation of bookkeeping and issuance of receipts. In relation to a taxpayer that has installed a cash register, value-added tax may be chargeable based on cash receipts.

6. Tax Returns and Payment

a. Preliminary Returns and Payment

(1) A trader is required to file a return on the tax base and tax amount payable or refundable to the appropriate tax office within 25 days from the date of termination of each preliminary return period; the first preliminary taxable period is from January 1 through March 31, and the second preliminary taxable period is from July 1 through September 30.

(a) Notwithstanding the provisions above, an individual trader is required to pay the tax amount equivalent to half of that paid for the immediately preceding regular return period. Tax amount less than 200,000 won is not collected.

(b) If an individual trader whose tax amount to be reported under a preliminary return, due to the suspension of the business, business depression, or his or her wishes of an early refund, is less than one-third of the amount of tax paid for the immediately preceding regular return period, then the actual tax amount collected or refundable during the preliminary return period may be reported.

(2) A trader shall pay the tax amount payable for the preliminary return period to the appropriate tax office at the time of filing the return.

(3) If a trader is approved as a taxable unit by the superintendent of the competent tax office of his or her main place of business, the trader shall sum up and report to the superintendent the tax returns for all business places.

b. Final Returns and Payment

(1) A trader must file to the competent tax office a return on the tax base and the tax amount payable or refundable in respect of each taxable period within 25 days after the expiration of the taxable period concerned.

(2) A trader is required to pay the tax amount payable to the competent tax office at the time of filing the return.

(3) If a trader is approved as a taxable unit by the superintendent of the competent tax office of his or her main place of business, the trader shall sum up and report to the superintendent the tax returns for all business places.

c. Presentation of a Schedule of Summary of the Tax Invoices

(1) A trader is required to submit an aggregate summary of the tax invoices classified by sales place and purchase place at the time of the preliminary return or final return. However, if prescribed by law or the Presidential Decree, a trader may submit the above documents at the time of the final return concerned.

(2) A trader may submit to the competent tax office a schedule of tax invoices which he or she failed to submit at the time of filing each preliminary return and at the time of the final return for the taxable period in which the preliminary return period concerned falls upon.

(3) Collectors of customs houses who issued tax invoices and the national and local authorities, associations of local authorities, or the other bodies that received tax invoices should, even if they are not liable to pay value-added tax, submit to the competent tax office a schedule of the tax invoices.

d. Payment Place

A taxable person is required to pay the value-added tax at each business place. However, in the cases where a trader has more than two business places, he or she may pay the entire value-added tax at the main business place with approval from the competent tax office having jurisdiction over the main business place.

e. Reverse Charge

(1) A person who receives supply of services or intangibles from a non-resident or foreign corporation in the case of (1) or (2) shall collect the VAT at the time of the payment for such services and pay the amount to the government, except in the cases where services received are used in taxable operations.

(a) A non-resident or a foreign corporation not owning a place of business in Korea

(b) A non-resident or a foreign corporation with a permanent establishment supplies service not attributable and related to a domestic place

(2) Where either (a) or (b) supplies services or intangibles through an agent, which is registered according to the Korean VAT Law, the services or intangibles are deemed to be supplied by the agent; thus, the agent should pay the VAT for the services and intangibles originally supplied by either (a) or (b).

f. Tax Manager

(1) Where an individual trader falls under any of the following categories, he or she should designate a tax manager to deal with the filing of tax returns, payment, refund and any other necessary matters, and report to the competent tax office:

(a) Where he or she is not normally stationed at the business place

(b) Where he or she intends to stay in other countries for a period of more than six months

(2) If a trader deems it necessary, he or she may designate a tax manager with certain qualifications to deal with the filing of tax returns, payment, refund and any other necessary matters

7. Adjustments, Collection, and Refund

a. Adjustments

(1) Adjustments

Only in the following cases shall the competent tax authority reassess, through an investigation, the value-added tax base and tax amount payable or tax amount refundable for the taxable period:

(a) When the final tax return is not filed

(b) When details of the final tax return are erroneous or have any omissions

(c) When filing the final tax return, a schedule of summary of the tax invoices has not been submitted in whole or in part

(d) In the cases other than under (a) to (c), where value-added tax is likely to be evaded for the following reasons:

i) When the place of business is changed frequently

ii) When the place of business is located in an area where places of business are deemed to change frequently

iii) When the business is in a state of suspension from operations or liquidation

(2) Adjustment by estimation

In the case of a reassessment of tax amount payable or tax amount refundable for each taxable period pursuant to the provision of (1), the competent tax authority shall reassess them on the basis of tax invoices, accounting books, and any other evidence; however, in the following cases, the reassessment may be made by estimation:

(a) When the tax invoices, accounting books, and any other evidence necessary for the calculation of the tax base are either missing or incomplete in major portions

(b) When details of the tax invoices, accounting books, and any other evidence are evidently false in view of the capacity of the facilities, number of employees, and the market prices of raw materials, commodities, products, or various charges

(c) When details of the tax invoices, accounting books, and any other evidence are evidently false in view of the quantities of raw materials used, electric power used, and other operating status.

b. Inquiry and Investigation

(1) Where it is necessary to make an investigation, the tax officials concerned may make an inquiry into the related matters or investigate business records and articles related thereto.

(2) Where it is necessary to preserve the right for value-added tax or to investigate the matters related thereto, the competent tax authority may order taxpayers to present business records and articles related thereto, and may request any other necessary materials.

c. Penalty Tax

Type		**Coverage**	**Applied amount**	**Penalty tax rate**	**Etc.**
①Registration	ⓐ Penalty tax for non-registration	In the case of non-registration	Supply price	1%	0.5% of supply price for simplified taxpayers
	ⓑPenalty tax for false registration	In the case of being registered under others' name	Supply price	1%	

②Revenues	ⓐPenalty tax for non-issuance of tax invoice	In the case of non-issuance of tax invoice	Supply price	2%	
	ⓑPenalty tax for false tax invoice	In the case of issuing tax invoice without providing goods and services	Supply price	2%	
	ⓒPenalty tax for issuing tax invoice under others' name	In the case of issuing tax invoice under the name other than the supplier of goods and services	Supply price	2%	
	ⓓPenalty tax for incomplete tax invoice	In the case where tax invoice contains omission or false information	Supply price	1%	
	ⓔPenalty tax for non-submission of aggregated tax invoice on a place of sales basis	In the case where aggregated tax invoice is not filed on a place of sales basis	Supply price	1%	
	ⓕPenalty tax for incomplete tax invoice on a place of sales basis	In the case where aggregated tax invoice contains omission or false information	Supply price	1%	

	ⓖPenalty tax for delayed submission of aggregated tax invoice	In the case of submitting estimated tax liability when filing confirmation report	Supply price	0.5%	
	ⓗPenalty tax for delayed submission of e-tax invoice	In the case of submitting e-tax invoice to the Commissioner of NTS after passing the due date by 15th of the following month of the last day of taxable period to which supply belongs	Supply price	0.1%	
	ⓘPenalty tax for non-submission of e-tax invoice	In the case of not submitting e-tax invoice to the Commissioner of NTS by 15th of the following month of the last day of taxable period to which supply belongs	Supply price	0.3%	
③Purchase	ⓐPenalty tax for incorrect aggregated tax invoice on a place of purchase basis	ⓐIn the case where supply price is inflated or false	Supply price	1%	
		ⓑIn the case of receiving tax invoice after issuance period			

		ⓒIn the case where input tax deduction is allowed through tax invoice after authorities confirm revision claims			
	ⓑPenalty tax for false tax invoice	In the case of receiving tax invoice without getting goods and services	Supply price	2%	
	ⓒPenalty tax for receiving tax invoice under other's name	In the case of receiving tax invoice under the name other than the supplier of goods and services	Supply price	2%	
④Penalty tax for incorrect filing of zero-rated tax base		In the case of non-reporting, underreporting and non-submission of necessary document	Supply price	0.5%	
⑤Exclusion of overlapping penalties		ⅰ) Excluding ②-ⓓⓔⓕⓖ from ① ⅱ) Excluding ①②-ⓔⓕⓖ, ③-ⓐfrom②-ⓐⓑⓒ ⅲ) Excluding ②-ⓓ from ②-ⓔⓕⓖ ⅳ) In the case of ⑤, excluding estimated tax liability upon confirmation reporting			
⑥Reduction of penalty tax		ⅰ) In the case of reporting for correction within 6 months: penalty tax for underreporting and inflated refund reporting ⅱ) In the case of late reporting within 1 month: penalty tax for non-reporting ⅲ) In the case of late submission within 1 month: penalty tax for non business registration, for			

	incorrect submission of aggregated tax invoice (on a place of sales basis) and for incorrect submission of bill)
⑦Penalty tax for incorrect reporting and payment	Stipulated in national tax law

d. Collection

(1) Where a trader has actually paid the tax amount which is less than the returned tax amount, the competent tax office should, in such a manner as is used for the collection of national tax, collect the unpaid tax amount, or in the case of adjustment or correction, the additional tax amount payable.

(2) Where a trader has failed to file a preliminary return, or has filed an incorrect or incomplete return, the competent tax office may investigate and determine the tax base and tax amount and collect the tax amount due.

(3) Collectors at customs houses collect value-added tax in such a manner as is used for the collection of customs duties.

e. Refund

(1) Ordinary refund

The competent tax office refunds to a trader the tax amount refundable for each taxable period concerned based on each taxable period.

(2) Early refund

Where a trader falls under any of the following categories, the competent tax office may refund the tax amount refundable to the trader within 15 days from the ending date of the preliminary return:

(a) In the case of zero-rate;

(b) In the case where a trader newly establishes, acquires, expands, or extends the business facilities.

8. Simplified Taxation

a. Individuals Eligible for Simplified Taxation

VAT is chargeable on the basis of turnover for a trader whose gross turnover (or proceeds including VAT) of the supply of goods or

services deriving from all his business places during the immediate preceding year is less than 48 million won (called “a trader eligible for simplified taxation"). However, a trader engaged in mining, manufacturing, professional business such as lawyers, accountants, entertainment business subject to individual consumption tax, wholesale, or real estate sales business shall be excluded from the range of a trader eligible for simplified taxation.

b. Tax Base and Tax Amount

(1) Tax base: turnover during the taxable period

(2) Tax amount payable:

Tax amount payable = Aggregate amount of supply during the concerned taxable period × the rate of value-added as prescribed by the Presidential Decree for the category of business concerned (ranging from 5% through 50% based on calculated average rate of value-added for each category of business reported for the immediately preceding 3 years) × 10%

c. Tax Returns and Payment

(1) Return and payment period

A person eligible for simplified taxation is required to file a return and pay the tax amount due within 25 days from the end of the taxable period concerned.

(2) Presentation of tax invoices

A person eligible for simplified taxation should at the time of each final return submit the received tax invoices or a schedule of summary of tax invoices classified by place of purchase to the competent tax office.

d. Adjustment and Collection

(1) The tax base and tax amount payable of a person eligible for simplified taxation may be collected in the same manner as normal taxation.

(2) Regarding penalty tax and collection, penalty taxes related to tax

invoice are not levied on. Additionally, penalty taxes for individual traders that fail to register are imposed an amount equivalent to 0.5% of VAT included consideration.

(3) Where the tax amount payable is less than 24 million won in a taxable period, the tax shall not be collected.

e. Waiver of Simplified Taxation

A person eligible for simplified taxation may elect to be taxed in the normal way, and if so, he or she must make a report thereon to the competent tax office.

Chapter VII: Individual Consumption Tax

1. Taxpayer

Any person who falls under one of the categories below is liable to Individual Consumption Tax.

a. A person who manufactures or imports taxable goods (e.g. slot machines, luxury furniture/carpet, or oil products)

b. A person who sells Class 3 taxable goods (e.g. jewelry, pearls, etc. and its products, excluding diamonds for industrial use)

c. Operators of such taxable places as horse race courses, bicycle race courses, slot machine clubs, golf courses, casinos, nightclubs, etc.

2. Tax Base

a. Tax Base

(1) In the case taxable goods that are manufactured, the price or the volume at which the goods are taken out of the place of manufacture

(2) In the case of importation, the price or the volume at the time of declaration (the sum of the customs value and the related customs duties levied thereon)

(3) In the case of Class 3 taxable goods that are sold, the sales price

(4) In the case of an admission to taxable places, the number of persons

(5) In the case of the use of entertainment taverns or saloons, the amount of money charged

(6) In the case of business operations in taxable place of business (casinos), gross annual sales amount (amount received from customers – amount paid)

From 2012, Gangweon Land Casino became the taxable place of business where (6) applies to.

* Foreigners-only casinos will become the taxable place of business where (6) applies to from 2014.

b. Amounts of Individual Consumption Tax, Education Tax, and Value-Added Tax are not included in the tax base.

3. Tax Rates

a. Taxable Goods

(1) Class 1: 20%

(a) Slot machines, pin-ball machines, and other similar recreational machines; and

(b) Hunting guns or rifles.

(2) Class 2: 7%

(a) Deer antlers and royal jellies; and

(b) Perfumes and colognes

(3) Class 3: 20% (The tax rate of 20% is levied on the excess of the sales price over two million won)

(a) Jewelry (excluding diamonds for industrial use, unprocessed original stones), pearl, tortoise-shell, coral, amber, ivory, and their products; and

(b) Precious metal products

(4) Class 4:

The tax rate of 20% is levied on the excess of the sales price over two million won (five million won per piece or eight million won per set in the case of luxury furniture):

(a) Luxury camera and accessories

(b) Luxury watches

(c) Luxury fur skin and its products (excluding rabbit skin and raw fur skin)

(d) Luxury carpets

(e) Luxury furniture

(f) Luxury bags (effective from Jan. 1, 2014)

(5) Class 5:

(a) Automobiles with engine displacement in excess of 2,000 cc and cars for camping: 6%*

* (a) are taxed at the rate of 5% from 2015.

(b) Automobiles with engine displacement of 2,000 cc or less (excluding those with engine displacement of 1,000 cc or less), and two-wheeled motorcycles with engine displacement in excess of 125 cc: 5%

(6) Class 6:

(a) Kerosene: 90 won/ℓ (63 won/ℓ effective from July 1, 2014)

(b) Heavy fuel oil: 17 won/ℓ

(c) Propane gas: 20 won/kg (in case of propane gas for domestic and commercial use, 14 won/kg effective from July 1, 2014)

(d) Butane gas: 275 won/kg

(e) Natural gas (including liquefied form): 60 won/kg (42 won/kg effective from July 1, 2014)

(f) Bituminous coal (effective from July 1, 2014):

19 won/kg applicable to net calorific value of 5000 ㎉/ kg or more

17 won/kg applicable to net calorific value of less than 5000 ㎉/ kg

* With regard to gasoline and diesel oil, not Individual Consumption Tax but Transportation·Energy·Environment Tax will be levied until the end of 2015.

(7) Class 7: 5%

(a) Electric cooler: monthly power consumption of 370kWh or more

Except coolers with cooling capacity of 10Kw or more

(b) Electric refrigerator: monthly power consumption of 40kWh or more

Except refrigerators with capacity of 600L or less

(c) Electric washing machine: power consumption per wash of 720Wh

(d) Television Set: power consumption of 300W or more

Except TV set of 107cm (42”) or less

* However, among the above-mentioned products, those which obtained the 1st level of energy efficiency rating are exempt from taxation.

b. Taxable Places

(1) Group 1:

The individual consumption tax rates on the following taxable places are:

(a) Horse race park: 1,000 won per person

(b) Slot machine places: 10,000 won per person

(c) Golf courses: 12,000 won per person

(d) Casinos: (Korean) 50,000 won per person, (Foreigner) 2,000 won per person

* Gangweon Land Casino: (Korean) 5,250 won per person

(Foreigner) free

* Foreigners-only casinos: (Korean) Not admitted

(Foreigner) free

(e) Bicycle race park, Motorboat race park: 400 won per person

(2) Group 2:

Entertainment taverns or saloons, etc.: 10%

(3) Group 3:

Where gross annual sales from business operations in taxable place of business (casinos) is:

(a) Less than 50 billion won: 0%

(b) More than 50 billion won - 100 billion won: 2% to the amount exceeding 50 billion won)

(c) More than 100 billion won: 1 billion won + (4% to the amount exceeding 100billion won)

4. Tax Returns and Payment

a. A taxpayer who sells or takes taxable goods out of the place of manufacture shall file a tax return containing volume, price and tax base, amounts of unpaid tax or tax exemption, amounts of tax credit and refund, etc., by the 25th of the month following the quarter in which the sales or the taking out of the manufacture of the taxable goods takes place, and shall pay the tax amount due by that time. (In the case of oil, by the end of the month following the month in which the taking out takes place)

b. Where a taxpayer importing taxable goods has made an import declaration, he or she is regarded as complying with the obligation to file a tax return.

c. Operators of taxable places of Group 1 shall file a tax return by the 25th of the month following the quarter in which a taxpayer uses the taxable place and pay the tax amount due by that time (in the case of Group 2, by the 25th of the month following the month; in the case of Group 3, by the end of the March following the year).

5. Non-Taxable Goods

(1) Goods directly manufactured by a person (excluding a corporation) for his or her own use or the use by his or her family member

(2) Goods to which the simplified tariff are applicable under the Customs Law

(3) Goods on which liquor tax is imposed

(4) Goods confiscated under the Livestock Products Processing and Dealing Law, the Drugs, Cosmetics and Medical Instruments Law, or the Food Sanitation Law

a. Exemptions

(1) Exemption on exportation or supply to the military

Goods exported or supplied to foreign military forces stationed in Korea are exempt from Individual Consumption Tax upon application for exemption.

(a) Where a taxpayer fails to prove the facts of exportation or supply to foreign military forces within the prescribed period, the Individual Consumption Tax is charged retroactively.

(b) Where the goods exempted on the condition that they are supplied to foreign military forces are transferred to or held by other person within 5 years from the day of the approval for the exemption, the transferee or the holder is liable Individual Consumption Tax.

(2) Exemption for diplomats

(a) Goods imported or purchased from the manufacturer for official use by foreign diplomatic offices

(b) Goods imported for the personal use by foreign diplomats, and their family members

(c) Oil and its products used by the diplomatic offices stationed in Korea

(d) Where the exempted goods are transferred to or held by other persons within 3 years from the day of the approval for the exemption, the transferee or the holder is liable to Individual Consumption Tax

(3) Exemption for foreigners-only sales outlets

(a) Specific goods (e. g., jewelry, automobiles, etc.) for sale to non-residents or foreign diplomats at designated sales outlets exclusively used by foreigners

(b) Where a person who has acquired the tax exempt goods at the said sales outlets does not possess the goods at the time of departure from Korea, or where the tax exempt goods are in the hands of a person who does not qualify for the acquisition of goods at the said sales outlet, the Individual Consumption Tax due is assessed retroactively.

(4) Conditional exemption

When the conditions required for exemption are not satisfied, the Individual Consumption Tax is assessed retroactively.

(a) Goods used for the production of atomic energy or an isotope, or for the development of atomic reactor pile

(b) Jewelry for industrial or experimental use

(c) Automobiles purchased by disabled persons (tax exemption is allowed for only one automobile per disabled person, regardless of the size of engine displacement driven by a disabled person or others living with him), and automobiles used exclusively for the purpose of transportation of patients and rental business purpose (automobiles which have been rented to the same person or corporation for a period or periods exceeding 1 year within 5 years from the time of purchase are excluded), passenger vehicles imported and used for the purpose of test or research to develop new products or new technologies by R&D center or a department of a corporation

(d) Goods donated from foreign countries to charity or relief organizations

(e) Goods donated from foreign countries for religious services

(f) Sample goods or reference goods used at schools, nursery schools, museums or other display places

(g) Goods donated from foreign countries to an academic or educational institution for academic research or educational purposes

(h) Duty-exempt goods taken out of a bonded area that are to be re-exported

(i) Oil and its products used for aircraft, deep sea fishing vessels, or vessels in international navigation

(j) Oil for medical use, manufacture of medical goods, fertilizers, agricultural chemicals, or raw materials for the petrochemical industry

(k) Articles of consumption to be used in foreign trade vessels, deep sea fishing vessels or aircraft used in international traffic, other than fuel

(l) Luxury cameras for the purposes of broadcasting, newspaper reports, communication, school education, or nursery school education

(5) Unconditional exemption

(a) Goods donated to a foreign charity or relief organization

(b) Decorations or other similar articles and letters of commendation conferred from foreign countries

(c) Official goods sent by Korean embassies abroad or from military ships in foreign navigation

(d) Containers of export goods that are re-imported

(e) Goods donated to the government, or local authorities

(f) Goods imported for military aid purpose or munitions made from such goods

(g) Duty exempt personal effects personally carried by or separately imported goods of a person who enters Korea

(h) Duty exempt goods of a small sum donated to residents

(i) Duty exempt commercial samples or advertisement goods imported from abroad

(j) Goods carried out for display at foreign exhibition grounds

(k) Re-imported goods on which individual consumption tax was imposed and credit or refund was not granted thereon

(l) Goods to be used for the secret service of the chief of state

6. Tax Credits and Refund

a. Tax Credits

Where goods or raw materials on which the Individual Consumption Tax was charged or is chargeable come under one of the following categories, the tax charged or chargeable is credited against the concerned tax amount payable.

(1) Taxable goods are delivered from a manufacturer or bonded area and are directly used for the manufacture or processing of other taxable goods

(2) Class 3 taxable goods (e. g., jewelry, pearls, etc.) purchased from other sellers or manufacturers, or delivered from a bonded area, are sold

(3) Taxable goods which were delivered from a manufacturer or bonded area, are carried out after some additional work done to them

b. Refund

Where goods or raw materials on which individual consumption tax was charged or is chargeable come under one of the following categories, the paid tax amount is refundable or deductible.

(1) Taxable goods or their products exported or supplied to foreign military stationed in Korea

(2) Goods that are exempt from individual consumption tax and goods used as raw materials for such goods

(3) Taxable goods returned to the manufacturing site (excluding used articles, but including ones returned by exchange and refund under the Consumer Protection Law)

c. Miscellaneous Rule

(1) In the case where the Individual Consumption Tax is collected with respect to the goods for which the conditions for exemption are not satisfied, the tax amount paid or payable on the raw materials of the said goods is not creditable or refundable.

(2) Penalty taxes chargeable on the goods subject to Individual Consumption Tax are not creditable or refundable.

Chapter VIII: Liquor Tax

1. Taxpayer

a. Manufacturers of liquor and persons taking over liquor from a bonded area are liable to liquor tax on the liquor carried out of the manufacturing premises or taken out of the bonded area.

b. A person who intends to manufacture or sell liquor must get a manufacturing license or a selling license from the government.

2. Tax Base

a. Spirits (alcohol content 85% or more): the volume of liquor carried out of the brewery or taken out of a bonded area

b. Liquor other than spirits: The price of liquor carried out of the brewery or taken out of a bonded area

3. Tax Rates

a. Spirits (specific tax system)

57,000 won per ㎘ (600 won is added for every additional 1% which exceeds 95% of alcohol content)

b. Other Liquor (ad valorem tax system)

(1) Takju	5%
(2) Yakju	30%
(3) Beer	72%
(4) Cheongju	30%
(5) Fruit wine	30%
(6) Distilled soju	72%
(7) Diluted soju	72%
(8) Whiskey	72%
(9) Brandy	72%

(10) General distilled spirits 72%

(11) Liqueur 72%

(12) Other liquors

(a) Liquors made by fermenting method other than fermented liquor: 30%

(b) Liquors, except distilled liquor mixed with the fermented method and neutral spirits or distilled liquor: 72%

4. Tax Returns and Payment

a. A liquor manufacturer who carries liquor out of the manufacturing premises must file a return including the type of liquor, the degree of alcohol contained, the quantity, the price, the tax rate, the calculated amount of tax, the amount of tax to be credited or refunded, and the tax amount due on a quarterly basis to the head of the district tax office having jurisdiction over the place of tax payment by 25th of the month following the quarter in which the liquor is carried out of the manufacturing premises.

b. With respect to liquor taken out of a bonded area, the return must be filed and the recipient must pay the tax at the time of takeover.

c. Where the return has not been filed, or the contents or filed return are not proper, the government will determine the tax base and the tax amount due.

5. Exemptions

The following items of liquor are exempt from liquor tax:

a. Liquor to be exported

b. Liquor supplied to foreign military forces stationed in Korea

c. Liquor supplied to Korean forces stationed abroad

d. Liquor supplied to foreign diplomatic missions in Korea

e. Liquor supplied to lounges for foreign crews

f. Liquor imported by foreign diplomatic missions for official use and by diplomatic officials for self-use

g. Liquor presented from a foreign country for ceremonial use by temples, churches, and other religious institutions

h. Liquor collected for the purpose of examination

i. Liquor carried by tourists and exempted from customs duties

j. Liquor manufactured by a person who knows a secret method of brewing, and is designated as an intangible cultural asset

Chapter IX : Stamp Tax

1. Taxpayer

a. Stamp tax is levied on a person who prepares a document certifying establishment, transfer, or change of rights to property in Korea.

b. In the case where two or more persons jointly prepare a document, they are jointly and severally liable to pay stamp tax on the document concerned.

2. Taxable Documents and Tax Amount

Taxable document	Value stated on the deed	Tax amount
1. Deed of contract concerning the transfer of the ownership of real estate, vessel, aircraft, or business	10 - 30 million won	20,000 won
2. Deed of contract concerning loans for consumption	30 - 50 million won	40,000 won
3. Deed of contract concerning contract for work	50 - 100 million won	70,000 won
4. Deed concerning the transfer of mining rights, intangible property right, fishing right, copyright, or firm name right	100 million - 1 billion won	150,000 won
5. Deed concerning rights of usable facilities (Golf and condominium membership cards)	Over 1 billion won	350,000 won
6. Deed concerning the transfer of registered movable property (car, heavy machinery, vessel)	N/A	3,000 won
7. Deed concerning transactions conducted on a continuous/ repetitive basis a. Application form for a credit card	N/A	1,000 won

b. Contract or application form for wired telephone service		1,000won
c. Application form for credit card merchant		300won
10. Gift voucher, prepaid card	Over 50,000 won	400won
	10,000 - 50,000 won	200won
11. Share certificate, bond, investment certificate, beneficiary certificate	N/A	400 won
12. Deposit or savings certificate or passbook, repurchase agreement, insurance policy and trust certificate or passbook	N/A	100 won
13. Deed of contract concerning lease or deferred payment sale	N/A	10,000 won
14. Deed concerning guarantee of an obligation:	N/A	
a. Deed issued by a bank		10,000 won
b. Deed issued by the Credit Guarantee Fund		1,000 won
c. Deed issued by an insurer		200 won

***** Stamp tax is levied on a copy of deed basis or on a per volume of passbook basis.

3. Payment

A taxpayer preparing a taxable document shall pay stamp tax by putting a stamp on the document. However, the commissioner of Korean Intellectual Property Office (KIPO) has the authority to collect and pay stamp tax on the transfer of intellectual property right.

In the case of taxable documents prepared on a continuous/ repetitive basis, the director of the tax office concerned may permit the taxpayer to pay the tax in cash by the tenth day of the month following the month in which the document is prepared, if the taxpayer applies for such payment method.

4. Non-Taxable Documents

a. Documents prepared by the government or local authorities

b. Documents prepared with respect to the treatment of treasury funds

c. Documents submitted to government agencies with respect to a donation for public works

d. Documents prepared by charity or relief organizations with respect to their businesses

e. Certificates of acceptance or guarantee of bills

f. Copies or transcripts of negotiable securities

g. Deeds of contract concerning the ownership of a residential house valued at 100 million won and less

h. Deeds of contract concerning loans for consumption of 40 million won or less

i. Currency stabilization bonds issued by the Bank of Korea

j. Bonds issued by international financial bodies and deeds prepared with respect to the issuance of such bonds

k. Deeds concerning things only for mail in accordance with the Postal Service Act

5. Penalty Tax

If a taxpayer did not pay the stamp tax due or the paid amount is less than the due amount, an amount equivalent to 300% of the outstanding tax amount is charged as penalty tax.

Chapter X: Securities Transaction Tax

1. Taxpayer

a. Korea Securities Depository

b. Financial investment business entity

c. Alienator of securities. Provided, That where a non-resident or foreign corporation that does not have any place of business in Korea transfers share certificates, etc., not through any financial investment business operator, the transferee of such share certificates, etc. shall be the taxpayer.

2. Taxable securities or interests

Securities Transaction Tax (STT) is imposed on the transfer of stocks of a corporation established under the Commercial Code or any special law, or on the transfer of interest in an unlimited partnership, limited partnership, limited liability company, or limited company established under the Commercial Code. However, the transfer of stocks listed on overseas stock exchanges such as the NYSE, the NASDAQ, the Tokyo Stock Exchange, the London Stock Exchange, the Deutche Boerse AG, the Euronet Stock Exchange, the Singapore Exchange Limited and foreign stock exchanges similar to the above-mentioned stock exchanges are not be subject to STT.

3. Tax Base

Total value of securities at the time of alienation

4. Tax Rates

a. General: 0.5%

b. Temporary tax rates may be applied to stocks listed on the Securities Market and the KOSDAQ Market of the Korea Exchange, if deemed necessary to boost the capital market. (Applicable temporary rates: 0.15% for the Securities Market-listed, 0.3% for the KOSDAQ-listed)

5. Collection at Transaction

The Korea Securities Depository, Financial investment business entity and transferee are required to collect tax at the time of transaction. The tax amount to be collected is computed by multiplying the tax base by the tax rate.

6. Tax Returns and Payment

Taxpayers shall file tax returns and pay taxes to the government by the 10th day of the month following the month in which the transaction takes place.

Chapter XI: Transportation·Energy·Environment Tax

1. Taxpayer

Any person falling under one of the following categories is liable to Transportation·Energy·Environment Tax.

a. A person who produces gasoline & similar alternative oil, and diesel oil & similar alternative oil

b. A person who imports gasoline & similar alternative oil, and diesel oil & similar alternative oil

2. Tax Base and Tax Rates

a. Gasoline and similar alternative oil: 475 won/ℓ

b. Diesel oil and similar alternative oil: 340 won/ℓ

* Flexible rates are specified in the Presidential Decree. Actual rates are 529 won/ℓ for gasoline and 375 won/ℓ for diesel oil.

3. Tax Returns and Payment

a. A person who manufactures and transports taxable goods from the manufacturing premises shall file a return which includes the volume and price of transaction, calculated tax amount, amount of unpaid tax or tax exemption, amount of tax credit and refund, tax amount payable, etc., by the end of the following month with the government, and pay a monthly tax due by the deadline to file the return.

b. When a person transports taxable goods out of a bonded area and makes an import declaration, he or she shall be regarded as complying with the obligation to file a return. In that case, he or she should pay the Transportation·Energy·Environment Tax along with the customs duties at the time of the import declaration.

c. With respect to goods subject to customs duties other than imported goods, the provisions of the Customs Law are applicable *mutatis mutandis.*

4. Exemptions

a. Exemption on Exportation or Supply to the Military

Goods exported or supplied to foreign military forces stationed in Korea are exempt from Transportation·Energy·Environment Tax upon application for exemption.

(1) In the case where a taxpayer fails to prove the facts of exportation or the facts of supply to foreign military forces within the prescribed period, Transportation·Energy·Environment Tax is charged retroactively.

(2) In the case where the goods exempted on the condition that they are supplied to foreign military forces stationed in Korea are transferred to other person, the transferee is liable to Transportation ·Energy·Environment Tax.

b. Exemption for Diplomats:

Goods being used by foreign diplomatic offices, etc., are exempt from Transportation·Energy·Environment Tax.

c. Conditional Exemption

When the conditions required for exemption are not satisfied, the Transportation·Energy·Environment Tax is assessed retroactively.

(1) Goods donated by foreign countries to a charity or relief organization

(2) Duty-free goods taken out of a bonded area that are to be re-exported

(3) Commodity goods to be used abroad in vessels, deep sea fishing vessels, or aircraft

(4) Articles for medical care or manufacture of medical goods, fertilizers, or petrochemicals

d. Unconditional Exemption

(1) Goods donated to a foreign charity or relief organization

(2) Goods donated to the government or local authorities

(3) Goods imported for military aid purpose or munitions made from such goods

(4) Re-imported goods on which the Transportation·Energy·Environment Tax was imposed and credit or refund was not granted thereon

5. Tax Credits and Refund

a. Tax Credits

In the case where goods or raw materials on which the Transportation·Energy·Environment Tax was or will be charged, are taken out from the manufacturing premise or the bonded area, and are directly used for manufacturing or processing of other taxable goods, the tax charged or to be charged on the goods or raw materials is credited against the tax amount payable on the taxable goods concerned.

b. Refund

In the case where goods or raw materials on which the Transportation·Energy·Environment Tax was or will be charged fall under one of the following categories, the paid tax amount is refundable or deductible.

(1)Where the taxable goods or products manufactured with the use of such taxable goods are exported or supplied to foreign military forces stationed in Korea

(2)Where goods made of taxable raw materials are exempted from Transportation·Energy·Environment Tax

(3) Where the taxable goods are returned

(4) Where the taxable goods are used for medical care, for the manufacture of medicines or fertilizers, for aircraft, vessels in foreign navigation, deep sea fishing vessels, or by foreign diplomatic corps or similar organizations

c. Miscellaneous Rule

(1) Where the Transportation·Energy·Environment Tax is collected with respect to the goods, which do not fulfill the conditions for exemption, the tax amount paid or payable on the raw materials of the said goods shall not be credited or refunded.

(2) Tax penalties chargeable on the goods subject to the Transportation·Energy·Environment Tax shall not be credited or refunded.

Chapter XII: Education Tax

1. Taxpayers

a. Persons engaged in banking and insurance businesses in Korea

b. Taxpayers of individual consumption tax pursuant to the Individual Consumption Tax Law (excluding those who pay individual consumption tax on LPG, petroleum, diesel oil, and LNG)

c.Taxpayers of Transportation·Energy·Environment Tax pursuant to the Transportation·Energy·Environment Tax Law

d. Taxpayers of liquor tax excluding spirits, "Takju,"and"Yakju"

2. Non-Taxable Income

Concerning the banking and insurance businesses, profits from property placed in trust for public welfare shall not be liable to education tax.

3. Tax Base and Tax Rates

Taxpayer	Tax base	Rate
Banking and insurance business	Gross receipts	0.5%
Taxpayer of individual consumption tax	Individual consumption tax amount payable pursuant to the Individual Consumption Tax Law	30% (15% in the case of kerosene, heavy oil, butane or LPG, heavy end, and $C9^{+}$)
Taxpayer of transportation·energy· environment Tax	Transportation·energy· environment tax amount payable pursuant to the Transportation·Energy· Environment Tax Law	15%
Taxpayer of liquor tax	Liquor tax amount payable pursuant to the Liquor Tax Law	10% (30% when liquor tax rate is over 70/100)

* The tax rates illustrated above may be adjusted within 30% of each rate if needed to raise funds for investment in education.

a. Regarding banking and insurance businesses, the education tax payable in relation to the share of gross receipts from swap transaction with the Bank of Korea shall not exceed the net income amount

b. Regarding banking and insurance businesses, gross receipts consist of the following amounts received within Korea:

(1) Discount income

(2) Commissions and dividends

(3) Trust fees

(4) Rent

(5) The sum of the followings:

(a) Profits or losses on foreign exchange transactions

(b) Aggregated profits and losses of transactions of derivatives, etc.

(6) Rent earned

(7) Disposal value of fixed assets

(8) Other operating or non-operating revenue

4. Tax Returns and Payment

a. With regard to the Taxpayers Described in 1a

Taxpayers shall file education tax returns with and pay the tax to the district tax office concerned by the due date as specified below:

	Taxation Period	**Due Date**
First Period	January 1 – March 31	May 31
Second Period	April 1 – June 30	August 31
Third Period	July 1 – September 30	November 30
Fourth Period	October 1- December 31	Last day of the February of the following year

b. With regard to the Taxpayers Described in 1b, 1c and 1d

When taxpayers declare and pay an amount of individual consumption tax, transportation·energy·environment tax, or liquor tax, as the case may be, they shall also declare and pay education tax thereon.

5. Determination and Collection

a. With regard to 4a

(1) The government will correct the tax base and the tax amount if there are any omissions or errors on the return filed.

(2) When education tax is not paid or is partially paid, the government shall collect the unpaid tax immediately.

b. With regard to 4b

Education tax on the individual consumption tax amount, transportation·energy·environment tax amount, or the liquor tax amount is assessed and collected according to the Individual Consumption Tax Law, the Transportation·Energy·Environment Tax Law or the Liquor Tax Law., as the case may be.

6. Non-Inclusion of the Education Tax Amount in Losses or Necessary Expenses

The education tax assessed on the tax amount not included in losses or necessary expenses under the provisions of the Income Tax Law or Corporation Tax Law is not included in losses or necessary expenses in the calculation of the income amount for the purpose of income tax or corporation tax.

Chapter XIII: Special Tax for Rural Development

1. Objective of Special Tax for Rural Development (STRD)

The objective of the Special Tax for Rural Development (STRD) is to support the rural community and the agricultural and fisheries industry. As a result of the UR negotiations, the farming industry in Korea is subject to market opening. Due to the low productivity of the Korean agricultural industry, the government enacted the Special Tax for Rural Development in July 1994 in order to raise funds for various rural development programs.

2. Taxpayer

a. An individual or a corporation whose tax liability (individual income tax, corporation tax, customs duty, acquisition tax, or registration tax) is reduced under the Special Tax Treatment Control Law (STTCL), the Local Tax Law, or the Customs Law

b. Taxpayers of certain categories of individual consumption tax

c. Taxpayers of securities transactions tax

d. Taxpayers of acquisition tax, and leisure tax

e. Taxpayers of comprehensive real estate holding tax

3. Tax Base and Tax Rates

Basically, the STRD is a surtax levied on the exempted amount of corporation tax, individual income tax, customs duty, individual consumption tax, and securities transaction tax. The tax base of STRD is the exempted amount of the above-mentioned taxes, where the exemptions are stipulated in the STTCL, the Local Tax Law, or the Customs Law. Therefore, the exemptions of the above mentioned taxes which are stipulated in the Corporation Tax Law, Income Tax Law, or Foreign Investment Promotion Law are not part of the tax base of STRD.

Tax base	Tax rate	Remarks
The exempted amount of corporation tax, individual income tax, customs duties, acquisition tax, and	20%	Except for tax reduction for development of technology, public projects, etc.

registration tax under the STTCL, the Local Tax Law and the Customs Law		
The exempted amount of income tax in relation with interest and dividend income under the STTCL	10%	
The transfer price of listed stocks	0.15%	
Individual consumption tax payable	10%	Admission to golf courses: 30%
Acquisition tax payable	10%	Except for small houses or farmhouses *STRD surcharged on auto acquisition tax repealed effective January 1, 1999
Comprehensive real estate holding tax payable	20%	
Leisure tax payable	20%	

4. Effective Period

The STRD took effect on July 1, 1994. The limitation period is 10 years; therefore it is scheduled to end on June 30, 2014.

5. Non-Taxation

a. Tax reductions and exemptions granted to the government (including foreign governments), local authorities and the association of local authorities

b. Acquisition tax reduction for houses of low-income families and farmhouses prescribed by the Presidential Decree

c. Customs duty reduction under international conventions, international practices, etc. prescribed by the Presidential Decree

Chapter XIV: Payment, Collection & Disputes

1. Payment of National Taxes

a. Range of tax rates

Under the Korean tax law, the tax rates applied to different types of tax are broadly classified into proportional and progressive rates. Proportional tax rates are further divided into regular and differential proportional rates. Regular proportional rates are applied to value-added tax (10%). On the other hand, differential proportional tax rates are levied on securities transaction tax, special consumption tax, liquor tax, and transportation·energy·environment tax.

Corporation tax, income tax, and inheritance & gift tax are subject to progressive tax rates, varying upon the tax bracket. For instance, progressive tax rates imposed upon corporation tax are 10% for the amount of 200 million won or less, 20% for the amount between 200 million won and 20 billion won, and 22% for the amount exceeding 20 billion won. Individual income is divided into 5 tax brackets and is subject to tax rates ranging from 6% to 38%. Taxable amounts in the inheritance & gift tax are divided into 5 tax brackets and are subject to tax rates between 10% and 50%.

b. Occurrence of tax liability

Certain taxes such as income tax, corporation tax, and value-added tax are established at the end of a taxable period, as prescribed in provisions of the tax law. On the other hand, liability on inheritance tax is established when there is a bequest. Liability on gift tax is established when property is acquired through a gift.

With respect to special consumption tax, liquor tax, and transportation·energy·environment tax, an obligation of tax payment occurs when the taxable goods leave the factory or are sold, and in the case of imported goods, when they are declared for importation at customs. Liability on stamp tax is established when taxable documents are drafted, and in the case of securities transaction tax, when transactions are confirmed.

Finally, liabilities on earmarked taxes such as education tax and special tax for

rural development are established at the same time as when their principal taxes are due.

c. Different assessment methods

The present tax collection system in Korea uses three separate methods: the self-assessment method, the official assessment method, and the special collection method.

Under the self-assessment method, taxpayers themselves assume the primary responsibility for calculation of the tax base and the amount of tax, filing a tax return based upon their calculation and paying the tax due. The tax authorities, however, reserve the right to adjust taxpayers' returns with correction notices. When a taxpayer fails to file a tax return, the tax authorities send by notification the tax base and the amount of tax payable. The self-assessment method is applied to income tax, corporation tax, value-added tax, individual consumption tax, liquor tax, transportation·energy·environment tax, securities transaction tax, and local tax (acquisition tax).

On the other hand, the official assessment method is applicable to inheritance & gift tax, Comprehensive Real Estate Tax, and local tax (property tax). Under this system, the government determines the tax base and the amount of tax due, and issues a notice requiring the taxpayer for the tax payment. Tax file returns are regarded as information different from that used under the self-assessment method.

Finally, the special collection method applies to stamp tax; portions of income tax and corporation tax are subject to withholding tax, and income tax collected by certain taxpayer associations and portions of corporation tax are subject to estimated prepayment.

2. Collection of National Taxes

National taxes are collected in accordance with the National Tax Collection Law, with the objective of securing tax revenue in a predictable manner. The principles of the National Tax Collection Law may also be applied to the compulsory collection of local taxes and other public charges. The Framework Law on National Taxes and other tax laws take precedence over the National Tax Collection Law containing general provisions and procedural regulations.

a. Procedure for Mandatory Collection of Delinquent Taxes

When a taxpayer fails to pay tax of the tax return, or the amount of adjustment or determination by the due date, the tax authorities must collect delinquent taxes in accordance with the National Tax Collection Law.

(1) The primary and secondary notice

Primary and secondary notice of demand requiring payment within the specified time period prescribed by the Framework Law on National Taxes is sent by the director of the tax office exercising jurisdiction over the taxpayer when a taxpayer fails to pay tax in full by the due date.

(2) Attachment

If a taxpayer fails to pay the tax due within the date specified on the notice, the tax authorities have the right to attach the taxpayer's property. Attached property is classified into four categories and different procedures for each category are provided: (1) movable property and securities, (2) immovable property, (3) claims, and (4) other property rights.

(3) Request for share distribution

If the property of a delinquent taxpayer is sold at a public auction, or in connection with bankruptcy liquidation procedures, the tax authorities may claim a share of the proceeds distributed from the sale.

(4) Sale of property

In principle, the attached property is sold publicly by way of tender or auction. The tax authorities publicly notify the property to be sold at least ten days before the date of sale, notifying the delinquent taxpayer and other parties interested in the public sale.

(5) Distribution of proceeds

The proceeds of the property sold are appropriated in order of priority among (1) delinquent taxes for which the property was attached to, (2) other delinquent taxes or public charges for which a share of the distribution was requested, and (3) to creditors with secured private claims on the private property. The remaining proceeds go to the delinquent taxpayer.

3. Tax Disputes

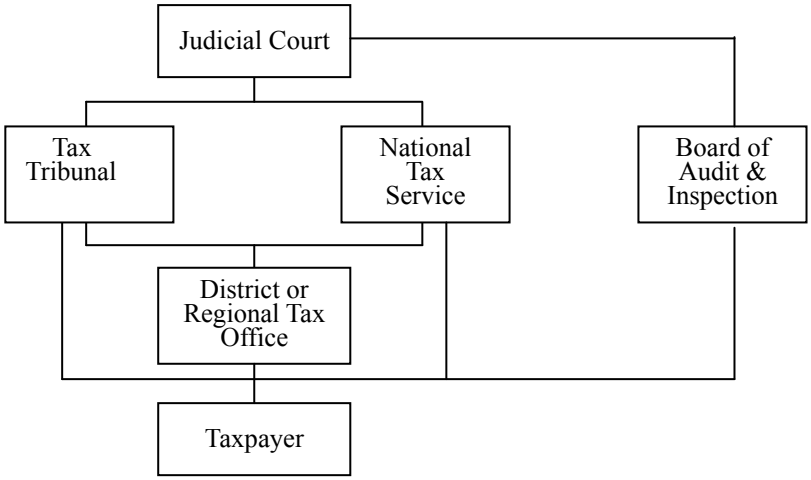
a. Procedures to Be Followed

If a taxpayer believes that certain actions taken by the tax authorities are in violation of the existing tax law, he or she may appeal to the head of a regional or district tax office within 90 days from the date of receiving notice. On receiving a complaint from a taxpayer, the regional or district tax office shall issue a ruling within 30 days. The taxpayer or anyone who guarantees payment of taxes may initiate the legal process of the appeal.

If a taxpayer is not satisfied with an assessment made by the head of a regional or district tax office, they may appeal to the National Tax Service or the Tax Tribunal within 90 days of receiving a written notice from the regional or district tax office. The National Tax Service will make a decision on the case within 90 days. However, taxpayers have an option to appeal directly to the National Tax Service. The Tax Tribunal will issue its decision within 90 days. If the taxpayer is still unsatisfied with the decision rendered by the National Tax Service or the Tax Tribunal, he or she may take the case before the judicial court for the final decision.

Before taking the case to judicial court, reinvestigation of the case by the Board of Audit & Inspection may be elected by the discontented taxpayer within 90 days from the date of receipt of a written notice from the regional or district tax office instead. The Board of Audit & Inspection will issue a ruling within 3 months. If a taxpayer is still not satisfied with the decision rendered by the Board of Audit & Inspection, he or she may then take the case to judicial court. (See the chart of procedures on tax disputes).

<Procedures on Tax Disputes>



* A decision should be made to appeal to the higher authorities within 90 days.

4. Penalties on National Taxes

a. Penalties for Failure to Meet Tax Obligations

Penalties are issued in both administrative and judicial forms if taxpayers, without a reasonable excuse, fail to meet their tax obligations by, for example, neglecting to file a tax return in accordance with the tax laws or by submitting an incorrect tax return by omitting any taxable items.

A reasonable excuse, which justifies a deferral of tax payment, includes the case where a taxpayer incurs serious losses from his or her business. In this case, tax may be deferred with the permission from the head of a district tax office and with collateral worth 120% of the tax amount overdue (110% in the case where the collateral is cash, an insurance policy that guarantees the tax payment or a guarantee written by a bank).

In addition, the Framework Law on National Taxes stipulates that taxes eligible for self-assessment and those withheld at source may be deferred for up to 9 months. The National Tax Collection Law (NTCL) provides for the deferral of tax amount overdue after receiving the primary and secondary notice from a district tax office. The NTCL also allows for a delay of the disposal of attached property, when the tax amount overdue is likely to be collected in the near future. More specifically, if there is a firm conviction that the overdue amount will be paid, then the business is allowed to continue by delaying the attachment of the property. The taxpayer may make payments of the overdue amount in installments and may delay the attachment of property or the disposal of attached property for up to one year.

The administrative penalty is a sanction taken against default such as a failure to file a tax return or a filing of an incorrect tax return. The purpose of imposing additional tax is to ensure the compliance of taxpayers with the existing tax laws and regulations. In such cases, the primary fine of 3% of the original tax amount due and is levied on the defaulting taxpayer. In addition, a secondary fine equivalent to 1.2% of the overdue amount is charged each month for up to 60 months, starting from the due date in the primary notice. Fines are imposed in accordance with the NTCL.

b. Judicial Penalty against Tax Crimes

Another sanction is the judicial penalty imposed against tax crimes in connection with the assessment and collection of tax. The grounds for such penalties as well as their extent are stipulated in the Punishment of Tax Evaders Law and Procedure for the Punishment of Tax Evaders Law, respectively. The major feature of judicial penalties imposed against tax crimes is that certain tax criminals may be subject to both imprisonment and fines. A tax administrator must file charges in order to punish tax criminals.

With respect to legal punishment against tax crimes, people who commit tax crimes and other wrong doings are subject to imprisonment of up to two years, or fines imposed of up to two times the amount evaded. Provided, in the case where the amount is 300 million won or more and more than 30% of the tax amount to be paid, or is 500million won or more, he/she is subject to imprisonment of up to 3 years, or fines imposed of up to three times of the amount evaded.

Those who commit these tax crimes habitually are subject to an additional punishment equivalent to 1/2 of the punishment provided by the relevant law. And those who destroy bookkeeping records or conceal them are subject to imprisonment of up to two years or a fine up to 20,000,000 won.

In the case where a high-income professional does not issue credit card receipt or cash receipt in the transaction of 100,000 won or more, penalty equivalent to 50% of the transaction amount not issued to the person may be levied on.

When tax officials or administrators receive bribery related to their works, they may be subject to an additional penalty equivalent to less than 5 times of the amount of bribery. In addition, director of district tax office imposes fines of two to five times the bribery amount on a person who gives the bribery to such tax officials or administrators.

Oil dealers who evade taxes by using or selling tax-exempt oils on other purposes besides designated ones are subject to the imprisonment of up to 3 years, or fines imposed of up to five times as much as the amount of tax evaded. Moreover, those who manufacture similar petroleum products to evade tax are subject to the imprisonment of up to 5 years, or fines imposed of up to five times the amount of tax evaded.

Chapter XV: The Special Tax Treatment Control Law

Tax incentives aimed at achieving specific national economic objectives were mainly provided for under the Tax Exemption and Reduction Control Law (TERCL) and the Foreign Investment Promotion Law (FIPL) until the enactment of the Special Tax Treatment Control Law (STTCL) on January 1, 1999. Tax incentive provisions for FDI in the FIPL were subsumed into the STTCL as of May 24, 1999.

One important aim of the consolidation of the tax incentive systems under the STTCL is to significantly rationalize tax deferrals, credits, and exemptions granted to a wide range of taxes, by making all tax incentives covered by the STTCL subject to sunset rules. Here, most incentives expire automatically within one to five years unless they are extended.

The major purpose of STTCL is to impose taxes fairly and to implement tax policies effectively by through provisions on tax exemptions and restrictions of such benefits with an ultimate view of contributing to development of the sound economy.

* The following explains major special tax treatments under the STTCL and does not include all special tax treatments. Please refer to the STTCL for detailed information about each special tax treatment and its limitation.

1. Small and Medium-Sized Enterprises

a. Tax Credit for Investment (STTCL §5, due to expire on Dec. 31, 2015)

If SMEs acquire business assets (excluding used and leased assets) such as machinery and equipment or installation of information management system at the point of sales and information protection system, 3% of the acquisition amount is deducted from income tax or corporation tax.

b. Tax Incentives for Newly Established SMEs (STTCL §6, due to expire on Dec. 31, 2015)

(1) Reduction of income tax or corporation tax

When new SMEs are established in areas other than the Seoul metropolitan area or its adjacent areas in order to operate businesses such as mining, manufacturing, construction, restaurant, publishing, video and

audio documentary production and distribution (excluding video watching room operation business), broadcasting, telecommunications, computer programming, system integration and management, information service (excluding business providing news), research and development, advertising, other scientific technology service, service business related to creation and art (excluding self-supporting artists), engineering, distribution, business running private institutes teaching vocational technique, tourist accommodation, international conference, amusement facilities, and tourist facilities, business running welfare facilities for the aged, exhibition, manpower supply and employment, building and industrial facilities cleaning, security and escort service, market research and opinion survey, social welfare service, general urban gas or when new venture enterprises certified by authorities concerned are established, the income tax or the corporation tax for such businesses is reduced by 50% for the first five years including the year during which such income accrues for the first time.

(2) Reduction of local taxes (STTCL §120, §121)

The property tax on business assets belonging to new SMEs or new venture capital enterprises is reduced by 50% for five years after establishment. In addition, the acquisition tax is reduced by 100% for four years.

c. Special Tax Incentive for SMEs (STTCL §7, due to expire on Dec. 31, 2014)

Small and medium-sized enterprises (SMEs) in metropolitan area are eligible for 10% or 20% deduction in corporation tax or income tax. SME in non-metropolitan area are eligible for 5%~ 30% deductions in corporation tax or income tax respectively.

2. Research and Development

The tax incentives below are basically provided to all businesses that meet the given objective conditions without any discrimination.

a. Tax credit for research and human resources (HR) development (STTCL §10)

The larger one between ⓐ and ⓑ will be applied.

ⓐ 40% (50% for SMEs) of the excess of expense incurred for research & HR development conducted by the company itself for that taxable year over the expense incurred for research & HR development conducted by the company itself for the year prior to that year

ⓑ The year's R&D spending x

(1) In the case of an SME: 25/100

(2) In the case where an SME becomes no longer an SME prescribed by the Presidential Decree for the first time, the following rate will be applied:

(a) From the first day of taxable year when the company becomes no longer an SME for the first time to the taxable year that ends within 3years from that date: 15/100

(b) From the date after (a) to the taxable year that ends within 2years from that date: 10/100

(3) In the case of a High Potential Enterprise*: 8/100

* A High Potential Enterprise is an enterprise which is not an SME but carries out businesses that are specified as SME's businesses under Article 2.1 of the Presidential Decree of the STTCL and whose annual sales revenue is 300 billion won or less.

(4) In the case other than 1) through 3): The following formula will be applied (ceiling is 4/100):

3/100 + the share of research & HR development out of income amounts × 1/2

b. Tax Credit for R&D of Growth Industry and Basic Technology (STTCL §10, due to expire on Dec. 31, 2015)

20% (30% in the case of SMEs) of R&D expenses of growth industry and basic technology incurred for that taxable year

c. Tax Credit for Investment in Facilities for Technology and Human Resources Development (STTCL §11, due to expire on Dec. 31, 2015)

The companies purchasing facilities prescribed in the Presidential Decree with the purpose of R&D and job training are eligible for tax credit up to 3%(5% for High Potential Enterprises, 10% for SMEs) of the total prices.

d. Tax Exemption for Income from Technology Acquisition (STTCL §12, due to expire on December 31, 2015)

SMEs purchasing patent rights or utility model rights are eligible for tax credit of up to 7% of the total price (Due to expire on December 31, 2015).

e. Non-taxation on Capital Gains of Venture Capitals (STTCL §13, due to expire on December 31, 2014)

Venture capital companies investing in newly organized SMEs are eligible when they sell off stocks or equity of those SMEs. Corporation tax is exempt for capital gains from such transactions.

f. Income Tax Deduction for Individual Investors (STTCL §16, due to expire on Dec. 31, 2014)

Not more than 40% of the aggregate income shall be deducted from the aggregate income for any one of three years after investment including the year during which the investment is made. The deduction rates are as follows:

(1) Investments in the cooperative associations, including those formed by individual investors, established for start-up SMEs, or investments in trusts for securities investments in venture enterprises: 10% of investment amount

(2) Direct investments in venture enterprises or investments made in venture enterprises through cooperative associations: 50% of the investment amount (30% in the case of excess over 50 million KRW)

g. Exemption of Foreign Engineers from Income Tax (STTCL§18)

(1) A foreign engineer prescribed by the Presidential Decree shall be entitled to the tax exemption on 50/100 of his income tax on earned income derived from his services to a national within Korea for the first two years since the first date on which the foreign engineer concerned offered his services in Korea (Limited to cases where services are offered prior to December 31, 2014).

(2) A foreign engineer shall be eligible for the tax exemption on 50/100 of his income tax on earned income derived from the offer of high technologies prescribed by the Presidential Decree to a foreign-invested company for which corporate tax is exempted under a contract for the introduction of technologies pursuant to the Foreign Investment Promotion Act for the first two years since the date on which the foreign engineer concerned offered his services to a foreign-invested company (Limited to cases where services are offered prior to December 31, 2014).

h. Special Taxation for Foreign Workers (STTCL§18-2)

With respect to income tax on income of foreign executives or employees (excluding laborers hired on a daily basis) which is derived by his services in Korea by not later than December 31, 2012, an amount computed by multiplying the relevant income by 15/100 may be adopted as the amount of such income tax, notwithstanding general way of calculating income tax. In such cases, provisions concerning income taxation, such as tax exemption, deduction, reduction, or tax credit shall not be applicable.

3. Tax Incentives for International Capital Transactions

a. In the cases where interest and commission under one of the following items are paid, income tax or corporation tax shall be exempt.

(1) Interest and commission on foreign currency bonds issued by the State, a local autonomous body, or any domestic corporation

(2) Interest and commission payable on foreign currency liabilities borrowed from a foreign financial institution, or eligible institutions carrying foreign exchange businesses, repayable in foreign currency by any foreign exchange bank

(3) Interest and commission on certificates of deposit in foreign currency from non-residents by a foreign exchange bank, and on notes issued or sold in foreign countries under the Foreign Exchange Transactions Law

b. Tax exemption for dividend income from overseas resources development business (due to expire on Dec. 31, 2012)

If there is any dividend income, out of the income for each business year of a domestic corporation, received by making investments on overseas resources development projects with the government's permission, corporation tax shall be exempt on the portion of the dividend income derived, and will be exempt in the respective country in which the investment is made.

4. Investment

The tax incentives below are basically provided to all businesses that meet the given objective conditions without any discrimination.

a. Tax Credit for Investment in Facilities (excluding used and leased assets) **for Productivity Enhancement** (STTCL §24, due to expire on December 31, 2014)

Where a resident or a domestic corporation invests in one of the following, 3% (7% in the case of SMEs) of the investment amount shall be deducted from income tax and corporation tax.

(1) Facilities for process improvement and automation prescribed by the Presidential Decree

(2) High-tech facilities prescribed by the Presidential Decree

(3) Facilities for the supply chain management system with a depreciation period of 2 years or more

(4) Facilities for the customer relationship management system with a depreciation period of 2 years or more

(5) Facilities for the logistics management system with a depreciation period of 2 years or more

(6) Other systems including the knowledge management system prescribed by the Presidential Decree

b. Tax Credit for Investment in Facilities for Safety (STTCL §25, due to expire on December 31, 2014)

In the case where a national makes an investment in the following facilities (excluding used and leased assets), an amount equivalent to 3/100 of such investment amount shall be deducted from its income tax or corporate tax. However, in case of an SME that has facilities described in (7) below, an amount equal to 7/100 of such investment amount shall be deducted.

(1) Facilities installed to promote rationalization of distribution business prescribed by Ministry of Strategy and Finance ordinance
(2) Check-out stand or research facilities installed in a trustee company by a truster company
(3) Facilities for preventing industrial disaster and maintaining safety of gas supply facilities prescribed by Ministry of Strategy and Finance ordinance
(4) Mining safety facilities prescribed by Ministry of Strategy and Finance ordinance
(5) Facilities reinforced or expanded to carry out one's emergency preparedness duties
(6) Facilities such as inspection facilities installed to prevent hazardous elements from being mixed into livestock or food products or to prevent livestock and food products from being contaminated during the whole process of distribution, including ingredients control, rendering and processing of livestock or food products prescribed by Ministry of Strategy and Finance

(7) Facilities installed to prevent technology from being illegally transferred such as information protection facilities prescribed by Ministry of Strategy and Finance ordinance
(8) Facilities used by an overseas resources developer to develop overseas resources such as drilling and mining facilities

c. Tax Credit for Investment in Energy Saving Facilities (STTCL §25-2, due to expire on Dec. 31, 2013)

Where a resident or a domestic corporation invests in energy saving facilities, 10% of the investment amount shall be deducted from income tax and corporation tax.

d. Tax Credit for Investments in Environmentally Friendly Facilities and Safety Facilities (STTCL §25-3, due to expire on Dec. 31, 2016)

Where a resident or a domestic corporation invests in one of the following, 3%(5% in the case of High Potential Enterprises and 10% in the case of SMEs) of the investment amount shall be deducted from income tax and corporation tax.

(1) Air pollution prevention facilities

(2) Fuel supply facilities for the non-pollution or low-pollution automobiles

(3) Noise or vibration prevention facilities, sound-proof or vibration-proof facilities

(4) Livestock wastewater and sewage treatment facilities

(5) Water pollution prevention facilities.

(6) Waste disposal facilities and waste quantity reduction facilities

(7) Ships, equipment and materials for marine pollution prevention

(8) Desulfurizing facilities among petroleum refining facilities

e. **Tax Credit for Investment in Facilities for Improved Quality Management of Medicines** (STTCL §25-4, due to expire on Dec. 31, 2016)

Where a national invests (excluding any investment in used goods and leased assets) in any facility for improved quality management of medicines prescribed by the Presidential Decree, the amount equivalent to 3%(5% for High Potential Enterprises and 7% for SMEs) of the investment amount shall be deducted from the income tax or the corporate tax.

f. Tax Credit for Job-creating Investment(STTCL §26, due to expire on Dec. 31, 2014)

In an effort to encourage job creation by companies, this tax credit replaced temporary tax credit for investment, which expired on Dec. 31, 2011. This credit applies to investment made after Jan. 1, 2012 and is due to expire Dec. 31, 2014.

(1) Basically, one to four percent of tax credit rates are guaranteed for companies making job-retaining investment (1% *or* 2% for large companies located in *or* outside the Seoul metropolitan area, 2% *or* 3% for High Potential Enterprises* located in *or* outside the Seoul metropolitan area, and 4% for SMEs) – for SMEs only, the tax credit is guaranteed even if they cut jobs while making investment.

* A High Potential Enterprise is an enterprise which is not an SME but carries out businesses that are specified as SME's businesses under Article 2.1 of the Presidential Decree of the STTCL and whose annual sales revenue is 300 billion won or less.

(2) Additional tax credit of 3% is granted for companies making job-creating investment in proportion to the number of created jobs.

(3) This tax credit does not exceed the amount calculated by multiplying the number of created jobs and 10 to 20 million won together.

g. Higher Limit of Job-creating Investment Tax Credit for Companies Employing Graduates from Meister School and Other Vocational High Schools(STTCL §26, due to expire on Dec. 31, 2014)

Higher limit of tax credit for job-creating investment is applied for companies employing graduates from Meister School and other vocational high schools. It is applied to investment made after Jan. 1, 2012. This tax incentive is to help build an education system that can combine education and job training and to support companies in securing workers who can satisfy their technical needs.

* Tax credit amount is up to the sum of the followings:

(a) The number of employed graduates from Meister School and vocational high schools x 20 million won

(b) The number of employees including young employees, disabled employees, and employees aged 60 or older x 15 million won

(c) (The number of workers in the corresponding year – the number of workers in the immediately preceding year – the number of employed graduates from Meister School and vocational high schools – the number of employees including young employees, disabled employees, and employees aged 60 or older) x 10 million won

i. Tax Reduction and Exemption for Companies Closing Overseas Business Places and Returning to Korea (STTCL 104-24, due to expire on Dec. 31, 2015)

In the case where a national closes down a business place overseas which had been operated for two years or more to relocate or establish a new business place in Korea (excluding metropolitan area), the national is entitled to a tax deduction as follows. Where the national closes down the entire business place overseas, an amount equivalent to 100/100 of income or corporate tax on income deriving from a new business place after relocation will be deducted for five consecutive taxable years starting from the taxable year to which the relocation date belongs; for the next two taxable years, an amount equivalent to 50/100 will be deducted. On the other hand, where the national closes down a part of the business place overseas, the same rates are applied, but the rate of 100/100 is applied for three consecutive taxable years starting from the taxable year to which the relocation date belongs; for the next two taxable years, the rate of 50/100 will be applied.

However, deducted tax amount will be collected if a national offered income or corporate tax deduction.

(1) Closes down that business within three years from the relocation and the beginning date of business (excluding cases arising from merger and division)

(2) Does not start a business after relocating business place in Korea

4-1. Employment

Deduction of social insurance premiums from income or corporation taxes for SMEs creating jobs (STTCL §30-4, due to expire on Dec. 31, 2013)

As part of an effort to support job creation, all or part of social insurance premiums is deducted from income or corporation taxes of SMEs creating jobs.

a. Deduction of all of social insurance premiums for newly-employed youth aged 15 to 29

* The total amount of social insurance premiums for regular young employees during the corresponding taxable year divided by the number of regular young employees during the same year is multiplied by ①

** ①: A smaller number between the increased number of regular young employees and the increased number of regular employees

b. Deduction of 50% of social insurance premiums for new employees except youth

* The total amount of social insurance premiums for regular employees except youth during the corresponding taxable year divided by the number of regular employees except youth during the same year is multiplied by 50% of (the increased number of regular workers minus ①)

5. Provisions Associated with Taxation on Reorganization

The provisions below were introduced to facilitate restructuring through the reduction of the tax burden that can be a hindrance to restructuring process such as business reorganization, re-engineering, and financial structure improvement. These provisions are not specific to any particular companies or industries.

Developed countries including the U.S. are also known not to levy tax on reorganization (so-called tax-free reorganization) when certain requirements are met.

a. **Consolidation between SMEs** (due to expire on Dec. 31, 2012)

In the case of consolidation between two or more SMEs, there shall be no capital gains tax imposed on the real estate property transferred to the newly consolidated company. However, when the newly consolidated company sells the real estate property acquired from the consolidation, any capital gains from such sales shall be based on the price at which the real estate was acquired before the consolidation.

b. Conversion from an Individual to a Corporation (due to expire on Dec. 31, 2012)

If a resident converts from an individual to a corporation (excluding luxury services), he or she may be eligible for tax deferral with respect to income from investments in business assets prescribed in the Presidential Decree.

c. In-kind Contributions (due to expire on Dec. 31, 2012)

The term "in-kind contribution" refers to a method for corporate restructuring whereby a company makes an in-kind contribution of assets to a company to be newly incorporated in return for shares in the new company.

The shareholder company can defer the payment of the corporate income tax on any capital gains arising from the in-kind contribution until the company sells the acquired shares.

d. Switching Businesses by SME (due to expire on Dec. 31, 2015)

In the case where a small or medium-sized company which has carried on business for 5 years or longer disposes of assets used for the business in order to switch from the business it has carried on to one of certain businesses prescribed by the Presidential Decree and acquires business asset to be directly used for the new business within a certain period of time, deferral of capital gains tax on capital gains from the transfer is allowed until the time of transfer of the newly acquired asset if the SME is an individual. If the SME is a corporation, such capital gains will be included in its gains over three years (one third of the capital gains for each year) from the third year following the end of the year in which the transfer takes place.

e. Disposal of Redundant Assets Resulting from M&A (due to expire on Dec. 31, 2012)

In the case where a corporation created through merger sells any redundant asset resulting from the merger and acquires an asset for business purpose within a certain period of time, gains from the transfer of the redundant asset will be included in the company's gains over three years from the third year (one third of the capital gains for each year) following the end of the year in which the transfer takes place.

6. Balanced Development

Tax incentives below were introduced to effectively deal with problems such as pollution and traffic congestion in Seoul and metropolitan areas caused by concentration of population and industrial facilities in the area and to develop underdeveloped areas.

These tax incentives are provided to all enterprises that move away from Seoul and metropolitan areas that meet the objective criteria set out by relevant laws and regulations. Therefore, these tax incentives are not specific to particular enterprises or industries.

a. Tax Incentives for Small and Medium Sized Enterprises (SME) Moving to Areas outside the Seoul Metropolitan Area (STTCL §63, due to expire on Dec. 31, 2014)

If a SME, which has been in the manufacturing business with plant facilities located in the Seoul metropolitan area for more than two years, moves such plant facilities out of that area, then it may be eligible for a 100% income tax or corporation tax reduction for five years (seven years for undeveloped area), and a 50% income tax or corporation tax reduction for the subsequent two years(three years for undeveloped area).

b. Temporary Special Tax Reduction and Exemption for Relocation of a Head Office or Plants Excluding Real Estate, Luxury Service and Construction Businesses (STTCL §63-2, due to expire on Dec. 31, 2014)

If a company has operated in an overly-populated Seoul metropolitan area for more than three years and decides to relocate its facilities or head office to a provincial area, the company can benefit from tax exemption and reduction.

(1) In the case of relocation to one of five major provincial metropolitan cities, regions adjacent to the Seoul metropolitan area and cities with a population of 300,000 or more: Exemption of corporation taxes for the first five years, 50% of tax reduction for two years following the five years

(2) In the case of relocation to the other regions: Exemption of corporation taxes for the first seven years, 50% of tax reduction for three years following the seven years

c. Reduction of Corporation Tax for a Farming Company (STTCL §68, due to expire on Dec. 31, 2012)

With respect to a farming company which is entrusted under the Framework Law on Agriculture and Rural Community, any income derived from an agency business of farming management and cultivation of land shall be eligible for 100% exemption on corporation tax by Dec. 31, 2012, but for income from sources other than land cultivation, the tax shall be reduced by 50% for four years including the year in which the income is initially accrued.

d. Tax Exemption for the Capital Gains from Farmland Transaction

When an individual who resides in a farmland area or where a domestic corporation has continuously cultivated farmland for more than eight years

from the time of acquisition who is subject to the farm income tax (including the cases of non-taxation, tax exemption and reduction, and non-assessment of small sum tax), the income tax and additional tax on capital gains from the transfer of the above land is exempt.

7. Tax Incentives for Enhancement of Social Welfare

a. The Following Associations shall be Taxed at 9% (Due to expire on Dec. 31, 2012).

(1) Credit cooperative association and Saemaeul funds

(2) Unit agricultural cooperative association and special agricultural cooperative association

(3) Fisheries cooperative association established on an area basis or on an industry basis and fisheries products manufacturing cooperative associations (including fishing village guilds)

(4) Cooperative associations, small cooperative associations, and the federation of cooperative associations established under the Small and Medium Enterprise Cooperatives Law

(5) Fraternities and associations established under the Forest Association Law

(6) The tobacco production association

(7) Consumer Association established under the Consumer Association Law

b. Tax Reduction for Income from Forest Development

Income from forest older than 10 years is reduced by 50% from income tax or corporation tax.

c. Tax Exemption including Corporation Tax on Social Enterprises

When a company is accredited as a social enterprise, the company is eligible for 50% deduction of corporation tax for 4 years after the accreditation.

8. Tax Incentives on Interest and Other Income

a. Non-taxable Interest and Dividend Income

(1) Long-term savings accounts for purchasing housing units (Due to expire on Dec. 31, 2012)

(2) Interest income from deposits of less than 30 million won and dividends from partnerships of less than 10 million won for farmers and fishermen (Due to expire on Dec. 31, 2012)

(3) Interest income from savings account of 30 million won or less held by the elderly, the disabled, etc. (Due to expire on Dec. 31, 2014)

b. Reduced Withholding Rates on Interest and Dividend income

(1) Interest or dividend income from tax-favored savings account of 10 million won or less is subject to a reduced withholding rate of 9% (Due to expire on Dec. 31, 2014).

(2) Dividend income, derived by Korean residents, non-resident individuals or foreign companies from investment in a fund, which invests in more than 10% of its assets in junk bonds* and more than 60% in domestic bonds, is subject to a reduced withholding rate of 5% for the first three years, as long as such investment was made by the end of 2009 and the investment amount in the fund is 100 million won or less**.

* Junk bonds: Bonds rated BB+ or lower

** There is no such condition in terms of investment amount required to be met for non-resident individuals or foreign companies to benefit from this tax incentive.

c. Dividend Income subject to Separate Taxation

(1) Dividend income from holding shares worth 100 million won or less in a ship investment company (5% separate taxation, due to expire on December 31, 2013).

(2) Dividend income from holding shares worth 300 million won or less in a company investing in overseas resources development projects (5% separate taxation, due to expire on December 31, 2014)

9. Zero-Rating of Value-Added Tax

In the case of value-added tax on the supply of goods under the following items, the tax rate of zero shall be applied.

a. Military supplies including those for police that are supplied by military supply enterprises

b. Petroleum products supplied to the units or agencies established by the Organization of National Armed Forces Law

c. Subway construction services

d. Social infrastructure facilities and building projects entailed therein supplied to the government, local authorities, Korea Rail Network authority or business under the law on Public-Private Partnerships in Infrastructure

e. Complementary gear for the disabled

f. Machinery, fertilizer, and pesticides used for agriculture and forestry

g. Machinery, fishing gears, and nets used for fishing in adjacent seas or inland waters

h. environment-friendly agricultural instruments

10. Exemptions of Value-Added Tax

a. Value-added Tax shall be Exempt on the Supply of Goods or Services for the Following Items.

(1) Petroleum products supplied directly to the Central Federation of Fisheries Cooperatives for use in auxiliary private power generation for island areas where it is impossible or difficult for a considerable period for any general electricity businessperson to supply electricity

(2) Meal services supplied directly to students or employees by a school, a factory, a mine, a building site, and a welfare refectory

(3) National housing and its construction service

(4) Petroleum products supplied to the Korea Shipping Association for use by passenger boats operated in coastal waters

(5) Public transportation (buses) operating on natural gas

(6) Medicines for rare diseases specified in the Presidential Decree

b. Value-added Tax shall be Exempt on the Import of the Following Items

(1) Anthracite coal

(2) Goods to be used for subway construction

(3) Ships to be used for business subject to tax in Korea

c. Tax credit is allowed for businesspersons who file an increased revenue income that exceeds the standard revenue income by thirty percent.

d. Where a foreign company or non-resident without a place of business in Korea who carries out business abroad is provided with goods or services such as foods, accommodation, advertising service, office supplies for domestic office while doing business in Korea, the goods and services are provided at tax-included prices and then amounts equivalent to the sum of value-added taxes of those goods and services are refundable by the Korean government to a foreign company or non-resident.

11. Exemptions of Individual consumption tax or Transportation· Energy· Environment Tax

a. The goods purchased by a foreigner in Korea shall be exempt or refunded from the value-added tax or the individual consumption tax, provided that the purchaser withholds them abroad.

b. Individual consumption tax shall be exempt on the following goods that are hard to be produced domestically thus imported.

(1) Goods to be used directly by public corporations such as Korea Institute of Science and Technology, Korea Development Institute, and Korea Spiritual Culture Research Institute

(2) Goods to be used for education in a vocational school

(3) Equipment and materials to be used directly by the Korea Broadcasting System Corporation

(4) Raw materials to be used by a person engaging in the defense industry

(5) Samples for experiment and research to be used by Industrial Technology Research Association or a research institute affiliated to an enterprise

(6) Goods for research to be used by a research institute that is categorized into non-profit corporation

c. Individual consumption tax shall be exempt on Korean-made automobiles purchased by diplomats stationed in Korea, Korean-made automobiles purchased by any foreign voluntary aid agency registered by an agreement for its business.

d. Petroleum products prescribed in 9 (2) and 10 (1) (e), (f) shall be exempt from the individual consumption tax or transportation·energy·environment tax.

e. Goods to be used by the Organizing Committee of the 2002 World Cup Football Tournament for the construction of game facilities shall be exempt from the individual consumption tax.

12. Exemptions of Liquor Tax

Liquor tax on alcoholic beverages served at special restaurants exclusively for use by foreign military personnel stationed in Korea and foreign crews shall be exempt.

13. Limit on Tax Incentives (STTCL §127)

a. Tax reduction and exemption under STTCL is applicable repeatedly where there is no particular restrictions

b. Overlapping support is eliminated on following cases (STTCL §127)

(1) Elimination of overlapping application of tax incentive on same investment (STTCL§127 ②)

(a) Tax credit for investments by small and medium enterprises (STTCL §5)

(b) Tax credit for investments in facilities for research and manpower development (STTCL §11)

(c) Tax credit for investment in productivity increase facilities (STTCL §24)

(d) Tax credit for investment in facilities for safety (STTCL §25)

(e) Tax credit for investment in energy-economizing facilities (STTCL §25-2)

(f) Tax credit for investment in facilities for environmental conservation (STTCL §25-3)

(g) Tax credit for investment in facilities for improved quality management of medicines (STTCL §25-4)

(h) Temporary tax deduction for investment (old STTCL §26)

(i) Tax credit for investment in job creation (STTCL §26)

(j) Tax credit for facilities investment designed to promote employees' welfare (STTCL §94)

(k) Tax credit for donation to facilities for research and development in a college (STTCL §104-18 ②)

(2) Elimination of overlapping tax reduction or exemption and tax credit to foreign-invested company (STTCL §127 ③)

In the case where a corporate reduced or exempted from corporate tax on foreign investment is applicable to tax credit, the following amounts are deducted from tax payable:

→ Investment amount × Deduction rate × Shareholding rate of local residents / Gross stock and shares

(a) Tax credit for investments by small and medium enterprises (STTCL §5)

(b) Tax credit for investments in facilities for research and manpower development (STTCL §11)

(c) Tax credit for investment in productivity increase facilities (STTCL §24)

(d) Tax credit for investment in facilities for safety (STTCL §25)

(e) Tax credit for investment in energy-economizing facilities (STTCL §25-2)

(f) Tax credit for investment in facilities for environmental conservation (STTCL §25-3)

(g) Tax credit for investment in facilities for improved quality management of medicines (STTCL §25-4)

(h) Temporary tax deduction for investment (old STTCL §26)

(i) Tax credit for investment in job creation (STTCL §26)

(j) Tax credit for social insurance premiums with respect to jobs added by SMEs (STTCL §30-4)

(k) Tax credit for facilities investment designed to promote employees' welfare (STTCL §94)

(l) Tax credit for third party distribution expense (STTCL §104-14)

(m) Tax credit for investment in development of overseas resources (STTCL §104-15)

(n) Tax credit for donation to facilities for research and development in a college (STTCL §104-18 ②)

(3) Elimination of overlapping application of tax reduction or exemption and tax credit (STTCL §127④)

<Tax reduction or exemption>

(a) Tax reduction or exemption for small or medium start-up enterprises (STTCL §6)

(b) Special tax reduction or exemption for small or medium enterprises (STTCL §7)

(c) Reduction or exemption of corporate tax, etc. for high tech enterprises, etc. located in special research and development zones (STTCL §12-2)

(d) Tax reduction or exemption for the remaining tax reduction and exemption period in the case of consolidation (STTCL §31④,⑤)

(e) Tax reduction or exemption for the remaining period in the case of conversion into corporation (STTCL §32④)

(f) Tax reduction or exemption for small or medium enterprises who converted their business (STTCL §33-2)

(g) Reduction or exemption of corporation taxes and others for public institutions relocating to innovation-oriented cities (STTCL §62④)

(h) Tax reduction or exemption for small or medium enterprises who relocated their factory to outside over-concentration control zone of Seoul metropolitan area (STTCL §63)

(i) Abatement or exemption of corporate taxation, etc. for relocation of corporation's factory and head office to outside of Seoul metropolitan area (STTCL §63-2)

(j) Tax reduction or exemption for enterprises, etc. relocated in agro-industrial complex (STTCL §64)

(k) Exemption of corporate tax for agricultural association corporation, etc. (STTCL §66)

(l) Exemption, etc. from corporate tax for fishery partnership corporation, etc. (STTCL §67)

(m) Corporate tax exemption, etc. for incorporated agricultural corporation (STTCL §68)

(n) Abatement or exemption of corporate tax, etc. on social enterprises (STTCL §85-6①)

(o) Abatement or exemption of tax on standard business place for people with disabilities (STTCL §85-6②)

(p) Tax reduction or exemption for companies closing overseas business places and returning to Korea (STTCL §104-24①)

(q) Reduction or exemption of corporation tax, etc. for companies located in Jeju high-tech science and technology complex (STTCL §121-8)

(r) Reduction or exemption of corporation tax, etc. for a company located in Jeju Investment Promotion Zone or Jeju Free Trade Zone (STTCL §121-9②)

(s) Reduction or exemption of corporation tax, etc. for a company, etc., which started a business or established a new business place in enterprise city development zone (STTCL §121-17②)

(t) Reduction or exemption of corporation tax for a company moving into the investment promotion zone for Asian cultural hub city (STTCL §121-20②)

(u) Reduction or exemption of corporation tax, etc. for a company, etc., which started a business or established a new business place in a financial hub city (STTCL §121-21②)

(v) Reduction or exemption of corporation tax, etc. for a company moving into a high-tech medical cluster (STTCL §121-22②)

<Tax credit>

(a) Tax credit for investments by small and medium enterprises (STTCL §5)

(b) Tax credit for contributing fund for co-growth of large and small and medium companies (STTCL §8-3)

(c) Tax credit for investments in facilities for research and manpower development (STTCL §11)

(d) Tax credit for investment, etc. in productivity increase facilities (STTCL §24)

(e) Tax credit for investment, etc. in facilities for safety (STTCL §25)

(f) Tax credit for investment in energy-economizing facilities (STTCL §25-2)

(g) Tax credit for investment in facilities for environmental conservation (STTCL §25-3)

(h) Tax credit for investment in facilities for improved quality management of medicines (STTCL §25-4)

(i) Temporary tax deduction for investment (old STTCL §26)

(j) Tax credit for investment in job creation (STTCL §26)

(k) Tax credit for employment increase (STTCL §30-4)

(l) Tax credit for facilities investment designed to promote employees' welfare (STTCL §94)

(m) Tax credit for third party distribution expense (STTCL §104-14)

(n) Tax credit for investment in development of overseas resources (STTCL §104-15)

(o) Tax credit for donation to facilities for research and development in college (STTCL §104-18 ②)

(p) Tax credit for operational cost of a corporate sports team (STTCL §104-22)

(q) Tax credit for e-commerce of petroleum products (STTCL §104-25)

※ Overlapping Application of Tax Credits

i) Tax credit for improving enterprise's bill system (STTCL §7-2)

ii) Deduction of tax amount from expenses for research and human resources development (STTCL §10)

iii)Tax credit for expense for verifying honest tax payment (STTCL §126-6)

(4) Elimination of overlapping tax credit on same business place (STTCL §127 ⑤)

(a) Tax reduction and exemption for small or medium start-up enterprises (STTCL §6)

(b) Special tax reduction or exemption for small or medium enterprises (STTCL §7)

(c) Reduction or exemption of corporate tax, etc. for high tech enterprises, etc. located in special research and development zones (STTCL §12-2)

(d) Tax reduction or exemption for the remaining tax reduction and exemption period in the case of consolidation (STTCL §31④.⑤)

(e) Tax reduction or exemption for the remaining period in the case of conversion into corporation (STTCL §32④)

(f) Tax reduction or exemption for small or medium enterprises who converted their business (STTCL §33-2)

(g) Reduction of taxes including corporation taxes for public institutions moving to innovation cities

(h) Tax reduction or exemption for small or medium enterprises relocated outside over-concentration control zone of Seoul metropolitan area (STTCL §63)

(i) Abatement or exemption of corporate taxation, etc. for relocation of corporation's factory and head office to outside of Seoul metropolitan area (STTCL §63-2)

(j) Tax reduction or exemption for enterprises, etc. relocated in agro-industrial complex (STTCL §64)

(k) Abatement or exemption of corporate tax, etc. on social enterprises (STTCL §85-6①)

(l) Abatement or exemption of tax on standard business place for people with disabilities (STTCL §85-6②)

(m) Tax reduction for companies closing overseas business places and returning to Korea (STTCL §104-24①)

(n) Reduction of or exemption from corporate tax, etc. for foreigners' investment (STTCL §121-2)

(o) Tax reduction or exemption for capital increase of a foreign-capital invested company (STTCL §121-4)

(p) Reduction or exemption from corporate tax, etc. for companies located in the Jeju high-tech science and technology complex (STTCL §121-8)

(q) Reduction or exemption from corporate tax, etc. for companies located in the Jeju investment promotion zone or the Jeju free trade zone (STTCL §121-9②)

(r) Reduction or exemption from corporate tax, etc. for enterprises, etc. started a business or established a new business place in enterprise city development zone (STTCL §121-17②)

(s) Reduction or exemption from corporate tax on enterprises moving into investment promotion zone for Asian cultural hub city (STTCL §121-20②)

(t) Reduction or exemption from corporate tax, etc. for enterprises, etc. started a business or established a new business place in financial hub city (STTCL §121-21②)

(u) Reduction or exemption of taxes including corporation taxes for enterprises moving into a high-tech medical cluster (STTCL §121-22 ②)

c. Minimum Tax Systems

(1) A taxpayer should pay a minimum tax as follows, even if he or she is granted the tax incentives under the current Special Tax Treatment Control Law.

* Applicable taxes

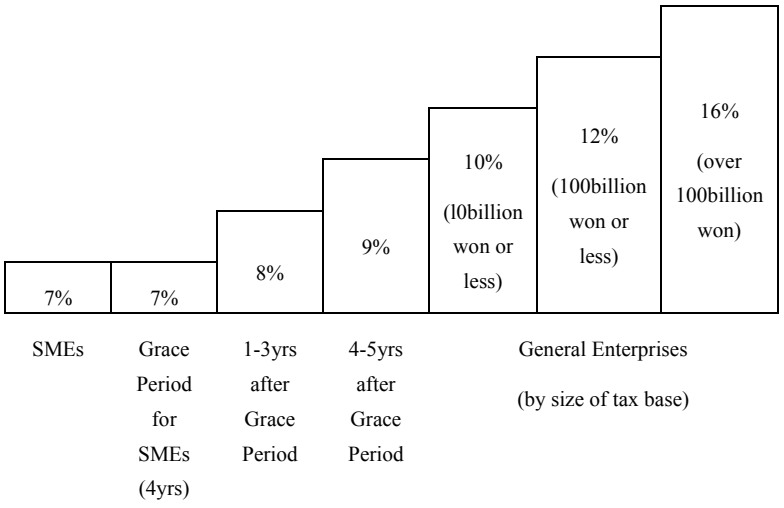
(a) For a corporation: Corporation income tax (excluding penalty tax and back tax prescribed by the Presidential Decree)

(b) For an individual: Business income tax

(2) Minimum tax to be paid

(a) For an individual, 45% of calculated tax amount before considering applicable tax incentives if the tax amount exceeds 30 million won; 35% of calculated tax amount before considering applicable tax incentives if the tax amount is 30 million won or less

(b) For a corporation, following rate of tax base before considering applicable tax incentives



(3) Tax to be added after calculating the minimum tax

(a) Penalty tax

(b) Penalties under the STTCL

(c) Reassessment tax under the STTCL

(4) Tax creditable after calculating the minimum tax

(5) Foreign tax credit

(a) Credit for losses arising from disaster

(b) The full amount of R&D tax credit (for SMEs)

(c) The amount of R&D tax credit for expenses on hiring master and doctoral degree holders (for non-SMEs)

d. The Ceiling of Total Tax Incentives for Capital Gains

For an individual, an exemption amount of capital gains accruing from transactions of real estate shall be given within the limit of 100 million won based on tax amount per year. If the exemption amount exceeds 100 million won, the portion exceeding that amount is not exempt.

14. Foreign Direct Investment

In the aftermath of the Asian financial crisis, the government has been advocating a series of comprehensive reform measures in the corporate, financial, and labor sectors to address some of the more fundamental problems in the economy. Because stimulating foreign investment and injecting market competition into the domestic economy are believed to be critical to the success of the reform drive, the government has accelerated market liberalization in such areas as mergers and acquisitions (M&A), securities, capital transactions, foreign exchange, and the real estate market, virtually opening up all of the previously restricted markets to both portfolio investment and foreign direct investment (FDI).

With respect to FDI which entails acquisition of a controlling interest in a foreign firm or affiliate (e.g., a branch or subsidiary) unlike the passive and interest-

driven portfolio investment, the enactment of the Foreign Investment Promotion Law (FIPL) in September 1998 is noteworthy. The principal objective of FIPL is to attract FDI by:

a. Eliminating burdensome regulations and anti-competitive market restrictions

b. Creating a more liberalized, transparent and favorable business environment for foreign businesses and investors

c. Expanding tax incentives such as tax exemptions and reductions for extended periods

The tax incentives granted to FDI under the FIPL, which was subsumed into the Special Tax Treatment Control Law (STTCL) on May 24, 1999, are primarily aimed at attracting high-technology and large-scale manufacturing investment, and include partial and full exemptions on individual and corporate income taxes and local taxes. Full exemptions from customs duties, individual consumption tax, and value-added tax (VAT) may also be granted to imported capital goods.

To be eligible for the tax incentives provided by the STTCL, a foreign investor must either retain at least 10% of the outstanding shares of the invested company (foreign-invested company) where the ownership of the outstanding shares is less than 10%, or exercise managerial control by an investment agreement or under a similar arrangement with the foreign-invested company.

15. Tax Incentives for FDI

Under the regime of the Special Tax Treatment Control Law, FDIs in the businesses that are expected to support the international competitiveness of domestic industry, when specific conditions are met, are exempted from taxes including corporate tax.

a. Exemptions for Advanced Technology FDIs

Tax	Incentives
Individual and corporate income taxes	Full exemption for 5 years, 50% reduction for next 2 years
Local taxes: acquisition,	Full exemption for 5 years, 50% reduction for next 2

property, aggregate land, registration	years (local governments can extend the applicable period up to 15 years)
Customs duties, individual consumption tax, value-added tax	Full exemption for 5 years on imported capital goods by foreign-invested companies

b. FDIs entering Individual-type Foreign Investment Zone (FIZ)

Tax	**Incentives**
Individual and corporate income taxes	Full exemption for 5 years, 50% reduction for next 2 years
Local taxes: acquisition, property, registration	Full exemption for 5 years, 50% reduction for next 2 years; (up to 15 years)
Customs duties, individual consumption tax, value-added tax	Full exemption for 5 years on imported capital goods by foreign-invested companies
Type of business	**Conditions for application**
Manufacturing business	Investment of $30 mil. or more
Tourism business	Investment of $20mil. or more
Logistics business	Investment of $10mil. or more
Research centers	Investment of $2 mil. or more, hiring 10 or more master degree holders
SOC business	Investment of $10mil. or more
Two or more foreign businesses	Investment of $30mil. or more by two or more foreign invested businesses
Computer programming business; system integration and management business; or data processing, hosting, and other related service business	Investment of $30 mil. or more

c. FDIs entering the Free Economic Zone (FEZ), Free Trade Zone, or Complex-type Foreign Investment Zone (FIZ)

Tax	Incentives
Individual and corporate income taxes	Full exemption for 3 years, 50% reduction for next 2 years
Local taxes: acquisition, property, registration	Full exemption for 3 years, 50% reduction for next 2 years (local governments can extend the period up to 15 years)
Customs duties	Full exemption for 5 years on imported capital goods by foreign-invested companies
Type of business	**Conditions for application**
Manufacturing business	Investment of $10 mil. or more
Logistics business	Investment of $5mil. or more
Tourism business (FEZ)	Investment of $10mil. or more
Business service business	Investment of $10mil. or more

d. FDIs Entering the Development District of Enterprise New Town

Tax	Incentives
Local taxes	Full exemption for 3 years, 50% reduction for next 2 years
Local taxes: acquisition, property, registration	Full exemption for 3 years, 50% reduction for next 2 years (local governments can extend the period up to 15 years)
Type of business	**Conditions for application**
Manufacturing business, etc.	Investment of $10 mil. or more
Research & Development	Investment of $5 mil. or more
Logistics business	

Foreign businesses and investors making investments in local companies for

the first time may also request tax exemptions and/or reductions on individual and corporate income taxes by the end of the fiscal year in which the business begins. Where additional investments are made after the initial one, further requests may be made within two years from the date of notification of the FDI. When a late request is made, the exemption or reduction will apply to the year the request form is submitted and the years remaining.

As an incentive to potential investors in Korea, the STTCL also introduced a Tax Exemption and Reduction Checking System, which enables foreign businesses and investors to determine their tax benefit eligibility with the government prior to making any FDI commitments in Korea. Requests for tax exemptions and reductions for FDI are to be decided by MOSF after the consultation with relevant government authorities.

16. Tonnage Taxation System

Originally shipping income from a shipping company is computed based on the corporation tax. However, as major shipping nations rushed to introduce tonnage taxation system that imposes tax by reference to such as total tonnage of shipping operation and the number of shipping operation regardless of its actual income, Korea decided to introduce tonnage-based taxation system in order to enhance international competitiveness. Under the new regime, a shipping company, which meets a certain requirement, will have to elect to be taxed based on the tonnage taxation system.

a. Qualification

A qualifying company is a domestic company, which carries on ocean-going service under the shipping act and the total tonnage of shipping operation per year by chartered ship (chartered less than 2 years) shall be within 5 times of that of shipping operation per year by a standard ship (owned by a company or charted for 2 years or more).

b. Tax Base

Tax base of a shipping company = (a) + (b)

(1) The sum of shipping income per ship

Shipping income per ship: shipping standard profit

Shipping standard profit per ship =
(Tonnage per ship x profit per ton per day) x days of operation x utilization rate.

(2) Non-shipping operation income (income other than shipping income): An amount of income calculated based on the provisions of corporation tax law.

c. Application Period

A shipping company, which elects to be taxed on the tonnage taxation system, will be subject to the system for the consecutive five years beginning from the business year, in which it wish to be applied with this regime.

d. Net Operation Loss (NOL)

NOL incurred from non-shipping income shall not be included in the computation of a tax base of a shipping company under the tonnage taxation system. Also NOL incurred before a shipping company is subject to this regime shall not be deductible in the computation of shipping and non-shipping incomes.

e. Exclusion of Special Treatment

Where income subject to withholding tax is included in the shipping income, the withheld tax amount shall not be deductible as pre-paid tax.

17. Cash Receipt System

Details of cash transaction between a vendor issuing receipts and a consumer are reported to NTS by the vendor and the customer is allowed deduction from income on his or her tax return based on the amount of cash transactions. This regime is introduced to improve compliance of the self-employed.

a. "Cash Receipt"

Where a vendor who registers as a cash receipt member receives cash in compensation for services and goods rendered to a customer, the vendor is obliged to issue to the consumer cash receipts using electronic devices through which transactions are electronically reported to National Tax Service. The threshold for issuing cash receipt has been eliminated in accordance with Paragraph 3 Article 121 of the enforcement decree of Special Tax Treatment Control Law. All transactions are entitled to the issuance of cash receipt.

b. Vendor's Obligation and Tax Benefit

(1) Vendor's obligation: A vendor is required to send electronically to the head of NTS details regarding cash transactions such as the date and amount of transactions, and personal data of consumers and vendor.

(2) Vendor's tax benefit: A vendor who is approved by the head of NTS through cash receipt deliberation committee, is allowed to get deductions from paid VAT or get refund by reference to the number of cash receipt issuing devices and the number of cash receipts transaction.

18. Earned Income Tax Credit (EITC)

a. Background

Currently, the working poor who are employed but still live in poverty mostly are not under the protection of 4 major social insurance programs and the Scheme to Guarantee Minimum Level of Living Standard. Therefore they are in need of separate assistance.

Against this backdrop, the earned income tax credit (EITC) has been introduced with a view to establishing a social safety net targeting the working poor. The EITC is expected to provide the following benefits:

(1) Lift low-income workers out of poverty by helping them keeping more of what they work for

(2) Reinvigorate economic activities, thereby contributing to the creation of a virtuous circle of welfare and growth

(3) Help identify as much as income earned by low-income families, enhancing efficiency/ equity of tax and welfare administration

Enacted in 2006, the EITC is scheduled to be paid from the year 2009 for which the credit will be calculated based on earned income accumulated by each claimant in 2008.

b. Eligibility

The EITC will be granted to households with earned income from employment meeting the following requirements:

(1) The applicant must have a spouse or one or more dependent children under age 18, or a person who wishes to benefit from EITC must be 60 or older.

(2) The applicant must have total annual income (the combined sum of total annual income of the applicant and his/her spouse) less than the standard total annual income* between 13 million won and 25 million won determined according to the type of households (i.e. households without spouse and dependent children, single-income households, and double-income households) determined pursuant to the composition of family members.

* Interest, dividend and business income etc. included

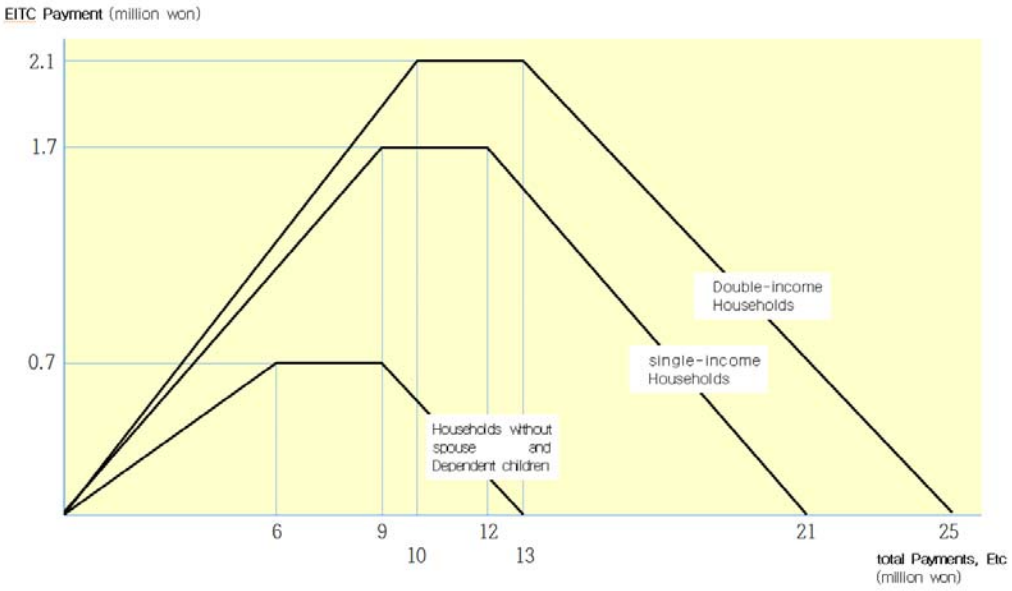
(3) Value of all property* held must be less than 100 million won

* E.g. land, building, bank deposit, shares, bonds, etc.

(4) The applicant must own no housing (one house worth 60 million won or less in standard tax value per household is allowed)

c. Size of Credit

The amount of the credit is calculated based on the combined sum of total annual income of the applicant and his/her spouse.



(1) Households without spouse and dependent children

Total payments, etc (won)	EITC payment (won)
Less than 6 million	Total payments, etc × 70/600
6 – 9 million	0.7 million as fixed amount
9 – 13 million	0.7 million – (total payments, etc – 9 million) × 70/400

(2) Single-income households

Total payments, etc (won)	EITC payment (won)
Less than 9 million	Total payments, etc × 170/900
9 – 12 million	1.7 million as fixed amount
12 – 21 million	1.7 million – (total payments, etc – 12 million) × 170/900

(3) Double-income households

Total payments, etc (won)	EITC payment (won)
Less than 10 million	Total payments, etc × 210/1,000
10 – 13 million	2.1 million as fixed amount
13 – 25 million	2.1 million – (total payments, etc – 13 million) × 210/1,200

d. Application and Refund

To receive the EITC, taxpayers have to complete and submit the EITC application form containing information that substantiates their eligibility to the tax office having jurisdiction over their residence during the period from 1st to 31st of May.
Within 3 months after the deadline, the tax office concerned determines the applicant's eligibility by comparing what has been reported on the application form with the wage and tax statement submitted by the employer. If necessary, the tax authorities may request the applicant to submit additional documentation substantiating his/her eligibility for the EITC. Once it is determined that the applicant is entitled to the credit, the credit is paid to him or her within 30 days from the date of determination.

Taxpayers are able to check their earned income with the help of the Home Tax Service operated by the National Tax Service, and can also easily figure the amount of the EITC to claim by utilizing the EITC Calculation Table showing the breakdown of tax credit amount for each earned income amount.

e. Fraudulent Claims

In the case of reckless or intentional disregard of the EITC rules, the applicant concerned cannot claim the credit for the next 2 years. If fraud is found to have been involved, the applicant cannot claim the EITC for the next 5 years.

19. Partnership Taxation System (Take effect on or after January 1, 2009)

a. General

Partnership Taxation system is a regime which treats a partnership as simply a conduit through which the profit (income) or loss of the partnership are passed onto partners.

b. Qualification

One of the following partnerships may elect to be taxed based on the partnership taxation system; however, a partner of the partnership which is subject to the partnership taxation system shall not adopt the partnership taxation system, even if such partner also falls under one of the following:

(1) An association (Johap under the Civil Law)

(2) An anonymous association (Ikmyong Johap under the Commercia Code)

(3) An unlimited company (HapmyongHoesa or HapjaHoesa under the Commercial Code), including a Private Equity Fund (PEF) under the Capital Market Consolidation Act

(4) Other similar groups or groups mostly rendering personal services under special law:
(a) Association: legal association

(b) Unlimited company: legal, patent and labor law corporations and joint corporations of judicial agents

(c) YH company (Yuhan Hoesa): legal, accounting and customs law corporations

In the case where PEF elects to be applied to partnership taxation system, exceptions including easing the limitation of profit/loss allocation ratio shall be allowed considering its natural features.

c. Application and Waiver

Partnership is required to file an application or waiver form to the concerned tax office before the opening day of taxable year when the partnership taxation system is to be applied or waived (or within 1 month from the opening day of the first taxable year, if the partnership is newly established); however, the waiver is not allowed for five years since the application is filed.

d. Taxation

A partnership adopting the partnership taxation shall not be subject to taxation on its income, while its partners shall be liable to pay income or corporate tax on their income allocated therefrom.

(1) Calculation and allocation of income or loss

Partners are categorized into four partner groups (resident, non-resident, and domestic corporation or foreign corporation). Income or loss shall be calculated by each group and allocated to the relevant partners at their profit/loss allocation ratio on the closing day of each taxable year; however, limited partners shall be excluded from the loss allocation.

Loss to be allocated to each partner shall be within the limit of its outside basis at the closing day of the taxable year, and the amount exceeding the outside basis shall be carried forward for the next 10 taxable years.

Income and loss allocated from the partnership to its partners shall be regarded as the partners' gain and loss in the categories under the Income and Corporation Tax Laws (but income allocated to a limited partner shall be regarded as its dividends), and shall be included in the income and corporate tax base of such partner for the taxable year to which the closing day of the partnership's taxable year belongs.

* Each group's income or loss (subject to allocation)
  = Partnership's income or loss on a group basis × each group's profit/loss ratio
  (a) Partnership's income or loss on a group basis
    = Income or loss in the taxable year calculated by considering partnership as one resident, non-resident, domestic corporation, or foreign corporation on a group basis
  (b) Each group's profit/loss ratio
    = The aggregate of partners' profit/loss ratios on a group basis

* Limited partners : Partners who only invest in a partnership without engaging in the management (excluding those who allow their name and business' name to be used, who agree to bear partnership's unlimited liability and who are the partnership's executives, or a PEF's limited partners)

(2) Allocation of Tax Amount

A partnership shall be considered as a domestic corporation in calculating tax credit, tax reduction and exemption, withholding tax, additional tax and corporation tax on capital gains from the transfer of real estate. Such tax amount shall be allocated to the partners (corporation tax on capital gains from the transfer of real estate shall be allocated only to the corporation partners) at their profit/loss allocation ratio on the closing day of each taxable year, and shall be deducted from or added to the partner's income or corporation tax amount to be filed and paid for the taxable year to which the closing day of the partnership's taxable year belongs.

e. Transactions between Partnership and Partners

In the case where a partner has a transaction, not as a partner but as an outsider, with the partnership in which it participates, both shall recognize the earnings/cost from the transaction as their gain/loss when calculating their income/loss of the taxable year, and when the partnership or the partner turned out to reduce their income without due reason, the denial of unreasonable practice under the Corporation Tax Law shall be applicable.

f. Transfer of Partnership Share and Asset Distribution

(1) Adjustment of Outside Basis

Outside basis is defined as the book value of a partner's partnership interest, which serves as the basis for computing taxable income in connection with transfer of partnership interest or distribution of partnership property.

The partner's first outside basis is calculated by multiplying the total investment amount of partnership by the investment ratio of the partner as of the closing day of immediate preceding taxable year of the first taxable year to which partnership taxation system is applied (as of the commencement day of relevant taxable year in the case of being applied from the taxable year into which falls the day of establishment of the partnership).

In the case where a partner invests into a partnership, purchases, inherits or receives the share of a partnership, or where a partnership allocates its income to a partner, the partner's outside basis shall be adjusted upward as much.

In the case where a partnership distributes its asset to a partner, or a partner transfers, bequeaths or gifts the share of a partnership, or a partnership allocates its loss to a partner, the partner's outside basis shall be adjusted downward as much. But the downward adjustment is limited to zero.

(2) Transfer of Partnership Share and Asset Distribution

Transfer of a partner's share of a partnership shall be considered as stock transfer. The capital gain therefrom shall be calculated by considering his outside basis as acquisition cost, and be subject to capital gains tax or corporate income tax.

When the partnership's asset is distributed to a partner and its market price is higher than the partner's outside basis on the day of distribution, the excess shall be considered as dividend income, and be subject to income or corporate tax.

When the market price of distributed asset is lower than the partner's outside basis on the day of distribution, the shortage shall be considered as stock loss as long as the partnership ends due to liquidation, separation and merger or the partner withdraws from the partnership.

g. Reporting Obligation of Income and Distribution Return

A partnership is required to report a taxable year's income and distribution return to the head of the competent tax office by the 15th day of the month, which is the third month after the month to which each taxable year's closing day belongs. (Balance sheet, income statement in accordance with corporate accounting standards and outside basis adjustment statement need to be attached.)
In the case where a partnership violates reporting obligation, penalty tax will be imposed: 4% of the income supposed to be reported in the case of non-reporting, 2% of income in the case of under-reporting.

h. Withholding Tax Obligation on Income Allocated to Non-resident or Foreign Corporation Partners

When a partnership files a taxable year's income and distribution return (when distributing in the case of distributing non-reported amount), the highest tax rate will apply (non-resident 35%, foreign corporation 25%) if the income distributed to a non-resident or a foreign corporation partner belongs to the domestic place of business (the place where a partnership runs a business) in the year.

Unless the income does not belong to domestic place of business, withholding tax rate will apply to a non-resident or a foreign corporation partner despite non-taxation, exemption and Alternative Minimum Tax (AMT) rate under tax treaty.

According to the above-mentioned tax rates, income or corporate income tax are required to be withheld and paid to the head of competent tax office.

When a non-resident ·foreign corporation partner (who received the income, which does not belong to domestic place of business and whose tax has

been withheld and paid) wants to benefit from non-taxation, exemption or AMT under tax treaty, claiming for revision is possible within three years from the last day of the month when tax-withholding day belongs to.

In the case where a partnership violates withholding tax obligation, penalty tax will be imposed: {The greater one between ［unpaid or underpaid tax liability × The number of days (from the next day of the due date for payment to voluntary payment day or to due date for payment notice day) × 0.03%/day)］ and ［unpaid or underpaid tax liability × 5%］, The maximum is ［unpaid or underpaid tax liability × 10%］}

Chapter XVI: Non-Resident Income Taxation

1. Taxation on Business Income (Profits)

a. Taxation Rules Provided by Domestic Tax Laws

(1) Definition of Domestic Place of Business (Permanent Establishment)

In general, Korean tax treaty cannot be applied in a way that gives rise to more tax burden to taxpayers than stipulated in domestic tax laws. Therefore, the scope of the Domestic Place of Business found in Korean tax laws needs to be wide enough to cover the concept on Permanent Establishment or on Fixed Base of the UN Model Tax Treaty so that no problem is caused in the application of tax treaties even when Korea has to adopt the languages of PE from the UN Model Tax Treaty, accepting requests from the other contracting state in tax treaty negotiations. This explains that the definition of a Domestic Place of Business found in Korean domestic laws is mainly based on the concept of a permanent establishment or on a fixed base specified in the UN Model Tax Treaty.

If a non-resident (including a foreign corporation) has a fixed place of business in Korea of a type described in the following subparagraphs (a) through (f), he is considered to have a domestic place of business in Korea:

(a) A branch or any other business office

(b) A store or any other fixed sales place

(c) A workshop, factory, or warehouse

(d) A building site, a location of construction, assembly or installation work, or a place for providing supervision of such work, any of which exists for more than 6 months

(e) A place (i) where services are provided through any employee only if activities therein are carried on for a period exceeding 6 months in aggregate out of consecutive 12 months, or (ii) where similar services are provided through any employee continuously or repeatedly throughout 2 years or longer, if not for a period exceeding 6 months in aggregate out of consecutive 12 months

(f) Mines, quarries or any other place of exploration or extraction of other natural resources as well as marine natural resources including those on the seabed or subsoil adjacent to the coast within which the

sovereign rights of the Republic of Korea may be exercised, outside its territorial waters, in accordance with the international law.

The domestic places of business prescribed in the preceding paragraph do not include a fixed place used by a non-resident only for activities of a preparatory or auxiliary nature for a business operation, e.g. places (i) for the purchase of assets; (ii) for storage or custody of assets for non-business purposes; (iii) for advertisement, public relations, collection or furnishing of information, market survey or other activities of a preparatory or auxiliary nature for a business operation; or (iv) for the purpose of having other persons process property of the non-resident.

If a non-resident having no fixed place in Korea carries on a business through a person in Korea who is authorized to conclude, and regularly does conclude, contracts on behalf of the non-resident, such non-resident is deemed to have a Domestic Place of Business in Korea.

(2) Scope of Domestic-source Business Income (Profits)

Korea's domestic-source business income of a non-resident (including a foreign corporation) includes income from the following businesses carried on within Korea and income subject to tax as domestic-source business income, except for income from personal services.

(a) Agriculture, forestry and fisheries

(b) Mining

(c) Manufacturing

(d) Electricity, gas, steam and water services

(e) Sewerage, waste disposal, regeneration of raw materials and environmental restoration services

(f) Construction business

(g) Wholesale and retail business

(h) Transportation business

(i) Accommodations and restaurant business

(j) Publication, video, broadcasting communication and information services

(k) Banking and insurance

(l) Real estate and leasing business

(m) Professional, scientific and technological services

(n) Business facilities management and business supporting services

(o) Education services

(p) Health and social welfare services

(q) Arts, sports and entertainment related service business

(r) Associations and bodies, repairing and other personal service business

(s) Household services

(t) Other businesses similar to those listed above that are for profit under the owner's consideration and responsibility and involve continuous and repetitive activities

(3) Guiding Principles for Determining the Portion of Domestic Source of Business Income (Profits)

Since a non-resident's income from a business carried on both at home and abroad usually consists of domestic-source portion and foreign-source one, there is a need for guiding principles to ensure taxation on only domestic-source business income. Thus, instead of relying on a general principle such as the "arm's length principle", Korean domestic tax laws provide some detailed guidelines by which certain income is deemed to arise in Korea. Examples are as follows:

(a) Income from manufacturing business or wholesale business

Where inventories are transferred from abroad to a non-resident (including a foreign company) and the non-resident sells them within Korea without conducting any manufacturing, processing and any other value-adding activities (hereinafter referred to as "manufacturing process") abroad for such inventories, whether or not such inventories go through manufacturing process within Korea before selling, all income or profits generated from the transactions are deemed to have a domestic-source.

In the case the non-resident purchases inventories abroad and sells them within Korea after conducting manufacturing process abroad for those inventories, the income amount equivalent to what would have been incurred had he purchased, according to ordinary transaction terms, from an unrelated party the inventories to which manufacturing process had been already conducted by that unrelated party is deemed to be domestic-source income.

If the non-resident conducts manufacturing process for the inventories within Korea and transfers them to the headquarter or any other PE abroad before selling them to an independent third party abroad, the income amount equivalent to what would have been incurred from manufacturing process done within Korea if the inventories undergoing

manufacturing process at home had been sold directly to other unrelated person abroad according to ordinary transaction terms is deemed to be domestic-source income.

(b) Income from construction business

Where a non-resident concludes a contract abroad with regard to construction, installation, assembly, etc. and/or procures staff and materials necessary for the work while undertaking actual works within Korea, all income incurred from such actual works is deemed to have a domestic-source. This rule is based on the premise that since construction business is basically a type of service industry, the conclusion of a contract or procurement of staff and materials can be regarded as one of the preliminary business activities and, thus, is deemed to generate no income. This naturally leads to a conclusion that taxation on business income regarding construction activities should be made in a state where actual services are performed.

(c) Income from insurance business

Where a non-resident carries on insurance business both at home and abroad, income from an insurance contract concluded through domestic sales office or a domestic agent is deemed to be domestic-source income.

(d) Income from advertisement by publishing and broadcasting businesses

Where a non-resident carrying on publishing or broadcasting business undertakes advertisement for other person both at home and abroad, only income from advertising services rendered within Korea is regarded as domestic-source income.

(e) Income from investment in shares issued by foreign corporations

Income resulting from investment in shares issued by foreign corporations which are listed or registered on the Stock Exchange stipulated by the Securities Transaction Tax Law or the KOSDAQ Market or other similar investment is deemed to be domestic source income of Korea.

(f) Income from other businesses

Where a non-resident carries on business not dealt with above both at home and abroad, only income generated in relation to domestic work regarding the business concerned is deemed to have a domestic-source. Income generated in relation to domestic work means income which would be generated in relation to domestic work if two independent traders were responsible for domestic and international work respectively and they conducted a transaction at price to be determined based on

ordinary contract terms. Income generated in relation to domestic work may also be understood as income in relation to domestic work determined by factors which are regarded as reasonable for measuring revenue, expenditure or income, etc.

(4) Income incurred abroad but attributable to a PE within Korea

If the following income, although incurred abroad, is attributable to a PE in Korea, such income is deemed to be of domestic-source:

(a) Income from investment in overseas securities, lending to a person abroad or performance of other similar activities

(b) Income from the rental, licensing, transfer or exchange of properties or rights abroad

(c) Income from the issuance, acquisition, transfer or exchange of securities, bonds, etc. abroad

b. Taxation Principles Adopted by Korean Tax Treaties

Most Korean tax treaties have adopted the OECD taxation principles with regard to Article on business profits. However, when it comes to Article on Permanent Establishment, (hereinafter referred to as "PE", the same concept as "domestic business place" under Korean domestic tax laws) not only the OECD Model but also the UN Model has been frequently used as reference material in tax treaty negotiations, causing differences in details of the Article.

(1) Scope of Business profits

In most Korean tax treaties, business profits are just broadly defined as "profits of an enterprise" or "industrial or commercial profits of an enterprise" unlike limited definition in the Korean tax laws. However, such treaties do limit the scope of business profits by specifying that when such profits are dealt with separately in other articles, then the provisions of those articles shall not be affected by the Article on business income.

Therefore, interest, dividends, royalties, income from immovable property, capital gains, income from the rendering of personal services, income from the operation of ships or aircraft in international traffic, etc. which are handled in separate articles of a tax treaty are not treated as business income even when they are incurred from business activities of an enterprise. It should be noted, however, that in the case such interest, dividends or royalties are effectively connected with a PE in Korea of a non-resident or a foreign company, such income is deemed as business

profits and thus not subject to separate taxation based on reduced tax rate under a tax treaty.

(2) Taxation Principles Adopted by Tax Treaties

(a) Non-taxation in the case there is no PE

While domestic-source business profits of a non-resident may be taxed even without its PE in Korea under the Korean tax law, such profits may be taxed in Korea only when the non-resident has a PE in Korea under tax treaty.

(b) Scope of taxable income

There are two principles for the determination of the scope of taxable business income of an enterprise of a contracting state which has a PE in the other contracting state: the attribution principle and the force of attraction rule.

According to the attribution principle, business profits of the enterprise that is effectively attributable to the PE may be taxed in the other contracting state. By contrast, according to the force of attraction rule, all business profits incurred in that other contracting state may be taxed in that state regardless of whether such profits are attributable to the PE or not. All tax treaties Korea has concluded have adopted the attribution principle except for those with Indonesia and Mexico. In the meantime, under the tax treaty with Japan, the attribution principle applies to profits of the taxable year beginning on or after the first day of January of 2000, while the force of attraction rule applies to profits of the taxable year beginning before the date.

(c) Arm's length principle

According to the arm's length principle, profits attributable to a PE should be determined based on profits that would have been expected from a transaction between independent enterprises. From legal perspective, a PE is a part of the enterprise and thus transaction between the two is inter-company transaction, meaning that there are more chances of tax avoidance attempts by way of arbitrary manipulation than in the transaction between independent parties. The arm's length principle is designed to eliminate such chances, thereby help determine reasonable profits attributable to the PE. According to this principle, profits attributable to a PE mean profits which it might be expected to make if it were a distinct and separate enterprise and carried out a

transaction with the enterprise which it is part of based on ordinary market price or open market terms. The arms' length principle has been adopted by all tax treaties Korea has concluded.

(d) Deduction of expenses

In determining the profits of a PE, there shall be allowed to deduct expenses which are incurred for the purposes of the PE, including executive and general administrative expenses so incurred, whether in the state in which the PE is situated or elsewhere and this principle has been adopted in all tax treaties Korea has concluded. Among expenses of a head office of the enterprise which a PE in Korea is part of, expenses which are directly incurred for the purposes of the PE are no doubt allowed as deductible expense in determining its taxable profits. When it comes to indirect expenses incurred in the head office such as executive and general administrative expenses, they are incurred not only for purposes of the PE in Korea but also for the purposes of other PEs or departments of the enterprise, and, thus, the portion attributable to the PE concerned shall be determined according to the factors (such as sales amount, assets value, personal expenses) by which fair amount of expenses of the PE is reasonably estimated.

(e) Non-taxation principle in the case of the mere purchase by a PE

This principle, adopted by most Korean tax treaties, means that no profits shall be attributed to a PE by reason of the mere purchase by that PE of goods or merchandise for the enterprise. For example, even if a branch in Korea of a Japanese corporation merely purchases goods or merchandise within Korea for its overseas branch (located in a state other than Korea), paragraph 5 of Article 7 of the Korea – Japan Tax Treaty shall apply and, as a result, no profits will be regarded as being attributable to the PE in Korea by reason of such mere purchase.

2. Taxation on Investment Income

a. Taxation on Interest Income

(1) Taxation Rules Provided by Domestic Tax Laws

(a) Domestic-source interest income

Interest income derived by a non-resident (including a foreign company) under the Korean tax law is taxable in Korea in the case where it is received by the non-resident from Korean government, local authorities,

residents (including domestic corporations), or PEs in Korea of foreign corporations or non-residents. Where the interest paid by a foreign corporation or a non-resident in a state is in connection with a PE of the foreign corporation or the non-resident in that state and is included in the necessary expenses or loss of the PE when its income amount is calculated, the interest shall be deemed to arise in the state where the PE is situated. However, interest on loans borrowed directly by a foreign place of business of a domestic corporation or resident for that foreign business place is excluded from the scope of domestic-source interest income.

Detailed items of domestic-source interest income are stipulated in domestic tax laws as follows:

i) Interest and discounts on bonds or securities issued by the state, local authorities, or domestic corporations

ii) Interest on savings deposits payable in Korea

iii) Gains realized from mutual credit financing or credit installment savings under the Mutual Credit Financing Institution Law

iv) Interest and discounts on bonds or securities issued by any branch or business office in Korea of a foreign corporation

v) Interest and discounts on bonds or securities issued by a foreign corporation

vi) Gains realized by security companies from repurchase arrangements involving bonds or stocks having a fixed repurchase term and a predetermined interest rate as prescribed in Article 24 of the Presidential Decree of the ITL

vii) Gains realized from certain savings-type insurance policies as prescribed in Article 25 of the Presidential Decree of the ITL

viii) Excess repayment of membership fee of mutual-aid association of a company as prescribed in Article 26 of the Presidential Decree of the ITL

ix) Gains on non-commercial loans

x) Income similar to items i) through ix) above, which is in the nature of compensation for the use of money

(b) Rules for determining domestic-source interest

In general, interest income is deemed to have a source in the payer's state of residence as indicated in the definition of domestic-source interest income under the domestic tax law above.

(c) Tax-exempt interest

Under the Special Tax Treatment Control Law (STTCL), certain types of interest income of a non-resident (including a foreign corporation) are exempted from withholding taxes.

i) Interest paid by domestic residents or corporations in return for using foreign loans provided by International Financial Institutions or Foreign Governments under subparagraph 6 of Article 2 of the Introduction and Management of Public Loans Law

ii) Interest and commission, received by a non-resident or foreign corporation, on foreign currency bonds issued outside Korea by the state, a local authority or any domestic corporation

iii) Interest and commission payable on foreign currency liabilities borrowed from a foreign financial institution and repayable in foreign currency by any financial institution authorized to do foreign exchange business under the Foreign Exchange Transactions Law (FETL)

iv) Interest and commission on Certificates of Deposit in foreign currency from non-residents, and on notes issued or sold in foreign countries by any financial institution authorized to do foreign exchange business under the FETL

v) Income derived from foreign currency time deposits opened by a non-resident or a foreign company with a maturity of one year or more (except when withdrawing the principal or interest during the period of the contract)

(2) Taxation Principles Adopted by Korean Tax Treaties

(a) Scope of interest income

In most of tax treaties which Korea has concluded, interest income is broadly defined as “income from debt-claims of every kind.”

(b) Rules for determining domestic-source

All tax treaties which Korea has concluded stipulate that interest is deemed to have sources within a state of which the interest payer is a resident. However, it is also laid down that the person paying the interest has in a state a PE in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such a PE, then such interest shall be deemed to arise in the state where the PE is situated.

Some of tax treaties that Korea has concluded provide that some interest received by the government or quasi-governments of the other state shall be exempted from tax in a state in which such income is incurred. The scope of quasi-governments generally covers local authorities, the central bank, financial institutions the capital of which is owned by the government and the central bank. Some tax treaties have the provision which prescribes that interest on loans guaranteed or granted by an export-import bank is tax-exempt.

(c) Interest paid in connection with the sale on credit, etc.

According to the tax treaties which Korea has concluded with France, Austria, Belarus, Germany, Malta, Morocco, etc., interest paid in connection with the sale on credit of any industrial, commercial or scientific equipment and merchandise is included in the scope of interest income (Under the domestic tax law, such interest is classified as business income). In the case of the treaty between Korea and Egypt, interest paid in connection with debt-claims secured by immovable property is regarded as income from immovable property (Under the domestic tax law, such interest is treated as interest income). In general, income classification under a tax treaty takes precedence over that under a domestic tax law.

(d) Reduced tax rates

Under tax treaty, interest income derived by non-residents may be taxed in a state in which the income is incurred in accordance with relevant domestic tax law of that state. Where the interest is received by a beneficial owner thereof, however, the tax rate shall not exceed a reduced rate provided for under tax treaties which generally range from 10% to 15%. Under treaties with Hungary, Ireland and Russia, however, interest which arises in one contracting state and is received and beneficially owned by a resident by the other contracting state shall be taxable only in that other state.

(e) Arm’s length principle for controlled transactions

Where by reason of a special relationship between the payer and the beneficial owner of interest or between both of them and some other person, the amount of the interest exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of the Article regarding the application

of a reduced tax rate apply only to the last-mentioned amount and the excess part of the payment remain taxable according to the laws of each state.

b. Taxation on Dividend Income

(1) Taxation Rules Provided by Domestic Tax Laws

(a) Domestic-source dividend income

Under the domestic tax law, domestic-source dividend income of a non-resident (including a foreign company) means the following items of income received by the non-resident from domestic corporations or non-corporate entities in Korea:

i) Dividends of profits or distribution of surplus from a domestic corporation or an institution deemed as a corporation
ii) Deemed dividends as enumerated below:

Classification	Tax base
Reduction in paid-in capital	The value of property received as a consequence of capital reduction minus the acquisition cost of the shares of the corporation
Bonus issue of shares in the case of the transfer of surplus of a corporation into its paid-in capital	Number of bonus shares multiplied by its face value
Distribution of treasury stocks in the case of the transfer of the capital reserve or asset revaluation reserve (valid only when certain conditions are met)	Number of shares multiplied by its face value
Distributions after the liquidation	The value of property received after the liquidation minus the acquisition cost of the shares of the dissolved corporation
Distributions on the merge of corporations	The value of property received on the merge minus the acquisition cost of the shares of the ceased corporation
Distributions on a corporate division	The value of property received on a corporate division minus the acquisition price of the share before division

iii) The amount disposed as dividends according to the Corporate Tax Act or the amount deemed as dividends according to Article 17 of the Law for Coordination of International Tax Affairs

iv) Profits from the Collective Investment Vehicle received within or outside Korea under Article 26-2 of the Presidential Decree of the Income Tax Law

v) Income similar to items (i) through (v), having the nature of distribution of profits

vi) The amount distributed to investors of a joint business based on profit-and-loss distribution ratio as prescribed in paragraph 1 of Article 43 of the Income Tax Law out of income derived from the joint business under Article 43 of the Income Tax Law

(b) Tax-exempt dividends in relation to qualified FDI

Where dividends are received by foreign investors from a foreign-invested company carrying on businesses eligible for relevant tax incentives, tax exemption is allowed. To benefit from tax incentives of this category, business concerned has to be foreign investment under the Foreign Investment Promotion Law and be one of the following businesses as prescribed in Article 116-2 of the Presidential Decree of the STTCL:

i) Industry supporting service business and advanced technology business which are essential for reinforcement of international competitiveness of domestic industry

ii) Business carried on by a foreign-invested company which moves into the Foreign Investment Zone under Article 18 of the Foreign Investment Promotion Law

iii) Business carried on by a foreign-invested company which moves into the Free Economic Zone under subparagraph 1 of Article 2 of the Law on Designation and Management of the Free Economic Zone

iv) Business carried on by a foreign-invested company carrying out development project within the Free Economic Zone under paragraphs 1 and 2 of Article 8-3 of the Law on Designation and Management of Free Economic Zone

v) Business carried on by a foreign-invested company carrying out development project in the Investment Promotion District in Jeju Island designated under Article 217 of the Special Law on Free International City of Jeju Island

vi) Other business for which tax incentives are badly needed in order to attract foreign investment.

(2) Taxation Principles Adopted by Korean Tax Treaties

(a) Scope of dividend income

Under tax treaties Korea has concluded, dividends mean "income derived from shares or other rights, not being debt-claims, participating in profits" and "income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the state of which the company making the distribution is a resident." This is similar to dividend income under Korean domestic tax law.

(b) Application of a reduced tax rate

Dividends received by a non-resident (including a foreign company) from a domestic corporation may be taxed in Korea where such income is derived. However, the tax rate higher than a certain rate (reduced tax rate under tax treaty) shall not apply. Reduced tax rates vary depending on tax treaties, but generally range from 5 to 15%. In some cases, different reduced tax rates apply depending on whether the recipient is an individual or a corporate body.

c. Taxation on Royalty Income

(1) Taxation Rules Provided by Domestic Tax Laws

(a) Domestic-source royalty income

Domestic-source royalties received by a non-resident (including a foreign company) under the Korean tax law mean consideration paid in Korea or accrued for the use of or right to use in Korea the following properties or information, and gains realized from the transfer of such properties or information regardless of whether such properties and rights are registered on an official list or not.

i) Copyright of academic or artistic work (including cinematograph films), patent, trademark, design or model, plan, secret formula or process, films and tapes for radio and TV broadcasting or other similar assets or rights
ii) Information or know–how concerning industrial, commercial or scientific knowledge or experience

Basically, Korean tax laws treat royalties having a Korean source when they are derived from the right to use properties or information within Korea or when such royalties are paid in Korea. However, where a tax treaty specifies that royalties are treated as having a

source of a state only when they are derived from the right to use properties or information within that state, any consideration paid for the use of properties or information abroad shall not be deemed as having a Korean source

(b) Rules for determining domestic-source

For royalties to be treated as having a Korean source under the Korean tax law, properties, information and rights in relation to which royalties are paid have to be used within Korea or such royalties have to be paid in Korea. Previously, only those royalties paid for the use of properties within Korea were deemed as having a Korean source. However, since the amendment of the relevant tax law in 1988, payments made within Korea have been regarded as domestic-source income even if properties concerned are used abroad, unless tax treaties specify the income concerned should be deemed to have a source in the place where properties concerned are used.

(c) Consideration for know-how to be used in overseas branch of a domestic corporation

Where a domestic corporation pays consideration for the use of properties, rights or information from a foreign corporation without a place of business in Korea and then use them through an overseas branch or construction site located in a third state, consideration for such use is treated as royalties having a domestic source.

(d) Taxation on imported software

Even when customs duties are imposed on consideration for the introduction of technical information or software which is imported in the form of plan, tape or disk, such consideration is treated as royalties regardless of the imposition of customs duties if consideration for such technical information or software falls on the scope of royalties under domestic tax laws.

(2) Taxation Principles Adopted by Korean Tax Treaties

(a) Scope of royalty income

Scope of royalty income may somewhat differ depending on tax treaties, but all of them define royalties as payments of every kind as specified in the following:

i) Consideration for the use of or the right to use of copyright of scientific, artistic or academic work, patent, trademark, design, model, plan, secret formula or process

Under tax treaties Korea has concluded with Japan, the US, Singapore, and Mexico, even gains from the transfer of the aforementioned assets are deemed to be royalties.

ii) Consideration for the use of or the right to use industrial, commercial or academic equipment

①Under tax treaties Korea has concluded with the US, Bangladesh, Egypt, South Africa, New Zealand, etc. consideration of this category is not deemed as royalties.

② Consideration for the use of or the right to use of ships or aircraft on a bareboat charter is deemed as income from the rental thereof, unless there is a separate provision on it in tax treaty as in the Korea-Netherlands Tax Treaty.

③Under a tax treaty with Mexico, provisions on royalties may also apply to income from the transfer of the equipment of this category.

iii) Consideration for information concerning industrial, commercial or academic experience

① Under tax treaty between Korea and Egypt, consideration in this category is not prescribed as royalty income.

② Under tax treaty between Korea and the Netherlands, payments received as consideration for scientific, geological or technological study or survey are not deemed as consideration for information concerning industrial, commercial or scientific experience.

③ Under treaty with France, payments received as consideration for scientific, geological or technological study or survey and for service concerning certain engineering, or consulting or supervision service are not deemed as consideration in this category.

iv) Consideration for technical services

Under tax treaties Korea has concluded with Brazil, India, Pakistan, Bulgaria, Tunisia, etc. consideration for technological, management or consulting services is defined as royalties.

(b) Rules for determining domestic-source

Royalties may be treated as having a source either in a state in which consideration concerned is paid or a state in which properties or information concerned is used. While most tax treaties Korea has concluded stipulate that royalties are deemed to have a source in the payer's state of residence, a state in which properties concerned are used is regarded as a state of source under treaties with the US. However, even under such treaties adopting the place of payment principle, where the obligation to pay such royalties is created in connection with a PE in Korea of a non-resident or a foreign company and the royalties are borne by such PE, the royalties are deemed to have a source in Korea regardless of the state of residence of the payer.

(c) Gains from the transfer of patent, etc.

Royalties include not only income from the rental of properties or rights defined above but also gains from the transfer thereof, under the Korean tax law, while the latter is excluded from the scope of royalties under most of tax treaties Korea has concluded. If gains from such transfer do not fall under the scope of royalties under tax treaties, such gains shall be treated as business income (in the case that such income is derived by a PE), capital gains or other income, as the case may be.

(d) Application of reduced tax rates

Royalties may be taxed in the state of source, but where the recipient of royalties is its beneficial owner, the tax rate shall not exceed a certain level (i.e., reduced tax rate under applicable tax treaty, generally ranging from 5% to 15%). However, under treaties with Hungary, Ireland, Malta, etc. royalties shall be taxable only in the recipient's state of residence.

3. Taxation on Income Arising from the Provision of Professional Services

a. Taxation Rules Provided by Domestic Tax Laws

(1) Domestic-source income from professional services

Under the Korean tax law, domestic-source income derived by non-resident individuals or foreign companies from the provision of personal services means income derived by non-resident individuals or foreign companies from the rendering of professional services in Korea by themselves or through their employees. In other words, it is compensation for professional services provided by a person of an independent status or for other activities of an independent nature, as opposed to earned income which means compensation for services provided by a person as employee of other person.

Professional personal services include the following:

(a) Services provided by actors, musicians or other entertainers
(b) Services provided by professional athletes
(c) Services provided by professionals such as lawyers, certified public accountants, architects, surveyors registered and patent lawyers
(d) Services provided by those with expertise in specific area such as science & technology and business management by utilizing such expertise

In the past, even when such personal services as described above are rendered abroad and only the result of such services is used in Korea, compensation for the use of such result in Korea was also treated as domestic-source income. With the revision of relevant tax law in 2003, however, compensation for the use in Korea of the result of personal services rendered abroad on or after January 1 2004 is not domestic-source income any longer.

*****In the case of the rendering of professional services by a non-resident individual or a foreign company without a PE in Korea, airfare, accommodation fees or meal expenses used to be included in total amount from which 20% of withholding tax is deducted at source. However, since January 1, 2005, such fees are no longer counted in for withholding tax purpose as long as they are directly paid to the airline, hotel, or restaurant concerned by the withholding agent concerned are not counted in for withholding tax purpose. The non-resident who derives income from professional services may also elect to include such income from the provision of professional services subtracted by the afore-mentioned expenses in the global income when filing a tax return in Korea.

b. Taxation Principles Adopted by Korean Tax Treaties

(1) Types of professional services under tax treaty

In general, there are two types of professional personal services: independent personal services of an independent character and dependent personal services provided by a person as employee of other person. In tax treaties, however, income from the provision of personal services is classified into the following 8 categories and each category is dealt with separately:

(a) Income derived from “independent personal services”

(b) Income derived from “dependent personal services”

(c) “Directors’ fees”

(d) Income derived by “artistes and sportsmen”

(e) “Pensions”

(f) Remuneration paid in respect of “services rendered to a government or other institutions of the similar nature”

(g) Payments received by “students or business apprentice” for the purpose of maintenance, education or training

(h) Remuneration paid to “professors”

Among the 8 categories, a company may be regarded as a qualified entity for income derived from independent personal services as well as for remunerations paid for the activities of artistes and sportsmen in some cases.

(2) Income in respect of independent personal services

Basically, income in respect of independent personal services refers to income paid for the rendering of services by a person of an independent status. Therefore, compensation for services provided by a doctor who is employed at a medical center of a factory is income from dependent personal services (labor income) rather than income from independent personal services.

Activities by artistes and sportsmen come under independent personal services as described above, but, in the case where a tax treaty contains a separate article dealing with artistes and sportsmen, that article applies to such activities taking precedence over the article on independent personal services.

Independent personal services have similar nature to that of business profits in many aspects. Therefore, just as business profits derived by a non-resident without a PE in Korea are non-taxable in Korea, if the tax treaty concerned specifies that only those independent services delivered through a fixed base in Korea may be taxed in Korea, taxation principle applied to a PE with regard to business profits shall apply mutatis mutandis to independent services rendered through a fixed base. In other words, independent personal services provided through a fixed base in Korea may be taxed in Korea but only so much of them as is attributable to the fixed base.

(3) Personal services provided by a foreign company under tax treaty

Income derived from the rendering of professional services by a foreign company in Korea under the Korean Corporation Tax Law is generally the

same as independent personal services under tax treaty, but may be classified as business profits sometimes depending on treaties.

Given, under a tax treaty, business profits derived by a foreign company without a PE in Korea is not taxable in Korea while income from the provision of independent personal services is taxable in Korea unless certain conditions for exemption are met, tax consequences with regard to income derived by a foreign company in relation to personal services vary dramatically depending on whether the income concerned is classified as business profit or as income from independent personal services.

(a) Tax treaties specifying the income derived by a company from the provision of professional services as business profits

Under some tax treaties Korea has entered into (e.g. tax treaty with the US, Germany, Australia, Sri Lanka, Pakistan, Indonesia, India, Brazil, Russia and South Africa), only individuals are qualified for the articles on independent personal services and thus income derived by a company from a foreign country through the company's employee in Korea constitutes business profits and is not taxable in Korea unless the company has a PE in Korea. However, labor income derived in Korea by an employee of such company, if conditions of tax exemptions as prescribed in the applicable tax treaty are not met, is taxable in Korea as labor income.

(b) Tax treaties recognizing income from the provision of professional services by a company under the category of income from the independent personal service

Under most tax treaties Korea has entered into, the article governing independent personal services is applicable to both individuals and companies. Therefore, income derived by a company from a foreign country covered by such tax treaty through its employee in Korea is subject to the provisions of the treaty concerned on independent personal services. Therefore, such income is taxable in Korea unless conditions for exemptions specified in the provisions are met, even when the company has no PE in Korea.

4. Taxation on Capital Gains

a. Taxation Rules Provided by Domestic Tax Laws

(1) Domestic-source capital gains

(a) Scope of capital gains from the transfer of immovable property

Capital gains from the transfer of the following immovable property are regarded as having domestic source under the Korean tax laws:

i) Land or buildings
Land means land categories required to be registered on the Cadastral Register under the Cadastral Law and buildings include facilities and structures accessory to the buildings concerned.

ii) Rights to real estate such as surface rights and leaseholds to real estate registered and rights to acquire real estate (including rights to acquire a building and land accessory thereto when the construction of the building is completed)

iii) "Other property" (particular type of shares, membership, goodwill etc.) such as shares that are not listed on the Securities Market under the Capital Market and Financial Investment Business Act (hereinafter "securities market") including shares (hereinafter "real estate stocks, etc.") of a corporation, among stocks and investment shares (hereinafter "stocks, etc." including certificates of deposit and stock purchase warrants issued on the basis of stocks, etc.), whose assets of i) and ii) are 50% or more of its total assets as of the first day of the business year to which the date of transfer belongs. Capital gains derived by a non-resident (including a foreign company) will be treated as having a source in Korea only when the asset in respect of which such gains are incurred is situated within Korea.

(b) Scope of capital gains from the transfer of movable property

Domestic-source capital gains on shares include gains from the transfer by a non-resident (including a foreign company) of shares or comparable interests or other securities issued by a domestic corporation and shares or comparable interests issued by a foreign corporation (limited to those that are listed on r) and other securities issued by a place of business (P.E.) in Korea of a foreign corporation except for gains from the transfer of property described in (a) iii).

The scope of taxable gains from the transfer of securities by a non-resident under the Korean tax law is determined based on such factors as the existence of a PE within Korea, types of securities or transactions, etc. as follows:

In the case of non-residents or foreign corporations with a PE in Korea:

i) Gains from the transfer of shares or comparable interests are subject to tax, provided that such shares or interest are transferred through publicly recognized stock exchanges and the holdings of the non-resident transferor together with his specially-related persons are more than 25% of the total shares issued by or the total investment in a Korean company (the total shares or interests listed or registered on publicly recognized stock exchanges in Korea in the case of shares or interests issued by a foreign company) at any time in the year of such transfer and during the 5 years prior to the year.

ii) Gains from the transfer of the securities other than shares or comparable interests (e.g. bonds, etc.) are subject to tax.

In the case of non-residents or foreign corporations without a PE in Korea:

i) Gains from the transfer of shares or comparable interests

① Gains from the sale through publicly recognized stock exchanges (e.g., the KOSDAQ Market) are taxable only in the case where the holdings of the non-resident transferor together with such shares held by other related persons as may be aggregated therewith are more than 25% of the total shares issued by or total investment in a Korean company (the total shares or comparable interests listed or registered on a publicly recognized stock exchange in Korea in the case of shares or comparable interests issued by a foreign company) at any time in the year of such transfer and during the 5 years prior to the year.

② Gains from the sale through places other than publicly recognized stock exchanges are generally taxable. This rule applies even in the case where the company, shares of which are transferred, is listed or registered on publicly recognized stock exchanges.

ii) Gains from the transfer of securities (bonds etc.) other than shares or comparable interests

① Such gains are subject to tax where the transferee is a domestic corporation, a resident or a place of business of a non-resident or a foreign corporation.

② Capital gains are non-taxable where the transferee is a non-resident or a foreign corporation having no place of business in Korea.

(2) Tax-exempt capital gains from securities specified in a tax law

Income tax and corporate tax exemptions are allowed for gains from the transfer in foreign countries by a non-resident or a foreign corporation of securities denominated in foreign currency or receivable abroad which are issued abroad by the state, local authorities or a domestic corporation based on the standards defined by the Minister of Strategy and Finance as well as shares and comparable interests of a domestic corporation listed or registered on an overseas stock exchange which is similar to publicly recognized stock exchange (including the KOSDAQ market) under the Capital Market and Financial Investment Business Act. Eligible securities for this regime include ordinary bonds (bonds of every kind such as corporate bond, financial bond, and public bond), convertible bond (CB), bond with warrant (BW), depository receipt (DR) and short/mid-term debt instrument issued based on agreement which guarantees revolving underwriting.

(3) Obligation to file a tax return for capital gains from transfer of securities

If capital gains on shares derived by a non-resident (including a foreign company) having a PE or immovable property in Korea are attributable to the PE or the immovable property, such gains should be aggregated to other domestic-source income for the purpose of filing of a tax return and tax payment. Also, a non-resident (including a foreign company) must file tax returns within 3 months if he transfers shares or comparable interests of the same domestic corporation twice or more within the same taxable year even though he has no PE in Korea or has a PE in Korea with no connection existing between the PE and the capital gains mentioned above. If he fails to file tax returns, underreports his tax base or pay less than due amount of taxes, he shall be subject to additional penalty charges.

(4) How to tax capital gains from transfer of securities

Capital gains on securities in other cases are subject to separate taxation through final withholding tax. When it comes to separate withholding tax, the lesser of an amount equivalent to 10% of the transfer price of securities (①) or the amount equivalent to 20% of the capital gains (transfer price – (acquisition value + expenses incurred in relation to the transfer) (②) will be withheld. However, if such acquisition value and expenses are unidentifiable, the amount in ① will apply.

Amount of gains from the transfer of securities by a foreign company having no PE in Korea is calculated by class of shares and by transaction, and capital gains and losses from each class or transaction cannot be set off against each other. However, where shares are acquired through the Korea

Stock Exchange out of different accounts opened with different securities firms and shares acquired from each account are kept by respective securities firms, set-off of capital gains and losses by account is allowed.

b. Taxation Principles Adopted by Korean Tax Treaties

(1) Scope of capital gains on real estate, etc.

Under Korean tax treaties, the taxing right to capital gains may go to different states depending on types of properties transferred.

(a) Capital gains on real estates

In general, it is specified in tax treaty that capital gains on real estate may be taxed in a state in which the property transferred is situated.

(b) Capital gains on properties forming part of a PE

Gains from the transfer of movable properties forming part of business-purpose properties (including gains from the transfer of a PE) may be taxed in a state in which the PE is situated.

(c) Capital gains on ships or aircraft operated in international traffic

Gains from the transfer of ships or aircraft operated in international traffic and movable properties incidental to such operation shall be taxable only in a state of which the enterprise is a resident.

(d) Capital gains on securities

In many treaties, gains from the sale of shares (including comparable interests) are distinguished from other capital gains, whilst capital gains from the transfer of other securities are not particularly categorized and thus treated in the same manner as the gains from transfer of all other properties. Capital gains on shares are taxable only in the transferor's state of residence under most tax treaties. However, some of such treaties allow capital gains on shares to be taxable in a state where such gains are derived if certain conditions are met. Where the taxing right to capital gains on shares is assigned to the state of source or no provision for such gains is provided for under relevant tax treaties, they are taxable in the state of source in accordance with its domestic tax laws.

The following shows which state is entitled to tax capital gains on securities under various Korean tax treaties:

Taxation right	Treaty partner
Taxable only in the transferor's state of residence	Greece, South Africa, the Netherlands, Denmark, Russia, Malaysia, etc.
Taxable only in the transferor's state of residence (However, gains from the alienation of shares of the capital stock of a company the property of which consists mainly of immovable property situated in a contracting state may be taxed in that state.)	Norway, Nepal, Germany, Mexico, Morocco, Malta, the US, New Zealand, Spain, Austria, Israel, Myanmar etc.
Taxable only in the transferor's state of residence. (However, if the transferor has held at least 25% of the total shares of the company during a certain period of time, capital gains concerned may be taxed in the where such gains are derived.)	Germany, Mexico, Myanmar (35%), Spain, Austria, Israel, Italy, etc.
Taxable in a state where capital gains are incurred in the case the transferor, being a resident of the other contracting state, has been a resident of the first-mentioned state at any time during the five years immediately preceding the transfer.	Norway, the Netherlands, France, UK, Finland
Taxable in both contracting states -No relevant provisions provided for in tax treaty -Taxable in a state in which capital gains are derived under tax treaty	 - Luxemburg, Australia - Brazil, Singapore

(e) Capital gains from other properties

In most cases, capital gains from other properties are subject to tax in the residence state of the transferor under relevant tax treaties. However, if applicable tax treaties do not exist or tax treaties do not articulate residence state's taxing rights on this type of gains, such gains are subject to tax in the source state.

5. Taxation on Other Income

a. Domestic Tax Provisions for Determining Domestic-Source Other Income

Domestic-source income falling under the category of other income derived by a non-resident (including a foreign company) under the Korean tax law include income items as specified in the following, provided that such income does not fall under the category of other domestic-source income.

(1) Insurance proceeds, compensation money or compensation for damages receivable in connection with real estate or other assets located in Korea, or in connection with a business operated in Korea

(2) Damages or indemnity payments for breach or cancellation of a contract on property rights payable in Korea

(3) Income incurred from properties received as gifts and held in Korea (However, in the case of non-resident individuals, such income is subject to the gift tax rather than the income tax)

(4) Prize money, reward, and other similar income payable in Korea

(5) Income from hidden property discovered in Korea

(6) Income from the assignment within Korea of rights established by license, permission or other similar disposition under the Korean law, or from the transfer of property held within Korea at the time of transfer, other than real estate

(7) Money or goods received as a prize from winning a lottery or drawing lot in Korea and proceeds from winning horse racing/ cycle racing/ motorboat racing/ bull fighting, sports betting game tickets issued in Korea (including money and goods from participation by non-resident individuals in activities involving the use of slot machine etc.)

(8) Income that has been disposed of as miscellaneous income under Article 67 of the Corporation Tax Law

(9) Income from the unfair increase of values of shares or comparable interests of a domestic corporation owned by a non-resident as a result of non arm's length capital transactions between related parties

(10) Amount of money received when a pension account is prematurely terminated before maturity or lump sum money received after maturity

(11) Income other than those described above, arising from a business operated in Korea, or economic benefits received in connection with assets located in Korea or other similar income

b. Tax Treaties' Provisions Determining Taxing Rights on Other Income

Other income or income not expressly mentioned under tax treaty means income not dealt with in any article of the tax treaty concerned, which means that the scope of such income may differ depending on tax treaties. Other income under tax treaty includes not only income items not expressly mentioned in the treaty concerned but also income of sources not expressly referred to therein. In this respect, the definition of other income under tax treaty is different from that under the Korean tax law. In other words, other income under tax treaty encompasses all income which is not expressly mentioned in the treaty concerned, while other income under the domestic tax law means only income specified as such therein.

There may be three cases with regard to taxation on other income under tax treaties as in the following:

(1) Where such income shall be taxable only in the recipient's state of residence
(2) Where such income may be taxable both in the recipient's state of residence and the state of source
(3) Where a tax treaty provides no provision on other income (in this case, the income concerned may be taxable both in the recipient's state of residence and the state of source)

Type	Applicable tax treaty
Taxable only in the recipient's state of residence	Greece, South Africa, Norway, Nepal, Germany, Russia, Japan, etc.
Taxable both in the recipient's state of residence and in the state of source	New Zealand, Malaysia, Mexico, Bangladesh, Belgium, Brazil, Egypt, etc.
No provision on other income provided for in tax treaty	The Netherlands, Denmark, Singapore, the US

c. How to Tax Other Income

In the case the right or asset in respect of which other income is paid is effectively connected with a PE in one contracting state of a resident of the other Contracting state, such income is treated as business income and taxed accordingly.

Generally, Korean tax treaties do not have a provision for "reduced tax rates" for the Article of "Other Income." It means that an amount equivalent to 20% (the tax rate stipulated in domestic tax laws) of "other income having domestic source (i.e., total amount paid in Korea and classified as other income under domestic tax laws and relevant tax treaties)" of a non-resident or a foreign company having no PE in Korea needs to be withheld at source.

6. Procedural Rules for Anti-Treaty Shopping

a. General Procedures for Claiming Tax Exemption Provided in Relevant Tax Treaties

A non-resident (including a foreign company) who wishes to benefit from non-taxation or exemptions under tax treaty in relation to domestic-source income (excluding business profits and income from the provision of personal services) should claim it by submitting an application form for non-taxation/exemptions to the payer of the income concerned**.** A certificate of residence issued by the competent authorities of the non-resident's state of residence should be attached to such application form for non-taxation/ exemptions. Then, the payer of the income has to submit such form to the tax office having jurisdictions over his place of tax payment by the ninth day of the month following that in which the payer makes the first payment of income.

Even in the case of changes in details of the application after the initial application for some reasons such as modification of contract terms, the non-resident has to make an application in the same manner as before. However, where the payer of the income does not have a residence, abode, head or main office or place of business in Korea, the non-resident recipient may directly submit such application form to the relevant tax office.

Generally, application mentioned above can be made through an agent of the non-resident. Where a financial institution underwrites, trades bonds of a non-resident or a foreign company, or acts as a brokerage or an agent in relation to such bonds, agency relations are deemed to exist between such financial institution, securities firm, or corporation and the non-resident.

With regard to the domestic–source income concerned which is not subject to the corporate income tax or is tax-exempt under domestic tax laws, an application form for non-taxation/ exemptions does not need to be submitted.

b. Special Procedures of Withholding Tax with regard to Passive Income Paid to Residents in Tax Shelters

Recently, Korea has encountered a number of cases where tax treaties which

Korea has concluded with countries having preferential tax regimes or jurisdictions were abused for treaty shopping purposes. Actually, a few of Korea's tax treaty partners offer no or nominal tax burden to foreign investment funds and thus they are suspected to provide treaty shopping opportunities to investors residing in a third country to which a relevant Korean treaty cannot apply.

Although the number of such regions may not be high, they are believed to deal a severe blow to effective operation of Korea's international tax system as a whole. Recognizing the seriousness of the issue, the Korean government has introduced a procedure for withholding tax to cover countries or areas that are deemed to be tax shelters so that chances of treaty shopping attempts can be significantly reduced.

The gist of the rule is that income from investment in Korea derived by a non-resident or a foreign company located in some specific countries or jurisdictions designated by the Minister of Strategy and Finance should be first withheld by a withholding agency according to tax rates provided in domestic tax laws. If the non-resident or the foreign company is able to substantiate to the relevant tax office within 3 years that it qualifies for the treaty benefits as the beneficial owner of the income concerned, any difference between the amount withheld at the domestic tax rate and one based on the applicable treaty should be refunded within 6 months. In the case the taxpayer concerned wishes to apply a reduced rate or tax exemption under tax treaties from the beginning, he or she should request the Commissioner of the National Tax Service (NTS) to give an advance approval according to the procedure provided in the relevant enforcement decrees.

Since it may require huge compliance and administrative costs to determine whether or not the applicant is the beneficial owner of the income received, the enforcement decree of the Corporation Tax Law provides some safe harbor rules by which the recipient of the income may be regarded as the beneficial owner of the income concerned even without further substantiation of relevant facts. The following is a set of examples of entities that can be treated as such if they claim to be one under the decree.

(1) A qualified governmental entity of the state of the applicable tax treaty

(2) A company the shares of which are listed on a recognized stock exchange in the state of the applicable tax treaty and regularly traded thereon

(3) A company, at least 50% of the aggregate vote of the shares of which is owned directly or indirectly by individuals, qualified governmental entities, and a company described in ii) of the state of the applicable tax treaty

(4) A pension trust or any other similar organization in the case where at least 50% of beneficiaries are resident individuals in the state of the applicable treaty

(5) A qualified investment company under the rule of a financial authority of the other Contracting State, which has 100 or more investors during the preceding taxable year (during the taxable year concerned in the case of newly-established companies)

(6) An entity bearing an amount equivalent to at least 50% of the tax benefit amount in Korea resulting from the application of the relevant tax treaties (i.e. tax amount calculated at rate under the domestic tax law minus tax amount calculated at rate under the applicable tax treaty)

This procedure came into effect from July 1, 2006, and only one region is covered by this procedure: Labuan, Malaysia.

*See Appendix for a summary of income taxation for non-residents.

7. Tax Treaties

As of the end of July 2014, Korea has bilateral tax treaties (Conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital) in force with 84 countries all over the world.

In addition to the primary objective of avoiding international juridical double taxation, tax treaties serve purposes such as promoting exchanges of advanced technology and capital from abroad as well as encouraging business expansion of domestic companies in foreign countries.

Chapter XVII: The Law for the Coordination of International Tax Affairs

1. Transfer Pricing Regime

a. Adjustment of a Transfer Price Based on an Arm's Length Price

The LCITA (Law for the Coordination of International Tax Affairs) authorizes the tax authorities to adjust the transfer price based on an arm's length price (ALP) and to determine or recalculate a resident's taxable income when the transfer price of a Korean company and its foreign counterpart is either below or above an arm's length price.

(1) Special Relationship

The LCITA and its Decree recognize "special relationship" under the following circumstances:

(a) Equity Ownership Test

i) Where a foreign company directly or indirectly owns 50% or more of the voting shares of a Korean company

ii) Where a Korean company directly or indirectly owns 50% or more of the voting shares of a foreign company

iii) If a corporation (or an individual), which directly or indirectly owns 50% or more of the voting shares of a foreign company, directly or indirectly holds 50% or more of the voting shares of a Korean company

(b) Substantial Control Test

i) If one transaction party (“Company A”) substantially controls the business policy of the other transaction party (“Company B”) or vice versa and at the same time they share the same interest; or

ii) If the same third party substantially controls the business policy of both Company A and Company B and at the same time both transaction parties share the same interest.

(2) Computation of Indirect Ownership

If company A owns a 50% stake or more in company B, and B owns a certain percentage of shares in a third company C, B's equity ratio in C would constitute the ratio of equity which A indirectly owns in C.

If company A owns less than a 50% stake of company B, and B owns a certain percentage of shares in a third company C, then A is considered to own C to the extent of the ratio computed by multiplying A's equity ratio in B by B's equity ratio in C.

b. Criteria and Procedure for Transfer Price Adjustment

The LCITA and its Decree define an arm's length price (ALP) as a price that is established or that can be expected to be established in an uncontrolled transaction between independent enterprises without a "special relationship."

The LCITA lists the following methods for determining an ALP: the comparable uncontrolled price (CUP) method, the resale price method, and the cost-plus method. Furthermore, the Decree elaborates upon the profit-split method, the transactional net margin method (TNMM) and the Berry Ratio method as methods for determining an ALP based on profits arising from controlled transactions.

The CUP method evaluates an ALP by comparing the price that an independent uncontrolled person under the same or similar circumstances in terms of trade conditions or volume would set for goods identical to those in question.

The resale price method may be applied where a manufacturer sells its products to a related person and the related person resells the same product to an unrelated third party without any further processing. Under this method, the adjustment in the transfer price between related parties may be computed by subtracting an appropriate mark-up amount from the price that the related reseller charges unrelated third parties for the product.

The cost plus method, in principle, may be applied where a manufacturer sells his or her products to the related party and the related party then adds value to the product by processing it further to sell to unrelated third parties. In such cases, the ALP is calculated as the price of the refined goods, less the actual costs of further processing, together with an appropriate mark-up upon such costs.

The profit split method determines an ALP by taking the sum of profits earned by the related parties and allocating them in proportion to their respective contribution towards generating the profits realized.

The TNMM evaluates an ALP by first seeking an independent third company which is similar to the company at issue in terms of its business operations and the nature of its business, and then by subjecting such a company to functional and comparability analyses. The income earned by the third company is then

estimated based upon the following ratios: profits to assets, operating profits to turnovers, and profits to equity. These estimates will then be used to evaluate and if necessary, adjust the income and profit of the related parties.

Finally, with the Berry Ratio method, an ALP in a transaction between a Korean company and its foreign related party is established by using the ratio of gross profit to operating expense (GP/OE) in a comparable (the same or similar) transaction between the Korean company and an unrelated party.

c. Selection of Method for Determining ALP

The Decree states that an ALP should be determined by the most reasonable method applicable to the situation, whether it be the CUP method, the resale price method, the cost plus method, or any other method.

The Decree sets out the following criteria for selecting the most reasonable method.

(1) The level of comparability between the transactions of related parties and those of independent parties must be high.

(2) Sufficient data on comparable independent parties must exist.

(3) The economic assumptions made in comparing the related parties' transactions with those of independent parties must reflect the actual economic situation of the parties.

The degree of comparability can be evaluated on the following factors:

(1) Functions performed and risks assumed, as reflected in conditions and transactions

(2) Types as well as characteristics of the goods or services involved; and

(3) Economic environment of the market and the degree of change in market conditions

If the inter-company price established by a Korean company and its foreign related party differs from an ALP, the Korean company shall pay the corporate income tax based upon the income it would have reported under an ALP.

If there is a transaction between unrelated parties identical or similar to the transactions between the related parties at issue, the CUP method will be selected over any other method.

If an international transaction made between unrelated parties cannot be treated as an arm's-length transaction because of the possibility of price manipulation, such transaction may not be used as a comparable one.

The tax authorities may use an arm's length range determined by two or more uncontrolled transactions to adjust the taxable income of taxpayers. Such tax adjustment must be made based upon reasonable values computed from the transactions examined.

d. Reporting Methods for an ALP Determination

The method used and the reason for adopting that particular one for an ALP determination must be disclosed to the tax authorities by a taxpayer in a report submitted along with his annual tax return. This is not the case, however, in the following cases.

(1) If the total aggregate value of international transactions of goods and services of the taxpayer for the taxable year concerned is not more than 5 billion won and 500 million won, respectively.

(2) If the aggregate value of a international transactions of goods and services with a certain transactional counterpart is not more than 1 billion won and 100 million won, respectively.

If the inter-company price used by a Korean company and its foreign counterpart differs from the transfer price determined under the proper method for determining an ALP, then the taxpayer must adjust such inter-company price.

e. Advance Pricing Arrangement (APA) System

If a taxpayer wishes to obtain an APA for transactions with its foreign related parties, then he or she should submit an application for an APA to the National Tax Service (NTS) by the end of the first fiscal year of the APA period concerned (Unilateral APA).

Once the NTS approves the application of a certain method for determining an ALP, both the NTS and the taxpayer are bound by the method agreed upon in the APA. The roll-back of a unilateral APA to the prior 3 years is permitted (Unilateral APAs had previously applied on a progressive basis only).

An applicant for an APA may withdraw his application for an APA or change the particulars of such an application.

Any data submitted with the application for an APA will be used to only determine whether or not to grant an APA. If an application for an APA is refused or withdrawn, such data will be returned to the applicant in order to safeguard the confidentiality right of the taxpayer.

In the case where an APA is obtained, a taxpayer is required to file an annual report which shows the inter-company price which was determined by the method agreed upon under the APA within six months of the annual tax return submission due date.

A taxpayer who applies for an APA may request that the NTS invoke a Mutual Agreement Procedure (MAP) with the competent authorities of the country in which its related foreign party is a resident under the relevant tax treaty (Bilateral APA). However, the NTS may grant an APA without undergoing a MAP for the taxpayer's convenience.

Having obtained an APA, a taxpayer may file an amended tax return that reflects the change from its prior inter-company price with a related party and the price determined under the APA.

f. Secondary Adjustment

If the tax authorities adjust the transfer price between a Korean company and its foreign related party based upon an ALP or they increase the taxable income of the Korean company, and if the foreign party has not returned an amount equal to the additional taxable income to the Korean company, the tax authorities will give the foreign related party the 90-day period during which it may return to the Korean company the amount plus interest accrued up to the point of the return. If the foreign related party fails to do so within the period, the amount equivalent to the additional taxable income will be mostly treated as dividends even if the foreign party is a related company of the Korean company other than a shareholder thereof.

g. Corresponding Adjustment

The LCITA and its Enforcement Decree state that if a foreign government, on the basis of an ALP, increases the taxable income of a foreign company which is an associated enterprise to its Korean counterpart, the Korean government will correspondingly reduce the taxable income of that Korean company if the two governments have agreed upon an ALP applicable to the case through a Mutual Agreement Procedure (MAP). In such a case, a taxpayer may apply for a downward adjustment in his taxable income by filing a notification of the MAP results with the tax authorities.

h. Adjustment with regard to a Cost Sharing Arrangement (CSA)

International standards used to verify appropriateness of cost sharing between a resident and its foreign related party have been reflected in domestic tax law.

Under the new provision, in the case where a resident agrees to develop intangible property jointly with its foreign related party and to share costs/expenses incurred in relation to such development with the foreign related party, the tax base of the resident may be adjusted based on ALP (The shared costs based on the ALP are tax deductible).

i. Sanctions imposed for Failure to Comply with the Data Request

Under the LCITA, the tax authorities are empowered to request from a taxpayer the data required for an adjustment of the inter-company price. If a taxpayer fails to submit the requested data within 60 days without any justification, the tax authorities may grant an extension of 60 days. The taxpayer may appeal within 30 days of the penalty imposition date.

The tax authorities may request the following data from a taxpayer:

(1) A copy of the sales contract between the Korean company and its foreign counterpart

(2) A price list of the products at issue

(3) A schedule of the manufacturing cost of the products

(4) An organizational chart of the company with a description of the functions of each department

(5) The inter-company price policy

(6) The equity relationship of the group

2. A System Adjusting Taxable Value between National Tax and Tariff

From July 1, 2012, where a resident knows a correction of declared customs value, the person may file for a corresponding correction of national taxes.

a. The person shall apply for the correction within two months from the date of knowing such correction of the customs value. The taxation authority shall notify its decision regarding the application to the applicant within two month from the date of receiving the application.

b. Where the applicant does not satisfy with the decision, the person may submit an application for mediation in relation to the adjustment of tax and/or duty to the Minister of Strategy and Finance within thirty days from the date when the person was informed of the decision

c. In this case, the Minister of Strategy and Finance may recommend the taxation authority and/or the head of customs office to adjust assessed tax and/or duty. The Minister shall receive implementation plans from the taxation authority or the head of customs office, and shall advise the resident of it within ninety days from the date of application.

3. Thin Capitalization Rules

a. Outline of Thin Capitalization Rule

A multinational enterprise (MNE) may adopt a tax avoidance mechanism under which the contribution of paid-in capital to its subsidiary in Korea is decreased, while increasing its loans to the subsidiary as much as possible. This may result in the minimization of the taxable income of the subsidiary through the increase in interest expense deduction of the subsidiary. Under such an arrangement, non-deductible dividend payments are replaced with deductible interest payments.

To cope with such an arrangement, the LCITA and its enforcement decree contain thin capitalization rules; whereby if a Korean company(including a branch of a foreign company) borrows from its controlling shareholders overseas (CSO), an amount greater than three times its equity (six times in the case of financial institutions) interest payable on the excess portion of the borrowing, computed as shown below, are re-characterized as dividends to which the article on dividends in tax treaty applies and therefore are treated as non-deductible in computing taxable income.

For purposes of the thin capitalization rules, money borrowed from a CSO includes amounts borrowed from an unrelated third party based upon the CSO's guarantee.

The following is the formula for computing non-deductible interest:

Non-deductible interest = Interest and discount payable to CSO X B/A

A: Debt borrowed from the CSO or guaranteed by the CSO

B: A - [Paid-in capital contributed by the CSO X 3 (or 6 in the case of a financial institution)].

b. Debt under an Arm's Length Situation

Although the ratio of debt owed to a CSO to equity exceeds 3:1, as long as the conditions and the amount of debt owed to a CSO are reasonable compared to the debt from independent third parties, such debt from the CSO will be excluded from the scope of the debt subject to thin capitalization rules. As a result, interest on such debt will be deductible.

Anti-thin capitalization that originated from the arm's length principle is adopted from Article 9(1) of the OECD Model Tax Convention. Thus, if given requirements are satisfied, the debt-equity ratio prevailing in the industry (rather than a 3:1 or 6:1 ratio) will be applied.

4. Controlled Foreign Company (CFC) Rules

a. Outline the CFC Rules

Under the LCITA and its Enforcement Decree, if a Korean company (or individual) invests in a company located in a significantly low tax jurisdiction, which unreasonably has reserved profits in the controlled foreign company, the profits reserved therein shall be treated as dividends paid out to that Korean company (individual), despite the fact that the reserved profits are not actually distributed.

In the case where the sum of shares in a controlled foreign company directly or indirectly held by a Korean resident individual or company and directly held by his/her/its relatives or persons connected with them by an economic relationship among specially-related persons as defined in the Framework Act for National Taxes combined accounts for 10% or more of the voting shares in the foreign company, such Korean resident individual or company is subject to the CFC rules.

The CFC rules are intended to regulate a company that has made overseas investments of an abnormal nature. Thus, these rules apply to those Korean companies that have invested in a company incorporated in a foreign jurisdiction with an average effective tax rate of 15% or less on taxable income for the past three years.

However, if a company incorporated in such a jurisdiction actively engages in business operations through an office, a shop, or a factory, then the CFC rules

will not apply. This exemption, however, does not apply to a controlled foreign company (ⅰ) which is engaged in certain businesses such as wholesale trade, financial and insurance business, real estate, lease business, etc. or (ⅱ) which derives passive incomes from holding stocks or bonds, providing intellectual property rights, leasing vessels, aircrafts, and heavy equipment, etc

b. Scope of the Subject Jurisdiction

If an average effective tax rate imposed for the past three years by a foreign jurisdiction is 15% or less of the actually accrued income of a company incorporated therein, the company will be subject to the CFC rules. Even if this criterion is met, however, these rules do not apply in the case of a company whose actually accrued annual income is 200 million won or less.

The term "actually accrued income" refers to the net income before tax calculated based on the generally accepted accounting principle (GAAP) of the host country. If the host country's GAAP is significantly different from that of Korea, the actually accrued income will be computed pursuant to the Korean GAAP.

For this purpose, if the company has paid foreign taxes, such foreign taxes will be deemed to have been paid to the resident state.

Effective tax rate = (Tax paid to resident country + Foreign taxes paid)
/ Net income before corporate income tax.

c. Computation of the Reserved Income to Be Distributed

The reserved income that can be distributed is computed by subtracting the items (1) through (7) listed below from the adjusted amount of earned-surplus. The earned-surplus is represented on the income statements prepared in accordance with the GAAP of the resident state of the foreign company subject to the CFC rules:

(1) Distribution of earned-surplus resulting from an appropriation of retained earnings (including interim dividend accrued during the business year concerned)

(2) Bonuses, severance pay, and other types of outlays paid resulting from the appropriation of retained earnings,

(3) Reserves to be retained under the law of the resident state

(4) Reserves remaining after the distribution of the earned-surplus for the year, which was subject to tax in the previous taxable years

(5) Retained earnings (item (6) excluded) which were derived in the taxable years for which the CFC rules are not applicable and which have not been subtracted as those specified in items (1) and (2)

(6) Unrealized gain on valuation of stocks or investment shares as of the end of the business year

(7) 200 million won

If the resident state's GAAP is significantly different from the Korean GAAP, the earned-surplus shall be computed pursuant to the Korean GAAP.

5. Gift Tax on Property Located Outside Korea

Under the current Inheritance and Gift Tax Law (IGTL), a gift tax is imposed only if 1) the donee is domiciled in Korea or 2) the donated property is located in Korea. Accordingly, if a Korean individual donates a property located offshore to a donee domiciled offshore, a Korean gift tax cannot be levied. In this case, if the foreign country in which the donee is domiciled does not impose a gift tax, then double non-taxation will occur. Korea, which is now a member of the OECD, intends to adopt the "taxation of donor" principle of the OECD Model Double Taxation Convention on Estates and Inheritances and on Gifts.

Under the LCITA and its enforcement decree, if a person domiciled in Korea donates offshore property to a person who is domiciled in a foreign country where a donee is not subject to a gift tax, the donor will be subject to the Korean gift tax.

6. Mutual Agreement Procedure (MAP)

If a Korean resident individual, a domestic company, a non-resident individual or a foreign company with PE in Korea requests that his/her/its case be resolved through consultation with the competent authorities under an applicable tax treaty, the Minister of Strategy and Finance (in case of *a* below) or the Commissioner of the National Tax Service (in case of *b* and *c* below) shall invoke the mutual agreement procedures (MAP). The MAP will be invoked in the following cases:

a. Where it is necessary for Korea to consult with foreign competent authorities with respect to the application and interpretation of the tax treaty

b. Where a Korean resident is subject to taxation in a foreign country contrary to the tax treaty concerned

c. Where it becomes necessary for the competent authorities of the two countries to adjust the taxable income of a taxpayer

Once the MAP is invoked, the taxpayer will be allowed to postpone the filing of an appeal until the MAP is completed. Furthermore, if the MAP is invoked under an applicable tax treaty, the collection of national and local taxes will be postponed on a reciprocal basis until the MAP is completed.

7. International Tax Cooperation

The LCITA and its enforcement decree accept the general principle that income classification under a Korean tax treaty takes priority over that of the domestic tax law.

Under the LCITA and its enforcement decree, the Korean tax authority may request the tax authority of a treaty partner to collect the Korean taxes, subject to any limitations provided for in the treaty. Similarly, if the treaty partner requests the Korean tax authority to cooperate in collecting its taxes from a Korean resident, the Korean tax authority may collect the treaty partner's tax in accordance with the procedure for the collection of national taxes provided in the National Tax Collection Law.

The Korean tax authority may exchange tax information with foreign countries with which Korea has entered into tax treaties, subject to the provisions and limitations of the tax treaties.

If necessary, the Korean tax authority is permitted to 1) simultaneously conduct a tax audit with foreign tax authorities concerned, under the convention for cooperation in tax administration with that foreign country or 2) dispatch Korean tax officials to the concerned foreign country to conduct a direct tax audit of the company in that country.

As of the end of July 2014, Korea has bilateral tax treaties (Conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital) in force with 84 countries. In addition to the primary objective of avoiding international juridical double taxation, tax treaties serve purposes such as promoting the introduction of advanced technology and capital from abroad as well as encouraging business expansion of domestic companies in foreign countries.

For information on a list of countries with which Korea has tax treaties in force, please refer to Appendix I.

8. Foreign Financial Accounts Reporting Requirement

With the 2010 revision of LCITA, Korean residents and companies are required to report to the NTS their overseas financial accounts whose total valuation exceeds 1 billion won on the last day of any month during a calendar year.

The report items include information such as the account holders' name and address, account number, the financial institution, the year-high amount of the account balance on the last day of any month, and any related parties to the account.

The reporting period is from June 1 to June 30 of the year following that in which the relevant account was held. The resident individual or company shall report by filing e-tax or submit report form to the relevant tax office.

The confidentiality of the filed report shall be strictly maintained. Tax officers are prohibited to provide or reveal the obtained foreign financial account information to any other person or to use the information for undue purposes.

If a person subject to the requirement fails to report or report an amount less than required by law, administrative penalty of not more than 10% of the unreported or underreported amount shall apply to him. In the case where the unreported or underreported amount exceeds 5 billion won, the person may be sentenced to up to two years in prison or fined not more than 10% of the unreported or underreported amount.

Chapter XVIII: Local Taxes

1. Acquisition Tax

a. Taxpayer

Persons acquiring real estate, motor vehicles, heavy equipment, trees, boats, aircraft, golf memberships, condominium memberships, health club memberships, mining rights, fishery rights through purchase or inheritance

b. Tax Base

(1) The declared price at the time of acquisition; if buildings are acquired in annual installments, the amount of an annual installment

(2) Acquisition period

(a) Acquisition of buildings: when the notice of approval for use is given in the case construction of the building is permitted or when the building is first used in the case construction of the building is not permitted

(b) In the case of property acquired in annual installments: Each payment date of the annual installments

(c) For vessels, boats, motor vehicles, heavy equipments and aircrafts: When they are delivered to the end-user or when the balance is paid.

c. Tax Rates

(1) 4% of the value of the acquired property or the amount of an annual installment

(2) In the case of acquiring a villa, golf course, high class dwelling house, luxury amusement place, or a luxury boat: 12%

(3) In the case where taxable articles for business purposes are acquired in specially-designated areas of restricted population growth; for example, the Seoul metropolitan area (except when foreign investors build new plants or expand existing ones by using assets acquired by the end of 2003): 8%

d. Payment

(1) The tax return should be voluntarily filed with the payment of tax due within 60 days from the date of acquisition.

(2) Penalty tax: If a taxpayer fails to voluntarily file the tax return within 60 days from the date of acquisition, 20% of the tax amount payable is added as penalty tax. In the case a taxpayer fails to pay the tax amount payable, the amount of penalty tax calculated by multiplying the number of delayed days by the penalty tax rate as determined by the Presidential Decree (3/10,000 per day) is added.

(3) Where a taxpayer, who had acquired objects subject to acquisition tax but has failed to file a tax return and pay the tax due, disposes of those objects, 80% of the tax amount payable is added thereto.

e. Exemptions

Acquisition by the state, local autonomous bodies, or foreign governments is non-taxable

2. Registration and License Tax

a. Registration Tax

(1) Taxpayer

Persons who register particulars concerning acquisition, creation, transfer, alteration, or lapse of property rights, or other titles in the official book are liable to registration tax.

(2) Tax Base

The tax base for the registration tax on real estate, ships, aircraft, or motor vehicles is the value at the time of registration. The said tax base depends on

the declaration of the person who registers or records in accordance with the pertinent regulations. However, in the case where the tax base is not reported, or the case where value at the time of acquisition is less than the "Standard Value" determined by the local government every year, the "Standard Value" at the time of the registration or the record is deemed to be the tax base. However, the actual acquisition value shall be the tax base in the following cases:

(a) Acquisition from the state, local autonomous bodies, and local autonomous body associations

(b) Acquisition by importing from abroad

(c) Value of acquisitions verified by books of corporations, judicial decisions, or a notarized deed

(d) Acquisition through a public sale

(3) Tax Rates

(a) Registration of real estate

	Tax Base	Rate
i) Acquisition of proprietary rights by inheritance of farmland	value	0.8%
Others	value	0.8%
ii) Acquisition of proprietary rights without compensation other than those described in (a)	value	1.5%
iii) Acquisition of proprietary rights other than those described in (a) and (b)		
Farmland	value	1%
Others	value	2%
iv) Preservation of proprietary rights	value	0.8%
v) Acquisition of rights by partition of real estate	value	0.2%
vi) Creation or transfer of the lease of real estate rights other than proprietary rights	value	0.2%
vii) Other registration	per case	6,000 won

(b) Registration of Ships, Aircraft, and Vehicles

i) Ships

① Acquisition of ships by inheritance	value	0.5%
② Acquisition of proprietary right by gift, Devise, or without compensation	value	1%
③ Preservation of proprietary right	value	0.02%
④ Registration of a small ship	value	0.02%
⑤ Other registration	per case 15,000 won	

ii) Aircraft

① Aircraft with maximum take-off weight greater than 5,700 kg	value	0.01%
② Other registration	value	0.02%

iii) Automobiles for non-business use

① New registration and ownership transfer	value	5% (2% in the case of vehicle below 1,000 cc)
② Creation of mortgage	value	0.2%
③ Other registration	per case 15,000 won	

iv) Buses, trucks, special cars, and cars with 3 wheels or less

① New registration and ownership transfer		
-Non business use	value	3% (2% for light vehicle)
-Business use	value	2%
② Creation of a mortgage	value	0.2%
③ Other registration	per case 15,000 won	

(c) Registration of machines for construction

i) New registration and ownership transfer	value of machine	1%
ii) Creation of mortgage	value of bonds	0.2%
iii) Other registration	per case	10,000 won

(d) Registration of incorporation

i) Establishment of a profit corporation	value of total shares	0.4%
ii) Establishment of a non-profit corporation	value of total shares	0.2%
iii) Increase of capital equity or amount of paid-in capital for a profit corporation or increase of value of total assets for a non-profit corporation, by capitalizing its assets revaluation reserves	value of total shares	0.1%

* In the case of (a), (b), and (c), if the calculated tax amount is less than 112,500 won, then the tax payable shall be 112,500 won.

iv) Relocation of head or main office of corporation	per case	75,000won
v) Establishment of branch office	per case	40,200 won
vi) Other registration	per case	40,200 won

* Registration tax rates for corporations located in specially-designated areas for the purpose of restricting population growth, e.g., the Seoul metropolitan area, shall be three times the rates given above.

(e) Registration of Intangible Assets

i) Mining rights

① Creation	per case	135,000 won
② Change	per case	66,500 won or 15,000 won
③ Transfer	per case	90,000 won or 26,200 won

④ Others	per case	12,000 won
ii) Fishing rights (Transfer)	per case	40,200 won or 6,000 won
iii) Copyrights (Transfer)	per case	40,200 won or 6,000 won
iv) Patent rights (Transfer) won	per case	18,000 or 12,000 won
v) Trademarks		
① Creation	per case	7,600 won
② Transfer	per case	18,000 won or 12,000 won
(f) Other registration		
i) Acquisition of a mortgage of a mining amount of foundation or factory foundation credit	value	0.1 %
ii) Registration of an estate in trust	value	1.0 %

(4). Payment

(a) The taxpayer that will register should file a tax return with the payment of tax due by the date of registration. Where the object of taxation is subject to be taxed after registration, the tax return should be filed with the payment of tax due within 30 days from the date of being subject to double taxation.

(b) Penalty tax

Where the taxpayer either fails to voluntarily file the tax return and pay the tax amount or has paid it in short, 20% of the tax amount payable is added.

In addition, in the case of failure to fulfill tax liability by its due date or underpayment, penalty calculated by following formula shall be imposed:

The unpaid amount × the number of delayed days × 3/10,000

(4) Exemptions

(a) Non-taxable Registration

i) Registration by the government or local autonomous bodies

ii) Registration by a foreign government mission stationed in Korea

(b) Special provisions for relocation of corporation into a provincial area

To avoid the crowding of corporations in the major cities the registration tax is exempted with respect to the relocation of corporations into a provincial area. On the other hand, the tax rate increases by three times the current rate on the registration of a corporation in the case of its establishment or relocation into a major city.

b. License Tax

(1) Taxpayer

Persons who have obtained licenses enumerated in the table below under Article 124 of the Presidential Decree are annually liable to the License Tax for each kind of license.

(2) Tax Base

(a) The number of licenses obtained

(b) Taxation period: on occasional basis or period prescribed by the regulations

(3) Tax Rates

License class	**City with population of 500,000 or more**	**Other cities**	**Counties**
1	45,000 won	30,000 won	18,000 won
2	36,000 won	22,500 won	12,000 won
3	27,000 won	15,000 won	8,000 won
4	18,000 won	10,000 won	6,000 won
5	12,000 won	5,000 won	3,000 won

(4) Payment

License tax will be paid at the following times:

(a) New license: upon issuance of the license

(b) Renewal of license: within the payment period prescribed by the pertinent regulations

(5) Exemptions

(a) Licenses obtained by the state, provinces, cities, counties, or the associations of autonomous, local bodies

(b) Licenses granted to religious, academic, charitable, or other similar businesses

(c) New licenses with respect to the registration of mining or fishing rights, etc.

3. Leisure Tax

a. Taxpayer

(1) Korea Horse Affair Association which manages and sells tickets to horse races

(2) National Sports Promotion Corporation or local autonomous bodies which organize cycling races and boat races

(3) Bull fighting organizers defined in the Traditional Bull Fighting Match Law

b. Tax Base

A total amount of selling horse race, bicycle race, motor boat race, traditional bull fighting tickets

c. Tax Rates

10% of the amount obtained by selling horse-race, bicycle race, motor boat race, traditional bull fighting tickets

d. Payment

Leisure tax shall be paid by the 10th day of the month following the month in which the issuance date of horse-race tickets falls upon.

e. Penalty Tax

If a taxpayer fails to voluntarily file the tax return in time, 10% of the unreported tax amount shall be added as penalty on incorrect filing.

In addition, in the case of failure to fulfill tax liability by its due date or underpayment, penalty calculated by following formula shall be imposed:

The unpaid amount × the number of delayed days × 3/10,000

4. Inhabitant Tax

a. Taxpayer

(1) Per capita: Individuals with their domiciles and corporations with their offices in a city or county (including individuals having an office or a place of business larger than a specific size, i.e., whose gross receipts are 48 million won or more in the immediately preceding calendar year)

(2) On property: Business proprietors who have registered their business place as of July 1 of each year

(3) On employees: An employer who pays salaries or wages to employees

b. Tax Base

(1) Per capita : Number of inhabitants

(2) On property : Workshop area as of the base date of assessment

(3) On employees: Monthly payroll of employees

c. Tax Rates

(1) Per capita

(a) Individuals: Local governments determine the taxable amount up to 10,000 won

(b) Corporations:

Category	Tax amount
Corporations with capital over 10 billion won and employs more than 100 workers	500,000 won
Corporations with capital over 5 billion won and employs more than 100 workers	350,000 won
Corporations with capital over 5 billion won and employs less than 100 workers, or corporations with capital over 3 billion but less than 5 billion won, employing more than 100 workers	200,000 won
Corporations with capital over 3 billion won and employs less than 100 workers, or corporations with capital over 1 billion and less than 3 billion won with more than 100 employees	100,000 won
Others	50,000 won

(2) On property: 250 won per square meter

(3) On employees: 0.5% of the payroll

d. Tax Returns and Payment

(1) Per capita

There is no obligation to file a tax return. The authorities holding the rights to impose tax shall serve notice and collect the tax during the period prescribed by the pertinent regulations. Tax is assessed and collected from August 16 to 31 every year.

(2) On property: Taxpayers of inhabitant tax on property are required to pay the tax amount during the period July 1 through July 31 based on self-compliance. Inhabitant Tax is not assessed where the workshop area is less than 330 square meters.

(3) On employees: Taxpayers of local income tax on employees are required to pay the tax amount by the 10^{th} of the following month based on self-compliance. When the total number of employees is 50 or less, inhabitant tax per employee is exempt.

e. Exemptions

(1) State, local autonomous bodies, and an association of local autonomous bodies are exempt from the inhabitant tax.

(2) Foreign government agencies in Korea, international organizations in Korea, and foreign nongovernmental aid organizations in Korea under the Foreign Nongovernmental Aid Organizations Act are exempt from the inhabitant tax. However, the inhabitant tax is imposed on a state, which imposes tax of an identical nature with the inhabitant tax on Korean government agencies and international organizations or on Korean nationals working in Korean government agencies and international organizations, on the nationals of that state, and on the property of a government or aid organizations of that state.

(4) An equal portion of the inhabitant tax is not imposed upon beneficiaries under the National Basic Living Security Act.

5. Property Tax

a. Taxpayer

(1) Land: Owners registered in the acreage taxation books under the Acreage Law and other lands used effectively

(2) Buildings: Owners subject to the subparagraph 2 of paragraph 1 of Article 2 under the Construction Law and owners of facilities installed on the land or owners of leisure, storage and pipe facilities, etc. and other similar facilities attached to other structure

(3) Houses: Owners under paragraph 1 of Article 2. These houses are excluded from the scope of land and buildings

(4) Vessels: Owners registered in the ship taxation book as of the base date of assessment

(5) Aircraft: Owners registered in the aircraft taxation book as of the base date of assessment

b. Tax Base

(1) The Current Standard Value for ships and aircraft

(2) Lands & Houses: The Current Standard Value x (60% for houses; 70% for lands)

(3) Buildings: The Current Standard Value x 70%

c. Tax Rates

(1) Land

(a) General Combined Tax Rates

(Unit: 1000 won)

Tax base		Tax rate		
Over	Not more than	Tax amount +	%	Of an amount in excess of ….won
	50,000		0.2	
50,000	100,000	100	0.3	50,000
100,000		250	0.5	100,000

(b) Special Combined Tax Rates

(Unit: 1000 won)

Tax base		Tax rate		
Over	Not more than	Tax amount +	%	The excess over
	200,000		0.2	
200,000	1,000,000	400	0.3	200,000
1,000,000		2,800	0.4	1,000,000

(c) Separate Tax Rates

Tax base	Tax rate (%)
i) Dry field, rice paddies, orchard forests, pasture lots	0.07
ii) Land for golf courses and luxury amusement	4
iii) Land other than i) and ii)	0.2

(2) Buildings

Tax base	Tax rates (%)
(a) Building for golf courses and luxury amusement	4
(b) Building for factory in a residential area	0.5
(c) Building other than (a) and (b)	0.25

(3) Houses

Tax base	Tax rate (%)
(a) Villa	4

(b) house other than a)

(Unit: 1000 won)

Tax base		Tax rate		
Over	Not more than	Tax amount +	%	Of an amount In excess of ….won
	60,000		0.1	
60,000	150,000	60	0.15	60,000
150,000	300,000	195	0.25	195,000
300,000		570	0.4	570,000

(4) Vessels
  (a) High class vessels 5%
  (b) Other vessels 0.3%

(5) Aircraft 0.3%

(6) In the case of newly built factories in regions with the population cap defined in the Metropolitan Area Readjustment Planning Law, a tax rate equivalent to 500 percent of the foregoing tax rate is applicable as the rate of property tax for five years from the initial base date of assessment.

(7) Where it is deemed that tax rates need to be adjusted due to unavoidable reasons such as natural disaster or abrupt increase in fiscal demand, a mayor or a governor, as the case may be, may adjust the rates by up to 50% of the standard rates as specified in (1)~(5) above in accordance with pertinent ordinances. The rates adjusted, however, shall apply only for the tax year concerned on a one-off basis.

d. Payment

(1) Base date of assessment: June 1

(2) Payment period
  a) Lands: 9.16~9.30
  b) Buildings: 7.16~7.31
  c) Houses: 7.16~7.31(50% of tax assessment)
    9.16~9.30 (The remaining)
  d) Vessels : 7.16~7.31
  e) Aircraft : 7.16~7.31

e. Exemptions

Non-taxable properties

(1) Properties of the state, local autonomous bodies, or foreign governments

(2) Properties used directly by non-profit organizations to furnish religious or educational services, etc.

6. Automobile Tax

a. Taxpayer

Persons who own automobiles

b. Taxation Period

Annual tax amount will be split into two taxation periods and tax will be assessed and imposed on the owner of an automobile as of the first day to which the taxation period belongs.

1st period: June 16 - 30

2nd period: December 16 – 31

* If one pays annual tax amounts on a single sum, 10% tax credit will be given on automobile tax for the rest of the period.

c. Tax Base and Tax Rates

(1) Automobiles

Annual tax amount per vehicle (discharge X tax amount per cc)			
Business use		Non-business use	
Engine displacement	Tax amount per cc	Discharge	Tax amount per cc
1,000 cc or less	18 won	1,000 cc or less	80 won
1,600 cc or less	18 won	1,600 cc or less	140 won
2,000 cc or less	19 won	Over 1,600 cc	200 won
2,500 cc or less	19 won		
more than 2,500 cc	24 won		

(2) Other Automobiles

Category	**Annual tax amount per vehicle**	
	Business use	Non-business use
Per vehicle	20,000 won	100,000 won

(3) Buses

Category	**Annual tax amount per vehicle**	
	Business use (won)	Non-business use (won)
Express buses	100,000	-
Large-size chartered buses	70,000	-
Small-size chartered buses	50,000	-
Other large-size buses	42,000	115,000
Other buses	25,000	65,000

(4) Trucks

Cargo loading capacity	**Annual tax amount per vehicle**	
	Business use (won)	Non-business use (won)
1,000 kg or less	6,600	28,500
2,000 kg or less	9,600	34,500
3,000 kg or less	13,500	48,000
4,000 kg or less	18,000	63,000
5,000 kg or less	22,500	79,500
8,000 kg or less	36,000	130,500
10,000 kg or less	45,000	157,500

(5) Special Cars

Category	Annual tax amount per vehicle	
	Business use (won)	Non-business use (won)
Large-sized special car	36,000	157,500
Small-sized special car	13,500	58,500

(6) Cars with 3-wheels or less

Category	Annual tax amount per vehicle	
	Business use (won)	Non-business use (won)
Per vehicle	3,300	18,000

d. Payment

Automobile owners pay automobile tax according to the following payment period:

	Object period	Payment period
1st Period	January 1 ~ June 30	June 16 ~ June 30
2nd Period	July 1 ~ December 31	December 16 ~ December 31

e. Exemptions

(1) Vehicles furnished for national defense, convoys, traffic police, fire service, ambulances, garbage collection, and road projects.

(2) Automobiles used for postal, telephone, and telegraph services, or by diplomatic missions.

(3) In the case of an original acquisition of an automobile, or in the case of automobiles retired from service, calculated tax amount less than 2,000 won which is computed according to the number of holding days of those automobiles.

7. Tobacco Consumption Tax

The tobacco consumption tax was established as a local tax (city and county tax) on January 1, 1989.

a. Taxpayer

(1) A person who sells manufactured tobacco within a city or county under the provisions of the Tobacco Business Law

(2) Importer of tobacco

b. Tax Base

Volume of tobacco

c. Tax Rates

Item	Tax rate
Cigarettes	641 won per 20 pieces
Pipe tobacco	23 won per 1g
Cigars	65.4 won per 20 pieces
Cut tobacco	23 won per 1g
Electronic tobacco	400 won per 1ml
Chewing tobacco	26.2 won per 1g
Snuffing tobacco	16.4 won per 1g

d. Payment

The taxpayer is required to file a return and pay the tax to the Mayor or county Commissioner by the end of the following month.

e. Exemptions

Tobacco manufactured for export, those sold in duty free shops, aboard international flights, and so on

8. Community Resource and Facility Tax

a. Community Facility

(1) Taxpayer

Persons that benefit from fire-service facilities, garbage disposal systems, sewage facilities, or other similar facilities

(2) Tax Base

Value of the house or vessels

(3) Tax Rates

(Progressively rated)

Tax base	Tax rate
Not more than 6 million won	0.04%
Not more than 13 million won	2,400 won + 0.05% of the excess over 6 million won
Not more than 26 million won	5,900 won + 0.06% of the excess over 13 million won
Not more than 39 million won	13,700 won + 0.08% of the excess over 26 million won
Not more than 64 million won	24,100 won + 0.10% of the excess over 39 million won
Over 64 million won	49,100 won + 0.12% of the excess over 64 million won

(a) In the case of an oil storage, a gasoline station, oil refinery, department store, hotel, theatre, etc., the applicable tax rate shall be increased to 200% of the rates prescribed in item (1).

(b) In other cases: Standard rate is 0.023%

(4) Payment

As prescribed by pertinent regulations.

b. Community Resources

(1) Tax Base and Tax Rates

(a) Water for generating electricity: 2 won per 10 ㎥

(b) Subterranean water:

i) Drinking water: 200 won per 1 ㎥

ii) Hot spring water: 100 won per 1 ㎥

iii) Others: 20 won per 1 ㎥

(c) Underground resources: 0.5% of the resource value

(d) Containers: 15,000 won per 1 TEU

(e) Nuclear power generation: 0.5 won per 1kwh

(2) Payment

(a) Place of tax payment

i) Water for generating electricity: province having jurisdiction over the area where the power plant is located

ii) Subterranean water: province having jurisdiction over the area where the hole drilled for pumping up water is located

iii) Underground resources: province having jurisdiction over the area where the land for which the mining right has been registered is located

iv) Containers: province having jurisdiction over the quay handling the container

v) Nuclear power generation: province having jurisdiction over the location of the power plant

(b) Tax rate may be changeable in the range of 50% of the standard tax rate based on the provincial ordinances.

9. Local Education Tax

a. Taxpaye

Taxpayers of registration tax, leisure tax, per capita inhabitant tax, property tax, tobacco consumption tax, and automobile tax

b. Tax Base and Tax Rates

Taxpayer	Tax base	Standard tax rate
Taxpayer of per capita Inhabitant Tax	Inhabitant tax amount payable pursuant to the Local Tax Law	10% (25% in cities with population exceeding 500,000)
Taxpayer of Acquisition Tax	Acquisition tax amount payable pursuant to the Local Tax Law	20%
Taxpayer of Leisure Tax	Leisure tax amount payable pursuant to the Local Tax Law	40% (60% until the end of 2008)
Taxpayer of Property Tax	Property tax amount payable pursuant to the Local Tax Law	20%
Taxpayer of Automobile Tax	Automobile tax amount payable pursuant to the Local Tax Law	30%
Taxpayer of Tobacco Consumption Tax	Tobacco consumption tax amount payable pursuant to the Local Tax Law	50%

c. Payment

(1) Taxpayers that are making Registration Tax, Leisure Tax, or Tobacco Consumption Tax payments are required to pay the Local Education Tax concurrently.

(2) In the cases where Inhabitant Tax, Property Tax and Automobile Tax are collected, the corresponding Local Education Tax shall also be levied.

d. Penalty Tax

(1) In the case of failure to file the tax return in time, 10% of the unreported tax amount shall be added as penalty on incorrect filing.

(2) In the case of failure to pay tax liability by its due date or underpayment, penalty calculated by following formula shall be imposed:

The unpaid amount × the number of delayed days × 3/10,000

10. Local Income Tax

a. Taxpayer

Individuals and corporations liable to the income tax or the corporation tax

b. Tax Base

The tax base of the income tax or the corporation tax

c. Tax Rates

(1) Local income tax imposed in respect of the income tax

Category	Tax base	Tax rates
Global Income	Not more than 12 million won	0.6% of the tax base
	12 - 46 million won	72,000 won + 1.5% of the excess over 12 million won
	46 - 88 million won	582,000 won + 2.4% of the excess over 46 million won
	88 - 150 million won	1.59 million won + 3.5% of the excess over 88 million won
	Over 150 million won	3.76 million won + 3.8% of the excess over 150 million won

(2) Local income tax imposed in respect of the corporation tax

Tax base	Tax rates
Not more than 200 million won	1 % of the tax base
200 million won - 20 billion won	2 million won + 2 % of the excess over 200 million won
Over 20 billion won	398 million won + 2.2 % of the excess over 20 billion won

(3) Special collection

Tax base
The withheld amount of income tax or corporate tax × 10 %

The withholding agent of the income tax or the corporation tax is also required to withhold as local income tax an amount equivalent to 10% of the income tax or the corporate tax withheld.

d. Tax Returns and Payment

(1) Individuals:

Category	Due date of filing return
Preliminary tax return on capital gains income	Within two months from the end of the month in which the transfer is made
Final tax return on global income and capital gains income	Final tax return and taxes on the income generated during the period of Jan. 1st through Dec. 31st should be filed and paid by May of the following year
Amended tax return	Upon filing of an amended tax return on income tax under the income tax law

(2) Corporations:

Category	Due date of filing return
Final tax return for domestic corporations	Within 4 months from the end of the month in which the business year ends
Final tax return for consolidated corporations	Within 5 months from the end of the month in which the consolidated business year ends
Amended tax return	Upon filing of an amended tax return on corporate tax under the corporate tax law

(3) Special collection

A person responsible for special collection (the person responsible for withholding the income tax or corporation tax) is required to pay the amount specially collected(additionally withheld) on a monthly basis to the local government by the 10th of the following month

e. Determination and Adjustment

In case of non-reporting, the competent tax office in the place of payment or the local government concerned determines and imposes the tax amount payable as well as penalties on failure to file returns and insincere tax payment.

In case of underreporting, the competent tax office in the place of payment or a local government imposes the tax amount underreported as well as penalties on underreporting and failure of tax payment.

f. Penalty Tax

(1) Penalty tax on failure to file returns

(a) In case of failure to file a return which involves fraud or other illegal activities, the penalty equal to 40% of the unreported tax amount shall be imposed.

(b) In other cases, the penalty equal to 20% of the unreported tax amount shall be imposed.

(2) Penalty tax on underreporting

(a) In case of underreporting which involves fraud or other illegal activities, the amount of ⅰ) and ⅱ) combined shall be imposed as penalty tax.

ⅰ) The penalty equivalent to 40% of the underreported tax amount which involves fraud or other illegal activities

ⅱ) The penalty equivalent to 10% of the underreported tax amount from which unjustly underreported tax amount is subtracted

(b) In other cases, the penalty equal to 10% of the underreported tax amount shall be imposed.

(3) Penalty tax on failure to pay the tax amount due

The following amount shall be imposed as penalty:

The unpaid amount × the number of delayed days × 3/10,000

(4) Penalty tax on failure of special collection

The combination of ⅰ) and ⅱ) shall be imposed as penalty.

ⅰ) 5% of the unpaid amount or the underpaid amount

ⅱ) The unpaid amount or the underpaid amount × the period ranging from the day following the due date for payment to the day of payment by self-assessment or the day of notification × 3/10,000

(5) In case where there are penalties for non-compliance with any other obligations in respect of income tax or corporate tax, an amount equivalent to 0.1% of the penalty imposed in addition to the income tax or corporate tax shall be imposed as penalty.

g. Exemptions

(1) Non-taxation

Where income tax or corporate tax is exempt, local income tax is also exempt.

(2) Exemption and reduction:

Various rules as to exemption and reduction for local income tax are in place only for Individual taxpayers and thus there is a need to separately check the rules as to exemption and reduction under the special local tax treatment control law

11. Local Consumption Tax

a. Taxpayer

Taxpayers of VAT

b. Tax Base

Tax revenue of VAT

c. Tax Rates

11% of VAT revenue

<Appendix> Summary of Income Taxation for Non-residents

Individual Income Tax

Individual Income Taxation

	Resident	**Non-Resident**
Definition	Residence or domicile in Korea for more than one year	Any person not deemed a resident
Taxable Place	Residence or domicile	Place of business (fixed base) or place of income source
Tax Liability	Worldwide income	Income from sources within Korea
Methods of Taxation	Global Taxation	Global taxation (in case of fixed base)
	Schedular taxation for capital gains and retirement income	Schedular taxation for capital gains and retirement income
	Withholding taxation	Withholding taxation

Taxation on Non-Residents with a Fixed Base

(Unit: 1,000 won)

Taxable Income (Tax Base)		**Tax Rates and Brackets**
Over	**Not more than**	
	12,000	6%
12,000	46,000	720 + 15% of the excess over 12,000
46,000	88,000	5,820 + 24% of the excess over 46,000
88,000	150,000	15,900 + 35% of the excess over 88,000
150,000		37,600 + 38% of the excess over 150,000

Taxation on Non-Residents without a Fixed Base

Items of Income	Current Domestic Rates
Interest	20% (14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies)
Dividends	20%
Real Estate Income	*
Lease Income	2%
Business Income	2%
Independent Personal Services	20%
Dependent Personal Services	*
Retirement Income	*
Capital Gains Income	Lesser of 10% of sales or 20% of the gains
Royalties	20%
Capital Gains from Securities Transactions	Lesser of 10% of sales or 20% of the gains
Miscellaneous Income	20%

* Tax rates applied to non-residents without a fixed base are identical to those applied to non-residents with a fixed base.

Corporate Income Tax

Corporate Income Taxation

	Domestic Corporation	Foreign Corporation
Definition	A corporate business entity with its head or main office in Korea; or A corporate business entity with its place of effective management in Korea	A corporate business entity with its head or main office or place of effective management outside Korea
Taxable Place	Head/ main office or place of effective management	Permanent establishment or place of income source
Tax Liability	Worldwide income	Income from sources within Korea
Methods of Taxation	Global taxation Special additional tax	Global taxation (in case of permanent establishment) Special additional tax Withholding tax (in case of no permanent establishment) Schedular taxation (capital gains)

Taxation on Foreign Corporations with Permanent Establishment

Taxable Income (Tax Base)		Tax Rates and Tax Brackets
Over	Not more than	
	200 million won	10%
200 million won	20 billion won	20 million won + 20% of the excess over 200 million won
20 billion won		3.98 billion won + 22% of the excess over 20 billion won

Taxation on Foreign Corporations without Permanent Establishments

Items of Income	Current Domestic Rates
Interest	20% (14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies)
Dividends	20%
Real Estate Income	*
Lease Income	2%
Business Income	2%
Independent Personal Services	20%
Capital Gains Income	Lesser of 10% of sales or 20% of the gains
Royalties	20%
Capital Gains from Securities Transaction	Lesser of 10% of sales or 20% of the gains
Miscellaneous Income	20%

* Tax rates applied to non-resident corporations without a permanent establishment are identical to those applied to non-resident corporations with a permanent establishment.

List of Countries with which Korea Has Tax Treaties in Force

Country	Date of Signature	Date of Entry into Force
Albania	May. 17, 2006	Jan. 13, 2007
Algeria	Nov. 24, 2001	Aug. 31, 2006
Australia	Jul. 12, 1982	Jan. 1, 1984
Austria (revised)	May 28, 2001	Mar. 30, 2002
Azerbaijan	May 19, 2008	Nov. 25, 2008
Bahrain	May 1, 2012	Apr. 26, 2013
Bangladesh	May 10, 1983	Aug. 22, 1984
Belarus	May 20, 2002	Jun. 17, 2003
Belgium (revised)	Apr. 20, 1994	Dec. 31, 1996
Brazil	Mar. 7, 1989	Nov. 21, 1991
Bulgaria	Mar. 11, 1994	Jun. 22, 1995
Canada (revised)	Sep. 5, 2006	Dec. 18, 2006
Chile	Apr. 18, 2002	Jul. 25, 2003
China(revised)	Mar. 23, 2006	Jul. 4, 2006
Colombia	Jul. 27, 2010	Jul. 3, 2010
Croatia	Nov. 13, 2002	Sep. 15, 2006
Czech Republic	Apr. 27, 1992	Mar. 3, 1995
Denmark	Nov. 11, 1977	Jan. 7, 1979
Egypt	Dec. 9, 1992	Feb. 5, 1994
Estonia	Sep. 23, 2009	May. 25, 2010
Ecuador	Oct. 8 2012	Oct. 16 2013
Fiji	Sep. 19, 1994	Feb. 17, 1995
Finland	Feb. 8, 1979	Dec. 23, 1981
France (revised)	Apr. 9, 1991	Mar. 1, 1992
Germany (revised)	Mar. 10, 2000	Oct. 31, 2002
Greece	Mar. 20, 1995	Jul. 10, 1998

Hungary	Mar.	29,	1989	Apr.	1,	1990
Iceland	May	15,	2008	Oct.	23,	2008
India	Jul.	19,	1985	Aug.	31,	1986
Indonesia	Nov.	10,	1988	May	3,	1989
Iran	Jul.	6,	2006	Dec.	8,	2009
Ireland	Jul.	18,	1990	Dec.	27,	1991
Israel	Mar.	18,	1997	Dec.	13,	1997
Italy	Jan.	10,	1989	Jul.	14,	1992
Japan (revised)	Oct.	8,	1998	Nov.	22,	1999
Jordan	Jul.	24,	2004	Mar.	28,	2005
Kazakhstan	Oct.	18,	1997	Apr.	9,	1999
Kuwait (revised)	Oct.	2,	2007	Dec.	27,	2010
Kyrgyzstan	Dec.	11	2012	Nov.	22	2013
Laos	Nov.	29,	2004	Feb.	9,	2006
Latvia	Jun.	15,	2008	Dec.	26,	2009
Lithuania	Apr.	20,	2006	Jul.	14,	2007
Luxembourg(revised)	May.	29,	2012	Sept.	4,	2013
Malaysia	Apr.	20,	1982	Jan.	2,	1983
Malta	Mar.	25,	1997	Mar.	21,	1998
Mexico	Oct.	6,	1994	Feb.	11,	1995
Mongolia	Apr.	17,	1992	Jun.	6,	1993
Morocco	Jan.	27,	1999	Jun.	16,	2000
Myanmar	Feb.	22,	2002	Aug.	4,	2003
Nepal	Oct.	5,	2001	May	29,	2003
Netherlands (revised)	Nov.	6,	1998	Apr.	2,	1999
New Zealand (revised)	Jul.	14,	1997	Oct.	10,	1997
Norway	Oct.	5,	1982	Mar.	1,	1984
Oman	Sep.	23,	2005	Feb.	13,	2006
Pakistan	Apr.	13,	1987	Oct.	20,	1987

Panama	Oct.	20,	2010	Apr.	1,	2012
Papua New Guinea	Nov.	23,	1996	Apr.	21,	1998
Peru	May	10,	2012	Mar.	3,	2014
Philippines	Feb.	21,	1984	Nov.	9,	1986
Poland	Jun.	21,	1991	Feb.	21,	1992
Portugal	Jan.	26,	1996	Dec.	21,	1997
Qatar	Mar.	27,	2007	Apr.	15,	2009
Romania	Oct.	11,	1993	Oct.	6,	1994
Russia	Nov.	19,	1992	Aug.	24,	1995
Saudi Arabia	Mar.	24,	2007	Dec.	1,	2008
Singapore(revised)	May.	24,	2010	Jun.	28,	2013
Slovakia	Aug.	27,	2001	Jul.	26,	2003
Slovenia	Apr.	25,	2005	Mar.	2,	2006
South Africa	Jul.	7,	1995	Jan.	7,	1996
Spain	Jan.	17,	1994	Nov.	21,	1994
Sri Lanka	May	28,	1984	Jun.	20,	1986
Sweden	May.	27,	1981	Sep.	9,	1982
Switzerland(revised)	Dec.	28,	2010	Jul.	25,	2012
Thailand (revised)	Jun.	27,	2006	Jun.	29,	2007
Tunisia	Sep.	27,	1988	Nov.	25,	1989
Turkey	Dec.	24,	1983	Mar.	27,	1986
U.A.E	Sep.	23,	2003	Mar.	2,	2005
Ukraine	Sep.	29,	1999	Mar.	19,	2002
United Kingdom (revised)	Oct.	25,	1996	Dec.	29,	1996
United States	Jun.	4,	1976	Oct.	20,	1979
Uruguay	Nov.	29.	2011	Jan.	22,	2013
Uzbekistan	Feb.	11,	1998	Dec.	25,	1998
Venezuela	Jun.	26,	2006	Jan.	15	2007
Vietnam	May	20,	1994	Sep.	9	1994

Withholding Tax Rates in Korea

The normal withholding tax rates on the Korean-source income of non-residents are as follows:

Korean-Source Income	Withholding Tax Rates
Gross Revenue from Business	2%
Compensation for Personal Services	20%
Gain Developed from Securities Transactions	10% of sales price or 20% of the difference between sales price and seller's original cost, whichever is less
Dividends, Interest, Royalties, and Miscellaneous Income	20% (14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies)

In addition to the withholding tax rates given above, local income tax of 10% is assessed on these withholding taxes.

There are various limitations on these withholding taxes for residents of countries having a tax treaty in force with Korea. For dividends, interest, and royalties, the withholding tax rates are limited as follows:

Country	Withholding Rates in Outward Remittances		
	Dividends (%)	Interest (%)	Royalties (%)
Albania	5, 10	10	10
Algeria	5, 15	10	2, 10
Australia	15	15	15
Austria	5, 15	10	2, 10
Azerbaijan	7	10	5,10
Bahrain	5, 10	5	10
Bangladesh	10, 15	10	10

Country	Withholding Rates in Outward Remittances		
	Dividends (%)	**Interest (%)**	**Royalties (%)**
Belarus	5, 15	10	5
Belgium	15	10	10
Brazil	10	10, 15	10, 25
Bulgaria	5, 10	10	5
Canada	5, 15	10	10
Chile	5, 10	5, 10	5, 10
China	10	10	10
Colombia	5, 10	10	10
Croatia	5, 10	5	0
Czech Republic	5, 10	10	10
Denmark	15	15	10, 15
Egypt	10, 15	10, 15	15
Estonia	5,10	10	5,10
Ecuador	5, 10	12	5, 12
Fiji	10, 15	10	10
Finland	10, 15	10	10
France	10, 15	10	10
Germany	5, 15	10	2, 10
Greece	5, 15	8	10
Hungary	5, 10	0	0
Iceland	5,15	10	10
India	15, 20	10, 15	15
Indonesia	10, 15	10	15
Iran	10	10	10
Ireland	10, 15	0	0
Israel	5, 10	7.5, 10	2, 5

Country	Withholding Rates in Outward Remittances		
	Dividends (%)	**Interest (%)**	**Royalties (%)**
Italy	10, 15	10	10
Japan	5, 15	10	10
Jordan	10	10	10
Kazakhstan	5, 15	10	2, 10
Kuwait	5	5	15
Kyrgyzstan	5, 10	10	5, 10
Laos	5, 10	10	5
Latvia	5, 10	10	5, 10
Lithuania	5,10	10	5,10
Luxembourg	10, 15	5, 10	5, 10
Malaysia	10, 15	15	10, 15
Malta	5, 15	10	0
Mexico	0, 15	5, 15	10
Mongolia	5	5	10
Morocco	5, 10	10	5, 10
Myanmar	10	10	10, 15
Nepal	5, 10	10	15
Netherlands	10, 15	10, 15	10, 15
New Zealand	15	10	10
Norway	15	15	10, 15
Oman	5, 10	5	8
Pakistan	10, 12.5	12.5	10
Panama	5, 15	5	3, 10
Papua New Guinea	15	10	10
Peru	10	15	10, 15
Philippines	10, 25	10, 15	10, 15

Country	Withholding Rates in Outward Remittances		
	Dividends (%)	**Interest (%)**	**Royalties (%)**
Poland	5, 10	10	10
Portugal	10, 15	15	10
Qatar	10	10	5
Romania	7, 10	10	7, 10
Russia	5, 10	0	5
Saudi Arabia	5,10	5	5,10
Singapore	10, 15	10	15
Slovakia	5, 10	10	10
Slovenia	5, 15	5	5
South Africa	5, 15	10	10
Spain	10, 15	10	10
Sri Lanka	10, 15	10	10
Sweden	10, 15	10, 15	10, 15
Switzerland	5, 15	5, 10	5
Thailand	10	10,15	5,10,15
Tunisia	15	12	15
Turkey	15, 20	10, 15	10
Ukraine	5, 15	5	5
U.A.E.	5, 10	10	0
United Kingdom	5, 15	10	2, 10
United States	10, 15	12	10, 15
Uruguay	5, 15	10	10
Uzbekistan	5, 15	5	2,5
Venezuela	5, 10	5, 10	5, 10
Vietnam	10	10	5, 15

This book is published to present a brief overview of the Korean Tax Law. If any discrepancies are found between its contents and the current Korean Tax Code, the latter shall prevail. If you have any questions about the contents of this book, please contact Tax Treaties Division of the Ministry of Strategy and Finance of Korea by phone at +82-44-215-4350/4362, by fax at +82-44-215-8073, or via email at:

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