South Korea Tax Profile

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1 Corporate Income Tax

1.1 General Information

Corporate Income Tax

Tax Rate

The basic Korean corporate tax rates are currently:

- 10% on the first KRW 200 million of the tax base
- 20% up to KRW 20 billion
- 22% up to KRW 300 billion
- 25% for tax base above KRW 300 billion

For tax years 2018 to 2020, a 20% rate of cash reserve tax is levied on a domestic company (including a Korean subsidiary of foreign company but not branch) that falls within one of the two categories below:

- A company that belongs to a group of conglomerates, in which cross holdings are banned by the anti-trust law; or
- A company with capital of more than KRW 50 billion (excluding the small and medium-sized companies under the Restriction of Special Taxation Act)

A company should elect one of the following methods for the calculation of its cash reserve tax base and shall use it continuously.

- 65% of adjusted business profits* less amount spent for facility investment, increase in employment costs from the previous year, or expense contributed for mutual growth **; or,
- 15% of adjusted business profits less increase in employment costs from the previous year, or expense contributed for mutual growth **.

* Adjusted business profit is capped at KRW 300 billion.

** expense contributed for mutual growth: 1) Contribution for Mutual Cooperation Fund, 2) Contribution for Employee Welfare Fund of Cooperative SME (small and medium sized enterprises), 3) Contribution for Shared Employee Welfare Fund, 4) Contribution for Credit Guarantee Fund for SMEs by banks or financial institutes operating trust business.

Local income tax of 10% of the corporate income tax due (including cash reserve tax) before deductions/exemptions will also be due. Since the taxable year of 2014, a separate local tax filing is required for local income tax purposes. Previously, local income tax was paid along with the corporate tax obligation.

Residence

A corporation is considered resident in Korea if the corporation has its head or main office, or place of effective management in Korea. A resident corporation is liable in Korea for corporate income tax on its worldwide income.

A non-resident corporation is liable for corporate income tax on income from Korean sources only. However, liquidation income of a non-resident corporation is not taxable.

Basis of Taxation

Korean resident corporations are subject to tax on their worldwide income.

Tax Losses

Tax losses incurred on or after 1 January 2009 can be carried forward and used to offset up to 80%* of taxable income earned during the subsequent ten years, starting from the immediate subsequent business

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year after the fiscal year the tax losses were incurred. However, some companies specified in Article 10 of the Enforcement Decree of the Corporate Income Tax Law (such as small and medium-sized companies specified in Tax Incentive Limitation Law and companies under rehabilitation or work-out plan etc.) are eligible to use the tax losses carried forward to offset 100% of taxable income.

* Restriction on tax loss utilization: Utilization of tax loss is limited to 70% of taxable income for business years commencing on or after January 1, 2018 and to 60%p of taxable income from business years commencing on or after January 1, 2019.

In general, tax losses cannot be carried back. However, 'special carry back' rules exist under Article 2 of the Enforcement Decree of the Tax Incentive Limitation Law, which can enable SMEs to carry back losses to the preceding year

Tax Consolidation/Group relief

A domestic parent corporation, which wholly owns its domestic subsidiaries (excluding pass-through entities), can elect to prepare a consolidated corporate income tax return for the domestic entities. The domestic parent corporation should submit an application form for adoption of consolidated tax return filing method within 10 business days from the commencement of a business year that the taxpayer wishes to apply consolidated tax return filing to the head of tax office having jurisdiction over the domestic parent corporation (foreign subsidiaries are not eligible to be included in the consolidated group for the income tax return filing purpose even if they are wholly owned by the domestic parent).

A domestic parent company should report consolidated tax return to the regional tax office within 4 months from the end of the business year and pay tax due. Wholly owned domestic subsidiaries are not liable to file or pay its stand-alone corporate tax due.

Once consolidated tax filing method is elected, it should be applied at least for five consecutive business years. The adoption of the consolidated tax filing method can be waived after the fifth year of the initial election and application for the waiver should be reported within three months prior to the commencement of a business year that a taxpayer wishes to adopt the stand-alone tax return filing.

Transfer of Shares

Securities Transaction Tax

Securities Transaction Tax (STT) is imposed on transactions involving transfer of stocks as follows:

- Transfer of shares issued by Korean entities. However, shares issued by Korean entities, which are listed on certain foreign securities markets, shall not be subject to the STT.
- Transfer of shares issued by foreign entities that are listed on the Korean security markets. Unlisted foreign shares are not subject to STT.

The STT is levied on the sellers. If the seller is a non-resident or a foreign entity, the buyer should withhold and remit the tax to the tax authorities on behalf of the seller within two months from the end of the half-year (calendar year) in which the share transfer transaction takes place.

- The STT is, in principle, levied at 0.5%, however, special rates may apply in the following cases:
- Stocks transferred on the KOSPI stock market: 0.15% (additionally, this case is subject to special rural development tax at 0.15%)
- Stocks transferred on the KOSDAQ or KONEX stock market: 0.3%
- Other: 0.5%

If the transfer price is lower than the fair market value in the case of a related-party transaction, the fair market value would be used as the tax basis for STT purposes.

Capital Gains Tax

Capital gains/losses of a resident corporation are included in its taxable income and taxed at the standard corporate income tax rates (see page 5).

Resident individual shareholders

- Capital gains tax is levied when shares are transferred by an individual shareholder as follows:
- shares in a listed company are transferred out of the securities market; or
- shares in an unlisted corporation are transferred; or

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- shares held by major shareholders in a listed company are transferred on the securities market.

Capital gains tax is levied on the transfer of stocks at 22%. In case of transfer of shares by majority shareholders, capital gain of KRW 300 million or less is taxed at 22% and capital gain exceeding KRW 300 million is taxed at 27.5% (for SMEs, the 27.5% marginal tax rate will become effective from transfers executed on or after January 1, 2019). If transferred or disposed of within 1 year from the purchase date by major shareholders (excluding small and medium sized company stock), capital gains tax of 33% will apply. For small and medium sized company stock (excluding held by major shareholders), the rate of capital gains tax is 11%. The above-mentioned rates include a local income tax corresponding to 10% of the personal income tax due.

Resident corporate shareholders

Capital gains/losses are included in taxable income and taxed at the standard corporate income tax rates. For certain mergers that satisfy "proper merger" requirements, any tax liability that arises as the result of the merger will be flowed through to the surviving merged corporation.

Gains from treasury stocks are also taxable.

Acquisition Tax

No acquisition tax will be levied generally on transfers of shares. An exception to this rule will apply if the company (private company) has certain statute-defined underlying assets (e.g. land, buildings, structures, vehicles, certain equipment, and various memberships) that are subject to acquisition tax. If the investor and its affiliates collectively acquire, in aggregate, more than 50% of the shares in the target company, they will be "deemed" to have indirectly acquired those taxable properties through the share acquisition, and will therefore be subject to acquisition tax at a rate of either 2% or 2.2% based on the asset type.

Transfer of Assets

Capital Gains Tax

Individual

In case of individuals, the capital gains tax rate on the disposal of land and buildings varies from 6.6% to 68.2% depending on the holding period and type of property. However, transfers of unregistered land and buildings are subject to a 77% rate of capital gains tax. The above-mentioned tax rates include local income tax that is 10% of the personal income tax rate.

Corporation

Capital gains/losses are included in taxable income and taxed at the standard corporate income tax rates. However, transfers of villas or idle lands (except when they were acquired during the period from March 16, 2009 to the end of 2012) are subject to11% (or 44% for unregistered) in addition to the standard corporate income tax rates. For certain mergers that satisfy "proper merger" requirements, any tax liability that arises as the result of the merger will be flowed through to the surviving merged corporation.

Acquisition Tax

Acquisition tax shall be imposed on a person who has acquired certain property or rights. Tax rates depend on the property acquired, acquisition methods and location of the asset.

Capital Duty (non-tax planning)

None

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CFC Rules

In the case where 10% or more of the issued shares in a foreign company are directly or indirectly owned by a Korean resident, and the average effective income tax rate of the foreign company for the most recent three consecutive years is 15% or less, the Korean resident is deemed to have received a dividend of an amount equal to "deemed distributable retained earnings" multiplied by the shareholding ratio (even if there has been no actual distribution of such retained earnings to the Korean resident).

The deemed dividend amount is the total distributable retained earnings, adjusted by items such as previous deemed dividend amounts (taxable to the Korean parent company), mandatory reserves and gain/loss on share valuation. The CFC income will be included in the taxable income of the Korean parent company in the tax year to which the 60th day after the CFC's fiscal year end belongs.

Thin Capitalization

In the case where a Korean company borrows from its foreign controlling shareholders an amount greater than two times its equity (2:1 debt to equity ratio in general or 6:1 in the case of financial institutions), interest payable on the excess portion of the borrowing is characterized as a dividend. The article on dividends in a relevant tax treaty (if any) applies.

Interest Deductibility Restrictions

Neutralization of the effects of hybrid mismatch arrangement (For Action 2 of OECD BEPS Project)

Effective from Jan 1, 2018, in a case where a domestic corporation (including a PE of foreign corporation) pays interest derived from hybrid financial instrument(s)* transaction(s) with its overseas related party, if (i) the counterpart jurisdiction does not levy tax on the interest income because it is treated as dividend according to the tax law of the jurisdiction or (ii) the income constitutes less than 10% of the related party's taxable income, the interest payment is non-deductible.

* Hybrid financial instruments(s) are those that are treated as liability in Korea but as capital in the resident countries of the relevant overseas related parties.

Limitation on interest deductions for MNEs (For Action 4 of OECD BEPS Project)

Effective from Jan 1, 2019, in case where a domestic corporation (including a PE of foreign corporation) has intercompany loan transactions with overseas related parties and pays interest, the interest expense amount exceeding 30% of adjusted taxable income* is non-deductible. While the existing thin capitalization rule denies deduction for interest expenses arising from foreign related party loans exceeding two times of the amount of the foreign controlling shareholder's equity holding in the Korean company, the lower cap of the two shall be used to deny any non-deductible interest expenses. This rule is not applicable to domestic corporations in insurance and financial service industry.

* Adjusted taxable income is taxable income before depreciation and net interest expenses on the borrowings from overseas related parties.

Amalgamations of Companies

Major tax implication for Mergers

Taxpayer	Items	Qualified Merger (i.e., tax-free merger)	Non-qualified Merger (i.e., taxable merger)
Surviving company	Gain/loss from Merger	Deferrable Transfer of net assets based on tax book value	Taxable/deductible Gain(loss) = FMV of net assets of merged company – Purchase price (consideration paid to shareholders of Merged company for Merger)
	Outstanding NOL of Merged company	Transferrable	Non-transferrable
	Temporary differences of merged company	Transferrable	Non-transferrable (Provisions for severance

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			liability and bad-debts are transferrable)
Merged company	Gain/loss from Merger	Transferrable Transfer of net assets based on tax book value	Taxable/deductible Gain(loss) = Sales price (consideration paid to shareholders of Merged company for Merger) - Net asset tax book value
Shareholders of merged company	Tax on deemed dividend at the time of merger	Deferrable	Taxable Deemed dividend = Sales price (consideration paid to shareholders of Merged company for Merger) – acquisition price of shares issued by Merged company

*The following requirements must be met for a merger to be treated as a qualified merger: 1) The merger must be between domestic companies that have operated their businesses for at least one year as at the merger registration date, 2) the total value of stock issued by the surviving company should be 80% or more of the total merger consideration received by shareholders of the merged company and the stocks are distributed at pro-rata basis to the shareholders of the merged company; also, the shareholders should continue to hold the surviving company' stocks received until the end of business year of the merger registration. 3) surviving company operates the business of the merged company until the end of business year of the merger registration , 4) surviving company employs at least 80% of the employees of the merged company as of one month prior to the merger registration date until the end of business year of the merger registration date

*If surviving company fails to comply the following prerequisite conditions under the tax law within 2 years from the business year subsequent to the merger, taxes deferred under the qualified merger are levied on the surviving company.

1) Surviving company closes the merged company's business, 2) shareholders of the merged company transfers 50% or more of the shares received from the surviving company, 3) employees of the surviving company constitute less than 80% of total employees of the surviving company and the merged company as of 1 month before the merger registration date.

General Anti-avoidance

Korean tax law contains a substance over form rule that allows the tax authority to re-characterize a transaction based on its substance.

Where the tax burden of a company has been unjustly reduced through transactions with related parties, the tax authorities may recalculate the income amount of the concerned company based on the fair market value that would have been established between independent companies engaged in similar transactions under comparable circumstances.

The Korean tax authority takes into account both substance and legal form of each transaction. Still, the tax authority generally tends to focus more on substance of transactions, whereas the courts tend to give more weight to legal forms.

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Anti-treaty Shopping

To resolve treaty shopping problems, the Korean government has tried to re-negotiate with several countries that have a tax treaty with Korea. The tax treaties with Malaysia (in 2011), Austria (in 2011), Switzerland (in 2012), Poland (in 2012), India (in 2014), Vietnam (in 2014), Turkey (in 2015), and Czech Republic (in 2016), have been renegotiated (S*ource: Press releases of Ministry of Strategy and Finance*).

New provisions have been established which provide that the application of a tax treaty be not allowed if there is suspicion of treaty shopping. The Korean government has agreements with other countries for the exchange of information, including tax and finance information.

Rulings

There are two types of rulings available – letter rulings and advanced rulings.

Letter Ruling: A process where the National Tax Service ('NTS') or the Ministry of Strategy and Finance responds by letter to an enquiry made (by a taxpayer) regarding their interpretation on tax laws. The letter rulings are made publicly available on the NTS website.

Advanced Ruling: An advance income tax ruling is a written statement given by the NTS to a taxpayer stating how the NTS will interpret and apply specific provisions of existing income tax law to a definite transaction or transactions that the taxpayer is contemplating. Full disclosure by the taxpayer is required as part of the process. Advance rulings are made publicly available on the NTS.

Hybrid Instruments

Corporate Tax Act treatment: The law does not provide clear regulations on the classification of hybrid instruments. However, related authoritative interpretations view hybrid instruments that are issued in the form of bonds according to commercial law as liabilities.

Hybrid Entities

The concept of a hybrid entity does not exist in Korea and there is no specific tax regime. However, a partnership will be viewed as a transparent entity in Korea and may be viewed as a corporation in another jurisdiction. Therefore, a partnership could be a hybrid entity.

Under Korean tax law, specifically the provision of "Special Taxation for Partnership Firms', tax is exempt at the level of the partnership firm, but each partner is subject to pay and file taxes on earned income distributed from the partnerships firm. If the partner is a non-resident, income distributed from the partnership firm will be subject to withholding tax in Korea.

Domestic entities should report their eligibility for the special tax provision as partnerships:

- When the partnership is first established, the applications should be made within one month as from the beginning of the first taxable year.
- When the existing entity transforms into partnership, the applications should be made before the beginning of the taxable year in which they intends to be subject to special taxation. In this case, quasi-liquidated income should be paid within three months of the closing of the taxable year, in which they intends to be subject to special taxation.

In addition, the domestic corporation is required to remit any resulting tax on the deemed disposition in three annual instalments.

Related Business Factors

Forms of legal entities typically used for conducting business

A corporation is the typical legal entity used in Korea for conducting business. For holding purposes, businesses may use a statutorily defined 'holding company' or an ordinary corporation.

A foreigner may conduct business in Korea by establishing a local entity, carrying on the business as an individual, or a foreign corporation may establish a branch or business office in Korea.

C*apital requirements for establishing a legal entity*

The minimum capitalization required to register as a foreign invested company is KRW 100million.

The minimum capitalization required to establish a statutory holding company is:

i. Assets more than KRW 500 billion; and

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ii. 50% or more of assets consist of shares in subsidiaries.

There is no restriction on an investment amount in case of a local branch of a foreign company.

Other local requirements for establishing a legal entity

A statutory holding company cannot have a debt to equity ratio exceeding 200%.

Where a foreign investor establishes a local company in Korea, the foreign investment must be reported and registered before and after the local company is established.

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1.2 Determination of Taxable Income and Deductible Expenses

1.2.1 *Income*

General

Tax base amount of a business year is net of total taxable income less total deductible expense attributable to the business year and carried forward tax loss. Taxable income is derived from transactions that result increase of net assets, except otherwise stated in the CITL such as capital injections.

Deductible expense is derived from transactions that results decrease of net assets, except otherwise stated in the CITL such as repatriation of capital or distribution of retained earnings. Only business-related expenses are deductible for tax purpose.

Branch Income

Branch income is calculated under the same approach as the above but is limited to the Korean-sourced income/expense attributable to the branch.

Capital Gains

Capital gain shall be defined as net of transfer price less acquisition price of assets (shares or real properties, etc.) and other expenses (taxes or commission fee, etc.).

Dividend Income

Dividends received from domestic subsidiaries

Dividends are generally taxable under corporate income tax.

However, in order to prevent double taxation, dividend received deductions ("DRD") are available if certain requirements are met. The DRD is available for dividend income received by a Korean resident company from another Korean company. The DRD ratio ranges from 30% to 100% and varies depending on whether the parent company is a qualified holding company under Korean law and the ownership percentage of the parent. To apply DRD rates, only shares held for at least 3 months (as at the base date of dividend distribution) can be included in the application of the DRD rates. Deduction limits for a company receiving dividends are as follows:

Dividend from non-listed corporation		Dividend from listed corporation	
Shareholding	DRD	Shareholding	DRD
100%	100%	100%	100%
More than 50%, less than 100%	50%	More than 30%, less than 100%	50%
50% or less	30%	30% or less	30%

If a 'financial holding company' (as defined under the Financial Holding Company Law) or another 'holding company' (declared to the Korean Fair Trade Commission) receives a dividend from a subsidiary, the dividend will be deducted from the holding company's taxable income at the following rates:

Dividend from non-listed corporation		Dividend from listed corporation	
Shareholding	DRD	Shareholding	DRD
More than 80%	100%	More than 40%	100%
40% or more, 80% or less	80%	20% or more, 40% or less	80%
Less than 40%	30%	Less than 20%	30%

Dividends received from a foreign subsidiary

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Dividends received from a foreign company are, in principle, subject to corporate income tax in Korea. However, the company receiving the dividends may be eligible for an indirect foreign tax credit for foreign income taxes paid by the foreign company in its country of residence in case where shareholding ratio of the foreign subsidiary is 25% or more for at least six months (as at the decision date of dividend distribution).

Regarding dividends received from foreign subsidiaries, the Korean parent company can enjoy foreign tax credit for the foreign income tax paid by foreign subsidiaries on its earning distributed to the parent company. In that case, the foreign tax paid by foreign subsidiaries should be included in the parent company's taxable income.

Interest Income

Interest income derived from loan is generally taxable under the corporate income tax law. In a case of loan transaction between related parties at a lower interest rate or free of charge than a market rate, the difference between the interest income based on the contracted rate and the market rate is treated as taxable deemed interest income.

Other Significant Items

In cases where related party transactions lower taxable income because they are made at higher or lower price than market price, the tax authority will challenge the difference between the transaction price and the market price and increase taxable income adjusted to the market price.

1.2.2 *Expenses*

General

Deductible expense is derived from transactions that results decrease of net assets, except otherwise stated in the CITL such as repatriation of capital or distribution of retained earnings. Expenses should be related to the business of the company to be deductible for tax purpose.

Minimum Taxation Requirements for the Deductibility of Losses

None

Capital Losses

Capital loss from transfer of assets (shares or real properties etc.) is deducted from taxable income.

Carry Forward

Tax loss (including capital losses) is carried forward to the next 10 business years from the business year tax loss is resulted in, up to 60% of tax base amount of the current business year (the tax loss utilization limit is 80% of tax base for FY 2016 & 2017 and 70% for FY 2018.) Small and medium sized companies and certain companies specified under the Corporate Income Tax Law including companies under court receivership or workout, etc., can utilize the tax loss carried forward up to 100% of tax base amount.

Carry Back

Only for SMEs, tax loss can be carried back one year.

Bad Debts

Bad debts can be deductible if specified conditions under the corporate income tax law such as expiration of extinctive prescription period are met. Nevertheless, bad debts related to indemnifying receivables or providing non-business related loans to related parties are not deductible.

Change of Control Rules

None

Depreciation/Capital allowance

Depreciation of fixed assets is deductible within the limit that is calculated based on useful life and depreciation method (straight-line or declining balance method, etc.) specified under the CITL. Depreciation

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expense in excess of the tax limit can be deductible in the following years when the depreciation expense of a business year is less the tax limit of the business year, up to the tax depreciation limit.

Double Deductions

None

Interest Expenses

Interest expense derived from loan is deductible as it decreases the value of net assets. However, interest paid to unspecified lender, interest on non-business related loan from related parties or borrowing for purchase of non-business related assets (e.g., non-business related real properties) are not deductible.

Interest on borrowings spent on construction-in-process assets during the construction periods are added to the acquisition price of the assets and becomes deductible when the assets are depreciated or when they are transferred.

In addition, there are regulations for restriction of interest deduction such as thin capitalization, neutralization of the effects of hybrid mismatch arrangement and limitation on interest deductions for MNEs (see page 9).

Inventories

Inventories are only deductible at the time of sales or when damaged or obsolete inventories are disposed. As an exception, the valuation loss can be deductible in the following occasions..

- If the valuation method applied is lower of cost or market price method under the CITL and market value method according to Generally Accepted Accounting Principles (GAAP); or,
- If damaged or obsolete inventories unsalable at their market price are valued at their disposal value as of the end of the business year.

Other Significant Items

In cases where related party transactions lower taxable income because they are made at higher price than market price, the tax authority may not allow deduction of expenses or loss and adjust the taxable income for the difference between the transaction price and the market price.

Various penalties for illegal activities and punitive damages in excess of compensatory damages are not deductible.

Effective from January 1, 2016, the CITL requires sufficient evidence such as daily car usage log to claim the deduction of company car related expenses. The conditions include (1) the coverage of car insurance policy for corporate cars is limited to the company's employees as drivers and (2) mileage log needs to be prepared and maintained to support that a company' usage of vehicle is for business purpose.

Based on the mileage log, the ratio of actual usage (*) for business purpose is calculated. If the company does not maintain the daily vehicle usage log and the total annual expenses for a car is KRW 10 million (if the lease period is less than one year, the amount computed by multiplying KRW 10 million by the number of months of the lease period and then dividing it by 12) or less, a company may deduct the entire cost to the extent that the coverage of car insurance policy for corporate cars is limited to the company's employees as drivers only.

However, if the company does not maintain the daily vehicle usage log and the total annual expenses exceed KRW 10 million (if the lease period is less than one year, the amount computed by multiplying KRW 10 million by the number of months of the lease period and then dividing it by 12), a company may deduct the cost pro-rata to the ratio computed by dividing KRW 10 million by the expenses incurred in relation to corporate cars for business use. The denied amount shall be treated as salary and wage income of the relevant employee (permanent difference item).

(*) Ratio of actual usage for business purpose is calculated by business purpose driving mileage divided by total driving mileage per vehicle.

(**) Company vehicle-related expense includes expenses such as depreciation, rental fee, fuel expense, insurance, maintenance expense, car tax, toll fees, interest on capital lease, etc.

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1.3 Tax Compliance

Compliance Requirements

A Public Corporation is a corporation that is either listed on a public stock exchange or falling under one of the followings;

- gross assets of the preceding business year is KRW 12 billion or more,
- gross assets and liabilities of the preceding business year is KRW 7 billion or more, or
- total number of employees and gross assets are 300 or more and KRW 7 billion or more, respectively, in the preceding business year.

Public Corporations are subject to statutory audit by an independent certified public accountant and must submit externally audited financial statements with their annual corporate tax returns. If a Public Corporation does not submit externally audited financial statements with its annual corporate tax return, the filing will not be accepted, and the entity will be subject to non-compliance penalties.

A Non-Public Corporation must prepare financial statements in accordance with GAAP, but an external audit is not required.

The corporate tax return (for both Public and Non-Public corporations) must be filed within three months of the last day of the taxation year.

The local income tax return (for both Public and Non-Public corporations) must be filed within four months from the last day of the taxation year.

Mandatory Electronic Filing

Electronic filing is not mandatory. However, it is widely adopted by taxpayers in practice..

Requirement to Prepare Tax computation / Return in Functional Currency

In a case where a domestic corporation prepares the financial statements in foreign currency other than Korean Won as functional currency in accordance with Korean-GAAP, it must calculate the tax base according to one of the methods below as reported to the tax office. The first method shall be applied by default for the business year prior to the application of the method of No. 2 or No. 3 for the first time and the same method should be applied to the consolidated corporations belonging to the consolidated group that selected consolidated tax return filing method. Once No. 2 or No. 3 is elected, the elected method cannot be changed in the following years; except for cases where the functional currency of the company is changed or the company merges with a company applying different method of tax base calculation.

1. Calculation of the tax base based on the financial statements prepared using KRW as the functional currency.

2. Calculation of the tax base based on the financial statements prepared using the functional currency other than KRW and conversion of the tax base amount into KRW using the conversion method reported to the tax office (i.e., the standard exchange rate as at the end of business year or annual average exchange rate).

3. Calculation of the tax base based on the financial statements converted into KRW; balance sheets shall be converted into KRW using the exchange rate at the end of a business year while the exchange rate at the time of the transaction shall be used to convert income statements (annual average exchange rate shall be used to convert certain items stipulated under the law such as depreciation expense, provision of severance expense, bad-debt expense, interest expense, interest income, insurance income, and dividend income.)

Documents to File with Tax Return

The following documents should be submitted when filing corporate income tax return.

- The financial statements (B/S, P/L, and statement of retained earnings (loss)) prepared in complying with K-GAAP
- The statement of tax adjustments and other supporting documents
- The statement of cash flow (applicable to corporations subject to external audits based on the relevant regulations)

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- For a company which calculates tax base using the financial statements applying functional currency other than KRW, the financial statements converted into KRW
- The financial statements of the merged company, statements of assets/liabilities transferred from merger or company split.

Language to File Return, Computation and Supporting Documentation(s)

Korean.

Filing Extension Availability and Details

Domestic companies could file an extension of corporate income tax return filing to the tax office by no later than 3 business days before the statutory filing due date only in case where external audits required under the Act on External Audit of Stock Companies have not been completed. Such companies can extend its filing of the corporate income tax return up to one month from the due date, but the tax due amount should include additional interest tax payment amount derived applying annual interest rate of 10.95% per the days of late filing..

In case when a foreign company's Korean branch subject to filing of its corporate income tax return cannot meet the filing due date due to reasons such as delay in closing of the foreign head office's financial statement, it can file an extension of corporate income tax return filing within 60 days prior to its fiscal year-end to the regional tax office. The tax office should notify whether the extension request is accepted or not within 7 days from the extension request filing date. If the extension is approved, the foreign company should pay additional interest tax payment amount by applying annual interest rate of 10.95% per the days of late filing.

Payment of Estimated Tax

None

Interim Tax Returns

Filing of interim corporate tax return and tax payment is due within 2 months from the end of the first half year of a business year.

In principle, the interim tax amount is a half of the corporate income tax paid for the prior business year, but the taxpayers can choose to calculate the interim tax base based on the actual financial statements for the first half year of the current business year. The latter method shall be used in case there was no corporate tax due in the prior year.

Corporations such as newly established companies (except for those established due to merger or company split), liquidated companies, foreign companies without a PE in Korea, corporations with less than 6 months of business operation for the business year, corporations having no business income during the interim corporate tax return period due to closure of the business, etc., are not subject to filing of interim corporate tax return.

Payment of Tax

The annual corporate income tax payment due is within 3 months from the end date of a business year (4 months for consolidated tax returns)

If the tax due amount exceeds KRW 10 million, the taxpayer can choose to make an installment payment; the first payment should be at least 50% of the total tax due, and the rest should be paid within 1 month (2 months for SMEs) from the initial payment due date.

Penalties for Non-Compliance

Penalties for non-compliance include, but not limited to, the following.

- Failure to file a tax return or under-reported tax payable amount: 10% of the tax payable amount not filed or under-reported.
- Failure to file a tax return or under-reported tax payable amount by fraud or other fraudulent conducts: 40% of the tax payable amount not filed or under-reported
- Failure to withhold tax: Max (3% of withholding tax, amount calculated based on the unpaid WHT period * annual interest rate of 10.95%), but limited to 10% of non-reported or under-reported withholding tax.

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- Failure to submit statement of taxable income payment by submission due date: 2% of failed or under-reported tax payment amount, but limited to KRW 100 million (KRW 50 million for SMEs)
- Failure to submit statement of change of shareholders: 2% of change in the face value of shares derived from incidents such as increase/decrease/purchase/transfer/inheritance/gifts of the shares, but limited to KRW 100 million (KRW 50 million for SMEs)
- Failure to obtain statutory receipts such as tax invoice or credit receipts etc.: 2% of the amount without statutory receipts, but limited to KRW 100 million (KRW 50 million for SMEs).

Penalties and/or Interest for Underpayment of Taxes

Penalties for underpayment of taxes is calculated based on the full underpaid tax amount at annual interest rate of 10.95% per the days of late payment.

Statute of Limitation

The general statute of limitation (SOL) is 5 years from the next day of the statutory tax filing due date. Furthermore, SOL of 7 years would apply for failure to file tax returns by due date, 10 years of SOL if there has been tax evasion or tax refund by fraud or other fraudulent conducts, and 15 years of SOL if there has been tax evasion or tax refund by fraud or other fraudulent conducts from international transactions is applied. In a case where NOL is resulted for a business year, if NOL is utilized in a subsequent business year from the business year NOL is resulted, SOL of the subsequent business year, in which NOL is utilized, is extended one more year from the 5 or 7 in Even if the 5 or 7 SOL years.

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1.4 Financial Statements/Accounting

Details of Local Accountant Requirements

Listed companies and financial institutions must prepare financial statements in accordance with Korean International Financial Reporting Standards (here-in-after K-IFRS). However, other companies could prepare financial statements in accordance with K-IFRS or K-GAAP.

Companies that are subject to annual corporate income tax returns must submit their financial statements when filing their corporate income tax returns. If not, the tax return filing will not be accepted, and the entity will be subject to non-compliance penalties.

Fiscal Year

Fiscal year should be a period determined in accordance with the relevant law or as specified in a company' Article of Incorporation ('AOI'), but cannot exceed one year.

Periodicity of Local Books to be Closed

In principle, company' book should be closed at each fiscal year end and the financial statements should be prepared. In case of a publicly listed company, quarterly or half year closure of books is required and the financial statements for the relevant period should be disclosed on Korea Exchange ('KRX').

Retention Period for Statutory Financial Statements / Working papers

Accounting books and records and the financial statements should be kept and maintained for 10 business years, and statements for sales, deposits, etc., should be kept and maintained for 5 business years.

Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

Books and records and the financial statements can be maintained by a computerized information processing system.

Requirements to Prepare Financial Statements in Local Currency

Functional currency should be determined considering the followings. The financial statements can be prepared either in functional currency or presentation currency. If a company adopts different currencies for functional or presentation currency, business results and financial conditions should be presented in presentation currency.

- Main currency used in transaction amounts for supply of goods or services
- Foreign currency of a jurisdiction with significant competitive/legal impact on the transaction amounts for supply price of goods or services
- Currency affecting major cost of goods/services (e.g. salaries, cost of raw materials, etc.).

What GAAP must the Financial Statements be Prepared Under?

Effective from 2011, publicly listed corporations (including KOSDAQ but KONEX is excluded), corporation planning for IPO (excluding listing on KONEX) and non-public financial corporations (some financial corporations including savings banks excluded) are required to prepare the financial statement under K-IFRS. Other corporation can apply K-GAAP and choose to apply K-IFRS.

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Prescribed Format and Details for Financial Statements

The financial statements under the Act on External Audit of Stock Companies comprises of balance sheet, income statement, statement of change of capital, cash flow statement, and notes to the financial statements.

The financial statements under the Commercial Law comprises of balance sheet, income statement, statement of change of capital, statements of appropriations of retained earnings or loss. For a company audited under the Act on External Audit of Stock Companies, cash flow statement and notes to the financial statements shall also be included as part of the financial statements under the Commercial Law. In practice, the statement of appropriations of retained earnings or loss is presented in the notes to the financial statements instead of being prepared separately.

Filing Due Date

Corporations subject to audit by external auditor under the Act on External Audit of Stock Companies is required to provide the financial statements to internal auditor and external auditor by no later than six weeks prior to the annual shareholder's meeting (45 days after the end of business year for a company in a process of rehabilitation). Other corporations are required to provide the financial statements to internal auditor by no later than six weeks prior to the annual shareholder's meeting.

Filing Format of Financial Statements

The financial statements for prior business year should be presented in comparison to those of the current year.

Filing Extension Availability and Details

None

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1.5 Incentives

Intellectual Property Incentives

Tax incentives available for encouraging technologies transfers and job creations are summarized as below.

- Technology transfer by SME or medium scale company to domestic residents: tax exemption for 50% of individual or corporate tax on gain from the transfer
- Purchase of technology by SME from domestic residents: tax credit amounting to 10% of purchase price.
- Purchase of technology by Medium scale company or large company from SMEs: tax credit amounting to 5% of purchase price
- Technology leasing by SME: tax exemption for 25% of individual or corporate tax on royalty income

R&D Incentives

Various types of tax credits and exemptions are available to stimulate R&D activities including:

- Tax credits for research and human resources development expenses
- Special taxation for contributions to research and development
- Tax credits for investment in facilities for research and manpower development
- Special taxation for acquisition cost of technology

Reduction of or exemption from corporate tax (e.g. for high-tech enterprises moving to special research and development zones).

Special Tax Regimes for Specific Industries or Sectors

The rules for calculating the income amount and claiming tax deductions vary significantly between industries.

Other Incentives

Korea has tax incentives aimed at attracting investment from abroad including:

- Tax reduction and exemption from corporate income tax, acquisition tax and property tax
- Exemption from customs duties and value added tax
- Exemption from tax on technical license royalties

Further details of the tax incentives, please refer to the link below.

https://elaw.klri.re.kr/kor_service/lawView.do?hseq=43262&lang=ENG

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1.6 International Taxation

Double Taxation Relief

Double taxation may be relieved for transactions with foreign parties who are tax residents of the countries that have concluded tax treaties with Korea.

Foreign-exchange Controls

In order to incorporate a legal entity (e.g., branch or a subsidiary of a foreign entity) in Korea, the entity is required to file with the foreign currency exchange bank.

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International Withholding Tax Rates

Dividends paid to a non-resident are subject to withholding tax of 22% unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state.

Korea sourced dividend income is not eligible for domestic WHT exemption.

Royalties paid to a non-resident are subject to withholding tax of 22% (or 2.2% on income arising from rental of industrial, commercial or scientific equipment), unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state. However, in case where the income from rental equipment are included in royalties under a tax treaty, the royalties are subject to withholding tax at a rate of the lower of 22% and tax treaty rate other than 2.2%.

Korea sourced royalty income is not eligible for domestic WHT exemption.

Interest paid to a non-resident is subject to withholding tax of 22% (or 15.4% for interest on bonds issued by the State, local government and a domestic corporation), unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state.

If Korea sourced interest paid to non-residents are derived from the following sources, domestic WHT is exempted.

Foreign currency denominated bonds issued by national or local government or domestic company in foreign countries.

Debt in foreign currency borrowed by domestic foreign exchange institutions under the Act of Foreign Exchange Transaction from financial institutions in foreign countries, in which the domestic institutions are required to repay the debt in foreign currency.

Foreign currency denominated notes or certificate of deposit issued or transferred by banks (including Korea Development Bank, Korea Export/import Bank, Industrial Bank of Korea, Nonghyup Bank, Suhyup Bank, merchant banks) in accordance with under the Act of Foreign Exchange Transaction.

Payments for personal services or other income paid to a non-resident are subject to withholding tax of 22% unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state.

Incomes or gains realized by a non-resident from the transfer of shares of a corporation that is substantially a real estate holding corporation situated in Korea are subject to withholding tax at the lesser of:

- 11% of total value of the transferred property, or
- 22% of the gains realized on the transfer.

This is the case unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state. Also, unless Korean capital gains tax on above transfer of shares is exempted under a tax treaty between Korea and other contracting state, the non-resident should file corporate tax return at the standard corporate income tax rates and the withheld taxes are credited as prepaid taxes.

Income or gains derived by a non-resident from the transfer of shares of a Korean corporation are subject to withholding tax at the lesser of:

- 11% of total value of the transferred shares, or
- 22% of the gains realized on the transfer.

This is the case unless the withholding tax rate is reduced by a tax treaty between Korea and the other contracting state.

However, capital gains generated from transfer of listed shares for which the shareholding percentage was less than 25% during the year in which the transfer occurred and the previous 5 years will be exempt from taxation.

All tax rates specified above includes 10% of local income tax.

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Withholding Tax Rates under the Income Tax Treaties

South Korea — Treaty Withholding Rates Table				
	Dividends		Interest	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
Domestic Rates				
Companies:	22	None	22(Bonds 15.4)	22
Individuals:	22	None	22(Bonds 15.4)	22
Treaty Rates				
Albania	10	5	10	10
Algeria	15	5	10	2/10
Australia	15		15	15
Austria	15	5	10	2/10
Azerbaijan	7		10	5/10
Bahrain	10	5	5	10
Bangladesh	15	10	10	10
Belarus	15	5	10	5
Belgium	10		15	10
Brazil	10		10/15	10/25
Brunei	10	5	0/10	10
Bulgaria	5	10	10	5
Canada	15	5	10	10
Chile	10	5	5/15	5/10
China (People's Rep.)	10	5	10	10
Colombia(*)	10	5	10	10
Croatia	10	5	5	0
Czech Republic	10	5	0/10	0/10
Denmark	15		15	10/15
Ecuador	10	5	12	5/12
Egypt	15	10	10/15	15

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Treaty Rates				
Estonia(*)	10	5	10	5/10
Ethiopia	8	5	7.5	5
Fiji	15	10	10	10
Finland	15	10	10	10
France	15	10	10	10
Gabon	15	5	10	10
Georgia	10	5	10	10
Germany	15	5	10	2/10
Greece	15	5	8	10
Hong Kong	15	10	10	10
Hungary	10	5	0	0
Iceland	15	5	10	10
India(*)	15		10	10
Indonesia	15	10	10	15
Iran(*)	10		10	10
Ireland	15	10	0	0
Israel	15	5/10	7.5/10	2/5
Italy	15	10	10	10
Japan	15	5	10	10
Jordan	10		10	10
Kazakhstan	15	5	10	2/10
Kenya	10	8	12	10
Kuwait	5		5	15
Kyrgyzstan	10	5	10	5/10
Laos	10	5	10	5
Latvia	10	5	10	5/10
Lithuania	10	5	10	5/10
Luxembourg	15	10	5/10	5/10
Malaysia	15	10	15	10/15
Malta	15	5	10	0

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Treaty Rates				
Mexico	15	0	5/10/15	10
Mongolia	5		5	10
Morocco	10	5	10	5/10
Myanmar	10		10	10/15
Nepal	10	5	10	15
Netherlands	15	10	10/15	10/15
New Zealand	15		10	10
Norway	15		15	10/15
Oman	10	5	5	8
Pakistan	12.5	10	12.5	10
Panama	15	5	5	3/10
Papua New Guinea	15		10	10
Peru	10		15	10/15
Philippines(*)	25	10	10/15	10/15
Poland	10	5	10	10
Portugal	15	10	15	10
Qatar(*)	10		10	5
Romania	10	7	10	7/10
Russia	10	5	0	5
Saudi Arabia	10	5	5	5/10
Serbia	10	5	10	5/10
Singapore	15	10	10	15
Slovak Republic	10	5	10	0/10
Slovenia	15	5	5	5
South Africa(*)	15	5	10	10
Spain	15	10	10	10
Sri Lanka	15	10	10	10
Sweden	15	10	10/15	10/15
Switzerland	15	5	5/10	5
Tajikistan	10	5	8	10

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Treaty Rates				
Thailand	10		10/15	5/10/15
Tunisia	15		12	15
Turkey	20	15	10/15	10
Turkmenistan	10		10	10
Ukraine	15	5	5	5
United Arab Emirates	10	5	10	0
United Kingdom	15	5	10	2/10
United States(*)	15	10	12	10/15
Uruguay	15	5	10	10
Uzbekistan	15	5	5	2/5
Venezuela(*)	10	5	5/10	5/10
Vietnam	10		10	5/15

** The taxes covered under the treaties do not include Korean local inhabitant tax, thus the 10% of the Korean local inhabitant tax is additionally levied on the withholding taxes on Korean source income mentioned in the table above.*

Notes:

Different treaty rates apply depending on the conditions specified in a treaty.

Source: National Tax Service

https://www.nts.go.kr/eng/resources/resour_02.asp?minfoKey=MINF7620080220173406

Other Agreements

None

Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

New treaties and protocols have been negotiated with below countries, but at the time of writing are not yet in force.

As of February 2018: Nigeria, Sudan.

Source: Ministry of Strategy and Finance

(http://english.mosf.go.kr/ec/selectTbEconomicList.do?boardCd=E0003).

Under Negotiation or Re-negotiation

As of February 2018: Libya, Ghana, Yemen

Agreements for the Exchange of Information

As of February 2018:: Republic of the Marshall Islands, Bahamas, Bermuda, Cook Islands, Bermuda, British Virgin Islands, Mauritius, Vanuatu, Andorra, Samoa, Guernsey, Jersey

Indirect Offshore Disposal Rules

Indirect transfer rule is silent in Korea

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2 Transfer Pricing

Requirements

Transaction with non-resident related parties

Under Korean tax law, the tax authority has the ability to adjust a transfer price and recalculate a resident's taxable income when the transfer price used between a Korean company and its foreign related-party differs from the arm's length price. The arm's length price should be determined by the most reasonable method applicable to the situation.

A taxpayer is required to submit a summary income statement for foreign related party transactions to the tax authority alongside its annual tax return. In addition, the tax authority may request supporting documentation for related party transactions.

A resident may file an application with the National Tax Service (NTS) for approval to use a transfer pricing method (TPM) for a particular period. The application should be made no later than the last day of the first taxable year for that period. The NTS may grant approval for the TPM if the NTS and the government of the counter country agree a mutual agreement procedure and the applicant consents to the mutual agreement between the two countries.

Residents or non-residents may also choose to submit an Advanced Pricing Agreement (APA), if determined necessary.

Transaction with domestic related parties

Taxing authorities may assume that the prices used in related party transactions are not market price and recalculate the profits based on the market prices. In cases where a taxpayer has unrightfully decreased or transferred its profit to a related party by transacting the goods, services or capital at below or above the market price, the taxing authorities would impose the relevant taxes based on market prices

Country-by-Country Reporting

A domestic company (ultimate parent company) whose consolidated revenue exceeds KRW 1 trillion or domestic subsidiaries of a foreign ultimate parent company whose country either (i) has regulation for CbC reporting or (ii) does not have the CbC reporting regulation but the consolidated revenue of immediate prior business year' exceeds EUR 750 million, is required to submit CbC report within 12 months from the end of a business year to the regional tax office.

The CbC report is required to include information on country specific income taxes, a list of companies by respective jurisdiction, main business activities, the number of employees, etc.

In a case where there are more than one domestic related companies of foreign ultimate parent company and one of the domestic related companies submits CbC report of the foreign ultimate parent company, the rest of the domestic companies are not required to submit CbC report. In a case where a foreign ultimate parent company has its subsidiary or branch located in country other than Korea submits CbC report to the country where it resides and the CbC report is exchanged with Korean tax authority, the domestic related company of the foreign ultimate parent company is not required to submit CbC report.

CbC report should be prepared in both Korean and English and can be uploaded to AXIS portal. As CbC report should be submitted in a fixed format, the electronic submission is required

Master and Local Files Reporting

Domestic company and Korean permanent establishment of foreign company (of which sales volume is more than KRW 100 billion and annual transaction volume with foreign related parties is more than KRW 50 billion) should submit master file and local file within 12months after the end of each fiscal year. In case where Advance Pricing Arrangement ("APA") is available, intercompany transactions under APA can be omitted in the local file during the APA period.

The master file should provide a perspective on the overall business, including the organization structure, description of business, intangible assets, financing activities, financial status. The local file should include information on local organization structure, business information, and financial summary, and demonstrate the arm's-length nature of local entity's intercompany transaction with overseas related parties.

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Master file and local file can be uploaded to AXIS portal and the files can be in a format of Hangul, MS Excel/Word, PDF, etc.; these can be submitted in hard copies to the tax office.

Common Reporting Standard

Reporting Korean Financial Institution (Reporting FI) must submit the financial information to the head of NTS via telecommunication network defined in Article 2, No. 18 of the "Framework Act on National Taxes”.

Reporting FI must submit the financial information as of December 31, 2016 and subsequent year by June 30, 2017 and subsequent year, if the reportable jurisdiction is set forth in Annex 3 of the Enforcement Regulation for Tax treaty on Periodic Exchange of Financial Information.

Reportable Jurisdictions – South Korea

Reporting Deadline – 30 June 2018

The jurisdictions provided herein are accurate as of 29 December 2017

Reportable Jurisdictions	First year with respect to which financial data is to be reported	Reportable Jurisdictions	First year with respect to which financial data is to be reported
Andorra	2017	**Denmark**	2017
Antigua and Barbuda	2017	**England**	2017
Argentina	2017	**Estonia**	2017
Aruba	2017	**Faroe Islands**	2017
Australia	2017	**Finland**	2017
Austria	2017	**France**	2017
Azerbaijan	2017	**Germany**	2017
Bahamas	2017	**Ghana**	2017
Bahrain	2017	**Denmark**	2017
Barbados	2017	**England**	2017
Belgium	2017	**Estonia**	2017
Brazil	2017	**Faroe Islands**	2017
Bulgaria	2017	**Finland**	2017
Canada	2017	**France**	2017
Chile	2017	**Germany**	2017
China	2017	**Ghana**	2017
Colombia	2017	**Gibraltar**	2017
Cook Islands	2017	**Greece**	2017
Croatia	2017	**Greenland**	2017
Czech Republic	2017	**Grenada**	2017

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Reportable Jurisdictions	First year with respect to which financial data is to be reported	Reportable Jurisdictions	First year with respect to which financial data is to be reported
Guernsey	2017	**Poland**	2016
Hungary	2017	**Portugal**	2017
Iceland	2017	**Qatar**	2017
India	2017	**Romania**	2017
Ireland	2017	**Russia**	2017
Isle of Man	2017	**Saint Kitts and Nevis**	2017
Israel	2017	**San Marino**	2017
Italy	2017	**Saudi Arabia**	2017
Japan	2017	**Seychelles**	2017
Jersey	2017	**Sint Maarten**	2017
Kuwait	2017	**Slovakia**	2017
Latvia	2017	**Slovenia**	2017
Lebanon	2017	**South Africa**	2017
Liechtenstein	2017	**Spain**	2017
Lithuania	2017	**Sweden**	2017
Luxembourg	2017	**Slovakia**	2017
Malaysia	2017	**Switzerland**	2017
Malta	2017	**Turkey**	2017
Marshall Islands	2017	**United Arab Emirates**	2017
Mauritius	2017	**Uruguay**	2017
Mexico	2017	**Hong Kong**	2018
Monaco	2017	**Singapore**	2018
Nauru	2017	**-**	-
Netherlands	2017	**-**	-
New Zealand	2017	**-**	-
Niue	2017	**-**	-
Norway	2017	**-**	-
Pakistan	2017	**-**	-

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3 Indirect Tax

Indirect Tax

Value Added Tax - VAT

Standard Rate

The standard rate of VAT is 10 percent.

Exports are zero-rated and certain items are VAT-exempt.

Further Information

For more detailed indirect tax information, refer to:

KPMG's 2017 Asia Pacific Indirect Tax Country Guide

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4 Personal Taxation

Income Tax

A resident is liable to tax on all taxable income from domestic and foreign sources, and a non-resident is liable to tax on Korean sourced income only.

Top Rate

The top personal tax rate in Korea is 46.2% (including a local income tax corresponding to 10% of the personal income tax due), and this rate applies to taxable income in excess of KRW 500 million.

Social Security

Korea's social security system comprises four plans:

- National pension plan in which the contribution of 9% is split equally between the employer and employee;
- National health insurance in which the contribution of 6.700512% is shared equally between the employer and employee;
- Industrial accident compensation insurance in which the entire contribution of 0.7% to 34% (depending on the employer's industry) is borne by the employer;

Employment insurance which is split between 'unemployment' (of which the contribution of 1.3% is shared equally between the employer and employee), and 'employee ability development premium' (of 0.25% to 0.85% which is borne entirely by the employer).

International Social Security Agreements

As of January 2018, Social Security Agreements with a total of 31 countries have entered into force:

Australia	Czech Republic	Finland	Spain
Austria	Denmark	Japan	Switzerland
Belgium	France	Mongolia	Sweden
Bulgaria	Germany	Netherlands	Turkey
Brazil	Hungary	Poland	United Kingdom
Canada	India	Romania	United States
China	Iran	Italy	Uzbekistan
Chile	Ireland	Slovak Republic	

Signed but not entered into force: Philippines, Peru

Source: Ministry of Foreign Affairs - www.mofa.go.kr, National Pension Service - www.nps.or.kr

Visa Requirements

Types of visa and its period of validity are as follows:

- Single-entry Visa : You can enter once before the expiry date
- Double-entry Visa : You can enter twice before the expiry date (6 months)
- Multiple-entry Visa : You can enter unlimited times before the expiry date (1 year, 3 years, 5 years)

By categories as below appropriate type of visa needs to be applied.

- Short term visit (Tourist, business visitor, etc.)
- Professional (Job seeker, teaching assistant, technical instructor, artist, engineers, etc.)
- Work and visit

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- Investment (Business ventures, technology and business start-up, intra-company transferee, etc.)
- Trainee (Industrial trainee, chef trainee, etc.)
- Medical treatment
- International training (Industrial Machinery technician, international trade, etc.)
- Journalism – religious affairs (religious worker, short/long term news coverage)

Visa can be applied via e-Visa Application portal or Korean diplomatic mission abroad. [

Upon request for visa issuance approval by a foreign visa applicant or a Korean national trying to invite a foreigner, the Minister of Justice or the head of the Immigration Office (or the head of the local branch in case of Sejongno / Ulsan / Donghae branch) can do a preliminary inspection on the subject. Should they deem it necessary after the inspection, they may issue a certificate of visa issuance approval (or visa issuance approval number) prior to the actual visa issuance by the head of the overseas consulate.

Further Information

For more detailed personal taxation information, refer to:

KPMG's Thinking Beyond Borders

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5 Other Taxes

Stamp Duty

Stamp duty is levied on agreements in relation to the creation, transfer, or alteration of rights in respect of assets. If more than two parties enter into an agreement, the parties are jointly liable for the stamp duty.

The amount of stamp duty imposed on each original document varies between KRW 50 and KRW 350,000.

Branch Tax

Branch tax of 20% (22%, inclusive of the 10% local income tax) of the adjusted taxable income of a Korean branch of a foreign corporation is payable.

This rate may be reduced under a tax treaty and certain tax treaties provide complete relief from branch tax.

Acquisition Tax

Acquisition tax is imposed on a person who has acquired various assets or rights. Tax rates depend on the items to be acquired and acquisition method.

Capital Duty

A capital registration tax of 0.48% including the local surtax is levied on the paid-in capital increase. If the company is incorporated in the Seoul Metropolitan area, it triples to 1.44%.

Inheritance Tax

Property acquired through inheritance or bequest is liable to inheritance tax. Tax rates vary from 10% to 50% depending on the fair market value of inherited properties.

Gift Tax

A donee is liable to pay gift tax on all gifted properties. Tax rates vary from 10% to 50% depending on the fair market value of gifted properties.

Others

There are other various taxes such as property tax and comprehensive real estate tax, etc., and the tax rates are different depending on the type of assets.

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6 Trade & Customs

6.1 Customs

Customs Duty

Goods imported into Korea are subject to customs duty. The amount of duty depends on the quantity and value of the goods imported.

Excise Duty

Excise duty (or individual consumption tax) shall be levied on specific goods, admission to specific places, entertaining, eating or drinking at specific places, and business activities at specific places. Tax rates vary depending on taxable objects.

6.2 Free Trade Agreements (FTA)

In Force

Australia	Colombia	India	Singapore
Canada	Chile	New Zealand	Turkey
China	European Union	Peru	United States
			Vietnam

ASEAN

Brunei Darussalam	Laos	Philippines	Thailand
Cambodia	Malaysia	Singapore	Vietnam
Indonesia	Myanmar		

EFTA- Korea Free Trade Agreement:

Iceland	Liechtenstein	Norway	Switzerland

Concluded / Signed (pending domestic ratification)

Central America (Republic of Panama, Republic of Costa Rica, Republic of Honduras, Republic of El Salvador, Republic of Nicaragua

In Negotiation

China – Japan - Korea	Ecuador	Israel
Mexico	GCC	

Regional Comprehensive Economic Partnership: ASEAN – Japan – China – Australia – New Zealand – India

Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

Source: *Ministry of Trade, Industry, and Energy*

http://english.motie.go.kr/www/main.do

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7 Tax Authority

Tax Authority

National Tax Service (NTS)

Link to National Tax Service

Tax Audit Activity

In general, regular tax audit cycle for company with gross revenue equal or more than KRW 100 billion is 5 years. In practice, companies in Mutual investment restriction business groups or with assets of KRW 200 billion or more and its gross revenue exceeding KRW 50 billion are rotationally chosen by the tax authority to conduct tax audits in 5-year terms.

However, targeted or special audit investigations can be performed at any time.

Appeals

Pre-notification of tax assessment (before final tax notice)

A taxpayer may file an objection to the tax review results or income tax assessment within 30 days from the date of receipt of the notice. Upon receipt of objection, the Tax Commission will deliberate, and the Commissioner shall notify the result to the taxpayer within 30 days.

Tax appeal (after tax notice)

Step 1: There are four remedies available before filing an administrative litigation as following order:

- Objection: to be filed with the District Tax Office or a commissioner of the regional NTS
- Appeal for review: to be filed with the NTS
- Appeal to Tax Tribunal: to be filed with the Tax Tribunal of the Prime Minister’s office
- Appeal for review by the Board of Audit and Inspection: to be filed to the Board of Audit and Inspection

The aforementioned remedies should be filed within 90 days from the date of receipt of the notification or the date a taxpayer becomes aware of the imposed tax. The organization where the remedy is filed shall notify the result to the taxpayer within 30 days for an objection; 90 days for an appeal for review and appeal to tax tribunal; and three months for an appeal for review by the Board of Audit and Inspection.

Step 2: If no remedy results from Step 1, an administrative litigation can be filed, and the relevant document shall be submitted to the court within 90 days from the date of receipt of the result.

Tax Governance

The Korean tax Authorities do not currently offer any particular schemes or incentives to promote tax governance. All businesses are advised to periodically assess their tax environment, risks, governance, and controls relating to their various tax obligations both domestically and internationally, as appropriate to their size, complexity, and overall risk governance framework.

Current Topics for Focus by Tax Authorities

Key focus areas for the tax authority in tax audits conducted in recent years have included.

- Transfer pricing
- Offshore tax evasion
- Inclusion of expenses without supporting evidence
- Intelligent tax evasion through equity transactions, such as mergers and splits
- Unreasonable lending through the acquisition of treasury stock
- Application of an unreasonable tax deduction or exemption

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Taking a foreign tax credit which exceeds the creditable amount of foreign taxes.

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