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This publication contains information on selected current developments in Korean taxation, laws and regulations compiled by the tax service group of Samil PricewaterhouseCoopers, a network firm of PricewaterhouseCoopers.

Recent Developments in Tax Policies

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Recent Developments in Tax Policies

NTS Establishes Taxpayer Protection Committee in May 2008

The National Tax Service (NTS) has established the Taxpayer Protection Committee (TPC) in May 2008 within six Regional Offices in Seoul and five other metropolitan cities as well as 84 district tax offices across the country. TPC is comprised of four NTS officials (three for district offices) and five external tax or legal experts (four for district offices) such as lawyers, tax attorneys or professors. TPC shall be chaired by one of these external experts to ensure the committee's independence from the tax authorities.

One of the main activities of TPC shall be reviewing taxpayer issues filed with the NTS offices online as well as offline and suggesting improvements. In addition, extension of pre-arranged audit period or expansion of audit scope would be subject to prior approval of TPC. Before the establishment of TPC, it used to be decided by the NTS officer responsible for taxpayer protection.

NTS Plans to Reform Tax Audit Procedures

The NTS has revealed its plan to reform tax audit procedures to enhance taxpayer service. One of the reform measures proposed by the NTS is the creation of a committee responsible for selecting taxpayers to be audited. The proposed committee would be comprised of representatives from the private sector as well as government officials. The committee would review and determine major guidelines for tax audit including subject ratio, focused groups to be audited, exclusion criteria, etc. Selection criteria determined by the committee would be made public to enhance audit predictability.

The proposed reform plan would also include the following:

- Introduction of a taxpayer feedback program intended to provide taxpayers with an opportunity to express feedback on tax auditors. Such feedback would be taken into consideration in evaluating the performance of the auditors by NTS;

- Establishment of guidelines to set forth the scope of information which tax auditors request taxpayers to submit;
- Provision of audit orientation in advance of or during the course of a tax audit. The orientation would be to inform taxpayers of reasons for selection as a subject, audit directions and procedures, taxpayer's rights, documents to be prepared, audit process, etc.
- Introduction of a tax audit green book and post-audit tax consulting on the subsequent procedures for taxpayers seeking an appeal to protest a tax assessment; and
- Expansion of cross-office exchange of tax auditors.

Tax Incentives for Foreign Investment in Free Economic Zones to be Enhanced

The Ministry of Knowledge Economy announced its plan to enhance tax incentives for foreign investment in a free economic zone (FEZ) in a recent meeting of the National Competitiveness Council (NCC) held on May 23, 2008. NCC is a policy advisory body under the auspices of the President which is comprised of government ministries and experts of the private sector.

The enhanced tax incentives would exempt a qualifying foreign investment in FEZ from corporate or individual income tax for the first five years beginning in the first year of profitable operations and reduce 50% of the tax for two subsequent years.

Presently, the 100% exemption is applicable for the first three years and a 50% reduction for two subsequent years. In addition to corporate or income tax incentives, a qualifying company may receive the exemption from customs duties on imported capital goods for the first three years.

In order to qualify for the tax incentives in FEZ, a foreign investment company must be engaged in any of the following industries such as

manufacturing, tourism and logistics and meet the minimum capitalization requirements including USD10 million (for a manufacturing or a tourism business) or USD5 million (for a logistics business).

The proposed increase in tax incentives have been revealed as part of the Ministry's plan to reinvigorate foreign investment in FEZ. Other proposed measures would include curtailing the duration of a project approval, offering a long-term lease of industrial site at very competitive prices and simplifying visa requirements and procedures for foreign investors and employees.

New Programs to Relieve Taxpayers' Burden of Proof in Appeal Proceedings

As of May 15, 2008, the NTS has implemented two programs intended to ease taxpayers' burden of proof in appeal proceedings.

One of the two programs is the on-site confirmation visit program whereby a taxpayer may file an application to the organization reviewing the appeal case filed by the taxpayer (i.e. district tax office, regional tax office or NTS), requesting for an on-site confirmation visit. When such an application is filed, the concerned examiner must visit and confirm the business place or the specific site as designated by the taxpayer to review whether facts and findings argued by a taxpayer are true or to collect additional evidences if needed.

The financial information search request program shifts the burden of proof in appeal proceedings from a taxpayer to the tax administrator. In an appeal proceeding, a taxpayer may be requested to submit financial information to substantiate certain transactions or items. If it is determined hard for the taxpayer to obtain the requested data for due reasons including legal restriction in data access, the taxpayer may request the tax administrator to directly obtain financial information, which is important in substantiating

the taxpayer's position. If the taxpayer's request is filed, the examiner shall obtain and review the requested financial information after determining whether it is related to the appeal in process.

Korea Talks with Kyrgyzstan over Implementing Income Tax Treaty

The Ministry of Finance & Strategy announced that Korea and Kyrgyzstan had a four-day meeting to discuss possible signing of an income tax treaty to avoid double taxation of income in the capital city of Kyrgyzstan in May. The latest talks represent the Korean government's effort to secure a natural resources channel. Kyrgyzstan is famous for abundant natural resources such as gold, tin, uranium and other minerals. Kyrgyzstan is interested in attracting investment by Korean companies in power generation, construction and financial service industry.

In the same context, Korea plans to reinforce efforts toward the conclusion of income tax treaties with resources-abundant counties in CIS, Africa and Latin America, according to the Ministry.

As of May 2008, Korea has signed income tax treaties with 76 counties worldwide, including six countries with which income tax treaties are yet to become effective. The six counties are Sudan, Nigeria, Iran, Saudi Arabia, Qatar and Kuwait.

Rulings

Computation of Depreciation Limit for Assets Acquired by a New Company in a Spin-Off

The NTS has issued a ruling in response to an inquiry on the tax depreciation limit for the assets acquired by a new company created through a spin-off. According to the ruling, in computing the depreciation limit of the acquired assets, the acquisition cost shall be the transferred book price recorded using one of the depreciation methods as specified by the Enforcement Decree of the Corporate Income Tax Law less the amount of accumulated depreciation. (*Jaebupin-18, 2008.4.7*)

The ruling continues that for the transferred asset whose useful life elapsed 50% or more of the standard useful life (as posted by the Ministry of Strategy and Finance by structure / asset type or industry) at the time of spin-off, the new company may elect and report a new useful life for a period between 50% of the standard useful life and the full standard useful life.

Post-Merger Tax Reduction Ratio for Eligible Foreign Investment Enterprise

When two foreign investment enterprises (FIE), which are eligible for tax reductions for their respective business divisions, are merged to create a single business division (also eligible for a tax reduction), a question arises as to the calculation method of the post-merger tax reduction rate for the eligible business.

A recent NTS ruling provides that the post-merger tax reduction rate should be determined based on the post-merger paid-in-capital adjusted after applying the merger ratio.

In this case, the two businesses consolidated into a single business division do not need to

keep separate accounting records as long as the merged company has no accumulated net operating loss. (*Seomyon2team-617, 2008.4.4*)

Income Recognition of Deemed Dividends

According to the Corporate Income Tax Law, dividend income is deemed as received when new shares are issued from retained earnings.

When such distribution of new shares from retained earnings is resolved by a foreign subsidiary but subject to an approval by the relevant foreign government, the deemed dividend shall be treated as a taxable income to the Korean shareholder in the tax year when the foreign government approval is obtained (and thus the issuance of new shares is confirmed). (*Seomyon2team-578, 2008.4.1*)

The information contained in this publication is for general guidance on matters of interest only and is not meant to be comprehensive. The application and impact of laws can vary widely based on the particular facts involved. For more information, please contact your usual Samil PwC client service team or professionals listed below.

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SamilPwCAcademy Programs

2008년 6월의 교육프로그램

채권관리실무 6월 2일 (월) ~ 6월 5일 (금), 4일간 총 24시간

부실채권의 예방 및 사후관리기법, 신용 조사, 계약관리에서부터 채권보전, 민사소송실무 및 대손처리 등

현금흐름표 작성 및 분석실무 6월 3일 (화) ~ 6월 5일 (목), 3일간 총 20시간

원리에서 활용까지 현금흐름관련 기법 사례연구, 현금흐름표 작성실습 및 활용기법별 사례

내무감사 실무 6월 3일 (화) ~ 6월 5일 (목), 총 3일 (21시간)

내부통제제도에 대한 이해 및 주요 업무감사기법, 대표적인 감사 소프트웨어인 ACL을 이용한 적발기법과 사례연구

법인세실무 6월 9일 (월) ~ 6월 13일 (금) 총 5일 (31시간)

법인세법 핵심내용의 사례 및 쟁점 별 해설, 실무에서 자주 발생하는 최신 예규, 국세심판사례, 대법원판례 해설, 기업회계와 세무회계의 차이분석

원가계산 및 분석 실무 6월 10일 (화) ~ 6월 13일 (금), 4일간 총 24시간

원가계산 방법론 및 의사결정기법, 효율적인 원가계산시스템 구축 및 원가절감기법

회계실무자 양성과정 (야간) 6월 11일 (화) ~ 6월 27일 (금) 총 8일 (24시간)

기업회계기준 및 기업회계기준서의 주요 내용의 계정과목별 해설, 기업회계기준관련 해석적용 및 질의회신 사례해설
재무회계 핵심 논점

재무회계입문 6.11 (수) ~ 26.13 (금), 총 3일 (21시간)

경영시뮬레이션 게임을 통한 회계 흐름에 대한 입체적인 이해, 복식부기 원리 해설 및 사례, 전표작성, 경산 및 재무제표 작성 원리, 재무제표에서 일반적으로 사용되는 계정과목 해설

부가가치세실무 6월 16일 (월) ~ 6월 20일 (금), 5일간 총 31시간

사례중심별, 쟁점별 최신예규, 국세심판례, 대법원판례, 세무조사에 대비한 부가가치세와 법인세 설명

세무실무기초 6월 17일 (화) ~ 6월 20일 (금), 총 4일 (24시간)

조세법기초, 법인세실무, 소득세와 원천징수, 부가세실무

계정과목별 회계와 세무 6월 17일 (화) ~ 6월 20일 (금), 총 4일 (28시간)

기업회계기준 및 기업회계기준서의 계정과목별 회계처리에 대한 핵심사항, 계정과목별 세무조정사항 및 세무 유의사항, 재무회계 핵심논점

자금관리 실무 6.17 (화) ~ 6.20 (금) 총 4일 (28시간)

종합적인 자금관리를 위한 조달 및 운용, Project financing, 직,간접금융시장을 통한 자금조달
자산유동화증권(ABS)을 이용한 자금조달, 금리 및 환위험 관리전략 등

엑셀을 활용한 부동산사업 타당성 분석실무 6월 21일 (토) ~ 7월 12일 (토) 총 4일 (24시간)

실제 사업성 분석 수행을 위한 엑셀 위주의 사업타당성분석 실습, 다양한 사례분석, PF, 부동산펀드 등에 적용

재무제표 유형과 발견기법 6월 24일 (화) ~ 6월 26일 (목) 총 3일 (21시간)

사례연구를 통한 회계분석의 방법론 및 유형, 회계분석 적발기법 및 재무제표 분석기법

기업가치평가실무 6월 25일 (수) ~ 6월 27일 (금), 총 3일 (21시간)

주요업종 대표기업 Valuation Case Study 및 실습, 기업가치평가프로그램 실습

삼일 IFRS School 6월 25일 (수) ~ 6월 27일 (금), 총 3일 (18시간)

주요 주제별 국제재무보고기준(IFRS), 국제재무보고기준(IFRS) 실무사례

위의 교육과정은 이론 및 실무, 그리고 사례 연구 등 실무능력향상에 중점을 둔 교육으로 「고용보험법 및 근로자 직업훈련촉진법」에 의해 교육훈련비의 일부를 정부로부터 지원 받는 교육과정으로 지정되어 있으며 (일부 과정은 제외) 교육 7일 전까지 신청하셔야 교육훈련비의 일부를 지원 받으실 수 있습니다.

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