

April 21, 2008

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.

Update on Tax Laws

- Proposed Changes to Enforcement Rules

Recent Developments in Tax Policies

- Resident Surtax Filing and Payment Procedures
- National Tax and Local Tax Portals
- Overhaul of Tax Incentives in Korea

Ruling

- Treatment of Distributable Retained Earnings under CFC Rules
- Tax Credit for Research and Manpower Development Expenditure under Risk Sharing Agreement
- Treatment of Conversion Gain derived by a Foreign Corporation

© 2008 Samil PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the Korean firm of Samil PricewaterhouseCoopers or, as the context requires, the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Update on Tax Laws

Proposed Changes to Enforcement Rules

To address details delegated by the amended Special Tax Treatment Control and Value Added Tax Laws which came into existence in January 2008, the following changes are proposed to the enforcement rules of these tax laws. The proposed changes are expected to be effective upon the approval at the end of April or in May.

- Tax Credit for OEM Products from *Gaesung* Industrial District

To encourage investments by domestic manufacturers in the *Gaesung* Industrial District of North Korea, the existing tax credit for small and midsize enterprises (SME) would be granted to an original equipment manufacturer (OEM) which produces products by another company in the *Gaesung* Industrial District if the products are directly designed by the manufacturer, produced under the manufacturer's name, and acquired and sold under the full responsibility of the manufacturer. Currently, OEM is eligible for the tax credit for SME only when it produces products using domestic companies in South Korea if other requirements are met.

The tax law allows a SME engaged in any of the manufacturing and other specified industries to credit a certain portion of its corporate income tax calculated, which ranges from 5% to 30% depending on the industry type, number of employees (i.e. small-scale or medium-scale), and the business location (i.e. Seoul metropolitan area or not).

This change will be applicable from the tax year in which the enforcement date of the amended rule falls.

- Tax Credit for Online Contents-related Training Outsourced to Korea Culture and Content Agency

Design service companies will be entitled to the existing tax credit for research and manpower development expenditures in respect of expenses incurred to outsource the training of their employees to the

state-run Korea Culture and Content Agency for the development of online games, animation, and online character contents.

The change will be applicable to expenditures to be incurred on or after the enforcement date of the amended rule.

- VAT-exempt Online Publications

To qualify for value added tax (VAT) exemption, on-line publications must satisfy a requirement that at least 70% of the total number of pages should consist of letters or pictures.

Under the proposed amendment, multimedia books and audio books, among other online publications, will be exempt from VAT without being subject to the 70% requirement as the government intends to facilitate the growth of the culture and content industry.

The proposed change will be applicable to such books to be supplied on or after the enforcement date of the amended rule.

Recent Developments in Tax Policies

Resident Surtax Filing and Payment Procedures to Be Simplified

A series of the government's business-friendly measures will be phased in by the end of December 2008. One of the measures will simplify the procedures of filing and paying the resident surtax on corporate income tax. The simplified process will allow a company having multiple business places across the country to file a single aggregate resident surtax return with the local district office in where its main business place is located and to pay the aggregated resident surtax at the main business place.

The present law requires such company to file a separate resident surtax return for each business place and to pay the resident surtax at the

respective business place separately.

Resident surtax is an additional tax levied on a pro rata basis on corporate income taxpayers having business places or offices in cities or counties.

One-stop Filing and Payment of National and Local Taxes

HomeTax is a website that gives taxpayers fast and easy access to online tax filing and payment services for national and government taxes such as personal or corporate income tax, value added tax, withholding tax, education tax, etc. Similar to HomeTax, a local tax portal (WeTax) allows taxpayers to make online tax filings and payments of local taxes such as acquisition tax, registration tax, etc. Although WeTax is currently available in limited district areas, it will be open to all taxpayers over the country in the first half of 2008. In addition, a link between HomeTax and WeTax will be made to enable a one-stop payment of both national and local taxes through the website.

Fundamental Overhaul of Tax Incentive Regime in Korea Is Considered

The Ministry of Strategy and Finance has revealed the government's plan to review and overhaul the existing tax exemption and reduction regime in Korea. This is important considering the government's plan to reduce the corporate income tax rate at the end of this year and provide a refreshing momentum for the economic growth which has recently shown signs of slowdown.

The expected tax overhaul will be focused on the three categories of tax exemption or reduction rules as follows:

- 34 different types of tax exemptions or reductions which are to be terminated by the end of December 2008, including a special

tax credit for small and medium-size enterprises, a special tax treatment for the relocation of factories or head offices into any areas other than designated metropolitan areas;

- 35 different types of tax exemptions or reductions which have been enforced since January 2006 including a tax credit for investment in facilities designed to preserve the environment; and
- 24 different types of tax exemptions or reductions which respectively have the effect of reducing taxpayers' burden by 100 billion won or more annually, including a temporary investment credit.

However, the Ministry plans to retain the existing incentives to provide vigor to drive the economic growth such as incentives for research and development activities, production facility investment and investment to encourage the congruent growth of large as well as SMEs.

Details of the contemplated overhaul will be made available when the Ministry comes up with its draft bill to revise the Special Tax Treatment Control Act. The Ministry's bill will be submitted to the National Assembly in the fourth quarter of 2008 with expectations of enforcement in 2009.

Rulings

Calculation of Distributable Retained Earnings under CFC Rules

The Korean controlled foreign corporation (CFC) rules (Article 17 of the Law for Coordination of International Tax Affairs, LCITA) provide that distributable retained earnings derived by a foreign corporation residing in any of the low-tax jurisdictions should be deemed to have been distributed to a Korean resident shareholder (deemed dividend) if the Korean resident shareholder owns a direct or indirect interest of 20% or more in the foreign corporation. Low tax jurisdictions refer to jurisdictions in which the

foreign corporation has an effective tax rate of 15% or less as well as the designated tax havens including Monaco, Liechtenstein and Andorra.

A recent ruling by the National Tax Service (NTS) states that a deemed dividend should be calculated based on the foreign corporation's non-consolidated financial statements in accordance with the LCITA, regardless of whether it is mandatory for the foreign corporation to prepare the consolidated financial statements as a result of the adoption of IFRS by the country in which the foreign corporation is a resident. (*Seomyon2 team-303, 2008.2.19*)

Tax Credit for Research and Manpower Development Expenditure under Risk Sharing Agreement

Where a company has entered into a risk sharing agreement with another company which requires both companies to share costs and risks of undertaking a project in proportion to the respective participation ratio, the company should be eligible for a tax credit for its portion of research and manpower development expenditures, according to a ruling issued by the NTS (*seomyon 2team-282, 2008.2.14*).

In the referred case where the project participation costs were paid in three-year installments, the ruling states that the tax credit may be obtained in the respective tax year when the participation cost was recorded as expenses or research and development-related assets on the company's book.

Treatment of Conversion Gain Derived by a Foreign Corporation Having no PE in Korea

A foreign corporation's gain on conversion of its shares in a domestic company into depository receipts (DRs) through the Korean Securities Depository (KSD) shall not be taxable if the foreign corporation continues to hold DRs after

the conversion according to a ruling (*Jaegukjo-770, 2007.12.26*). The ruling states that such conversion cannot be regarded as a transfer of marketable securities which is a taxable event.

This case involved a foreign corporation without a permanent establishment (PE) in Korea which converted its shares in a domestic company into

DRs through the KSD.

Currently, the Corporate Income Tax Law treats gain derived by a foreign corporation from the transfer of marketable securities in Korea as the foreign corporation's Korean source income which is subject to withholding tax.

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.

David Jin Young Lee	82- 2-709-0557	ijlee@samil.com
IlHwan Oh	82-2-709-0897	ih_oh@samil.com
Dong-Keon Lee	82-2-709-0561	dklee@samil.com
Dong-Bum Kim	82-2-709-7900	dbkim@samil.com
Sang-Keun Song	82-2-709-0559	sksong@samil.com
Alex Joong-Hyun Lee	82-2-709-0598,	alexlee@samil.com
Shin-Jong Kang	82-2-709-0578	sjkang@samil.com
Sang-do Lee	82-2-709-0288	sdlee@samil.com

SamilPwCAcademy Programs

2008년 5월의 교육프로그램

원천징수실무 5월 6일 (화) ~ 5월 9일 (금), 4일간 총 24시간

원천징수 실제사례의 업무 프로세스별 해설, 소득종류별 원천징수방법의 사례위주 설명등

부동산관련 세무해설 5월 6일 (화), 1일간 총 7시간

부동산관련 세무처리에 대한 법령 이해 및 절세방안 연구, 부동산시장의 흐름 파악 및 사례분석

M&A 실무 5월 7일 (수) ~ 5월 9일 (금), 총 3일 (21시간)

M&A 개요, 기업가치평가, 자금조달, 특수한 형태의 M&A, M&A 회계 및 세무 쟁점

세무실무자양성과과정 (야간) 5월 7일 (수) ~ 5월 26일 (금), 총 8일 (24시간)

주요 세목별 기본개념 및 핵심사항 Check, 세목별 개정서식 작성 및 신고서 작성 사례

원가 및 관리회계입문 5월 7일 (수) ~ 5월 9일 (금), 3일간 총 21시간

원가 및 관리회계에 대한 기본이론, 관리회계정보를 활용한 의사결정 및 성과평가방법 사례

내부회계관리제도 구축 및 운용 실무 5월 13일 (화) 총 1일 (7시간)

내부회계관리제도의 이해 및 주요 내부통제절차, 모범규준 해설, 구축 및 운영방법 설명

관리회계실무 5월 13일 (화) ~ 5월 16일 (금) 총 4일 (28시간)

관리회계기법을 통한 관리의 효율화 및 기업가치극대화 Solution, 성공적인 관리회계 사례연구

법인세실무 5월 13일 (화) ~ 5월 16일 (금) 총 4일 (31시간)

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

기업회계실무 5월 13일 (화) ~ 5월 16일 (금), 총 4일 (28시간)

기업회계기준 및 기업회계기준서의 계정과목별 해설, 해석적용 및 질의회신, 재무회계 핵심논점 설명

신입사원경리실무 5월 19일 (월) ~ 5월 23일 (금), 총 5일 (35시간)

회계보드게임을 통한 경영활동의 입체적인 이해와 재무제표의 연관성에 대한 종합적 학습, 계정과목별 회계처리 및 결산서 작성, 원가·관리회계 및 세무회계에 대한 기본개념

부가가치세실무 5월 19일 (월) ~ 5월 23일 (금), 5일간 총 31시간

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

소비용경비지출 증빙에 따른 세무회계처리 5월 20일 (화) 총 1일 (7시간)

접대비 개념, 판례와 해석상 접대비로 본 주요 사례, 50만원 이상 접대비 업무관련성 입증, 신용카드 매출전표와 매입세액 공제 등

재무제표 분석실무 5월 20일 (화) ~ 5월 23일 (금), 총 4일 (24시간)

계정분석을 통한 재무제표, 재무비율, 재무제표와 현금흐름, 원가구조분석 및 부실징후 분석

연결회계과정 5월 27일 (화) ~ 5월 29일 (목), 총 3일 (18시간)

연결회계의 기초 개념, 연결결산체계를 갖추기 위한 재무 Process 및 Infra 의 보완방향, 연결 결산 절차, 연결결산 시스템의 구축사례

삼일 IFRS School 5월 28일 (tn) ~ 5월 30일 (rma), 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 신청하여야 교육훈련비의 일부를 지원 받으실 수 있습니다.

자세한 사항에 대한 문의는 ☎: 02-3781-3429로 하시기 바랍니다.