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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.

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NTS Appeal Committee Pool Introduced to Expedite Proceedings in July 2007

The Committee of Appeals ("COA") within the National Tax Service (NTS) has introduced a pooling program of committee members, effective July 1, 2007. The new program allows a pool of COA members to be made up of external advisors, two or three times as many as the minimum number of the Committee members required to be present to hold a COA meeting. Under the COA member pool, the NTS has appointed 18 external advisors including lawyers, professors, certified public accountants and certified tax accountants in addition to NTS officials.

COAs are units within the NTS, regional tax offices of NTS and district tax offices, which are responsible for reviewing and making decisions on appeals filed by taxpayers contesting tax assessments or settlements issued by the respective tax authorities. COA covers protest for pre-assessments and objections against as well as requests for examination of tax assessments.

Under the newly introduced pool, COA meetings will be held every week to expedite appeal proceedings. Before the pooling program, COA meetings used to be held every other week.

Latest Developments in Local Tax Act

Three important changes have been made or proposed to the Local Tax Act in July 2007, as summarized below.

Advance Notice of Local Tax Appeal Committee Meeting Schedule

With respect to local tax appeals filed with the Ministry of Government Administration and Home Affairs (MOGAHA) on or after July 1, 2007, a taxpayer will be given a prior notice on meeting schedules of a local tax appeal committee when receiving the acknowledgement of the acceptance of appeal filing.

Advance notice of appeal committee meeting schedules will allow taxpayers to prepare and submit position papers or related documents more effectively.

In the past, the local tax appeal system just required an appeal committee to review and make a decision on an appeal and notify its decision to the appellant within 90 days from the filing date.

Taxpayer of Acquisition Tax

Acquisition tax is imposed on the acquisition of vehicles, heavy equipment, aircraft, vessels and other property as specified in the Act. When these goods are purchased through import from overseas, importers are subject to acquisition tax based on the acquisition (i.e. import) prices of these property.

In connection with this, an amended provision of the Act provides that the acquisition tax shall be applied in a limited manner so that importers of taxable objects (limited to vehicles, heavy equipment, aircraft and vessels) should be subject to acquisition tax as long as they import those objects for their own use or for leasing them to domestic users.

The amended provision shall become effective on July 20, 2007.

Scope of Controlling Shareholder

A draft bill to amend the Act announced by the MOGAHA includes a change to the scope of controlling shareholder for local tax purposes. According to the proposed change, the scope of controlling shareholder would be expanded to include an individual or a company that owns more than 50% of outstanding shares of a corporation from the existing threshold of 51% or more.

Currently, acquiring 51% or more of equity share in a corporation is deemed to have acquired

fixed assets of the corporations such as real property, vehicles, etc., for local tax purposes and accordingly is subject to acquisition tax.

The MOGAHA expects the proposed change to come into force on January 1, 2008

NTS Announces Audit Directive for 2007

The National Tax Service (NTS) has released its audit directive for 2007 that would reduce a percentage share of audit targets and intensify the scrutiny against failures in complying with the obligation to prepare and file tax returns and other documents as required by the tax law. In addition, the NTS audit focus for 2007 will be placed on non-profit organizations.

The 2007 audit directive will apply to selected taxpayers based on the analysis of tax returns attributable to the taxable year 2005.

In addition, selected taxpayers based on the analysis of tax returns for the fiscal year 2006 will be included in targets. In order to enhance taxpayers' commitment to compliance requirements, the NTS has prepared a list of what taxpayers should note in preparing and filing tax returns for 2006. Taxpayers who have indications of failing to report or underreporting in this regard will likely be primary targets, according to the NTS.

Korea-Lithuania Income Tax Treaty Comes into Force on 14 July 2007

An income tax treaty between Korea and Lithuania entered into force on July 14, 2007 in 15 months after the governments of both countries signed an income tax treaty in Seoul in April 2006.

The treaty is the first income tax treaty concluded between the two countries. It regulates areas such as the avoidance of double

taxation and tax evasion.

The treaty provides that dividends are taxable at a rate not to exceed 5 % if the beneficial owner is a company that directly holds at least 25 % of the capital of the company paying the dividends. In all other cases, dividends are taxable at a rate not to exceed 10 %. Interest is taxable at a rate not to exceed 10 %. Interest received by specified government-owned financial institutions is not taxable. Royalties received as the consideration for the use of industrial, commercial and scientific equipment are taxable at 5%. In all other cases, royalties are taxable at a rate not to exceed 10 %.

Korea-Thailand Income Tax Treaty Comes into Force on 29 June 2007

An income tax treaty between Korea and Thailand entered into force on June 29, 2007 which replaced the treaty that had been effective since October 1977.

According to the treaty, the tax rate on dividends is reduced to 10% from 15 % to 20 %. Royalty tax rates will be reduced from 15% to 5% (for considerations for the right to use copyright of literary, artistic work, software, etc.), and to 10% (for considerations for the right to use patent, trademark, etc.) However, considerations for the right to use industrial, commercial or scientific equipment or know how continue to be taxed at 15%

With respect to withholding tax, the treaty shall apply to income payable on or after January 1, 2008. For other taxes, it shall apply for taxable years beginning on or after January 1, 2008.

Tax Exemption Denied for Income from Diversified Business after Relocation

A ruling issued by the National Tax Service (NTS) provides that tax exemption for head office or factory relocation for a qualified small and midsize company shall be denied if the company diversifies into another line of business distinct from its existing business after the relocation. The distinctiveness of the added business nature is evaluated based on the Korean Industrial Standard Classification for the tax exemption purpose. The ruling provides that the exemption shall not apply to a portion of taxable income generated from the added business after the relocation. (*seomyon2team-1076, 2007.6.1*)

The Special Tax Treatment Control Law currently provides for a seven-year tax exemption (100% exemption for five years and 50% exemption for two years) when a qualified small and midsize company relocates its factory (including head office or main office in a metropolitan area) from a metropolitan area to a non-metropolitan area. The qualified company must ensure that it has been in operations with a factory in a metropolitan area for at least two years before the relocation.

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 specific facts involved. For more information, please contact your usual Samil PwC client service team or professionals listed below.

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2007 년 8 월의 교육프로그램

세무실무자양성과정 (야간) 8월 20일 (월) ~ 9월 5일 (수), 8일간 총 24시간

조세총론과 국세기본법, 법인세실무, 소득세와 원천징수실무, 부가가치세실무

예산관리실무 8월 21일 (화) ~ 8월 24일 (금), 4일간 총 24시간

경영계획수립 전반에 대한 이슈 및 사례중심의 예산편성기법, 부문별 및 종합예산 편성방법 등

계정과목별 회계와 세무 8월 21일 (화) ~ 8월 24일 (금), 4일간 총 28시간

기업회계기준 및 기업회계기준서의 계정과목별 회계처리에 대한 핵심사항, 계정과목별

세무조정사항 및 세무 유의사항, 재무회계 핵심논점에 대한 실무

재무회계 입문 8월 22일 (수) ~ 8월 24일 (금), 3일간 총 21시간

회계보드게임을 통한 회계의 흐름에 대한 입체적인 이해, 복식부기의 원리 해설 및 사례연습, 전표작성에서 결산절차 및 재무제표 작성원리까지의 과정, 계정과목 해설

사례 중심 별 부가가치 실무 8월 24일 (금) ~ 8월 24일 (금), 1일간 총 7시간

개정된 부가가치세법, 시행령 및 시행규칙을 반영한 실무, 세액의 계산과 신고납부 등 실무상 유의해야 할 예규와 판례

세무조사대책실무 8월 28일 (화) ~ 8월 28일 (화), 1일간 총 7시간

조사대상 선정, 준비조사, 실지조사, 소득처분, 대차대조표 조사, 무형고정자산, 손익계산서 조사: 매출액, 수익인식, 판관비 조사, 주요 세법 별 조사사례 및 유의사항과 대응전략

현금흐름표 작성 및 분석실무 8월 28일 (화) ~ 8월 30일 (목), 3일간 총 21시간

현금흐름표 작성방법 및 현금흐름분석 정보의 도출방안, 현금흐름분석을 통한 효율적인 기업경영 사례연구 및 실습

Game으로 배우는 재무회계 8월 29일 (수) ~ 8월 30일 (목), 2일간 총 14시간

회계보드게임을 통한 회계의 흐름에 대한 입체적인 이해, 재무제표분석을 위한 핵심 Check Points, 재무회계의 기초적인 지식과 재무제표분석을 위한 Check Points

신입사원경리실무 9월 3일 (월) ~ 2007년 9월 7일 (금), 5일간 총 35시간

회계보드게임을 통한 경영활동의 입체적인 이해와 재무제표의 연관성에 대한 종합적 학습,

계정과목별 회계처리 및 결산서 작성, 원가·관리회계 및 세무회계에 대한 기본개념

회계기초실무 (야간) 9월 3일 (월) ~ 9월 19일 (수), 8일간 총 24시간

회계보드게임을 통한 회계흐름 및 기업경영에 대한 이해, 복식부기원리에 대한 해설 및 사례연구, 계정과목별 회계원리 및 결산서 작성 실무

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