

A Summary of Korean Corporate and Individual Income Taxes 2007



This booklet presents a brief overview of Korean corporate and individual income taxes. The information contained in this booklet is current as of February 2007. For subsequent developments, please consult one of our professionals listed on Page 31. This booklet is intended as a general guide. In specific circumstances, professional advice should be sought.

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Korean Corporate and
Individual Income Taxes
2007

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CORPORATE INCOME TAX SUMMARY

Taxes on corporate income

Corporation tax/The basic Korean corporate tax rates (effective for fiscal year starting on or after January 1, 2005) are 13% on the first KRW 100 million of taxable income and 25% thereafter.

Resident tax surcharges/In addition to the basic tax rate, there is a resident tax surcharge of 10% on income tax liability.

Corporate residence

A corporation having its head office or principal office in Korea is a domestic corporation. Effective from the fiscal year commencing on or after January 1, 2006, a corporation with a place of effective management in Korea is also treated as a domestic corporation. A nonresident corporation will generally be deemed to have a tax presence (i.e., permanent establishment) in Korea if one of the following applies.

1. It has any fixed place of business in Korea where the business of the entity is wholly or partly carried on.
2. It is represented by a dependent agent in Korea who has the authority to conclude contracts on its behalf.
3. Its employee provides services in Korea for more than 6 months within 12 consecutive months.
4. Its employee continuously or repeatedly renders similar services in Korea for 2 or more years, if each service is provided for less than 6 months within 12 consecutive months.

Exceptions include fixed places used only for purchasing, storage of property not for sale, advertising, publicity, collecting or furnishing of information, or other activities that are preparatory or auxiliary to the conduct of business.

Nonresident foreign corporations without domestic places of business in Korea are generally taxed (through withholding) at flat rates on gross receipts from Korean sources.

The Law for Coordination of International Tax Affairs (LCITA) was enacted effective January 1, 1996. This law provides the legal basis for taxation of international

CORPORATE INCOME TAX SUMMARY

transactions, focusing especially on transfer-pricing rules, advance pricing arrangements (APAs) and mutual agreement procedures. For APAs the law is effective from January 1, 1997.

Other taxes

Value-added tax/VAT is levied at a rate of 10% on sales and transfers of most goods and services, except exports.

Minimum tax/Corporate taxpayers are liable for the minimum tax, which is defined as the greater of 15% (13% on the first KRW 100 billion) of the taxable income before various deductions and exemptions (“adjusted taxable income”) or actual tax after various deductions and exemptions. The minimum tax applies to the corporate tax exemption (see “Tax incentives”) pursuant to the Special Tax Treatment Control Act. For small and medium sized companies, minimum tax is the greater of 10% of adjusted taxable income or actual tax liability.

Branch income

Branches are taxed in the same manner as locally incorporated companies. Remittance of retained earnings from the branch to its head office is subject to reporting to a designated foreign exchange bank in Korea under the Foreign Exchange Transaction Act.

Furthermore, if the tax treaty between Korea and the country of which a foreign corporation is a resident allows imposition of a branch profits tax, the tax is imposed on the adjusted taxable income of the Korean branch of the foreign corporation.

The branch profit tax is levied in addition to the regular corporation tax under the Corporation Income Tax Act. It is imposed at 25% (or at a reduced rate as provided in a treaty) of the adjusted taxable income of a foreign corporation effective from the taxable year beginning on or after January 1, 1996.

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Income determination

Inventory valuation/Inventories are generally stated at the lower of cost or market (LCM). Any one of seven inventory valuation methods, including LCM, specific identification, FIFO, LIFO, weighted-average, moving average, and retail method can be elected for tax purposes. Elected method should be used consistently for years.

Capital gains/Capital gains are included in taxable income. Gains arising from the disposal of land and buildings located in designated area under the Presidential Decree, with certain exceptions, will be subject to additional capital gain tax. Capital losses are deductible from taxable income (whatever the source). The Korean tax system makes no distinction between short-term and long-term gains.

Intercompany dividends/Korean corporations are allowed a dividend received deduction for the dividends paid by domestic companies with 30%, 50%, or 100% exclusion of the dividends from taxable income, depending on ownership ratio in the subsidiaries. A holding company that qualifies under the Anti-Monopoly and Fair Trade Act can exclude 70%, 90% or 100% of dividends received from domestic subsidiaries, based on the ownership ratio.

Foreign income/Domestic corporations are taxed on worldwide income, whereas foreign corporations are taxed on Korean source income. A Korean corporation is taxed on its foreign source income as earned at normal corporate tax rates. Double taxation is avoided by means of foreign tax credits. The foreign tax credits can be carried forward for five years.

Stock dividends/All distributions to shareholders are taxed as dividend income whether paid in cash or in stock. In general, stocks issued by transferring the capital reserves and the revaluation reserves of the company into capital are not treated dividends. Stock dividends should not exceed 50% of total dividend declared regardless of whether such stocks are listed or not.

Deductions

Depreciation/With the exception of land, depreciation of all property, plant and equipment (including buildings; PP&E) used to generate income is allowed as a tax deduction. Generally, interest on debt acquired to purchase, manufacture or construct PP&E must be capitalized until the PP&E is operational. This does not apply to interest associated with expansion or improvement of existing PP&E. A detailed list of fixed assets, gross values (including capitalized interest), the useful lives of the assets, and the current year's depreciation charge must be submitted to the tax authorities along with the tax return.

The tax law allows the following methods for calculating depreciation.

1. Straight-line or declining-balance method for tangible fixed assets other than plant and buildings.
2. Straight-line method for plant, buildings and intangible assets.
3. Service-output or straight-line method for mining rights.
4. Service-output, declining-balance or straight-line method for fixed assets used in mining.

In determining tax depreciation using a straight-line method, salvage value of the assets is regarded as zero. However, where the declining-balance method is used, 5% salvage value is required. Changes in depreciation method must be approved by the tax authorities in advance and such approval can be obtained in exceptional cases (i.e., merger between two corporations having different depreciation methods). The tax law specifies the useful lives of assets. The useful life of a fixed asset can be increased or decreased by 25% of its specified useful life at the taxpayer's election. There are no specific rules on recapture of depreciation. Selected depreciation method should be consistently applied.

Net operating losses/In general, NOL carryover is allowed for five years and carry back is not allowed. Under the Corporate Income Tax Act, small and medium-sized companies can carry back its NOL for a year.

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Payments to foreign affiliates/Interest, royalty and management fee paid to foreign affiliates are deductible for income tax purposes with sufficient supporting documentation.

Taxes/Certain local taxes, such as property tax and automobile tax, are deductible.

Group taxation

Group taxation is not permitted.

Tax incentives

Inward investment/The Korean government grants various privileges, incentives and guarantees to certain foreign investors under the Foreign Investment Promotion Act, as follows.

1. Foreign-invested companies that engage in certain high-technology businesses, as designated by the government, or that settle into a foreign investment area designated under the Foreign Investment Promotion Act, can apply for 100% exemption from corporation tax for five years, beginning from the earlier of the first year of profitable operations or the fifth year if no profits are generated by that time, and a 50% reduction for two years thereafter in proportion to the ratio of foreign investment. An exemption from withholding tax on dividends is available for foreign investors in the same manner as above during the same grace period. In addition, they can apply for 100% exemption from acquisition tax, registration tax, and property tax on assets acquired for their business for five years after business commencement date and 50% exemption for the following two years.
2. In addition, foreign investors satisfying specified criteria are provided with tax incentives and other benefits for investment in specially designated areas including foreign investment zones, free economic zones, free trade zones and strategic industrial complexes exclusively developed for foreign-invested companies. The tax incentives for qualifying foreign investors in foreign investment zones (FIZ) include the 100% exemption from corporate or individual income

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tax as well as local taxes (acquisition tax, registration tax and property tax on assets acquired for their business) for the first five years and 50% reduction for the two consecutive years in proportion to the foreign investment ratio. An exemption from withholding tax on dividends is granted to qualifying foreign investors in FIZ in the same manner as above during the same grace period. They are also provided with the exemption from customs duties, value added tax and special excise tax on imported capital goods for the first three years. Qualifying investors in free economic zones (FEZ), free trade zones (FTZ) and strategic industrial complexes may receive the 100% exemption from corporation or individual income tax as well as local taxes for the first three years and 50% reduction for the two consecutive years. An exemption from withholding tax on dividends is granted to qualifying foreign investors in FEZ, FTZ and such industrial complexes in the same manner as above during the same grace period. They also receive the exemption from customs duties on imported goods for the first three years.

3. When advance approval is obtained, royalties paid under a high-technology inducement contract are totally exempt from withholding taxes for the first five years starting from the date of the first payment.
4. The Special Tax Treatment Control Act provides various tax incentives to stimulate exports. These include zero rated VAT of export goods and refunds of customs duties paid for imported raw materials used to manufacture export goods.

Capital investment/Tax credits are generally available for qualifying investments in energy saving, pollution control, vocational training facilities, investment in facilities for productivity enhancement, research and development, temporary investment etc.

Other incentives/Gains on the transfer of stock by a domestic person to a holding company established under the Anti-Monopoly and Fair Trade Act are not taxed until the domestic person sells the stock of the holding company acquired at the stock transfer.

CORPORATE INCOME TAX SUMMARY

Withholding taxes

Recipient	Dividends	Interest	Royalties
	%	%	%
Resident corporations (1) -----	Nil	14 or 25	Nil
Resident individuals (1) -----	14	14, 25 or 30	Nil
Nonresident corporations and individuals:			
Nontreaty (2) -----	25	25(38)	25
Treaty:			
Australia -----	15	15	15
Austria -----	5 or 15 (8)	10	2 or 10 (33)
Bangladesh -----	10 or 15 (3)	10	10
Belarus -----	5 or 15 (8)	10	5
Belgium -----	15	15	10
Brazil -----	10	10 or 15 (5)	10 or 25 (6)
Bulgaria -----	5 or 10 (7)	10	5
Canada -----	15	15	15
Chile -----	5 or 10 (8)	10 or 15 (31)	5 or 15 (34)
China, P.R. -----	5 or 10 (8)	10	10
Czech Republic -----	5 or 10 (8)	10	10
Denmark -----	15	15	10 or 15 (4)
Egypt -----	10 or 15 (8)	10 or 15 (9)	15
Fiji -----	10 or 15 (8)	10	10
Finland -----	10 or 15 (8)	10	10
France -----	10 or 15 (3)	10	10
Germany -----	5 or 15 (8)	10	2 or 10 (35)
Greece -----	5 or 15 (8)	8	10
Hungary -----	5 or 10 (8)	0	0
India -----	15 or 20 (11)	10 or 15 (12)	15
Indonesia -----	10 or 15 (8)	10	15
Ireland, Rep. of -----	10 or 15 (3)	0	0
Israel -----	5, 10, 15 (13)	7.5 or 10 (14)	2 or 5 (15)
Italy -----	10 or 15 (8)	10	10
Japan -----	5 or 15 (8)	10	10
Jordan -----	10	10	10
Kazakhstan -----	5 or 15 (3)	10	2 or 10 (35)
Kuwait -----	10	10	15
Luxembourg -----	10 or 15 (8)	10	10 or 15 (16)
Malaysia -----	10 or 15 (8)	15	10 or 15 (17)
Malta -----	5 or 15 (8)	10	0
Mexico -----	0 or 15 (18)	5 or 15 (19)	10
Mongolia -----	5	5	10
Morocco -----	5 or 10 (8)	10	5 or 10 (20)
Nepal -----	5, 10, 15 (32)	10	15

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Netherlands	10 or 15 (8)	10 or 15 (21)	10 or 15 (22)
New Zealand	15	10	10
Norway	15	15	10 or 15 (22)
Pakistan	10 or 12.5 (11)	12.5	10
Papua New Guinea	15	10	10
Philippines (2)	10 or 25 (23)	10 or 15 (24)	10 or 15 (25)
Poland	5 or 10 (3)	10	10
Portugal	10 or 15 (8)	15	10
Romania	7 or 10 (8)	10	7 or 10 (22)
Russia	5 or 10 (26)	0	5
South Africa (2)	5 or 15 (8)	10	10
Singapore	10 or 15 (8)	10	15
Slovak Republic	5 or 10 (8)	10	10 (36)
Spain	10 or 15 (8)	10	10
Sri Lanka	10 or 15 (8)	10	10
Sweden	10 or 15 (8)	10 or 15 (10)	10 or 15 (22)
Switzerland	10 or 15 (8)	10	10
Thailand (2)	10	10 or 15 (27)	5 or 10 or 15 (37)
Tunisia	15	12	15
Turkey	15 or 20 (8)	10 or 15 (28)	10
Ukraine	5 or 15 (11)	5	5
Union of Myanmar	10	10	10 or 15 (4)
United Arab Emirates	5 or 10 (3)	10	0
United Kingdom	5 or 15 (8)	10	2 or 10 (15)
United States (2)	10 or 15 (30)	12	10 or 15 (29)
Uzbekistan	5 or 15 (8)	5	2 or 5 (15)
Vietnam	10	10	5 or 15 (22)

Notes:

The numbers in parentheses refer to the notes below.

- Dividends paid to resident individuals by corporations are subject to a 14% withholding rate. In addition, tax withholding would include a residence surtax of 10% of the basic income tax liability. The basic withholding rate on interest is normally 14%. In addition, tax withholding would include a residence surtax (for individuals only) of 10% of the basis income tax amount.
- In addition to the indicated tax rate, a residence tax surcharge is assessed at a rate of 10% of the respective tax rate.
- Lower rate applies in case of equity ownership of 10% or more.

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4. Lower rate applies to royalties paid for the use of or the right associated with industrial activities. Otherwise, 15% rate applies.
5. Lower rate applies if the loan period extends to seven years or more, the recipient is a financial institution and the loan is used for certain designated purposes.
6. Higher rate applies to royalties associated with the use of trademarks or trademark rights.
7. 5% rate applies in case of equity ownership of 15% or more. Otherwise, 10% rate applies.
8. Lower rate applies when a recipient holds 25% or more of equity interest.
9. Lower rate applies in case of a loan period of longer than three years.
10. 10% rate applies when a recipient of interest income is a bank and income is connected with a loan with a term in excess of seven years. Otherwise, 15% rate applies.
11. Lower rate applies in case of equity ownership of 20% or more.
12. Lower rate applies if recipient is a bank.
13. 5% rate applies if a recipient holds 10% or more ownership in a paying corporation but, even in case of 10% or more ownership, 10% rate applies if the dividends are paid out of profits subject to tax at a lower rate than the normal corporate tax rate of a country where a payor resides. In other cases, 15% applies.
14. 7.5% rate applies when a recipient of interest income is a bank or a financial institution; otherwise, 10% rate applies.
15. 2% rate applies to royalties paid for use of or right to use industrial, commercial and scientific equipment.
16. Lower rate applies if it is for the use of or right to use industrial, commercial and scientific equipment or information.

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17. 15% rate applies if royalties are for use of or right to use cinematography films or tapes for radio or television broadcasting or any copyright of literary or artistic work.
18. 0% rate applies in case of equity ownership of 10% or more. Otherwise 15% rate applies.
19. 5% rate applies if a recipient is a bank. Otherwise, 15% rate applies.
20. 5% rate applies to royalties for use of copyrighted literature, music; otherwise 10% applies.
21. Lower rate applies if the term of the loans exceeds seven years.
22. Lower rate applies if it is for the use of or right to use patent, trademark, design or secret formula, or industrial, commercial and scientific equipment or information.
23. 10% rate applies in cases of equity ownership of 25% or more, or dividend paid by a resident company engaged in a preferred pioneer area and registered with Board of Investment. Otherwise, 25% rate applies.
24. 10% rate applies in cases where the interest is paid in respect of public issues of bonds, debentures or similar obligations or interest paid by a company that is a resident of the Philippines, registered with the Board of Investment and engaged in preferred pioneer areas of investment under the investment incentive laws. Otherwise, 15% rate applies.
25. 10% rate applies in case of royalties paid by a company that is a resident of the Philippines, registered with the Board of Investment and engaged in preferred pioneer areas of investment under the investment incentives laws. Otherwise, 15% rate applies.
26. 5% rate applies if a recipient holds 30% or more of equity interest in the amount of at least US\$100,000.
27. 10% rate applies if a beneficial owner of the income is a financial institution (including insurance company) or resident of Thailand who is paid with

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- respect to indebtedness arising as a consequence of a sale on credit by a resident of Thailand of any equipment, merchandise or services, except where the sale was between persons not dealing with each other at arm's length. Otherwise, 15% rate applies.
28. Lower rate applies if the term of the loan exceeds two years.
 29. 10% rate applies to royalties for use of copyrighted literature, music, films, and television or radio broadcasts. Otherwise, 15% rate applies.
 30. 10% rate applies if equity ownership is 10% or more and not more than 25% of the gross income of a paying corporation for a preceding tax year consists of interest or dividends.
 31. 10% rate applies when a recipient of interest income is a bank or an insurance company; otherwise, 15% rate applies.
 32. 5% rate applies when a recipient holds 25% or more of equity interest, and 10% when a recipient holds 10% or more of equity interest; otherwise, 15% rate applies.
 33. 2% rate applies to royalties paid for the use of or the right to use industrial, commercial or scientific equipment. Otherwise, 10% rate applies.
 34. 5% rate applies to royalties paid for the use of or the right associated with industrial, commercial or scientific equipments. Otherwise, 15% rate applies.
 35. 2% rate applies to royalties paid for the use of or the right associated with industrial, commercial or scientific activities. Otherwise, 10% rate applies.
 36. 0% rate applies to royalties paid for the use of academic right. Otherwise, 10% rate applies.
 37. 5% rate applies to royalties paid for the use of or right associated with any copyright of literary, artistic or scientific work, including software, and motion pictures and works on film, tape or other means of reproduction for use in connection with radio or television broadcasting. 10% rate applies to royalties paid for the use of or right to use

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patent, trademark, design or model, plan, secret formula or process. 15% rate applies to royalties paid for the use of or the right to use industrial, commercial or scientific equipments, or for information concerning industrial, commercial or scientific experience.

38. 14% applies if interest arises from bonds issued by Korean company or government bodies.

Under the new withholding tax rules which became effective from July 1, 2006, if a foreign company is located in a foreign jurisdiction designated by the Minister of Finance, any Korean source income of such foreign company will be subject to the domestic withholding rate of 25%, regardless of whether or not the foreign company is resident of a treaty country. Currently, only Labuan has been designated for the purpose of the new withholding tax rules.

The foreign company may claim a refund of any excess withholding tax paid within 3 years if it is able to prove to the Korean Tax Office that it should be entitled to the reduced treaty rates as substantive and beneficial owner of the income. Alternatively, a foreign company may attempt to seek a pre approval in order to have the treaty benefits apply upfront by making an application to the Commissioner of Taxation.

Tax administration

Returns/The taxable year is on a fiscal-year basis as elected by companies. However, it cannot exceed 12 months. The corporate tax return must be filed within three months from the end of a fiscal year. The tax amount is self-assessed; however, the government can exercise the right to reassess the tax amount, if necessary, within five years of the filing date of the return.

Payment of tax/A corporation must file an interim tax return and pay an interim tax for the first six months within two months after the end of the six-month period. The remaining tax is due with the final return for a fiscal year.

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Corporation Tax Calculation

Based on the law and tax rates in effect for the fiscal year ending December 31, 2006

Net income before taxes ----- W 100,000,000

Add:

Nondeductible expenses:

Depreciation in excess of limitation -----	10,000,000	
Bad debt without designated evidence -----	3,000,000	
Entertainment expenses in excess of limitation -----	5,000,000	
Provision for severance in excess of limitation -----	6,000,000	
Expensed supplies on hand at year-end -----	2,000,000	

Income that should be included:

Deemed rental income on shareholder officers' housing -----	3,000,000	
Deemed interest income on the company's advances to employees and shareholders -----	1,000,000	30,000,000
		130,000,000

Less:

Expensed supplies on hand at prior year-end -----	3,000,000	3,000,000
Taxable income -----	W 127,000,000	
Loss of the preceding five years brought forward ----	(5,000,000)	
Tax Base -----	W 122,000,000	

Tax calculated thereon:

First 100,000,000 at 13% -----	W 13,000,000	
Balance—22,000,000 at 25% -----	5,500,000	
Corporation tax for the year (1) -----	18,500,000	

Less—Tax payment during year:

Interim payment -----	10,000,000	
Withholding tax paid at source -----	5,000,000	(15,000,000)
Tax payable -----	W 3,500,000	

Notes:

1. In addition, a resident tax surcharge of 10% of the corporation tax liability must be paid.
2. Exchange rate (base rate) of the won at December 31, 2006: US\$1 = W929.6.



INDIVIDUAL INCOME TAX SUMMARY

Taxpayer

A taxpayer in Korea, who is liable to pay the income tax on his/her income, is classified into Resident and Non-resident for income tax purposes, as listed below.

1. Resident—Any individuals having a domicile or residence within Korea for a year or more, individuals having an occupation that would generally require them to reside in Korea for a year or more, or individuals whose families accompany them to Korea and who retain substantial assets in Korea. On the other hand, even when a person has a job overseas and stayed there for more than a year, but he/she has his/her general living relationship including his/her family and property in Korea, he/she shall be regarded as a resident of Korea. Generally, residency is determined on a “facts and circumstances” test, evaluated on an individual basis. A resident is subject to income tax on all incomes derived from sources both within and outside Korea.
2. Non-resident—An individual who is not deemed to be a resident. Non-resident is subject to income tax only on income derived from sources within Korea. When a non-resident who does not have a domestic place of business has Korea-source income to report through an annual tax return, most of the provisions concerning the tax base and tax amount of residents shall apply to him/her. However, in calculating tax base and tax amount, a non-resident is not entitled to personal deduction (except for oneself) and special deduction.

Gross income

Employee gross income/Individual income can be categorized as taxable, nontaxable or tax exempt. Taxable income includes global income, capital gains, and severance pay, each of which is subject to tax on a unique tax rate structure. There are certain elements of income on which the government has waived its taxing rights, whether or not an application for exemption is filed by an individual. There are other items of income for which a taxpayer can submit an application for tax exemption.

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Global income is subject to global taxation and includes earned income (salaries, wages, bonuses, and other amounts received for employment services rendered), interest income, dividend income, rental income, personal business income, pension income, and other income (prize winnings, royalties, rewards, etc.).

Korean tax law segregates earned income into Class A or Class B income, depending on the income source.

1. Class A earned income—Employment income received from a domestic (Korean) corporation or a Korean branch office of a foreign corporation for services rendered in Korea. Such income is subject to payroll withholding taxes by the employer on a monthly basis.
2. Class B earned income—Employment income received from a foreign corporation outside Korea. However, even if foreigners who work in Korea are paid their wages overseas, the wages are considered Class A earned income rather than Class B earned income where the wage is deducted as an expense in calculating the taxable income of a permanent establishment of the foreign corporation in Korea. The employer is not required to withhold Korean taxes at the time of payment of Class B income; however, the individual is required to declare this income annually and pay income taxes thereon on a voluntary basis. Alternatively, the individual may elect to pay Class B income taxes through a licensed taxpayers' association, which collects and remits such taxes on a monthly basis. Taxpayers who join such an association are eligible to receive a 10% reduction in the amount of income tax payable.

Capital gains and investment income/Gains arising from the disposal of capital assets are included in an individual's taxable income but are taxed separately from global income. Certain capital gains are specifically exempt from tax. These include gains from certain transfers of farmland and other real estate; gains from the transfer of a house, including land, per household; and gains from the transfer of listed stock (corporate equity share certificates). However, exceptionally, when the total stake of a shareholder together with any related

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parties (called “major shareholder”) in a listed company exceeds 3% or total market value of the stock held by the major shareholder is W10 billion or more, the capital gains are taxed at the rate of 22% (if the holding period is less than one year, 33% would be applied). If the stake is in a small- and medium-sized company, the gains are subject to tax at 11%.

Gains from the disposal of foreign assets are taxable where the transfer is made after January 1, 1999 and the transferor has been a Korean resident for five years or more at the time of sale.

Capital losses are deductible only against capital gains. Unused losses may not be carried forward.

Interest income earned on other than National Savings Association deposits and dividend income received from both domestic and foreign corporations are taxable.

Most interest and dividend income earned from Korean sources is subject to 15.4% tax withholding at source.

Resident taxpayers are required to include any interest and dividends received from non-Korean sources in global income and to pay taxes thereon at the greater of basic global tax rates or 15.4%.

Nontaxable income/The following elements of employment income are nontaxable.

1. Housing and related costs paid by an employer directly to a landlord on behalf of an expatriate employee. However, utility costs paid by an employer are taxable to the employee.
2. Reimbursement of business expenses, including social membership costs and entertainment expenses incurred by an employee for business purposes.
3. Cost of an automobile and driver and related maintenance and insurance expenses provided by an employer, provided the automobile is registered in the name of the employer and the driver is on the employer’s payroll register.
4. Reimbursement of operating costs for a personal automobile used for business purposes, up to W200,000 per month.
5. Relocation and moving expense reimbursements.

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6. Reasonable amounts of employer-reimbursed home-leave travel expenses for expatriate employees.
7. Pay of up to W1 million per month receivable from furnishing service overseas.
8. Meal costs of less than W100,000 per month.

Special tax concession for foreigners working in Korea/

Effective from January 1, 2004, the amount equivalent to 30% of salary income compensated for foreign expatriates or employees working in Korea would not be taxable in Korea. Furthermore, the foreign expatriates and employees would be able to opt to apply for a flat income tax rate of 18.7% (including resident surtax) on their salary income. In this case, the 30% deduction of salary income, any other income deductions, tax exemption, and tax credit would be forfeited. If a foreign expatriate or employee wants to choose the 18.7% flat tax application, he/she is required to submit an application to Korean tax authorities at the time of filing annual tax return or to its employers at the time of year-end settlement.

Tax-exempt income/Individuals can request tax-exempt treatment for certain types of income (specified below) by submitting an application to the appropriate tax authorities through their employer.

1. Wages and various allowances received by a qualified foreigner providing services under a high-technology inducement contract prescribed under the Foreign Investment Promotion Law, for a period of five years from the acceptance date of the technical service agreement.
2. Wages received by a qualified foreign technician/engineer providing services in Korea to a domestic entity under an engineering technology inducement agreement under the Engineering Technology Promotion Law (of which consideration amounts to US\$300,000 or more) for five years from the date the expatriate commences rendering services in Korea.

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3. Wages received by a foreign technician with five or more years' working experience at mining, construction, manufacturing, certain technology-intensive, distribution, or certain business-related service industries or having a bachelor's degree and three or more years' working experience in these industries.
4. Wages and salaries received by a foreign researcher working in a qualified research center.

Deductions

Business deductions/All business-related expenses, such as moving expenses, travel expenses, automobile expenses, and certain amounts of entertainment expenses, are tax deductible. Alternatively, reimbursements for such expenses can be claimed by the business as deductible expenses and need not be included in the individual's taxable income.

Nonbusiness expenses/Certain other allowable deductions are outlined below (applicable to salary income earners only):

1. **An earned income deduction:** The following amount shall be deducted from the amount of gross income in the current year to work out the adjusted gross income for salary or wage earners.

Amount of Gross income	Deduction Amount
Up to W5 million	Entire amount
W5,000,001 ~ W15 million	W5 million + 50% of the excess over W5 million
W15,000,001 ~ W30 million	W10 million + 15% of the excess over W15 million
W30,000,001 ~ W45 million	W12.25 million + 10% of the excess over W30 million
Over W45 million	W13.75 million + 5% of the excess over W45 million

2. **Pension premium deduction:** Pension contribution paid by a taxpayer him/herself based on National Pension Law, Soldier Pension Law, Civil Service Pension Law etc., is fully deductible.

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3. **Special deduction:** The following deductions are consolidated into the special deduction. If a taxpayer wishes to have the special deductions, he/she must submit the necessary supporting documents respectively. A taxpayer who has not submitted supporting documents or has a special deduction amount under W1 million may receive W1 million of standard deduction in lieu of the following special deductions.
 - a. A deduction for qualified insurance premiums paid to the following type of insurance (beneficiary can be either the taxpayer or the dependents who have no income for the year): Life insurance, life insurance for the handicapped, damage and accident insurance, fire and burglary insurance and insurance similar thereto. Maximum amount available for deduction is W1 million per annum, but this limit does not apply to national health insurance and unemployment insurance.
 - b. A deduction for qualified medical expenses, up to a maximum of W5 million, to the extent that such expenses exceed 3% of total earned income. However, medical expenses paid for the taxpayer him/herself, the aged 65 or over and the handicapped are not subject to the above W5 million limit.
 - c. A deduction for all of an employed taxpayer's own education expenses (including graduate school fees). Other education expenses within certain limits incurred by a taxpayer's dependents are deductible (W7 million for each dependent attending university or college, W2 million for each dependent attending preschool, elementary school, middle school or high school).
 - d. A deduction for housing savings, repayment of principal and interest for housing and long-term mortgage interest up to W10 million (maximum) for wage earners who do not own a home or who own only a house of a certain size and who have subscribed to a particular savings program for home ownership.

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- e. A deduction for certain types of qualified charitable donations, up to a maximum of 100%, 50%, 30%, and 10% of gross global income after the earned income deduction described above depending on the types of donations prescribed in the law.
 - f. A deduction for marriage, funeral service and moving expenses up to a maximum of W1 million for each occasion for any taxpayer whose gross wage income is not more than W25 million.
4. **Other deductions:** There are other itemized deductions available under the Special Tax Treatment Control Law as follows. A taxpayer also has to submit supporting documents to have these deductions.
- a. A deduction for the deposits in a qualified individual pension savings up to a maximum of W3 million.
 - b. A deduction for the investment in a qualified investment association up to a 15% of investment amount (maximum of 50% of gross income).
 - c. A deduction for expenditures by credit cards or by cash receipt usage up to 15% of such expenditures in excess of 15% of gross income (maximum limit is at the less of 20% of the total salary income or W5 million).
 - d. A deduction for the deposits in a private retirement pension plan up to W3 million including a deduction for the deposits in the individual pension savings described above in a.

Personal deductions/Korean tax law provides all resident taxpayers with the following standard personal deductions from individual taxable income.

1. A basic deduction of W1 million for a taxpayer him/herself per year.
2. A deduction of W1 million for a spouse who lives with the taxpayer and who has an adjusted gross income of less than W1 million per annum.

INDIVIDUAL INCOME TAX SUMMARY

3. A deduction of W1 million for each eligible dependent who lives with the taxpayer and has an adjusted gross income of less than W1 million per annum.
4. An additional deduction of W2 million for each handicapped person in the taxpayer's household. The handicapped person may be the taxpayer, spouse or other dependent. To qualify for the deduction, the spouse and/or dependent are not permitted to have an adjusted gross income in excess of W1 million per annum.
5. An additional deduction of W1 million for each taxpayer, spouse or dependent aged 65 to 69 (W1.5 million for the aged over 70) in the taxpayer's household. To qualify for this additional deduction, the spouse or other dependent should not have an adjusted gross income in excess of W1 million per annum.
6. An additional deduction of W500,000 for a woman householder with dependents.
7. An additional deduction of W1 million per child for any salary earners who have children of the age of six or younger.
8. In cases where there are two children qualified for personal deduction, an additional deduction of W500,000 is available. In cases where there are more than two children qualified for personal deduction, additional deduction of W1 million per child exceeding two is available in addition to the deductions listed above (For example, W500,000 for two children, W1,500,000 for three children, and W2,500,000 for four children).

Nonresidents of Korea are only allowed to claim the personal deduction for oneself noted in 1 and 8.

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Tax credits

Certain tax credits against the global income tax liability are available to resident taxpayers. These include the items shown below.

1. A tax credit for Class A and Class B wages (up to a maximum of W500,000 per year):
 - a. Where the calculated tax amount is W500,000 or less, the credit is the amount of the calculated tax amount multiplied by 55%, that is, W275,000.
 - b. Where the calculated tax amount is more than W500,000, the credit is W275,000 plus 30% of the calculated tax amount in excess of W500,000.
2. A tax credit of 10% of the income tax for Class B wage earners who voluntarily report their monthly earnings and pay monthly income taxes through a licensed taxpayers' association.
3. A tax credit of 15% of certain dividends received by each shareholder against the individual income tax calculated on the global income increased by 15% of dividends received.
4. A tax credit for foreign income taxes paid abroad by Korean residents, up to a limit of the amount of Korean income taxes before the foreign tax credit times the ratio of foreign-source income to worldwide total taxable income. Any excess over the maximum allowable credit may be carried forward for five years. Alternatively, foreign tax paid can be deducted from taxable income.

Other taxes

Minimum tax/A minimum tax, with exceptions, will be calculated at the greater of 35% of income tax liability before exemptions or actual tax after exemptions.

The minimum tax is applied to business income of a resident individual and Korean-source business income of a nonresident individual, but it is not applied to employment (earned) income.

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Social security taxes/Under the national pension scheme, employers are required to contribute an amount equal to 4.5% of salaries to the national pension fund. Employees are also required to contribute an amount equal to 4.5% of their salaries. As such, the total contribution rate is 9% of salaries per annum with both the employer and the employee sharing the 9% contribution equally. The employee contributions to the national pension scheme are tax deductible. This national pension contribution is capped at a monthly salary of W3,600,000. Thus, the maximum monthly pension contribution to be paid by an employee is W162,000.

Foreigners working in Korea are required to contribute to the national pension scheme unless there is a social security agreement between Korea and their home country and the individual remains under the home country social security scheme. Korea currently has a social security agreement in effect with Canada, the U.S., the U.K., Germany, Netherlands, China, Iran, Italy, Japan, Mongol, Hungary, France, and Uzbekistan. Foreign participants with few exceptions withdrawing from the national pension scheme due to the permanent departure can not get a refund unless their home country has social security agreement with Korea, or applies the same treatment to Koreans on a reciprocity rule with no social security agreement. Generally social security contributions paid to foreign country are not deductible against Korean income under the Korean income tax law.

Starting from January 1, 2006, in general, foreigners working in Korea are required to subscribe to the national health insurance program which is mandatory for all foreign expatriates and employees who earn Class A income in Korea. Currently the applicable premium rate is 4.77% of the monthly wages (capped at a monthly salary of W65,790,000), 2.385% of which is borne by the employer and the remaining 2.385% is borne by the employee. The employee contributions to the national health insurance program are tax deductible.

Effectively from July 25, 2007, however, by submitting relevant documents, certain foreigners now can exempt themselves from the mandatory national health insurance scheme if they are already covered by insurance provided by their home country, foreign insurance company, or an employer that provides them with the equal level of medical coverage as prescribed in the

INDIVIDUAL INCOME TAX SUMMARY

Korean National Health Law.

From January 2004, foreign employees whose visa types are D7, D8, D9, F2, or E9 should also join the unemployment insurance scheme. Currently the employee contribution rate for unemployment insurance is 0.45%.

There is also a severance pay system that requires no employee contribution. Severance pay, or retirement income, is taxed separately from global income.

Local taxes on income/Besides the basic income tax (which is paid to the national tax office), there is also a local residence tax surcharge, which is paid to the city or province that is the domicile of the taxpayer. The residence tax is calculated as 10% of the basic income tax liability and it is included in the tax rates presented in the report.

Tax administration

Returns/A tax return must be filed by taxpayers who have both of Class A and Class B income, Class B income only if not declared through a licensed taxpayer's association, or any other global income of which tax obligations are not met by withholding at source.

Taxpayers must file returns for the calendar year during May (before May 31) of the following year or prior to leaving Korea permanently. There is generally no provision for filing joint tax returns under Korean tax law.

Payment of tax/A taxpayer who receives only Class A earned income and/or Class A retirement income is generally not required to file an annual tax return. The employer is required to withhold income taxes at source on a monthly basis and to finalize the employee's tax liability and issue a final tax settlement certificate no later than the end of February of the following tax year. The employer is not required to withhold Korean taxes at the time of payment of Class B income; however, the individual is required to declare this income annually and pay income taxes thereon on a voluntary basis. Alternatively, the individual may elect to pay Class B income taxes through a licensed taxpayers' association, which collects and remits such taxes on a monthly basis. Taxpayers who join such an association are eligible to receive a 10% reduction in the amount of income tax

INDIVIDUAL INCOME TAX SUMMARY

payable. In case where an annual tax return is required, the relevant taxes shall be paid with the return filing by May 31st of the following year.

Tax rates

Effective from January 1, 2005, individual income tax rates on global income range from 8% to 35%. The top marginal tax rate, including the residence surcharge (see below), is 38.5% on taxable income in excess of W80 million.

Basic global income tax/The following tax table summarizes the basic global tax rates applicable for the income received from January 1, 2005 and thereafter.

(In thousands of Won)

Annual taxable income		Tax on	Percentage
Over	Not over	Column 1	on excess
(Column 1)			
0	W 10,000	—	8
W 10,000	40,000	W 900	17
40,000	80,000	4,500	26
80,000		11,700	35

Residence tax surcharge/A residence tax surcharge is assessed at a rate of 10% of the income tax liability.

INDIVIDUAL INCOME TAX SUMMARY

Individual tax calculation

Calendar year 2006

Assumptions

1. Foreign expatriate working in Korea – Resident
2. Married with two children
3. Spouse has no income.
4. No tax reimbursement by company
5. No itemized deductions available

Tax computation

Salary	W 102,500,000
Less: 30% income exclusion	<u>30,750,000</u>
Gross income	71,750,000
Less—Earned income deduction	<u>15,087,500</u>
Adjusted gross income	56,662,500

Less:

Personal deduction for taxpayer---	1,000,000
Personal deduction for spouse ----	1,000,000
deduction for children ----	500,000
Standard deduction	<u>1,000,000</u> <u>3,500,000</u>
Taxable income	W 53,162,500
Income tax	W 9,322,250
Income tax credit	<u>(500,000)</u>
	8,822,250
Residence tax (10% of income tax)	<u>882,220</u>
Total tax liability	W 9,704,470

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Samil PricewaterhouseCoopers has a full service tax practice offering a wide spectrum of tax services which include:

- Corporate Tax Compliance
- Corporate Tax Planning and Consulting
- Tax Controversy Resolution
- Tax Rulings
- Tax Regulatory Reform
- Transfer Pricing
- Customs Duties
- Mergers & Acquisitions
- Corporate Reorganization
- Establishment of Holding Companies
- Healthcheck
- Structured Finance
- Transaction Advisory Services
- Foreign Direct Investment
- Tax Incentives
- Tax Planning for Employee Compensation
- Human Resource Management
- Real Estate Investment

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