A Guide to

# Korean Taxation

2012

MINISTRY OF STRATEGY
AND FINANCE

# PREFACE

This brochure is designed to provide broad knowledge and insight into Korean Taxation so that readers can "see the forest" of Korean taxation.

Each year the Korean government publishes Korean Taxation which introduces Korean tax laws reflecting tax reform of the corresponding year. This guide is a concise version of Korean Taxation 2012, which is a volume of 339 pages. This brochure broadly covers the key subjects in Korean taxation and provides fast and reliable answers to your questions with respect to Korean taxes.

For further details, please refer to Korean Taxation published by the Ministry of Strategy and Finance or relevant legislation at www.law.go.kr.

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**Chapter XV: Local Taxes**

***Part 1: Introduction***

## Chapter I: Tax System in Korea

Taxes in Korea comprise national and local taxes. National taxes are divided into internal taxes, customs duties, and three earmarked taxes; the local taxes include province taxes and city & county taxes as shown below.

National Taxes

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Local Taxes

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The national internal taxes consist of direct and indirect taxes and each consists of five internal taxes. Of these ten taxes, the Income Tax, Corporation Tax, and Value Added Tax make up the bulk of the Korean tax revenue. There also exist three national earmarked taxes, namely the Transportation·Energy·Environment Tax, Education Tax, and Special Tax for Rural Development; the revenues from these sources go directly to pre-designated government programs.

There are eleven local taxes, and they are divided into province and city & county taxes. At the province level, there are four ordinary taxes and two earmarked taxes. At the city & county level, there are five ordinary taxes. In the six large specially designated cities that are run as autonomous local administrative units (independent of the provinces they appertain to), the tax composition is slightly different from that of the provinces and cities or counties, although the residents are required to pay the same taxes.

A person is either a resident or a non-resident of Korea depending on residence or domicile. A resident is liable to income tax on items of income derived from sources both within and outside Korea. On the other hand, a non-resident is liable to income tax only on items of income derived from sources within Korea.

Under the income tax law, income earned by both residents and non-residents is subject to global and schedular taxation. Under global taxation, real estate rental income, business income, earned income, and miscellaneous income attributed to a resident are aggregated and taxed progressively. Interest and dividends are subject to tax withholding. Non-residents are similarly taxed on income from Korean sources. The tax rates on individual income range from 6 percent to 35 percent.

When a company is incorporated in Korea, it is deemed a domestic corporation and is liable to tax from worldwide income whereas a foreign corporation is liable to tax on Korean source income. The corporation tax rates are 10, 20 and 22 percent. A foreign corporation without a permanent establishment in Korea is subject to withholding tax.

*Part 2: National Taxes – Internal Taxes*

## Chapter II: Income Tax

### 1. Taxpayer

#### a. Resident

A person who has a domicile or has resided in Korea for one year or longer is subject to income tax on all income derived from sources both within and outside Korea. However, a resident who is not a Korean national and has a domicile or has resided in Korea for five years or less is subject to income tax on income paid within Korea or remitted to Korea in case the taxable income is derived from sources outside Korea.

#### b. Non-resident

A person who is not a resident of Korea is deemed a non-resident and is subject to income tax only on income derived from sources within Korea.

### 2. Taxable Income

#### a. Taxable Income

Resident individuals are taxed on their worldwide income. Non-resident individuals are taxed only on Korean-source income.

#### b. Global and Schedular Income Taxation

Income derived by residents and non-residents is subject to global and schedular taxation. Under global taxation, business income, wages and salaries, pension income, and other income are aggregated and taxed progressively. A combined income of dividend and interest exceeding 40 million won is subject to global taxation. Currently, interest and dividends are subject to withholding tax of 14 percent. Under schedular taxation, capital gains and retirement income are taxed at varying tax rates.

* Other income includes the followings among others:

(1) Money or goods received from participation in a lottery, and any other

prize won in a contest

(2) Money or goods received as a prize in a lottery, drawing, or any other contest, including the purse payable to the buyer of a winning ticket for horse racing, cycle racing, motorboat racing, bull fighting and sports betting game

(3) Money or goods for transfer or use of copyrighted materials received by any person other than copyright holders.

## 3. Tax Base and Deductions

### a. Calculation of Taxable Income

Taxable income is computed as the sum of the following items of income:

(1) Interest

(a) Interest and discount amounts received during a tax year from debentures and securities issued by a nation's government/its local authorities, or a domestic/foreign corporation

(b) Interest and discount amounts received during a tax year from deposits and installment savings payable both within and outside Korea

(c) Interest from non-commercial loans

(d) Savings-type insurance premiums with a maturity of less than ten years

(e) Other similar incomes as compensation according to spending money

(2) Dividends

(a) Dividends and distributions of profits and retained earnings, and distribution of interest received from a domestic or foreign corporation during construction

(b) Distributions of profits received from a non-corporate entity such as private associations or foundations

(c) Deemed dividends and distributions

(d) Amounts designated as dividend by the Corporation Tax Law

(e) Dividend-yielding financial assets

(f) Other similar incomes as an income distribution

(3) Business income

The total amount of income in each taxable period remaining after deduction from gross profits of allowable expenses and losses carried-over from the previous 10 years

(4) Wage and salary income

The total amount of income remaining after the deduction as specified in the table below: used to calculate the tax base for wage and salary income after the deduction described herein has been made for that taxable period

Deduction for wage and salary income (100,000 won per day for a daily worker), as computed in the table below.

| **Wages and salary income ①** | **Deductions** |
|---|---|
| Not more than 5 million won | 80% of ① |
| 5 - 15 million won | 4 million won + 50% of ① exceeding 5 million |
| 15 - 30 million won | 9 million won + 15% of ① exceeding 15 million won |
| 30 - 45 million won | 11.25 million won + 10% of ① exceeding 30 million won |
| Over 45million won | 12.75 million won + 5% of ① exceeding 45 million won |

(5) Pension Income

The total amount of income remaining after the deduction as specified in the table below with the deduction ceiling of 9 million won

| **Pension income** | **Deductions** |
|---|---|
| Not more than 3.5 million won | Pension income amount in full |
| 3.5 - 7 million won | 3.5 million won +40% of pension exceeding 3.5 million won |
| 7 - 14 million won | 4.9 million won + 20% of pension |

| | |
|---|---|
| | exceeding 7 million won |
| Over 14 million won | 6.3 million won + 10% of pension exceeding 14 million won |

(6) Retirement income

The total amount of income remaining after the deductions in the following order:

(a) 45 % of retirement allowance

(b) Amount determined based on the length of service

| **Service years** | **Deductions** |
|---|---|
| Not more than 5 years | 300,000 won × service year |
| 5-10 years | 1,500,000 won + 500,000 won × (service year- 5) |
| 10-20 years | 4,000,000 won + 800,000 won × (service year -10) |
| Over 20 years | 12,000,000won+1,200,000won × (service year- 20) |

(7) Capital gains

Gains arising from the transfer of land, buildings, or rights thereon, stocks, and other assets specifically enumerated in the Income Tax Law shall be taxed separately from global income. This separation was created to stabilize real estate prices and for tax purposes.

Capital gains may be classified into the following three categories:

(a) Gains arising from the transfer of land, buildings.

(b) Gains arising from the transfer of rights to real estate such as surface rights, leaseholds, or rights to acquire real estate; or

(c) Gains arising from the transfer of stocks

Gains on transfer and the amount of capital gains are calculated as follows:

Gains on transfer = Selling price - Necessary expenses

Amount of capital gains = Gains on transfer - Special deduction for long-term possession of land and buildings - Capital gains deduction

Necessary expenses include acquisition costs, costs of installations or improvements, and other capital expenditures.

Special deductions for long-term holding of land or building are calculated as follows:

(a) In the case of the transfer of land · building in general

| Holding period | Deduction rate | Holding period | Deduction rate |
|---|---|---|---|
| 3 years ~ less than 4 years | 10/100 | 7 years ~ less than 8 years | 21/100 |
| 4 years ~ less than 5 years | 12/100 | 8 years ~ less than 9 years | 24/100 |
| 5 years ~ less than 6 years | 15/100 | 9 years ~ less than 10 years | 27/100 |
| 6 years ~ less than 7 years | 18/100 | 10 years or more | 30/100 |

※ Special deductions are not allowable for the long-term holding of land for non-business purposes imposed with capital gains tax, and for unregistered transfer asset

(b) In the case of the transfer of a house per a household

| Holding period | Deduction rates | Holding period | Deduction rates |
|---|---|---|---|
| 3 years ~ less than 4 years | 24/100 | 7 years ~ less than 8 years | 56/100 |
| 4 years ~ less than 5 years | 32/100 | 8 years ~ less than 9 years | 64/100 |
| 5 years ~ less than 6 years | 40/100 | 9 years ~ less than 10 years | 72/100 |
| 6 years ~ less than 7 years | 48/100 | 10 years or more | 80/100 |

A capital gains deduction of 2.5 million won per year is given without regard to the amount. However, special deduction for long-term holding or capital gain deduction is not allowed for unregistered real estate.

(8) Other income

The aggregate amount of income of this category less necessary expenses; remuneration from an independent lecture allows a deduction of 80% thereof as necessary expenses.

**b. Exemptions and Deductions Related to Global Income**

There are five exemptions or deductions related to global income.

(1) Basic Deductions

Residents with global income are entitled to annually deduct an amount equivalent to 1.5 million won multiplied by the number of persons in the taxpayer's family.

(2) Additional Deductions

A resident eligible for basic exemption and who belongs to any of the following classes may also deduct 1 million won (b: 2 million won, c: 500,000 won, e: 2 million won) per year from his/her global income:

(a) A person who is 70 years or older

(b) The disabled

(c) A female with a spouse or a widowed female head of family with dependents

(d) Anyone with a lineal descendant, adopted child, or a foster child not more than 6 years of age

(e) Anyone with lineal descendants born or adopted children with adoption reported during the concerned taxable period

(3) Extra deductions for households with many dependent children

A resident with earned income or business income who has two or more dependent children eligible for basic deduction may deduct 1 million won plus additional 2 million won per every child added to the first two children from such types of income (e.g. 2 children: 1 million won, 3 children: 3 million won, 4 children: 5 million won…).

(4) Special Deductions

Earned income earners may deduct an amount equal to the sum of necessary expenditures from their earned income, during the taxable year.

* Necessary expenditure: insurance premium paid, medical expenses, educational expenses, etc.

(5) Standard Deductions

Alternatively, a taxpayer may elect to choose an annual standard deduction of 600,000 won (1 million won for wage and salary earners and business owners meeting certain requirements and), if he or she fails to claim deductions in question or accrues only global income without any wages or salaries earned.

## 4. Tax Rates and Tax Credits

### a. Tax Rates

(1) The amount of income tax on global income is calculated by applying progressive marginal tax rates based on amount to respective tax base, and may be determined by using the following table.

(2) Table of Basic Tax Rates

| Tax Base of Global Income | Tax Rates |
|---|---|
| Not more than 12 million won | 6% of tax base |
| 12 - 46 million won | 0.72 million won + 15% of the excess over 12 million won |
| 46– 88 million won | 5.82 million won + 24% of the excess over 46 million won |
| 88– 300 million won | 15.90 million won + 35% of the excess over 88 million won |
| Over 300 million won | 90.1 million won + 38% of the excess over 300 million won |

(3) The tax amount of retirement income is calculated by dividing the taxable income by the number of years of service, applying the basic tax rates, and again multiplying the amount by the number of years of service.

(4) Tax rates on capital gains are as follows:

(a) Real estate and rights thereto

i) Property held for at least 2 years : applicable to basic tax rates

ii) Other Properties: applicable to various tax rates depending on holding period or location, etc.. Higher tax rates than the general tax rates apply to other properties.

(b) Stocks

| Capital gains | Tax rates |
|---|---|
| 1) Shares of non-small and medium sized company which are held by large shareholders for less than one year | 30 % |
| 2) Shares of small and medium sized company | 10 % |
| 3) Shares other than 1) and 2) | 20 % |

(5) Foreign employees and executives may elect to apply the rate of 15 percent on their salaries (schedular taxation).

**b. Tax Credits**

(1) Tax credit for dividend income

Where dividend income of a resident received from a domestic corporation is included in global income, the amount calculated as below is deducted from the global income tax amount.

(a) 11/100 of the dividend income is added to the amount of dividend actually received by the shareholder.

(b) This figure is used in calculating the individual income tax amount of the shareholder.

(c) Thereafter, the amount (11/100 of the dividend income) added to the amount of dividend calculated in (a) above, is credited against the individual income tax amount calculated in (b) above.

(2) Foreign tax credit

Where a resident has paid or is to pay income tax in a foreign country, the tax amount paid or payable is deducted from the amount of Korean income tax accrued with a limit. This limit is an amount equivalent to that of the income tax owed without the application of this credit, multiplied by the ratio of income from foreign sources to total taxable income. If the foreign tax amount paid or payable exceeds this limit, the excess portion may be carried over for 5 years.

(3) Tax credit for casualty loss

When a resident loses 20 percent or more of the total value of his business assets from one or more disasters, an amount equal to the tax due without application of this credit times the ratio of the value of the lost assets over the total value of assets owned prior to a disaster is subtracted from the amount of tax due in the year of the disaster(s).(limited to the value of loss caused by casualty)

(4) Earned Income Credit

Earned income credit shall be calculated as the following table shows.

| Calculated Tax Amount | Credit Amount |
|---|---|
| Not more than 500,000 | 55% of a global tax amount |
| More than 500,000 | 275,000 + 30% of an amount in excess of 500,000 |

* Credit amount cannot exceed 500,000 won

## 5. Withholding Tax

### a. Tax Withholding Obligation

A person paying interest, dividends, business income prescribed by the Presidential Decree, earned income, pension income, retirement income, or other income is required to withhold income tax due thereon at the time of such payment, and to pay it to a district tax office by the tenth day of the following month.

However, a businessman who has less than twenty employees on average at the end of every month of the preceding taxable period may pay taxes withheld to a district tax office by the tenth day of the following month each half-year, after obtaining the approval of the head of the district tax office.

◦ Rates of Withholding

(1) Interest income

(a) Interest on a long-term bond with a redemption period of 10 years: 30%

(b) Interest from non-business loans: 25%

(exception: 25% for partners on their contributions to capital)

(c) Other interest: 14%

(2) Dividend income: 14%

(3) Business income from personal services and medical or health services which are exempt from VAT: 3% of total revenue

(4) Earned Income

(a) Tax rates: the basic tax rates applicable to global income

(exception: 6% for a daily worker)

(b) Simplified employment income tax table: If earned income is paid monthly, the tax amount to be withheld is calculated by the "Simplified employment income tax table" specified in the Presidential Decree on Income Tax Law.

(c)Year-end adjusting: A person subject to tax withholding must calculate the total annual tax amount at the time of the payment of February salary or wage of the following year or at the time of the last payment of income in the year of retirement and collect or refund the difference between the tax amount paid and the total annual tax amount. This amount is calculated by applying the basic tax rates and the tax amount withheld, which is explained in the "Simplified employment income tax table."

(d) Application for earned income deduction: earned income earners who are entitled to personal allowance and special deduction must submit an application for such deduction, together with documentary evidence in support thereof, to the withholding agent before receiving earned income for February of the following year.

(e) Daily wage: Tax is withheld from the wages of day laborers at a rate of 6 percent.

(5) Pension income:

(a) National pension, government employee pension: basic tax rates (identical to earned income tax)

(b) Retirement pension, private pension: 5%

(6) Retirement income: basic tax rates

(7) Other income is withheld at the rate of 20 percent.

## 6. Non-Resident Income Taxation

### a. General

(1) A non-resident is liable to tax on income derived from sources within Korea. Two methods of taxation are applied: global taxation and separate taxation. Global taxation is applied to non-resident taxpayers who have a place of business in Korea or those with income from real estate located in Korea (excluding capital gains from the transfer of land or buildings).

All domestic source income is subject to global taxation, except for severance pay and capital gains, all of which are taxed in the same manner as they would be if earned by a resident. Withholding taxation is applied to each domestic item of income of non-residents who do not have a place of business in Korea and do not have income from real estate located in Korea.

(2) A non-resident's tax address is the domestic business place. In the case of a non-resident who has no domestic business place, its tax address will be the place where such income is derived.

**b. Tax Withholding on Non-Residents**

(1) Unless otherwise provided in an applicable tax treaty, persons paying an amount of income from domestic sources to non-residents (excluding capital gains from real estate, wage & salary income or retirement income derived by non-resident individuals which are subject to the same taxation rules as those applicable to each of the three income items derived by resident individuals) not attributable to a domestic business place, shall withhold as income tax at source of the income the applicable amount enumerated below. The tax withheld must be paid to the government by the 10th day of the month following the month in which such tax was withheld.

(a) Income from lease of vessels, aircraft, etc., and business income: 2% of the amount payable

(b) Personal service income: 20% of the amount payable*

* Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income. Despite the separate taxation provisions on personal service income, the taxpayer may also elect to include income from the rendering of personal service less such amount reimbursed in domestic-source income when filing his/her income tax return in Korea.

(c) Interest income*, dividend income, royalty, and other income: 20% of the amount payable

* Interest derived from bonds issued by the State, local authorities and domestic companies is subject to 14 percent of withholding tax rate.

(d) Capital gains from the transfer of land or buildings: 10% of the amount payable. However, if the purchase price of the transferred asset can be readily confirmed, the amount of tax withheld at source shall be the lesser of 10% of the amount payable or 20% of the gain on such transfer.

(e) Gains from the transfer of securities or shares: 10% of the amount payable. However, if the purchase price of the securities or shares can be readily confirmed, the amount of tax withheld at source shall be the lesser of 10% of the amount payable or 20% of the gain on such transfer.

If the securities or shares are transferred through a investment trader or investment broker under the Capital Market and Financial Investment Services Act, the trader or broker shall withhold the income tax and pay it to government at the tax office with jurisdiction over the domestic corporation (or the domestic business place of the foreign corporation) that issued the securities or shares.

In case where the securities or shares are transferred through publicly recognized stock exchanges and the holdings of the nonresident transferor together with his specially-related persons are less than 25% of the total shares issued by or the total investment in a Korean company (the total shares or interest listed or registered on publicly recognized stock exchanges in Korea in the case of shares or interest issued by a foreign company) at any time in the year of such transfer and during the 5 years prior to the year, the capital gains from such transfer are non-taxable.

In case where the non-resident hold securities or shares through a partnership, whether the non-resident passes the 25 percent shareholding test or not will be determined based on the partnership's shareholding in the domestic company concerned rather than based on the non-resident's shareholding.

(f) If a non-resident transfers securities of the same issue with different acquisition costs through a securities company, the company shall compute the acquisition value of the securities sold by using the moving average method.

(2) If a non-resident engages in a construction, installation, assembly project, or performs supervisory services related thereto on a short-term basis in

Korea, the Korean resident paying for such services shall withhold income tax at source. However, if such non-resident registers its permanent establishment with the appropriate tax office, the payer will not be required to withhold and pay the tax.

(3) If a resident of Korea pays a non-resident who is engaged in the operation of vessels or aircraft in international transportation and who is not deemed to have a place of business in Korea, the resident shall withhold tax on the Korean-source portion of the amount paid.

(4) If a person subject to tax withholding fails to withhold and pay tax as required on time, a penalty equivalent to 10 percent of the amount of tax not paid shall be imposed on that person.

(5) Non-resident individuals deriving in Korea income from lease of vessels or aircraft, business income, personal service income, wage & salary income, retirement income, royalties or capital gains from securities (interest and dividends excluded) or their withholding agent who submitted a wage and tax statement within the statutory deadline may request a reassessment of the tax base and the tax amount within 3 years from the end of the deadline.

# Chapter III: Corporation tax

## 1. Taxpayer

Companies subject to corporation tax in Korea can be classified into two types: domestic or foreign. For tax purposes, a company with its head or main office or place of effective management in Korea is deemed to be a domestic company and is liable to tax on its worldwide income. Otherwise, it is considered to be a foreign company, and the tax liabilities of foreign companies are limited to Korean-source income.

### a. Domestic Corporation

(1) A corporation with its head or main office or place of effective management in Korea is liable to corporation tax on its worldwide income. Domestic corporations are categorized into two types: for-profit and non-profit.

(2) A for-profit domestic corporation is liable to tax on the following items of income:

(a) All items of ordinary business income including income from the transfer of real estate property

(b) Liquidation income: income realized upon liquidation of the business

(3) For a non-profit domestic corporation, the following items of income are taxable:

(a) Income from profit-making businesses under the Korean Standard Industrial Classification

(b) Interest

(c) Dividends

(d) Capital gains from the transfer of stocks, preemptive rights, or shares

(e) Capital gains from the transfer of fixed assets not used directly for nonprofit businesses

(f) Gains from the transfer of bonds

**b. Foreign Corporation**

(1) When a corporation has its head or main office located in a foreign country, only its income from domestic sources is subject to corporation tax (only if the corporation has no place of effective management in Korea); however, income from the liquidation of such corporation is not taxable.

(2) For non-profit foreign corporations such as foreign governments or local governments and non-profit corporations, no corporation tax is assessed on income other than that from profit making businesses in Korea.

## 2. Taxable and Non-Taxable Income

### a. Taxable Income

The corporation tax is assessed on the following income:

(1) Income during each business year, including income from the transfer of real estate

(2) Liquidation income (non-profit domestic and foreign corporations are exempted)

### b. Non-taxable Income

Corporation tax is not levied on income derived from property of public welfare trusts; it does not matter whether the application for non-taxation is submitted or not.

## 3. Tax Base

### a. Income during Each Business Year

The income of a domestic corporation during each business year is the amount remaining after deducting the gross amount of losses from the gross amount of gains in the same business year.

**b. Calculation of Tax Base**

(1) The basis for corporation tax on the income of a domestic corporation for each business year shall be the income for each business year remaining after the deductions of the following items:

(a) Amount of deficits carried forward from the previous 10 years (5 years in case of deficits carried forward from the business years beginning before January 1st, 2009) which were not previously deducted

(b) Non-taxable income in accordance with the Corporation tax Law and other relevant laws

(c) Deductible income in accordance with the Corporation tax Law and other related laws

(2) However, the deductible amount specified in Paragraph (1) shall not exceed the amount of income for each business year. In the case of a corporation in deficit, the said amount of deduction shall not apply.

(3) Provisions concerning the calculation of taxable amount of income for the purpose of corporation tax shall be applicable in accordance with the actual details of the transactions.

## 4. Tax Rates and Credits

**a. Tax Rates**

(1) A business year commencing during the period between January 1, 2010 and December 31, 2011

(a) Tax base of 200 million won or less: 10%

(b) Tax base over 200 million won: 20 million won + 22% of the excess over 200 million won

(2) A business year commencing on or after January 1, 2012

(a) Tax base of 200 million won or less: 10%

(b) Tax base between 200 million won and 20 billion won: 20 million won + 20% of the excess over 200 million won

(c) Tax base over 20 billion won: 3.98 billion won + 22% of the excess over 20 billion won

**b. Tax Credits**

(1) Credit for tax paid abroad

(a) Where a domestic corporation has paid or is liable to pay foreign corporation tax abroad, the tax amount paid or payable abroad is deducted from the corporation tax up to an amount equivalent to the ratio of the income from foreign sources to the total taxable income. If the foreign tax amount paid or payable exceeds the prescribed creditable limit against the corporation tax payable for the year, the excess portion may be carried over for 5 years.

(b) The foreign tax paid by a qualifying subsidiary is eligible for foreign tax credit against the dividend income of a parent company if an existing tax treaty between Korea and the country of which the foreign corporation is a resident allows it. A qualifying subsidiary is one in which a domestic corporation owns 10 percent or more of its shares for more than 6 consecutive months after the date of dividend declaration.

(c) When income from foreign sources earned by a domestic corporation is exempt from tax in a source country, nevertheless the exempted amount of income will be taken into account in calculating the foreign tax credit to the extent that the tax treaty allows.

(2) Tax credit for loss caused by disaster:

Where a domestic corporation is deemed to have difficulties in paying tax because it has lost 20 percent or more of the total value of its assets due to a natural disaster, a tax amount equivalent to the ratio of the value of the asset loss to the value of total assets is deducted from corporation tax. The amount of tax credit available is limited to the value of the asset loss caused by disaster.

## 5. Withholding Tax

A person paying the following income to a domestic corporation is required to withhold corporation tax on the income at the prescribed tax rates at the time of such payment, and pay it to the government by the 10th of the following month.

(1) Interest income

(a) Interest prescribed by the Income Tax Law: 14%

(b) Interest from a non-commercial loan: 25%

(2) Distribution of profit from securities investment trusts: 14%

* If a trust fund receives interest income and a discounted amount on debentures or securities, it should be treated as a corporation with respect to tax withholding.

## 6. Taxation of Foreign Corporation

### a. General

(1) A foreign corporation is liable to corporation tax only on income derived from sources within Korea. However, no corporation tax is levied on the liquidation income of a foreign corporation.

Corporation tax on income from domestic sources by a foreign corporation is assessed and collected in the same manner as that applied to a domestic corporation. With respect to the income from domestic sources by a foreign corporation which has no domestic permanent establishment, the full amount of corporation tax withheld thereon at source is payable to the government.

(2) The provisions of tax laws with respect to calculation of taxable income and tax amount, assessment, collection tax withholding, and reporting for domestic corporations are applicable *mutatis mutandis* to foreign corporations having a domestic place of business. However, any special provisions regarding foreign corporations are preferentially applied thereto.

**b. Tax Rates, Returns, Payment, Determination, Adjustment, and Collection**

(1) Tax rates

Corporation tax on the income for each business year of a foreign corporation which has a domestic business place or real estate income is calculated by applying the same tax rates as those applicable for a domestic corporation on the tax base.

(2) Return, payment, determination, adjustment and collection

(a) With respect to tax return filing, tax payment, determination, adjustment, and collection of corporation tax on the income for each business year of a foreign corporation with a domestic business place or real estate income, the provisions for a domestic corporation are also applicable *mutatis mutandis.*

(b) Where a foreign corporation that is required to file a return on its tax base is unable to do so within the return period due to the following reasons, it may extend the return period with the approval from the government.

i) Disasters and any other unavoidable occurrences

ii) Failure to finalize the settlement of accounts at the head or main office

(c) The tax payment location of a foreign corporation with a domestic business is the place of its business or that of relevant real estate within Korea.

(3) Foreign companies deriving in Korea income from lease of vessels or aircraft, business income, personal service income, wage & salary income, retirement income, royalties or capital gains from securities (interest and dividends excluded) or their withholding agent who submitted a wage and tax statement within the statutory deadline may request a reassessment of the tax base and the tax amount within 3 years from the end of the deadline.

**c. Tax Withholding on Foreign Corporation**

(1) Withholding Rate

(a) A person paying an amount of income from domestic sources to foreign corporations (except foreign corporations having capital gains from real estate which is subject to the same taxation rule as that applicable to capital gains from real estate derived by domestic company) not attributed to a domestic business place shall withhold as corporation tax at the source of income an amount enumerated as follows upon making the payment, and pay it to the government by the tenth day of the following month.

i) Business income and income from lease of vessels, aircraft, etc.: 2% of the amount payable

ii) Personal service income: 20% of the amount payable

*Actual reimbursement of airfare, accommodation fees or meal expense is excluded from personal service income. Despite the separate taxation provisions on personal service income, the taxpayer may also elect to include income from the rendering of personal service less such amount reimbursed in domestic-source income when filing his/her income tax return in Korea.

iii) Interest income*, dividend income, royalties, and other income: 20% of the amount payable

* Interest derived from bonds issued by the State, local authorities and domestic companies is subject to 14 percent of withholding tax rate.

iv) Gains from the transfer of securities or shares: 10% of the amount payable (However, where the acquisition value of securities or shares can be confirmed, the amount of withholding tax at source is 10% of the amount payable or 20% of an amount remaining after deducting the acquisition value from gains, whichever is less.)

(2) Tax Withholding by Agent

(a) In the case where securities or shares are transferred to a foreign corporation through a securities company, the securities company shall withhold the corporation tax and pay it to the government at the residence place of the domestic corporation (or the domestic business place of the foreign corporation) which issued the securities or shares.

(b) If a foreign corporation transfers securities of the same issue whose acquisition costs are different, a securities company shall compute the acquisition value of the securities sold by using the moving average method.

(c) Any person paying an amount of income from domestic sources (limited to business income, personal service income, interest income, and royalties) with a foreign loan to any foreign corporation having no domestic business place shall withhold tax at the source at the time the income is paid under the payment terms of the contract, even in the case where he or she does not directly pay such an amount of income under the terms of the contract in question.

(d) Where an agency in Korea of foreign corporation, operating vessels or aircraft in services abroad that do not come under a domestic business place, pays the foreign corporation income from the service of vessels or aircraft navigating overseas, it shall withhold tax on the income earned by the corporation from domestic sources.

(e) Where a person subject to tax withholding pays the corporation tax withheld at source after the lapse of the payment period, has not paid the tax within the period or has not withheld the tax at source, he or she shall pay a penalty tax amounting to 10% of the tax amount unpaid or not withheld.

(f) Where a foreign corporation engages in construction, installation, assembly projects, or supervisory services in Korea, it is subject to withholding tax for income arising from these enterprises if the foreign corporation is not registered with the appropriate tax authority.

## Chapter IV: Inheritance & Gift Tax

### 1. Inheritance Tax

#### a. Taxpayer

(1) A person or a company that acquires property through inheritance or bequest is liable to the Inheritance Tax.

(2) An inheritor that is a for-profit company is exempt from the Inheritance Tax.

#### b. Tax Base

(1) From the date of the commencement of the inheritance, the following are deemed taxable inheritance or bequest:

(a) Inherited or bequeathed property

(b) Bequeathed property transferred upon the death of the bequeathed

(c) Gift property to the inheritor within ten years of the date of the commencement of the inheritance

(d) Gift property to legal persons other than the inheritor within five years of the date of the commencement of the inheritance

(2) The inheritance tax covers:

(a) All property bequeathed by a resident

(b) All property in Korea inherited or bequeathed by a non-resident

### c. Tax Rates

| Tax base | Tax rates |
|---|---|
| Not more than 100 million won | 10% |
| 100 - 500 million won | 10 million won + 20% of the excess over 100 million won |
| 500 million - 1 billion won | 90 million won + 30% of the excess over 500 million won |
| 1 - 3 billion won | 240 million won + 40% of the excess over 1 billion won |
| Over 3 billion won | 1.04 billion won + 50% of the excess over 3 billion won |

## 2. Gift Tax

### a. Taxpayer

(1) Resident donee is obligated to pay gift tax.

(2) Non-resident donee is obligated to pay gift tax on the property acquired in Korea.

(3) Where a donee is a for-profit company, it is exempt from gift tax.

### b. Tax Base

(1) The following may serve as the tax base for a donee's gift property:

(a) All gift properties that may be changed to certain monetary or economic forms

(b) The economic value of legal and actual rights to the gift property.

### c. Exclusions

(1) Property given by the government or local governments

(2) Property donated to political parties

(3) Gifts of moderate value (i.e., for medical care and relief)

(4) School fees, scholarships, etc., paid for as a gift

(5) Property donated to the Nation or local governments

**d. Tax Rates**

| Tax base | Tax rates |
|---|---|
| Not more than 100 million won | 10% |
| 100 - 500 million won | 10 million won + 20% of the excess over 100 million won |
| 500 million - 1 billion won | 90 million won + 30% of the excess over 500 million won |
| 1 - 3 billion won | 240 million won + 40% of the excess over 1 billion won |
| Over 3 billion won | 1.04 billion won + 50% of the excess over 3 billion won |

## Chapter V: Comprehensive Real Estate Holding Tax

### 1. Taxable Objects

Land and residential houses (except vacation home)

* Under the Comprehensive Real Estate Holding Tax Law, a residential house includes land to which the house belongs.

### 2. Taxpayer

#### a. Land

A person who is liable to property tax on land as of June 1st and who falls under one of the following categories:

(1) Land of general aggregate taxable object for property tax (vacant land etc):

A person the sum of government-evaluated prices of whose aggregate land subject to general aggregation taxation for property tax exceeds 500 million won is liable to the comprehensive real estate holding tax.

(2) Land of special aggregate taxable object for property tax (land attached to store, office, buildings, etc.):

A person the sum of government-evaluated prices of whose land of special aggregate taxable object for property tax exceeds 8 billion won is liable to the tax.

* Land of separate taxable object: excluded from comprehensive real estate holding tax.

(a) Farmland (dry field, rice paddies, orchard), forests, pasture lots, factory sites within the standard area.

(b) Land for private golf courses and luxury amusement etc.

#### b. Residential House

A person who is liable to property tax on residential house as of June 1st and the sum of government-evaluated prices of whose residential houses subject to property tax exceeds 600 million won is liable to the comprehensive real estate holding tax.

* A person who owns a house under a sole residence per household– 900 million won

## 3. Tax Base

a. Residential house:

The tax base applied to the comprehensive real estate holding tax on housing is calculated by taking the total posted prices of such houses owned by a single tax obligor, deducting 600 million won, then multiplying the result by 0.8.

* 900 million won is deductible for those who own a house under a single tenancy per household

b. Land

(1) The tax base applied to the comprehensive real estate holding tax on lands of general aggregate taxable object is calculated by taking the total posted prices of such land owned per tax obligor, deducting 500 million won, then multiplying the result by 0.8.

(2) The tax base applied to the comprehensive real estate holding tax on lands of separate aggregate taxable object is calculated by taking the total posted prices of such land owned by per tax obligor, deducting 8 billion won, then multiplying the result by 0.8.

## 4. Tax Rates

**a. Residential house**

| Tax base | Tax rates |
|---|---|
| 600 million won or less | 0.5% |
| 1.2 billion won or less | 0.75% |
| 5 billion won or less | 1.0% |
| 9.4 billion won or less | 1.5% |
| More than 9.4 billion won | 2.0% |

**b. Land**

(1) Land of special aggregate taxable object for property tax (vacant land etc.)

| Tax base | Tax rates |
|---|---|
| 1.5 billion won or less | 0.75% |
| 4.5 billion won or less | 1.5% |
| More than 4.5 billion won | 2.0% |

(2) Land of special aggregate taxable object for property tax (land attached to store, office, buildings, etc.):

| Tax base | Tax rates |
|---|---|
| 20 billion won or less | 0.5% |
| 40 billion won or less | 0.6% |
| More than 40 billion won | 0.7% |

## Chapter VI: Value Added Tax

### 1. Taxpayer

a. A person who engages in the supply of goods or services independently in the course of business, whether or not for profit, is liable to value-added tax.

b. A person who imports goods and services is liable to value-added tax.

c. Taxpayers including individuals, corporations, the government and local governments, associations of local governments, any bodies of persons, and unincorporated foundations of any other organizations are generally subject to Value Added Tax.

### 2. Zero-Rating and Exemptions

#### a. Zero-Rating

The following goods and services are zero-rated and the input tax incurred is refundable. Zero-rating is applicable only to traders who are residents or domestic corporations. However, in the case of international transportation service by ships or aircraft, traders who are non-residents or foreign corporations are subject to zero-rating on a reciprocity basis.

(1) Goods for exportation

(2) Services rendered outside Korea

(3) International transportation service by ships and aircraft

(4) Other goods or services obtaining foreign currencies

#### b. Exemptions

The supply of the following goods or services is subject to exemption and the input tax incurred thereon is not refundable. However, traders may elect not to be exempted.

(1) Basic life necessities and services

(2) Social welfare services

(3) Goods or services related to culture

(4) Personal services similar to labor

(5) Other goods or services including goods or services rendered by religious, charitable, scientific, or other organizations which promote the public

interest and goods or services supplied by the government

(6) Duty-exempt goods

## 3. Tax Base

### a. Tax Base

The tax base of value-added tax for the supply of goods or services is an aggregate amount of the value as specified under the following. However, value-added tax is not to be included in the tax base.

(1) If the supply is for a monetary consideration, its consideration

(2) If the supply is for a non-monetary consideration, its market value

(3) If the actual consideration is considered to be unduly less than that which might reasonably be expected or if there is no consideration, its market value

(4) In the case of the inventory goods at the time of the closing down of a business, the market value of the inventory goods

### b. Tax Rates

The rate of value-added tax is 10%.

## 4. Simplified Taxation

### a. Individuals Eligible for Simplified Taxation

VAT is chargeable on the basis of turnover for a trader whose gross turnover (or proceeds including VAT) of the supply of goods or services deriving from all his business places during the immediate preceding year is less than 48 million won (called “a trader eligible for simplified taxation"). However, a trader engaged in mining, manufacturing, professional business such as lawyers, accountants, entertainment business subject to individual consumption tax, wholesale, or real estate sales business shall be excluded from the range of a trader eligible for simplified taxation.

### b. Tax Base and Tax Amount

(1) Tax base: VAT inclusive turnover during the taxable period

(2) Tax amount payable:

Tax amount payable = Aggregate amount of supply during the concerned taxable period × Average rate of value-added as prescribed by the Presidential Decree for each category of business (ranging from 15% through 40%) × 10%

# Chapter VII: Individual Consumption Tax

## 1. Taxpayer

Any person who falls under one of the categories below is liable to Individual Consumption Tax.

a. A person who manufactures or imports taxable goods (e.g. slot machines, luxury furniture/carpet, or oil products)

b. A person who sells Class 3 taxable goods (e.g. jewelry, pearls, etc. and its products, excluding diamonds for industrial use)

c. Operators of such taxable places as horse race courses, bicycle race courses, slot machine clubs, golf courses, casinos, nightclubs, etc.

## 2. Tax Base

### a. Tax Base

(1) In the case of taxable goods that are manufactured, the price or the volume at which the goods are taken out of the place of manufacture

(2) In the case of importation, the price or the volume at the time of declaration (the sum of the customs value and the related customs duties levied thereon)

(3) In the case of Class 3 taxable goods that are sold, the sales price

(4) In the case of an admission to taxable places, the number of persons

(5) In the case of the use of entertainment taverns or saloons, the amount of money charged

(6) In the case of business operations in taxable place of business (casinos), gross annual sales amount (amount received from customers – amount paid)

* From 2012, Kangwon Land Casino became the taxable place of business where (6) applies to.

* Foreigners-only casinos will become the taxable place of business where (6) applies to from 2014.

b. Amounts of Individual Consumption Tax, Education Tax, and Value-Added Tax are not included in the tax base.

## 3. Tax Rates

### a. Taxable Goods

(1) Class 1: 20%

(a) Slot machines, pin-ball machines, and other similar recreational machine; and

(b) Hunting guns or rifles.

(2) Class 2: 7%

(a) Deer antlers and royal jellies; and

(b) Perfumes and colognes

(3) Class 3: 20% (The tax rate of 20% is levied on the excess of the sales price over two million won)

(a) Jewelry (excluding diamonds for industrial use, unprocessed original stones), pearl, tortoise-shell, coral, amber, ivory, and their products; and

(b) Precious metal products

(4) Class 4:

The tax rate of 20% is levied on the excess of the sales price over two million won (five million won per piece or eight million won per set in the case of luxury furniture):

(a) Luxury camera and its accessories

(b) Luxury watches

(c) Luxury fur skin and its products (excluding rabbit skin and raw fur skin)

(d) Luxury carpets

(e) Luxury furniture

(5) Class 5:

(a) Automobiles with engine displacement in excess of 2,000 cc and cars for camping: 10%

* (a) are taxed at the rate of 8% from the date when the KORUS FTA entered into force through 2012, are taxed at the rate of 7% in 2013, 6% in 2014, and 5% from 2015.

(b) Automobiles with engine displacement of 2,000 cc or less (excluding those with engine displacement of 1,000 cc or less), and two-wheeled motorcycles with engine displacement in excess of 125 cc: 5%

(6) Class 6:

(a) Kerosene: 90 won/ℓ

(b) Heavy fuel oil: 17 won/ℓ

(c) Propane gas: 20 won/kg

(d) Butane gas: 275 won/kg

(e) Natural gas (including liquefied form): 60 won/kg

* With regard to gasoline and diesel oil, not Individual Consumption Tax but Transportation·Energy·Environment Tax will be levied until the end of 2012.

* Propane gas is taxed at 14 won/kg from January 1 to April 30, 2012.

(7) Class 7: 5%

(a) Electric cooler: monthly power consumption of 370kWh or more

Except coolers with cooling capacity of 10Kw or more

(b) Electric refrigerator: monthly power consumption of 40kWh or more

Except refrigerators with capacity of 600L or less

(c) Electric washing machine: power consumption per wash of 720Wh or more

(d) Television Set: power consumption of 300W or more

Except TV set of 107cm(42”) or less

**b. Taxable Places**

(1) Group 1:

The individual consumption tax rates on the following taxable places are:

(a) Horse race park: 500 won per person

(b) Slot machine places: 10,000 won per person

(c) Golf courses: 12,000 won per person

(d) Casinos: (Korean) 50,000 won per person, (Foreigner) 2,000 won per person

* Kangwon Land Casino: (Korean) 3,500 won per person
  (Foreigner) free

* Foreigners-only casinos: (Korean) Not admitted
  (Foreigner) free

(e) Bicycle race park, motorboat race park: 200 won per person

(2) Group 2:

Entertainment taverns or saloons, etc.: 10%

(3) Group 3:

Where gross annual sales from business operations in taxable place of business (casinos) is:

(a) More than 50 billion won - 100 billion won: 2% of the amount exceeding 50 billion won)

(b) More than 100 billion won: 1 billion won + (4% of the amount exceeding 100billion won)

## Chapter VIII: Liquor Tax

### 1. Taxpayer

**a.** Manufacturers of liquor and persons taking over liquor from a bonded area are liable to liquor tax on the liquor carried out of the manufacturing premises or taken out of the bonded area.

**b.** A person who intends to manufacture or sell liquor must get a manufacturing license or a selling license from the government.

### 2. Tax Base

**a.** Spirits (alcohol content 85% or more): the volume of liquor carried out of the brewery or taken out of a bonded area

**b.** Liquor other than spirits: the price of liquor carried out of the brewery or taken out of a bonded area

### 3. Tax Rates

**a. Spirits** (specific tax system)

57,000 won per ㎘ (600 won is added for every additional 1% which exceeds 95% of alcohol content)

**b. Other Liquor** (ad valorem tax system) : 5% ~ 72%

* ex) Takju 5%; Beer 72%; Fruit wine 30%; Whisky 72%

## Chapter IX: Stamp Tax

### 1. Taxpayer

a. Stamp tax is levied on a person who prepares a document certifying establishment, transfer, or change of rights to property in Korea.

b. In case where two or more persons jointly prepare a document, they are jointly and severally liable to pay stamp tax on the document concerned.

### 2. Taxable Documents and Tax Amount

Stamp tax rate varies depending on the types of document. The rates range from 100 won to 350,000 won per document.

## Chapter X: Securities Transaction Tax

### 1. Taxpayer

a. Korea Securities Depository

b. Financial investment business entity

c. Alienator of securities. Where a non-resident or foreign corporation that does not have any place of business in Korea transfers share certificates, etc., not through any financial investment business operator, the transferee of such share certificates, etc. shall be the taxpayer.

### 2. Taxable securities or interest

Securities Transaction Tax (STT) is imposed on the transfer of stocks of a corporation established under the Commercial Law or any special law, or on the transfer of interest in a partnership, limited partnership, or limited liability company established under the Commercial Law. However, the transfer of stocks listed on overseas stock exchanges such as the NYSE, the NASDAQ, the Tokyo Stock Exchange, the London Stock Exchange, the Deutche Boerse AG, the Euronet Stock Exchange, the Singapore Exchange Limited and foreign stock exchanges similar to the above-mentioned stock exchanges are not subject to STT.

### 3. Tax Base

Total value of securities at the time of alienation

### 4. Tax Rates

a. General: 0.5%

b. Temporary tax rates may be applied to stocks listed on the Securities Market and the KOSDAQ Market of the Korea Exchange, if deemed necessary to boost the capital market. (Applicable temporary rates: 0.15% for the Securities Market-listed, 0.3% for the KOSDAQ-listed)

*Part 4: Earmarked Taxes*

## Chapter XI: Transportation·Energy·Environment Tax

### 1. Taxpayer

Any person falling under one of the following categories is liable to Transportation·Energy·Environment Tax.

a. A person who produces gasoline & similar alternative oil, and diesel oil & similar alternative oil

b. A person who imports gasoline & similar alternative oil, and diesel oil & similar alternative oil

### 2. Tax Base and Tax Rates

a. Gasoline and similar alternative oil: 475 won/ℓ

b. Diesel oil and similar alternative oil: 340 won/ℓ

* Flexible rates are specified in the Presidential Decree. Actual rates as of June 22, 2012 are 529 won/ℓ for gasoline and 375 won/ℓ for diesel oil.

## Chapter XII: Education Tax

### 1. Taxpayers

**a.** Persons engaged in financial and insurance businesses in Korea

**b.** Taxpayers of individual consumption tax pursuant to the Individual consumption tax Law (excluding those who pay individual consumption tax on LPG, petroleum, diesel oil, and LNG)

**c.** Taxpayers of Transportation·Energy·Environment Tax pursuant to the Transportation·Energy·Environment Tax Law

**d.** Taxpayers of liquor tax excluding spirits, "Takju,"and"Yakju"

### 2. Non-Taxable Income

Concerning the financial and insurance businesses, revenues from property placed in trust for public welfare shall not be liable to education tax.

### 3. Tax Base and Tax Rates

| Taxpayer | Tax Base | Rate |
|---|---|---|
| Persons engaged in financial and insurance businesses | Gross receipts | 0.5% |
| Taxpayer of Individual consumption tax | Individual consumption tax amount payable pursuant to the Individual consumption tax Law | 30% (15% in the case of kerosene, heavy oil, butane, heavy end) |
| Taxpayer of Transportation·Energy·Environment Tax | Transportation·Energy·Environment Tax amount payable pursuant to the Transportation·Energy·Environment Tax Law | 15% |
| Taxpayer of Liquor Tax | Liquor tax amount payable pursuant to the Liquor Tax Law | 10% (30% when liquor tax rate is over 70/100) |

## Chapter XIII: Special Tax for Rural Development

**1. Taxpayer**

a. An individual or a corporation whose tax liability (individual income tax, corporation tax, customs duty, acquisition tax, or registration & license tax on registration) is reduced under the Special Tax Treatment Control Law (STTCL), the Special Local Tax Treatment Control Law (SLTTCL), the Local Tax Law, or the Customs Law

b. Taxpayers of certain categories of individual consumption tax

c. Taxpayers of securities transactions tax

d. Taxpayers of acquisition tax, and leisure tax

e. Taxpayers of comprehensive real estate holding tax

**2. Tax Base and Tax Rates**

| Tax Base | Tax Rates | Remarks |
|---|---|---|
| The exempted amount of corporation tax, individual income tax, customs duties, acquisition tax, and registration & license tax on registration under the STTCL, the SLTTCL, the Local Tax Law and the Customs Law | 20% | |
| The exempted amount of income tax in relation with interest and dividend income under the STTCL | 10% | |
| The transfer price of listed stocks | 0.15% | |
| Individual consumption tax payable | 10% | Admission to golf courses: 30% |
| Acquisition tax payable | 10% | |
| Comprehensive real estate holding tax payable | 20% | |
| Leisure tax payable | 20% | |

*Part 4: Tax Incentives*

## Chapter XIV: The Special Tax Treatment Control Law

Tax incentives aimed at achieving specific national economic objectives are mainly provided for under the Special Tax Treatment Control Law (STTCL). The following explains major special tax treatments under the STTCL and does not include all special tax treatments. Please refer to the STTCL for detailed information about each special tax treatment and its limitation.

### 1. Tax Credit for Investment (STTCL §5, due to expire on Dec. 31, 2012)

If SMEs invest in business assets (excluding used and leased assets) such as machinery and equipment or installation of information management system at the point of sales and information protection system, 3 percent of the acquisition amount is deducted from income tax or corporation tax.

### 2. Tax Credit for Research and Human Resources (HR) Development Expenses (STTCL §10)

Taxpayers may choose a bigger amount between ⓐ and ⓑ.

ⓐ The expenses for research & HR development during the corresponding year x 25% (3~6% for large companies)

ⓑ (The expenses for research & HR development during the corresponding year – the average such expenses for four years immediately before that year) x 50% (40% for large companies)

### 3. Tax Credit for R&D Expenses of New Growth Engines and Source Technology (STTCL §10, due to expire on Dec. 31, 2012)

20 percent (30 percent in the case of SMEs) of R&D expenses of new growth engines and basic technology incurred for that taxable year

### 4. Income Tax Reduction for Foreign Engineers (STTCL§18)

a. A foreign engineer prescribed by Presidential Decree shall be entitled to the tax exemption on 50/100 of his income tax on earned income derived from his services to a national within Korea for the first two years since the first date on which the foreign engineer concerned offered his services in Korea. (Limited to cases where services are offered prior to December 31, 2011)

b. A foreign engineer shall be eligible for the tax exemption on 50/100 of his income tax on earned income derived from the offer of high technologies prescribed by Presidential Decree to a foreign-invested company for which corporation tax is reduced under a contract for the introduction of technologies pursuant to the Foreign Investment Promotion Act for the first two years since the date on which the foreign engineer concerned offered his services to a foreign-invested company. (Limited to cases where services are offered prior to December 31, 2011)

**5. Special Taxation for Foreign Workers (STTCL§18-2)**

With respect to income tax on income of foreign executives or employees (excluding laborers hired on a daily basis) which is derived from his services in Korea by not later than December 31, 2012, an amount computed by multiplying the relevant income by 15/100 may be adopted as the amount of such income tax, notwithstanding the general way of calculating income tax. In such cases, provisions concerning income taxation, such as tax exemption, deduction, reduction, or tax credit shall not be applicable.

**6. Tax Credit for Investment in Facilities (excluding used and leased assets) for Productivity Enhancement (STTCL §24, due to expire on December 31, 2012)**

Where a resident or a domestic corporation invests in one of the following, 3 percent (7 percent in case of SMEs) of the investment amount shall be deducted from income tax and corporation tax.

a. Facilities for process improvement and automation

b. Facilities for advanced technology and skills

c. Supply Chain Management system

d. Customer Relationship Management system

e. Equipment for logistics management system.

f. Utilization of ASP(Application Service Provider/Provision) instead of purchasing directly SCM, CRM (7% only for SMEs)

**7. Tax Credit for Investment in Energy Saving Facilities (STTCL §25-2, due to expire on Dec. 31, 2013)**

Where a resident or a domestic corporation invests in energy saving facilities, 10 percent of the investment amount shall be credited from income tax and corporation tax.

**8. Exemptions or Reductions for Advanced Technology FDIs**

| Tax | Incentives |
|---|---|
| Individual and corporation taxes | Full exemption for 5 years, 50% reduction for next 2 years |
| Local taxes: acquisition, property | Full exemption for 5 years, 50% reduction for next 2 years (local governments can extend the applicable period up to 15 years) |
| Customs duties, individual consumption tax, value-added tax | Full exemption for 5 years on imported capital goods by foreign-invested companies |

* Exemptions are granted to applications after January 1, 2011.

*Part 5: Local Taxes*

## Chapter XV: Local Taxes

### 1. Acquisition Tax

#### a. Taxpayer

Persons acquiring real estate, motor vehicles, heavy equipment, trees, boats, aircraft, golf memberships, condominium memberships, health club memberships, mining rights, fishery rights through purchase or inheritance

#### b. Tax Base

(1) The reported price at the time of acquisition; provided that if there is no reported price or if a reported price is lower than tax standard value, the tax standard value shall be applied.

(2) Acquisition period

(a) Acquisition of buildings: when the notice of approval for use is given in case construction of the building is permitted or when the building is first used in case construction of the building is not permitted

(b) In the case of property acquired in annual installments: each payment date of the annual installments

(c) For vessels, boats, motor vehicles, heavy equipments and aircrafts: when they are delivered to the end-user or when the balance is paid.

### 2. Registration and License Tax

#### a. Registration

(1) Taxpayer

Persons who register particulars concerning acquisition, creation, transfer, alteration, or lapse of property rights, or other titles in the official book are liable to registration tax.

(2) Tax Base

The tax base for the registration tax on real estate, ships, aircraft, or motor vehicles is the value at the time of registration. The said tax base depends on the declaration of the person who registers or records in accordance with the pertinent regulations. However, in the case where the tax base is not reported, or the case where value at the time of acquisition is less than the "Standard Value" determined by the local government every year, the "Standard Value" at the time of the registration or the record is deemed to be the tax base. However, the actual acquisition value shall be the tax base in the following cases:

(a) Acquisition from the state, local autonomous bodies, and local autonomous body associations

(b) Acquisition by importing from abroad

(c) Value of acquisitions verified by books of corporations, judicial decisions, or a notarized deed

(d) Acquisition through a public sale

(3) Tax Rates

The registration tax rate varies depending on the type of property registered. The rates range from 0.1%~2%. For certain properties, the rates are fixed.

**b. License Tax**

(1) Taxpayer

Persons who have obtained licenses enumerated in the table below under Article 124 of the Presidential Decree are annually liable to the License Tax for each kind of license.

(2) Tax Base

(a) The number of licenses obtained

(b) Taxation period: on occasional basis or period prescribed by the regulations

(3) Tax Rates

| License Class | City with population of 500,000 or more | Other cities | Counties |
|---|---|---|---|
| 1 | 45,000 won | 30,000 won | 18,000 won |
| 2 | 36,000 won | 22,500 won | 12,000 won |
| 3 | 27,000 won | 15,000 won | 8,000 won |
| 4 | 18,000 won | 10,000 won | 6,000 won |
| 5 | 12,000 won | 5,000 won | 3,000 won |

## 3. Leisure Tax

### a. Taxpayer

(1) Korea Horse Affair Association which manages and sells tickets to horse races

(2) National Sports Promotion Corporation or local autonomous bodies which organize cycling races and boat races

(3) Bull fighting organizers defined in the Traditional Bull Fighting Match Law

### b. Tax Base

A total amount obtained by selling tickets for horse race, bicycle race, motor boat race, traditional bull fighting

### c. Tax Rates

10% of the amount obtained by selling horse-race, bicycle race, motor boat race, traditional bull fighting tickets

## 4. Inhabitant Tax

### a. Taxpayer

(1) Per capita: Individuals with their domiciles and corporations with their offices in a city or county (including individuals having an office or a place of business

larger than a specific size, i.e., whose gross receipts are 48 million won or more in the immediately preceding calendar year)

(2) Per property: Individuals who have registered their business place

**b. Tax Base**

(1) Per capita: Number of inhabitants

(2) Per property: Workshop area as of the base date of assessment

**c. Tax Rates**

(1) Per capita rate (Inhabitant tax assessed in an equal amount)

(a) Individuals: Local governments determine the taxable amount up to 10,000 won

(b) Corporations: 50,000 won ~ 500,000 won

(2) Per property: 250 won per square meter

## 5. Property Tax

**a. Taxpayer**

(1) Land: Owners registered in the acreage taxation books under the Acreage law and other lands used effectively.

(2) Buildings: Owners subject to the subparagraph 2 of paragraph 1 of article 2 under the Construction Law and owners of facilities installed on the land or owners of leisure, storage and pipe facilities and etc. and other similar facilities attached to other structure.

(3) Houses: Owners under the paragraph 1 of Article 2. These houses are excluded from the scope of land and buildings.

(4) Vessels: Owners registered in the ship taxation book as of the base date of assessment

(5) Aircraft: Owners registered in the aircraft taxation book as of the base date of assessment

**b. Tax Base**

(1) The Current Standard Value for ships and aircraft

(2) Lands & Houses: The Current Standard Value x (60% for houses; 70% for lands)

(3) Buildings: The Current Standard Value x 70 percent

**c. Tax Rates**

(1) Land

(a) General Combined Tax Rates

(Unit: 1000 won)

| Tax base | | Tax rate | | |
|---|---|---|---|---|
| **Over** | **Not more than** | **Tax amount +** | **%** | **Of an amount in excess of ….won** |
| | 50,000 | | 0.2 | |
| 50,000 | 100,000 | 100 | 0.3 | 50,000 |
| 100,000 | | 250 | 0.5 | 100,000 |

(b) Special Combined Tax Rates

(Unit: 1000 won)

| Tax base | | Tax rate | | |
|---|---|---|---|---|
| **Over** | **Not more than** | **Tax amount +** | **%** | **Of an amount in excess of ….won** |
| | 200,000 | | 0.2 | |
| 200,000 | 1,000,000 | 400 | 0.3 | 200,000 |
| 1,000,000 | | 2,800 | 0.4 | 1,000,000 |

(c) Separate Tax Rates

| Tax base | Tax rate (%) |
|---|---|
| 1) dry field, rice paddies, orchard forests, pasture lots | 0.07 |
| 2) land for golf courses and luxury amusement | 4 |
| 3) land other than 1)2) | 0.2 |

(2) Buildings

| Tax Base | Tax rate (%) |
|---|---|
| a) building for golf courses and luxury amusement | 4 |
| b) building for factory in a residential area | 0.5 |
| c) building other than a),b) | 0.25 |

(3) Houses

| Tax base | Tax rate (%) |
|---|---|
| a) villa | 4 |

b) house other than a)

(Unit : 1000 won)

| Tax Base | | Tax Rate | | |
|---|---|---|---|---|
| Over | Not more than | Tax amount + | % | Of an amount In excess of ….won |
| | 60,000 | | 0.1 | |
| 60,000 | 150,000 | 60 | 0.15 | 60,000 |
| 150,000 | 300,000 | 195 | 0.25 | 195,000 |
| 300,000 | | 570 | 0.4 | 570,000 |

(4) Vessels

(a) High class vessels 5%

(b) Other vessels 0.3%

(5) Aircraft 0.3%

(6) In the case of newly built factories in regions with the population cap defined in the Metropolitan Planning Law, a tax rate equivalent to 500 percent of the foregoing tax rate is applicable as the rate of property tax for five years from the initial base date of assessment.

(7) Where it is deemed that tax rates need to be adjusted due to unavoidable reasons such as natural disaster or abrupt increase in fiscal demand, a mayor or a governor, as the case may be, may adjust the rates by up to 50 percent of the standard rates as specified in (1)~(5) above in accordance with pertinent ordinances. The rates adjusted, however, shall apply only for the tax year concerned on a one-off basis.

## 6. Automobile Tax

### a. Taxpayer

Persons who own automobiles

### b. Taxation Period

Annual tax amount will be split into two taxation periods and tax will be assessed and imposed on the owner of an automobile as of the first day to which the taxation period belongs.

1st period: June 16 - 30

2nd period: December 16 – 31

※ If one pays annual tax amounts on a single sum, 10 percent tax credit will be given on automobile tax for the rest of the period.

### c. Tax Base and Tax Rates

(1) Automobiles :

18 won ~ 24 won per cc for Business use vehicle
80 won ~ 200 won per cc for non-business use vehicle

(2) Buses

25,000 won ~ 100,000 won per cc for Business use vehicle
65,000 won ~ 115,000 won per cc for non-business use vehicle

(3) Trucks

6,600 won ~ 45,000 won per cc for Business use vehicle
28,500 won ~ 157,500 won per cc for non-business use vehicle

(4) Special Cars

13,500 won ~ 36,000 won per cc for Business use vehicle
58,500 won ~ 157,500 won per cc for non-business use vehicle

## 7. Tobacco Consumption Tax

The tobacco consumption tax was established as a local tax (city and county tax) on January 1, 1989.

**a. Taxpayer**

(1) A person who sells manufactured tobacco within a city or county under the provisions of the Tobacco Business Law

(2) Importer of tobacco

**b. Tax Base**

Volume of tobacco

**c. Tax Rates**

| Item | Tax rate |
|---|---|
| Cigarettes | 641 won per 20 pieces |
| Pipe tobacco | 1,150 won per 50g |
| Cigars | 3,270 won per 50g |
| Chewing tobacco | 1,310 won per 50g |
| Snuff | 820 won per 50g |

**8. Community Resource and Facility Tax**

**a. Community Facility**

(1) Taxpayer

Persons that benefit from fire-service facilities, garbage disposal systems, sewage facilities, or other similar facilities

(2) Tax base

Value of the house or vessels

(3) Tax rate

(Progressively rated)

| | |
|---|---|
| **6 million won or less** | 0.04% |
| **13 million won or less** | 2,400 won + 0.05% of the excess over 6 million won |
| **26 million won or less** | 5,900 won + 0.06% of the excess over 13 million won |
| **39 million won or less** | 13,700 won + 0.08% of the excess over 26 million won |
| **64 million won or less** | 24,100 won + 0.10% of the excess over 39 million won |
| **Over 64 million won** | 49,100 won + 0.12% of the excess over 64 million won |

(a) In the case of an oil storage, a gasoline station, oil refinery, department store, hotel, theatre, etc., the applicable tax rate shall be increased to 200 percent of the rates prescribed in item (1).

(b) In other cases: Standard rate is 0.023 percent

**b. Community Resources**

**Tax Base and Tax Rates**

(1) Water for generating electricity: 2 won per 10 ㎥

(2) Subterranean water:

(a) Drinking water: 200 won per 1 ㎥

(b) Hot spring water: 100 won per 1 ㎥

(c) Others: 20 won per 1 ㎥

(3) Underground resources: 0.5 percent of the resource value

(4) Containers: 15,000 won per 1 TEU

(5) Nuclear power generation: 0.5 won per 1kwh

## 9. Local Education Tax

### a. Taxpayers

Taxpayers of registration tax, leisure tax, per capita inhabitant tax, property tax, tobacco consumption tax, and automobile tax

### b. Tax Base and Tax Rates

| Taxpayer | Tax base | Standard tax rate |
|---|---|---|
| Taxpayer of per capita Inhabitant Tax | Inhabitant tax amount payable pursuant to the Local Tax Law | 10% (25% in cities with population exceeding 500,000) |
| Taxpayer of Acquisition Tax | Acquisition tax amount payable pursuant to the Local Tax Law | 20% |
| Taxpayer of Leisure Tax | Leisure tax amount payable pursuant to the Local Tax Law | 40% (60% until the end of 2008) |
| Taxpayer of Property Tax | Property tax amount payable pursuant to the Local Tax Law | 20% |
| Taxpayer of Automobile Tax | Automobile tax amount payable pursuant to the Local Tax Law | 30% |
| Taxpayer of Tobacco Consumption Tax | Tobacco consumption tax amount payable pursuant to the Local Tax Law | 50% |

## 10. Local Income Tax

### a. Taxpayer

(1) Pro rata income : Individuals and corporations liable to the payment of income tax, corporation tax, or farmland tax

(2) Per employee: Individuals who have registered their business place as of July 1 of each year and traders who pay salaries or wages to employees

### b. Tax Base

(1) Pro rata income: amount of income tax, corporation tax, or farmland tax

(2) Per employee: Monthly payroll of employees

**c. Tax Rates**

(1) Pro rata income

| Category | Tax rate |
|---|---|
| Income tax surtax (inhabitant tax assessed on the basis of income tax) | 10% of income tax |
| Corporation tax surtax (inhabitant tax assessed on the basis of corporation tax) | 10% of corporation tax |

(2) Calculation method of pro rata income rates

Pro rata income rates are calculated by applying the respective tax rate to the total amount of income tax, corporation tax, and farmland tax assessed one year prior to the year of assessment. In this case, the portion for special collection and the amount of tax assessed will be deducted occasionally.

(3) Per employee: 0.5% of the payroll

## 11. Local Consumption Tax

**a. Taxpayer**

Taxpayers of VAT

**b. Tax Base**

Tax revenue of VAT

**c. Tax Rates**

5 percent of VAT revenue

*<Appendix> A Summary of Income Taxation for Non-residents*

**Individual income tax**

**Individual Income Taxation**

| | Resident | Non-Resident |
|---|---|---|
| **Definition** | Residence or domicile in Korea for more than one year | Any person not deemed a resident |
| **Taxable Place** | Residence or domicile | Place of business (fixed base) or place of income source |
| **Tax Liability** | Worldwide income | Income from sources within Korea |
| **Methods of Taxation** | Global Taxation | Global taxation (in case of fixed base) |
| | Schedular taxation for capital gains and retirement income | Schedular taxation for capital gains and retirement income |
| | Withholding taxation | Withholding taxation |

**Taxation on Non-Residents with a Fixed Base**

(Unit: 1,000 won)

| Taxable income (Tax base) | | Tax rates and brackets |
|---|---|---|
| **Over** | **Not over** | |
| | 12,000 | 6% |
| 12,000 | 46,000 | 720 + 15% of the amount over 12,000 |
| 46,000 | 88,000 | 5,820 + 24% of the amount over 46,000 |
| 88,000 | 300,000 | 15,900 + 35% of the amount over 88,000 |
| 300,000 | | 90,000.01 + 38% of the amount over 300,000 |

**Taxation on Non-Residents without a Fixed Base**

| Items of income | Current domestic rates |
| --- | --- |
| Interest | 20%<br>(14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies) |
| Dividends | 20% |
| Real Estate Income | * |
| Lease Income | 2% |
| Business Income | 2% |
| Independent Personal Services | 20% |
| Dependent Personal Services | * |
| Retirement Income | * |
| Capital Gains Income | * |
| Royalties | 20% |
| Capital Gains from Securities Transactions | Lesser of 10% of sales or 20% of the gains |
| Miscellaneous Income | 20% |

* Tax rates applied to non-residents without a fixed base are identical to those applied to non-residents with a fixed base.

**Corporation tax**

**Corporation tax**

| | **Domestic corporation** | **Foreign corporation** |
|---|---|---|
| **Definition** | A corporate business entity with its head or main office or with its place of effective management in Korea | A corporate business entity with its head or main office or place of effective management outside Korea |
| **Taxable place** | Head/ main office or place of effective management | Permanent establishment or place of income source |
| **Tax liability** | Worldwide income | Income from sources within Korea |
| **Methods of Taxation** | Global taxation | Global taxation (in case of permanent establishment)<br>Withholding tax (in case of no permanent establishment)<br>Schedular taxation (capital gains) |

**Taxation on Foreign Corporations with Permanent Establishment**

| **Taxable income (Tax base)** | | **Tax rates and tax brackets** |
|---|---|---|
| **Over** | **Not over** | |
| | 200 million won | 10% |
| 200 million won | | 20 million won + 22% of the excess over 200 million won |

**Taxation on Foreign Corporations without Permanent Establishments**

| Items of income | Current domestic withholding tax rates |
|---|---|
| Interest | 20%<br>(14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies) |
| Dividends | 20% |
| Real Estate Income | * |
| Lease Income | 2% |
| Business Income | 2% |
| Independent Personal Services | 20% |
| Capital Gains Income | * |
| Royalties | 20% |
| Capital Gains from Securities Transaction | Lesser of 10% of sales or 20% of the gains |
| Miscellaneous Income | 20% |

* Tax rates applied to non-resident corporations without a permanent establishment are identical to those applied to non-resident corporations with a permanent establishment.

**Withholding Tax Rates in Korea**

The normal withholding tax rates on the Korean-source income of non-residents are as follows:

| Korean-source income | Withholding tax rates |
|---|---|
| Gross Revenue from Business | 2% |
| Compensation for Personal Services | 20% |
| Gain Developed from Securities Transactions | 10% of sales price or 20% of the difference between sales price and seller's original cost, whichever is less |
| Dividends, Interest, Royalties, and Miscellaneous Income | 20%<br>(14% applicable to interest derived from bonds issued by the State, local authorities and domestic companies) |

In addition to the withholding tax rates given above, inhabitant surtax of 10 percent is assessed on these withholding taxes.

There are various limitations on these withholding taxes for residents of countries with a tax treaty with Korea. For dividends, interest, and royalties, the withholding tax rates are limited as follows:

| Country | Withholding rates in outward remittances | | |
|---|---|---|---|
| | Dividends (%) | Interest (%) | Royalties (%) |
| **Albania** | 5, 10 | 10 | 10 |
| **Algeria** | 5, 15 | 10 | 2, 10 |
| **Australia** | 15 | 15 | 15 |
| **Austria** | 5, 15 | 10 | 2, 10 |
| **Azerbaijan** | 7 | 10 | 5,10 |
| **Bangladesh** | 10, 25 | 10 | 10 |
| **Belarus** | 5, 15 | 10 | 5 |
| **Belgium** | 15 | 10 | 10 |

| | | | |
|---|---|---|---|
| **Brazil** | 10 | 10, 15 | 15, 25 |
| **Bulgaria** | 5, 10 | 10 | 5 |
| **Canada** | 5, 15 | 10 | 15 |
| **Chile** | 5, 10 | 10, 15 | 5, 15 |
| **China** | 5, 10 | 10 | 10 |
| **Croatia** | 5, 10 | 5 | 0 |
| **Czech Republic** | 5, 10 | 10, 15 | 10 |
| **Denmark** | 15 | 15 | 10, 15 |
| **Egypt** | 10, 15 | 10, 15 | 15 |
| **Estonia** | 5,10 | 10 | 5,10 |
| **Fiji** | 10, 15 | 10 | 10 |
| **Finland** | 10, 15 | 10 | 10 |
| **France** | 10, 15 | 10 | 10 |
| **Germany** | 5, 15 | 10 | 2, 10 |
| **Greece** | 5, 15 | 8 | 10 |
| **Hungary** | 5, 10 | 0 | 0 |
| **Iceland** | 5,15 | 10 | 10 |
| **India** | 15, 20 | 10, 15 | 15 |
| **Indonesia** | 10, 15 | 10 | 15 |
| **Iran** | 10 | 10 | 10 |
| **Ireland** | 10, 15 | 0 | 0 |
| **Israel** | 5, 10 | 7.5, 10 | 2, 5 |
| **Italy** | 10, 15 | 10 | 10 |
| **Japan** | 5, 15 | 10 | 10 |
| **Jordan** | 10 | 10 | 10 |
| **Kazakhstan** | 5, 15 | 10 | 2, 10 |
| **Kuwait** | 10 | 10 | 15 |
| **Laos** | 5, 10 | 10 | 5 |

| | | | |
|---|---|---|---|
| **Latvia** | 5, 10 | 10 | 5, 10 |
| **Lithuania** | 5,10 | 10 | 5,10 |
| **Luxembourg** | 10, 15 | 10 | 10, 15 |
| **Malaysia** | 10, 15 | 15 | 10, 15 |
| **Malta** | 5, 15 | 10 | 0 |
| **Mexico** | 0, 15 | 5, 15 | 10 |
| **Mongolia** | 5 | 5 | 10 |
| **Morocco** | 5, 10 | 10 | 5, 10 |
| **Myanmar** | 10 | 10 | 10, 15 |
| **Nepal** | 5, 10 | 10 | 15 |
| **Netherlands** | 10, 15 | 10, 15 | 10, 15 |
| **New Zealand** | 15 | 10 | 10 |
| **Norway** | 15 | 15 | 10, 15 |
| **Oman** | 5, 10 | 5 | 8 |
| **Pakistan** | 10, 12.5 | 12.5 | 10 |
| **Papua New Guinea** | 15 | 10 | 10 |
| **Philippines** | 10, 25 | 10, 15 | 15 |
| **Poland** | 5, 10 | 10 | 10 |
| **Portugal** | 10, 15 | 15 | 10 |
| **Qatar** | 10 | 10 | 5 |
| **Romania** | 7, 10 | 10 | 7, 10 |
| **Russia** | 5, 10 | 0 | 5 |
| **Saudi Arabia** | 5,10 | 5 | 5,10 |
| **Singapore** | 10, 15 | 10 | 15 |
| **Slovakia** | 5, 10 | 10 | 10 |
| **Slovenia** | 5, 15 | 5 | 5 |
| **South Africa** | 5, 15 | 10 | 10 |

| | | | |
|---|---|---|---|
| **Spain** | 10, 15 | 10 | 10 |
| **Sri Lanka** | 10, 15 | 10 | 10 |
| **Sweden** | 10, 15 | 10, 15 | 10, 15 |
| **Switzerland** | 10, 15 | 10 | 10 |
| **Thailand** | 10 | 10,15 | 5,10,15 |
| **Tunisia** | 15 | 12 | 15 |
| **Turkey** | 15, 20 | 10, 15 | 10 |
| **Ukraine** | 5, 15 | 5 | 5 |
| **U.A.E.** | 5, 10 | 10 | 0 |
| **United Kingdom** | 5, 15 | 10 | 2, 10 |
| **United States** | 10, 15 | 12 | 10, 15 |
| **Uzbekistan** | 5, 15 | 5 | 2,5 |
| **Venezuela** | 5, 10 | 5, 10 | 5, 10 |
| **Vietnam** | 10 | 10 | 5, 15 |
| **Latvia** | 5, 10 | 10 | 5, 10 |
| **Iran** | 10 | 10 | 10 |

*This book is published to present a brief overview of the Korean Tax Law. If any discrepancies are found between its contents and the current Korean Tax Code, the latter shall prevail. If you have any questions about the contents of this book, please contact Tax Treaties Division of the Ministry of Strategy and Finance of Korea by phone: (822) 2150-4350,4362 by fax: (822) 507-4841, or by email:*

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