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The following tax information is translated from Korean for foreign-invested companies, and is not legally binding.

Q. **Korea's major tax laws have been recently amended. What are the changes?**

A. **The major changes in the revised laws are as follows:**

1. Fine for failing to submit a specification of international trade within the deadline (Article 51 (1) of the Enforcement Decree of the Adjustment of International Taxes Act)

While a fine was only imposed on the person requested to submit a specification of international trade, the taxpayer who failed to submit a specification shall be fined as well. The amount of the fine imposed for failure to submit a specification of international trade or submission of a false specification shall be KRW 10 million.

※ Effective for taxable years starting from Jan. 1, 2015.

2. Stricter thin capitalization rules (Article 14 (1) of the Adjustment of International Taxes Act)

Thin capitalization rules apply to prevent the excessive deduction of interest expenses for multinational companies in Korea. Under the amended law, the funds borrowed from persons who are relatives of the foreign controlling shareholder shall be included when calculating the debt-to equity ratio to determine whether thin capitalization rules apply. Also, where the amount of a domestic company's borrowings from a foreign controlling shareholder exceeds two times (formerly three times) the amount invested by the relevant foreign controlling shareholder, the interest paid on the excess amount shall not be included in deductible expenses of the relevant domestic company.

※ Effective for taxable years starting from Jan. 1, 2015.

3. Employment effects to be considered more when calculating the tax reduction ceiling for foreign-invested companies (Article 121-2 (14) of the Restriction of Special Taxation Act)

To encourage job creation by foreign-invested companies, the tax reduction ceiling for businesses eligible for tax reduction or exemption for seven years shall be 50/100 (for ceilings based on investment amount) and 40/100 (for ceilings based on employment, up from 20/100 before the amendment) of the cumulative foreign investment amount.

For businesses eligible for tax reduction or exemption for five years, the tax reduction ceiling shall be 40/100 (for ceilings based on investment amount) and 30/100 (for ceilings based on employment, up from 20/100 before the amendment) of the cumulative foreign investment amount.

* The tax reduction ceiling based on employment shall be the sum of the following amounts:

(1) Number of graduates from high schools tailored to industrial demand, etc. (e.g. specialized vocational high schools) among a foreign-invested company's full-time workers in the relevant taxable year × X KRW 20 million

(2) Number of full-time workers of a foreign-invested company in the relevant taxable year excluding those referred to in (1) who are youth employees, disabled employees, or employees aged 60 or older × KRW 15 million

(3) {Number of full-time employees in the relevant taxable year – number of graduates referred to in (1) – number of youth employees, disabled employees, or employees aged 60 or older} × KRW 10 million

※ Effective for foreign-invested companies that have applied for tax reduction or exemption on or after Jan. 1, 2016 (the date of enforcement of the amended law) and foreign-invested companies that applied for tax reduction or exemption before the enforcement of the amended law but have yet to carry out initial investment.

4. Stricter rules for deduction of business-purpose vehicle-related expenses (Articles 50-2 and 106 of the Enforcement Decree of the Corporate Tax Act, Article 55 (1) of the Enforcement Decree of the Income Tax Act)

Among expenses related to business-purpose vehicles, those that are not considered business expenses shall not be included in the deductible expense. Also, depreciation costs (the amount equivalent to depreciation costs in the case of leased vehicles) of up to KRW 8 million per year can be included in deductible expense, and the amount in excess of KRW 8 million shall be carried forward to the following year. The same shall apply to loss from disposal of business-use vehicles.

※ Effective for expenses incurred on or after Jan. 1, 2016. Obligatory depreciation shall apply to vehicles acquired on or after Jan. 1, 2016 (for private businesses subject to faithful filing confirmation, the revised rules shall apply starting from 2016. For taxpayers liable for double-entry bookkeeping, the rules shall apply from 2017).

<Additional information>

1. Eligible vehicles: Vehicles subject to special consumption tax
※ Vehicles used in transportation business, car sales business, car lease business, and driving schools for business purposes are excluded.

2. Deductible expenses: Vehicle acquisition and maintenance costs including depreciation costs, lease, fuel costs, insurance premium, repair costs, and automobile tax

3. Calculation of expenses for actual business purpose

- When a driving log[1] is prepared/maintained: Vehicle-related expenses × portion of actual business use[2]
  [1] The specific details in regards to a driving log (e.g. driving log format) shall be decided by the Commissioner of the National Tax Service.
  [2] Distance travelled for business purpose according to the driving log ÷ total distance travelled
- If vehicle-related expenses add up to KRW 10 million or less, keeping a driving log is unnecessary and 100% of such expenses are deductible.
  ※ Companies should subscribe to vehicle insurance for exclusive use by executives and employees to claim deduction for business-purpose vehicle-related expenses.

4. Calculation of the amount equivalent to the cost of depreciation of leased vehicles:
insurance premium, automobile tax, etc. are subtracted from the amount of lease payment (determined by the relevant Enforcement Rule)

5. The annual deduction limit for loss from disposal of vehicles is KRW 8 million (if there remains a carry-forward balance in the 10th year from the date of vehicle disposal, the amount of the balance shall be deducted 100 percent)

6. In regard to expenses incurred from the use of business-purpose vehicles for personal purposes, income tax shall be imposed on the vehicle user.

7. A straight-line depreciation method shall be used with five years of useful life.

For more information,
please contact the International Tax Resource Management Office
of the National Tax Service (82-44-204-2873~4).