



Providing Excellence In Client Services

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Newsletter

Bi-monthly Newsletter of Horwath Choongjung LLC

Contents

- 2014 Tax Law Changes
- 2013 Year-end Settlement of Individual Income Taxes

Tax Law Changes for Year-end Settlement of Individual Income Taxes for 2013

This newsletter is prepared and issued by Horwath Choongjung LLC (Choongjung Accounting Corp.) on a bi-monthly basis and intended to provide foreign investors with an update on tax law changes in Korea and other related subjects of special interests to foreign investors. The information provided herein should not form a basis of any decision as to a particular course of action, nor should it be relied upon as a substitute for a detailed advice in individual cases.

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(You may find this newsletter and other items of interest at <http://www.crowehorwath.co.kr>)

2014 Tax Law Changes

Proposed tax law changes announced by the government on August 2013 were approved by the National Assembly on December 31, 2013 with several amendments and additions. We summarized below some of the major amendments/additions made to the proposed tax law changes for 2014 to keep you updated. Most of the amendments/additions of tax law changes we discussed below came into force, unless indicated otherwise, for the fiscal year starting, or income earned on or after January 1, 2014.

1. Individual Income Tax Law (IITL)
Changes in tax brackets for top marginal income tax rate of 38% (IITL-Article 55)

The individual income tax bracket for top marginal tax rate of 38% is adjusted to taxable income exceeding KRW 150 million, down from KRW 300 million.

Old provision		Amended provision	
Income tax brackets and tax rates		Income tax brackets and tax rates	
Income tax base (in KRW)	Tax rate	Income tax base (in KRW)	Tax rate
Up to 12 million	6%	Up to 12 million	6%
12 ~ 46 million	15%	12 ~ 46 million	15%
46 ~ 88 million	24%	46 ~ 88 million	24%
88 ~ 300 million	35%	88 ~ 150 million	35%
Over 300 million	38%	Over 150 million	38%

Increase in Earned Income Tax Credit limit (IITL-Article 59)

Old provision	Amended provision	
Maximum limit - KRW 500,000	Maximum limit (Unit: KRW)	
	Salaries	Maximum limit
	Up to 55 million	660,000
	55~ 70 million	630,000~660,000
	Over 70 million	500,000~630,000

Conversion of income deduction for donations to tax credits (IITL-Article 52)

Income tax deduction for qualified donations will be replaced by tax credits. The tax credit rates will be 15% for the donation amounts up to KRW 30 million and 25% for the excess.

Expanded cash payment transactions subject to mandatory issuance of Electronic

Receipt Slips (IITL-Article 162-3)

Old provision	Amended provision
<ul style="list-style-type: none"> • Threshold - KRW 300,000 per cash transaction 	<ul style="list-style-type: none"> • Threshold - KRW 100,000 per cash transaction • Effective date - On or after <u>July 1, 2014</u>

■ Eased heavy tax on capital gains (IITL-Article 104)

In an effort to boost real estate market, heavy tax on capital gains will be eased.

Old provision	Amended provision
<ul style="list-style-type: none"> • Capital gains tax on multiple home owners - 2 houses : 50% - 3 or more houses : 60% (not enforced until December 31, 2013) • Capital gains tax on transfer of non-business purpose land - 60% (not enforced until December 31, 2013) • Capital gains tax on transfer of short-term held property - less than 1 year : 50% - 1 year ~ less than 2 years : 40% • Additional capital gains tax on transfer of real estate located in speculative investment areas (designated by the government) 1. Subject property : ① Capital gains earned by an individual owning 3 or more houses; or 	<ul style="list-style-type: none"> • Capital gains tax on multiple home owners - 6~38% (progressive income tax rates) • Capital gains tax on transfer of non-business purpose land - For year 2014: 6~38% - From year 2015 : 6~38% plus 10% • Capital gains tax on transfer of short-term held property - less than 1 year : <li style="padding-left: 20px;">land:50%, house : 40% - 1 year ~ less than 2 years : <li style="padding-left: 20px;">land : 40%, house : 6~38% • Additional capital gains tax on transfer of real estate located in speculative investment areas (designated by the government) 1. Subject property : - Not changed

② Capital gains tax on transfer of non-business purpose land 2. Tax rate: 6~38% plus 10% 3. Sunset on December 31, 2013	2. Tax rate: not changed 3. Deleted
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2. Inheritance and Gift Tax law (IGTL)

■ Eased criteria for deemed gift taxation for small and medium sized corporations

In an effort to support small and medium-sized corporations (SMC) and Middle Standing Corporations (MSC), the criteria for the deemed gift taxation (for concentrating works among intra group related parties) is eased.

Old provision			Amended provision											
• Criteria for deemed gift taxation <table border="1" style="margin-top: 10px;"> <tr> <td style="width: 30px;"></td> <td style="text-align: center;">Fair transaction ratio</td> <td style="text-align: center;">Marginal ownership ratio</td> </tr> <tr> <td style="text-align: center;">Others</td> <td style="text-align: center;">30%</td> <td style="text-align: center;">3%</td> </tr> <tr> <td style="text-align: center;">SMC & MSC</td> <td style="text-align: center;">30%</td> <td style="text-align: center;">3%</td> </tr> </table>				Fair transaction ratio	Marginal ownership ratio	Others	30%	3%	SMC & MSC	30%	3%	• Criteria for deemed gift taxation <ul style="list-style-type: none"> - Transactions among SMCs and MSCs shall be excluded from the related party transactions - Eased criteria for SMC·MSC(*) (*) A company with revenue less than KRW 500billion		
	Fair transaction ratio	Marginal ownership ratio												
Others	30%	3%												
SMC & MSC	30%	3%												
• Computation of deemed gift tax base = ① X ② X ③ ① After-tax operating income ② <u>Ratio of sales to related parties – 30%</u> ③ Controlling shareholder's share ownership in the beneficiary company – 3%			• (Ratio of sales to related parties – 25% or 50%): <ul style="list-style-type: none"> - Others: 25% - SMC & MSC: 50% <table border="1" style="margin-top: 10px;"> <tr> <td style="width: 30px;"></td> <td style="text-align: center;">Fair transaction ratio</td> <td style="text-align: center;">Marginal ownership ratio</td> </tr> <tr> <td style="text-align: center;">Others</td> <td style="text-align: center;">No change</td> <td style="text-align: center;">No change</td> </tr> <tr> <td style="text-align: center;">SMC & MSC</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">10%</td> </tr> </table>				Fair transaction ratio	Marginal ownership ratio	Others	No change	No change	SMC & MSC	50%	10%
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Others	No change	No change												
SMC & MSC	50%	10%												

3. Special Tax Treatment Control Law (STTCL)

■ Increased alternative minimum tax (“AMT”) for large corporations (STTCL-Article 132)

Old provision		Amended provision																	
<ul style="list-style-type: none"> • AMT for large corporations <table border="1"> <thead> <tr> <th>Tax base (in KRW)</th> <th>Tax rate</th> </tr> </thead> <tbody> <tr> <td>Up to 10 billion</td> <td>10%</td> </tr> <tr> <td>10 ~ 100 billion</td> <td>12%</td> </tr> <tr> <td>Over 100 billion</td> <td>16%</td> </tr> </tbody> </table>		Tax base (in KRW)	Tax rate	Up to 10 billion	10%	10 ~ 100 billion	12%	Over 100 billion	16%	<ul style="list-style-type: none"> • AMT for large corporations <table border="1"> <thead> <tr> <th>Tax base (in KRW)</th> <th>Tax rate</th> </tr> </thead> <tbody> <tr> <td>Up to 10 billion</td> <td>10%</td> </tr> <tr> <td>10 ~ 100 billion</td> <td>12%</td> </tr> <tr> <td>Over 100 billion</td> <td>17%</td> </tr> </tbody> </table>		Tax base (in KRW)	Tax rate	Up to 10 billion	10%	10 ~ 100 billion	12%	Over 100 billion	17%
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■ Investment tax credit rates will vary depending on size of the corporations

Old provision	Amended provision
<ul style="list-style-type: none"> • Tax credit for investment in environment protection facilities, energy saving facilities and R&D facilities : 10% • Tax credit for investment in facilities for pharmaceutical quality control improvement : 7% 	<ul style="list-style-type: none"> • Tax credit remain unchanged for SMCs but the rate reduced for other corporations: <ul style="list-style-type: none"> - Large corporations : 3% - MSCs : 5% - SMCs : 10% • Tax credit remain unchanged for SMCs but the rate reduced for other corporations: <ul style="list-style-type: none"> - Large corporations : 3% - MSCs : 5% - SMCs : 7%

■ 2013
 Year-end
 Settlement
 of Individual
 Income Taxes

Tax Law
 Changes for

Tax Law Change for 2013 Year-end Settlement of Individual Income Taxes

An employer paying wage and salary income must withhold income tax monthly from the earnings of their employees based on “the Quick Tax Table” issued by the National Tax Service and the total of these income tax withholding has to be paid over to the district tax office by the 10th day of the following month throughout the year.

**Year-end
Settlement of
Individual
Income Taxes
for 2013**

After the year-end, in February of every year, the tax liabilities of each employee's (excluding daily workers) prior year wage and salary are then finalized by its employer through the declaration of year-end settlement of exact payroll withholding taxes in Korea.

Based on the results of year-end settlement, the employer shall make necessary adjustments for any overwithholding (or underwithholding) in the February payroll accordingly.

The following explains recent changes of rules for 2013 year-end settlement of individual income taxes.

■ Gross limit income deduction for individual income tax (Article 132-2, STTCL)

To avoid excessive income deduction by high-income earner, nine categories of deductions shall be subject to gross limit of KRW 25 million for 2013.

- Qualified insurance premiums, medical expenses, education expenses, savings for housing purchase qualified, designated donations, qualified housing subscription deposits, contribution to small and medium-sized enterprise start-up investment association, investment in employee's stock ownership association and credit card usage.

■ Revision of income deduction for credit card usage (Article 126-2, STTCL)

Income deduction rate for credit card usage decreased to 15%, down from 20%. But the income deduction rate for electronic cash receipt increased to 30%, up from 20%. The following is a summary of income deduction for credit card usage for year 2013:

① Total spending using credit cards, debit cards, prepaid cards, and electronic cash receipts

② Income deduction = [① - (25% of gross salary)] × 15% (30%*)

(* 30% for amounts paid with debit cards, electronic cash receipts or purchases at traditional markets or for public transportations)

③ Income deduction limit = Lower of 20% of gross salary or KRW 3 million

(If total spending exceeds the above limit, KRW 1 million of further deduction limit will apply for each amount spent in traditional markets and on public transportations, respectively, raising maximum limit to KRW 5 million.)

■ Increase of income deduction rate for monthly rents (Article 52-4, IITL)

Income deduction rate for monthly housing rent (defined) increased to 50%, up from 40%. Rents for residential purpose 'officetel' is newly added to the category of deductible rents for the payments made after August 31, 2013.

■ New income deduction for single parent (Article 51-1, IITL)

A 'single mom' or 'single dad' who does not have spouse, but have children (including adopted children) who are 20 year-old or younger, is eligible to claim income deduction of KRW 1 million per year. Female householder deduction of KRW 500,000 per year will not be allowed if this single mom deduction is applied.

■ Expanded scope of educational expenses for income deduction (Article 110-3 ①, IITL)

Tuition and fees for preschoolers are allowed for income deduction for year 2013. Such expenses for preschoolers include expenses for after-school classes, textbooks and meals at nurseries, kindergartens and private institutions/physical education facilities. Textbooks purchased through the preschools are eligible for income deduction. If textbooks are purchased at other bookstores, confirmation of the principal will be required for income deduction.

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