



Providing Excellence In Client Services

Newsletter

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Bi-monthly Newsletter of Hanul Choongjung LLC

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This newsletter is prepared and issued by Hanul Choongjung LLC 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>)

■ **Interim corporate income tax return filing by August 31, 2015**

Interim corporate income tax return filing by August 31, 2015

A resident corporation (and a nonresident corporation having a permanent establishment in Korea) is required to pay interim corporate taxes within 2 months from the end of the first six months of each fiscal year. An Interim corporate tax return must also be filed along with the tax payment. A corporation with a fiscal year the same as calendar year must file the interim corporate tax return no later than August 31, 2015.

The interim corporate income tax return can be filed using either (i) the 1/2 method (that is, paying 1/2 of the corporate tax paid in the prior year or (ii) the book-closing method (by closing the books of accounts of the corporation for the first six-month period and calculate interim corporate tax amount based on such six-month financial results). When a corporation had not paid the corporate income taxes in the prior year due to tax loss or having no taxable income, only the option (ii) above should be applied. The calculation formula of interim corporate taxes by using the book-closing method is as follows:

$$\begin{aligned} \text{Taxes payable} &= [\text{taxable income for interim period} \times 12/6] \times \text{tax rates} \times 6/12 \\ &\quad - (\text{tax exemption/withholding taxes paid and taxes assessed for the} \\ &\quad \quad \text{interim period}) \end{aligned}$$

If the interim corporate income taxes payable exceeds Won 10 million, such taxes can be paid in 2 installments as below. The second installment payment is due within 1 month from the end of the filing due date (2 months in the case of defined small and medium corporation).

If total taxes payable is:		Installment payments can be broken down as below:
Over Won 10 million ~ up to 20 million	1 st installment 2 nd installment	10 million Excess over 10 million
Over Won 20 million	1 st installment 2 nd installment	50% or more of taxes payable Remaining 50% balance

- 1st installment is due within 2 months from the end of the first 6 months of each fiscal year (i.e., August 31 for calendar fiscal year)
- 2nd installment is due within 1 month from the end of the filing due date (i.e., September 30)

Unlike annual corporate income tax return, there is no additional local income tax payable on interim corporate income tax liability.

■ New payroll income tax withholding procedure on salary and wage income from July 1, 2015**New payroll income tax withholding procedure on salary and wage income from July 1, 2015**

Under the new payroll income tax withholding procedure which became effective from July 1, 2015, employees may choose from one of the following three(3) different options in calculating the amount of their monthly income taxes to be withheld on salaries :

- (Option 1) An employee may choose 80% withholding ratio of the payroll income taxes calculated based on the Quick Tax Table of the National Tax Service (NTS). He/she will have to pay the shortfall (20%) underpaid during the year in February of the following year through the year-end payroll income tax settlement procedure.
- (Option 2) An employee may continue to be withheld at 100% withholding ratio the same as before.
- (Option 3) An employee may choose 120% withholding ratio of the payroll income taxes calculated based on the Quick Tax Table of the NTS. He/she will receive refunds of the overpayment (20%) in February of the following year through the year-end payroll income tax settlement procedure.

To choose Option 1 or 3 above, employees should submit an application form to their companies.

■ Recent tax ruling**Recent Tax Ruling**

- Foreign sourced income related to deemed fees on payment guarantee for foreign subsidiary (Seomyon -22495, 2015.06.02)

To avoid double taxation, foreign (non-Korean) tax credit shall be allowed (under certain limit calculated in proportion to the foreign sourced income) to a Korean resident company which paid income tax on foreign sourced income to the foreign tax authorities. When a parent company in Korea provided payment guarantee for its foreign subsidiary's bank loan, but did not receive any compensation, fees will be deemed at an arm's length price as a transfer pricing adjustment for Korean tax purpose. Such deemed income shall be regarded as part of the foreign sourced income.

**■ Tax tips -
ways of
doing
business in
Korea and
overall tax
ramifications****Tax tips – ways of doing business in Korea and overall tax ramifications**

There are various ways in which a foreign (non-Korean) entity can be represented in Korea. The forms of business enterprises which a foreign entity establishes in Korea would depend on the purpose of its business, relevant tax implications, and attendant government restrictions. The types of business presences generally used by foreign investors include the following:

- Liaison (or representative) office
- Branch office
- Joint venture or subsidiary
- Agent (offer agent, service agent, etc.)

Under the tax laws of Korea, if a foreign company is deemed to have a domestic place of business in Korea, the business place of the foreign company will be treated in the same manners as a domestic company which is subject to Korean taxes. If a foreign company establishes an office and uses the office for sale of goods or services in Korea, the office would also be deemed as a place of business in Korea subject to Korean taxes. A foreign company that has a place of effective management in Korea shall be regarded as a Korean resident company for Korean tax purposes, even though the foreign company's headquarters or principal office is located outside of Korea.

However, if a foreign company uses its office in Korea solely for the following purposes or meets the following conditions, the office would not be deemed as a business place in Korea of the foreign company and, therefore, would not be subject to Korean taxes.

- (1) The Korea office be used solely for the purpose of purchasing goods or merchandises;
- (2) The Korea office be used solely for the purpose of storage or custody of goods or merchandises not for sale;
- (3) The Korea office be used solely for advertisement, public relations, collection and furnishing of information, market survey, or other business activities of a preparatory and auxiliary nature for its business performance; or
- (4) The Korea office be used solely for other persons' processing of the foreign company's assets.

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