



Providing Excellence In Client Services

Newsletter

March 2015

Bi-monthly Newsletter of Horwath Choongjung LLC

Contents

- **Crowe Horwath Korea (Hanul Choongjung LLC) Merger Announcement March 30, 2015**
- **2015 Tax Law Changes - Update**
- **New Tax Rulings**

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.

Please contact any of the following individuals with any inquiries or comments.

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

► **Important Notes**

With the merger effective March 30, 2015, this March 2015 edition of Newsletter will be the last one we issue under the name of Horwath Choongjung LLC. From May 2015 and onward, our bi-monthly Newsletters will be issued under the name of the merged firm, Hanul Choongjung LLC.

■ Crowe Horwath Korea Merger Announcement March 30, 2015

Crowe Horwath Korea (Hanul Choongjung LLC)

Merger Announcement - March 30, 2015

We are proud to make a formal announcement that **Crowe Horwath Korea (Horwath Choongjung LLC)** and **Hanul Accounting Corporation** have successfully closed a merger process to be effected from **March 30, 2015** with the corporate name of the merged firm to become "**Hanul Choongjung LLC**".

- Will rank 7th in Korea after the merger

After the merger, Hanul Choongjung LLC will become the seventh largest accounting and consulting firm locally in Korea based on revenue volumes of around 40 billion Korean Won and with over 420 officers and staff in total (160 CPAs and 260 professional/admin staff). Hanul Choongjung LLC will be headquartered in Seoul and also covering services in other major cities through its five branches located in Busan, Daegu, Changwon, Daejon, and Kwangju. Membership with Crowe Horwath International (“Crowe Horwath”) will be transferred to the merged firm, Hanul Choongjung LLC being an exclusive member firm in Korea of Crowe Horwath.

- Office location integration

Following the merger, the old Horwath Choongjung LLC office will be integrated into the headquarter office in Gangnam-gu, Seoul with effect from **April 11, 2015**.

New Address: 10F Sindo Building, 14 Teheran-ro 88-gil, Gagnam-gu, Seoul 135-845, Korea

Telephone: 82 2 316 6600 Facsimile: 82 2 775 5885

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(All telephone numbers and email addresses will remain unchanged)

- **Closing comments and special thanks**

We would like to take this opportunity to express special thanks to the valued clients of Crowe Horwath Korea (Horwath Choongjung LLC) for the great support and confidence you have given to our firm for many years. After the merger, as the **International Business Group (IBG)** within Hanul Choongjung LLC, we pledge that we will continue to provide best quality services to your firm and do the best to make this transition as smooth as possible. However, if you encounter any inconveniences in our services during this phase, please do not hesitate to contact either **Geesoo Sim, International Liaison Partner** (+82-2-316-6622), or any other partners of our firm. Thank you.

■ 2015 Tax Law Changes - Update**2015 Tax Law Changes - Update**

The government proclaimed enforcement decrees to implement 2015 tax law changes on February 3, 2015. We summarized below the major tax law changes for 2015 to keep you updated.

■ Requirements for Small and Medium-sized Enterprise (“SME”)
(Article 2 of the Enforcement Decree of Special Tax Treatment Control Law)

A corporation that is classified as SME can enjoy certain tax incentives such as increased tax deduction limit on entertainment expenses, favorable tax credit, tax exemptions, etc. In order for a corporation to be qualified as SME, in addition to meeting necessary conditions under the Framework Act on SME, the following further requirements should be satisfied under the previous rules:

- (1) Number of full-time employees : less than 1,000
- (2) Net equity : lower than KRW 100 billion
- (3) Revenue : lower than KRW 100 billion
- (4) Total asset : lower than KRW 500 billion

However, under the revised Enforcement Decree effective from January 1, 2015, only the condition (4) above remains unchanged and the other conditions (1), (2) and (3) were abolished.

■ The Ministry of Strategy and Finance announced the following changes to the Enforcement Rules of Corporate Tax Law which are effective from March 13, 2015.

- Revised Interest Rate for Deemed Interest Computation on Key Money Deposits received from Tenants

Corporations of real estate rental business should include deemed interests on key money deposits received from tenants in their taxable income. The applicable interest rate was changed to 2.5%, down from 2.9% from year 2015.

- Reduced Useful Life for Amortization of Patents

Useful life for amortization of patents is reduced to seven (7) years from ten (10) years for the patents acquired on or after March 31, 2015.

**■ New Tax
Rulings****New Tax Rulings**

- Global advertising costs, allocated to a Korean distributor of the brand products in proportion to the revenue ratio, are not regarded as royalties (Joshim 2014 Seo 1264, 2014. 11. 19)

The Tax Tribunal issued a tax ruling under which a payment of global sports advertising campaign cost recharged to a Korean distributor of a global brand products shall not be treated as royalties, which are subject to Korean withholding tax upon payment, even though the allocation is made in proportion to the product revenue of each country, which is similar to the allocation methodology of royalty.

The Tax Tribunal ruled that payments for cost reimbursement other than payments for the use of trademarks are not regarded as royalties provided that there is a separate agreement in place regarding the cost allocation separately from royalty agreement and the payment is to reimburse actual cost of marketing, sale promotion, advertising, etc. incurred by the global entity.

- Penalty assessment for non-compliance with overseas financial account reporting requirements (Kookjo-188, 2014. 5. 2)

When a taxpayer who is obligated to file information on his/her overseas financial accounts fails to submit the reports to the tax authorities by the deadline, or files incorrect amounts lower than the actual balances, tax penalties shall be assessed on each of the overseas accounts in accordance with Article 35-1 of the International Tax Coordination Law.

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