



Providing Excellence In Client Services

Newsletter

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Bi-monthly Tax Newsletter of Horwath Choongjung LLC

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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>)

**■ Korea -
Colombia
Tax Treaty**
Korea - Colombia Tax Treaty Concluded

Tax treaty between Korea and Colombia has been concluded for double tax relief and prevention of tax evasion. The treaty became effective from July 3, 2014 and will apply to payments of income to be made on or after January 1, 2015. Key contents of the agreement are as follows:

	Main contents
Taxes covered Article 2	<ul style="list-style-type: none"> ▪ Korea: Individual income tax, Corporate income tax, Special tax for rural development ▪ Colombia: Income tax and its complementary taxes
Permanent Establishment Article 5	<ul style="list-style-type: none"> ▪ Building site, construction project, or installation activity which lasts more than six months.
Business Profit Article 7	<ul style="list-style-type: none"> ▪ Only taxable in the source country for business profit which is attributable to Permanent Establishment
Shipping and Air transport Article 8	<ul style="list-style-type: none"> ▪ Taxable in the resident country of the enterprise which is operating ships and aircraft in international traffic
Dividends Article 10	<ul style="list-style-type: none"> ▪ 5% (when the shareholder holds directly at least 20 percent of the capital of the company paying the dividends) ▪ 15% (when a company which is a resident of Colombia has not paid income tax on profits distributed to shareholders because of exemptions or because the profit exceeds the non-taxed limit, the dividend distributed to beneficial owner who is a resident of Korea) ▪ 10% (in all other cases)
Interest & Royalties Article 11 & 12	<ul style="list-style-type: none"> ▪ 10%
Capital Gains Article 13	<ul style="list-style-type: none"> ▪ Taxable in the source country in the case where gains are derived from transfer of shares of a company deriving more than 50 percent of their value directly or indirectly from immovable property ▪ Taxable in the source country in the case where the recipient of the gains has at any time during the twelve month period preceding the transfer directly or indirectly owned shares or other rights representing capital of such company by 25 percent or more ▪ Taxable in the resident country (in all other cases)

- **Korea - Colombia Tax Treaty - continued**

Income from Employment	▪ Taxable only in the country where service is rendered
Article 14	under employment

- **New Tax Ruling**

Amended Local Income Tax Return

A corporation having two or more business places nationwide (e.g. head office, branch offices) must allocate the local income surtax on the corporate income tax liabilities for each of the business places and file the local income tax return, along with payment of necessary taxes, with each of the local tax authorities having jurisdiction over the respective business place.

In the case where a corporation failed to allocate the local income tax and paid entire tax to the local tax authority governing the head office, if the corporation files an amended return and pay the local income tax correctly allocated to each of the local tax authorities before the respective authorities issue an assessment notice to the corporation, neither tax penalty for underpayment nor interest on overpayment shall be applicable to the corporation (Jibangse Unyong – 846, March 10, 2014).

- **2014 VAT Law Changes**

Key Changes in Value-Added Tax (“VAT”) Law Effective in 2014

1. Deemed Interest rate lowered to 2.9% for real estate rental business

Real estate rental business owners are obligated to compute deemed interest income on key money deposits received from the tenants and report the interest as revenue on the VAT return. The national tax authorities changed the interest rate to 2.9%, down from 3.4%, and this applies from the VAT taxable period to which March 14, 2014 falls.

2. Input VAT on VAT exempt transactions: not refundable

The tax authorities allowed input VAT refunds or deduction against sales VAT even though the buyer received incorrect VAT invoices from the seller adding 10% VAT on VAT exempt goods or services. From 2014, taxpayers are not allowed to deduct such input VAT, which was incorrectly imposed on VAT exempt transactions, against the sales VAT. As such, buyers receiving VAT invoice for VAT exempt transactions should request the seller to cancel and re-issue correct tax invoice without adding VAT.

■ 2014 VAT
Law
Changes
- continued

3. Reverse VAT for business transfer

'Comprehensive business transfer' is not regarded as VAT taxable transaction whereas individual business transfer is VAT taxable. As a result, when a business transfer has both characteristics, it may trigger tax risks as it could be regarded as either VAT taxable or non-taxable. From 2014, if a business transferee withholds reverse VAT to remit to the tax authorities when it pays the consideration to the transferor, such business transfer shall be treated as VAT taxable even though the case is comprehensive business transfer.

4. Abolition of e-VAT invoice issuance tax credit for corporations

It was allowed that a corporate taxpayer may enjoy a tax credit of Won 200 per e-VAT invoice it issued to customers by end of 2013. The tax credit was abolished from January 1, 2014 for corporate taxpayers only (individual taxpayers may enjoy the tax credit by end of 2015.)

5. VAT Refunds for Foreign Tourists

Foreign tourists who stay in hotels designated by the Minister of Culture, Sports and Tourism for two days or more, but not exceeding thirty days, may claim refund of VAT (being 10%) which is included in the hotel bills. This is applicable only for the limited period from April 1, 2014 to March 31, 2015.

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