



Providing Excellence In Client Services

Newsletter

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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.net/kr/>)

■ Proposed revision to the tax treaty between Korea and Turkey**Proposed revision to the tax treaty between Korea and Turkey**

The Ministry of Strategy and Finance ("MOSF") agreed and signed a proposed revision to the existing tax treaty with the Turkey government at the treaty revision negotiation meeting held on January 29, 2016 in Turkey. The major proposed revisions can be summarized as follows.

	Withholding tax rates	
	Current	Proposed revision
Dividend	20%, but 15% in case of a company with ownership of at least 25%	15%(*), but 10% in case of a company with ownership of at least 25%
Interest	15%, but 10% in case of a loan or other debt claim for a period exceeding 2 years	10%

(*) In the case where a branch is liable to pay corporate income tax on business profits sourced in the other country, it would be subject to a branch tax at 7.5% when the business profits after tax is remitted to its head office.

The proposed revision to the tax treaty includes (i) a provision for limitation of benefits which denies application of a reduced withholding tax rate on dividends, interest or royalties for tax avoidance purpose transactions and also (ii) a provision for exchange of tax information. The treaty will enter into force after the official signing and ratification by the National Assembly.

■ Korea-Macao agreed on exchange of tax information**Korea-Macao agreed on exchange of tax information**

The MOSF has made an agreement on exchange of tax information with the tax authority of Macao on January 22, 2016. According to the agreement, each government can request exchange of financial transaction information, ownership information of the selected companies, etc. to the counter-party government, and if necessary, can also request participation in tax investigations of the counter-party government,. However, the government which requests such information should keep the information confidential and limit disclosure of the information only to persons who are relevant with levy, collection or appeal decision of the concerned tax. Once the agreement enters into force after the formal signature on the agreement and the ratification procedures by the National Assembly, the Korean tax authority will be able to obtain and use the financial and taxation information of Korean companies and individuals held by the Macao tax authority for the purpose of preventing potential offshore tax evasions and avoidances.

■ New enforcement rules for limitation on deductible company vehicle-related expenses**New enforcement rules for limitation on deductible company vehicle-related expenses**

As previously informed, the Corporate Income Tax Law ("CITL") was amended in December 2015 as follows to prevent taxpayers from using business purpose vehicles for personal use or abusing tax deductions allowed for company vehicle with expensive vehicles.

For the company vehicle-related expenses to be treated as tax deductible for corporate income tax purposes, the following conditions should be satisfied:

- a. The company should purchase car insurance that allows only directors/ employees of the company to drive the vehicles and be covered under the insurance. Without such insurance, any company vehicle related expenses will be disallowed deduction; and
- b. The company should maintain a detailed driving log for the reporting to the National Tax Service (NTS).

This driving log requirement is waived if the company vehicle-related expenses are KRW 10 million per car and per year or less for each company vehicle. However, if the company vehicle-related expenses are over KRW 10 million per car and per year, the company must prove that the car has been used for business purposes by providing a detailed driving log (vehicle type, total annual mileage use by vehicle type, mileage use for business purpose, car related expenses including depreciation, lease, fuel, vehicle tax, car insurance, etc). Actual usage ratio of the expenses shall be allowed if such actual usage ratio for business purposes is proved through a daily driving log.

In this connection, the newly announced enforcement rules of the CITL include further details on scope of business usage and depreciation methods for rented or leased vehicles.

The business usage shall include visiting customers, marketing and promotion activities, attending business meetings, commuting from home to office, etc.

Calculation of depreciation equivalent amount for rented or leased vehicle shall be determined based on the contract type as follows:

- Leased car: lease fees less the amount of insurance premium, property tax and repair and maintenance cost (7% of lease fees excluding insurance premium and automobile tax if repair and maintenance cost is not readily available)

- Rented car: 70% of rental expenses

For your reference, under the amended CITL, annual depreciation and loss on disposal of assets incurred in relation to a vehicle will be allowed deduction for up to KRW 8 million per year. Also, the depreciation equivalent included in the lease or rental fee will be subject to this annual depreciation deduction limit of KRW 8 million per car. The amount in excess of the limit will have to be carried forward for deduction in the following years. Under the previous CITL, a company can choose the period of depreciation between 4-6 years. However, vehicles purchased in 2016 and after shall be depreciated over five years for corporate income tax purpose.

■ Tax tip
– due dates of tax return filing and tax payment related to corporate income tax and local income tax

Tax tip – due dates of tax return filing and tax payment related to corporate income tax and local income tax

1. Filing due dates of tax returns for corporate tax income taxes and local income taxes

Tax returns	Filing due dates
• <u>Annual corporate tax return</u>	<u>Within 3 months</u> from the fiscal year-end
• <u>Interim corporate tax return</u>	<u>Within 2 months</u> after the first 6 months of each fiscal year
• <u>Annual local income tax return</u> (assessed at 10% on corporate income taxes and the return should be filed with the district ku-office)	<u>Within 4 months</u> after the fiscal year-end

2. Tax payment due dates for corporate income taxes and local income taxes

Tax returns	Payment due dates
• <u>Annual corporate tax return</u> - 1st installment payment (*) - 2nd installment payment (*)	<u>Within 3 months</u> from the fiscal year-end <u>Within 1 month</u> from the end of the filing due date (for a small and medium-sized company, within 2 months from the end of the filing due date)
• <u>Interim corporate tax return</u> - 1st installment payment (*) - 2nd installment payment (*)	<u>Within 2 months</u> from the fiscal year-end <u>Within 1 month</u> from the end of the filing due date (for a small and medium-sized company, within 2 months from the end of the filing due date)
• <u>Annual local income tax return</u>	<u>Within 4 months</u> after the fiscal year-end (Installment is not applicable for local income taxes)

(*) The amount of installments shall be determined as follows:

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

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