



Providing Excellence In Client Services

Newsletter

November 2013

Bi-monthly 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.

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

**Amendment
of Tax Treaty**
Amendment of the Korea-Luxembourg Tax Treaty

The amended protocol of the Korea-Luxembourg Tax Treaty became effective from September 4, 2013 and the main revisions are as follows.

Protocol	Old provision	Amended provision
▪ Korean Taxes Covered (Article 1)	<ul style="list-style-type: none"> • Income tax • Corporate tax • Inhabitant tax 	<ul style="list-style-type: none"> • Income tax • Corporate tax • Special tax for rural development • Local income tax
▪ Dividends (Article 4)	<ul style="list-style-type: none"> • 15% <p>[10% if the beneficial owner is a company (other than a partnership) which holds directly at least <u>25%</u> of the capital of the company paying dividends]</p>	<ul style="list-style-type: none"> • 15% <p>[10% if the beneficial owner is a company (other than a partnership) which holds directly at least <u>10%</u> of the capital of the company paying dividends]</p>
▪ Interest (Article 5)	<ul style="list-style-type: none"> • 10% 	<ul style="list-style-type: none"> • 10% <p>[5% if the interest is paid to a bank]</p>
▪ Royalties (Article 6)	<ul style="list-style-type: none"> • 15% <p>[10% if the royalties are paid for the use of, or the right to use industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience]</p>	<ul style="list-style-type: none"> • 10% <p>[5% if the royalties are paid for the use of, or the right to use industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience]</p>
▪ (Article 11)	<ul style="list-style-type: none"> • Article 28 (Exclusion of certain companies) of the Convention: This Convention shall not apply to holding companies (societies holding) within the meaning of special Luxembourg laws. 	<ul style="list-style-type: none"> • (Deleted)
▪ (Article 12)	<ul style="list-style-type: none"> • (Added) 	<ul style="list-style-type: none"> • Nothing in the Convention shall be construed as restricting, in any manner, the application of any provisions of the laws of a Contracting State which are designed to prevent avoidance or evasion of taxes.

**2013 Tax Law
Changes -
Updates**

We summarize some of the additional tax law changes to keep you updated as follows.

1. Expanded selection of useful life for depreciation of fixed assets purchased by small and medium-sized corporations (“SMC”) (Article 28 of the Presidential Decree of the Corporate Tax Law (“CTL-PD”))

Before revision of Article 28 of the CTL-PD, the useful life for depreciation of fixed assets should be selected within a range of 75% to 125% of the standard useful life.

Under the revised provision of the CTL-PD, if a SMC purchases fixed assets such as machineries and equipments, etc. during the period of November 1, 2013 through March 31, 2014, and the total purchasing price of the fixed asset in the current year exceeds that of the prior year, the useful life for depreciation can be selected within a range of 50% to 150% of the standard useful life.

The above amendments will be applied from the fiscal year to which November 5, 2013 belongs.

2. Compensations to the clergy to be classified as taxable “Other Income” from year 2015 (Article 41 and Article 87 of the Presidential Decree of the Individual Income Tax Law (“IITL-PD”))

The clergy are not taxed in Korea even though such tax exemption treatment is not clearly stated in the personal income tax law. From next year, however, compensations to the clergy, which the clergy receive from their religious organizations for performing the services, shall be taxed as “Other Income”. The revised tax law will allow 80% deduction against the compensations instead of various itemized deductions in an effort to lower the tax burden of the clergy.

**New Tax
Ruling**

Clarification of accumulated severance pay accrual for calculation of deductible tax limit on severance pay (Seomyeonbeopgyu-1151, 2013.10.22)

Accumulated severance pay accrual under Article 60, Paragraph 2 of the CTL-PD for calculation of deductible tax limit on severance pay shall be the higher of (1) and (2) below:

(1) The total of estimated statutory severance pay calculated under the Employee

Retirement Benefit Security Law (“ERBSL”) for employees who are covered under the Defined Benefit Retirement Pension (“DBRP”) plan and estimated statutory severance pay which should be paid to employees who are not covered under the retirement pension plan.

- (2) Estimated statutory severance pay which should be paid for all officers and employees under the assumption that they resign or terminate their employment as of the last day of the fiscal year.

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