



Newsletter

January 2010

This newsletter is prepared by Horwath Choongjung (Choongjung Accounting Corp.) 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.horwath.co.kr>)

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Horwath Choongjung News

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50th Anniversary Celebration and 2009 Annual Meeting of Crowe Horwath International

With a slogan of "One Brand One Vision", the 50th anniversary celebration and the annual meeting of Crowe Horwath International ("CHI") were held in Beijing from Nov. 15 thru 19 of 2009. Mr. H. J. Hwang, managing partner of Horwath Choongjung ("HC"), and three other members of HC (Mr. S. H. Roh, Ms. M. S. Yoon and Mr. S. J. Hong) attended the ceremony and the meeting.

During the annual meeting, CHI announced '2010-2013 Strategy and Implementation Plan' to become Global Top 7 by 2013 and introduced the marketing and brand strategy plan to achieve the short-term goal.

Dr. Liu Yu Ting, director general of Accounting Regulatory Division of the Ministry of Finance (China), presented a speech with the topic of 'Present and Future of Accounting Industry in China'.

In addition, various training sessions and conferences were held during the meeting, which covered the whole service area of CHI including audit and assurance, tax, corporate finance, risk management, tourism and leisure consulting.



2010 Tax Law Changes

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We summarized below some of the major changes to keep you up-to-date on tax law changes in Korea. Most of the tax law changes we discussed below came into force from the fiscal year starting on or after January 1, 2010 unless otherwise indicated below.

1. Changes in Corporate Tax Rates

Before revision of the Corporate Tax Law (“CTL”), the corporate tax rates were scheduled to be reduced from 11% to 10% for the taxable income of up to KRW 200 million and from 22% to 20% for the excess.

However, through revision of the CTL, the reduction of corporate tax rate from 22% to 20% for the taxable income exceeding KRW 200 million is postponed by 2 years and thus will be effective from 2012. The corporate tax rates applicable for each year are summarized as follows:

Tax base	Tax rates (FY2009)	Tax rates (FY2010 and FY2011)	Tax rates (FY2012 and thereafter)
KRW 200 million or less	11%	10%	10%
Over KRW 200 million	22%	22%	20%

(Note) 10% of corporate tax shall be imposed additionally as a local income tax which replaced the resident surtax.

2. Extension and Reduction of Temporary Investment Tax Credit

Before the revision of the Special Tax Treatment Control Law of Korea (“STTCL”), a company engaging in a manufacturing, wholesale, engineering or logistics business, etc. could enjoy the temporary investment tax credit for the business asset investment by December 31, 2009.

Through the revision of the STTCL, the temporary investment credit is extended by 1 year until December 31, 2010. However, the temporary tax credit for the investment in the area other than the Overpopulation Control Zone of Seoul Metropolitan Area (“OCZSMA”) is reduced from 10% to 7%. Also, the temporary investment tax credit for the investment in OCZSMA of 3% and incremental basis temporary investment tax credit (defined) are abolished from 2010.



2010 Tax Law Changes - continued

3. Changes in Individual Income Tax Rates

Before revision of the Individual Income Tax Law (“IITL”), the individual income tax rates were scheduled to be reduced by 1% for the taxable income ranging from KRW 12 million to KRW 88 million and by 2% for the taxable income exceeding KRW 88 million.

However, through revision of the IITL, the reduction of individual income tax rates for the taxable income exceeding KRW 88 million is postponed by 2 years and thus will be effective from 2012. The individual income tax rates applicable for each year are summarized as follows:

Tax base	Tax rates (Year 2009)	Tax rates (Year 2010 ~ 2011)	Tax rates (Year 2012 and thereafter)
KRW 12 million or less	6%	6%	6%
Over KRW 12 ~ 46 million	16%	15%	15%
Over KRW 46 ~ 88 million	25%	24%	24%
Over KRW 88 million	35%	35%	33%

(Note) 10% of income tax shall be imposed additionally as a local income tax which replaced the resident surtax.

4. Curtailement in Special Tax Benefits for Foreign (Non-Korean) Employees

Before revision of the STTCL, foreign employees had been eligible for special tax benefits of either non-taxation treatment on 30% of their earned income (“30% non-taxation”) or application of the flat tax rate of 16.5% (including a local income tax). In addition, the qualified foreign engineers (defined) had been eligible for 100% income tax exemption benefits on their earned income for a period not exceeding 5 years.

According to the revised STTCL, 30% non-taxation is abolished and accordingly, only the flat tax rate of 16.5% is applicable from 2010, which is to reduce unequal tax treatment between foreign employees and local employees. For the foregoing exemption benefits for the qualified foreign engineers, the rate and period of tax exemption benefits are reduced to 50% and to 2 years, respectively.



2010 Tax Law Changes - continued

5. Changes in Minimum Tax Rates

Under the STTCL, minimum tax on small/medium companies (defined) was scheduled to be reduced to 7% for 2010 whereas minimum taxes on large companies (defined) were scheduled to be reduced to 13% (10% up to the taxable income of W100 billion) for 2010.

However, under the revised STTCL, the minimum taxes of the large companies on taxable income between W10 billion and W100 billion, and taxable income over W100 billion are increased to 11% and 14%, respectively.

The minimum tax rates for 2009 and 2010 are summarized as below:

<i>Classification</i>	<i>2009</i>	<i>2010</i>
Small/medium companies	8%	7%
Large companies:		
- Taxable income of W10b or less	11%	10%
- Taxable income over W10b but less than W100b		11%
- Taxable income over W100b	14%	14%

Note: 10% of corporate tax shall be imposed additionally as a local income tax which replaced the resident surtax.

6. Postponement of Mandatory Electronic VAT Invoice to 2011

Before revision of the VAT Law, a corporate taxpayer was required to issue VAT invoices only electronically and submit the list of the electronic VAT invoices issued to the National Tax Service of Korea ("NTS) monthly, starting from January 1, 2010. If the corporate taxpayer fails to submit the list of the electronic VAT invoices by the monthly due date, the corporate taxpayer was required to pay 1 % of sale price as a penalty.

According to the revised VAT Law, the issuance of the electronic VAT invoices will be mandatory for corporate taxpayers from January 2011. The penalties related to submission of the electronic VAT invoice list will be either 0.5% or 1% depending on the late submission timing. For the period 2011 through 2012, the foregoing penalties of corporate taxpayer will be reduced from 0.5% to 0.1% and from 1% to 0.3%, respectively.



2010 Tax Law Changes - continued

7. Triple Registration Taxation for Acquisition of Dormant Company

Under the Local Tax Law of Korea (“LTL”), if a person incorporates a company in the OCZSMA or purchases the real properties within 5 years from incorporation, the registration tax for the incorporation and those for the subsequent capital increase and real properties purchased within 5 years from the incorporation shall be three times the normal registration tax.

Under the revised LTL, if a person acquires a dormant company (defined) in OCZSMA, capital increase and acquisition of real estate by the dormant company within 5 years from the acquisition of the dormant company shall be also subject to three times normal registration tax like an incorporation of a company in OCZSMA.

8. Introduction of Limitation on Tax Audit Period for Company with Revenue of less than KRW 10 billion

According to the revised Basic Law for National Taxes of Korea (“BLNT”), the tax audit period for the taxpayers with the revenue of less than KRW 10 billion shall not exceed 20 days.

The extension of the tax audit period for the foregoing companies up to 20 days may be allowed by getting an approval from the chief of the tax authority concerned and for further extension of up to 20 days, the tax auditor is required to obtain an approval of a higher-level tax authority. Also, the tax authority can expand the scope of tax audit only for the exceptional case listed under the BLNT. These changes will be effective from April 1, 2010.



Tax Treaty Development

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1. Tax Treaty with Iran

The tax treaty entered by and between Iran and Korea came into force on December 8, 2009. According to the tax treaty, withholding taxes shall be limited to 10% for interest income, royalties and dividend income, respectively. 10% of income tax shall be imposed additionally as a local income tax which replaced the resident surtax.

2. Tax Treaty with Latvia

The tax treaty entered by and between Latvia and Korea came into force on December 26, 2009. According to the tax treaty, withholding tax (including a local income tax) for interest income shall be limited to 10%.

Regarding dividend income, 5% withholding tax rate shall be applied on gross dividend income if the beneficial owner is a company which holds directly at least 25% of the capital of the company paying dividends, and in all other cases, 10% withholding tax rate shall be applied.

Regarding royalties, the 5% withholding tax rate shall be applied for the use of, or the right to use, industrial, commercial, or scientific equipment, and in all other cases, the 10% withholding tax rate shall be applied.



New Tax Ruling

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We summarized below a new tax ruling issued recently.

Exclusion of FDI Tax Exemption for Registration Tax on Paid-in Capital

The foreign-invested companies (defined) who obtained an approval on foreign direct investment related (FDI) tax exemption are exempt from acquisition tax, registration tax and property tax on property acquired for its approved business purpose during the exemption period. However, registration taxes on the paid-in-capital of foreign-invested companies are not exempt. (Jibangsaeuonyoung-5345, 2009.12.18)

According to the local tax authorities, they may investigate all the already tax exempt cases and may assess the registration taxes for the cases within the statute of limitation without penalty.

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