

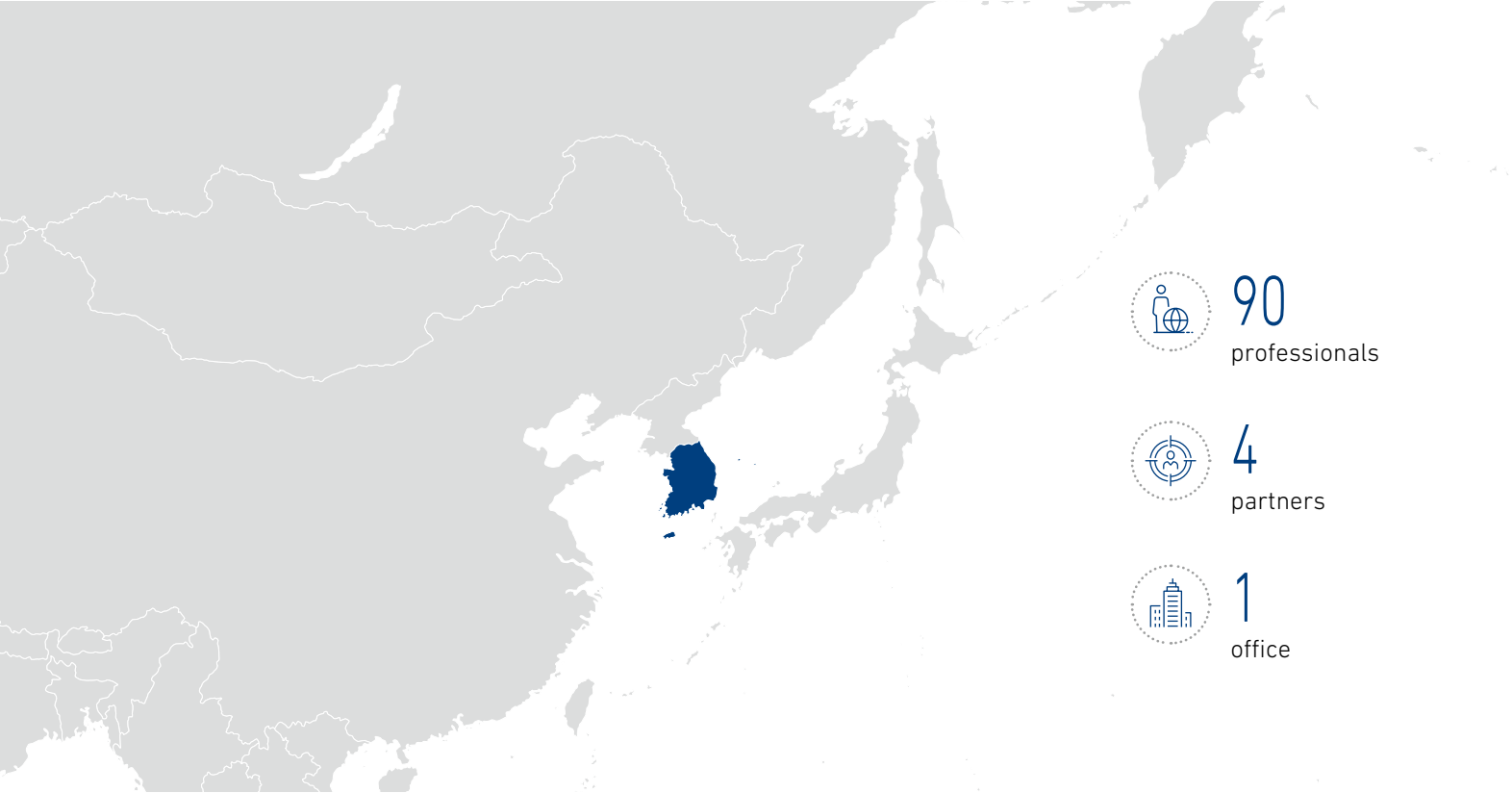


DOING BUSINESS IN THE REPUBLIC OF KOREA

A PRACTICAL GUIDE



MAZARS



 90
professionals

 4
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 1
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MAZARS IN THE REPUBLIC OF KOREA

Mazars in Korea specialises in audit, accounting and advisory services across a range of markets and sectors. Mazars SeBit Corporation (Mazars Korea) joined the international partnership of Mazars in September 2009.

Our professionals provide a full range of professional services to multinational companies doing business in Korea. Mazars has developed strong relationships with its clientele, which comprises both international and local clients, including private and public listed companies.

Mazars group operates in 91 countries, and draws on the expertise of 40,400 professionals. Mazars' global and integrated partnership offers particularly benefit to companies aiming for international expansion. Mazars international partners closely cooperate, work together and can personally recommend their counterparts in other offices around the world, who will ensure solutions that fit your needs.

MAZARS IS AN INTERNATIONAL, INTEGRATED AND INDEPENDENT ORGANISATION SPECIALISING IN AUDIT, ADVISORY, ACCOUNTING, TAX AND LEGAL SERVICES. AS OF 1 JANUARY 2020, THE GROUP OPERATES IN 91 COUNTRIES, AND DRAWS ON THE EXPERTISE OF 40,400 PROFESSIONALS – 24,400 PROFESSIONALS IN MAZARS' INTEGRATED PARTNERSHIP AND 16,000 VIA THE MAZARS NORTH AMERICA ALLIANCE– TO ASSIST COMPANIES AND PUBLIC BODIES, AT EVERY STAGE IN THEIR DEVELOPMENT.



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INTRODUCTION

THIS GUIDE HAS BEEN PREPARED FOR THE ASSISTANCE OF THOSE INTERESTED IN DOING BUSINESS IN THE REPUBLIC OF KOREA.

IT DOES NOT EXHAUSTIVELY COVER THE SUBJECTS IT TREATS, BUT IT IS INTENDED TO ANSWER SOME OF THE IMPORTANT BROAD QUESTIONS THAT MAY ARISE.

WHEN SPECIFIC ISSUES ARISE IN PRACTICE, IT WILL OFTEN BE NECESSARY TO CONSIDER THE RELEVANT LAWS AND REGULATIONS AND TO OBTAIN APPROPRIATE PROFESSIONAL ADVICE.





1. GENERAL INFORMATION

1.1 GEOGRAPHY

The Republic of Korea is located in Far East Asia, east of China, west of Japan, and south of North Korea. It has a land area of 100.21 thousand km².

1.2 POPULATION

As of 2019, the population of the Republic of Korea is 51.8 million, mainly composed of native Koreans, and uses Korean as the official language.

1.3 CLIMATE

As a country in the temperate climate zone, it has four distinct seasons of spring, summer, autumn, and winter. The temperature changes between different seasons varies distinctively: the average temperature is 36 degrees Celsius in the summer, whereas it drops to negative 10 degrees Celsius in the winter.

1.4 POLITICAL SYSTEM

The Republic of Korea is a democratic republic. Its administration is a presidential system and a president is elected by direct citizen vote with five year single-term tenure. The legislature is The National Assembly and the members of the National Assembly are elected with four years tenure. The Judiciary is composed of three tiers, the District Court, the High Court, and the Supreme Court as well as the Constitutional Court which verifies whether a verdict complies with the constitutional law. The most common structure of political parties is: one ruling party of the President and two or three opposition parties.

1.5 CURRENCY

The currency is the Korean won (KRW) and the average exchange rate, as of 31 January 2020, is 1 US dollar to KRW 1,183.50.

1.6 LANGUAGE

The official language is the Korean language, using Hangul (Korean alphabet). English is used in business settings with foreigners. The number of people fluent in English language is limited but steadily increasing.

1.7 ECONOMY

The Korean economy is highly dependent on foreign trade. The main industrial focus is on the manufacturing and exporting from the heavy industries, chemical, automobile, ship building, steel, construction, etc., and from the technology-intensive industries of home appliance, cellular phone, semiconductor, computer, etc. Recently, biotechnology, medical devices, aviation, spacecraft, robot, and renewable energy enterprises are emerging as the new core businesses.

1.8 LEGAL SYSTEM

The legal system is the civil law system and has its roots in German and Japanese law systems.

1.9 TIME

The Republic of Korea is 9 hours ahead of GMT. There is no Daylight Saving Time in the Republic of Korea. Time differences with other main capital cities are as follows:

- 8 or 9 hours ahead of London
- 7 or 8 hours ahead of Paris, Madrid, Berlin, Rome
- 14 or 15 hours ahead of New York
- 2 hours ahead of Singapore and Bangkok
- 1 hour ahead of Beijing
- No difference with Tokyo

1.10 BUSINESS HOURS

Office hours are generally 9:00 am to 6:00 pm, Monday to Friday.

1.11 COMMUNICATIONS

Domestic travel is possible in one-day via airplanes, high speed railroads, railroads and the express highway. Seoul has a convenient public transportation system with the subway, buses and taxis, connecting the whole nation.



2. BUSINESS ORGANISATIONS AVAILABLE TO FOREIGNERS

THERE ARE FOUR WAYS FOR A FOREIGN CORPORATION OR A FOREIGN INDIVIDUAL TO ENTER DOMESTIC ENTERPRISE.

It has to establish :

- a subsidiary
- an individual entrepreneur
- a branch
- a liaison office

2.1 REGULATION OF FOREIGN INVESTMENT

Entering the market through establishing a subsidiary or as an individual entrepreneur is subject to the Foreign Investment Promotion Act. Also, entering the market through establishing a local branch or office is subject to the Foreign Exchange Transaction Act.

Foreign business restrictions fall into two categories: prohibited activities and partially restricted activities. Prohibited activities include: public interest industries such as postal services, banking, security trading, public education, and radio & television. Within the agriculture sector, rice and barley farming is restricted.

In total, 61 types of business are prohibited to foreign investors. Most partially restricted activities also have public interest traits. Foreign shareholdings in these activities are allowed up to 50%. Partially restricted business activities include: fishing, newspapers and magazines, beef cattle farming & distribution, internal transportation, telecommunications, electronic network business and power plants (except nuclear power).

2.2 SUBSIDIARY

A subsidiary established by a foreigner is considered to be a native corporation, since it is subject to the Foreign Investment Promotion Act and other commercial laws. Here, the definition of a foreigner is an individual with foreign citizenship, a corporation established under a foreign regulation, or an organisation executing Economic Development Cooperation tasks for a foreign government.

A foreigner must invest more than KRW 100,000,000 in order to be acknowledged as a foreign investment under the Foreign Investment Promotion Act.

The majority of companies are chusik hoesa, or stock companies. However, yuhan hoesa, or private companies, may also be suitable for foreigners. Domestic commercial laws apply to investments made through a company.

2.3 INDIVIDUAL ENTREPRENEUR

A foreigner investing more than KRW 100,000,000 in the form of an individual entrepreneur, is also acknowledged as a foreign investment, and is subject to the Foreign Investment Promotion Act, just as a subsidiary is. Even though operating a business in the form of an individual entrepreneur has the advantage of a simpler process for the temporary and permanent closure of the business, it is also disadvantaged in obtaining a reliable work force and financing since a foreigner's credit rating is relatively low.

2.4 BRANCH

In order for a foreign company to carry out general business tasks, it has to nominate a representative in the domestic branch, to follow through with the branch founding process in accordance with the Foreign Exchange Transaction Act, and obtain a registration from the Court. A branch is recognized as a permanent establishment since it operates a business activity that generates revenue within the country, and the revenue generated from operating a business within the country is subject to the same

2.5 LIAISON OFFICE

Unlike a branch, a liaison office is not permitted to perform a business activity. Since it fulfills non-business tasks for the head office, it is only required to obtain a unique business number as a business owner registered from the jurisdiction tax office without the need for a court registration.

The tasks performed by a liaison office are limited to preliminary and auxiliary works such as business-related contact with the head office, market research, research and development activities, quality assurance, advertisement, data collection, etc. Since there is no source of domestic revenue, direct sales or maintaining a stock of products for the purpose of sale are not permitted.

3. INCENTIVES FOR FOREIGN INVESTMENTS

3.1 SCOPE

Incentives for foreign investments are:

- Tax support
- Cash grants
- Founding supports and reduction on rent expenses
- Grant subsidies

3.2 TAX REDUCTION AND EXEMPTION

According to Special Local Tax Treatment Control Law 78-3, a foreign investment enterprise under Foreign Investment Promotion Act is eligible for acquisition tax and property tax reduction in case where its application for tax reduction is given approval until 31 December 2022.

A. An enterprise accompanying new growth driver industry technology and an enterprise designated to the Foreign Investment Zones are eligible for a minimum deduction of 100% of the foreign investment ratio for 5 years, then 50% of the foreign investment ratio for the next 2 years.

B. An enterprise located in a particular special economic zone such as a complex form of foreign investment zone is eligible for a minimum deduction of 100% of the foreign investment ratio for 3 years, then 50% of the foreign investment ratio for the next 2 years.

Tariff is exempted on capital goods used in the industrial supporting service industry, etc, according to Special Tax Treatment Control Law 123-3.

4. CORPORATE TAXATION

4.1 SCOPE

Corporate taxation for foreign investment is as follows:

TYPE	CONTENTS
Corporate Tax Law, Income Tax Law	Non-resident, definition of a foreign corporation Income subjected to taxation Taxation method
Special Tax Treatment Control Law	Corporation and income tax reduction and exemption related to domestic source of income Tax reduction and exemption to foreign investment
Coordination of International Tax Law	Transfer pricing taxation / Insufficient capital tax system / Tax haven taxation system
Tax Treaties	Limitation and modification of application of domestic tax regulation

4.2 TAX RESIDENCY

In general, taxable income is different according to the type of entity, as shown in the following table:

TYPE OF ENTITY	SCOPE OF TAXABLE INCOME
A resident or a domestic corporation	Worldwide income
Non-resident or non-domestic corporation with domestic establishment (or permanent establishment)	All income related to the domestic establishment
Non-domestic establishment	The portion of domestic source income which are listed in tax laws

A corporation which has its head office, a main office, or a physical administration location within the country is considered to be a domestic corporation. And a corporation with its head office or a main office in a foreign country (on the condition that it does not own a physical administration office within the location) is categorised as a foreign corporation.

4.3 TAXABLE PERIOD

In general, one accounting year of a corporation is decided in accordance with the law or the corporation's articles of incorporation; however, the period cannot exceed one year. In cases where the accounting period is not specified in the law or in the articles of incorporation, the period can be selected with a registration and without registration, the period becomes 1 January to 31 December.

4.4 TAX RATE

The tax rate is as follows:

TYPE OF ENTITY	SCOPE OF TAXABLE INCOME
Amount below 200 million KRW	11%
Amount exceeding 200 million KRW and below 20 billion KRW	22%
Amount exceeding 20 billion KRW and below 300 billion KRW	24.2%
Amount exceeding 300 billion KRW	27.5%

(*) Including local income tax equal to 10% of the tax amount

4.5 TAXABLE INCOME

The range of categorised tax obligations for a corporation is as follows:

TYPE OF CORPORATION	INCOME FOR THE BUSINESS YEAR	CAPITAL GAIN FOR LAND ETC	SCOPE OF TAXABLE INCOME
Domestic Corporation	Profit Corporation	All income from domestic and foreign source	Subject to tax
	Non-profit Corporation	Income from listed revenue-making business within domestic and foreign sources	Subject to tax
Foreign Corporation	Profit Corporation	Domestic source income	Subject to tax
	Non-profit Corporation	Income from listed revenue-making business within domestic source income	Subject to tax
National, local organisation			Tax-free

4.6 SELF-REPORTING SYSTEM

Corporate taxation is a self-reporting system. A corporation with tax obligations must report and make the payment by self-assessment to district tax office within the three months after its business year end.

4.7 LOSS CARRIED FORWARD

Loss Carried Forward can be deducted for future ten years. In case of Small and Medium sized Enterprise ("SME"), there is no limitation for the annual deduction amounts of loss carried forward. However, the maximum deduction amounts in a year are 60% of the taxable income of the fiscal year in case of non-SME taxpayers. For SME, a loss carried forward for a particular year can be retroactively applied to the most recent previous year's tax amount.

4.8 CONSOLIDATED TAXATION SYSTEM

A domestic corporation and other domestic corporations (or "Completely Controlled Subsidiary") completely controlled by the corresponding domestic corporation can apply a consolidated taxation system by obtaining approval from the National Tax Service. In case of two or more Completely Controlled Subsidiaries, all corresponding corporations shall adopt a consolidated taxation system. "Completely Controlled" means owning 100% of the shares. Within 5% of total issued shares, when the shares held by employees through an employee stock ownership association, the association itself, or issued or transferred upon exercising stock options, the corporations are deemed as "Completely Controlled".

4.9 TAXATION OF FOREIGN CORPORATIONS

The income of a branch of a foreign company is generally assessed in the same way and subject to the same tax rate as that of a locally incorporated subsidiary. The Controller is required to have transactions between the Korean branch or subsidiary and its head office to be conducted on an arm's length basis.

4.10 PRINCIPLE OF SUBSTANCE OVER FORM

Principle of substance over form related to a transaction: a person to whom the transaction is substantially imputed is subject to the tax assessment.

Principle of substance related to business contents: an appropriate tax law is applied according to substantial contents disregarding its business title or form.

4.11 LIMITATION OF INTEREST DEDUCTIONS

In cases where a Korean subsidiary borrows loan with the amount greater than two times its equity (2:1 debt to equity ratio in general or 6:1 in the case of financial institutions) from its foreign controlling shareholder, the interest payable on the excess portion of the borrowing is characterized as dividends.

The deemed dividends are subject to withholding tax and treated as non-deductible expenses for corporate income tax purpose (Thin-cap rules). As the tax reform legislation introduced the EBITA rule, starting from 1 January 2019, a Korean subsidiary's deduction of interest payments to foreign related parties will be limited to the lower of the amount resulting from the application of a fixed-ratio rule (i.e., 30% of EBITDA) or the Thin-cap rules.

4.12 WITHHOLDING TAXES

In the case of non-resident recipients, tax may be collected at source. Korean entity is required to withhold tax before paying or crediting certain categories of income to any non-resident recipient.

The rates of withholding taxes are as follows:

- interest, dividend, royalties, and other income: 20%
- business income: 2%
- rent for ship, etc.: 2%
- personal service fee: 20%
- real estate and securities capital gain: min {(10% of paid amount), (20% of capital gain)}
- local income tax: 10% of tax amount calculated from the above tax rate is added to the local income tax

The above withholding tax rates may be mitigated where the Republic of Korea has a double tax treaty with the country of the recipient. The withheld tax must be remitted to the Tax Authorities by the 10th day of the month following the month in which the non-resident was paid/credited. When failing to comply with the obligation, penalties are imposed.



5. PERSONAL TAXATION

5.1 SCOPE

In principle, a legal person with a tax obligation to pay for the income tax is an individual (resident and non-resident); however, in exceptional cases, a division, a foundation, and other organisations not classified as a corporation and an organisation considered as a resident or an organisation seen as a partnership have tax obligations to pay income taxes. In case of corporations, the withholding tax obligator has an obligation to pay income tax.

5.2 TAX RESIDENCY

According to the Korean tax law, a resident is the individual with a domestic address who has resided there for more than 183 days; and a non-resident refers to an individual who is not a resident. The income tax law introduces a concept of "temporary residents" and acknowledges their limited tax obligations.

5.3 RANGE OF TAXABLE INCOME

The range of taxable income varies according to the tax payment obligator is as follows:

CLASSIFICATION		JUDGMENT STANDARD	TAX OBLIGATION
Resident	Permanent Resident	A domestic address or resided for more than 183 days Not a temporary resident	Unlimited tax obligation of domestic and foreign income
	Temporary Resident	A domestic address or resided for more than 183 days	Domestic source of income
		A foreign resident with a total of less than 5 years of having a domestic address or residing within the country, which is 10 years before its closing date for taxation period	In case of income generated from overseas, limited tax obligation related to income that has been paid within Korea or remitted to Korea
Non-resident	Not a resident	Limited tax obligation of domestic source income	

5.4 CLASSIFICATION OF INCOME

The Korean tax law does not consider all income as taxable, and restrictively enumerates taxable income in the form of a positive system. However, exceptionally it uses the concept of a negative system regarding interest income and dividend income.

Classification of income is as follows:

Total Income	Interest Income
	Dividend Income
	Business Income
	Wage and Salary
	Annuity Income
	Other Incomes
	Retirement Income
Capital Gain	

5.5 TAXATION SYSTEM

(1) Resident

The way for a resident to pay income tax is categorised as an aggregate taxation system, a separate taxation system, and a classified taxation system, based on its income type:

- Aggregate taxation system: calculation of tax base and amount by aggregating all the income identified by its source (Interest income, dividend income, realty rent income, business income, wage and salary income, annuity income, and other incomes). Separate taxation system: fulfillment of tax obligation as way of withholding (among interest income, dividend income, realty rent income, wage and salary income, annuity income, or other incomes levied in aggregate taxation system, some incomes selected by the tax law).
- Classified taxation system: the income accumulated over a long period of time (retirement income, and capital gain) falls under this system

(2) A non-resident

A non-resident is only subject to pay income tax on a domestic source of income and the determination of applicable taxation system is based on its ownership of a domestic business place and existence of realty rent income:

- Aggregate taxation system: a non-resident with a domestic business place or realty rent income in such forms as interest, dividend, rent, business, personal service, wage and salary, and other incomes imputed to the domestic business place is subject to pay the tax according to the aggregate taxation system.
- Separate taxation system: a non-resident without a domestic business place with interest and dividend income being imputed to the domestic business place has to pay withholding tax as a means of fulfillment of tax obligation according to relevant double tax treaty.
- Classified taxation system: in case of retirement income and capital gain, the process is identical with a resident to be separately categorised in accordance with the classified taxation system.

5.6 TAXATION PERIOD

In principle, the taxation period for income tax is from 1 January to 31 December of each year. If a resident is becoming a non-resident by moving their address or residence out of the country, the taxation period is from 1 January to the departure date for paying Exit Tax.

5.7 TAX RATES

Aggregate income tax rate is as follows:

AGGREGATE INCOME TAXATION STANDARD	TAX RATE (from 2019*)
Below 12,000,000 KRW	6.6%
12,000,000 KRW ~ Below 46,000,000 KRW	16.5%
46,000,000 KRW ~ Below 88,000,000 KRW	26.4%
88,000,000 KRW ~ Below 150,000,000 KRW	38.5%
150,000,000 KRW ~ Below 300,000,000 KRW	41.8%
300,000,000 KRW ~ Below 500,000,000 KRW	44%
500,000,000 KRW and above	46.2%

(*) Including local income tax equal to 10% of the tax amount

5.8 WITHHOLDING TAXES FOR NON-RESIDENT

In the case of non-resident recipients, tax may be collected by deduction at source. Korean entity is required to withhold tax before paying or crediting certain categories of income to any non-resident recipient. The rates of withholding tax are as follows:

- interest, dividend, royalties, other income: 20%
- business income: 2%
- rent for ship etc.: 2%
- personal service fee: 20%
- real estate and securities capital gain: min {(10% of paid amounts), (20% of capital gain)}
- Residence Tax: 10% of tax amount calculated from the above tax rate is added to the residence tax

The above withholding tax rates may be mitigated where the Republic of Korea has a double tax treaty with the country of the recipient. The tax withheld must be remitted to the Tax Authorities by the 10th day of the month following the month in which the non-resident was paid/credited. When failing to comply with the obligation, penalties are imposed.

6. VALUE ADDED TAX (VAT)

6.1 OBJECT OF TAXATION

Divided into provision of goods or services, and transaction of importing:

CLASSIFICATION	OBJECT OF TAXATION
Provision of goods	Taxable only if the provider is a business owner
Provision of services	Taxable only if the provider is a business owner
Importing of goods	Taxable regardless of whether the purchaser is a business owner or not

6.2 TAX RATE

VAT rate is 10%. The amount of tax payment is calculated by deducting input tax from output tax. When input tax exceeds output tax, the exceeded amount is refunded.

6.3 ZERO TAX RATE AND EXEMPTION

Zero rate is applied for exporting goods, providing foreign services, shipbuilding, flight service for foreign destinations, or other goods providing foreign currencies.

VAT is exempted for the following goods and services provisions:

- Basic living necessities such as food and services
- National welfare services such as medical and education
- Goods and services related to culture such as books, culture, sports
- Banking, finance, and insurance services stipulated in the VAT Law
- Goods and services provided by public organisations such as other religious societies, charities, etc.
- Land

6.4 DOMESTIC SERVICE BY NON-RESIDENT

The importing of service is not regulated as a taxable transaction; however, when a business owner receives service from either of the following, VAT should be levied upon payment for the service and pay the amount to the district tax office;

- a non-resident or a foreign corporation without a domestic business place, but its income is subject to withholding tax by separate taxation system, or
- a non-resident or a foreign corporation with domestic business place but without relatedness of services to the establishment

6.5 VAT REFUND TO FOREIGN BUSINESS OWNERS

A non-resident without a domestic location or a foreign business owner doing business overseas as the form of a foreign corporation is subject to a refund for VAT for the foreign business owner if it purchases or is provided with the following goods and services in the country for the purpose of doing business. In this case, the refund amount for the foreign business owner's one-year calendar must exceed 300,000 KRW. A refund follows reciprocity, an equal treatment of granting refunds to countries permitting refunds to Korean businesses in their countries.

- Food, lodging services
- Advertising service
- Electricity, communication service
- Realty rent service
- Building, structure, and maintenance service of the building and structure for a domestic business place
- Office furniture, equipment, and rental service of the office furniture and equipment

6.6 VAT ON ELECTRONIC SERVICES PROVIDED BY FOREIGN ENTITIES

In the case where a non-resident or a foreign corporation that has no domestic business place in the country provides local recipients with electronic services (game, software, advertising, and cloud computing, etc.) which can be accessed via mobile device, computer, etc., then the services shall be considered as being provided in Korea. The foreign provider, therefore, is required to apply the simplified VAT registration, return and payment through the website of National Tax Service.

There are following additional taxes which are relevant to individual and corporation:

- Inherence, gift tax
- Tariffs
- Acquisition tax, registration tax
- Residence tax
- Comprehensive real estate holding tax
- Special tax for rural development
- Individual consumption tax
- Transportation, energy, environment tax
- Liquor tax
- Stamp tax
- Security transaction tax(*)
- Education tax

(*)The tax rate of Securities Transaction Tax on the transfer of listed and unlisted shares will be changed from 0.5% to 0.45% from April 2020.

7.1 DOUBLE TAX TREATIES

The Republic of Korea has an extensive network of double taxation agreements with other countries.

7. OTHER TAX

8. SOCIAL SECURITY

Generally, the following four social securities are relevant to do business in the Republic of Korea:

- National pension
- Health insurance
- Unemployment insurance
- Workers accident compensation insurance



9. TRANSFER PRICING IN KOREA

9.1 REPORTING FOR INTERCOMPANY TRANSACTIONS

Korean Transfer Pricing ("TP") regulations are governed by the Law for Coordination of International Tax Affairs ("LCITA"). At the time of filing the corporate income tax return, a taxpayer is required to submit the following certain Transfer Pricing reporting forms :

- A detailed statement of the overseas intra-group transactions (a).
- Summarized income statements of the overseas related companies (b) This submission ('b') can be waived if the total amount of transactions for each foreign related party does not exceed 1 billion KRW for goods and 200 million KRW for services.
- The transfer pricing method selected and a description of the reasons for the selection ('c'). If the company does meet one of the following cases, the company does not need to submit file forms of c.
 - (i) The total amount of transactions does not exceed 5 billion KRW for goods and 1 billion KRW for services. or
 - (ii) The total amount of transactions for each foreign related party does not exceed 1 billion KRW for goods and 200 million KRW for services.

- Consolidated enterprise report (Master File) and individual enterprise report (Local File) on Cross-border transactions if the annual turnover of more than KRW 100 billion and Cross-border related party transactions of more than KRW 50 billion (can be extended one year upon request when certain conditions are met). TP documentation (Local File) does not have to be filed unless if the above condition is met. However, whenever there are intercompany transactions reported, the tax office may request some documentation (TP policy/ benchmarking analysis) to the entity to justify the pricing used.

9.2 CBCR REPORTING

Korean multinational companies duties to submit the Notification about country by country reports (CbCR) in the cases :

- the annual turnover does not exceed EUR 750 Mil on consolidated profit and loss statement for the preceding fiscal year, the companies or branches (the "Korean entities") do not have the CbCR obligation.
- the annual turnover exceeds EUR 750 Mil on consolidated profit and loss statement for the preceding fiscal year, the Korea entities that have parent company outside Korea should submit a CbCR Notification within 6 months from the last day of the month in which the preceding fiscal year ends.

If more than two Korea entities are in Korea, one of them can submit the Notification on behalf of the others. If the Korea entities do not submit the CbCR Notification within the period (6 months) or below conditions are met, they should submit the CbCR instead of the designated reporting entity within 12 months from the last day of the month in which the preceding fiscal year ends.

From January 2020, if a tax amount drops to some level specified in the law (i.e., 50% compared to substantial transaction assumed by tax authorities) by backdoor transactions, a taxpayer should take the burden of proof which shows no intention to avoid tax imposition purposely. Also, tax authorities can impose tax by referring comparable companies' data and assuming arm's length price, if the taxpayer does not submit the requested information/data (e.g., Reporting for international transactions, Master File and Local File, etc.).

In the past, if a company which had international transactions with related companies did not submit the information or data about the transactions, the penalty could be imposed only one time for each document. From January 2020, penalties can be imposed up to KRW 300 million every 30 days until the submission of the requested document.

No CbCR obligation exists in the country of the parent/surrogate parent; or there is no Automatic Exchange of CbCR information (AEI) between the countries of the reporting entity and the local entity.

9.3 OTHERS

A company submitting a Master File or a Local File would be exempt from submission of the schedule of international transactions and reporting of transfer pricing method. Both amendments are applied from January 2020.

The taxpayer should maintain documents that can prove the transfer price of intangible assets being reasonable.

The arm's length price of low value-added services can be assumed to be 5% mark-up of relevant costs. The taxpayer should maintain supporting documents that prove that their services correspond to low value-added service. However, the amount of low value-added service transaction exceeds a certain level, the amendment does not apply. This is applied from the start of the fiscal year after 1 January 2020.

Low value-added services refer to transactions of services between residents and foreign related parties that fulfill all the following requirements: they should be business support services such as accounting, auditing, legal advice, and HR management, etc. those do not have direct relationships with the group's major business activities. Unique and valuable intangible assets should not be used or created during the process of providing the service. There should be no transaction of services that are similar to the corresponding services with third parties.



10. ACCOUNTING & AUDIT

Corporations (other than stock-listed corporations and corporations planning to be listed) can be exempted from an external audit by a registered KICPA only if they satisfy three or more of the following conditions:

- Total assets less than KRW 12 billion
- Total liabilities less than KRW 7 billion
- Total sales less than KRW 10 billion
- Total number of employees less than 100 persons

However, stock-listed corporations, corporations planning to be listed and the corporations which have more than KRW 50 billion of total sales or total assets cannot be exempted, even if they meet the above categories.

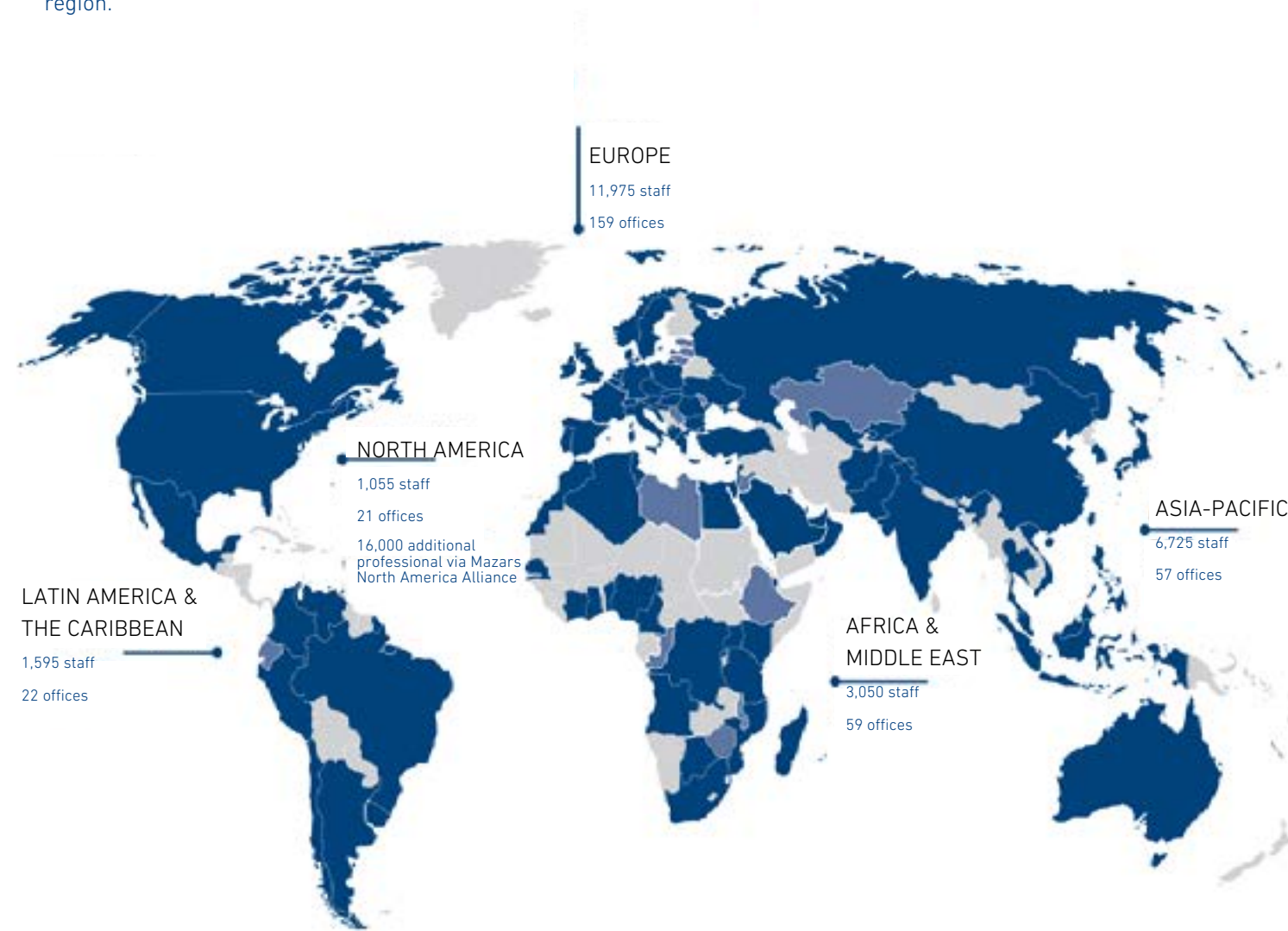
Private companies have similar requirements.

MAZARS' WORLDWIDE PRESENCE

INTERNATIONAL AND LOCAL

This year, our partnership expanded in key geographic area, allowing us to always better serve our client - including in Afghanistan, Austria, Germany, India, Insrael and Uzbekistan. In July 2019, we also announced the creation of th Mazars North America Alliance, an alliance agreement between Mazars and five leading accounting and consulting firms in the U.S. and Canada, strengthening our capabilities in the region.

- Integrated countries and territories
- Non-integrated countries and territories : Mazars correspondents and representative offices



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