Q. If a foreign-invested company which made an additional investment in 2008 is exempted from applying for tax reduction for the additional investment, when does the tax reduction start to apply for the increased investment and for how long is the tax reduction valid?

A. In regards to the additional investment made in 2008 for which the tax reduction application has been exempted, tax reduction shall apply to the income generated from the business for which tax reduction was granted, after capital increase registration has been completed. The tax reduction period and reduction rate shall be 100 percent for five years (or three years) and 50 percent for the following two years.

Source: International Tax Division, Ministry of Strategy and Finance (Feb. 23, 2015)

Source: Legal Interpretation Division, National Tax Service (Mar. 3, 2015)

Source: International Tax Resource Management Office, National Tax Service (May 12, 2015)

Q. A Korean company acquired the stocks of a foreign company from a U.S. resident who is an executive of the foreign company. In the process, a service agreement on employee retention and hiring of new employees was signed, under which the Korean company is to pay the U.S. resident a compensation for fulfilling the terms and conditions of the service agreement. In this case, can the compensation for satisfying the service agreement be classified as domestic source income?

A. Whether the compensation for satisfying the service agreement can be considered domestic source income shall be determined by the nature of the compensation. In other words, depending on its nature, the compensation will be classified as income from transfer of securities, other income, or income from providing personal service as defined by Article 119 of the Income Tax Act. In addition, other related clauses in Korea’s Income Tax Act and the Convention between the Republic of Korea and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and the Encouragement of International Trade and Investment shall be considered as well.

Source: Legal Interpretation Division, National Tax Service (Mar. 3, 2015)

Q. Does foreign tax credit apply to the salary income of an employee dispatched to Vietnam (adjustment of double taxation of salary income)?

A. If an employee of a Korean company dispatched to Vietnam receives salary income from the Korean company and the tax withheld from the salary income in accordance with the tax laws of Vietnam is not paid fairly in accordance with Article 15 of the Double Taxation Avoidance Agreement between Korea and Vietnam, foreign tax credit as prescribed by Article 57 of Korea’s Income Tax Act shall not apply.

Source: International Tax Resource Management Office, National Tax Service (May 12, 2015)

For more information, please contact the International Tax Resource Management Office of the National Tax Service (82-44-204-2887~90).