

Non-Taxation of Gain from Transfer of Stocks of Small Medium Business Start-Up Investment Company

Oct. 8, 2015

I. Introduction

The purpose of this review is to check on the indirect supports for the business starter by non-Taxation of gains, etc. from transfer of stocks of small and medium Business Start-Up Investment Companies, etc. (Article 13 of Restriction of Special Taxation Act)

II. Main Subject

(1) Support for Business Starter

This is to support the business starter indirectly by supporting the 'small and medium business start-up investment company' in tax benefit who supply funds to business starter or venture business.

(2) Non-Taxation for Corporate Tax on the Gain from the Transfer of Stocks or Equity Shares

No corporate tax shall be imposed on the gains from transfer of stocks or equity shares listed as follows.

- ① Stocks or equity shares acquired by a small and medium business start-up investment company from its investment in a business starter, a venture business or a company specializing in the start-up of new technology-based businesses no later than December 31, 2017.
- ② Stocks or equity shares acquired by a financial business operator of new technology projects from its investment in a new technology business operator in a venture business or in a company specializing in the start-up of new technology-based business no later than December 31, 2017.
- ③ Stocks or equity shares acquired by a small and medium business start-up investment company, a limited-liability company for investment in venture business or a venture capital business operator from its investment in a business starter, a new technology business operator, a venture business or a company specializing in the start-up new technology-based business through an association listed as follows no later than Dec. 31, 2017.
 - (a) Small and medium business start-up investment cooperative under the Support for Small and Medium Enterprise Establishment Act
 - (b) Korea Venture Fund under the Special Measures for the Promotion of Venture Businesses
 - (c) Venture business investment association under the Specialized Credit Finance Business Act
 - (d) Specialized components and materials investment association under the Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material
 - (e) Agriculture and food investment association under the Act on Formation and Operation of Agricultural, Fisheries, and Food Investment Funds
- ④ Stocks or equity shares acquired by a corporation prescribed by Presidential Decree as a corporation managing and operating funds or a corporation running a mutual aid business from its investment in a business starter, a new technology business operator, a venture business, and a company specializing in the start-up of new technology-based businesses through business start-up investment cooperative, etc. no later than December 31, 2017.
- ⑤ Stocks or equity shares acquired by a small and medium business start-up investment company or a financial business operator of new technology projects from its investment in a small and medium business listed in KONEX no later than December 31, 2017.
- ⑥ Stocks or equity shares acquired by a small and medium business start-up investment company, a limited-liability company for investment in venture business or a venture capital business operator from its investment in the business listed in KONEX through business start-up investment cooperative, etc. no later than December 31, 2017.

(3) Acquisition Method of Stocks and Equity Shares

- ① Stock Acquisition of a business starter, a new technology business operator or a venture business, etc.

When the above (2) ①~④ are being applied, investment shall be referred to as direct acquisition of stocks or equity shares by a method falling under any of the following subparagraphs; however, cases where stocks or equity shares owned by others are acquired by purchase shall be excluded:

1. Method of paying a share capital at the time of the incorporation of the relevant enterprise;
2. Method of paying subscription money for new shares issued by the relevant enterprise for the purpose of the increase of its capital within seven years from its incorporation;
3. Method of acquiring stocks or stakes of the relevant enterprise at the time of the capitalization of its surplus within seven years from its incorporation;
4. Method of acquiring stocks or stakes of the relevant enterprise at the time of the conversion of its liabilities into capital within seven years from its incorporation.

- ② Stock Acquisition of a listed company in KONEX

When the above (2) ⑤~⑥ are being applied, investment shall be referred to as direct acquisition of stocks or equity shares by a method falling under any of the following subparagraphs; however, cases where stocks or equity shares owned by others are acquired by purchase shall be excluded:

1. Method of paying subscription money for new shares issued by the relevant enterprise for the purpose of the increase of its capital within two years from its listing;
2. Method of acquiring stocks or stakes of the relevant enterprise at the time of the capitalization of its surplus within two years from its listing;
3. Method of acquiring stocks or stakes of the relevant enterprise at the time of the conversion of its liabilities into capital within two years from its listing.

(4) Non-taxation on the Dividend income from the business starter, etc.

No corporate tax shall be imposed on the dividend income received from investment under paragraph (2) in a business starter, new technology business operator, venture business or company specializing in the start-up of new technology-based businesses by a small and medium business start-up investment company, limited-liability company for investment in venture business or venture capital business operator no later than December 31, 2017.

(5) Calculation Method on the Stock Transfer Gain and Dividend Income

- ① Stock Transfer Gain

1. Where a part of retained stocks, etc. is transferred by a small or medium start-up investment company or a new technology business financier, the first acquired shall be considered to have been first transferred;
2. The acquisition value of stocks, etc. acquired by a small or medium start-up investment company, etc. shall be computed by a method reported by the relevant enterprise to the head of the tax office having jurisdiction over the place of tax payment from among the methods of overall average method or fluctuating average method
3. The margin from the transfer of stocks, etc. on which corporate tax is not imposed shall be computed by the following formula based on the type classifiable at each transfer:

$$\text{Total Transfer Gain} \quad \times \quad \frac{\text{Number of the Stock, etc. on which corporate tax is not being imposed}}{\text{Total number of Transfer Stock, etc.}}$$

- ② Dividend Income

The dividend income on which corporate tax is not imposed shall be computed by the following formula based on the type classifiable.

$$\text{Dividend Income} \quad \times \quad \frac{\text{Number of the Stock, etc. on which corporate tax is not being imposed}}{\text{Total number of Stock holding}}$$

III. Reference Provisions

Article 13 (Non-Taxation of Gains, etc. from Transfer of Stocks of Small and Medium Business Start-Up Investment Companies, etc.)

(1) No corporate tax shall be imposed on the gains from transfer of stocks or equity shares falling under any of the following subparagraphs

1. Stocks or equity shares acquired by a small and medium business start-up investment company (hereinafter referred to as "small and medium business start-up investment company") under the Support for Small and Medium Enterprise Establishment Act from its investment in a business starter (hereinafter referred to as "business starter") under the same Act, a venture business or a company specializing in the start-up of new technology-based businesses under Act on Special Measures for the Promotion of Venture Businesses (limited to a small or medium enterprises under Article 2 of the Framework Act on Small and Medium Enterprises; hereinafter referred to as "company specializing in the start-up of new technology-based businesses") no later than December 31, 2017;
2. Stocks or equity shares acquired by a financial business operator of new technology projects (hereinafter referred to as "venture capital business operator") under the Specialized Credit Finance Business Act by its investment in a new technology business operator under the Korea Technology Credit Guarantee Fund Act (hereinafter referred to as "new technology business operator"), in a venture business or in a company specializing in the start-up of new technology-based businesses no later than December 31, 2017;
3. Stocks or equity shares acquired by an small and medium business start-up investment company, a limited-liability company under the Commercial Act pursuant to Article 4-3 (1) 3 of the Act on Special Measures for the Promotion of Venture Businesses (hereinafter referred to as "limited-liability company for investment in venture business") or a venture capital business operator in return for its or his/her investment in a business starter, a new technology business operator, a venture business or a company specializing in the start-up of new technology-based businesses no later than December 31, 2017 through an association (hereinafter referred to as "business start-up investment cooperative, etc.") falling under any of the following items:
 - (a) Small and medium business start-up investment cooperative under the Support for Small and Medium Enterprise Establishment Act (hereinafter referred to as "small and medium business start-up investment cooperative");
 - (b) Korea Venture Fund under Article 4-3 of the Act on Special Measures for the Promotion of Venture Businesses (hereinafter referred to as "Korea Venture Fund");
 - (c) Venture business investment association under the Specialized Credit Finance Business Act (hereinafter referred to as "venture business investment association");
 - (d) Specialized components and materials investment association under the Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material (hereinafter referred to as "specialized components and materials investment association");
 - (e) Agriculture and food investment association under the Act on Formation and Operation of Agricultural, Fisheries, and Food Investment Funds (hereinafter referred to as "agriculture and food investment association");
4. Stocks or equity shares acquired by a corporation prescribed by Presidential Decree as a corporation managing and operating funds or a corporation running a mutual aid business (hereafter referred to as "fund management corporation, etc." in this Article) by its investment in a business starter, a new technology business operator, a venture business, and a company specializing in the start-up of new technology-based businesses through a business start-up investment cooperative, etc. no later than December 31, 2017.
5. Stocks or equity shares acquired by a small and medium business start-up investment company or a financial business operator of new technology projects from its investment in a small and medium business (hereafter referred to as "listed company in KONEX" in this Article and Article 17) in KONEX Market (referring to KONEX market under the Financial Investment Services and Capital Markets Act and its Enforcement) no later than December 31, 2017.

6. Stocks or equity shares acquired by a small and medium business start-up investment company, a limited-liability company for investment in venture business or a venture capital business operator from its investment in the business listed in KONEX through business start-up investment cooperative, etc. no later than December 31, 2017.

(2) When paragraph (1) 1 through 4 are applied, investment shall be referred to as direct acquisition of stocks or equity shares of a business starter, a new technology business operator, a venture business, or a company specializing in the start-up of new technology-based businesses by a small and medium business start-up investment company, a limited-liability company for investment in venture business, a venture capital business operator or a fund management corporations, etc. directly or through a business start-up investment cooperative. etc. by a method falling under any of the following subparagraphs; however, cases where stocks or equity shares owned by others are acquired by purchase shall be excluded:

1. Method of paying a share capital at the time of the incorporation of the relevant enterprise;
2. Method of paying subscription money for new shares issued by the relevant enterprise for the purpose of the increase of its capital within seven years from its incorporation;
3. Method of acquiring stocks or stakes of the relevant enterprise at the time of the capitalization of its surplus within seven years from its incorporation;
4. Method of acquiring stocks or stakes of the relevant enterprise at the time of the conversion of its liabilities into capital within seven years from its incorporation.

(3) When the above (2) ⑤ through ⑥ are being applied, investment shall be referred to as direct acquisition of stocks or equity shares of a listed company in KONEX by a method falling under any of the following subparagraphs; however, cases where stocks or equity shares owned by others are acquired by purchase shall be excluded:

1. Method of paying subscription money for new shares issued by the relevant enterprise for the purpose of the increase of its capital within two years from its listing;
2. Method of acquiring stocks or stakes of the relevant enterprise at the time of the capitalization of its surplus within two years from its listing;
3. Method of acquiring stocks or stakes of the relevant enterprise at the time of the conversion of its liabilities into capital within two years from its listing.

(4) No corporate tax shall be imposed on the dividend income received from investment under paragraph (1) in a business starter, new technology business operator, venture business, company specializing in the start-up of new technology-based businesses or a listed company in KONEX by a small and medium business start-up investment company, limited-liability company for investment in venture business or venture capital business operator no later than December 31, 2017.

(5) Such matters as may be necessary for computing the gains from transfer and dividend income under paragraphs (1) through (4) shall be prescribed by Presidential Decree.

IV. The Meaning of Terminology

Business Starter: Business starter of the small and medium business and Business operator of the small and medium business for the period not exceeding 7 years since the business start-up.

KONEX (Korea Net Exchange): A trading board of Korea Exchange in South Korea established on July 1, 2013 as a stock market for small and medium business exclusively to support the growth of venture business and small and medium business which are under the listing requirements of KOSDAQ (Korean Securities Dealers Automated Quotations) market. .

Company specializing in the Start-up of New Technology-based Businesses: A company whose main service area is to promote the start-up of business and commercialize the business with new technology developed and possessed by University or Research Institute.

(Reference: 중소기업창업투자회사등의주식양도차익등에대한비과세 \ 벤처기업일일반 \ 디지털산업단지)