

The Concept of Entertainment Expenses in Korea

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1. Overview

"Entertainment expenses" are defined as entertainment expenses, social expenses, monetary reward or expenses of a similar nature spent by a corporation in connection with its business, retrospective of their title in Local Corporate Tax Act. These expenses are regarded deductible expenses as business related expenses.

But, those are strictly controlled by Korean Tax Authorities with limitation of entertainment expense amount and legal evidence conditions to secure the transparency for proper expenses and to hold down its spending, as overspending of entertainment expenses is not socially undesirable and it could worsen the financial structure of corporation.

2. Limitation of Entertainment Expenses

Entertainment expenses spent by a domestic corporation for each business year, which exceeds the sum of the following amounts, shall not be included in deductible expenses for the purposes of calculating the amount of income for the relevant business year:

- ① The amount computed by multiplying 12,000,000 won (18,000,000 won for small and medium enterprises prescribed by Presidential Decree(24,000,000 won till the business year including Dec 31, 2016 from Jan. 1, 2015 temporarily)) by the number of months in the relevant business year, and then dividing it by 12;
- ② The amount computed by multiplying the amount of income for the relevant business year (limited to the amount of income prescribed by Presidential Decree) by the rates specified in the following table: Provided, that with respect to the amount of income accrued from transactions with a related party provided in Article 52 (1), it means an amount equivalent to 10/100 of the amount computed by multiplying such amount of income by the rates specified in the following table:

Revenue Amount	Rate
KRW 10,000 million or less	20/10,000
More than KRW 10,000 million and up to 50,000 million	KRW 20 million + 10/10,000 of the amount in excess of KRW 10,000 million
More than 50,000 million	KRW 60 million + 3/10,000 of the amount in excess of KRW 50,000 million

3. Requirement for Legal Evidence Documents Documents Verifying Disbursement

Entertainment expenses paid by a domestic corporation in excess of the amount, "200,000 won for the congratulatory or condolatory case, or 10,000 won for all the other cases" which do not fall under any of the following, shall not be included in deductible expenses for the purpose of calculating the amount of income for each business year:

- ① Corporate Credit Card slip / Corporate Debit Card slip
- ② Cash Receipt slip
- ③ Tax Invoice or Invoice
- ④ Withholding Tax Receipt (delivered under 'Business Income' or 'Other Income' of the Income Tax Act after being supplied with services from a person who has not been registered as a business operator)

(Location of the Korean version: No. 197, 절대비의 개념 \ 법인사업자의 업무사례 \ 법인세 \ 신고&세무실무)