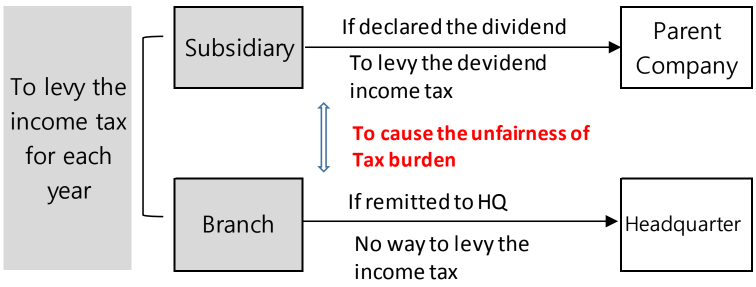
How to impose the Branch Tax for Foreign Investment Entities' in Korea

1. What's branch tax in Korea?

Korean Tax Authorities want to make a tax balance between the Foreign Investment company as a subsidiary company and branch office. At first, permanent office (branch office) of Foreign entities levied the Corporate Income Tax and then for the profit after the tax, tax authorities will charge the branch tax rates additionally.

2. The tax burden of shareholders by the type of investment in Korea



3. What's the criteria of taxable amount for branch tax?

According to the Article 96 of Corporate Income Tax Act, the domestic place of business of a foreign corporation (excluding non-profit foreign corporations) shall add the amount calculated by application of the tax rate under the provisions to the income amount subject to taxation (in the event that any tax treaty concluded between Korea and any foreign country where the relevant foreign corporation is based makes taxable the amount of profit remittance, the income amount subject to taxation shall be the amount of remittance prescribed by Presidential Decree) under the provisions to the corporation tax under the provisions and pay it under the provisions of tax treaties concluded between Korea and the country of residence of the concerned foreign corporation.
At present the taxable countries of branch tax is only nine (9) countries which are agreed the levy of branch tax. Therefore other countries is no need to pay the branch tax.

4. How to calculate the branch tax?

(1) The Calculation structure of Branch tax

Taxable income amount of Branch * Branch tax rates = Branch tax amount

(2) Taxable income amount for branch tax

a) Beginning capital < Ending Capital => deduction of reinvestment accredited amount
Taxable Income amount = taxable income amount of each year – (Tax credit + tax deduction – additional tax) - reinvestment accredited amount

b) Beginning capital > Ending Capital => Addition of decrease portion of capital

Taxable Income amount = taxable income amount of each year – (Tax credit + tax deduction – additional tax) + decrease portion of capital.

(3) Tax rates for each country

Contracting Parties	Limited Tax Rates	Taxable Income
Morocco	5 %	Taxable income amount
Brazil	15 %	Taxable income amount
Indonesia	10 %	Taxable income amount
Kazakhstan	5 %	Taxable income amount
Canada	5 %	Taxable income amount
Philippines	10 %	Actual remittance amount
France	5 %	Taxable income amount
Australia	15 %	Taxable income amount
Thailand	10 %	Taxable income amount

Article 96 (Special Cases for Taxation on Domestic Place of Business of Foreign Corporation)

(1) The domestic place of business of a foreign corporation (excluding non-profit foreign corporations) shall add the amount calculated by application of the tax rate under the provisions of paragraph (3) to the income amount subject to taxation (in the event that any tax treaty concluded between Korea and any foreign country where the relevant foreign corporation is based makes taxable the amount of profit remittance, the income amount subject to taxation shall be the amount of remittance prescribed by Presidential Decree) under the provisions of paragraph (2) to the corporation tax under the provisions of Article 95 and pay it under the provisions of tax treaties concluded between Korea and the country of residence of the concerned foreign corporation.

(2) The income amount subject to taxation under paragraph (1) shall be the income amount from the concerned domestic place of business for each business year less the amount under each of the following subparagraphs:

1. The amount of corporation tax under the provisions of Article 95 less the amount under item (a) but with the amount under item (b) added:
   (a) Tax amount deducted under the provisions of Article 57 (1) 1, and Articles 58 and 58-2 that are applied mutatis mutandis pursuant to the provisions of Article 97 (1), and tax amount deducted or exempted under other Acts; and
   (b) Additional tax under the provisions of Article 76 or tax paid additionally under this Act or the Special Tax Treatment Control Act;

1-2. Income-proportional resident tax;

2. The amount as prescribed by the Presidential Decree including those that are deemed to be reinvested into business by the corresponding domestic place of business; and

3. The amount not included in deductible expenses pursuant to the provisions of Article 14 of the Act for the Coordination of International Tax Affairs.

(3) The tax rate applied under paragraph (1) shall be the tax rate under Article 98 (1) 3, and where there are different provisions in the tax treaties concluded between Korea and the country of residence of the concerned foreign corporation, the provisions of the treaty shall be observed.