

ENFORCEMENT DECREE OF CORPORATION TAX ACT

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CHAPTER I GENERAL PROVISIONS

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The term “partnership corporations, etc. as prescribed by the Presidential Decree” in subparagraph 2 (b) of Article 1 of the Corporation Tax Act means the juristic persons of the following subparagraphs: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>*

1. Cooperatives (including corporations that run the joint business with cooperatives) and the National Agricultural Cooperative Federation established under the Agricultural Cooperatives Act;
2. Deleted; *<by Presidential Decree No. 16658, Dec. 31, 1999>*
3. Cooperatives (including fishing fraternities) and the National

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- Federation of Fisheries Cooperatives established under the Fisheries Cooperatives Act;
4. Forestry cooperatives (including forestry fraternities) and the National Forestry Cooperatives Federation established under the Forestry Cooperatives Act;
 5. Tobacco producers cooperatives and the National Federation of Tobacco Producers Cooperatives established under the Tobacco Producers Cooperatives Act;
 6. and 7. Deleted; <by Presidential Decree No. 16658, Dec. 31, 1999>
 8. Cooperatives, their federations and their National Federation established under the Small and Medium Enterprise Cooperatives Act;
 9. Credit cooperatives and their federations and their National Federations established under the Credit Unions Act;
 10. Community credit cooperatives and their federations established under the Community Credit Cooperatives Act; and
 11. The Korea Salt Manufacture's Association established under the Salt Business Association Act.

Article 2 (Scope of Profit-Making Business)

(1) The term "businesses as prescribed by Presidential Decree" in Article 3 (2) 1 of the Corporation Tax Act (hereinafter referred to as the "Act") means businesses under the Korean Standard Industrial Classification publicly announced by the Commissioner of the National Statistical Office (hereinafter referred to as the "Korean Standard Industrial Classification") which generate profits: *Provided*, That businesses falling under the following subparagraphs shall be excluded: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826 Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 20799, Jun. 5, 2008>

1. Livestock businesses (including service businesses related to live-stock), and agriculture except the planting of landscape trees and the management and service business of such landscape trees;
2. Businesses of research and development from among service businesses (excluding businesses of rendering research and development services in return for payment through a contract, etc.);

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- 2-2. Ship classification and survey services that are rendered in Korea by any non-profit foreign corporation (limited to a case where such non-profit foreign corporation does not have its *de facto* business management place in Korea) whose headquarters or principal office is located in the relevant foreign country in case that any domestic non-profit corporation provides such ship classification and survey services in such foreign country that does not levies the corporate tax on such domestic non-profit corporation;
3. Education service businesses which operate kindergartens provided in the Early Childhood Education Act, schools provided in the Elementary and Secondary Education Act and Higher Education Act and lifelong educational facilities in the form of distance universities established pursuant to the Lifelong Education Act;
4. Health care and social welfare businesses under the Social Welfare Services Act;
5. Pension and mutual aid businesses under each of the following items:
 - (a) National pension businesses under the National Pension Act; and
 - (b) Businesses operated by organizations established under special Acts or with the approval or permission of the government (limited to fundraising and payment businesses);
6. Among social security insurance businesses, medical insurance businesses under the National Health Insurance Act and industrial accident compensation insurance businesses under the Industrial Accident Compensation Insurance Act;
7. Among services provided by religious organizations registered with the competent administrative authority, businesses which provide services which are exempted from the value-added tax under Article 12 (1) 16 of the Value-Added Tax Act;
8. Among service businesses related to finance and insurance, businesses falling under each of the following items:
 - (a) Businesses operating the deposit insurance system such as deposit insurances through the Deposit Insurance Fund and the Deposit Insurance Fund Bond Redemption Fund under the Depositor Protection Act, and the financial support or debt settlement, etc. which is related to the former;
 - (b) Businesses operating the deposit protection system, such as deposit

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- insurances and fund supports, etc. through the Mutual Finance Depositor Protection Fund under the Act on the Structural Improvement of Agricultural Cooperatives and the Fisheries Cooperatives Act;
- (c) Businesses operating the deposit protection system, such as deposit insurances and fund supports, etc. through the Depositor Protection Reserve Fund under the Community Credit Cooperatives Act;
 - (d) Deleted; <by Presidential Decree No. 20619, Feb. 22, 2008>
 - (e) Businesses operating the deposit insurance system such as deposit insurances and fund assistance, etc. through Credit Union Depositor Protection Fund pursuant to the Credit Unions Act; and
 - (f) Businesses operating the deposit insurance system such as deposit insurances, fund assistance, etc. through Mutual Finance Depositor Protection Fund pursuant to the Forestry Cooperatives Act;
- 9. Blood businesses that are run by the Korean National Red Cross provided for in the Organization of the Korean National Red Cross Act;
 - 10. Businesses operating the system for guaranteeing reverse mortgage loan backed old age pension through the account of guarantee on the reverse mortgage loan backed old age pension pursuant to the Korea Housing Finance Corporation Act (limited to the guarantee business and the business of paying reverse mortgage loan backed old age pensions);
 - 11. Businesses, which lend money for the purpose of business start-up, etc. to persons prescribed by Ordinance of the Ministry of Strategy and Finance, such as persons eligible for assistances, working poor class persons, etc. pursuant to Article 2 of the National Basic Living Security Act, and which meet the requirements prescribed by Ordinance of the Ministry of Strategy and Finance;
 - 12. Businesses in which a non-profit corporation (limited to a corporation established for the purpose of construction and extension of private school buildings, expansion of facilities thereof and improvement of educational environment) supplies school facilities to the operators of foreigners' schools; and
 - 13. Other businesses similar to those under subparagraphs 1, 2, 2-2, 3 through 12 as prescribed by Ordinance of the Ministry of Strategy and Finance.

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(2) The term "fixed assets used for proper purpose businesses as prescribed by Presidential Decree" in Article 3 (2) 5 of the Act means fixed assets which are used directly for proper purpose businesses under Acts and subordinate statutes or its articles of association (excluding profit-making businesses falling under paragraph (1)) continuously for three years or more as of the date of disposition of the relevant fixed assets. In this case, where there are incidental profits such as admission fees or entrance fees for maintenance and management of the relevant fixed assets, these shall also be deemed to be fixed assets directly used for proper purpose businesses.

(3) The term "revenue as prescribed by Presidential Decree" in Article 3 (2) 6 of the Act means sales profits (referring to the amount of the balance of bond sales income and bond sales loss) from the sale of bonds, etc. (excluding bonds, etc. for which the interest income is exempted from corporate tax) under Article 46 (1) of the Income Tax Act: *Provided*, That the sales profits of the bonds, etc. reverting to the businesses referred to in Article 2 (1) 8, shall be excluded. <Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005>

Article 3 (Starting Date of Business Year)

(1) The starting date of the first business year of a corporation shall be the date under each of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. For a domestic corporation, the date of the registration of its establishment: *Provided*, That for organizations to be treated as corporations under subparagraph 2 (c) of Article 1 of the Act (hereinafter referred to as "organizations to be treated as corporations"), it shall be the date under each of the following items:
 - (a) For organizations established under Acts and subordinate statutes for which the date of the establishment is prescribed by the relevant Acts and subordinate statutes, the date of the establishment;
 - (b) For organizations which require the permission or approval of the competent administrative authority for establishment and organizations which have registered with the competent administrative authority under Acts and subordinate statutes, the date of the permission, approval, or registration;
 - (c) For unregistered organizations whose endowments are donated for

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the purpose of serving the public interest, the date on which the endowment is donated; and

- (d) For organizations which receive the approval of the head of tax office having jurisdiction over the place of tax payment under the provisions of Article 13 (2) of the Basic Act for National Taxes, the date of the approval; and

2. For a foreign corporation, the date on which it comes to have a domestic place of business (where it has no domestic place of business, the first date on which income is generated under Article 6 (4) of the Act).

(2) In the application of the provisions of paragraph (1), where earnings and losses arising before the starting date of the first fiscal year actually reverted to the corporation and there is no concern about the possibility of tax evasion, they may be included in the calculation of earnings and losses for the first fiscal year of the relevant corporation, within the period of the first fiscal year not exceeding one year. In this case, the starting date of the first fiscal year shall be the date on which the earnings and losses reverted to the relevant corporation are first generated.

Article 4 (Report on Change of Fiscal Year)

A corporation which wishes to report a change in its fiscal year under Article 7 (1) of the Act shall submit the report on change of the fiscal year (including submitting such report through the national tax information and communications network) to the head of tax office having jurisdiction over the place of tax payment within the time limit for the report under the conditions as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

Article 5 (Scope of Date of Registration of Merger)

(1) The term "the date of the registration of the merger" in the Act and this Decree means the date under each of the following subparagraphs:

- 1. For corporations which continue to exist after a merger, the date of the registration of the change; and
- 2. For corporations established by merger, the date of the registration of the establishment.

(2) The term "the date of the registration of the division" in the Act and this Decree means the date under each of the following subparagraphs:

- 1. For corporations which continue to exist after a division (including

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merger and division; hereinafter the same shall apply), the date of the registration of the change; and

2. For corporations established by division, the date of the registration of the establishment.

Article 6 (Scope of Place of Tax Payment)

(1) The term "place as prescribed by Presidential Decree" in the proviso of Article 9 (1) of the Act means the location of the place of business of the relevant organization, and for organizations whose primary income is real estate rental income, it means the location of the real estate. In this case, for organizations with 2 or more places of business or real estate properties, it shall mean the location of the primary place of business or primary real estate property, and for organizations with no place of business, it shall mean the location of the main office stated in the articles of association of the relevant organization (for organizations with no provisions regarding the main office in the articles of association, the address of the representative or manager).

(2) The term "location of the primary place of business or the primary real estate" in paragraph (1) means the place of business or the location of the real estate with the highest business revenue amount under the provisions of subparagraph 1 of Article 11 (hereinafter referred to as "business revenue amount") in the immediately previous fiscal year.

(3) The term "location of the primary place of business as prescribed by Presidential Decree" in Article 9 (3) of the Act means the location as determined by applying *mutatis mutandis* the provisions of paragraph (2): *Provided*, That this shall apply only to the cases where the place of tax payment is fixed for the first time. <Amended by Presidential Decree No. 17826, Dec. 30, 2002>

(4) The term "place as prescribed by Presidential Decree" in Article 9 (3) of the Act means the place where income is generated in Korea and which is reported as the place of tax payment by the relevant foreign corporation. In this case, the written report on the place of tax payment as prescribed by Ordinance of the Ministry of Strategy and Finance shall be submitted to the head of tax office having jurisdiction over the place of tax payment within one month from the date on which it comes to generate income from 2 or more sources of income in Korea. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

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Article 7 (Place of Tax Payment for Person Responsible for Collecting Withholding Taxes)

(1) The term "location of the relevant person responsible for collecting withholding taxes as prescribed by Presidential Decree" in Article 9 (4) of the Act means a place falling under each of the following subparagraphs: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. Where the person responsible for collecting withholding taxes is an individual, it means the location under Article 7 (1) 1 and 2 of the Income Tax Act;
2. Where the person responsible for collecting withholding taxes is a corporation, it means the location of the head office, the principal office or the *de facto* business management place in case where the head office or the principal office is not located in Korea (hereinafter referred to as the "head office, etc.") of the relevant corporation (for organizations to be treated as corporations, the location under Article 6 (1), and for foreign corporations, the location of their main places of business in Korea): *Provided*, That where a branch, business office, or other place of business of a corporation manages its accounts separately under a self-supporting accounting system, it means the location of the relevant place of business (not including where the location of the place of business is outside of Korea); and
3. Where it has been approved by the Commissioner of the National Tax Service that a corporation collectively calculates the withholding tax amount on income paid at branches, business offices, and other places of business by a computerized accounting system at its headquarters or where it has been approved as a business operator for taxation on a unit basis pursuant to Article 4 (3) of the Value-Added Tax Act by the head of competent tax office, notwithstanding the proviso to subparagraph 2, it may designate the headquarters of the corporation as the place of tax payment for the corporate tax withholding amount for the relevant income with approval of the Commissioner of the National Tax Service. In this case, matters necessary for the conditions and process for approval of collective payment at the headquarters of the relevant corporation shall be determined by the Commissioner

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of the National Tax Service.

(2) The term "place as prescribed by Presidential Decree" in the proviso of Article 9 (4) of the Act means a place falling under each of the following subparagraphs: *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

1. Where there is income from the transfer of securities under Article 132 (8), it means the location of the domestic place of business of the domestic corporation or foreign corporation which has issued the relevant securities; and
2. In cases other than those under subparagraph 1, it means the place as designated by the Commissioner of the National Tax Service.

Article 8 (Designation and Notification of Place of Tax Payment)

(1) The term "cases as prescribed by Presidential Decree" in Article 10 (1) of the Act means cases falling under any one of the following subparagraphs:

1. Where the location of the headquarters, etc. of a domestic corporation is not the same as its registered address;
2. Where the location of the headquarters, etc. of a domestic corporation is separate from its assets or place of business and it is deemed that there is a possibility of tax evasion;
3. Where the location of the primary place of business of a foreign corporation with 2 or more domestic places of business cannot be determined under the provisions of Article 6 (3); and
4. Where a foreign corporation with 2 or more properties falling under the proviso to Article 9 (2) of the Act does not make a report under Article 6 (4).

(2) In cases falling under any subparagraph of paragraph (1), the Commissioner of the competent Regional Tax Office may designate the place of tax payment under the provisions of Article 10 (1) of the Act. In this case, where the newly designated place of tax payment is in another jurisdiction, the Commissioner of the National Tax Service may designate the place of tax payment.

(3) The designation and notification of the place of tax payment under the provisions of Article 10 (2) of the Act shall be made within 45 days from the last day of the relevant fiscal year of the corporation.

(4) Where notification under the provisions of paragraph (3) is not made within the time limit, the previous place of tax payment shall be the place

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of tax payment of the corporation.

Article 9 (Report on Change of Place of Tax Payment)

(1) Where a corporation reports a change of the place of tax payment under the provisions of Article 11 (1) of the Act, it shall submit a report (including submitting such report through the national tax information and communications network) on the change of the place of tax payment as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of the tax office having jurisdiction over the place of tax payment after the change. *<Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

(2) The head of a tax office who receives a report on the change of the place of tax payment under the provisions of Article 11 (1) of the Act shall inform the head of a tax office having jurisdiction over the place of tax payment before the change of the contents of the report.

(3) In cases where any corporation is extinguished due to a division or merger during the business year, the place of payment for corporate tax on the income and liquidation income of an extinguished corporation, divided corporation, or extinguished counterpart corporation to a merger and division (hereinafter referred to as the "extinguished corporation") during the business year may be the place of corporate tax payment of the merged corporation, the corporation newly established by division, or the counterpart corporation to a merger and division (hereinafter referred to as the "merged corporation") (in case of division, it shall be the place of tax payment of the corporation which succeeds to the higher assets value). In this case, a report on the change of the place of tax payment under the provisions of Article 11 (1) of the Act shall be made. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

CHAPTER II CORPORATE TAX ON INCOME FOR EACH BUSINESS YEAR OF DOMESTIC CORPORATION

SECTION 1 Tax Base and Its Calculation

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Sub-Section 1 General Provisions

Article 10 (Deduction of Losses)

(1) In the deduction of losses under subparagraph 1 of Article 13 of the Act, they shall be deducted in sequential order beginning with the losses first generated in the business year.

(2) In the application of the provisions of subparagraph 1 of Article 13 of the Act, the losses falling under each of the following subparagraphs shall be deemed to have been deducted from the tax base for the business year: <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

1. The loss that is appropriated pursuant to the provisions of Article 17 (2) of the Act;
2. The loss carried forward that is appropriated by the reduced amount of liabilities on the grounds of the value of assets that are gratuitously obtained pursuant to the provisions of subparagraph 8 of Article 18 of the Act and the exemption or the extinction of liabilities; and
3. The loss that is deducted pursuant to the provisions of Article 72 (1) of the Act.

(3) The scope of losses succeeded to under Articles 81 (1) and 84-2 (1) shall be included in the losses under subparagraph 1 of Article 13 of the Act. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

Sub-Section 2 Calculation of Earnings

Article 11 (Scope of Earnings)

Earnings under Article 15 (1) of the Act shall be as , except as otherwise prescribed by the Act and this Decree: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. The revenue amounts [including contract amounts, sales amounts, and insurance premium amounts, and not including sales overcharge amounts and sales discount amounts under corporate accounting standards (referring to the accounting standards falling under any subparagraph of Article 79; hereinafter the same shall apply); hereinafter the same shall apply] arising from each business under the Korean Standard Industrial Classification: *Provided*, That for

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estimations under the proviso to Article 66 (3) of the Act, it shall be the amount calculated by multiplying the interest rate as prescribed by Ordinance of the Ministry of Strategy and Finance in consideration of the fixed term deposit interest rate of financial institutions (hereinafter referred to as the "fixed term deposit interest rate") to the revenue amount from key money or deposit money in real estate rent;

2. The transfer amount of assets (including treasury stocks);
3. Property rental fees;
4. Marginal profits from the evaluation of assets;
5. The value of assets received without compensation;
6. The reduced amount (including the amount in the proviso to Article 17 (1) 1 of the Act) of liabilities due to the exemption from or expiration of debts;
7. The returned amount included in the calculation of losses;
8. The reserve fund amount appropriated as losses and not treated under the disposition of profits;
9. Profits received by distribution based on capital transactions with a specially related person under any of the items of Article 88 (1) 8 and under subparagraph 8-2 of the same paragraph; and
10. Other earnings which have accrued or will accrue to the corporation.

Article 12 (Calculation of Merger Evaluation Marginal Profit)

(1) The term "merger evaluation marginal profit as prescribed by Presidential Decree" in Article 16 (1) 2 (a) of the Act means the amounts under subparagraphs 1, 3 (limited to surplus funds falling under the main sentence of Article 16 (1) 2 of the Act), and 4 (for corporations other than stock corporations, the amount calculated by the *mutatis mutandis* application thereof) calculated by adding the amounts under each of the following subparagraphs in sequential order until the amount under Article 459 (1) 3 of the Commercial Act (hereafter in this Article referred to as "merger marginal profit") is reached: *Provided*, That in the cases of Article 14 (1) 1 (c), it means the amount under subparagraph 1: <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. Where assets are evaluated and received by succession from an extinguished corporation, the value of the portion in excess of the book value (in the cases of Article 14 (1) 1 (c), referring to the value which

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is added by the amount obtained by deducting the balance between the book value of the assets and liabilities received by succession from the extinguished corporation from the total cost of merger under Article 16 (1) 5 of the Act) of the extinguished corporation;

2. Where the total cost of merger under the provisions of Article 16 (1) 5 of the Act (in case of stocks, the amount evaluated in accordance with their face value) does not reach the capital of the extinguished corporation, the amount of the deficiency;
3. Among the capital surplus funds of the extinguished corporation, the amount calculated in order from the surplus funds other than those falling under the main sentence of Article 16 (1) 2 of the Act; and
4. An appropriate amount for the earned surplus of the extinguished corporation.

(2) The term "division evaluation marginal profit as prescribed by the Presidential Decree" in Article 16 (1) 2 (a) of the Act means the amounts under subparagraphs 1, 3 (limited to surplus funds falling under the main sentence of Article 16 (1) 2 of the Act), and 4 calculated by adding the amounts under each of the following subparagraphs in sequential order until the amount under Article 459 (1) 3-2 of the Commercial Act (hereafter in this Article referred to as "division marginal profit") is reached: *Provided*, That in cases falling under Article 14 (1) 1 (c), it shall be the amount under subparagraph 1: <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. Where assets are evaluated and received by succession from a divided corporation or extinguished counterpart corporation to a division and merger (not including physical division; hereafter in this paragraph referred to as a "divided corporation"), the value of the portion in excess of the book value (for cases falling under Article 14 (1) 1 (c), this shall mean the value which is added by the amount obtained by deducting the balance of the book value of the assets and liabilities of the succeeded divided corporation from the total cost of merger under Article 16 (1) 6 of the Act) of the divided corporation;
2. Where the total cost of division under the provisions of Article 16 (1) 6 of the Act (in case of stocks, the amount evaluated in accordance with their face value) does not reach the capital of the divided corporation, the amount of the deficiency;
3. Among the capital surplus funds of the divided corporation, the amount

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calculated in order from the surplus funds other than those falling under the provisions of the main sentence of Article 16 (1) 2 of the Act; and

4. An appropriate amount for the earned surplus of the divided corporation.
- (3) In the application of the provisions of paragraphs (1) and (2), where a reserve fund under Article 459 (2) of the Commercial Act is succeeded to, the calculation shall be made as if no such succession had taken place.

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

- (4) In the application of the provisions of Article 16 (1) 2 of the Act, where part of the merger marginal profits or division marginal profits are converted into capital or financing, they shall be converted in sequential order under each subparagraph of paragraph (1) or each subparagraph of paragraph (2), and where part of the revaluation reserve fund is converted into capital or financing, it shall be converted according to the ratio of the amount under application of the provisions of Article 13 (1) 1 of the Assets Revaluation Act to other amounts.

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

Article 13 (Legal Fiction of Time of Dividend Payment or Distribution of Funds)

The date of receiving profit dividends or distribution of surplus funds under the provisions of Article 16 (1) of the Act shall be the date under each of the following subparagraphs: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

1. For cases under Article 16 (1) 1 through 3 of the Act, the date on which the general meeting of stockholders, general meeting of employees, or meeting of the board of directors resolves to carry out the retirement of stocks, the reduction of capital or financing, or the conversion of surplus funds into capital or financing (for resolutions of the board of directors, the date as determined under the provisions of Article 461 (3) of the Commercial Act) or the date of employee retirement or separation;
2. For cases under Article 16 (1) 4 of the Act, the date on which the value of the residual assets of the concerned corporation is settled;
3. For cases under Article 16 (1) 5 of the Act, the date of the registration of the merger of the concerned corporation; and
4. For cases under Article 16 (1) 6 of the Act, the date of the registration

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of the division of the concerned corporation.

Article 14 (Evaluation of Value of Assets)

(1) The value of assets other than cash acquired under each subpara graph of Article 16 (1) of the Act shall be determined in accordance with each of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

1. Where the acquired assets are stocks or investment shares (hereinafter referred to as "stocks, etc."), the amount under each of the following items:

(a) The face value or investment amount (in case any investment company incorporated under the Indirect Investment Asset Management Business Act acquires stocks, etc., such stocks, etc. shall be made nonexistent) for stocks, etc. under Article 16 (1) 2, 3, 5, and 6 of the Act (limited to stocks, etc. under subparagraphs 5 and 6 of the same paragraph, whose market price under the provisions of item (c) is higher than their face value or equity investment amount, among those that meet the criteria under Articles 44 (1) 1 and 2, and 46 (1) 1 and 2 of the Act);

(b) The issue amount (in case that any investment company incorporated under the Indirect Investment Asset Management Business Act is given any stock dividend, such stock dividend shall be made nonexistent) for stock dividends under the provisions of Article 462-2 of the Commercial Act; and

(c) The market price at the time of the acquisition under the provisions of Article 52 of the Act (hereinafter referred to as "market price") for other cases: *Provided*, That where there are profits received as distribution from a specially related person under the provisions of Article 88 (1) 8, it shall be the amount subtracted such amount; and

2. Where the acquired assets are not stocks, etc., the market price of the assets at the time of the acquisition.

(2) Where stocks, etc. are acquired under the provisions of the proviso of Article 16 (1) 2 of the Act, the book value of 1 share or 1 allotment of new and old stocks, etc. shall be as follows:

Book value of 1 share or 1 allotment = book value of 1 share or allotment

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of old stock, etc. / (1 + number of shares or allotments of new stock per share of old stock, etc.).

(3) In the application of the provisions of Article 16 (1) 1 of the Act, where stocks, etc. falling under the proviso of subparagraph 2 of the same paragraph are acquired within 2 years prior to the retirement of stocks, etc. (including the reduction of capital or financing; hereafter in this paragraph the same shall apply), such stocks, etc. shall be deemed to be retired first, and the initial acquisition value of such stocks, etc. shall be zero, notwithstanding the provisions of paragraph (2). In this case, where a portion of the stocks, etc. are disposed of during this period, it shall be deemed that the stocks, etc. were disposed of in the proportion of such stocks, etc. to other stocks, etc., and the book value of 1 share or 1 allotment after the retirement of the stocks, etc. shall be the sum total book value after the retirement divided by the total number of stocks, etc. after the retirement, notwithstanding the provisions of paragraph (2).

(4) In case of paragraph (1) 1 (a), the value of stocks with no face value shall be based on the amount of the capital reserves of the corporation which issues such stocks divided by the total number of stocks issued on the date falling under any subparagraph of Article 13.

Article 15 (Amount in Excess of Face Value of Issued Stocks)

(1) Profits under each subparagraph of Article 17 (1) of the Act shall be the amounts falling under Article 459 (1) 1, 1-2, 1-3, 2, 3 and 3-2 of the Commercial Act. *<Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>*

(2) The term "merger evaluation marginal profit as prescribed by the Presidential Decree" in the proviso of Article 17 (1) 3 of the Act means the amount calculated under the provisions of Article 12 (1) 1 and (3). *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(3) The term "division evaluation marginal profit as prescribed by the Presidential Decree" in the proviso of Article 17 (1) 4 of the Act means the amount calculated under Article 12 (2) 1 and (3). *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(4) The term "amount that is prescribed by the Presidential Decree" in Article 17 (2) of the Act means the amount falling under each of the following subparagraphs: *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

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1. The amount of shares that are issued in excess of the market price of the relevant shares, etc. (in case where the market price falls short of the face value, refers to the face value) in case where any corporation that is subject to a decision on the rehabilitation program authorization aimed at converting its liabilities to its investments pursuant to the Debtor Rehabilitation and Bankruptcy Act converts its liabilities to its investments;
2. The amount that exceeds the market price (in case where the market price falls short of the face value, refers to the face value) of the relevant shares, etc. in case where any enterprise showing the sign of its insolvency that concludes an agreement on the management normalization program aimed at converting its liabilities to its investments converts its liabilities to its investments pursuant to the Corporate Restructuring Promotion Act; and
3. The amount that exceeds the market price (in case where the market price falls short of the face value, refers to the face value) of the relevant shares, etc. in case where any corporation converts its liabilities to investments after concluding an agreement on the implementation of the management normalization program aimed at converting its liabilities to investments with any financial institution provided for in the provisions of subparagraph 1 of Article 2 of the Act on Real Name Financial Transactions and Guarantee of Secrecy, which holds its claims on the relevant corporation.

(5) In case where any domestic corporation discontinues its business or dissolves itself before the total amount that is not included in the gross income is appropriated to replenish the amount of deficit pursuant to the provisions of Article 17 (2) of the Act, in the calculation of the income amount of the business year to which the date on which the grounds accrue belongs, the total amount that is not appropriated to replenish the amount of deficit shall be included in the gross income. *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

Article 16 (Earnings Carried Forward)

The term "earnings carried forward" in subparagraph 2 of Article 18 of the Act means the amount of income already taxed as income for the business year (including non-taxable income or tax-exempt income under the Act and other Acts) included again in the calculation of earnings for the

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concerned business year.

Article 17 Deleted. <by Presidential Decree No. 19891, Feb. 28, 2007>

Article 17-2 (Exclusion of Holding Company's Received Dividend Amount from Earnings)

(1) The term "holding company prescribed by Presidential Decree" in the main sentence of Article 18-2 (1) of the Act means a domestic corporation (hereafter in this Article, referred to as a "holding company") reported to the Fair Trade Commission as a holding company as of the end of the business year in accordance with the Monopoly Regulation and Fair Trade Act. In this case, if a person, prior to the arrival of a deadline for filing a report on the incorporation of a holding company or the conversion of his company to a holding company as of the end of the relevant business year in accordance with the same Act, files a report on the incorporation of a holding company by a deadline for filing a declaration on the tax base of the corporate tax on the income of the relevant business year, the company shall be deemed as a holding company. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) The term "domestic corporation meeting requirements prescribed by Presidential Decree" in Article 18-2 (1) of the Act means a domestic corporation meeting all of the following requirements (hereafter in this Article referred to as a "subsidiary"): <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20619, Feb. 22, 2008>

1. It shall be a corporation the holding company of which has continued to hold not less than 40/100 (20/100 in the cases of stock-listed corporations, KOSDAQ-listed corporations or venture businesses pursuant to the provisions of Article 2 (1) of the Act on Special Measures for the Promotion of Venture Businesses) of the total number of issued stocks or total investment of the relevant domestic corporation for not less than three months as of the dividend basis date of such domestic corporation; and
2. It shall be a domestic corporation falling under any of the following items:
 - (1) A financial institution under Article 2 (1) 1 of the Financial Holding Companies Act (including a corporation that falls under the

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provisions of Article 2 (2) of the Enforcement Decree of the same Act) where the holding company of the corresponding domestic corporation is a financial holding company incorporated under the same Act; and

- (b) A domestic corporation which is not engaged in a financial business or insurance business according to the Korea Standard Industrial Classification where a holding company of the corresponding domestic corporation is a holding company other than a financial holding company under the Financial Holding Companies Act.

(3) In applying the provisions of Article 18-2 (1) 1 and 2 of the Act, the ratio of investment made by a holding company in its subsidiary shall be calculated based on stocks, etc. of the subsidiary that such holding company has continued to hold for not less than 3 months as of the dividend basis date of such subsidiary: *Provided*, That in case that the preemptive right and the conversion privilege that are granted before the subsidiary completely becomes a subsidiary of the holding company are exercised to increase the total number of stocks issued by the subsidiary after such subsidiary completely becomes a subsidiary of the holding company, such stocks issued (limited to stocks which are issued within 3 months before the dividend basis date) shall be calculated based on the number of stocks that are held by such subsidiary as of the base date of dividend. <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

(4) In applying the provisions of Article 18-2 (1) 3 of the Act, any borrowings and interest on such borrowings shall be deemed not to include interest on borrowings equivalent to the amount loaned by a financial holding company under the Financial Holding Companies Act to its subsidiary at the interest rate higher than that applied at the time of borrowing and an amount not included in loss in accordance with the provisions of Article 55. <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

(5) The term "amount computed according to the provisions of Presidential Decree" in Article 18-2 (1) 3 of the Act means the amount computed by multiplying the interest on borrowings by the ratio of the sum of amounts falling under subparagraphs 1 and 2 to the amount under subparagraph 3: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

- 1. Total sum of book value of stocks, etc. of a subsidiary that is subject

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- to Article 18-2 (1) 1 of the Act \times 100/100;
2. Total sum of book value of stocks, etc. of a subsidiary that is subject to Article 18-2 (1) 2 of the Act \times 80/100; and
 3. Total amount of assets on the balance sheet of the corresponding holding company as of the end of the business year: *Provided*, That where there is any amount loaned by a financial holding company under the Financial Holding Companies Act to its subsidiary at the interest rate higher than that applied at the time of borrowing, it shall be an amount calculated by subtracting the relevant amount from the total amount of assets.
- (6) The term "ratio prescribed by Presidential Decree" in the fore part of Article 18-2 (1) 4 of the Act, with exception of its items, means the ratio that derives from the multiplication of the ratio of subparagraph 1 by the ratio of subparagraph 2: *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20619, Feb. 22, 2008>*
1. 100/100 in case where the ratio of investment made by a holding company in its subsidiary falls under Article 18-2 (1) 1 of the Act and 80/100 in case where such ratio falls under Article 18-2 (1) 2 of the Act. In such cases, the corresponding ratio that is applicable to each subsidiary shall apply to the case where two or more subsidiaries exist; and
 2. The ratio of the book value of stocks, etc. acquired by the corresponding subsidiary by investing in other affiliate to the amount invested by the holding company in the corresponding subsidiary (referring to the book value of shares, etc. that are acquired by the holding company after making investments in the corresponding subsidiary). In such cases, the ratio shall be 100/100 if the ratio exceeds 100/100.
- (7) The value of the subsidiary's stocks, etc., the total amount of its assets under the subparagraphs of paragraph (5) and the value of stocks, etc. under the provisions of paragraph (6) 2 shall be calculated by drop number. Where there exists any amount corresponding to Article 18-2 (1) 4 of the Act, the ratio under paragraph (5) 1 and 2 shall be the ratio of the amount corresponding to Article 18-2 (1) 1 and 2 of the Act less the amount corresponding to subparagraph 3 of the same paragraph to the total dividend amount received from the corresponding subsidiary.

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<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20619, Feb. 22, 2008>

(8) The term "institutional investors as prescribed by Presidential Decree" in Article 18-2 (1) 4 (c) of the Act means corporations falling under each of the following subparagraphs: <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

1. Financial institutions, etc. provided for in Article 61 (2) 1 through 11, 21, 28, 34 and 36;
2. Asset management companies under the Indirect Investment Asset Management Business Act;
3. Securities finance companies that have obtained license under the Securities and Exchange Act;
4. Corporations as prescribed by Ordinance of the Ministry of Strategy and Finance which manage or operate funds established under Acts (limited to the cases of the relevant fund business);
5. Corporations as prescribed by Ordinance of the Ministry of Strategy and Finance which operate mutual aid businesses under Acts; and
6. Among other corporations, members of associations established with the purpose of stabilizing the securities market through investing in listed securities as prescribed by the Minister of Strategy and Finance: *Provided*, That it shall be limited to the cases where the members jointly acquire the stocks of stock-listed corporations in accordance with the bylaws of the relevant association.

(9) Any corporation that intends to be subject to the application of Article 18-2 (1) of the Act shall submit the written statement of received dividend amounts prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment along with a report provided for in Article 60 of the Act. <Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20720, Feb. 29, 2008>

(10) In the application of the provisions of paragraph (3) and Article 18-2 (2) 1 of the Act, in case where part of the shares, etc. of the same kind are transferred, the shares, etc. that are acquired before others shall be deemed the shares that are transferred before others. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

(11) The term "corporation that is prescribed by Presidential Decree" in Article 18-2 (2) 2 of the Act means the corporation falling under any

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of the following subparagraphs: <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

1. The corporation that is subject to the application of the provisions of Article 51-2 of the Act; and
2. The corporation (limited to the business year during which the reduction and exemption rate is 100/100) that is subject to the application of the provisions of Articles 63-2, 121-8 and 121-9 of the Special Tax Treatment Control Act.

[This Article Newly Inserted by Presidential Decree No. 16658, Dec. 31, 1999]

Article 17-3 (Exclusion of Ordinary Corporations' Received Dividend Amount from Taxable Income)

(1) In applying the provisions of Article 18-3 (1) 1 and 2 of the Act, the ratio of equity investment made by a domestic corporation in another domestic corporation shall be calculated based on the latter's equity shares, etc. that the invested domestic company has held for not less than three months as of the dividend distribution base date of the invested domestic corporation. In this case, in the calculation of the number of the retained shares, etc., in case where part of the shares of the same kind are transferred, the shares, etc. that are acquired before others shall be deemed transferred before others. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(2) In applying the provisions of Article 18-3 (1) 3 of the Act, the borrowings and interest thereon shall not include the amounts excluded from losses pursuant to the provisions of Article 55.

(3) The term "amount computed pursuant to the provisions of the Presidential Decree" in Article 18-3 (1) 3 of the Act means the amount computed by multiplying interest on borrowings by the ratio of the sum of amounts falling under subparagraphs 1 through 3 to the amount falling under subparagraph 4: <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

1. The total sum of book values of stocks, etc. of the other domestic corporation that is subject to the provisions of the main sentence of Article 18-3 (1) 1 of the Act \times 50/100;
2. The total amount of the book value of shares, etc. of other domestic corporation that is subject to the application of the proviso to Article 18-3 (1) 1 of the Act \times 100/100;
3. The total sum of book values of stocks, etc. of the other domestic corporation that is subject to the provisions of Article 18-3 (1) 2 of

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the Act \times 30/100; and

4. Total amount of assets on the balance sheet of the corresponding investing domestic corporation as of the end of the business year.

(4) The term "amount that is calculated under the conditions as prescribed by Presidential Decree" in Article 18-3 (1) 4 of the Act means the amount obtained by multiplying the rate referred to in subparagraph 1 and the ratio referred to in subparagraph 2 by the dividend amount received from other domestic corporation (hereafter referred to as the "dividend payment corporation" in this Article) that makes investments in its affiliates: *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

1. In case where the ratio of the investments that are made by any domestic corporation in the dividend payment corporation falls under the main sentence of Article 18-3 (1) 1 of the Act, 50/100, in case where the ratio falls under the proviso to the same subparagraph, 100/100 and in case where the ratio falls under Article 18-3 (1) 2 of the Act, 30/100. In this case, when the dividend payment corporation is not less than 2, the ratio shall be determined by each dividend payment corporation; and

2. The ratio of the book value of shares, etc. that are acquired by making investments in the affiliates of the relevant dividend payment corporation in the amount of investments that are received by the relevant dividend payment corporation from domestic corporations (referring to the book value of shares, etc. that are obtained by domestic corporations after making investments in the dividend payment corporation. In this case, in case where the ratio exceeds 100/100, such ratio shall be deemed 100/100.

(5) The value of stocks, etc. and total assets of other domestic corporation under paragraph (3) 1 through 4 and the value of shares, etc. provided for in paragraph (4) 2 shall be calculated by drop number and in case where the amount falling under Article 18-3 (1) 4 of the Act exists, the ratio referred to in paragraph (3) 1 through 3 shall be the ratio of the amount obtained by subtracting the amount falling under subparagraph 4 of the same paragraph from the amount falling under subparagraphs 1 and 2 of Article 18-3 (1) of the Act in the total amount of the dividend that is received from the relevant dividend payment corporation. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

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(6) Any corporation that intends to be subject to the application of Article 18-3 (1) of the Act shall submit the written statement of received dividend amounts prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment along with a report provided for in Article 60 of the Act. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 18 (Deficits Carried Forward)

(1) The term "deficits carried forward as prescribed by Presidential Decree" in subparagraph 8 of Article 18 of the Act means those falling under any of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19422, Mar. 29, 2006>

1. Deficits under Article 14 (2) of the Act (excluding the deficits received by succession under the provisions of Articles 45 and 48-2 of the Act) that is not deducted in calculation of the tax base for each business year thereafter pursuant to the provisions of subparagraph 1 of Article 13 of the Act; and
 2. Deficits under Article 14 (2) of the Act among those that are not included in the tax base reported pursuant to Article 60 of the Act for each business year, but fall under any of the following items:
 - (a) Deficits of a corporation whose rehabilitation program is authorized pursuant to the Debtor Rehabilitation and Bankruptcy Act, which are determined by a court;
 - (b) Deleted; or <by Presidential Decree No. 19328, Feb. 9, 2006>
 - (c) Deficits of a corporation whose contract for performing management normalization plan has been signed pursuant to the Corporate Restructuring Promotion Act, which have been decided by a creditor financial institution council.
- (2) The provisions of Article 10 (1) and (2) shall apply *mutatis mutandis* to the calculation of deficits carried forward under paragraph (1).

Sub-Section 3 Calculation of Losses

Article 19 (Scope of Losses)

Losses under Article 19 (1) of the Act shall be those falling under any

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of the following subparagraphs, except as otherwise prescribed in the Act and this Decree: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. The purchase value (excluding the inflated purchase amount and the discounted purchase amount that are each specified in the corporate accounting standards) of raw materials of commodities or manufactured goods sold and incidental expenses;
2. The book value of transferred assets at the time of transfer;
3. Personnel/labor costs;
4. Repair expenses for fixed assets;
5. Depreciation costs of fixed assets;
- 5-2. Amount equivalent to the depreciation costs calculated by applying *mutatis mutandis* the provisions of Articles 24 through 34 to the amounts falling under each of the following items in case where the value of fixed assets recorded in the books according to the corporate accounting standards falls short of the market price, while taking over the assets from the specially-related person:
 - (a) Difference between the market price and the amount recorded in the books, in case where the actual acquisition price is in excess of the market price; or
 - (b) Difference between the actual acquisition price and the amount recorded in the books, in case where the actual acquisition price falls short of the market price;
6. Property rental expenses;
7. Interest on borrowed money;
8. Bad debts (including outstanding amounts of value-added sales tax which cannot be recovered and which do not be subject to a bad debts tax deduction under Article 17-2 of the Value-Added Tax Act);
9. Marginal losses from evaluation of assets;
10. Various taxes and public imposts;
11. Membership fees paid to corporations, or associations or societies registered with the competent administrative authority which are organizations made up of businessmen;

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12. Prospecting expenses in the mining industry (including expenses for developing areas for prospecting);
13. The value of free medical examinations and treatment provided by free medical care vouchers or New Village medical care vouchers as prescribed by the Minister for Health, Welfare and Family Affairs;
- 13-2. The book value of surplus food which is donated for free by a domestic corporation that operates the manufacturing, wholesale, or retail business of food and beverage items according to the Korea Standard Industry Classification to the persons who are registered with the State or local governments as business operators of surplus food utilization or to the persons who are designated by such business operators of surplus food utilization (in such case, the amount shall not be included in the contribution under the provisions of subparagraph 1 of Article 35);
14. Expenses for business-related overseas inspections and training;
15. The operational expenses or the allowances that fall under any of the following items:
 - (a) Expenses necessary to operate special classes or middle and high schools attached to industrial entities, which are established pursuant to the Elementary and Secondary Education Act for working juveniles;
 - (b) Expenses necessary to operate vocational training courses and subjects, etc. on the condition that graduates are hired according to agreements that are concluded between educational institutions and corporations pursuant to the provisions of Article 8 of the Promotion of Industrial Education and Industrial-Academic Cooperation Act;
 - (c) Allowances that are paid to students participating in field practices provided for in Article 7 of the Vocational Education and Training Promotion Act; and
 - (d) Expenses that are paid to students participating in field-practice classes provided for in Article 22 of the Higher Education Act;
16. The book value of stocks of the company that contributes to an employees stock ownership association formed pursuant to the Framework Act on Workers' Welfare or money and goods that are contributed to such association;

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17. The acquisition value (limited to not more than 1 million won for each transaction) of artwork in case where the acquisition value of any artwork that is always displayed in the space such as office and corridor for the purpose of ornamenting and environmentally beautifying such space that is visible to many people is included in the loss of the business year that belongs to the date on which such artwork is acquired; and

18. Other losses which revert or will revert to the corporation.

Article 20 (Scope of Piece Rates, etc.)

(1) The term "piece rates as prescribed by Presidential Decree" in subparagraph 1 of Article 20 of the Act means those falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

1. Deleted; <by Presidential Decree No. 16658, Dec. 31, 1999>

2. Piece rates paid by treasury stocks acquired under Article 189-2 of the Securities and Exchange Act through employee stockownership associations under Article 2 (18) of the same Act (hereinafter referred to as "an employee stock ownership association"). In this case, it shall include the amount paid as piece rates by the relevant corporation to an employee stock ownership association which acquires the stocks of the relevant corporation on the securities market under the Securities and Exchange Act and distributes them to the members of the association;

3. The amount paid under the provisions of Article 15 (4) of the Restriction of Special Taxation Act; and

4. The piece dividend bonuses paid by a domestic corporation to workers (excluding executives under the provisions of Article 43 (6)) according to a written agreement concluded between such domestic corporation and such workers in advance with respect to the performance calculation index and its goals, the measurement of performances, the method of dividend, etc.

(2) The term "interest dividends during construction" in subparagraph 2 of Article 20 of the Act means interest under the provisions of Article 463 (1) of the Commercial Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

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(3) The term "margins from the discount issue of stock" in subparagraph 3 of Article 20 of the Act means, where the stocks are issued at below face value under Article 417 of the Commercial Act, the sum of the deficiency and the price of the newly issued stocks. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(4) The inclusion of piece rates into the operating loss under the provisions of paragraph (1) shall be dealt with according to the method in which the amount of surplus appropriation is appropriated in the tax adjustment account statement of the relevant business year and included in the operating loss in the tax base declaration of the corporate tax. <Newly Inserted by Presidential Decree No. 16658, Dec. 31, 1999>

Article 21 (Scope of Negligence)

Negligence under subparagraph 1 of Article 21 of the Act shall include failure to collect indirect national taxes, failure to pay taxes, and other nonperformance of obligation.

Article 22 (Inclusion of Value-Added Purchase Tax Amounts in Calculation of Losses)

(1) The term "other tax amounts as prescribed by the Presidential Decree" in subparagraph 1 of Article 21 of the Act means those falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. The purchase tax amount under Article 17 (2) 3 of the Value-Added Tax Act on the maintenance of small passenger cars not used for business (excluding those falling under capital expenditures under Article 31 (2));
2. The purchase tax amount under the provisions of Article 17 (2) 3-2 of the Value-Added Tax Act; and
3. Other purchase tax amounts confirmed as actually borne by the relevant corporation, and prescribed by Ordinance of the Ministry of Strategy and Finance.

(2) The fictitious purchase tax amount deducted under Article 17 (3) of the Value-Added Tax Act and the purchase tax amount deducted under Article 108 of the Special Tax Treatment Control Act shall be deducted from the purchase price of relevant raw materials in the calculation of the income amount of the relevant corporation for the business year. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

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Article 23 Deleted. <by Presidential Decree No. 17033, Dec. 29, 2000>

Article 24 (Scope of Depreciable Assets)

(1) The term "assets as prescribed by Presidential Decree such as buildings, machinery and equipment, and patent rights" in Article 23 (2) of the Act means the fixed assets of the following subparagraphs (excluding assets under paragraph (2); hereinafter referred to as "depreciable assets"):
<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 18903, Jun. 30, 2005>

1. Tangible fixed assets falling under any one of the following items:
 - (a) Buildings (including attached facilities) and constructions (hereinafter referred to as "buildings");
 - (b) Vehicles and transports, instruments, tools and furnishings;
 - (c) Ships and aircraft;
 - (d) Machinery and equipment;
 - (e) Animals and plants; and
 - (f) Other tangible fixed assets similar to the assets under items (a) through (e); and
2. Intangible fixed assets falling under any one of the following items:
 - (a) Goodwill, design rights, utility model rights, and trademark rights;
 - (b) Patent rights, fishing rights, gathering rights under the Submarine Mineral Resources Development Act, toll road management rights, irrigation rights, electricity and gas provision facility usage rights, industrial waterworks usage rights, waterworks usage rights, and heating provision facility usage rights;
 - (c) Mining rights, telephone and telegraph exclusive-use facility usage rights, exclusive rail line usage rights, sewage treatment and disposal plant management rights, and waterworks facility management rights;
 - (d) Dam usage rights;
 - (e) Deleted; <by Presidential Decree No. 17826, Dec. 30, 2002>
 - (f) Development costs: Costs incurred in applying the outcomes of research or related knowledge for the plan or design in order to create or remarkably improve the material, apparatus, products, process, system or service prior to the commercial production or uses, which have been appropriated for development costs by the

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relevant corporation (including the amount spent by members of the Industrial Technology Research Cooperatives under the Act on the Support of the Industrial Technology Research Cooperatives for the research and development and the acquisition of research facilities, etc., to the relevant Cooperatives);

(g) The value of assets donated for their use and revenues accruing therefrom: In case that assets other than money are donated to the State or any local governments, any corporations established in accordance with each subparagraphs of Article 73 (1) of the Restriction of Special Taxation Act or any corporation provided for in Article 36 (1) 1 of this Decree, and such assets are used or revenues are generated therefrom, the book value of the relevant assets; and

(h) Right to utilize frequency under Article 14 of the Radio Waves Act, and right to manage airport facilities under Article 105-2 of the Aviation Act.

(2) Depreciable assets shall not include assets under each of the following subparagraphs:

1. Those which are not used for business (not including idle facilities);
2. Those which are under construction; and
3. Those for which the value does not decline over time.

(3) For fixed assets purchased on long-term installment plans under the provisions of Article 68 (3), where the corporation allocates the total value of the relevant fixed assets as assets and uses them for business, they shall be included as depreciable assets regardless of whether the price has been settled or right of possession have been transferred.

(4) Among the goodwill under paragraph (1) 2 (a), in case of merger or division, goodwill which is appropriated by the merging corporation or the corporation newly established by division (including a counterpart corporation to a merger and division; hereafter in this paragraph the same shall apply) shall be deemed as depreciable assets, limited to the case in which compensation is paid for the trade name, trade connections, and other trade secrets, which are deemed worthy for its business, of the merged corporation or divided corporation and the case in which the merging corporation or the corporation newly established by division (limited to the case of merger and division) evaluates and succeeds to the assets

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of the merged corporation or the divided corporation (including an extinguished counterpart corporation of the merger and division; hereafter in this paragraph the same shall apply).

(5) In the application of the provisions of paragraph (1), among the assets (hereafter in this paragraph referred to as "lease assets") lent by a person who runs a facilities leasing business (hereafter in this paragraph referred to as a "lease corporation"), the assets of the financial lease as prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this paragraph referred to as "financial lease") shall be the depreciable assets of the lease user, and lease assets other than those of the financial lease assets shall be the depreciable assets of the lease corporation. *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>*

(6) In applying the provisions of paragraph (5), where financial lease assets are taken over by a special purpose company for the asset securitization under the Asset-Backed Securitization Act pursuant to its asset securitization plan submitted under the same Act, such assets shall be treated as the lease user's assets that are subject to depreciation. *<Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005>*

Article 25 (Method of Appropriation of Depreciation Costs as Losses)

(1) Where a corporation appropriates the depreciation costs of depreciable assets as losses for the business year, it shall choose either the method of directly reducing the book value of the relevant depreciable assets or the method of not reducing the book value but appropriating them in the cumulative total amount of depreciation.

(2) Where a corporation appropriates the depreciation costs in the cumulative total amount of depreciation, individual assets may be appropriated separately, and where it is keeping a detailed statement on the settlement of depreciation costs made by dividing the individual assets under Article 33, it may appropriate the lump-sum total amount of depreciation costs as the cumulative total amount of depreciation.

Article 26 (Calculation of Scope of Depreciation Amount)

(1) The term "amount calculated as prescribed by the Presidential Decree" in Article 23 (1) of the Act means the amount calculated in such manner as a corporation chooses one of the following depreciation methods for

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each individual depreciable asset and reports to the head of tax office having jurisdiction over the place of tax payment (hereinafter referred to as "allowed depreciation amount"): *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826 Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005>*

1. Buildings and intangible fixed assets (excluding the assets of subparagraphs 3 and 6 through 8): The fixed amount method;
 2. Tangible fixed assets other than buildings (excluding any tangible fixed assets used for mining under subparagraph 4): The fixed rate method or the fixed amount method;
 3. Mining rights (including the gathering right under the Submarine Mineral Resources Development Act): The production-volume proportional method or the fixed amount method;
 4. Tangible fixed assets used for mining: The production-volume proportional method, the fixed rate method and the fixed amount method;
 5. Deleted; *<by Presidential Decree No. 17826, Dec. 30, 2002>*
 6. Development costs: The method of depreciating in proportion to the number of elapsed months by each business year pursuant to the number of durable years which has been reported at the unit of year within the period of within 20 years from the point of time whereat the sale or use of related products is possible;
 7. The value of assets donated for their use and revenues accruing therefrom: The method of depreciating the amount (referring to the balance thereof in case that the relevant donated assets are extinguished or missing or a contract thereof is rescinded) that is equally divided according to the period (referring to the durable years reported in case that no special agreement is existent during the period) during which the relevant assets are used and generate revenues; and
 8. Right to utilize frequency under Article 14 of the Radio Waves Act, and right to manage the airport facilities under Article 105-2 of the Aviation Act: The method of depreciating the equal amount pursuant to the period of use within the period publicly announced by or registered to the competent administrative authority.
- (2) The depreciation methods under the provisions of each subparagraph of paragraph (1) shall be as follows:

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1. Fixed amount method: Depreciation method of uniformly applying the allowed depreciation amount for each business year, calculated by multiplying the acquisition value of the relevant depreciable assets (referring to the acquisition value under the provisions of Article 72; hereafter in this Article the same shall apply) by the depreciation rate in accordance with the lifespan of the relevant assets;
 2. Fixed rate method: Depreciation method of successively reducing each year the allowed depreciation amount for the business year, calculated by multiplying the balance of the amount already deducted as depreciation costs in the calculation of losses from the acquisition value of the relevant depreciable assets by the depreciation rate corresponding to the lifespan of the relevant assets; and
 3. Production-volume proportional method: Depreciation method of making the allowed depreciation amount for each business year the amount calculated by dividing the acquisition value of the relevant depreciable assets by the total estimated mining output of the mining area included in the property and multiplying by the mining output of the mining area during the relevant business year.
- (3) Where a corporation wishes to report the depreciation method under the provisions of paragraph (1), it shall choose one method for each asset under the same paragraph and submit the report on method of depreciation (including submitting such report through the national tax information and communications network) as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment by the time limit for report on the corporate tax base for the business year to which the date falling under each of the following subparagraphs belongs: *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*
1. For newly established corporations and non-profit corporations which have newly started profit-making businesses, the date of starting the business; and
 2. For corporations other than those under subparagraph 1, where fixed assets different from the categories under each subparagraph of paragraph (1) are newly acquired, the date of acquisition.
- (4) Where a corporation does not make a report on the depreciation method under the provisions of paragraph (3), the allowed depreciation amount

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for the relevant depreciable assets shall be calculated in accordance with the depreciation method under each of the following subparagraphs: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826 Dec. 30, 2002>*

1. For assets under paragraph (1) 1, the fixed amount method;
2. For assets under paragraph (1) 2, the fixed rate method;
3. For assets under paragraph (1) 3 and 4, the production-volume proportional method;
4. For assets under paragraph (1) 6, the method of depreciating the equal amount in each year for 5 years from the point of time when the sale or use of related products is possible; and
5. For assets under paragraph (1) 7 and 8, the method prescribed in accordance with the same subparagraph.

(5) The corporation shall continue to apply the depreciation method reported under the provisions of paragraph (3) (where the depreciation method is not reported, the depreciation method under the provisions of each subparagraph of paragraph (4)) in subsequent business years.

(6) In the calculation of the allowed depreciation amount, the residual value of depreciable assets shall be zero: *Provided*, That where the allowed depreciation amount is calculated by the fixed rate method, it shall be the appropriate amount for 5/100 of the acquisition value and that amount shall be added to the undepreciated balance of the relevant depreciable assets for the business year in which the allowed depreciation amount first becomes 5/100 or less of the acquisition value.

(7) For depreciable assets for which depreciation is completed, the lesser amount of 5/100 of the acquisition value or 1,000 won shall be the book value of the relevant depreciable assets, notwithstanding the provisions of paragraph (6), and that amount shall not be included in the calculation of losses by the corporation.

(8) In the application of the provisions of paragraph (1), where the business year is less than one year under the provisions of Articles 7 and 8 of the Act, the allowed depreciation amount shall be the amount calculated by multiplying the allowed depreciation amount by the number of months in the relevant business year and dividing it by 12. In this case, the number of months shall be calculated by the calendar, and the remaining number of days less than one month shall be deemed to be one month.

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(9) In the application of paragraph (1), the allowed depreciation amount of any depreciable assets acquired for the use of business during the business year shall be calculated according to the number of months from the date on which such assets are used for the business to the date on which the relevant business ends. In this case, the number of months shall be calculated according to the calendar and the number of days that comes short of one month shall be deemed as one month. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

Article 27 (Change of Method of Depreciation)

(1) Where a corporation falls under any one of the following subparagraphs, it may change the depreciate method after receiving the approval of the head of tax office having jurisdiction over the place of tax payment, notwithstanding the provisions of Article 26 (5): *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

1. Where corporations with different depreciation methods merge (including merger and division);
2. Where a corporation takes over or succeeds to the business of a business operator with a different depreciation method;
3. Where a foreign investor under the Foreign Investment Promotion Act takes charge or possession of 20/100 or more of the stocks, etc. of a domestic corporation; and
4. Where a change in the former depreciation method is necessary due to changing market conditions abroad or changing economic conditions.

(2) A corporation which wishes to receive approval for a change of the depreciation method under the provisions of paragraph (1) shall submit an application (including submitting such application through the national tax information and communications network) for a change of the method of depreciation as prescribed by Ordinance of Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment at least 3 months prior to the last day of the first business year for which it wishes to apply the changed depreciation method. *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

(3) The head of tax office having jurisdiction over the place of tax payment who receives an application under the provisions of paragraph (2) shall determine whether to grant approval and notify the corporation by the last day of the business year which includes the date on which the application

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was submitted.

(4) Where the head of tax office having jurisdiction over the place of tax payment wishes to approve the change of the depreciation method due to causes falling under paragraph (1) 4, he shall follow the standards as determined by the Commissioner of the National Tax Service.

(5) Where a corporation changes the depreciation method without receiving the approval under the provisions of paragraph (1), the allowed depreciation amount shall be calculated in accordance with the depreciation method before the change.

(6) Where the depreciation method is changed under paragraph (1), the allowed depreciation amount shall be calculated according to the mathematical formulae under each of the following subparagraphs. In this case, the total estimated mining output in the formulae under subparagraph 3 shall mean the total mining output recognized by the Korea Resources Corporation under the Korea Resources Corporation Act: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005>

1. Where the fixed rate method or the production-volume proportional method is changed to the fixed amount method:

The allowed depreciation amount = (the book value deducted from cumulative total amount of depreciation + the amount in excess of the depreciation limit carried forward from the previous period) × the depreciation rate determined by the fixed amount method for the reported lifespan under the provisions of the main sentence of Article 28 (1) 2 (in the case falling under the proviso to the same subparagraph, the standard lifespan);

2. Where the fixed amount method or the production-volume proportional method is changed to the fixed rate method:

The allowed depreciation amount = (the book value of the deducted cumulative total amount of depreciation + the amount in excess of the limit for depreciation carried forward from the previous period) × the depreciation rate determined by the fixed rate method for the reported lifespan under the provisions of the main sentence of Article 28 (1) 2 (in the case falling under the proviso to the same subparagraph, the standard lifespan); and

3. Where the fixed rate method or the fixed amount method is changed

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to the production-volume proportional method:

The allowed depreciation amount = (the book value of the deducted cumulative total amount of depreciation + the amount in excess of the limit for depreciation carried forward from the previous period) × (the mining production for the relevant business year / the total estimated mining output – the total mining output until the business year before the change).

Article 28 (Lifespan and Depreciation Rate)

(1) The lifespan of depreciable assets and the depreciation rate corresponding to their lifespan shall be as follows: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826 Dec. 30, 2002; Presidential Decree No. 20720, Feb. 29, 2008>

1. For assets used for testing and research as prescribed by Ordinance of the Ministry of Strategy and Finance and intangible fixed assets under Article 24 (1) 2 (a) through (d):

The lifespan prescribed by Ordinance of the Ministry of Strategy and Finance and the corresponding depreciation rate determined by the depreciation method prescribed by Ordinance of the Ministry of Strategy and Finance (hereinafter referred to as "depreciation rate"); and

2. For depreciable assets (excluding the intangible fixed assets provided for in Article 24 (1) 2 (f) through (h)) other than those under subparagraph 1:

The lifespan chosen and reported by a corporation to the head of tax office having jurisdiction over the place of tax payment (hereinafter referred to as "reported lifespan") within the scope of the lifespan prescribed by Ordinance of the Ministry of Strategy and Finance (hereinafter referred to as "scope of lifespan") by adding 25/100 to and deducting 25/100 from the standard lifespan which is prescribed by Ordinance of the Ministry of Strategy and Finance by structure, type of assets or type of business (hereinafter referred to as "standard lifespan"), and the corresponding depreciation rate: *Provided*, That where the report is not submitted by the time limit for report under each subparagraph of paragraph (3), it shall be the standard lifespan and the corresponding depreciation rate.

(2) In the application of the provisions of paragraph (1), where the business year under Article 6 of the Act is less than one year, it shall be in accordance

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with the lifespan calculated under the following mathematical formula and the corresponding depreciation rate. In this case, the number of months shall be calculated according to the calendar, and any remaining number of days less than one month shall be deemed to be one month:

(lifespan, reported lifespan, or standard lifespan) \times (12 / number of months in business year).

(3) Where a corporation intends to report the lifespan under the provisions of paragraph (1) 2, it shall submit the lifespan report (including submitting such lifespan report through the national tax information and communications network) as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment by the time limit for report on the corporate tax base for the business year which includes the date falling under each of the following subparagraphs: *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

1. For newly established corporations and domestic non-profit corporations which have newly started profit-making businesses, the date of starting the business; and
 2. For corporations other than those under subparagraph 1, where they acquire fixed assets with a different standard lifespan based on categories by type of assets or type of business or newly start a different type of business, the date of acquiring such assets or the date of starting such business.
- (4) A corporation shall continue to apply the reported lifespan or standard lifespan by type of assets or type of business applied under the provisions of paragraph (1) 2 in subsequent business years.
- (5) The report on lifespan under the provisions of paragraphs (1) 2 and (3) shall be submitted annually.

Article 29 (Special Cases and Changes of Lifespan)

(1) In cases falling under any one of the following subparagraphs, a corporation may apply a lifespan different from the scope of the lifespan or change the applied lifespan at a particular place of business within the scope of the period calculated by adding or deducting 50/100 of the standard lifespan to or from the standard lifespan with approval of the Commissioner of the competent Regional Tax Office having jurisdiction over the place of tax payment, notwithstanding the provisions of Article

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28 (1) 2 and (4): <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. Where the degree of corrosion, wear and tear, damage to the assets is considerable due to the special characteristics of the location, geography, or environment of the place of business;
2. For corporations for which 3 years have passed since the starting of business, where the rate of operation prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this paragraph referred to as "rate of operation") of production facilities (not including buildings; hereinafter referred to as "production facilities") for the relevant business year is considerably higher than the average rate of operation for the immediately previous 3 business years;
3. Where accelerated depreciation of existing production facilities is required on the grounds of the development and diffusion of new production technology and new products; and
4. Where operations are suspended or the rate of operation of production facilities is reduced due to changes in economic conditions.

(2) Where a corporation wishes to obtain approval for the lifespan or change of lifespan under the provisions of paragraph (1), it shall submit an application (including submitting such application through the national tax information and communications network) for approval for lifespan (or approval for change of lifespan) as prescribed by Ordinance of the Ministry of Strategy and Finance to the Commissioner of the Regional Tax Office having jurisdiction over the place of tax payment through the head of the competent tax office within 3 months from the date under each subparagraph of Article 28 (3) or at least 3 months prior to the last day of the first business year in which it wishes to apply the changed lifespan. In this case, the application for approval for lifespan or approval for change of lifespan shall be submitted annually. <Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>

(3) The head of tax office having jurisdiction over the place of tax payment who receives the application under paragraph (2) shall notify the applicant as to whether the Commissioner of the competent Regional Tax Office grants approval by the last day of the business year which includes the date on which the application was submitted (where the period from the date on which the application was submitted until the last day of the

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business year is less than 3 months, within 3 months from the date on which the application was submitted). *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(4) Where approval for lifespan or approval of change of lifespan is granted after the last day of the business year which includes the date when the application under the provisions of paragraph (2) was received, the lifespan or change of lifespan shall apply from the business year which includes the date on which the approval for lifespan or approval for change of lifespan was obtained.

(5) Where a corporation which has changed (including re-changed) the lifespan of the depreciable assets under the provisions of paragraph (1) wishes to rechange the lifespan of the relevant assets, it shall wait until 3 years have passed from the last day of the business year in which the changed lifespan was first applied.

Article 29-2 (Lifespan of Used Assets, etc.)

(1) In cases where any domestic corporation succeeds to assets (hereafter in this Article referred to as "used assets") through a merger or division or acquires assets whose lifespan lapses for not less than 50/100 of the standard lifespan (referring to the lifespan applied to the relevant domestic corporation) from other corporation or any business operator provided for in Article 28 of the Income Tax Act, the lifespan equivalent to 50/100 of the standard lifespan and the lifespan that is chosen within the scope of the standard lifespan, on which a report is filed with the head of tax office having jurisdiction over the place of tax payment (hereafter in this Article referred to as "revised lifespan") may be deemed as the lifespan. In this case, in the calculation of the revised lifespan, the lifespan not exceeding 6 months shall be dropped and the lifespan exceeding 6 months shall be deemed one year. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>*

(2) The provisions of paragraph (1) shall apply to the cases where a domestic corporation files a report on lifespan correction prescribed by Ordinance of the Ministry of Strategy and Finance within the period under the following subparagraphs: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20720, Feb. 29, 2008>*

1. In cases of the acquisition of any used assets, the time limit for a return of the tax base on the corporate tax during the business year

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- to which the date of such acquisition belongs; and
2. In cases of the succession of any assets through a merger or division, the time limit for a return of the tax base on the corporate tax during the business year to which the date of such merger or division belongs.

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 30 (Legal Fiction of Depreciation)

(1) Where the corporate tax of a corporation is reduced or exempted through the exemption or reduction of corporate tax on income for the business year of a business operated by the corporation, it shall calculate the depreciation costs of the depreciable assets under the provisions of Articles 24 through 29 and 31 through 34 and appropriate them as losses.

(2) A corporation which does not appropriate the depreciation costs of the depreciable assets as losses under the provisions of paragraph (1) shall calculate the allowed depreciation amount with the balance of the appropriate amount for the depreciation costs deducted from the value of the assets which are to be the basis for the calculation of the allowed depreciation amount for the next business year as the base value. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

Article 31 (Legal Fiction of Instant Depreciation)

(1) Where a corporation appropriates the amount paid in order to acquire the depreciable assets and the amounts falling under capital expenditures for the depreciable assets as losses, it shall be deemed depreciation in the calculation of the allowed depreciation amount.

(2) The term "capital expenditures" in paragraph (1) shall mean repair costs spent in order to extend the lifespan of the depreciable assets of a corporation or to raise the real value of the relevant assets, and shall include those falling under any one of the following subparagraphs:

1. Restructuring to change the original use;
2. Installation of elevators or cold storage equipment;
3. Installation of refuge or shelter rooms in building;
4. Restoration of buildings, machinery, facilities, and equipment damaged or destroyed by disaster or accident to the extent that they cannot be used for their original purposes; and
5. Other improvements, expansions, or installations which are similar in nature to those under subparagraphs 1 through 4.

(3) Where the repair expenses falling under any one of the following

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subparagraphs paid by a corporation in the business year are appropriated as losses for the relevant business year, they shall not be included in capital expenditures, notwithstanding the provisions of paragraph (2):

1. Where the amount paid as repair expenses for individual assets is less than 3,000,000 won;
 2. Where the amount paid as repair expenses for individual assets is less than 5/100 of the property value on the balance sheet (referring to the appropriate balance amount of the cumulative total amount of depreciation deducted from the acquisition value) as of the last day of the immediately previous business year; and
 3. Where expenditures are made periodically at intervals of less than 3 years in order to make periodic repairs.
- (4) The acquisition value of depreciable assets for which the individual units of transaction were 1,000,000 won or less, not including those under each of the following subparagraphs, shall be included in the calculation of losses, limited to those which are appropriated as losses for the business year which includes the date on which they were used for business:
1. Assets which are inherently held in large quantity due to the nature of the proper business; and
 2. Assets acquired in order to start or expand the business.
- (5) The term "unit of transaction" in paragraph (4) shall mean the unit of acquired assets which the acquiring corporation may use independently directly for business.
- (6) Notwithstanding the provisions of paragraph (4), assets under each of the following subparagraphs shall be included in the calculation of losses, limited to those appropriated as losses for the business year which includes the date on which they were used for the business: *<Amended by Presidential Decree No. 16658, Dec. 31, 1999>*
1. Fishing tools used in the fisheries industry (including tools used for fishing boats);
 2. Movie film, tools (including metal tools), furniture, electrical appliances, gas machinery, household appliances and fixtures, clocks, test equipment, measurement equipment, and signboards; and
 3. Videotapes for rental business and compact disks for music play, the acquisition price of each of which shall be less than 300,000 won.
- (7) Where part of the production facilities abandoned due to the replacement

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of facilities or outdated technology, the amount of the book value of the relevant assets minus 1,000 won may be included in the calculation of losses for the business year which includes the date on which the facilities were abandoned.

Article 32 (Disposition of Disapproved Depreciation Amount)

(1) Among the depreciation costs appropriated as losses for each business year by a corporation, the amount in excess of the scope of the depreciation amount (hereafter in this Article referred to as "disapproved depreciation amount") shall be confirmed as losses where the depreciation costs appropriated as losses by the corporation for the next fiscal year are less than the scope of the depreciation amount, limited to the amount of the deficiency (hereafter in this Article referred to as "approved short-fall"). In this case, the disapproved depreciation amount shall be confirmed as losses up to the limit of the scope of the depreciation amount even where the corporation does not appropriate the depreciation costs as losses.

(2) The approved shortfall may not be allocated for the disapproved depreciation amount of the next fiscal year.

(3) Where a corporation increases the book value of depreciable assets under Article 42 (1) 2 of the Act (hereafter in this Article referred to as "evaluation increase"), the disapproved depreciation amount for the relevant depreciable assets shall be deemed as having been included in the calculation of earnings up to the limit of the evaluation increase and confirmed as losses, and the amount in excess of the evaluation increase shall be deemed the disapproved depreciation amount carried forward to the next fiscal year. In this case, the approved shortfall shall be deemed to be erased.

(4) Where corporation a carries out the depreciation and evaluation increase of depreciable assets together, it shall be deemed that it has carried out depreciation first and then the evaluation increase, and the scope of the depreciation amount shall be calculated accordingly.

(5) Where depreciable assets are transferred, the disapproved depreciation amount of the relevant assets shall be included in the calculation of losses for the fiscal year which includes the date of the transfer.

(6) In the application of the provisions of paragraph (5), where part of depreciable assets is transferred, the cumulative total amount of depreciation and the disapproved depreciation amount or the approved

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shortfall of the relevant transferred assets shall be the amount calculated by multiplying cumulative total amount of depreciation and the disapproved depreciation amount or the approved shortfall of the whole of the relevant depreciable assets by the ratio of the value of the transferred portion of the relevant depreciable assets to their whole value. In this case, the whole value shall be in accordance with the book value at the time of the acquisition.

Article 33 (Detailed Statement on Depreciation Costs)

Where a corporation appropriates depreciation costs as losses for each business year, it shall make and keep a detailed statement on the settlement of depreciation costs of individual assets as prescribed by Ordinance of the Ministry of Strategy and Finance and the report under Article 60 of the Act, and submit them to the head of tax office having jurisdiction over the place of tax payment together with the detailed statement on the settlement of depreciation costs aggregate balance sheet, the detailed statement on the approval and disapproval of depreciation costs, and the detailed statement on the settlement of depreciation costs of acquired and transferred assets as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 34 (Regulations concerning Depreciation Costs)

Matters necessary for the calculation of the depreciation costs of depreciable assets and other necessary matters shall be prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 35 (Scope of Donations)

Donations under the provisions of Article 24 (1) of the Act shall be designated donations under the provisions of Article 36 and those falling under any one of the following subparagraphs:

1. The value of a donation of assets made by a corporation to a person other than a person with a special relationship under the provisions of Article 87 with no compensation and no direct connection with the business of the relevant corporation; and
2. Where a corporation transfers assets to a person other than a person with a special relationship under the provisions of Article 87 at a price below the normal price or buys assets from such a person at a price above the normal price without reasonable cause, the margin value

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which is deemed in actuality to be a donation. In this case, the normal price shall be within the scope of 30/100 higher or lower than the market price.

Article 36 (Scope, etc. of Designated Donations)

(1) The term "donations as prescribed by Presidential Decree" in Article 24 (1) of the Act, with the exception of its subparagraphs, means those falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. For non-profit corporations (including organizations; hereafter in this Article referred to as "designated organizations, etc. receiving donations") under each of the following items, donations paid as proper purpose business expenses of the relevant designated organizations, etc. receiving donations: *Provided*, That donations paid to the corporations designated pursuant to item (g) shall be limited to those paid during the business year whereto belongs the date of such designation and the five business years thereafter:
 - (a) Social welfare corporations under the Social Welfare Services Act;
 - (b) Kindergartens provided for in the Early Childhood Education Act, schools provided for in the Elementary and Secondary Education Act and the Higher Education Act, technical colleges provided for in the Polytechnic College Act, or cyber universities provided for in the Lifelong Education Act;
 - (c) Academic research organizations, scholarship organizations, and technical promotion organizations which have obtained permission or approval from the Government;
 - (d) Cultural or arts organizations (including specialized arts corporations and specialized arts organizations designated pursuant to the Culture and Arts Promotion Act) or environmental protection organizations which have obtained the government's permission or approval;
 - (e) Organizations established for the purpose of spreading a religion and other evangelical organizations which are registered with the competent administrative authority;

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- (f) Medical corporations established pursuant to the Medical Service Act;
 - (g) Non-profit corporations established with permission of the competent authorities pursuant to Article 32 of the Civil Act, which meet all the requirements of the following sub-items and are designated by the Minister of Strategy and Finance upon recommendation of the competent authorities:
 - (i) That the earnings thereof shall be used for the public purposes, not for the interest of the members, and the direct beneficiaries shall be many and unspecified;
 - (ii) That, in the case of dissolution, the remaining assets thereof shall revert to the State, local governments or other non-profit corporations that have similar business objectives;
 - (iii) That the articles of incorporation shall state that the annual collection of donations and the result of utilization thereof are open to the public through the Internet homepage;
 - (iv) That they shall not engage in politics, such as supporting, assisting, etc. a specific political party or a candidate of elective position; and
 - (v) That 5 years have passed since the day when the designation was revoked pursuant to paragraph (5);
 - (h) Designated organizations, etc. receiving donations that are similar to those provided for in items (a) through (g) and are prescribed by Ordinance of the Ministry of Strategy and Finance; and
 - (i) through (l) Deleted; <by Presidential Decree No. 17457, Dec. 31, 2001>
2. Donations under each of the following items:
- (a) Donations paid as scholarships or education or research fees to individuals nominated by heads of kindergartens provided for in the Early Childhood Education Act, principals of schools pursuant to the Elementary and Secondary Education Act and the Higher Education Act, deans of technical colleges established pursuant to the Polytechnic College Act or presidents of cyber universities established pursuant to the Lifelong Education Act;
 - (b) Donations that are left in public-interest trust in a manner that meets requirements of each subparagraph of Article 14 of the Enforcement Decree on Inheritance Tax and Gift Tax Act; and

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- (c) Donations that are used for the purpose of public interest, such as social welfare, culture, arts, education, religion, charity and science, and prescribed by Ordinance of the Ministry of Strategy and Finance; and
3. Special membership fees and membership fees paid to associations or societies established voluntarily other than those under subparagraph 11 of Article 19, from among membership fees under the same subparagraph.
- (2) The amount of income generated by the profit-making businesses of organizations with the exception of organizations designated to make donations provided for in each subparagraph of Article 56 (1) from among organizations that are deemed as corporations, which is used for proper purpose business expenses, shall be deemed a donation provided for in the main sentence of paragraph (1). *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>*
- (3) The term "proper purpose business expenses" in paragraphs (1) 1 (main sentence) and (2) means the amount to be used for the business for which the relevant non-profit corporation or organization runs for the establishment objectives according to the Acts and subordinate statutes related to the relevant corporation or organization or under the articles of association, other than the profit-making businesses falling under Article 2 (1) (excluding the medical treatment businesses among the health and social welfare businesses). *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*
- (4) In cases where a corporation which has disbursed donations intends to include it in the losses pursuant to the provisions of Article 24 of the Act, it shall keep a donation receipt made out by Ordinance of the Ministry of Strategy and Finance. *<Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 20720, Feb. 29, 2008>*
- (5) In cases where a corporation referred to in paragraph (1) 1 (g) falls under any one of the following subparagraphs, the Minister of Strategy and Finance may revoke the designation thereof: *<Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*
1. Where the Commissioner of the National Tax Service requests to revoke the designation on the grounds that the corporation has been

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additionally charged not less than the amount determined by Ordinance of the Ministry of Strategy and Finance for the inheritance tax or gift tax pursuant to Article 48 (2) and (3) of the Inheritance Tax and Gift Tax Act;

2. Where the head of the competent authorities notifies the Minister of Strategy and Finance of the fact that the corporation has run any other business than that specified in its objective or violated the terms of permission for its establishment or its public purpose, or of the fact that it has violated the requirements in paragraph (1) 1 (g); or
3. Where it has been revealed that the corporation is listed on the unfaithful donation receiving organization list pursuant to Article 85-5 of the Basic Act for National Taxes.

(6) Necessary matters regarding the procedures for designation of corporations referred to in paragraph (1) 1 (g), methods of confirming the requirements for such designation, the documents to be submitted, etc. shall be prescribed by Ordinance of the Ministry of Strategy and Finance. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

Article 37 (Value of Donations)

(1) Where a corporation offers assets other than cash as donations under Article 24 of the Act, the value of the relevant assets shall be in accordance with the market price (in case where the market price is lower than the book value, the book value) at the time of the donation: *Provided*, That the amount of donations provided for in each subparagraph of Article 24 (2) of the Act and the provisions of each subparagraph of Article 73 (1) of the Special Tax Treatment Control Act shall be the book value. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(2) Where a corporation uses deferred account, such as suspense payment, etc. in order to appropriate donations under the provisions of Article 24 of the Act, they shall be deemed as donations in the business year in which payment was made, and they shall not be deemed as donations in the following business years.

(3) Where a corporation appropriates donations under the provisions of Article 24 of the Act as accounts payable, they shall not be deemed as donations in the calculation of the income amount for the relevant business year until they are actually paid.

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Article 38 (Scope of Inclusion of Donations in Calculation of Losses)

(1) The value of money and other valuables contributed without compensation to the State or a local government under the provisions of Article 24 (2) 1 of the Act shall include the value of assets contributed by the corporation to an individual or to another corporation, the receiver then contributes it without delay to the State or a local government and value of money and other valuables contributed under the provisions of Article 2 (2) of the Act on the Measures for the Admission to International Financial Institutions by the Bank of Korea under the Bank of Korea Act.

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) Contributions for the national defense under the provisions of Article 24 (2) 2 of the Act shall include donations made directly to homeland reserve forces established under the Establishment of Homeland Reserve Forces Act or donations made through institutions or organization which have received the approval of the Minister of Defense.

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(3) In case where any corporation has paid the donations under Article 73 of the Special Tax Treatment Control Act or Article 24 of the Act, the relevant donations shall be sequentially included in its losses within the scope of amounts under the classifications falling under each of the following subparagraphs:

<Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. In the case of the donations provided for in each subparagraph of Article 24 (2) of the Act (hereafter referred to as the "statutory donations" in this paragraph) and the donations provided for in Article 73 (1) of the Special Tax Treatment Control Act, the amount that is calculated according to the following formula:

[The income amount of the relevant business year (referring to the income amount before the donations are included in the amount of deficit; hereafter the same shall apply in this paragraph) – the amount of deficit carried forward (referring to the total of the amount of deficit provided for in subparagraph 1 of Article 13 of the Act; hereafter in this paragraph the same shall apply)] × 50/100

2. Deleted; and *<by Presidential Decree No. 19328, Feb. 9, 2006>*

3. In the case of designated donations under Article 24 (1) of the Act, the amount calculated by the following formula:

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(Income amount of relevant business year – Deficits carried forward – Statutory donations – Donations under Article 73 of the Special Tax Treatment Control Act) \times 5/100.

(4) In the application of the provisions of Article 24 (3) of the Act, the amount in excess of the limited amount for the inclusion in the amount of deficit of designated donations and the amount in excess of the limited amount for the inclusion in the amount of deficit of statutory donations provided for in paragraphs (1) and (2) of the same Article shall be included in the amount of deficit within the scope of the amount of deficiency only in case where the designated donations or statutory donations under paragraphs (1) and (2) respectively fall short of the limited amount for the inclusion in the amount of deficit in the relevant taxable year carried forward. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(5) Where a corporation makes donations under Article 24 of the Act and Article 73 (1) of the Special Tax Treatment Control Act, it shall prepare separate detailed statements on contributions as prescribed by Ordinance of the Ministry of Strategy and Finance for designated donations under Article 24 (1) of the Act, donations under paragraph (2) of the same Article and donations under Article 73 (1) of the Special Tax Treatment Control Act and submit them to the head of tax office having jurisdiction over the place of tax payment together with the report under Article 60 of the Act. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

Article 39 (Scope of Small and Medium Enterprises)

(1) The term "small and medium enterprises as prescribed by the Presidential Decree" in Article 25 (1) 1 of the Act means enterprises under the provisions of Article 2 of the Enforcement Decree on Special Tax Treatment Control Act (hereinafter referred to as "small and medium enterprises"). *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005>*

(2) The number of months under the provisions of Article 25 (1) 1 of the Act shall be calculated according to the calendar, and any remaining number of days less than one month shall be deemed to be one month.

Article 40 (Standard for Calculation of Revenue Amount of Entertainment Expenses)

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(1) The term "revenue amount prescribed by Presidential Decree" in Article 25 (1) 2 of the Act means the sales amount (hereafter in this Article referred to as "sales amount") calculated according to the corporate accounting standards: *Provided*, That in case of corporations falling under each of the following subparagraphs, such sales amount shall be an amount calculated according to the following formula: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. Securities company incorporated pursuant to the Securities and Exchange Act: The sales amount + an amount equivalent to 9 times the commission earned in connection with the business provided for in Article 2 (8) 2 through 7 of the Securities and Exchange Act and commission for the sales of beneficiary certificates under the Indirect Investment Asset Management Business Act;
2. Asset management company incorporated pursuant to the Indirect Investment Asset Management Business Act: The sales amount + an amount equivalent to 9 times the commission earned in connection with the business of operating indirect investment assets under subparagraph 12 of Article 2 of the Indirect Investment Asset Management Business Act;
3. Deleted; <by Presidential Decree No. 18174, Dec. 30, 2003>
4. The Export-Import Bank of Korea established pursuant to the Export-Import Bank of Korea Act: The sales amount + an amount equivalent to 9 times guarantee fees; and
5. Corporation provided for in each subparagraph of Article 63 (1): The sales amount + an amount equivalent to 6 times guarantee fees.

(2) The provisions of the main sentence of Article 37 (1) shall apply *mutatis mutandis* to the calculation of the value of entertainment expenses.

Article 41 (Use of Credit Cards, etc. for Entertainment Expenses)

(1) The term "amount prescribed by Presidential Decree" in the main sentence of Article 25 (2) of the Act means an amount determined according to the following division: <Amended by Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007>

1. For the case of celebration or condolence amount: 100,000 won; and
2. For other cases than that provided for in subparagraph 1: An amount determined according to the following division:

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- (a) Not later than December 31, 2007: 50,000 won;
- (b) From January 1, 2008 to December 31, 2008: 30,000 won; and
- (c) On and after January 1, 2009: 10,000 won.

(2) The term "overseas area that is prescribed by Presidential Decree" in the proviso to Article 25 (2) of the Act means the relevant overseas area in case where it is difficult to secure the evidential document provided for in each subparagraph of Article 25 (2) of the Act on the grounds of the lack of disbursement means except cash in the place in which the entertainment expenses are disbursed (including any place similar to the place in the nearby area where the relevant place is located). *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

(3) The term "similar things as prescribed by Presidential Decree" in Article 25 (2) 1 of the Act means debit cards issued under the Specialized Credit Financial Business Act and credit cards issued in foreign countries and prepaid cards and cash receipts pursuant to the provisions of Article 126-2 (1) of the Special Tax Treatment Control Act. *<Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>*

(4) In applying the provisions of Article 25 (3) of the Act, the term "sales slips, etc. that are issued in the name of a member shop of credit cards, etc. other than the one that actually supplies goods or services" means those showing that the trade name and business location are different from the trade name and business location of the member shop of credit cards, etc. that has supplied goods or services. *<Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000>*

(5) through (7) Deleted. *<by Presidential Decree No. 17457, Dec. 31, 2001>*

(8) In applying the provisions of paragraphs (1) through (4), the credit card, etc. under the provisions of Article 25 (2) 1 of the Act shall be the credit card, etc. issued in the name of the corresponding corporation.

<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 19328, Feb. 9, 2006>

Article 42 (Scope of Entertainment Expenses)

(1) Entertainment expenses paid by a corporation that should have been borne by stockholders or investors (hereinafter "stockholders, etc.") or executives or employees shall not be deemed as entertainment expenses. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

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(2) Where a corporation pays the welfare facilities expenses of an association or organization made up of employees, and the relevant association or organization is a corporation, such expenses shall be deemed as entertainment expenses, and where the relevant association or organization is not a corporation, such expenses shall be deemed as part of the account of the corporation.

(3) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

(4) The subsidies for sales, sales allowances or discounts, etc. given to any persons other than persons with a special relationship pursuant to Article 52 of the Act, whose amounts are within the limits of normal transactions in the light of sound and socially-accepted idea and commercial practice shall not be deemed as entertainment expenses. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(5) Expenses (including expenses disbursed for the purpose of contributing to specified persons, which do not exceed 30,000 won per year) paid by a corporation in order to give sample products, calendars, notebooks, fans, cups, and other similar products to many and unspecified persons for the purpose of advertising shall not be deemed as entertainment expenses. <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

Article 42-2 (Expenditure Evidence, etc. regarding Entertainment Expenses)

For the case of the amount expended as entertainment expenses by a corporation, which is above a certain amount for a case decided by the Commissioner of the National Tax Service, the Commissioner may decide necessary matters regarding recording and keeping evidence of the relevant expenditure.

[This Article Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003]

Article 43 (Non-Inclusion of Bonuses in Calculation of Losses)

(1) Bonuses paid by a corporation to executives or employees in the disposal of profits (excluding piece rates falling under the provisions of any subparagraph of Article 20 (1)) shall not be included in the calculation of losses. In this case, remuneration paid to members who invest through work and labor in unlimited partnerships or limited partnerships shall be deemed as bonuses from the disposal of profits.

(2) Where the amount of bonuses paid to an executive by a corporation is in excess of the amount under the standards for payment of salaries

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determined in the articles of association or by resolution of the general meeting of stockholders, the general meeting of employees, or the board of directors, the amount in excess shall not be included in the calculation of losses.

(3) Where the remuneration paid by a corporation to an executive or employee who is the controlling stockholder, etc. (including persons with a special relationship; the same shall apply hereafter in this paragraph) is in excess of the amount paid to executives or employees in the same position who are not controlling stockholders, etc. without any reasonable cause, the amount in excess shall not be included in the calculation of losses. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

(4) The remuneration paid to the executive of a corporation who does not hold a full-time position shall be included in the calculation of losses, except for cases falling under Article 52 of the Act.

(5) Dissolution bonuses or retirement bonuses paid to executives or employees of a corporation due to its dissolution shall be deemed as losses in the final business year.

(6) Executives under the provisions of paragraphs (1) through (5) (hereinafter referred to as an "executive") shall mean persons performing the duties under the provisions of each of the following subparagraphs:

1. All members of the board of directors, such as the chairman, president, vice-president, director, representative director, managing director, and executive director of a corporation, and the liquidator;
2. Managing partner or director of unlimited partnerships, limited partnerships, and limited corporations;
3. Auditor; and
4. Other persons performing duties similar to those under subparagraphs 1 through 3.

(7) The term "controlling stockholder, etc." in paragraph (3) means a stockholder, etc. (hereinafter "controlling stockholder, etc.") who, holding 1/100 or more of the total number of outstanding stocks of or of total investment in a corporation, have the most stocks or investment shares after putting together those possessed by the stockholder, etc. and a person with a special relationship with him. *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*

(8) The term "person with a special relationship" in paragraphs (3) and

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(7) means a person who has a relationship falling under any of the following subparagraphs: <Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>

1. Persons with a relationship falling under any of the following items in cases where the relevant stockholder, etc. are an individual:
 - (a) Relative;
 - (b) Corporation in a relationship as referred to in Article 87 (1) 1;
 - (c) Corporation in which the relevant stockholder, etc. and the persons falling under items (a) and (b) invest 30/100 or more of the total outstanding stocks or total investment;
 - (d) Non-profit corporation in which the relevant stockholder, etc. and his relatives occupy majority of the directors or contribute 50/100 or more of contribution (limited to the contribution for establishment) and one of them is the founder; or
 - (e) Corporation in which a corporation falling under items (c) and (d) invest 50/100 or more of the total number of outstanding stocks or total investment; or
2. Person with a relationship falling under such subparagraph (excluding subparagraph 3) of Article 87 (1) in cases where the relevant stockholder, etc. is a corporation.

Article 44 (Non-Inclusion of Retirement Benefits in Calculation of Losses)

(1) Retirement benefits (referring to the benefits provided for in subparagraph 5 of Article 2 of the Guarantee of Workers' Retirement Benefits Act; hereinafter the same shall apply) paid to executives or employees by a corporation shall be included in the calculation of losses, limited to the cases where it is paid when the relevant executive or employee actually retires (hereafter in this Article referred to as "actual retirement").

<Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(2) Actual retirement shall include cases falling under any one of the following subparagraphs in which a corporation actually pays retirement benefits: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19010, Aug. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. Where an employee of the corporation becomes an executive of the relevant corporation;
2. Where an employee or executive of the corporation retires due to the reorganization, merger, division, or transfer of the business of the corporation;

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3. Where retirement benefits are paid in interim payments under the provisions of Article 8 (2) of the Guarantee of Workers' Retirement Benefits Act; and

4. Where a corporation changes its salary system for executives into the annual salary system and pays the retirement benefits at the time the corporation establishes a condition that subsequent retirement benefits will not be paid.

(3) The amount of retirement benefits paid to an executive of a corporation in excess of the amounts falling under any one of the following subparagraphs shall not be included in the calculation of losses: *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Where the amount to be paid as retirement benefits (including retirement bonuses, etc.) is prescribed by the articles of association, the amount as prescribed by the articles of association; and

2. For cases other than those under subparagraph 1, the amount obtained by multiplying the amount corresponding to 1/10 of the total amount paid to the relevant executive for one year retroactively from the date the executive retires (referring to the amount under the provisions of Article 20 (1) 1 (a) and (b) of the Income Tax Act, excluding the amount not included in the calculation of losses under the provisions of Article 43) by the number of years of continuous service as calculated in accordance with the method as prescribed by Ordinance of the Ministry of Strategy and Finance.

(4) The provisions of paragraph (3) 1 shall apply in cases where the calculation standards for executives' retirement benefits are stated in the articles of association, and where the payment of executives' retirement benefits are separately stated in the articles of association, it shall be the amount under the relevant provisions. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

Article 44-2 (Non-Inclusion of Retirement Insurance Premium in Calculation of Losses)

(1) Insurance premiums, installments or charges (hereafter in this Article referred to as "insurance premium, etc.") that are paid or borne by any domestic corporation for the payment of retirement benefits to the executives and employees, other than those that are included in the

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calculation of losses under the provisions of paragraphs (2) and (3), shall not be included in the calculation of losses. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(2) The amount paid by a domestic corporation for insurance, trust or pension prescribed by Ordinance of the Ministry of Strategy and Finance with the retirement insurance money, the trust money and the pension (hereafter in this Article referred to as "insurance money, etc.") to its executives and employees making the retirement of executives or employees as the condition for payment and with its executives or employees named as the insured, the beneficiaries or the qualified recipients (hereafter in this Article referred to as "retirement insurance, etc.") shall be included in losses in calculation of taxable income for the corresponding business year. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>*

(3) The amount except the charges of the defined contribution retirement pension, etc. (referring to the defined contribution retirement pension provided for in Article 13 of the Guarantee of Workers' Retirement Benefits Act and individual retirement accounts provided for in Article 26 of the same Act; hereinafter the same shall apply) from among the amount that is disbursed pursuant to the provisions of paragraph (2) shall be included in the calculation of losses within the limit of the amount obtained by subtracting the amount referred to in subparagraph 2 from the amount referred to in subparagraph 1 and in case where not less than 2 insurance premiums, etc. exist, the insurance premium, etc. of the retirement insurance, etc. for which a contract is first concluded shall be included in the calculation of losses: *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

1. Insurance premium, etc. equivalent to the presumed amount payable as retirement allowance in case where all the executives and employees who hold offices as of the closing day of the corresponding business year (excluding anyone for whom the defined contribution retirement pension, etc. are reserved) retire at once (excluding the amount that is not included in losses pursuant to the provisions of Article 44) less the retirement allowance reserve accumulated as of the closing day of the corresponding business year; and
2. Insurance premium, etc. paid by the closing day of the immediately preceding business year.

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(4) A corporation that intends to include its insurance premium, etc. in losses pursuant to the provisions of paragraph (2) shall submit a report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment along with an adjustment statement of retirement premium, etc. prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 45 (Non-Inclusion of Welfare Expenses in Calculation of Losses)

(1) Welfare expenses paid by a corporation for its executives or employees other than the expenses falling under any one of the following subparagraphs shall not be included in the calculation of losses: *<Amended by Presidential Decree No. 16703, Feb. 7, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>*

1. Expenses for exercise facilities at the workplace;
2. Expenses for entertainment at the workplace;
3. Operational expenses of employee stock ownership associations;
4. Deleted; *<by Presidential Decree No. 17033, Dec. 29, 2000>*
5. Health insurance premiums borne by an employer under the National Health Insurance Act;
6. Operational expenses of workplace childcare facilities established under the Infant Care Act;
7. Insurance premiums borne by an employer under the Employment Insurance Act; and
8. Other condolence and congratulatory expenses paid to executives or employees and similar to those under subparagraphs 1 through 7, within the scope of those generally recognized as proper by society.

(2) through (4) Deleted. *<by Presidential Decree No. 17033, Dec. 29, 2000>*

Article 46 (Non-Inclusion of Travel Expenses in Calculation of Losses)

Travel expenses or education and training expenses paid by a corporation to controlling stockholders, etc. (including the persons with a special relationship pursuant to Article 43 (8)) other than executives or employees shall not be included in losses in the calculation of the taxable income for the relevant business year. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

Article 47 Deleted. *<by Presidential Decree No. 19328, Feb. 9, 2006>*

Article 48 (Non-Inclusion of Joint Expenses in Calculation of

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Losses)

(1) Among the losses generated or paid when a corporation jointly operates or manages the same type of organization or business with a person other than the relevant corporation, the amount in excess of the allotted amount under the standards falling under each of the following subparagraphs shall not be included in losses in the calculation of the taxable income of the relevant corporation: *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Where a specific business is jointly operated through investment, the ratio of the amount invested by the relevant corporation to the total investment amount;
2. Concerning the expenses disbursed by all the corporations, etc. (hereafter in this paragraph "non-contribution joint business operators") related to the organization, business, etc. in cases other than subparagraph 1, the standards pursuant to the following items:
 - (a) Where there is a relationship falling under any of the subparagraphs of Article 87 (1) between non-contribution joint business operators: The ratio of the sales amount of the relevant corporation to the total sales amount in the immediately previous business year: *Provided*, That as for the losses prescribed by Ordinance of the Ministry of Strategy and Finance such as joint event expenses or joint procurement expenses, they may conform to the standard prescribed by Ordinance of the Ministry of Strategy and Finance, such as the number of participating persons, purchase amount, etc.; and
 - (b) Cases other than item (a): The ratio of allotment pursuant to the contract between non-contribution joint business operators: *Provided*, That there is no ratio, it shall be pursuant to the ratio in item (a); and

3. Deleted. *<by Presidential Decree No. 20619, Feb. 22, 2008>*

(2) In the application of the provisions of paragraph (1), matters necessary for the calculation of the scope of the sales amount and other allotted amounts shall be prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 49 (Scope of Non-Business Related Assets)

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(1) The term "assets as prescribed by Presidential Decree" in subparagraph 1 of Article 27 of the Act means assets under each of the following subparagraphs: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. Immovables falling under any one of the following items: *Provided*, That the immovables, the use of which is banned or restricted in accordance with the Acts and subordinate statutes, the immovables transferred by a special purpose company incorporated under the Asset-Backed Securitization Act according to its asset liquidization program registered in accordance with Article 3 of the same Act and other immovables with unavoidable reasons prescribed by Ordinance of the Ministry of Strategy and Finance shall be excluded:
 - (a) Real estate which is not directly used for the business of the relevant corporation: *Provided*, That it shall exclude such real estate that is held until the period prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this Article referred to as the "grace period") elapses; and
 - (b) Real estate which is not directly used for the business of the relevant corporation and is transferred during the grace period: *Provided*, That this shall not include corporations which operate a real estate sales business as their primary business, and which are prescribed by Ordinance of the Ministry of Strategy and Finance; and
2. Moveables falling under any one of the following items:
 - (a) Paintings and curios: *Provided*, That any paintings and any curios that are always displayed in the space such as offices and corridors for the purpose of ornamenting and environmentally beautifying such space that is visible to many people shall be excluded;
 - (b) Cars, ships, and aircraft which are not directly used for business: *Provided*, That cars, ships and aircraft with unavoidable reasons prescribed by Ordinance of the Ministry of Strategy and Finance, such as ships, etc. acquired for the purpose of executing mortgages and getting credits repaid for which three years have yet to elapse from the date of such acquisition, shall be excluded; and
 - (c) Other assets similar to those under items (a) and (b) which are not used directly for the business of the relevant corporation.

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(2) Matters necessary for determining whether real estate falls under the provisions of paragraph (1) 1 shall be prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) The term "amount as prescribed by Presidential Decree" in subparagraph 1 of Article 27 of the Act means expenses incurred in the acquisition and management of the assets under each subparagraph of paragraph (1) and their maintenance expenses, repair expenses, and other related expenses.

Article 50 (Non-Business Related Expenses)

(1) The term "expenditures as prescribed by Presidential Decree" in subparagraph 2 of Article 27 of the Act means those falling under any of the following subparagraphs:

1. The maintenance expenses, management expenses, and user fees and other related expenses for places, buildings, and other things which the relevant corporation does not directly use and which another person (excluding executives who are not stockholders, etc., and the executives and employees who are minority stockholders, etc.) primarily uses: *Provided*, That this shall not include expenses related to production facilities lent by a corporation to small and medium enterprises without compensation in order to transfer a business under Article 35 of the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises to the relevant small and medium enterprises (limited to the operators of manufacturing business);
2. The maintenance expenses, management expenses, user fees and other related expenses for private residences used by stockholders (excluding minority stockholders, etc.) or contributing executives of the relevant corporation or their relatives (referring to the persons falling under subparagraphs 1 through 8 of Article 20 of the Enforcement Decree on Basic Act for National Taxes; hereinafter the same shall apply);
3. Expenses related to the loan of fund disbursed to acquire assets falling under any of the subparagraphs of Article 49 (1); or
4. The total amount of money, assets other than money, and other economic gains offered by the relevant corporation which fall under a bribe under the Criminal Act or the Act on Combating Bribery of Foreign Public

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(2) The term "minority stockholder, etc." in paragraph (1) 1 and 2 means the stockholders, etc. (excluding the persons with a special relationship with the controlling stockholders, etc. of the relevant corporation other than the State and local governments; hereinafter "minority stockholder, etc.") who possess less than 1/100 of the total number outstanding stocks or total investment shares.

[This Article Wholly Amended by Presidential Decree No. 20619, Feb. 22, 2008]

Article 51 (Scope of Interest on Debentures for which Creditor is Obscure)

(1) The term "interest on debentures for which the creditor is unknown" in Article 28 (1) 1 of the Act means interest on loans falling under any one of the following subparagraphs (including money and other valuables paid in borrowing money notwithstanding their names such as brokerage commission, honorarium, or other pretenses): *Provided*, That this shall not include the interest on loans where the whereabouts of the creditor becomes unknown after the creditor, whose residency was confirmed as of the date of the transaction by the Citizen Registry, receives repayment of the borrowed money:

1. Loans for which the name and address of the creditor cannot be confirmed;
2. Loans which cannot be recognized as the loan in cash by the creditor in view of his assets and abilities; and
3. Loans for which the facts of the cash transaction or the contents of the transaction with the creditor are unclear.

(2) The term "interest, discount amount, or marginal profits on bonds and securities as prescribed by Presidential Decree" in Article 28 (1) 2 of the Act means, where the corporation which issues bonds or securities directly pays the interest, discount amount, or marginal profits of such bonds or securities, the paid interest, discount amount, or marginal profits whose payment are not objectively recognized.

Article 52 (Scope of Interest on Loans Appropriated for Construction Capital)

(1) The term "interest on loans appropriated for construction capital as prescribed by Presidential Decree" in Article 28 (1) 3 of the Act means interest paid on loans used for the purchase, production, or construction of fixed assets used for business (hereafter in this Article referred to as

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"construction"), notwithstanding any other titles or pretenses for the loans (not including loans the use of which for the construction of fixed assets is unclear) or other similar expenses.

(2) Interest paid or expenses under paragraph (1) shall be capital expenses included in the original capital until the date of the completion of the construction: *Provided*, That interest income arising from the temporary deposit of loans under paragraph (1) shall be subtracted from the capital expenses amount added to the original capital.

(3) Where part of the borrowed construction capital is diverted to operational capital, an appropriate amount of interest paid for that portion shall be deemed as losses.

(4) Where the interest on borrowed construction capital in arrears is added to the original capital, the added amount shall be deemed as capital expenses of the relevant business year, and the interest paid on the added amount shall be deemed as losses.

(5) The interest on borrowed money left over after the completion of construction which was borrowed under the name of construction capital shall be deemed as losses for the business year. In this case, the date of the completion of construction shall be the date on all objectives of the relevant construction are finished.

(6) The term "date of completion" in the latter sentence of paragraphs (2) and (5) shall mean the date falling under any one of the following subparagraphs: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

1. Where land is purchased, the date the price is settled: *Provided*, That where the relevant land is used for business before the price is settled, it shall be the date on which the land was first used for business;
2. For buildings, the date of acquisition under the provisions of Article 162 of the Enforcement Decree on Income Tax Act or the date on which it is first used for the purpose of its construction (hereafter in this paragraph referred to as the "starting date of use"), whichever comes first; and
3. For other fixed assets used for business, the starting date of use.

Article 53 (Non-Inclusion of Interest Paid on Non-Business Related Assets in Calculation of Losses)

(1) The term "payments as prescribed by Presidential Decree" in Article 28 (1) 4 (b) of the Act means the amount of loans for capital with no

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connection to the business of the relevant corporation, notwithstanding the names of such loan amounts (for financial institutions falling under any subparagraph of Article 61 (2), including loan amounts for capital which cannot be seen as the main profit-making business): *Provided*, That this shall not include the amount as prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) The term "amount calculated as prescribed by Presidential Decree" in Article 28 (1) 4 of the Act means the amount calculated under the following mathematical formula:

$$\text{Paid interest} \times \text{total sum of property value under the provisions of paragraph (1) and Article 49 (1) (up to the limit of the total loans)} \\ / \text{total loans.}$$

(3) The sum of the total loans and property values under paragraph (2) shall be calculated by the drop number. In this case, the assets under paragraph (1) shall, if there concurrently exist the provisional payments and suspense receipts against the same person, be the amount offsetting them, and the assets under Article 49 (1) shall be the acquisition value (it shall be the acquisition value of assets under Article 72, and shall include the amount exceeding market prices under paragraph (3) 3 of the same Article). <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17826 Dec. 30, 2002>

(4) Loans under the provisions of paragraph (2) shall not include the amounts falling under each of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19815, Dec. 30, 2006; Presidential Decree No. 20619, Feb. 22, 2008>

1. Amounts falling under any of the following items, borrowed by financial institutions under the provisions of each subparagraph of Article 61 (2):
 - (a) Amounts borrowed from the Public Capital Management Fund under the Public Capital Management Fund Act or from the Bank of Korea under the Bank of Korea Act;
 - (b) Amounts borrowed from the State and local governments (including associations of local governments);
 - (c) Amounts borrowed from funds established under Acts and subordinate statutes;
 - (d) Foreign currency loans under the Foreign Investment Promotion

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Act or the Foreign Exchange Transactions Act; or

- (e) Funds managed and operated after receiving from many and unspecified customers on condition that a certificate of deposit shall be issued or compensation, such as the payment of regular interest through bank account shall be made, etc.; or
2. Amounts borrowed by a domestic corporation through business purchase financing loans under the Regulations provided by the Governor of Bank of Korea.

Article 54 Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

Article 55 (Order of Application of Non-Inclusion of Paid Interest in Calculation of Losses)

In case where each subparagraph of Article 28 (1) of the Act applies simultaneously to the non-inclusion of paid interest in the calculation of losses, the non-inclusion of paid interest in the calculation of losses shall be carried out in the order of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. Interest on debentures for which a creditor is unknown under the provisions of Article 28 (1) 1 of the Act;
2. Interest, discount amount, or marginal profits on bonds and securities for which a recipient is unknown under Article 28 (1) 2 of the Act;
3. Deleted; <by Presidential Decree No. 18706, Feb. 19, 2005>
4. Interest on loans appropriated for construction capital under the provisions of Article 28 (1) 3 of the Act;
5. Deleted; and <by Presidential Decree No. 19328, Feb. 9, 2006>
6. Paid interest calculated under the provisions of Article 53 (2).

Sub-Section 4 Inclusion of Reserve Funds and Appropriated Funds in Calculation of Losses

Article 56 (Inclusion of Proper Purpose Business Reserve Fund in Calculation of Losses)

(1) The term "organization as prescribed by Presidential Decree" in the main sentence of Article 29 (1) of the Act means the organization falling under each of the following subparagraphs: <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

1. Organization falling under Article 36 (1) 1;

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2. Deleted; and <by Presidential Decree No. 17457, Dec. 31, 2001>

3. Fund established under the Acts and subordinate statutes.

(2) The interest income amount which falls under any one of the following subparagraphs shall be deemed the amount provided for in Article 29 (1) 1 of the Act: <Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. The interest income amount generated when a non-profit domestic corporation operating a financial insurance business temporarily entrusts capital to any corporation that runs the financial insurance business listed on the Korea Standard Industrial Classification;

2. The interest income amount generated when a person carrying on the business provided for in Article 2 (1) 5 (b) works capital; and

3. The interest income amount generated when the Housing Finance Credit Guarantee Fund under the Korea Housing Finance Corporation Act works the guarantee fees received pursuant to Article 43-8 (1) and (2) of the said Act.

(3) The term "income generated from profit-making businesses" in Article 29 (1) 4 of the Act means the income amount generated from profit-making business in the relevant business year (referring to the income amount before the inclusion of the proper purpose businesses reserve and donations provided for in Article 24 (2) of the Act and the provisions of Article 73 (1) of the Special Tax Treatment Control Act in the calculation of the amount of loss) minus the amount under the provisions of Article 29 (1) 1 through 3 of the Act, deficits under the provisions of subparagraph 1 of Article 13 of the Act, and donations under the provisions of Article 24 (2) of the Act and Article 73 (1) of the Special Tax Treatment Control Act. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(4) Deleted. <by Presidential Decree No. 18324, Mar. 22, 2004>

(5) The term "proper purpose businesses" in Article 29 (1) of the Act means

the businesses that are directly run by the relevant non-profit domestic corporation for accomplishing its establishment purpose under the Acts and subordinate statutes or the articles of association other than the profit-making businesses falling under the provisions of Article 2 (1).

(6) In applying the provisions of Article 29 (1) through (3) of the Act, the amounts falling under the following subparagraphs shall be deemed

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to have been used or spent for the proper purpose businesses: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>

1. The amount of expenses that are directly required for executing the proper purpose business of a non-profit domestic corporation such as the acquisition expenses of fixed assets and personnel expenses;
2. The amount of business reserve funds for proper purposes appropriated as losses that are accumulated as funds or reserve funds under the Acts and subordinate statues by a non-profit domestic corporation, established under special Acts (including the organizations regarded as the corporation under the provisions of Article 13 of the Basic Act for National Taxes from among the Funds established and operated in the relevant corporation), operating the health insurance business, pension fund management business, mutual aid business, and the business referred to in Article 2 (1) 8;
3. The amount spent by a non-profit domestic corporation operating healthcare service (hereafter in this Article referred to as a "medical corporation") for the acquisition of fixed assets prescribed by Ordinance of the Ministry of Strategy and Finance, such as medical equipment;
4. The amount of loans that the National Agricultural Cooperative Federation established pursuant to the Agricultural Cooperatives Act extends to its members without any consideration from the reserve fund for proper purpose business, appropriated under Article 61 (1) of the Act;
5. The amount contributed by the National Agricultural Cooperative Federation under the Agricultural Cooperatives Act to the Mutual Finance Depositor Protection Fund under the Act on the Structural Improvement of Agricultural Cooperatives;
6. The amount contributed by the National Federation of Fisheries Cooperatives under the Fisheries Cooperatives Act to the Mutual Finance Depositor Protection Fund under the Act on the Structural Improvement of Fisheries Cooperatives;
7. The amount contributed by the National Credit Union Federation of Korea under the Credit Unions Act to the Credit Union Depositor

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Protection Fund under the same Act;

8. The amount contributed by the Korean Federation of Community Credit Cooperatives under the Community Credit Cooperatives Act to the depositor protection reserve under the same Act; or
9. The amount contributed by the National Forestry Cooperatives Federation under the Forestry Cooperatives Act to the Mutual Finance Depositor Protection Fund under the same Act.

(7) The term "amount equivalent to the interest calculated under the conditions as prescribed by Presidential Decree" in Article 29 (4) of the Act means the amount calculated by multiplying the amount of subparagraph 1 by the rate of subparagraph 2: *<Amended by Presidential Decree No. 17826 Dec. 30, 2002>*

1. The difference in the corporate tax amount for the business year in which the balance of the relevant proper purpose businesses reserve fund was included in the calculation of losses, generated by including the balance in the calculation of losses; and
2. The rate of 3/10,000 per day for the period from the starting date of the business year following the business year in which the balance was included in the calculation of losses until the last day of the business year in which the balance was included in the calculation of earnings.

(8) The term "case that is prescribed by Presidential Decree" in Article 29 (5) of the Act means a case where the income that accrues from the profit-making business of the relevant non-profit domestic corporation is subject to the application of the non-taxation, the exemption, the inclusion of the reserve in the amount of deficit, the income deduction or the deduction and exemption of the tax amount (excluding the tax deduction) provided for in the Act or the Special Tax Treatment Control Act: *Provided*, That in case where a revised return is filed only for the application of the proper purpose business reserve, such case shall be excluded. *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

(9) A non-profit domestic corporation which wishes to be subject to the application of the provisions of Article 29 (1) of the Act shall submit a detailed statement on the settlement of the proper purpose businesses reserve fund as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office with jurisdiction over the place of tax payment together with the report under Article 60 of the Act. *<Amended*

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by Presidential Decree No. 20720, Feb. 29, 2008>

(10) A medical corporation that intends to be subject to the application of the provisions under paragraph (6) 3 shall manage the amount of proper purpose business reserve that was appropriated as losses in a separate account for medical development as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20720, Feb. 29, 2008>*

Article 57 (Inclusion of Liability Reserve Fund in Calculation of Losses)

(1) The liability reserve fund under Article 30 (1) of the Act shall be included in the calculation of losses within the sum total of the amount falling under each of the following subparagraphs in the calculation of the taxable ncome for the relevant business year: *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

1. The amount of money which would have to be paid back to policy-holders or beneficiaries under insurance agreements approved by the Governor of the Financial Supervisory Service (for the mutual aid business under the Agricultural Cooperatives Act, the Minister for Food, Agriculture, Forestry and Fisheries; for the mutual aid business under the Fisheries Cooperatives Act, the Minister for Food, Agriculture, Forestry and Fisheries; for the export insurance business under the Export Insurance Act, the Minister of Knowledge Economy; and for the mutual aid business under the Community Credit Cooperatives Act, the Minister of Public Administration and Security) if all of the insurance contracts were cancelled as of the last day of the relevant business year (including surrender charges); and
2. Where an insured accident has occurred as of the last day of the relevant business year but the amount of insurance money which must be paid is not determined, the amount of insurance money estimated in consideration of the amount of damages.

(2) The contingency reserve fund under the provisions of Article 30 (1) of the Act shall be included in the calculation of losses within the amount calculated by multiplying the sum total of holding insurance premiums for short-term non-life insurance in the relevant business year (for personal insurance, limited to insurance against death or disease with no surrender

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value or maturity repayment; hereafter in this Article the same shall apply) by the accumulation standard rates by insurance type that is determined by the Financial Services Commission. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>*

(3) The accumulated amount of the contingency reserve fund included in the calculation of losses under the provisions of paragraph (2) shall be limited to 50/100 (40/100 in the case of the automobile insurance) of the sum total of lapsed insurance premiums for short-term non-life insurance in the relevant business year. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(4) Matters necessary for the disposition of contingency reserve funds appropriated as losses under the provisions of paragraphs (2) and (3) and the calculation of earned insurance premiums shall be prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(5) A domestic corporation which wishes to be subject to the application of the provisions of Article 30 (1) of the Act shall submit a detailed statement on the liability reserve fund as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 58 (Inclusion of Divisible Surplus in Calculation of Losses)

(1) The term "amount calculated as prescribed by the Presidential Decree" in Article 31 (1) of the Act means the amount that is accumulated according to the standards for including deductible expenses that are set by the Governor of the Financial Supervisory Service in consultation with the Minister of Strategy and Finance (refers to the amount approved by the Minister for Food, Agriculture, Forestry and Fisheries in consultation with the Minister of Strategy and Finance in the case of the mutual aid business under the Agricultural Cooperatives Act and the Fisheries Cooperatives Act, and to the amount approved by the Minister of Public Administration and Security in consultation with the Minister of Strategy and Finance in the case of the mutual aid business under the Community Credit Cooperatives Act) for the divisible surplus accumulated by a corporation operating an insurance business in order to pay dividends to insurance

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policyholders. <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

(2) A domestic corporation which wishes to be subject to the application of the provisions of Article 31 (1) of the Act shall submit a detailed statement on the divisible surplus for policyholders as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) The term "amount equivalent to interest computed under the Presidential Decree" in Article 31 (4) of the Act means the amount computed applying *mutatis mutandis* the provisions of Article 56 (7). <Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000>

Article 59 Deleted. <by Presidential Decree No. 17033, Dec. 29, 2000>

Article 60 (Inclusion of Retirement Benefits Payment Fund in Calculation of Losses)

(1) The term "amount calculated as prescribed by Presidential Decree" in Article 33 (1) of the Act means the amount corresponding to 5/100 of the total benefits (referring to the total amount of benefits under Article 44 (3) 2) paid to executives or employees who are eligible for the payment of the retirement benefits (excluding anyone for whom the defined contribution retirement pension is reserved; hereafter the same in this Article shall apply) in the relevant business year. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(2) The amount of the accumulated funds for retirement benefits included in the calculation of losses under the provisions of paragraph (1) shall be limited to 30/100 of the estimated amount which would have to be paid as retirement benefits if all executives or employees employed as of the last day of the relevant business year were to retire (excluding the amount not included in the calculation of losses under the provisions of Article 44). <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(3) The amount appropriated as retirement benefits conversion funds under the National Pension Act by a domestic corporation shall be added to the limit amount of the retirement benefits funds included in the calculation of losses, notwithstanding the provisions of paragraph (2).

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<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(4) A domestic corporation which wishes to be subject to the application of the provisions of Article 33 (1) of the Act shall submit a detailed statement on the settlement of the retirement benefits payment funds as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 61 (Inclusion of Allowance for Bad Debts in Calculation of Losses)

(1) The credit sales accounts, loans, and other corresponding receivable claims under the provisions of Article 34 (1) of the Act shall be those under each of the following subparagraphs:

1. Credit sales accounts: The unreceived amount of the selling price of commodities and manufactured goods, and the unreceived amount of the business revenue amount from processing fees and the provision of services;
2. Loans: The amount of loans extended to other person under a cash consumer loan contract; and
3. Other corresponding receivable claims: Receivable claims on bills, unreceived accounts, and other receivable claims for which the allowance for bad debts is established under Financial Accounting Standards (excluding bonds in excess of the market price under the application of the provisions of Article 88 (1) 1).

(2) The term "amount calculated under the conditions as prescribed by Presidential Decree" in Article 34 (1) of the Act means the amount calculated by multiplying the sum of book value of all credit sales accounts, loans, and other corresponding receivable claims under paragraph (1) as of the last day of the relevant business year (hereafter in this Article referred to as "balance of receivable claim") by 1/100 (2/100 for financial institutions falling under any one of the following subparagraphs) or the amount calculated by multiplying the balance of receivable claim by the rate of actual bad debts, whichever is larger: *Provided*, That it may be the largest of the amount that should be accumulated according to the criteria for accumulation of bad debt allowance prescribed by the Financial Services Commission (referring to the Mayor/*Do* governor provided for in Article 3 of the Act on Registration of Credit Business and Protection of Finance

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Users in the case of subparagraph 37) in consultation with the Minister of Strategy and Finance, the amount equivalent to 2/100 of the balance of receivable claim, or the amount calculated by multiplying the balance of receivable claim by the rate of actual bad debts, in case of financial institutions falling under subparagraphs 1 through 12, 21, 23, 26, 28 and 35 through 37 (any corporation falling under subparagraphs 6, 7 and 28 shall be limited to the credit business): <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17791, Dec. 5, 2002; Presidential Decree No. 17826 Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

1. Financial institutions established with approval under the Banking Act;
2. The Korea Development Bank under the Korea Development Bank Act;
3. The Industrial Bank of Korea under the Industrial Bank of Korea Act;
4. The Export-Import Bank of Korea under the Export-Import Bank of Korea Act;
5. The Long-Term Credit Bank under the Long-Term Credit Bank Act;
6. The National Agricultural Cooperative Federation under the Agricultural Cooperatives Act;
7. The National Federation of Fisheries Cooperatives under the Fisheries Cooperatives Act;
8. Securities companies under the Securities and Exchange Act;
9. Merchant banks under the Merchant Banks Act;
10. The Korea Federation of Savings Banks (limited to the deposits for reserve requirement) and the mutual savings banks under the Mutual Savings Banks Act;
11. Insurance businessmen under the Insurance Business Act;
12. Corporations operating trust businesses with approval under the Trust Business Act;
13. Credit Guarantee Fund under the Credit Guarantee Fund Act;
14. Korea Technology Credit Guarantee Fund under the Korea Technology Credit Guarantee Fund Act;
15. Credit Guarantee Fund for Farmers and Fishermen under the Act

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- on the Credit Guarantee for Agricultural, Forestry and Fishery Enterprises;
16. Housing Finance Credit Guarantee Fund provided for in the Korea Housing Finance Corporation Act;
 17. The Korea Export Insurance Corporation under the Export Insurance Act;
 18. The Korea Deposit Insurance Corporation and readjusting financial institutions under the Depositor Protection Act;
 19. The Korea Asset Management Corporation established under the Act on the Efficient Disposal of Non-Performing Assets, etc. of Financial Institutions and the Establishment of Korea Asset Management Corporation (including the Non-Performing Loan Resolution Fund);
 20. The Korea Securities and Futures Exchange provided for in the Korea Securities and Futures Exchange Act and securities and financial companies that each obtains the permission pursuant to the Securities and Exchange Act;
 21. Companies specialized in credit financing business under the Specialized Credit Financial Business Act;
 22. Special purpose companies under the Asset-Backed Securitization Act;
 23. Fund brokerage companies under the Merchant Banks Act;
 24. Small and medium enterprise start-up investment companies under the Support for Small and Medium Enterprise Establishment Act;
 25. Deleted; <by Presidential Decree No. 19328, Feb. 9, 2006>
 26. Special purpose companies for mortgage-backed bonds under the Special Purpose Companies for Mortgage-Backed Bonds Act;
 27. Credit guarantee foundations under the Regional Credit Guarantee Foundation Act;
 28. The National Forestry Cooperatives Federation established under the Forestry Cooperatives Act;
 29. Deleted; <by Presidential Decree No. 17826, Dec. 30, 2002>
 30. The Korea Labor Welfare Corporation under the Industrial Accident Compensation Insurance Act (limited to the claim for reimbursement originated in supporting business of workers' credit guarantee);
 31. Agricultural cooperative's property management companies under the Act on the Structural Improvement of Agricultural Cooperatives;
 32. Corporations registered as credit business operators under the Act

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- on Registration of Credit Business and Protection of Finance Users;
33. Korea Securities Depository under the Securities and Exchange Act;
 34. Korean Federation of Community Credit Cooperatives under the Community Credit Cooperatives Act;
 35. Financial holding company under the Financial Holding Companies Act;
 36. The Korea Housing Finance Corporation established pursuant to the Korea Housing Finance Corporation Act;
 37. Any corporation that is prescribed by Ordinance of the Ministry of Strategy and Finance and incorporated for the purpose of extending loans to persons who fail to repay their debts by the agreed date while executing commercial transactions, etc. including financial transactions provided for in the Enforcement Decree of the Use and Protection of Credit Information Act and are prescribed by the Financial Services Commission (hereinafter referred to as the "delinquents of financial obligations, etc."), among the corporations provided for in subparagraph 32; and
 38. The Korea Investment Corporation provided for in the Korea Investment Corporation Act.
- (3) The rate of actual bad debts under the provisions of paragraph (2) shall be the rate calculated under the following mathematical formula:
- Actual bad debts rate = bad debts for the relevant business year under the provisions of Article 34 (2) of the Act / the balance of receivable claims as of the last day of the immediately previous business year.
- (4) The term "guarantees of obligations as prescribed by Presidential Decree" in Article 34 (3) 1 of the Act means guarantees of obligations under the following subparagraphs: *<Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19494, May 30, 2006; Presidential Decree No. 20619, Feb. 22, 2008>*
1. Guarantees of obligations falling under any subparagraph of Article 10-2 (1) of the Monopoly Regulation and Fair Trade Act;
 2. Guarantees of obligations made by financial institutions, etc. under any subparagraph of paragraph (2) or by corporations under Article 17-2 (8) 2;
 3. Guarantees of obligations made by a corporation operating a credit guarantee business under Acts; and

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4. Guarantees of obligations made by a trust enterprise under the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises for trustee enterprises which are members of the Trustee Enterprises Council.
- (5) Any loss incurred by the disposal of claims subject to the application of the provisions of Article 34 (3) of the Act shall not be included in losses. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20619, Feb. 22, 2008>*
- (6) The provisions of Article 34 (6) of the Act shall apply in cases where the receivable claims corresponding to the bad debt allowance are transferred simultaneously.
- (7) A domestic corporation which wishes to be subject to the application of the provisions of Article 34 (1) of the Act shall submit a detailed statement on the settlement of bad debt allowances and bad debts as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 62 (Scope of Bad Debts)

- (1) The term "claims which cannot be collected due to causes as prescribed by Presidential Decree" in Article 34 (2) of the Act means those falling under any one of the following subparagraphs: *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>*
 1. Credit sales accounts and unreceived funds for which the extinctive prescription has been completed under the Commercial Act;
 2. Bills for which the extinctive prescription has been completed under the Bills of Exchange and Promissory Notes Act;
 3. Checks for which the extinctive prescription has been completed under the Check Act;
 4. Loans and prepayments for which the extinctive prescription has been completed under the Civil Act;
 5. Claims confirmed to be uncollectable by a decision on the rehabilitation program authorization provided for in the Debtor Rehabilitation and

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- Bankruptcy Act or a decision on the immunity from responsibility by a court;
6. Claims for seizure for which the auction of debtor's seized assets is cancelled under the provisions of Article 102 of the Civil Execution Act;
 7. Claims arising from the export of products or the rendering of services overseas for which the duty to collect the claims is waived by the Governor of the Bank of Korea or heads of foreign exchange banks under the foreign exchange transactions related Acts and subordinate statutes;
 8. Claims which are not collectible due to the bankruptcy, compulsory execution, execution of a punishment, close of business, death, disappearance, or uncertainty of the whereabouts of the debtor;
 9. Claims or credit sales account on checks or bills for which 6 months or more have passed since the date they were dishonored (limited to credit sales accounts of small and medium enterprises before the date they were dishonored): *Provided*, That where the relevant corporation has established mortgage rights on the debtor's assets, this shall not apply;
 10. Claims of a debtor who has received a deficits disposal of national taxes from the head of tax office having jurisdiction over the place of tax payment under the provisions of Article 86 (1) of the National Tax Collection Act (excluding claims on which mortgage rights are established);
 11. Claims of 100,000 won or less (the aggregate amount of the value of receivable claims of each debtor shall be based) for which there is deemed to be no benefit in collection because the collection expenses are in excess of the value of the relevant claims among claims for which 6 months or more have passed from the collection date;
 12. Claims falling under any of the following items among those issued by financial institutions under the proviso to Article 61 with the exception of its subparagraph of Article 61 (2) (hereafter in this subparagraph, referred to as "financial institutions") (limited to those claims pertaining to new technology business operators only in case of new technology business financing business operators among companies specialized in credit financing business under Article 61 (2) 21):

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- (a) Those for which financial institutions have obtained approval from the Governor of the Financial Supervisory Service pursuant to the criteria for disposal of bad debts as prescribed by the Governor of the Financial Supervisory Service in consultation with the Minister of Strategy and Finance; and
 - (b) Those for which the Governor of the Financial Supervisory Service has demanded write-off as meeting the criteria under item (a) and which financial institutions have appropriated as bad debts;
13. Deleted; <by Presidential Decree No. 17033, Dec. 29, 2000>
14. Claims against a founder of a new corporation under Article 61 (2) 24 which are deemed to meet the standards as prescribed by the Administrator of the Small and Medium Business Administration in consultation with the Minister of Strategy and Finance; and
15. Part of claims which are inevitably renounced to collect the rest of the claims early, regardless of the existence of any special relationship under Article 52 of the Act with the debtor: *Provided*, That this shall not apply in cases the cases where the renouncement of the claims falls under any wrongful act under Article 52 of the Act.
- (2) The date on which they were dishonored under paragraph (1) 9 shall be the fixed date for payment on bad checks or dishonored bills held by them (where a check or bill is presented before the fixed date for payment and confirmation of the dishonored check or bill is received from a financial institution, it shall be the date of such confirmation). In this case, the amount of bad debts which may be appropriated as losses shall be the amount of the relevant claims which have not been collected as of the last day of the business year minus 1,000 won.
- (3) Bad debts falling under any subparagraph of paragraph (1) shall be deemed as losses for the business year which includes the date falling under each of the following subparagraphs:
- 1. In the case of paragraph (1) 1 through 7, the date on which such cause occurs; and
 - 2. In other cases, the date on which bad debts are appropriated as losses for the relevant causes.
- (4) Notwithstanding the provisions of paragraph (3) 2, in case where a corporation merges with another corporation or divides, if the amount of bad debts provided for in paragraph (1) 8 through 15 is not appropriated

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as losses not later than the business year whereto belongs the registration date of the merger or division, the amount of bad debts shall be deemed as losses for the business year whereto belongs the registration date of the merger or division of the relevant corporation. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(5) In case that any domestic corporation appropriates the difference between the book value of claims and the current value thereof as bad debts, resulting from the readjustment of claims according to the Financial Accounting Standards, such difference shall be included in losses and the amount included in losses shall be included in earnings according to the return method of the Financial Accounting Standards. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

(6) A domestic corporation which wishes to be subject to the application of the provisions of Article 34 (2) of the Act shall submit a detailed statement on the settlement of the bad debt account and bad debts as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 63 (Inclusion of Account for Write-off Indemnity Receivables in Calculation of Losses)

(1) The term "corporations as prescribed by Presidential Decree" in Article 35 (1) of the Act means corporations falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17826 Dec. 30, 2002; Presidential Decree No. 18146, Nov. 29, 2003; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 18736, Mar. 8, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

1. Corporations under the provisions of Article 61 (2) 13 through 17 and 30;
2. Korea Housing Guarantee Co., Ltd. under the Housing Act;
3. Industrial Infrastructure Credit Guarantee Fund under the Act on Private Participation in Infrastructure;
4. Credit guarantee foundations and the National Federation of Credit Guarantee Foundations, which are provided for in the Regional Credit Guarantee Foundation Act;

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5. Engineering mutual-aid cooperatives under the Engineering Technology Promotion Act;
6. Software mutual aid association under the Software Industry Promotion Act;
7. Mutual aid association under the Door-to-Door Sales, etc. Act;
8. Korea Housing Finance Corporation under the Korea Housing Finance Corporation Act;
9. Mutual aid cooperatives under the Framework Act on the Construction Industry;
10. Electrical construction mutual aid associations under the Electrical Construction Mutual Aid Association Act; or
11. Capital goods mutual aid cooperatives under the Industrial Development Act.

(2) The term "amount calculated under the conditions as prescribed by Presidential Decree" in Article 35 (1) of the Act means the amount calculated by multiplying the credit guarantee balance as of the last day of the relevant business year by 1/100 or by the incidence of indemnity receivables compensation (refers to the rate of indemnity receivables that accrued in the relevant business year from among the balance of credit guarantee as of the end of the immediately previous business year), whichever is smaller. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(3) Where a domestic corporation which has appropriated the account for write-off indemnity receivables as losses under the provisions of Article 35 (1) of the Act has bad debts falling under any of the following subparagraphs that are generated from among indemnity receivables arising from the credit guarantee business, such bad debts may be offset by the account for write-off indemnity receivables: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. Indemnity receivables falling under any subparagraph of Article 62 (1); and
2. Indemnity receivables which are deemed to fall under the standards as prescribed by the steering committee under the Act concerning the establishment of the relevant corporation (meaning the credit guarantee deliberation committee for people engaged in agricultural, forestry, fishing industry in case of the Credit Guarantee Fund for People Engaged

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in Agricultural, Forestry, Fishing Industry, Korea Federation of Credit Guarantee Foundations under the Regional Credit Guarantee Foundation Act in case of a credit guarantee foundation, and the board of directors in case of the Korea Housing Guarantee Co., Ltd. and the Korea Labor Welfare Corporation) in consultation with the Minister of Strategy and Finance.

(4) Account for write-off indemnity receivables included in the calculation of earnings under Article 35 (2) of the Act shall be the amount left over from the amount offset by bad debts under paragraph (3).

(5) A domestic corporation which wishes to be subject to the application of the provisions of Article 35 (1) of the Act shall submit a detailed statement on the settlement of the account for write-off indemnity receivables as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 64 (Inclusion of Treasury Subsidies, etc. in Calculation of Losses)

(1) The term "assets used for business as prescribed by Presidential Decree" in Article 36 (1) of the Act means fixed assets used for business and petroleum.

(2) The amount of the value of assets used for an individual business included in the calculation of losses under Article 36 (1) of the Act shall be an amount equivalent to the amount of subsidies prescribed by the Act on the Budgeting and Management of Subsidies or the Local Finance Act or subsidies, etc. prescribed by the Acts falling under each subparagraph of paragraph (6) (hereafter in this Article referred to as "treasury subsidies, etc."), which are used to acquire or improve the relevant assets used for business. *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>*

(3) The amount included in the calculation of losses under the provisions of paragraph (2) shall be appropriated as lump sum depreciation reserve funds or as compressed account reserve funds under each of the following subparagraphs in accordance with the type of the relevant assets used for business:

1. Depreciable assets: Lump sum depreciation reserve funds; and
2. Assets other than those under subparagraph 1: Compressed account

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reserve funds.

(4) The lump sum depreciation reserve fund and compressed accounts reserve fund appropriated as losses under the provisions of paragraph (3) shall be included in the calculation of earnings by the methods under each of the following subparagraphs:

1. For the lump sum depreciation reserve fund, the amount set off for the depreciation costs of the relevant assets used for business (limited to an appropriate amount of the acquisition value for the relevant lump sum depreciation reserve fund from among acquisition value): *Provided*, That where the relevant assets are disposed of, the total amount of the balance of the amount set off shall be included in the calculation of earnings for the business year which includes the date of its disposal; and
2. For the compressed accounts reserve fund, the full amount shall be included in the calculation of earnings for the business year in which the relevant assets used for business are disposed of.

(5) In the application of the provisions of paragraph (4), the amount included in the calculation of earnings from the disposal of part of the relevant assets used for business shall be the amount calculated by multiplying the value of the relevant assets used for business by the ratio of the proportion occupied by the lump sum depreciation reserve fund or the compressed accounts reserve fund.

(6) The term "Act prescribed by Presidential Decree" in Article 36 (1) of the Act means the Act falling under each of the following subparagraphs: *<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 18736, Mar. 8, 2005; Presidential Decree No. 19328, Feb. 9, 2006>*

1. The Act on the Promotion of Electrification in Agricultural and Fishing Villages;
2. The Electric Utility Act;
3. The Act on Private Participation in Infrastructure;
4. The Korea Railroad Corporation Act;
5. The Rearrangement of Agricultural and Fishing Villages Act; and
6. The Act on the Maintenance and Improvement of Urban Areas and Dwelling Conditions for Residents.

(7) The word "causes prescribed by Presidential Decree" in the latter part

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of Article 36 (2) of the Act means the cases falling under any of the following subparagraphs: <Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>

1. Where permission, authorization, etc. of construction is delayed;
2. Where the period of construction is extended because the place in which the construction shall be performed is not determined, etc.;
3. Where litigation on the compensation for land, etc. is pending; or
4. Where a cause corresponding to subparagraphs 1 through 3 has occurred.

(8) A domestic corporation which wishes to be subject to the application of the provisions of Article 36 (1) and (2) of the Act shall submit a detailed statement on the settlement of the inclusion of an appropriate amount of national treasury subsidies, etc. in losses (a plan for the use of treasury subsidies, etc.) as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 20720, Feb. 29, 2008>

Article 65 (Inclusion of Construction Charges in Calculation of Losses)

(1) The term "what is prescribed by Presidential Decree" in Article 37 (1) 5 of the Act means the project falling under each of the following subparagraphs: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

1. The project undertaken to build the information superhighway network under the Framework Act on Informatization Promotion; and
2. The project undertaken to install waterworks under the Water Supply and Waterworks Installation Act.

(2) The amount included in the calculation of losses under the provisions of Article 37 (1) of the Act shall be the amount corresponding to the value of the relevant fixed assets by individual fixed assets (where fixed assets are acquired by receiving offered construction charges, the amount corresponding to the construction charges used for the acquisition).

(3) Article 64 (3) through (5) and (7) shall apply *mutatis mutandis* to the inclusion of an appropriate amount for the value of fixed assets under paragraph (2) in the calculation of earnings and losses. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(4) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

(5) A domestic corporation which wishes to be subject to the application of the provisions of Article 37 (1) and (2) of the Act shall submit a detailed

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statement on the inclusion of an appropriate amount of construction charges in the calculation of losses (a plan for the use of construction charges) as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 66 (Inclusion of Insurance Marginal Profits in Calculation of Losses)

(1) The same type of fixed assets under the provisions of Article 38 (1) of the Act means fixed assets acquired to replace lost fixed assets which are to be used for the same purpose as the lost assets.

(2) The amount included in the calculation of losses under the provisions of Article 38 (1) of the Act shall be the amount corresponding to the insurance marginal profits used to acquire or improve the relevant fixed assets by individual fixed assets. In this case, where the value of the relevant fixed assets is less than the insurance money received, the amount of the insurance money which is not insurance marginal profits shall be used first.

(3) The provisions of Article 64 (3) 1, (4) 1 and (5) shall apply *mutatis mutandis* to the inclusion of an appropriate amount of insurance marginal profits under paragraph (2) in the calculation of losses and earnings.

(4) A domestic corporation which wishes to be subject to the application of the provisions of Article 38 (1) and (2) of the Act shall submit a detailed statement on the inclusion of an appropriate amount of insurance marginal profits in the calculation of losses (plan for the use of insurance marginal profits) as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment.

<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 67 Deleted. <by Presidential Decree No. 17457, Dec. 31, 2001>

Sub-Section 5 Time of Accrual of Earnings and Losses

Article 68 (Business Year in which Earnings and Losses Accrue from Sales of Assets)

(1) In the application of the provisions of Article 40 (1) and (2) of the

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Act, the business year in which earnings and losses accrue from the transfer of assets shall be the business year which includes the dates under each of the following subparagraphs: <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

1. For the sale of commodities (excluding real estate), manufactured goods, or other products (hereafter in this Article referred to as "commodities"): The date on which the commodities are delivered;
 2. For the trial sale of commodities: The date on which the other party expresses the intention to purchase the commodities: *Provided*, That where the sale is confirmed by a special contract which states that if the commodities are not returned or the intention to reject them is not expressed within a certain period, it shall be the date of the expiration of such period;
 3. For the transfer of assets other than commodities: The date the price is settled [for the portion of exchange rate fluctuations in the amount of acquisition capital that is a foreign currency price (hereafter in this subparagraph referred to as the "foreign currency price"), which is not converted into won currency, received in exchange for transferring foreign currency-denominated assets such as foreign currency bonds, etc. acquired and held by the Bank of Korea under the Bank of Korea Act, the date the foreign currency price is sold and converted into the won currency in such a manner as determined by the Bank of Korea]: *Provided*, That where the registration of the transfer of rights of possession, the delivery of the relevant assets, or the use of the relevant assets by the other party takes place before the date on which the price is settled, it shall be the date of the registration of the transfer, the date of delivery, or the date on which the other party started to use the relevant assets, whichever is sooner; and
 4. For consignment sales and purchases of assets: The date on which the consignee buys or sells the consigned assets.
- (2) In the settlement of accounts for the business year which includes the date of the delivery of assets sold or transferred on a long term installment plan (for assets falling under paragraph (1) 3, the date under the proviso to the same subparagraph; hereafter in this Article the same shall apply), where the amount collected or to be collected in the relevant business year and the corresponding expenses are appropriated as earnings

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and losses respectively, the amount collected or to be collected in each business year and the corresponding expenses shall be included in the calculation of earnings and losses for each business year in accordance with the long term installment plan, notwithstanding the provisions of paragraph (1) 1 and 3. In this case, the amount collected or to be collected prior to the date of delivery shall be deemed to be collected on the date of delivery, and where the corporation closes its business during the period of the long term installment plan, the amount not included in the calculation of earnings as of the date of the closing of the business and the corresponding expenses shall be included in the calculation of earnings and losses, respectively, for the business year which includes the date of the closing of the business.

(3) The term "long term installment plan" in paragraph (2) means the sale or transfer of assets (for transactions abroad, including leases of assets under conditional contracts for the transfer of possession rights) in which the sales amount or revenue amount is paid monthly, yearly, or by another periodic method by which the payment is made in 2 or more installments, and the last payment is made 1 year or later from the day after the date of the delivery of the relevant assets.

(4) In the application of the provisions of paragraph (1), where a corporation sells at a discount, the sales discount amount shall be subtracted from the sales amount for the business year which includes the date of payment under the contract with the other party (where the date of payment is not prescribed, the date the payment is made).

(5) In the transfer or sale of assets by a corporation according to a long term installment plan under the provisions of paragraph (3), where the present value of the debentures generated are evaluated according to Financial Accounting Standards and appropriated as present value discount margin funds, the amount of the relevant present value discount margin funds entered or to be entered shall be included in the calculation of earnings for each business year during the collection period of the relevant debentures in accordance with Financial Accounting Standards.

(6) Matters necessary for the scope of the date of delivery under the provisions of paragraph (1) 1 shall be prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

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Article 69 (Business Year in which Earnings and Losses Accrue from Provision of Services)

(1) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year in which earnings and losses accrue from the provision of construction, manufacturing, and other services (including contract and subscription sales; hereafter in this Article referred to as "construction") shall be the business year which includes the date of delivery of the objectives (for the provision of services, the date of the completion of the service; hereafter in this Article the same shall apply).

(2) In the application of the provisions of paragraph (1), where the period of the construction contract (referring to the period from the commencement of construction until the date of delivery; hereafter in this Article the same shall apply) is one year or longer, the earnings and expenses, which is calculated based on the construction completion rate as prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this Article referred to as "rate of work progress") shall be included in the calculation of earnings and losses for each business year from the business year which includes the date of the commencement of construction to the business year which includes the date of its delivery, notwithstanding the provisions of the same paragraph: *Provided*, That where it is deemed that the rate of work progress cannot be calculated as prescribed by Ordinance of the Ministry of Strategy and Finance, they shall be included in the calculation of earnings and losses for the business year which includes the date of delivery of the objectives. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) In the settlement of the accounts for the business year which includes the date of the commencement of construction, where the construction contract period is less than one year, the provisions of paragraph (2) shall apply *mutatis mutandis* to the business year in which earnings and losses are appropriated in accordance with the rate of work progress.

Article 70 (Business Year of Accrual of Interest Income)

(1) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year of accrual of earnings such as interest and losses shall be in accordance with each of the following subparagraphs: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

1. Interest and discount amounts received by a corporation (hereafter in this paragraph referred to as "interest"): Business year which

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includes the date falling under the time of income under Article 45 of the Enforcement Decree on Income Tax Act (for any corporation that runs the financial and insurance business in light of the Korean Standard Industrial Classification, the date of actually receiving the income, excluding any prepaid interest): *Provided*, That in the settling of accounts, where the interest on a period which has already passed (excluding interest withheld under Article 73 of the Act) is appropriated as profits for the relevant business year, it shall be included in earnings for the relevant business year; and

2. Interest paid by a corporation: Business year which includes the date falling under the time of income under the provisions of Article 45 of the Enforcement Decree on Income Tax Act: *Provided*, That in the settling of accounts, where the interest on a period which has already passed is appropriated as losses for the relevant business year, it shall be included in losses for the relevant business year.

(2) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year of accrual of dividend income received by a corporation shall be the business year which includes the date falling under the time of income under the provisions of Article 46 of the Enforcement Decree on Income Tax Act: *Provided*, That the dividend income that is paid by the specialized liquidity company provided for in the Asset-Backed Securitization Act, which is incorporated jointly by financial institutions, etc. provided for in each subparagraph of Article 61 (2) by making joint investments therein in order to restore the credits of the delinquents of financial obligations, etc. and to jointly collect their claims shall be deemed the dividend income of the business year to which the date on which such dividend income is actually paid belongs. <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

(3) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year of accrual of insurance premiums, installments, guarantee fees, or transfer fees (hereafter in this paragraph referred to as "insurance premiums, etc.") received by corporations that run the financial and insurance business in light of the Korean Standard Industrial Classification shall be the business year which includes the date on which the insurance premiums were actually received, not including prepaid insurance premiums: *Provided*, That in the settling of accounts, where

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the insurance premium on a period which has already passed are appropriated as earnings for the relevant business year, they shall be included in earnings for the relevant business year and if any securities company incorporated under the Securities and Exchange Act trades securities in a typical manner, the business year to which the commission thereof is attributed shall be the business year to which the date on which the transaction contract thereon is concluded belongs. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

(4) In the settlement of accounts, if any securities investment company incorporated under the Indirect Investment Asset Management Business Act appropriates interest, etc. and dividend income on any period that has already passed from among earnings generated from the investment of securities under subparagraph 7 of Article 2 of the same Act as profits of the relevant business year, such profits shall be included in the earnings for the relevant business year in which such appropriation is made, notwithstanding paragraphs (1) and (2). <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

Article 71 (Business Year of Accrual of Other Earnings and Losses such as Rental Fees)

(1) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year of accrual of earnings and losses generated from the rental of assets shall be the business year which includes the date falling under each of the following subparagraphs: *Provided*, That in the confirmation of settlement of accounts, where any amount equivalent to the rental fee for any period that has already passed the expenses corresponding this is appropriated as profits and the payment period of such rental fee exceeds one year, an amount equivalent to the rental fee on the period that has already passed and other expenses shall be made earnings and losses of the relevant business year: <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

1. Where the date of payment of rental fees is prescribed by a contract, the payment date; and
2. Where the date of payment of rental fees is not prescribed by a contract, the date on which payment is received.

(2) In the application of the provisions of Article 40 (1) and (2) of the

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Act, where a corporation operating a business under the application of the provisions of Article 162 of the Income Tax Act and Article 32-3 (4) of the Value-Added Tax Act installs and uses a cash register, the business year of accrual of the prices of goods and services received may be the business year in which such amount is actually received. *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

(3) In the application of the provisions of Article 40 (1) and (2) of the Act, where any corporation issues bonds, an amount (hereafter in this paragraph referred to as "bond discount") obtained by deducting the total amount of the value of issued bonds (excluding the commission for issuing such bonds and expenses spent directly and inevitably to issue such bonds) from the total amount of bonds to be redeemed shall be included in losses according to the method of depreciating bond discounts under Financial Accounting Standards. *<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>*

(4) In the application of the provisions of Article 40 (1) and (2) of the Act, the business year of accrual of earnings and losses shall be prescribed by Ordinance of the Ministry of Strategy and Finance except as otherwise prescribed by the Act (excluding Article 43), the Special Tax Treatment Control Act, and this Decree. *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

Article 72 (Acquisition Value of Assets)

(1) The acquisition value of assets under the provisions of Article 41 (1) and (2) of the Act shall be the amount under each of the following subparagraphs: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Assets purchased from other person: The sum of the purchase price, acquisition tax, registration tax, and other incidental expenses;
2. Assets acquired by manufacturing, producing, or constructing the assets for oneself, or other similar methods: The sum of the cost of raw materials, labor costs, shipping expenses, loading and unloading expenses, insurance premiums, transfer fees, public imposts (including acquisition tax and registration tax), installation costs, and other incidental expenses;
3. Assets acquired through investment in kind, merger, or division: The amount appropriated for investment or succession in the account books: *Provided*, That where such amount is in excess of the market price,

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it shall not include the amount in excess and in case of pecuniary bonds, etc. of any financial institution falling under each subparagraph of Article 61 (2), which are prescribed by Ordinance of the Ministry of Strategy and Finance, such amount shall be the book value of the corporation merged, etc.;

4. Stocks acquired by stockholders through investment in kind, debt-for-equity conversion, merger or division: The market price at the time of the acquisition: *Provided*, That where the stocks, etc. are acquired by the conversion of liabilities into investments that meet the requirements provided for in each subparagraph of Article 15 (4), the acquisition value of such stocks, etc. shall be the book value of the claims converted into investments (excluding any claim that falls under each subparagraph of Article 34 (3) of the Act), and where the stocks, etc. are acquired by merger or division (excluding spin-off), the acquisition value of such stocks shall be the amount obtained by adding the previous book value to the amount under Article 16 (1) 5 or 6 of the Act and the amount under subparagraph 9 of Article 11; and
5. Assets acquired by methods other than those under subparagraphs 1 through 4: The market price at the time of the acquisition.
 - (2) In the application of the provisions of paragraph (1), the amounts under each of the following subparagraphs shall be included in the acquisition value: *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*
 1. The amount included in the calculation of earnings under the provisions of Article 15 (2) 1 of the Act;
 2. The interest on loans appropriated as construction capital under the provisions of Article 52; and
 3. In case where tangible fixed assets are acquired and national and public bonds are also purchased, the difference between the purchase value of national and public bonds and the current value thereof is counted as the amount of the acquisition value of the relevant fixed assets in accordance with Financial Accounting Standards.
 - (3) In the application of the provisions of paragraph (1), the amounts under each of the following subparagraphs shall not be included in the acquisition value: *<Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 20720, Feb. 29, 2008>*

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1. Where assets are acquired through a long term installment plan under the provisions of Article 68 (3) and the present value of the liabilities generated are evaluated according to Financial Accounting Standards and appropriated as present value discount margin funds, the relevant present value discount margin funds;
 2. For yearly paid income as prescribed by Ordinance of the Ministry of Strategy and Finance, the acquisition value and the amount divided and appropriated as paid interest;
 3. The amount in excess of the market price under Article 88 (1) 1 and 8 (b); and
 4. Deleted. *<by Presidential Decree No. 17457, Dec. 31, 2001>*
- (4) Where causes falling under any of the following subparagraphs occur, the acquisition value of assets held by a corporation shall be as follows:
1. In cases of evaluation under the provisions of each subparagraph of Article 42 (1) and the provisions of Article 42 (3) of the Act, the evaluation amount;
 2. In cases of capital expenses under the provisions of Article 31 (2), the sum of the acquisition value and such capital expenses; and
 3. In cases of profits under the provisions of subparagraph 9 of Article 11 due to a merger or merger and division (excluding cases falling under paragraph (1) 4), the sum of the acquisition value and such profits.
- (5) The provisions of Articles 18-2 (1) 3, 18-3 (1) 3, 28, 73, 98, and 120 of the Act shall not apply to the depreciation amount of present value discount margin funds under the provisions of paragraph (3) 1 and the paid interest under the provisions of subparagraph 2 of the same paragraph. *<Amended by Presidential Decree No. 18174, Dec. 30, 2003>*

Article 73 (Scope of Assets and Liabilities Subject to Evaluation)

The term "assets and liabilities as prescribed by the Presidential Decree" in Article 42 (1) 3 of the Act means those under each of the following subparagraphs: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Inventories falling under any of the following items:
 - (a) Manufactured goods and commodities (including real estate held

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- by a real estate sales businessman for the purpose of sales, and excluding securities);
- (b) Semi-finished products, and goods in process;
 - (c) Raw materials; and
 - (d) Stored products;
- 2. Securities, etc. falling under any one of the following items:
 - (a) Stocks;
 - (b) Bonds; and
 - (c) Securities, etc. provided for in subparagraph 7 of Article 2 of the Indirect Investment Asset Management Business Act (excluding the securities provided for in items (a) and (b));
 - 3. Foreign currency assets and liabilities held by the financial institutions referred to in Article 61 (2) 1 through 7; and
 - 4. Currency forward and currency swap prescribed by Ordinance of the Ministry of Strategy and Finance (hereinafter "currency forward" and "currency swap", respectively) from among the currency-related derivatives which are held by the financial institutions referred to in Article 61 (2) 1 through 7.
 - 5. Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

Article 74 (Evaluation of Inventories)

- (1) The evaluation of inventories under subparagraph 1 of Article 73 shall be in accordance with the method chosen and reported to the head of tax office having jurisdiction over the place of tax payment by the corporation from among the methods falling under any one of the following subparagraphs (in case of subparagraph 1, the method falling under any item of the same subparagraph):
- 1. The cost method: The method of using the acquisition value calculated by the methods falling under any one of the following items as the evaluation amount of the assets:
 - (a) The method of using the acquisition value of each of the inventories calculated on an individual basis as the evaluation amount of the assets (hereinafter referred to as "individual method");
 - (b) The method of removing the inventories beginning with the first put into storage, and using the acquisition value calculated by deeming the assets acquired on the date nearest to the last day of the business year to be inventories as the evaluation amount

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- of the assets (hereinafter referred to as "first in first out method");
- (c) The method of removing the inventories beginning with the assets most recently put into storage, and using the acquisition value calculated by deeming the assets acquired on the date furthest from the last day of the business year to be inventories as the evaluation amount of the assets (hereinafter referred to as "last in first out method");
 - (d) The method of using the overall average acquisition value, calculated by adding the sum total of the acquisition value of assets as of the first day of the relevant business year to the sum total of the acquisition value of assets acquired during the relevant business year for each type of product and dividing by the total number of assets, as the evaluation amount of the assets (hereinafter referred to as "overall average method");
 - (e) The method of using the fluctuating average acquisition value calculated by dividing the total amount on the account books by the number of assets on the account books each time assets are acquired as the evaluation value of the assets (hereinafter referred to as "fluctuating average method"); and
 - (f) The method of using the acquisition value calculated by deducting the estimated marginal earnings from sales from the estimated sales prices by the types of products on the last day of the relevant business year as the evaluation amount of the assets (hereinafter referred to as "sales price reduction method"); and
2. The low price method: The method of using the amount calculated in the cost method under the provisions of subparagraph 1 or the value evaluated as the market price according to Financial Accounting Standards as the evaluated amount, whichever is lower, for the inventories.
- (2) In the evaluation of inventories under the provisions of paragraph (1), the corporation may separate the relevant assets by type of assets under each item of subparagraph 1 of Article 73 and evaluate them each by a different method according to the types or places or business. In this case, earnings and expenses shall be separated into types of business (according to small or medium categories under the Korean Standard Industrial Classification) or places of business and entered into the

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accounts, and a report on manufacturing costs and an income statement shall be made by type of business or place of business.

(3) Where a corporation wishes to make a report on the evaluation method of inventories under paragraph (1), it shall submit a report (or change report) on the inventory evaluation method (including submitting such report through the national tax information and communications network) as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment within the time limit under each of the following subparagraphs. In this case, where the report is made by the low price method, it shall be submitted together with a report comparing the cost method and the market price: *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

1. For corporations which have been newly established and non-profit domestic corporations which commence a profit-making business, the time limit for the report on the corporate tax base for the business year which includes the date of the establishment of the relevant corporation or the commencement date of profit-making business; and
 2. For corporations which have submitted the report under subparagraph 1 and wish to change the evaluation method, three months prior to the last day of the business year in which it wishes to use the changed evaluation method.
- (4) For corporations falling under any one of the following subparagraphs, the head of tax office having jurisdiction over the place of tax payment shall evaluate the inventories by the first in first out method (by the individual method for real estate held for the purpose of sale): *Provided*, That in cases of subparagraph 2 or 3, where the amount evaluated by the reported method is larger than the amount evaluated by the first in first out method, it shall be evaluated by the reported evaluation method:
1. Where the report on the inventory evaluation method is not made within the time limit under the provisions of paragraph (3) 1;
 2. Where the evaluation is conducted by a method other than the reported evaluation method; and
 3. Where the inventory evaluation method is changed without making the change report on the evaluation method within the time limit under the provisions of paragraph (3) 2.

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(5) Where a corporation reports on the inventory evaluation method after the expiration of the period under the provisions of each subparagraph of paragraph (3), the provisions of paragraph (4) shall apply *mutatis mutandis* during the business year which includes the date of the report, and the evaluation method reported by the corporation shall apply during the following business year.

(6) A corporation which evaluates inventories under paragraph (1) shall submit a detailed statement on the settlement of the evaluation of inventories as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 75 (Appraisal of Securities, etc.)

(1) The appraisal of securities (hereafter in this Article, Articles 85 (1) 3 and (2) 3 and 86-2, referred to as "securities") provided for in subparagraph 2 (a) and (b) of Article 73 shall be made according to the method that has been reported by any corporation to the head of tax office having jurisdiction over the place of tax payment from among the methods falling under the following subparagraphs 1 through 3: *Provided*, That the appraisal of securities, etc. under subparagraph 2 of Article 73, which are held by any investment company incorporated under the Indirect Investment Asset Management Business Act shall be made according to the method of subparagraph 4: <Amended by Presidential Decree No 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

1. The individual method (limited to bonds);
2. The overall average method;
3. The fluctuating average method; and
4. The market price method.

(2) The provisions of Article 74 (3) through (6) shall apply *mutatis mutandis* to the evaluation of securities. In this case, "first in first out method" in Article 74 (4) shall be read "overall average method", and "detailed statement on the settlement of the evaluation of inventories" in paragraph (6) of the same Article shall be read "detailed statement on the settlement of the evaluation of securities."

Article 76 (Evaluation of Foreign Assets and Liabilities)

(1) Foreign currency assets and liabilities under subparagraph 3 of Article

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73 shall be evaluated in accordance with the standard exchange rate or the arbitrated exchange rate under the Foreign Exchange Transactions Act as of the last day of the relevant business year. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>*

(2) The currency forward and currency swap shall be evaluated by a method that has been reported to the head of the competent tax office from among the methods falling under any of the following subparagraphs: *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*

1. Method of evaluating the foreign currency assets and liabilities stated in the contract in accordance with the standard exchange rate or arbitrated exchange rate pursuant to the Foreign Exchange Transactions Act as of the end of the relevant business year; or
2. Method of evaluating the foreign currency assets and liabilities stated in the contract in accordance with the standard exchange rate or arbitrated exchange rate pursuant to the Foreign Exchange Transactions Act as of the date of contract.

(3) The evaluation method that has been reported pursuant to paragraph (2) by a corporation shall apply continuously in the business years thereafter. *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*

(4) Marginal earnings or losses in the evaluated won currency amount and won currency account amount arising from the evaluation of the foreign currency assets, foreign currency liabilities, currency forward and currency swap under paragraphs (1) and (2) shall be included in the calculation of earnings or losses for the relevant business year. In this case, the amount of won currency to be registered in the book at the time of contract of currency forward and currency swap means the amount obtained by multiplying the amount of foreign currency assets and liabilities stated in the contract by the standard exchange rate or arbitrated exchange rate as of the date of contract. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>*

(5) Marginal earnings or losses in the won currency amount and won currency account amount of foreign currency claims and financial liabilities received or paid by a domestic corporation shall be included in the calculation

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of earnings or losses during the relevant business year: *Provided*, That the portion of exchange fluctuations in the amount to be repaid or repay in a foreign currency (hereafter in this paragraph referred to as the "foreign currency amount") among the foreign currency claims and financial liabilities of the Bank of Korea under the Bank of Korea Act shall be included in the calculation of earnings or losses for the business year in which the foreign currency amount is sold and converted into the won currency in such a manner as determined by the Bank of Korea. *<Amended by Presidential Decree No. 19891, Feb. 28, 2007>*

(6) A corporation which evaluates the foreign currency assets, foreign currency liabilities, currency forward and currency swap under paragraphs (1) and (2) shall submit a statement of settlement on marginal earnings and losses on the evaluation of foreign currency assets, etc. and a report on the methods of evaluating currency-related derivatives as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

(7) For domestic corporations with branches established in foreign countries, the method for converting the foreign currency-denoted financial statements of the relevant branches into won currency-denoted financial statements shall be in accordance with the method as determined by the Commissioner of the National Tax Service.

Article 77 Deleted. *<by Presidential Decree No. 17457, Dec. 31, 2001>*

Article 78 (Inventory Evaluation Marginal Losses)

(1) The term "causes as prescribed by Presidential Decree" in Article 42 (3) 2 of the Act means causes falling under each of the following subparagraphs:

1. Natural disasters, accidents, or fires;
2. Expropriation under Acts and subordinate statutes; and
3. Mines abandoned due to non-fulfillment of estimated mining outputs (including where fixed assets used for mining including land cannot be used for their proper purposes).

(2) The term "shares, etc. that are prescribed by Presidential Decree" in Article 42 (3) 3 of the Act means the shares, etc. falling under any

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of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20619, Feb. 22, 2008>

1. The shares that are issued by corporations whose stock certificates are listed or KOSDAQ-listed corporations;
2. The shares that are issued by business founders or new technology business operators from among the shares, etc. that are held by small and medium enterprise start-up business investment companies provided for in the Support for Small and Medium Enterprise Establishment Act or the new technology financing business operators provided for in the Specialized Credit Financial Business Act; or
3. The shares issued by a corporation, from among the corporations other than the corporations of subparagraph 1, which is not in the relationship with any of the subparagraphs of Article 87 (1).

(3) The term "method as prescribed by Presidential Decree" in the main sentence of Article 42 (3) of the Act means the method of reducing the book value of assets under each subparagraph of the same paragraph by the value evaluated under each of the following subparagraphs in the business year during which the grounds of reducing such book value accrue and appropriating the reduced amount as losses for the relevant business year: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006>

1. For inventories under Article 42 (3) 1 of the Act, the value evaluated as the market price which could be obtained through the disposal of the relevant inventories as of the last day of the business year;
2. For fixed assets under Article 42 (3) 2 of the Act, the value evaluated as the market price as of the last day of the business year;
3. For stocks under Article 42 (3) 3 of the Act, the value evaluated as the market price as of the last day of the business year (where the value evaluated as the market price of the total amount of stocks held by the corporation that issues its stocks, etc. is 1,000 won or less, it shall be 1,000 won); and
4. For stocks, etc. under Article 42 (3) 4 of the Act, the value evaluated as the market price as of the end of the business year (if the value evaluated as the market price is not more than 1,000 won, it shall be 1,000 won).

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Article 79 (Scope of Financial Accounting Standards and Practices)

The standards or practices of corporate accounting under Article 43 of the Act shall be the accounting standards falling under any one of the following subparagraphs (including practices generally deemed fair and appropriate which are not contrary to the relevant accounting standards): *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Financial Accounting Standards enacted under the provisions of Article 13 of the Act on External Audit of Stock Corporations;
2. Accounting standards by type of business as prescribed by the Securities Futures Committee;
3. Accounting regulations of government-invested institutions enacted under the Framework Act on the Management of Government-Invested Institutions; and
4. Accounting standards enacted under other Acts and subordinate statutes which have been approved by the Minister of Strategy and Finance.

Sub-Section 6 Special Cases concerning Mergers and Divisions

Article 80 (Inclusion of Reasonable Amount for Merger Evaluation Marginal Profits in Calculation of Losses)

(1) The term "assets as prescribed by Presidential Decree" in Article 44 (1) of the Act, with the exception of its subparagraph, means the tangible fixed assets. *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

(2) The amount included in the calculation of losses under the provisions of Article 44 (1) of the Act, with the exception of its subparagraph shall be the amount calculated according to the following formula. In this case, the amount in excess of the market price of the tangible fixed assets shall be excluded from the merger evaluation marginal profits: *<Amended by Presidential Decree No. 19328, Feb. 9, 2006>*

Merger evaluation marginal profits of the tangible fixed assets = merger evaluation marginal profit × total evaluation increase amount of the tangible assets / the total evaluation increase amount of all assets.

(3) Where a merged corporation disposes of 1/2 or more of the value of fixed assets succeeded from an extinguished corporation prior to the last day of the business year which includes the date of the registration of

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the merger or does not use them directly for the succeeded business, it shall be deemed not to fall under Article 44 (1) 3 of the Act. In this case, where there are 2 or more businesses (classified in accordance with the standards under the Korean Standard Industrial Classification; hereafter in this Article referred to as "businesses") received by succession, each business shall be classified and the provisions of paragraph (2) shall apply, limited to the assets of business categories falling under the same subparagraph.

(4) In the cases of the depreciated assets by individual tangible fixed assets, lump sum depreciation reserve funds shall be included in losses under paragraph (2), and in the cases of land, compressed accounts reserve funds shall be included in losses under paragraph (2). In this case, the lump sum depreciation reserve fund or compressed accounts reserve fund of individual tangible fixed asset shall be the amount calculated by multiplying the merger evaluation profits of the tangible fixed assets by the ratio of the evaluation increase amount of the individual tangible fixed assets to the total evaluation increase amount of all tangible fixed assets.

<Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(5) The provisions of Article 64 (4) and (5) shall apply *mutatis mutandis* to the inclusion of appropriated lump sum depreciation reserve funds or compressed accounts reserve funds under the provisions of paragraph (4) in the calculation of earnings.

(6) Where a merged corporation comes to fall under any one of the following subparagraphs within 3 years from the starting date of the business year following the business year which includes the date of the registration of the merger, the total balance amount of lump sum depreciation reserve funds or compressed accounts reserve funds shall be included in the calculation of earnings for the business year in which the relevant causes occur under Article 44 (2) of the Act, notwithstanding the provisions of paragraph (5). In this case, where there are 2 or more businesses received by succession, each business shall be judged individually:

1. Where the merged corporation disposes of 2/3 or more of the value of fixed assets succeeded from the extinguished corporation or does not use them directly for the relevant succeeded business; and
2. Where a business received by succession is suspended for 6 months or more or closed.

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(7) A domestic corporation which wishes to be subject to the application of the provisions of Article 44 (1) of the Act shall submit a detailed statement on the settlement of merger evaluation marginal profits as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 81 (Succession of Deficits Carried Forward On Grounds of Merger)

(1) In the calculation of the tax base for each business year of a merged corporation under the provisions of Article 45 (1) of the Act, the deductible deficits received by succession shall be the deficits of the extinguished corporation under the provisions of subparagraph 1 of Article 13 of the Act as of the date of the registration of the merger (referring to the amount calculated by deeming the date of the registration of the merger as the starting date of the business year), and from the business year following the business year which includes the date of the registration of the merger, they shall be the amount calculated each year by deeming that one year has elapsed in sequential order and the amount shall be calculated accordingly (hereafter in this Article referred to as "scope of succeeded losses").

(2) The term "ratio of the value of the assets that is prescribed by Presidential Decree" in Article 45 (1) of the Act with the exception of each subparagraph means the ratio of the value of the fixed assets used for the businesses of the merged corporation and the extinguished corporation as of the date on which the merger registration is effected. In this case, the value of the fixed assets for business of the extinguished corporation, which are succeeded by the merged corporation, shall be determined by the value as of the date on which the merger registration of the fixed assets is effected only in case where the fixed assets are continuously owned (including a case where the fixed assets are replaced after their disposition) and used as of the end of each business year during which the succeeded amount of deficit is deducted. *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

(3) In the application of the proviso to Article 45 (1) 3 of the Act, the judgment on small and medium enterprises shall be based on their pre-merger state and the judgment on corporations that run the same

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type of business shall be based on the detailed classification of the Korea Standard Industrial Classification. In this case, in case where the merged corporation or the extinguished corporation runs the business that falls under not less than 2 detailed classifications, they shall be deemed to run the same business only in case where the ratio of the value of the fixed assets for business, which are used for the same business, from among the value of the fixed assets for business, each exceeds 70/100. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

(4) The provisions of Article 80 (3) and (6) shall apply *mutatis mutandis* to the application and judgement on continuing or closing a business in the deduction of losses and inclusion in the calculation of earnings of a merged corporation which receives the business by succession from an extinguished corporation. In this case, the amount of the scope of succeeded losses and the amount included in the calculation of earnings where 2 or more businesses are received by succession and only a part of them are continued or closed shall be the amount calculated in accordance with the ratio of the asset value of the individual succeeded businesses.

(5) The term "merger that is prescribed by Presidential Decree" in Article 45 (3) of the Act means the merger falling under each of the following subparagraphs, in which any corporation with the larger amount of deficit provided for in subparagraph 1 of Article 13 of the Act is a merged corporation as of the date on which the merger registration is effected: <Amended by Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007>

1. The change registration is required to be effected in advance for the trade name of the extinguished corporation (including other trade name containing only the trade name of the extinguished corporation from among the trade name of the merged or extinguished corporations; hereafter the same shall apply in this subparagraph) during the period ranging from the starting date (in case where corporations whose starting date are different merge together, it refers to the earlier starting date) of the business year immediately preceding the business year to which the date on which the merger registration is effected belongs to the date on which the merger registration is effected or the trade name of the merged corporation is required to be changed to the trade name of the extinguished corporation for the registration of the changed trade name within 5 years from the date on which the merger registration

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is effected; and

2. The merged corporation is required to meet all requirements falling under each of the following items:
 - (a) The total market price of the shares, etc. (referring to the total market price of the total issued shares, etc.) of the merged corporation is required to be lower than the market price of the shares of the extinguished corporation at the time that the merger contract is concluded;
 - (b) The income amount or the amount of deficit of the merged corporation in the business year immediately preceding the business to which the date on which the merger registration is effected belongs is each required to be smaller than the income amount of the extinguished corporation or to be larger than the amount of deficit of the extinguished corporation;
 - (c) The value of net assets based on the book value of the merged corporation in the business year preceding the business year to which the date on which the merger registration is effected belongs is required to be lower than that of the extinguished corporation;
 - (d) The total amount of the income amount of the merged corporation in 3 business years immediately preceding the business year to which the date on which the merger registration is effected belongs is required to fall short of the total of the amount of deficit; and
 - (e) The difference of the amount of deficit provided for in subparagraph 1 of Article 13 of the Act between the merged corporation and the extinguished corporation is required to exceed 50/100 of the amount of deficit of the merged corporation as of the date on which the merger registration is effected.
- (6) In cases where any corporation with the larger amount of deficit provided for in subparagraph 1 of Article 13 of the Act merges any other corporation and the merged corporation meets the requirements in paragraph (5) 1 after deducting the deficits under subparagraph 1 of Article 13 of the Act from the taxable income for each business year, the deficits deducted before the relevant business year shall be included in earnings in the calculation of the taxable income for the business year which includes the date falling under paragraph (5) 1. *<Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 19328, Feb. 9, 2006>*

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Article 82 (Inclusion of Reasonable Amount for Division Evaluation Marginal Profits in Calculation of Losses)

(1) The term "assets as prescribed by the Presidential Decree" in Article 46 (1) of the Act, with the exception of its subparagraphs, means the tangible fixed assets. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(2) The amount included in the calculation of losses under the provisions of Article 44 (1) of the Act, with the exception of its subparagraphs, shall be the amount calculated according to the following formula. In this case, the amount in excess of the market price of the tangible fixed assets shall be excluded from the division evaluation marginal profits: <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

Division evaluation marginal profit of the tangible fixed assets = division evaluation marginal profit × total evaluation increase amounts of the tangible fixed assets whose evaluation amount is increased / total evaluation increase amount of all assets whose evaluation amount is increased.

(3) The term "divisions as prescribed by Presidential Decree" in Article 46 (1) 1 of the Act means those meeting the following requirements: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20720, Feb. 29, 2008>

1. Dividing the business into sections which can function independently as businesses;
2. Comprehensively succeeding to the assets and liabilities of a divided business section: *Provided*, That the same shall not apply to assets or liabilities which are difficult to be divided such as assets jointly used, liabilities whose debtors are impossible to be changed, or similar as prescribed by Ordinance of the Ministry of Strategy and Finance;
3. Dividing in accordance with the contribution quotas of only the divided corporation (including extinguished counterpart corporation to a merger and division); and
4. In case of merger and division, where the counterpart corporation to a merger and division is a domestic corporation which has continuously operated the business for one year or more from the date of the registration of the division.

(4) The provisions of Article 80 (3) and (6) shall apply *mutatis mutandis* to the decision to continue or close a business in the inclusion of the division evaluation marginal profit from assets succeeded to by a corporation newly

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established by division or counterpart corporation to a merger and division in the calculation of losses and earnings.

(5) The provisions of Articles 64 (4) and (5) and 80 (4) shall apply *mutatis mutandis* to the calculation of the amount to be included in the calculation losses under the provisions of paragraph (2) and the inclusion in the calculation of earnings.

(6) A domestic corporation which wishes to be subject to the application of the provisions of Article 46 (1) of the Act shall submit a detailed statement on the settlement of division evaluation marginal profits as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 83 (Inclusion of Reasonable Amount for Assets Transfer Marginal Profits from Spin-off in Calculation of Losses)

(1) Of the value of stocks acquired from any corporation newly incorporated as a result of division, the amount corresponding to the assets transfer marginal profits generated from the spin-off shall be included in the calculation of losses of the divided corporation under Article 47 (1) of the Act. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006>

(2) The amount included in losses under the provisions of paragraph (1) shall be appropriated as the compressed accounts reserve fund of the relevant stocks.

(3) The compressed accounts reserve fund appropriated under the provisions of paragraph (2) shall be included in the calculation of earnings for the business year when the relevant stocks are disposed of, not including cases falling under Article 47 (2) of the Act. In this case, the amount included in the calculation of earnings where part of the stocks are disposed of shall be the amount calculated by multiplying the compressed accounts reserve fund by the rate calculated by dividing the number of stocks disposed of by the total number of stocks issued by any corporation newly incorporated as a result of division after acquiring such stocks through such division as of the date of the registration of the division (in case of retirement of stocks or reduction of capital, the total number of stocks issued after the retirement or reduction). <Amended by Presidential Decree No. 17457, Dec. 31,

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2001; Presidential Decree No. 19328, Feb. 9, 2006>

(4) The provisions of Article 80 (3) and (6) shall apply *mutatis mutandis* to the determination and application of the continuation or closing of a succeeded business by a corporation newly established as a result of a division.

(5) The amount that any divided corporation continues to include in losses under Article 47 (3) of the Act shall be an amount calculated according to the following formula and such amount shall be appropriated as the compressed account reserve funds of stocks of any merged corporation:
<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006>

An amount equivalent to the balance of the compressed account reserve funds of stocks held by any corporation newly incorporated as a result of division as of the date on which the merged corporation, which has merged with the corporation newly incorporated as a result of division, makes a merger registration	×	the value of stocks of any merged corporation, which were acquired by a merger
		the total amount of the cost of merger provided for in Article 16 (1) 5 of the Act

(6) The provisions of paragraph (3) shall apply *mutatis mutandis* to the inclusion of the compressed account reserve funds appropriated under paragraph (5) in earnings. In this case, the "date of division registration" and the "total number of stocks issued by any corporation newly incorporated as a result of division, which are acquired by such division" in paragraph (3) shall be deemed the "date of merger registration", and the "total number of stocks issued by any merged corporation, which are acquired by such merger", respectively. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006>

(7) A domestic corporation which wishes to be subject to the application of the provisions of Article 47 (1) or (5) of the Act shall submit a detailed statement on spin-off (or a merger statement if it is intended to be subject to the application of paragraph (5)) as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20720, Feb. 29, 2008>

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Article 84 (Special Cases concerning Calculation of Income Amount for Corporations which Continue to Exist after Division)

(1) The total amount of the cost of division under Article 48 (1) 1 of the Act shall be the sum of the amount falling under each of the following subparagraphs:

1. The total amount of the cost of division calculated under the provisions of Article 16 (1) 6 of the Act;
2. The added amount calculated by the *mutatis mutandis* application of the provisions of Article 81 (2) of the Act; and
3. The amount calculated by the *mutatis mutandis* application of the provisions of Article 123 (1) 3.

(2) Equity capital under Article 48 (1) 2 of the Act shall be the amount of the reduction due to the division from the amount of the sum of the capital funds and surplus funds of the divided business section as of the date of the registration of the division. In this case, the provisions of Article 79 (3) and (4) of the Act and Article 122 (3) of this Decree shall apply *mutatis mutandis*. <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

(3) In the application of Article 48 (1) of the Act, if the amount provided for in subparagraph 2 of the same paragraph is in excess of the amount provided for in subparagraph 1 of the same paragraph, the amount in excess shall be made nonexistent. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

(4) Where there are 2 or more corporations newly established by division or counterpart corporations to a merger and division, the income amount generated from the division under the provisions of Article 48 (1) of the Act shall be calculated individually by each relevant corporation.

Article 84-2 (Succession of Amount of Deficit Carried Forward as Result of Division)

(1) The amount of deficit that is succeeded and deducted by any corporation newly incorporated as a result of division or any counterpart corporation to a division or a merger pursuant to the provisions of Article 48-2 (1) of the Act (hereafter referred to as the "corporation, etc. newly incorporated as a result of division" in this Article) when the tax base of each business year is calculated shall be the amount of deficit that belongs to the business that is succeeded by the corporation newly incorporated as a result of division from among the amount of deficit (referring to the amount that

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is calculated after the division registration date is deemed the business commencement date) of the divided corporation that is extinguished or the counterpart corporation to a division or a merge that is extinguished as of the date on which the registration is effected pursuant to the provisions of subparagraph 1 of Article 13 of the Act and the amount of deficit shall be the amount that is calculated after the lapse of one year every year, starting with the business year following the business year to which the date on which the division registration is effected belongs (hereafter referred to as the "scope of the succeeded amount of deficit" in this Article).

(2) The amount of deficit that belongs to the business that is succeeded pursuant to the provisions of paragraph (1) shall be the amount obtained by proportionally calculating the amount of deficit of a divided corporation according to the ratio of the fixed assets for business that are succeeded by a corporation that is newly incorporated as a result of division from among the value of the fixed assets for business as of the date on which the division registration is effected.

(3) The term "ratio of the asset value that is prescribed by Presidential Decree" in Article 48-2 (1) of the Act with the exception of each subparagraph means the ratio of the value of the fixed assets for business of the divided corporation (limited to the portion of the business that is succeeded) and the counterpart corporation to a division or a merger (including a case where it is extinguished; hereafter the same shall apply in this Article) as of the date on which the division and merger registration is effected. In this case, the value of the fixed assets for the business of the divided corporation, etc., which are succeeded by a corporation that is newly incorporated as a result of the division, shall be limited to the value of the fixed assets that continue to be owned (including a case where replacement fixed assets are acquired after the relevant fixed assets are disposed of) and used as of the end of each business year during which the succeeded amount of deficit is deducted and the value of the fixed assets as of the date on which the division and merger registration of the fixed assets is effected.

(4) In the application of the proviso to Article 48-2 (1) 3 of the Act, a judgment on the small and medium enterprise shall be made on the basis of its state before it is divided or merged and a judgment on the corporations (in the case of any divided corporation, limited to the portion of the business

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that is succeeded) that run the same business shall be made on the basis of the detailed classification of the Korea Standard Industrial Classification. In case where the divided corporation (limited to the portion of the business that is succeeded) or the counterpart corporation to a division or a merger runs the business that falls under not less than 2 detailed classifications, such counterpart corporation shall be deemed to run the same business only in case where the ratio of the value of the fixed assets for business, which are used for the same business from among the fixed assets for business, exceeds 70/100 of the value of the fixed assets for business.

(5) The provisions of Article 80 (3) and (6) shall apply *mutatis mutandis* to the judgment on and the application to the continuation or the discontinuation of the business in the deduction of the amount of deficit and the inclusion of gross income of the corporation, etc. newly incorporated as a result of division that succeeds the business of the divided corporation, etc. In this case, when two or more businesses are succeeded and only part of them are continued or discontinued, the succeeded amount of deficit and the amount included in the gross income shall be the amount that is proportionally calculated according to the ratio of the value of the assets by the succeeded business.

[This Article Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006]

Article 85 (Succession to Assets and Liabilities upon Merger and Division)

(1) In case of the merger of a domestic corporation, the amount included or not included in earnings or losses in the calculation of the income amount and the tax base of the extinguished corporation for each business year shall be in accordance with each of the following subparagraphs, except as otherwise prescribed in the Act or other Acts: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. The merged corporation may succeed to the compressed accounts reserve fund and lump sum depreciation reserve fund;
2. The amount not included in the calculation of earnings or losses of the extinguished corporation before the arrival of the business year in which profits or losses accrue under Article 40 of the Act shall be succeeded to the merged corporation during the business year in which such profits or losses accrue; and

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3. The amount that is included in earnings or is not included in losses in connection with the depreciation, the appraisal provided for in Article 42 of the Act or other tax adjustment shall not be succeeded to any merged corporation: *Provided*, That such merged corporation may succeed the amount falling under each of the following items:
 - (a) The amount that is not included in earnings or losses in connection with accumulation of the allowance for severance and retirement benefits and the bad debt allowance or the appraisal of securities in compliance with the Financial Accounting Standards;
 - (b) The amount that is not included in earnings or losses in connection with the readjustment of claims and liabilities, the appraisal of the current value of claims and liabilities and the accumulation of the reserve for payment guarantee in accordance with the Financial Accounting Standards;
 - (c) The reserve that is included in losses under the Restriction of Special Taxation Act; and
 - (d) Other amount prescribed by Ordinance of the Ministry of Strategy and Finance.
- (2) In case of the division of a domestic corporation, the amount included or not included in earnings or losses in the calculation of the income amount and the tax base of the divided corporation (including an extinguished counterpart corporation to a merger and division; hereafter in this Article the same shall apply) for each business year shall be in accordance with each of the following subparagraphs, except as otherwise prescribed in the Act or other Acts and subordinate statutes: *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*
 1. A corporation newly established by division (including a counter-part corporation to a merger and division; hereafter in this Article the same shall apply) may succeed the compressed accounts reserve fund and lump sum depreciation reserve fund;
 2. The amount not included in earnings or losses of the divided corporation before the arrival of the business year in which profits or losses accrue under the provisions of Article 40 of the Act shall be succeeded to the corporation newly established by division during the business year in which such profits or losses accrue; and

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3. The amount that is not included in earnings or losses in connection with depreciation, the appraisal provided for in Article 42 of the Act and the tax adjustment shall not be succeeded to any corporation newly incorporated as a result of division: *Provided*, That the amount falling under each of the following items may be succeeded to any corporation newly incorporated as a result of division:
 - (a) The amount that is not included in earnings or losses in connection with the accumulation of the allowance for severance and retirement benefits, the accumulation of the allowance for bad debts and the appraisal of securities in accordance with the Financial Accounting Standards;
 - (b) The amount that is not included in earnings or losses in connection with the readjustment of claims and liabilities, the appraisal of the current value of claims and liabilities and the accumulation of the reserve for payment guarantee in accordance with the Financial Accounting Standards;
 - (c) The reserve that is included in losses under the Restriction of Special Taxation Act; and
 - (d) Other amount prescribed by Ordinance of the Ministry of Strategy and Finance.
 - (3) In case that any domestic corporation is divided, satisfying the requirements falling under each of the following subparagraphs, notwithstanding paragraph (2), the amount that is included or not included in earnings or losses in the calculation of the income amount and tax base of the divided corporation for each business year may be succeeded to a corporation newly incorporated as a result of division: *<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>*
 1. The requirements of each subparagraph of Article 46 (1) of the Act shall be met; and
 2. The assets and liabilities of the divided corporation shall be succeeded in the book value thereof.
 - (4) Matters necessary for the amount of succession under the provisions of paragraphs (1) through (3) and other necessary matters shall be prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20720, Feb. 29, 2008>*
- Article 86 (Inclusion of Reasonable Amount of Assets Transfer Marginal

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Profits from Exchange in Calculation of Losses)

(1) The term "business as prescribed by Presidential Decree" in Article 50 (1) of the Act means the business other than the business falling under Article 9 (1) of the Enforcement Decree on Special Tax Treatment Control Act and Article 60-2 (1) 1 through 3 of the Enforcement Decree of the same Act. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

(2) The term "assets as prescribed by Presidential Decree" in Article 50 (1) of the Act means land, buildings, assets under the provisions of Article 3 (2) of the Enforcement Decree on Special Tax Treatment Control Act, and other assets as prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 17338, Aug. 14, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

(3) The term "exchange between many corporations as prescribed by Presidential Decree" in Article 50 (1) of the Act means the exchange of assets between 3 or more corporations under one exchange contract.

(4) The amount equivalent to the transfer marginal profits that are included in losses under Article 50 (1) of the Act shall be an amount obtained by subtracting the amount of subparagraph 2 (if the amount is in excess of the amount obtained by subtracting the book value from the market price of the fixed assets used for the relevant business, such excess amount shall be excluded) from the amount of subparagraph 1: <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

1. The value of assets acquired in exchange; and
2. If part of the price is paid in cash, the paid amount and the book value of fixed assets used for the relevant business.

(5) The provisions of Article 64 (3) through (5) shall apply *mutatis mutandis* to the inclusion of a reasonable amount of transfer marginal profits included in the calculation of losses under the provisions of paragraph (4) in the calculation of losses and earnings.

(6) A domestic corporation which wishes to be subject to the application of the provisions of Article 50 (1) of the Act shall submit a detailed statement on assets exchange as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of

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tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Sub-Section 6-2 Income Deduction

Article 86-2 (Income Deduction for Special Purpose Companies, etc.)

(1) The term "profits available for dividend prescribed by the Presidential Decree" in the main sentence of Article 51-2 (1) of the Act means the amounts calculated by deducting the profit reserve accumulated pursuant to Article 458 of the Commercial Act from the net profit for the current term after deducting corporate tax expenses on the financial statements made out in accordance with the Financial Accounting Standards either with the forwarded earned surplus added or the forwarded deductible expenses deducted. In this case, the profit and loss from the evaluation of securities from among the net profit for the current term, retained earnings carried forward and deficit carried forward shall be excluded, however, this shall not apply to an investment company pursuant to the Indirect Investment Asset Management Business Act. <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

(2) The term "corporation that is prescribed by Presidential Decree" in Article 51-2 (1) 5-2 of the Act means the corporation that is incorporated after meeting the requirements provided for in Article 14 (4) 4 of the Enforcement Decree of the Rental Housing Act in order to run the housing rental business. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20849, Jun. 20, 2008>

(3) Where an investment company similar to those provided for in Article 51-2 (1) 1 through 5 and 5-2 through 5-4 of the Act operates a housing construction project jointly with a housing builder pursuant to the Housing Act, its assets are used for the housing construction project, and the profits therefrom are distributed to the stockholders, it is deemed that such investment company meets the requirements provided for in Article 51-2 (1) 6 (a) of the Act. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

(4) The term "requirements prescribed by Presidential Decree" in Article 51-2 (1) 6 (e) of the Act means the requirements falling under any of the following subparagraphs: <Newly Inserted by Presidential Decree No. 18324, Mar.

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22, 2004; Presidential Decree No. 18945, Jul. 15, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. Not less than one of the incorporators is required to fall under any of the following items:
 - (a) A financial institution falling under any one of Article 61 (2) 1 through 12, 21 and 34 (hereafter in this Article referred to as a "financial institution"); and
 - (b) National Pension Service under the National Pension Act (limited to the case of an investment company implementing private investment projects in the manner as referred to in subparagraph 2 of Article 4 of the Act on Private Participation in Infrastructure); and
2. The incorporator falling under subparagraph 1 (a) or (b) is required to make equity investment in not less than 5/100 (if there are multiple number of incorporators falling under subparagraph 1 (a) or (b), their investments shall be added up) of the capital.
- (5) The term "requirements prescribed by Presidential Decree" in Article 51-2 (1) 6 (h) of the Act means the requirements falling under any of the following subparagraphs: <Newly Inserted by Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 18945, Jul. 15, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>
 1. The capital is required to be not less than five billion won: *Provided*, That in case of an investment company implementing private investment projects in the manner as referred to in subparagraph 2 of Article 4 of the Act on Private Participation in Infrastructure, it shall be not less than one billion won;
 2. The business of managing, operating and disposing of assets shall be entrusted to the person (hereafter in this Article referred to as an "asset management company") falling under any of the following items:
 - (a) A corporation that makes an equity investment in the relevant company; and
 - (b) A corporation that is incorporated independently or jointly by persons who make equity investment in the relevant company;
 3. The business of managing funds is required to be entrusted to any financial institution that runs the trust business under the Trust Business Act (hereafter referred to as a "company entrusted with the

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- management affairs of funds" in this Article);
4. Shareholders are required to meet the requirements referred to in each subparagraph of paragraph (4). In this case, "incorporator" shall be regarded as "shareholder"; and
 5. A nominal company incorporation report stating the matters falling under each of the following items, accompanied by documents prescribed by Ordinance of the Ministry of Strategy and Finance, shall be submitted to the head of tax office having jurisdiction over the place of tax payment within 2 months from the date on which the incorporation of corporation is registered:
 - (a) Business goals prescribed in the articles of incorporation;
 - (b) Names and resident registration numbers of directors and auditors;
 - (c) The name of asset management company; and
 - (d) The name of company entrusted with the management affairs of funds.
 - (6) In cases where directors, auditors and shareholders of any corporation falling under Article 51-2 (1) 6 of the Act fail to meet the requirements referred to in Article 51-2 (1) 6 (f) and (g) of the Act, and paragraph (5) 4 of this Article after such corporation makes a report in accordance with paragraph (5) 5 of this Article, and where such requirements are supplemented within one month from the date on which the grounds of failing to meet such requirements accrue, such corporation shall be deemed to meet the relevant requirements. <Newly Inserted by Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>
 - (7) In case where matters falling under any item of paragraph (5) 5 are changed after any corporation falling under Article 51-2 (1) 6 of the Act makes a report on them under paragraph (5) 5 of this Article, such corporation shall make a nominal company change report stating the relevant changed matters, accompanied by documents prescribed by Ordinance of the Ministry of Strategy and Finance, to the head of tax office having jurisdiction over the place of tax payment within 2 weeks from the date on which the change of such matters occurs. <Newly Inserted by Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>
 - (8) Where an amount equivalent to the dividend that is deducted in

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accordance with the provisions of Article 51-2 (1) of the Act exceeds the income of the corresponding business year, such excess amount shall be deemed to be nonexistent.

(9) Any corporation that intends to be subject to the application of the provisions of Article 51-2 (1) of the Act shall file a report on the tax base under the provisions of Article 60 of the Act and an application for income deduction as prescribed by Ordinance of the Ministry of Strategy and Finance with the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20720, Feb. 29, 2008>*

(10) The term "corporation that meets the criteria that are set by Presidential Decree" in Article 51-2 (2) of the Act means the corporation that meets all of the following requirements: *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

1. The corporation is required to be incorporated by means of the private offering of shares; and
2. Not more than 2 individuals or one individual and their or his relatives (hereafter in this subparagraph referred to as the "individuals, etc.") are or is required to own not less than 95/100 of the total number of shares issued or the total amount of investments: *Provided*, That this shall not apply in cases where the individuals, etc. do not have the right to claim dividends and the distribution of the residual property.

[This Article Newly Inserted by Presidential Decree No. 16658, Dec. 31, 1999]

Sub-Section 7 Special Cases concerning Calculation of Income Amount

Article 87 (Scope of Person with Special Relationship)

(1) The term "person with a special relationship as prescribed by Presidential Decree" in Article 52 (1) of the Act means a person with a relationship with a corporation falling under any one of the following subparagraphs (hereinafter referred to as a "person with a special relationship"): *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005>*

1. Persons recognized to be exercising real influence over the operations of the relevant corporation, such as exercising the right to appoint

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- or dismiss executives (including persons to be treated as directors under Article 401-2 (1) of the Commercial Act) or determining the course of business and their relatives;
2. Stockholders (excluding minority shareholders, etc.; hereafter in this Sub-section the same shall apply) and their relatives;
 3. Executives and employees of a corporation, or employees of a stockholder (referring to the executives, in case of a profit-making corporation, and the director and founder, in case of a non-profit corporations) or other persons than employees, whose livelihood depends on the cash and other assets of the corporation or stockholder, and their relatives who depend upon them for their livelihood;
 4. Other corporation which invests 30/100 or more of the total number of stocks issued or total amount of money invested by a person falling under subparagraphs 1 through 3;
 5. Other corporation which invests 50/100 of the total number of stocks issued or total amount of money invested by a corporation falling under subparagraph 4 or 8;
 6. A corporation or individual which invests 50/100 or more in a corporation which invests 50/100 or more in the relevant corporation;
 7. Where the relevant corporation is included in a business group under the Monopoly Regulation and Fair Trade Act, other affiliates and executives of such affiliates in the business group; and
 8. Non-profit corporations in which the founder is a person falling under subparagraphs 1 through 3 and the relevant corporation who either forms the majority of the directors or contributes 50/100 or more of the contributions (limited to contributions for its establishment).

(2) through (4) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

Article 88 (Type of Wrongful Calculation)

(1) The term "where it is deemed that the tax burden has been unjustly reduced" in Article 52 (1) of the Act means cases falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. Where assets are purchased or received as investments in kind at a price above the market price or the assets are excessively depreciated;
2. Where unprofitable assets are purchased or received as investments

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- in kind or expenses are borne for the assets;
3. Where assets are transferred or invested as investment in kind without any consideration or at a price below the market price;
 4. Where defective or inferior assets are refunded or bad debts are acquired by transfer;
 5. Where contributions are made in place of another party;
 6. Where cash and other assets or services are provided without any consideration or at an interest rate, tariff, or rental rate lower than the market price: *Provided*, That this shall not apply where company housing is provided to executives (including executives who are minority stockholders, etc. and employees who are not stockholders or investors);
 7. Where cash and other assets or services are received at an interest rate, tariff, or rental rate higher than the market price;
 - 7-2. Where profits are distributed in such a manner as not exercising the derivative-based rights prescribed by Ordinance of the Ministry of Strategy and Finance or as adjusting the period of such exercise;
 8. Where profits are distributed by a corporation which is a stockholder to another stockholder, etc. who is a person with a special relationship with the corporation through capital transactions falling under any one of the following items:
 - (a) Where stocks are evaluated higher or lower than their market price and a merger is made at an unfair ratio in the merger (including merger and division) between corporations which are persons with a special relationship: *Provided*, That this shall not apply in cases where any merger is effected pursuant to the provisions of Article 190-2 of the Securities and Exchange Act and Article 84-7 of the Enforcement Decree of the same Act;
 - (b) Where the right to allot and take over new shares (including convertible bonds, warrant bonds or exchangeable bonds; hereafter the same shall apply in this item) in transactions executed to increase the capital (including the amount of investments) of the corporation is partially or completely waived (excluding where the waived shares are allotted by the invitation method under the provisions of Article 2 (3) of the Securities and Exchange Act) or bought at a price higher than the market price of the new shares; and
 - (c) Where stocks held by some stockholders are retired in the reduction

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of capital of a corporation at a rate which is not proportional to the stocks held by the relevant stockholders;

8-2. Other than the cases provided for in subparagraph 8, where it is deemed that a corporation has distributed its profits through the transaction to increase or decrease its capital (including the investment amount) such as the increase or reduction of capital, merger (including any merger through division), division, the conversion or exchange of stocks through convertible bonds, etc. into or for stocks or the acceptance of stocks with convertible bonds, etc. pursuant to Article 40 (1) of the Inheritance Tax and Gift Tax Act; and

9. Other cases in which it is deemed that activities, calculations, or other distributions of the profit of the corporation corresponding to those under subparagraphs 1 through 7, 7-2, 8 and 8-2 have occurred.

(2) The provisions of paragraph (1) shall be the standard at the time of the activities, and shall apply to transactions between the relevant corporation and a person with a special relationship (including transactions with a person with a special relationship which arise from transactions with another person): *Provided*, That the determination on whether a corporation is a person with a special relationship in the application of the provisions of paragraph (1) 8 (a) shall be made by applying the period from the starting date of the business year immediately preceding the business year which includes the date of the registration of the merger (in case of merger between corporations with different starting dates, it shall be the earlier date) to the date of the registration of the merger.

<Amended by Presidential Decree No. 17457, Dec. 31, 2001>

(3) The provisions of paragraph (1) 1, 3, 6, 7 and 9 (limited to any activity or calculation similar to those provided for in paragraph (1) 1, 3, 6 and 7) shall only apply to the cases where the difference between the market price and the transaction price is not less than three hundred million won or not less than an amount equivalent to 5/100 of the market price.

<Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(4) The provisions of paragraph (3) shall not apply to the cases where stocks issued by a stock-listed corporation or KOSDAQ-listed corporation are traded on the Korea Securities and Futures Exchange under the Korea Securities and Futures Exchange Act. *<Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>*

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Article 89 (Scope of Market Price, etc.)

(1) In the application of the provisions of Article 52 (2) of the Act, for situations similar to the relevant transaction, where there is a transaction price continuously used in transactions between the relevant corporation and many unspecified persons other than a person with a special relationship, or a transaction price generally used in transactions with a third party who is not a person with a special relationship, such price (where stocks issued by a stock-listed corporation or KOSDAQ-listed corporation are traded on the Korea Securities and Futures Exchange under the Korea Securities and Futures Exchange Act, the market price of such stocks means the closing price thereof on the Korea Securities and Futures Exchange as of the day when they are traded) shall be used. <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

(2) In the application of the provisions of Article 52 (2) of the Act, where the market price is unclear, it shall be the amount calculated by the application of the provisions of each of the following subparagraphs in sequential order: <Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

1. Where there is a value appraised by the appraisal evaluation corporation under the Public Notice of Values and Appraisal of Real Estate Act, the value thereof (in case there are not less than 2 appraised values, the average amount of the appraised values): *Provided*, That this shall not include stocks, etc.; and
2. The amount evaluated by the *mutatis mutandis* application of the provisions of Articles 38 through 39-2, and 61 through 64 of the Inheritance Tax and Gift Tax Act. In applying *mutatis mutandis* the provisions of Article 63 (2) 1 of the Inheritance Tax and Gift Tax Act and Article 57 (1) and (2) of the Enforcement Decree of the same Act, "preceding 6 months (3 months for stocks, etc. upon which gift tax is levied)" shall be deemed as "preceding 6 months" respectively.

(3) In the case of lending or borrowing funds under the provisions of Article 88 (1) 6 and 7, the weighted-average borrowing interest rate calculated as stipulated by Ordinance of the Ministry of Strategy and Finance (hereinafter referred to as the "weighted-average borrowing interest rate") shall be deemed the market price, notwithstanding the provisions of paragraphs (1) and (2): *Provided*, That where it is impossible to apply

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the weighted-average borrowing interest rate as prescribed by Ordinance of the Ministry of Strategy and Finance, the current loan interest rate as prescribed by Ordinance of the Ministry of Strategy and Finance shall be deemed the market price. <Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

(4) Where the provisions of paragraphs (1) and (2) cannot be applied to the assets (excluding cash or cash equivalents) or services provided in Article 88 (1) 6 and 7, the amount calculated pursuant to any of the following subparagraphs shall be treated as their market price: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001>

1. Where tangible or intangible assets are provided or received, the amounts calculated by multiplying the fixed deposit interest rate by the amount of 50/100 of the market value of the relevant assets less the amount of rental key money or deposits received in connection with such assets; and
2. Where construction or other services are provided or received, the sum of the amount required to provide the relevant service (including direct and indirect expenses; hereafter in this subparagraph referred to as "cost") and cost multiplied by the rate of profit (referring to the rate divided by the balance of the cost calculated according to Financial Accounting Standards less the cost, divided by the cost) during the relevant business year from transactions providing similar services to persons other than persons with a special relationship.

(5) In case of falling under the wrongful calculation under the provisions of Article 88, the margin of the market price shall be included in the calculation of earnings and the income amount of the relevant corporation for each business year shall be calculated thereby under paragraphs (1) through (4) in accordance with the provisions of Article 52 (1) of the Act: *Provided*, That this shall not apply to loans of cash as prescribed the Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(6) With regard to the calculation of the amount to be included in earnings under paragraph (5), in case of the distribution of profits to a person with a special relationship under Article 88 (1) 8 and 8-2, the provisions of Articles 38, 39, 39-2, 39-3, 40 and 42 (1) 3 of the Inheritance Tax and Gift Tax Act and Articles 28 (3) through (6), 29 (3), 29-2 (2), 29-3

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(2), 30 (4) and 31-9 (2) 4 and 5 of the Enforcement Decree of the same Act shall apply *mutatis mutandis*. In this case, any "large shareholder" and any "person with a special relationship" shall be deemed as "a person with a special relationship" under this Decree, and "profits" and "profits as prescribed by Presidential Decree" shall be "profits distributed to a person with a special relationship". <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

Article 90 (Submission of Detailed Statement on Transactions between Persons with Special Relationship)

(1) Corporations that conducts transactions with persons with a special relationship each business year shall submit a detailed statement on transactions between persons with a special relationship as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment under Article 52 (3) of the Act: *Provided*, That the particulars of transactions under each of the following subparagraphs may be omitted: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. Transactions included in the detailed statement which a company drawing up a combined financial statement under the provisions of Article 115 of the Act has to submit to the head of tax office having jurisdiction over the place of tax payment; and
2. International transactions under the provisions of Article 11 of the Act for the Coordination of International Tax Affairs for which the particulars have been submitted to the head of tax office having jurisdiction over the place of tax payment.

(2) Where it is deemed necessary to confirm the particulars of the detailed statement received under the provisions of paragraph (1), the head of tax office having jurisdiction over the place of tax payment or the Commissioner of the competent Regional Tax Office may demand that the corporation submit the calculation of the market price applied to the transaction, the grounds for the calculation, and other necessary materials.

Article 91 (Special Cases concerning Calculation of Income Amount from Transactions with Foreign Corporations)

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The provisions of Article 17 of the Enforcement Decree on Act for the Coordination of International Tax Affairs shall apply *mutatis mutandis* to the application and procedures for the settlement of the income amount under the provisions of Article 53 of the Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

SECTION 2 Calculation of Tax Amount

Article 92 (Calculation of Number of Months)

The provisions of Article 39 (2) shall apply *mutatis mutandis* to the calculation of the number of months under the latter part of Article 55 (2) of the Act.

Article 92-2 (Special Cases concerning Taxation of Income Accruing from Transfer of Land, etc.)

(1) The term "area prescribed by Presidential Decree" in Article 55-2 (1) 1 of the Act means the area, prescribed by Ordinance of the Ministry of Strategy and Finance, the land price of which sharply rises or is feared to sharply rise from among the areas falling under any of the following subparagraphs: <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. Metropolitan city area under the provisions of Article 56 (2) of the Enforcement Decree on Special Tax Treatment Control Act; and
2. The area in which the development project is under way or is scheduled under the provisions of subparagraph 2 of Article 2 of the Restitution of Development Gains Act and other areas in the vicinity thereof.

(2) The term "house prescribed by Presidential Decree" in Article 55-2 (1) 2 of the Act means a house located in the country and not falling under any of the following subparagraphs: <Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19225, Dec. 31, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 20930, Jul. 24, 2008; Presidential Decree No. 21063, Oct. 7, 2008>

1. National housing having been rented for not less than 10 years (seven years in the case of housing located in areas outside the Seoul metropolitan area) by a corporation renting five [not less than one house in the case of houses located in areas outside the Seoul metropolitan area under subparagraph 1 of Article 2 of the Seoul

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Metropolitan Area Rearrangement Planning Act (hereinafter referred to as the "Seoul metropolitan area") or more national houses [in case of areas outside the Seoul metropolitan area, referring to a house, as a house under the Housing Act, the area of lot of which is not larger than 298 square meters and the gross area of which (including the area of part deemed a house pursuant to the main sentence of Article 154 (3) of the Enforcement Decree on Income Tax Act and that of the basement part used as exclusive use for living and referring to the area of exclusive use in case of apartment house) is not larger than 149 square meters; hereafter the same shall apply in this subparagraph] pursuant to the Rental Housing Act;

- 1-2. Constructed-rental housing pursuant to subparagraph 2 of Article 2 of the Rental Housing Act rented by the relevant corporation, which has 2 or more houses meeting all of the following requirements:
 - (a) That the site area shall be 298 square meters or less and the total floor area (including the portion that is deemed as housing pursuant to the main text of Article 154 (3) of the Enforcement Decree on Income Tax Act and the area of the basement that is used exclusively for residential purpose, and referring to the exclusive area in the case of collective housing) shall be 149 square meters or less;
 - (b) That they shall be rented for 5 years or more; and
 - (c) That the total amount of the standard market price (referring to the standard market price pursuant to Article 99 of the Income Tax Act) of the relevant houses and the site annexed thereto shall not exceed 600 million won at the time of acquisition of the ownership of the relevant houses;
- 1-3. Purchased-rental housing pursuant to subparagraph 3 of Article 2 of the Rental Housing Act acquired between January 1, 2008 and December 31, 2008 and rented by a real estate investment company pursuant to subparagraph 1 of Article 2 of the Real Estate Investment Company Act or by a real estate indirect investment fund pursuant to subparagraph 3 of Article 27 of the Indirect Investment Asset Management Business Act, which has 5 or more houses meeting all the following requirements:
 - (a) That the site area shall be 298 square meters or less and the total floor area (including the portion that is deemed as housing pursuant

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to the main text of Article 154 (3) of the Enforcement Decree on Income Tax Act and the area of the basement that is used exclusively for residential purpose, and referring to the exclusive area in the case of collective housing) shall be 149 square meters or less;

- (b) That they shall be rented for 10 years or more; and
- (c) That they shall be located in an area outside the Seoul metropolitan area;

1-4. Purchased-rental housing under subparagraph 3 of Article 2 of the Rental Housing Act [unsold housing for installments payment (referring to housing supplied as Article 38 of the Housing Act by a business under the same Article on a first-come first-served basis, after failing to be sold until June 10, 2008, in a residential district where the prearranged contract date in an advertisement for sale has already passed; hereafter the same applies in this Article)] meeting all the following requirements. In this case, a corporation transferring the housing concerned shall submit a copy of verification of unsold housing for installments payment and a copy of sales contract for purchasing unsold housing for installments payment issued by the head of the relevant *Si/Gun/Gu*, to the head of the district office of the place of its tax payment, along with its tax return in the business year to which the date of transferring the housing concerned belongs:

- (a) That the site area shall be 298 square meters or less and the total floor area (including an area deemed as housing pursuant to the main text of Article 154 (3) of the Enforcement Decree on Income Tax Act and the area of the basement that is used exclusively for residential purpose, and referring to the exclusive area in the case of collective housing) shall be 149 square meters or less;
- (b) That they shall be rented for 5 years or more;
- (c) That they shall be located in an area outside the Seoul Metropolitan area; and
- (d) That the number of purchased-rental housing for installment payment meeting all requirements from the following (a) through (d) (hereafter referred to as "unsold purchased-rental housing for installments payment" in this Article) shall be 5 or more in the same *Si* (including the Seoul Special Metropolitan City and any Metropolitan City)/*Gun* [In cases where the number of

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purchased-rental housing pursuant to subparagraph 1 is 5 or more or where the number of purchased-rental housing pursuant to subparagraph 1-3 is 5 or more, the total number of purchases-rental housing and unsold purchased-rental housing for installments payment pursuant to subparagraph 1 or 1-3 shall be 5 or more];

2. Company houses offered to an executive (including an executive being the minority stockholder, etc.) who is neither a stockholder nor a contributor, or an employee, and houses owned by a corporation and offered for free, whose period of offer as company houses or offer for free is not less than 10 years;
3. Houses acquired due to execution of mortgage or acquired in place of disbursement of liabilities for which 3 years have yet to lapse from the date on which they are acquired; and
4. Houses being possessed for unavoidable reasons, which are determined by Ordinance of the Ministry of Strategy and Finance.

(3) The term "case prescribed by Presidential Decree" in Article 55-2 (4) 2 of the Act means the case provided for in Article 153 (1) of the Enforcement Decree on Income Tax Act. In this case, the term "cultivation while residing in the location of farmland" in the proviso to subparagraph 3 of the same paragraph shall be deemed as the "cultivation." *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19225, Dec. 31, 2005>*

(4) The term "income accruing from the grounds prescribed by the Presidential Decree" in Article 55-2 (4) 3 of the Act means the income falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19225, Dec. 31, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>*

1. The income accruing from the alteration of land category or land number following the disposal of land substitution or from the appropriation of a land secured by the authorities for the development outlay in accordance with the Urban Development Act and other Acts. In this case, the disposal of land substitution and an area of land secured by the authorities for the development outlay shall be deemed to be made in accordance with Article 152 of the Enforcement Decree on Income Tax Act;
2. The income accruing from division (limited to any division that meets the requirements provided for in each subparagraph of Articles 46 (1)

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- and 47 (1) of the Act) and investment in kind (limited to any investment in kind that meets the requirements provided for in Article 38 (1) of the Special Tax Treatment Control Act) and the alteration of organization or exchange (limited to any alteration of organization or any exchange that meets the requirements provided for in Article 50 of the Act);
3. The income accruing from the transfer of housing construction sites from among lands created by the land development project in accordance with the Korea Land Corporation Act by the Korea Land Corporation established under the same Act;
 4. The income of the corporation that constructs new housing for sales, accruing from the transfer of such housing or its attached land falling under either of the following items, whichever is larger (including a case where the corporation parcels out the constructed rental housing or sells the housing to any housing rental business operator pursuant to the Rental Housing Act):
 - (a) The total floor area of the housing (excluding the basement area, the parking lot area on the ground and the area of the joint facilities for residents provided for in subparagraph 3 of Article 2 of the Regulations Governing the Standards, etc. for Constructing Housing); or
 - (b) Five times the area on which the building is built (10 times in the case of the area outside the urban area provided for in Article 6 of the National Land Planning and Utilization Act); and
 5. The income accruing from the grounds prescribed by Ordinance of the Ministry of Strategy and Finance, including the transfer, etc. for public purposes.
- (5) The term "other land, etc. prescribed by Presidential Decree" in the proviso to Article 55-2 (5) of the Act means what falls under any of the following subparagraphs: <Amended by Presidential Decree No. 19225, Dec. 31, 2005>
1. Land, etc. on which any person cannot complete the acquisition registration at the time of its transfer under the provisions of Acts or decisions made by a court; and
 2. The farmland provided for in Article 55-2 (4) 2 of the Act.
- (6) The provisions of Article 68 shall apply *mutatis mutandis* to the attributable business year, time of transfer, and time of acquisition of

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the income accruing from the transfer of land under Article 55-2 (1) of the Act: *Provided*, That the provisions of Article 68 (1) 3 shall apply in the cases of the transfer of land, etc. on a long-term installment term under Article 68 (3), notwithstanding Article 68 (2). <Amended by Presidential Decree No. 18174, Dec. 30, 2003>

(7) In the application of Article 55-2 (1) 1 of the Act, if land, etc. is transferred through subscription sales, such land, etc. shall be deemed to be transferred on the date when a contract thereof is concluded. <Amended by Presidential Decree No. 18174, Dec. 30, 2003>

(8) With respect to the income accruing from the transfer of land, etc. that is deemed to be made on the date when the contract therefor is concluded under paragraph (7), profits and expenses that accrue and are incurred, respectively, during the period and in the area provided for in paragraph (1) shall be calculated as earnings and losses of the relevant business year from among profits and expenses that are calculated based on the rate of work progress provided for in Article 69 (2): *Provided*, That in case that it is deemed impossible to calculate the rate of work progress provided for in Article 69 (2) in accordance with the Ordinance of the Ministry of Strategy and Finance, the amount that accrues and is incurred during the period shall be calculated as earnings and losses, respectively, of the relevant business year from among the amount obtained by equally and proportionally distributing the contract amount and the estimated total works cost during the period ranging from the date when the works commence to the date when the completed works are transferred. <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 20720, Feb. 29, 2008>

(9) In case that any corporation transfers not less than two lands, etc. subject to the application of Article 55-2 of the Act in each business year, the income accruing from the transfer of such land, etc. shall be the amount adding up the amount calculated by assets transferred in the relevant business year in accordance with Article 55-2 (6) of the Act. In this case, if the book value of any lands, etc. is in excess of the amount of transfer at the time of the transfer thereof from among assets transferred, the income accruing from the transfer of such land, etc. shall be calculated by deducting the excess amount. <Amended by Presidential Decree No. 19225, Dec. 31, 2005>

[This Article Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001]

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Article 92-3 (Standards for Period of Idle Lands)

The term "period that is set by Presidential Decree" in the main sentence of other portion than each subparagraph of Article 55-2 (2) of the Act means the period falling under any of the following subparagraphs:

1. In case where the period during which the land is owned is 5 or more years, the period falling under all of the following items:
 - (a) The period that is longer than 2 years from among 5 years that are immediately preceded by the date on which the land is transferred;
 - (b) The period that is longer than 1 year from among 3 years that are immediately preceded by the date on which the land is transferred; and
 - (c) The period that is longer than the period equivalent to 20/100 of the period during which the land is owned. In this case, the period shall be calculated in the number of days;
2. In case where the period during which the land is owned is 3 or more years and shorter than 5 years, the period falling under all of the following items:
 - (a) The period that is longer than the period that is obtained by subtracting 3 years from the period during which the land is owned;
 - (b) The period that is longer than one year from among 3 years that are immediately preceded by the date on which the land is transferred; and
 - (c) The period that is longer than the period equivalent to 20/100 of the period during which the land is owned. In this case, the period shall be calculated in the number of days; and
3. In case where the period during which the land is owned is not longer than 3 years, the period falling under all of the following items:
 - (a) The period that is longer than the period that is obtained by subtracting 2 years from the period during which the land is owned; and
 - (b) The period that is longer than the period equivalent to 20/100 of the period during which the land is owned. In this case, the period shall be calculated in the number of days.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-4 (Judgment on Land Category)

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In the application of the provisions of Article 55-2 (2) of the Act, the judgement on farmland, forests and fields, ranch area and other lands shall be made on the basis of their current state except a case where the provisions of this Decree govern them: *Provided*, That in case where their current state is unclear, their current state shall be determined according to their current entries in the public register.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-5 (Scope, etc. of Farmland)

(1) The term "farmland" in Article 55-2 (2) 1 of the Act means the dry field, the paddy field and the orchard that are actually used as the land for cultivation regardless of their land category in the public cadastral book. In this case, the part of the land, including the farm hut, the barnyard, the pumping station, the pond and marsh, the farm road and the waterway, which are used directly for the management of the farmland, shall be included.

(2) In the application of the provisions of Article 55-2 (2) 1 (a) of the Act, the main business shall be judged according to the standards of the following subparagraphs:

1. In case where not less than 2 different businesses are run, the main business shall be the business whose amount of business revenues is highest from among the businesses; and
2. Notwithstanding the provisions of subparagraph 1, in case where the relevant corporation uses agricultural products that are produced by its farmland as raw materials to manufacture and produce goods and its accounting is performed separately for the agriculture and the manufacturing business, etc., such corporation's main business shall be deemed agriculture. In this case, if the ratio of agricultural products produced by the relevant corporation that are used as raw materials to manufacture and produce goods (hereafter in this paragraph referred to as the "use ratio") is less than 50/100, agriculture shall be deemed the main business only for the farmland whose area is not more than twice the area equivalent to the use ratio.

(3) The term "farmland that is prescribed by Presidential Decree as being permissible to be owned by any corporation pursuant to the Farmland Act and other Acts" in the proviso to Article 55-2 (2) 1 (a) of the Act means the farmland falling under any of the following subparagraphs:

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<Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. The farmland that falls under Article 6 (2) 2, 6 and 10 (a) or (c) of the Farmland Act;
2. The farmland that is owned by any corporation that obtains the farmland conversion permission or makes the report on the farmland conversion pursuant to the provisions of Article 6 (2) 7 of the Farmland Act or the farmland that is used for its conversion purpose after completing the farmland conversion consultations pursuant to the provisions of Article 6 (2) 8 of the same Act;
3. The land that is acquired as the farmland pursuant to the provisions of Article 6 (2) 10 (d) through (f) of the Farmland Act and is used for the relevant business purpose;
4. The farmland that is owned by the family of the same clan (limited to the farmland that is acquired on or before December 31, 2005);
5. The farmland that is used directly by any non-profit business operator pursuant to the provisions of the main sentence of subparagraph 1 of Article 186 of the Local Tax Act for the purposes of memorial services, religion, charity, academic purpose, arts and crafts and public services; and
6. The farmland that is prescribed by Ordinance of the Ministry of Strategy and Finance as being permissible to be owned pursuant to the Farmland Act and other Acts.

(4) The term "area that is prescribed by Presidential Decree" in the main sentence of Article 55-2 (2) 1 (b) of the Act means the green belt area and the development restriction area pursuant to the National Land Planning and Utilization Act.

(5) The term "period that is set by Presidential Decree" in the proviso to Article 55-2 (2) 1 (b) of the Act means 2 years.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-6 (Scope, etc. of Forests and Fields)

(1) The term "forests and fields that are prescribed by Presidential Decree as being necessary to protect and foster mountains and trees as well as the public interest" in Article 55-2 (2) 2 (a) of the Act means the forests and fields falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008; Presidential*

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Decree No. 20763, Apr. 3, 2008>

1. The forest gene resource protection forest, the forest reserve, the seed-gathering forest and the experimental forest provided for in the Creation and Management of Forest Resources Act;
 2. The temple forest or the forest possessed by a village;
 3. The forests and fields in the park nature preservation area and the park natural environmental area provided for in the Natural Parks Act;
 4. The forests and fields in the urban park provided for in the Urban Parks, Green Areas, etc. Act;
 5. The forests and fields in the cultural property protection area provided for in the Cultural Heritage Protection Act;
 6. The compound area that is owned by any traditional temple provided for in the Preservation of Traditional Buddhist Temples Act;
 7. The forests and fields in the development restriction area provided for in the Act on Special Measures for Designation and Management of Areas of Restricted Development;
 8. Forest land in military bases or military facility zones under the Protection of Military Bases and Installations Act.
 9. The forests and fields in the clearance area provided for in the Road Act;
 10. The forests and fields in the railroad protection area provided for in the Railroad Safety Act;
 11. The forest land in the flood management area provided for in the River Act;
 12. The forests and fields in the water source protection area provided for in the Water Supply and Waterworks Installations Act; and
 13. Other forests and fields that are prescribed by Ordinance of the Ministry of Strategy and Finance as being necessary to protect and foster the public interest as well as mountains and forests.
- (2) In the application of the provisions of Article 55-2 (2) 2 (b) of the Act, if not less than 2 different businesses are run, the main business shall be the business which is offered the assets whose value is the largest from among the total amount of the value of the assets of the relevant corporation as of the end date of the business year.
- (3) The term "forest land that is prescribed by Presidential Decree" in

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Article 55-2 (2) 2 (b) of the Act means the forests and fields falling under any of the following subparagraphs in any mountain area provided for in the Management of Mountainous Districts Act: *Provided*, That any forests and fields in the urban area (excluding any preservation green belt area provided for in Article 30 of the Enforcement Decree of the National Land Planning and Utilization Act; hereafter in this paragraph the same shall apply) provided for in the National land Planning and Utilization Act for which 2 years lapse from the date on which it is included in the urban area shall be excluded: <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

1. The forests and fields for which the afforestation work is under way after authorization for the afforestation plan is obtained pursuant to the Creation and Management of Forest Resources Act; and
2. The forests and fields in the special afforestation project zone provided for in the Creation and Management of Forest Resources Act.

(4) The term "forests and fields prescribed by Presidential Decree" in Article 55-2 (2) 2 (c) of the Act means the forests and fields falling under any of the following subparagraphs: <Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

1. The forests and fields that are used to produce tree seeds and saplings for forests by any seed and sapling business operator provided for in the Creation and Management of Forest Resources Act;
2. The forests and fields that are used for the project undertaken to create, manage and operate any natural recreation forest provided for in the Forestry Culture and Recreation Act;
3. The forests and fields that are used to create, manage and operate any arboretum provided for in the Creation and Furtherance of Arboretums Act;
4. The forests and fields that are used by any forest association and any forest fraternity for the proper purpose;
5. The forests and fields that are used by any non-profit business operator provided for in the main sentence of subparagraph 1 of Article 186 of the Local Tax Act for memorial services, religion, charity, academic purpose, arts and crafts and the public interest;
6. The forests and fields that are owned by the family of the same clan (limited to the forests and fields that are acquired on or before December

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31, 2005); and

7. The forests and fields that are prescribed by Ordinance of the Ministry of Strategy and Finance as being directly involved in the corporation's business taking into account their owner, location and utilization, period of holding area, etc.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-7 (Scope, etc. of Ranch Area)

(1) The term "ranch area" in Article 55-2 (2) 3 of the Act means the barn, the land on which supplementary facilities are installed, the grassland and the dried slices of feed, all of which are used for livestock purposes.

(2) The term "ranch area that is prescribed by Presidential Decree as being directly involved in the business of any corporation" in the proviso to Article 55-2 (2) 3 of the Act, with exception of its items, means the ranch area falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

1. The ranch area that is owned by the family of the same clan (limited to the ranch area that is acquired on or before December 31, 2005);
 2. The ranch area that is used by any school provided for in the Elementary and Secondary Education Act and the Higher Education Act, the agency in charge of overall control over the livestock improvement and other livestock improvement agencies to conduct their experiments, research and practical training provided for in the Livestock Industry Act;
 3. The ranch area that is directly used by any non-profit business operator for the purposes of memorial services, religion, charity, academic purpose, arts and crafts, and public interest pursuant to the main sentence of subparagraph 1 of Article 186 of the Local Tax Act; and
 4. The ranch area that is prescribed by Ordinance of the Ministry of Strategy and Finance as being directly involved in the corporation's business taking into account its owner, location, utilization, period of holding area, etc.
- (3) In the application of Article 55-2 (2) 3 (a) of the Act, the main business shall be judged according to each of the following subparagraphs:
1. In case where not less than 2 different businesses are run, the main business shall be the business whose amount of the business revenues is highest: *Provided*, That every agricultural cooperative and the National Agricultural Cooperative Federation that are all established

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by the Agricultural Cooperatives Act shall be each deemed the corporation whose main business is the livestock business; and

2. Notwithstanding the main sentence of subparagraph 1, in case where the relevant corporation uses livestock products that are produced in the ranch area that is used for running its livestock business as raw materials to process them and performs separately the accounting of the livestock business and the accounting of the processing business, such corporation shall be deemed to have run the livestock business as its main business. In this case, if the ratio of livestock products that are used as raw materials to process them from among the livestock products that are produced by the relevant corporation (hereafter referred to as "use ratio" in this paragraph) is less than 50/100, such corporation shall be deemed to have run the livestock business as its main business to the extent that the relevant ranch area is used for the livestock business within twice the area equivalent to the use ratio from among the area of the relevant ranch area.
- (4) The term "standard area for the livestock land that is prescribed by Presidential Decree" in Article 55-2 (2) 3 (a) of the Act means the land area that is calculated by applying the standard area by domestic animal and the number of domestic animals that are shown in the attached Table.
- (5) The term "area prescribed by Presidential Decree" in Article 55-2 (2) 3 (a) of the Act means the green area and development-restriction zone pursuant to the National Land Planning and Utilization Act. *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*
- (6) The term "period that is prescribed by Presidential Decree" in Article 55-2 (2) 3 (a) of the Act means 2 years.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-8 (Scope of Other Lands Used for Business)

- (1) The term "land which is prescribed by Presidential Decree as being directly involved in the business of a corporation" in Article 55-2 (2) 4 (c) of the Act means the land falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*
 1. The land that falls under any of the following items and is used for sports facilities, including sports ground and field:
 - (a) The land that is used for sports facilities exclusive for athletes:
 - (i) The land that is not wider than the standard area that is

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prescribed by Ordinance of the Ministry of Strategy and Finance as being used for sports facilities exclusive for athletes, which are installed and are continued to be furnished by any corporation that has its workplace team of athletes pursuant to the National Sports Promotion Act: *Provided*, That the same shall not apply to a case where the workplace team of athletes fails to meet the requirements for athletes and coaches, which are prescribed by Ordinance of the Ministry of Strategy and Finance; and

- (ii) The land on which sports facilities are installed and used directly by any corporation that runs the business of athletic sports and the area of such land is not wider than the standard area prescribed by Ordinance of the Ministry of Strategy and Finance;
 - (b) The land that is used for sports facilities for employees: The land that is not wider than the standard area for sports facilities installed for employees, which is set by Ordinance of the Ministry of Strategy and Finance from among lands that are used to install sports facilities for the welfare of employees: *Provided*, That the same shall not apply to a case where the sports facilities are not in conformity with the standards for sports facilities for the employees, which are prescribed by Ordinance of the Ministry of Strategy and Finance;
 - (c) The land that is used directly by any corporation that runs the business of sports facilities provided for in the Installation and Utilization of Sports Facilities Act after installing the sports facilities in conformity with the standards therefor pursuant to the same Act; and
 - (d) The land that is used directly by any corporation that runs the business of operating the sports ground;
2. The land that is used for parking lot and falls under any of the following items:
- (a) The attached parking lot (excluding any parking lot attached to housing; hereafter the same shall apply in this item) provided for in the Parking Lot Act and the land that is not wider than the standard area for the parking lot pursuant to the same Act: *Provided*, That the land that is used for the attached parking lot in the land

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- that is used for the recreational establishment business provided for in subparagraph 6 shall be governed by subparagraph 6;
- (b) The land that is used for the parking lot for business cars (excluding any passenger car, any motorcycle, or any bus that is used for transporting employees) that are indispensably owned by any corporation other than business operators provided for in Article 131-2 (3) 2 of the Enforcement Decree of the Local Tax Act: *Provided*, That it is limited to the land whose area is not wider than the area obtained by multiplying 1.5 by the area (hereinafter referred to as the "minimum standard area for the parking lot") that is added up by the area calculated by multiplying the number of business cars by each car type by the minimum standard area for the parking lot per car by car type to be secured under the Passenger Transport Service Act or the Trucking Transport Business Act; and
 - (c) The land that is used for the business of operating parking lot: The land that is owned by any corporation whose main business is to operate parking lot and is used as an off-street parking lot provided for in the Parking Lot Act and the ratio of the amount of annual revenues to the value of the land is in excess of the ratio that is set by Ordinance of the Ministry of Strategy and Finance;
3. The land that is created through the private investment project undertaken by any project operator who is designated pursuant to the Act on Private Participation in Infrastructure and other land that is created by the project operator pursuant to other Acts, both of which are prescribed by Ordinance of the Ministry of Strategy and Finance: *Provided*, That any land for which 2 years lapse from the date on which its creation is completed shall be excluded;
 4. The land that is used for the juvenile training facility provided for in the Juvenile Activity Promotion Act and meets facility and equipment standards provided for in the same Act: *Provided*, That any land that is in excess of the standard area that is set by Ordinance of the Ministry of Strategy and Finance shall be excluded;
 5. The land that is owned for the purpose of reservists training for employees, etc. and meets all of the following requirements:
 - (a) The land category is required not to be the housing site or the factory site;

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- (b) The land is required not to be located in the residential area, the commercial area or the industrial area of the urban area provided for in the National Land Planning and Utilization Act;
 - (c) The land is required to meet the facility standards that are set by Ordinance of the Ministry of Strategy and Finance and to be not wider than the standard area that is set by Ordinance of the Ministry of Strategy and Finance; and
 - (d) The land is required to be owned by a person entrusted with the training of reservists from the head of mandatory corps;
6. The land that is used for the recreation establishment business, such as the specialized recreation business and the integrated recreation business, which are prescribed by Ordinance of the Ministry of Strategy and Finance and is not wider than the standard area that is set by Ordinance of the Ministry of Strategy and Finance;
 7. The land that is used for the storage yard, etc.: The storage yard, the open-area storage yard and the piling-up yard (including any land that is attached to the building that is built as a warehouse without obtaining the required construction permission therefor or making the required report thereon pursuant to the Building Act) that are separately set up to keep and manage goods and the land area is not more than 120/100 of the maximum area that is used to keep and manage goods in the relevant business year;
 8. The land that is used to collect aggregate: The land that is used by any corporation to collect aggregate as permitted after obtaining permission for collecting aggregate from the head of *Si/Gun/Gu* (limited to the head of autonomous *Gu*) pursuant to the Aggregate Picking Act;
 9. The land that is used by any corporation that runs the business of treating wastes after obtaining permission therefor pursuant to the Wastes Control Act;
 10. The land that is the mineral water spring (referring to the land that is used to run the business of bottling refreshing beverage and the hot spring business, etc., which is the elution outlet from which hot water and spring spout from underground and the site for maintaining it) and the ratio of the amount of annual revenues to the value of the land is in excess of the ratio that is set by Ordinance of the Ministry

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of Strategy and Finance;

11. The land that is used as the fish farm or the pond and marshland (referring to dam, reservoir, small pond, naturally formed lake and marsh that are used to run the inland fish farming business and the fishing pond business, and the site that is necessary to maintain them) provided for in the Cadastral Act, which falls under any of the following items:
 - (a) The land that is used to run the land seawater fish farming business and the fishery seedling production business pursuant to the Fisheries Act;
 - (b) The land that is used by anyone who obtains a license or permission from the head of *Si/Gun/Gu* (referring to the head of autonomous *Gu* and in the case of the Han River of the Seoul Special Metropolitan City, referring to the head of the agency in charge of managing the Han River; hereafter the same shall apply in this item) or makes a report to the head of *Si/Gun/Gu* pursuant to the Inland Water Fisheries Act, for his licensed fishing business, permitted fishing business or reported fishing business; and
 - (c) The land other than the land referred to in items (a) and (b), whose ratio of the amount of annual revenues to the value of the land is in excess of the ratio that is set by Ordinance of the Ministry of Strategy and Finance;
12. The land that is used to run the business of making blocks, stone products and earthen pipes, the land that is used to run the business of managing facilities for marketing flowering plants, the land that is used to run the business of planting landscape trees, the land that is used by any private institute that teaches how to repair automobiles and heavy vehicles and to drive heavy vehicles or teaches farming courses, and the land that is similar to the former, whose ratio of the amount of annual revenues to the value of the land is each in excess of the ratio that is set by Ordinance of the Ministry of Strategy and Finance; and
13. Other land similar to the land referred to in subparagraphs 1 through 12, which is prescribed by Ordinance of the Ministry of Strategy and Finance as being directly involved in the business taking into account its current utilization and its observance of relevant Acts and

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subordinate statutes, etc.

(2) In the application of the provisions of paragraph (1) 2 (c), 10, 11 (c) and 12, the term the "ratio of the amount of annual revenues to the value of the land" (hereafter referred to as the "ratio of the revenue amount" in this paragraph) shall be calculated by the business year and the highest ratio from among the ratios falling under each of the following subparagraphs shall be set as the ratio. In this case, if the amount of revenues that accrues from the land can be divided according to the plot, the ratio of the amount of revenues shall be calculated by the plot:

1. The ratio that is obtained by dividing the amount of annual revenues of the relevant business year by the value of land of the relevant business year; and
2. $(\text{The amount of annual revenues of the relevant business year} + \text{the amount of annual revenues of the immediately preceding business year}) \div (\text{the value of land of the relevant business year} + \text{the value of land of the immediately preceding business year}).$

(3) The term "amount of annual revenues" in paragraph (2) means the amount that is calculated according to the formula provided for in the following subparagraphs:

1. The amount of annual revenues shall be made the amount of revenues of one business year of the business involving the relevant land, the building and the facilities, etc. and in case where the key money or the security deposit is received after a lease or rental contract is concluded on the relevant land, the building and the facilities, an amount that is calculated by applying *mutatis mutandis* the formula provided for in Article 49-2 (1) of the Enforcement Decree on Value-Added Tax Act shall be added up;
2. In case where the amount of revenues of one business year is involved jointly in the relevant land, the building and the facilities, etc. (hereafter referred to as the "relevant land, etc." in this subparagraph) and other land, other building and other facilities (hereafter referred to as the "other land, etc." in this subparagraph), making it impossible to discern their actual reversion, the amount of revenues of one business year for the relevant land, etc. shall be calculated according to the following formula:

The amount of revenues of the one business year involving the relevant

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land, etc. = the amount of revenues of the one business year jointly involving the relevant land, etc. and other land, etc. \times (the value of the relevant land of the relevant business year + the total amount of the value of the relevant land of the relevant business year and the value of other land); and

3. In case where the period during which the business is run in the relevant land during one business year falls short of one year due to the commencement of any new business, the discontinuation of the business, the land transfer, the prohibition laid on the land use pursuant to Acts and subordinate statutes or on the grounds of inevitability, the amount of revenues during the period shall be calculated as the amount of revenues of one business year after converting the amount of revenues that accrue during the relevant period to that of one year.
- (4) The term "value of land during the relevant taxable period" in paragraphs (2) and (3) means the standard market price on the date on which the relevant business year ends (in case where any transfer is performed during the business year, referring to the date on which such transfer is performed).
- (5) In the application of the provisions of Article 55-2 (2) of the Act, in case where the connected land of many plots is used only for one purpose and the total area of the land is in excess of the area that is the standard for judging whether the total area of the land falls under the idle land (hereafter referred to as the "standard area" in this paragraph), the whole or part of the land based on the order of each item of relevant subparagraph shall be deemed the portion in excess of the standard area according to the classification of the following subparagraphs:
 1. In case where there are no building and no facilities:
 - (a) The land whose acquisition time is late; and
 - (b) In case where the acquisition is made at the same time, the land that is chosen by any corporation; and
 2. In case where there are any building and any facilities:
 - (a) The land whose acquisition time is late from among the lands except the floor area of the building or the horizontal projection area of the facilities; and
 - (b) In case where the acquisition time is simultaneous, the land that is chosen by any corporation.

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(6) In the application of the provisions of Article 55-2 (2) of the Act, in case where not less than one building (including facilities, etc.; hereafter the same shall apply in this paragraph) stands on the land and the building that is divided into the portion (including the portion of the building from among multiple buildings; hereafter referred to as the "portion for the specific use" in this paragraph), which is used for the specific business of the corporation and the portion that is not used for the specific business thereof, the area, etc. of the attached land for the specific purpose of use from among the floor area of the building and the area of the attached land (hereafter referred to as the "area, etc. of the attached land" in this paragraph) shall be calculated according to the following formula:

1. In case where one building is used for multiple purposes:

The area, etc. of the attached land for the specific purpose of use
= the area, etc. of the attached land of the building × the total floor area of the portion for the specific purpose of use/the floor area of the building; and

2. In case where multiple buildings with many and different purposes of use stand in the same boundary:

The area of the attached land for the portion of specific purpose of use
= the area of the entire attached land of the multiple buildings × the floor area for the specific purpose of use/the entire floor area of the multiple buildings.

(7) In the application of the provisions of Article 55-2 (2) of the Act, the types of business shall be classified according to the Korean Standard Industrial Classification that is published by the Commissioner of National Statistical Office pursuant to the provisions of Article 17 of the Statistics Act except a case where the special provisions of this Decree govern the classification of the types of business.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-9 (Scope of Land Attached to Housing)

The term "multiple rate that is prescribed by Presidential Decree by area" in Article 55-2 (2) 5 of the Act means the multiple rate falling under each of the following subparagraphs:

1. 5 times the land in the urban area; and
2. 10 times the land outside the urban area.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

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Article 92-10 (Scope of Resort Villas and Applicable Standards)

The term "housing in agricultural and fishing villages and lands attached thereto that are in conformity with the scope and standard that are prescribed by Presidential Decree" in the proviso to Article 55-2 (2) 6 of the Act means the housing and the attached lands that meet all of the following requirements:

1. The total floor area of the building is required to be not more than 150 square meters and the area of the land attached to the building is required to be not more than 660 square meters;
2. The value of the building and the attached land is required to be not more than the standard market price of 100 million won; and
3. The building is required to be located in the area except the area falling under any item of Article 99-4 (1) 1 of the Special Tax Treatment Control Act.

[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 92-11 (Criteria, etc. for Judging Lands that are Not Deemed Idle Lands on Grounds of Inevitability)

(1) The land falling under any of the following subparagraphs pursuant to the provisions of Article 55-2 (3) of the Act shall be deemed the land that does not fall under any subparagraph of Article 55-2 (2) of the Act during the period that is set in each relevant subparagraph of Article 55-2 (3) of the Act and then shall be judged whether the land falls under the idle land (hereafter referred to as the "idle land" in this Article) provided for in Article 55-2 (2) of the Act: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

1. The land whose use is prohibited or restricted pursuant to Acts and subordinate statutes after it is acquired: The period during which its use is prohibited or restricted;
2. The land that is located in the protective area that is designated pursuant to the Cultural Heritage Protection Act after it is acquired: The period during which the land is designated as the protection area; and
3. The land that falls under the grounds of inevitability that is prescribed by Ordinance of the Ministry of Strategy and Finance taking into account the public interest, legal restrictions that are imposed on the grounds of inevitability, the current state of the land, reasons for acquiring the land and the current utilization of the land, etc.: The period

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prescribed by Ordinance of the Ministry of Strategy and Finance.

(2) With respect to the land falling under any of the following subparagraphs pursuant to the provisions of Article 55-2 (3) of the Act, the date that is set in each subparagraph shall be deemed the date on which the land is transferred, and then the land shall be judged whether it falls under the idle land by applying the provisions of Article 92-3: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

1. The land that is transferred by means of auction pursuant to the Civil Execution Act: The first auction date;
2. The land that is transferred by means of public auction pursuant to the National Tax Collection Act: The public auction date; and
3. The land that requires a certain period for its transfer and falls under the grounds of inevitability that are prescribed by Ordinance of the Ministry of Strategy and Finance: The date prescribed by Ordinance of the Ministry of Strategy and Finance.

(3) Land falling under any of the following subparagraphs pursuant to the provisions of Article 55-2 (3) of the Act shall not be deemed the idle land: *<Amended by Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 21063, Oct. 7, 2008>*

1. Land transferred within three years from the date of acquisition due to merger or division of a corporation;
2. Land which is purchased by means of consultation or expropriated pursuant to the Act on the Acquisition of Land, etc. for Public Works and the Compensation Therefor and other Acts, and of which business authorization is published before December 31, 2006 or of which acquisition date is ten years before the business authorization is published;
3. Farmland owned by a clan (limited to the farmland acquired before December 31, 2005) as farmland falling under Article 55-2 (2) 1 (b) of the Act; and
4. Land prescribed by Ordinance of the Ministry of Strategy and Finance as the land that falls under the grounds of inevitability taking into account the public interest, legal restrictions that are imposed thereon due to inevitable reasons, the current state of the land, reasons for acquiring the land, the current utilization of the land, etc.: The period prescribed by Ordinance of the Ministry of Strategy and Finance.

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[This Article Newly Inserted by Presidential Decree No. 19225, Dec. 31, 2005]

Article 93 Deleted. *<by Presidential Decree No. 17457, Dec. 31, 2001>*

Article 94 (Deduction of Tax Amount Paid in Foreign Country)

(1) The term "foreign corporate tax amount as prescribed by the Presidential Decree" in the main sentence of Article 57 (1) of the Act means the tax amounts levied by a foreign government (including a local government; hereinafter the same shall apply) under each of the following subparagraphs: *Provided*, That this shall not apply to the amount levied by a foreign government on amounts not returned to a non-resident with a special relationship and reserved to a domestic corporation among the amounts of the domestic corporation reduced under Article 10 (1) of the Act for the Coordination of International Tax Affairs: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

1. The amount of excess profits tax and other taxes levied with the income of the corporation as the tax base;
2. The value-added tax amount levied with the income of the corporation as the tax base; and
3. The tax amount of the tax levied with the amount of earnings other than income as the tax base and other corresponding taxes falling under the same tax items as the tax levied with the income of the corporation as the tax base.

(2) The term "rate as prescribed by Presidential Decree" in Article 57 (1) 1 of the Act means the following rates: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(Income generated abroad – the amount as prescribed by Ordinance of the Ministry of Strategy and Finance from the income generated abroad)
/ tax base for the relevant business year.

(3) A domestic corporation which wishes to be subject to the application of the provisions of Article 57 (1) and (2) of the Act shall submit an invoice for deduction of the tax amount paid in a foreign country as prescribed by Ordinance of the Ministry of Strategy and Finance together with the report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(4) Where the invoice for deduction of the tax amount paid in a foreign country cannot be submitted together with the report under Article 60

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of the Act due to a delay by the foreign government in the determination or notification on the corporate tax on income generated abroad or differences in the period of taxation, the invoice with documentary evidence attached may be submitted within 45 days of receiving the notification from the foreign government on the corporate tax on the income generated abroad.

(5) The provisions of paragraph (4) shall apply *mutatis mutandis* where there is a change in the amount of tax paid in a foreign country due to a determination by the foreign government on the corporate tax amount on income generated abroad.

(6) The provisions of Article 96 (1) shall apply *mutatis mutandis* to the calculation of the limit of the tax deduction amount for taxes paid in a foreign country.

(7) In the calculation of the limit for deductions under the provisions of Article 57 (1) 1 of the Act, where the places of business abroad are located in 2 or more countries, the corporation may choose and apply the method of calculating the limit by each country, or the method of calculating the limit for all the countries.

(8) The term "amount calculated as prescribed by Presidential Decree" in Article 57 (4) of the Act means an amount calculated according to the arithmetic formula in subparagraph 1 or 2: <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

1. Where the dividend of profit or distribution of surplus fund (hereafter in this Article "dividend revenues of a foreign subsidiary") received from a foreign grandson company is not included in the income for each business year of a foreign subsidiary:

Corporate tax amount of the foreign subsidiary for the relevant business year \times dividend revenues / (income amount of the foreign subsidiary for the relevant business year - corporate tax amount of the foreign subsidiary for the relevant business year); and

2. Where the dividend revenues of a foreign subsidiary is included in the income for each business year of the foreign subsidiary:

(Corporate tax amount of the foreign subsidiary for the relevant business year + tax amount paid in a foreign country by the foreign grandson company corresponding to the dividend revenues of the foreign subsidiary \times 50%) \times dividend revenues / income amount of the foreign

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subsidiary for the relevant business year - corporate tax amount of the foreign subsidiary for the relevant business year.

(9) The term "corporation which meets the requirements as prescribed by the Presidential Decree" in Article 57 (5) of the Act means a domestic corporation which directly and continuously holds 20/100 or more of the total number of outstanding stocks with voting right or of total amount of investment of the foreign company for 6 months or more as of the date of the confirmation of the dividends. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(10) The term "foreign grandson company" in paragraph (8) means a corporation that meets the requirements in the following subparagraphs: <Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>

1. That the relevant foreign subsidiary shall directly hold 20/100 or more of the total number of outstanding stocks with voting right or total amount of investment of a foreign grandson company continuously for at least 6 months as of the day when the allotment of dividends of the foreign grandson company is concluded; and
2. That a domestic corporation shall indirectly hold 20/100 or more of the total number of outstanding stocks with voting right or total amount of investment of a foreign grandson company through a foreign subsidiary pursuant to Article 57 (5) of the Act. In this case, the rate of indirect possession of stocks shall be calculated by multiplying the rate of stocks of the foreign subsidiary held by a domestic corporation by the rate of stocks of a foreign grandson company held by a foreign subsidiary.

(11) The term "tax amount paid in a foreign country by the foreign grandson company corresponding to the dividend revenues of the foreign subsidiary" in paragraph (8) 2 means an amount calculated according to the following arithmetic formula: <Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>

Corporate tax amount of the foreign grandson company for the relevant business year × dividend revenues of the foreign subsidiary / (income amount of the foreign grandson company for the relevant business year - corporate tax amount of the foreign grandson company for the relevant business year).

(12) Except as otherwise provided for in paragraphs (8) through (11), matters necessary for the procedure for calculating the tax amount

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deductions for foreign subsidiary or foreign grandson company and other necessary matters shall be prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

Article 94-2 (Special Case of Deduction of Tax Amount Paid Abroad by Private Equity Company, etc.)

(1) The amount that can be refunded to any private equity company provided for in Article 57-2 (1) of the Act pursuant to the provisions of paragraph (2) of the same Article (hereafter referred to as the "refunded tax amount" in this Article) shall be the amount obtained by subtracting the amount referred to in subparagraph 2 from the amount referred to in subparagraph 1:

1. The amount that is calculated according to the following formula: or

The tax amount paid abroad on the relevant business year (referring to the tax amount paid abroad that is calculated pursuant to the provisions of Article 57-2 (1) of the Act)

The income amount subject to taxation from among the income amount of the relevant business year

The income amount subject to overseas taxation at source from among the income amount of the relevant business year

2. The corporate tax amount of the relevant business year.

(2) In the formula referred to in paragraph (1) 1, in case where the ratio (hereafter referred to as the "refund ratio" in this Article) obtained by dividing the income amount subject to taxation from among the income amount of the relevant business year by the income amount subject to taxation at overseas source from among the income amount of the relevant business year is smaller than 0, the ratio shall be deemed 0 and the ratio is larger than 1, the ratio shall be deemed 1.

(3) The income amount subject to the overseas taxation in the formula referred to in paragraph (1) 1 means the total amount of the relevant income in case where the foreign corporation tax amount provided in Article 57-2 (1) of the Act on the income from among the income generated from overseas sources is paid.

(4) Every private equity company, etc. shall calculate every day the amount provided for in paragraph (1) 1 and reflect the calculation thereof when

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it calculates the base price provided for in Article 96 of the Indirect Investment Asset Management Business Act. In this case, when the refund ratio is calculated, the "relevant business year" shall be deemed the "period ranging from the date on which the relevant business year begins to the date on which the amount referred to in paragraph (1) 1 is calculated".

(5) The corporation falling under any of the following subparagraphs, with respect to the tax amount paid abroad that is attributed to the indirect investment property provided for in the Indirect Investment Asset Management Business Act (hereafter referred to as the "indirect investment property" in this Article), which is kept and managed by the relevant corporation, shall prepare and submit a written confirmation of the tax amount paid abroad on the indirect investment property that is prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter referred to as the "written confirmation" in this Article) to the head of tax office having jurisdiction over the place of tax payment within one month from the date on which the business year of the indirect investment company, etc. ends, to which the indirect investment property that is kept and managed by the relevant corporation is attributed. In this case, the corporation referred to in subparagraphs 2 and 3 shall deliver a copy of the written confirmation to the asset operation company that manages the relevant indirect investment property: <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. The financial institution that runs the trust business provided for in the Trust Business Act;
2. The trustee company provided for in the Indirect Investment Asset Management Business Act; and
3. The asset custody company provided for in the Indirect Investment Asset Management Business Act.

(6) The provisions of paragraphs (1) through (5) shall apply *mutatis mutandis* to the refund of the tax amount paid abroad by the investment trust pursuant to the provisions of Article 57-2 (3) and (4) of the Act. In this case, the "business year" shall be deemed the "accounting period of the investment trust" and the "last day of the business year" shall be deemed the "settlement day of accounts", respectively.

(7) The indirect investment company, etc. that intends to receive the refund pursuant to the provisions of Article 57-2 (2) of the Act may file

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an application for the refund of the tax amount that is calculated pursuant to the provisions of paragraph (1), attached by an account statement detailing the tax amount paid abroad by the indirect investment company, etc., which is prescribed by Ordinance of the Ministry of Strategy and Finance, with the head of tax office having jurisdiction over the place of tax payment within the return period provided for in Article 60 of the Act. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(8) The investment trust that intends to receive the refund pursuant to the provisions of Article 57-2 (3) and (4) of the Act, may file an application for the refund of the tax amount calculated pursuant to the provisions of paragraph (1), along with an application for the refund of the tax amount paid abroad and an account statement detailing the tax amount paid abroad by the investment trust company, etc. which are prescribed by Ordinance of the Ministry of Strategy and Finance with the head of tax office having jurisdiction over the place of tax payment within 3 months from the date on which the settlement of accounts of the relevant trust is performed. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(9) The head of tax office having jurisdiction over the place of tax payment shall, upon receiving the refund application filed pursuant to the provisions of paragraphs (7) and (8), determine without delay the tax amount to be refunded and then refund such tax amount.

[This Article Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006]

Article 95 (Tax Deduction Amount for Losses in Disasters)

(1) The term "total amount of assets as prescribed by Presidential Decree" in Article 58 (1) of the Act means the sum of the assets under each of the following subparagraphs:

1. Assets used for business (not including land); and
2. Assets in the possession of another person for which the responsibility for compensation for the loss is borne by the relevant corporation.

(2) In the application of the provisions of Article 58 (1) of the Act, the percentage of assets lost shall be calculated in accordance with the book value of the corporation as of the date of the disaster, and where the book value cannot be known due to the loss or damage of the account books, it shall be calculated in accordance with the value as of the date of the disaster as investigated and confirmed by the head of tax office having jurisdiction over the place of tax payment.(3) The additional taxes

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under the provisions of Article 76 (1) of the Act and Articles 47-2 through 47-5 of the Basic Act for National Act shall be included in the corporate tax amount under the provisions of each subparagraph of Article 58 (1) of the Act. <Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

(4) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

(5) A domestic corporation which wishes to receive a tax deduction for losses in disasters under the provisions of Article 58 (1) of the Act shall submit an application for tax deduction for losses in disasters as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment within the time limit under each of the following subparagraphs: <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. For corporate taxes for which the time limit for the tax base report has not expired, the time limit for the report: *Provided*, That where the period from the date of the occurrence of the disaster to the time limit for report is less than one month, one month from the date of the occurrence of the disaster; and
2. For unpaid corporate tax or corporate tax to be paid as of the date of the disasters other than those under subparagraph 1, one month from the date of the occurrence of the disaster.

(6) The head of tax office having jurisdiction over the place of tax payment may defer the corporate tax under the National Tax Collection Act until the amount of the tax deduction received by the corporation under Article 58 (1) of the Act is confirmed. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

Article 95-2 (Tax Deduction, etc. for Agricultural Income Tax)

A domestic corporation that intends to be subject to the application of Article 58-2 of the Act shall submit the report under Article 60 of the Act along with the statement of agricultural income tax report and payment under the Enforcement Decree of the Local Tax Act to the head of the tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 95-3 (Method of Tax Deduction following Correction due to Wrongful Accounting Handling)

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In applying the provisions of Article 58-3 of the Act, where there are other reasons of application for correction besides the reasons of application for correction pursuant to the provisions of Article 66 (2) 4 of the Act within the same business year, the amount calculated according to the following formula shall be the deductible amount:

Overpaid tax amount × (overestimated tax base due to wrongful accounting handling / total of overestimated tax bases).

[This Article Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003]

Article 96 (Calculation of Amount of Tax Reduction/Exemption or Tax Deduction)

(1) In the calculation of the tax reduction or exemption amount under Article 59 (2) of the Act, the reduction or exemption income from the deduction of losses carried forward, non-taxable income, or the income deduction amount (hereafter in this paragraph referred to as "deduction amount") at the time of the calculation of the tax base for each business year shall be the amounts deducted under each of the following subparagraphs:

1. Where the deduction amount arises from the business receiving the reduction or the exempted business, the full deduction amount; and
2. Where it is unclear whether the deduction amount arises from the business receiving the reduction or the exempted business, the amount calculated in proportion to the income amount.

(2) Where a domestic corporation which received a reduction, exemption, or tax deduction under the provisions of each subparagraph of Article 59 (1) of the Act merges or divides, it may receive a reduction, exemption, or tax deduction under each of the following subparagraphs:

1. For reductions and exemptions under Article 59 (1) 1 of the Act (limited to reductions and exemptions spread over a fixed term), the reduction or exemption on income generated by the business received by succession by the merged corporation for each business year which ends within the residual reduction or exemption period at the time of the merger or division; and
2. For tax deductions under the provisions of Article 59 (1) 3 of the Act (including deduction for tax amounts paid in foreign countries) which are undeducted amounts carried forward, the deduction, limited

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to cases of merger, within the scope of the undeducted amount on assets received by succession by the merged corporation for each business year which ends within the period for residual deductions carried forward.

(3) The provisions of each subparagraph of paragraph (2) shall apply limited to cases meeting the requirements of each subparagraph of Article 44 (1) of the Act or each subparagraph of Article 46 (1) of the Act and Article 47 (1) of the Act, and in cases falling under Articles 44 (2), 46 (2), and 47 (2) (former part) of the Act, they shall not apply from the business year in which the concerned causes occur. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

(4) In the application of the provisions of each subparagraph of paragraph (2), where the requirements for the concerned reduction, exemption, or tax deduction are prescribed by the Act or other Acts and subordinate statutes, they shall apply limited to where the merged corporation meets the prescribed requirements.

SECTION 3 Report and Payment

Article 97 (Report on Tax Base)

(1) In making the report under Article 60 (1) and (2) of the Act, the tax base and tax amount of corporate tax on income for each business year calculated under Articles 14 through 54 of the Act (including the corporate tax on the income accruing from the transfer of land under Article 55-2 of the Act) and other necessary matters shall be entered in the report in accordance with the provisions of Article 112 of the Act. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

(2) The report under the provisions of paragraph (1) shall be the corporate tax base and tax amount report as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(3) The tax settlement invoice under the provisions of Article 60 (2) 2 of the Act shall be the corporate tax base and tax amount settlement invoice as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(4) The term "other documents as prescribed by Presidential Decree" in Article 60 (2) 3 of the Act means documents attached to the tax settlement

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invoice drawn up as prescribed by Ordinance of the Ministry of Strategy and Finance and cash flow chart made out according to Financial Accounting Standards (limited to corporations liable for external audit pursuant to Article 2 of the Act on External Audit of Stock Companies): *Provided*, That corporations designated by the Commissioner of the National Tax Service may choose not to submit documents as determined by the Commissioner of the National Tax Service. <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

(5) Where the head of tax office having jurisdiction over the place of tax payment or the Commissioner of the competent Regional Tax Office demands in writing that the documents not attached to the report under the proviso to paragraph (4) be submitted in order to analyze the contents of the report, the corporation shall submit such documents.

(6) In the application of the provisions of Article 60 (4) of the Act, the report on tax base and tax amount for the last business year of a corporation extinguished due to a merger or division pursuant to the Act shall be deemed to have been made even where the profits surplus fund disposition invoice (or deficits settlement statement) among the documents under paragraph (2) 1 of the same Article is not submitted.

(7) Where deemed necessary for the definite settlement or actual payment of business accounts and tax accounts of a corporation as determined by the Commissioner of the National Tax Service, a tax settlement invoice under the provisions of Article 60 (2) 2 of the Act shall be drawn up by a licensed tax accountant (including certified public accountants and lawyers registered under Article 20-2 of the Certified Tax Accountant Act; hereinafter the same shall apply). <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

(8) Matters necessary for the requirements for licensed tax accountants who can draw up the tax settlement invoice under paragraph (7) may be prescribed by the Commissioner of the National Tax Service.

(9) Submission of balance sheets, income statements, and profits surplus fund disposition invoices pursuant to the provisions of Article 60 (2) 1 of the Act and cash flow charts pursuant to the main sentence of paragraph (4) may be replaced with the submission of standard balance sheets,

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standard income statements, and standard particulars attached to income statements prescribed by Ordinance of the Ministry of Strategy and Finance by means of national tax information and communications networks pursuant to the provisions of subparagraph 19 of Article 2 of the Basic Act for National Taxes. <Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

Article 98 (Special Cases for Appropriation of Reserve Fund as Losses)

(1) Where the reserve fund included in the calculation of losses under Article 61 (1) of the Act is included in the calculation of earnings, the accumulated funds shall be disposed of. In this case, where the accumulated funds are disposed of prior to the inclusion of the relevant reserve fund in the calculation of earnings, they shall not be deemed to have been appropriated as losses under the same paragraph.

(2) Where a domestic corporation appropriates the lump sum depreciation reserve fund or compressed accounts reserve fund under this Decree or the Enforcement Decree on Special Tax Treatment Control Act in the tax settlement invoice under the provisions of Article 97 (3) and includes them in the calculation of losses at the time of the corporate tax base report, such amount shall be deemed to be appropriated as losses. In this case, the corporation shall submit a detailed statement on the lump sum depreciation reserve fund or compressed accounts reserve fund and the depreciation costs of each of the assets individually attached to the tax settlement invoice. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

Article 99 (Special Cases for Tax Base Report of Non-Profit Domestic Corporations)

(1) In the application of the provisions of Article 62 (1) of the Act, non-profit domestic corporations may choose not to make a tax base report even on parts of interest income withheld.

(2) With regard to the interest income for which the tax base report was not made under the provisions of Article 62 (1) of the Act, it may not be included in the tax base in an amended report or correction.

Article 99-2 (Special Cases for Taxation of Income Accruing from Transfer of Assets by Non-profit Domestic Corporations)

(1) The term "stocks or equity shares prescribed by the Presidential Decree" in Article 62-2 (1) 1 of the Act means the assets provided for in Article 94 (1) 4 (b) (limited to shares, etc.) of the Income Tax Act and Article

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158 (1) 1 and 5 of the Enforcement Decree of the same Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) The special case for the taxation of any income accruing from the transfer of assets provided for in each subparagraph of Article 62-2 (1) of the Act shall be applied by each business year which includes the date on which the assets provided for in each subparagraph of paragraph (1) of the same Article are transferred. In case that such special case is not applied by each business year, the provisions of Article 62-2 of the Act shall not apply to any income accruing from the transfer of assets that is made during the relevant business year.

(3) The term "assets prescribed by Presidential Decree" in the proviso of Article 62-2 (4) of the Act means the assets that are transferred within 3 years from the date on which such assets are contributed: *Provided*, That any assets that are used directly for the business (excluding any profit-making business falling under Article 2 (1) except the medical care business) falling under each of the following subparagraphs for one year or more shall be excluded:

1. The business prescribed by Acts and subordinate statutes;
2. The business for which permission or authorization, etc. is granted by any administrative agency; and
3. In other case than subparagraphs 1 and 2, the business that is prescribed as an objective business on the corporation register book.

(4) In case that any contributed assets are not included in the value of the inheritance tax and the value of the gift tax under the Inheritance Tax and Gift Tax Act, but the cause of taxation thereon accrues later that leads to levy the amount equivalent to the total amount of the inheritance tax and the gift tax thereof, the provisions of paragraph (3) shall not be applied. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(5) Even if any non-profit domestic corporation files a preliminary re turn of tax base on any transfer income and pays the tax thereon by self-return under Article 62-2 (7) of the Act, it may file a return of tax base under Article 60 (1) of the Act. In this case, the tax amount paid by a preliminary return shall be deducted from the tax amount to be paid under Article 64 of the Act.

(6) In case that any non-profit domestic corporation files a preliminary return of tax base on the transfer income under Article 62-2 (7) of the

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Act, it shall use a written preliminary return of tax base on the transfer income that is prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

[This Article Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001]

Article 100 (Interim Prepayment)

(1) Where the interim prepayment tax amount under the provisions of Article 63 (1) of the Act is paid, the corporate tax interim prepayment invoice as prescribed by Ordinance of the Ministry of Strategy and Finance shall be submitted to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) Where the interim prepayment tax amount under the provisions of Article 63 (4) of the Act is paid, the corporate tax interim prepayment invoice as prescribed by Ordinance of the Ministry of Strategy and Finance with the documents under each subparagraph of Article 60 (2) of the Act (not including earned surplus disposition invoices or losses disposition invoices) attached shall be submitted to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) In the payment under the provisions of paragraphs (1) and (2), the provisions of Article 101 (1) and (2) shall apply *mutatis mutandis*.

(4) Where the head of tax office having jurisdiction over the place of tax payment has confirmed the fact that there is no business revenue amount during the interim prepayment period due to causes such as the suspension of business, he shall not collect corporate tax for the relevant interim prepayment period.

Article 101 (Payment)

(1) A corporation which voluntarily pays corporate tax under the provisions of Article 64 of the Act shall pay it together with the report under the provisions of Article 60 of the Act at the tax office with jurisdiction over the place of tax payment or the places of tax payment under the National Tax Collection Act such as the Bank of Korea (including its branches) or postal and communication offices. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) The tax amount which may be paid in installments under the provisions of Article 64 (2) of the Act shall be the amounts under each of the following subparagraphs:

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1. Where the tax amount to be paid is 20,000,000 won or less, the amount in excess of 10,000,000 won; and
2. Where the tax amount to be paid is in excess of 20,000,000 won, the amount of 50/100 or less of the tax amount.

Article 102 (Payment in Kind)

(1) Bonds under the provisions of Article 65 (1) of the Act means the remuneration bonds issued by the operator of the public business under Article 63 (2) and (3) of the Act on the Acquisition of Land, etc. for Public Works and the Compensation Therefor. *<Amended by Presidential Decree No. 18324, Mar. 22, 2004; Presidential Decree No. 18706, Feb. 19, 2005>*

(2) The payment value of bonds to be appropriated for payment in kind under the provisions of Article 65 (1) of the Act shall be the value evaluated by applying *mutatis mutandis* the provisions of Article 63 (1) 2 of the Inheritance Tax and Gift Tax Act. *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

(3) The payment in kind of corporate taxes (excluding the additional tax; hereafter the same in this Article shall apply) under Article 65 (1) of the Act shall be limited to the corporate tax amount on transfer marginal profits from the transfer or expropriation to a public business operator under the same paragraph, and to the cases in which the amount of taxes to be paid in the business year of the transfer of the land is in excess of 10,000,000 won. *<Amended by Presidential Decree No. 17457, Dec. 31, 2001>*

(4) Where a domestic corporation wishes to pay corporate tax under the provisions of paragraph (3) through payment in kind, it shall apply to the head of tax office having jurisdiction over the place of tax payment as prescribed by Ordinance of the Ministry of Strategy and Finance by 10 days prior to the time limit for return under the provisions of Article 60 of the Act (including any preliminary return of tax base on the transfer income by any domestic non-profit corporation under Article 62-2 (7) and (8) of the Act; hereafter in this Article the same shall apply). *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20720, Feb. 29, 2008>*

(5) The head of tax office having jurisdiction over the place of tax payment who has received an application under paragraph (4) shall evaluate the payment value of bonds under paragraph (2) and notify the applicant of the decision on payment in kind by the day before the time limit for return under Article 60 of the Act.

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(6) The term "cases as prescribed by Presidential Decree" in the proviso of Article 65 (1) of the Act means the cases in which the Minister of Strategy and Finance deems it necessary for the settlement of revenue or determination of currency. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

SECTION 4 Settlement, Correction, and Collection

Sub-Section 1 Determination and Correction of Tax Base

Article 103 (Settlement and Correction)

(1) The determination and correction of the tax base and tax amount under the provisions of Article 66 of the Act shall be performed by the head of tax office having jurisdiction over the place of tax payment: *Provided*, That where the Commissioner of the National Tax Service deems it to be particularly important, the Commissioner of the competent Regional Tax Office having jurisdiction over the place of tax payment may perform the determination or correction. In this case, the head of tax office having jurisdiction over the place of tax payment shall forward the documents necessary to determine or correct the relevant tax base without delay to the Commissioner of the competent Regional Tax Office having jurisdiction over the place of tax payment.

(2) The determination or correction under the provisions of Article 66 of the Act shall be based on the spot inspections of the report under the provisions of Article 60 of the Act and the attached documents or account books kept on record and other documentary evidence.

(3) The determination under Article 66 (1) of the Act shall be completed within 1 year from the time limit for report under Article 60 of the Act: *Provided*, That where the Commissioner of the National Tax Service otherwise prescribes the period for investigation or where there are unavoidable causes and permission is received from the Commissioner of the National Tax Service, this shall not apply.

Article 103-2 (Disposition of Warning, Attention, etc. due to Wrongful Accounting Handling)

The term "disposition of warning, attention, etc. prescribed by the Presidential Decree" in Article 66 (2) 4 of the Act means any of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. Recommendation of dismissal of officers pursuant to the provisions

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- of Articles 20 and 186-5 of the Securities and Exchange Act and Article 9-3 of the Enforcement Decree of the same Act, restriction on issuance of securities for a certain period, public announcement of the fact of having received dispositions due to violation of Securities and Exchange Act, collection of letter of commitment, prosecution or notice to the investigation organization, warning, or attention;
2. Imposition of surcharge pursuant to the provisions of Article 206-11 (4) of the Securities and Exchange Act;
 3. Sentence of imprisonment or fine pursuant to the provisions of subparagraph 2 of Article 207-3 and subparagraph 2 of Article 211;
 4. Cancellation of registration, suggestion of suspension of business and duty, limitation of audit of a certain company of the auditor or certified public accountant attached to him pursuant to the provisions of Article 16 (1) of the Act on External Audit of Stock Companies;
 5. Recommendation of dismissal of officer or restriction on issuance of securities to the general meeting of stockholders pursuant to the provisions of Article 16 (2) of the Act on External Audit of Stock Companies; and
 6. Sentence of imprisonment or fine pursuant to Article 20 of the Act on External Audit of Stock Companies.

[This Article Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003]

Article 104 (Estimated Settlement and Correction)

- (1) The term "causes as prescribed by the Presidential Decree" in the proviso of Article 66 (3) of the Act shall mean cases falling under any of the following subparagraphs:
1. Where necessary account books or documentary evidence in the calculation of the income amount do not exist or important parts are incomplete or false;
 2. Where it is clear that the entered contents are false in light of the scale of the facilities, number of employees, or the market price of raw materials, commodities, manufactured goods, or various fees and charges; and
 3. Where it is clear that the entered contents are false in light of the amount of raw materials used, amount of energy used, and other operational matters.
- (2) In cases of estimated settlement or correction under the provisions

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of the proviso of Article 66 (3) of the Act, it shall be in accordance with the method under any of the following subparagraphs: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

1. The method of determining or correcting the tax amount by making the amount deducting the amount falling under each of the following items from the business revenue amount of a tax base. In this case, if the amount to be deducted is in excess of the business revenue amount, the excess amount shall be deemed not to exist:
 - (a) Amount that is expended or to be expended according to evidential documents as purchase expenses (excluding any expenses for the purchase of fixed assets used for the business; hereafter in this Article the same shall apply) or rental fees for fixed assets used for the business;
 - (b) Amount that is paid or to be paid according to evidential documents as pays, wages and retirement benefits of the representative, officers or employees; and
 - (c) Amount calculated by multiplying the standard cost rate provided for in Article 145 of the Enforcement Decree on Income Tax Act (hereinafter referred to as "standard cost rate") by the business revenue amount;
2. Where the standard cost rate is not determined or the account books and other documentary evidence is destroyed by natural disaster or other *force majeure*, the method of determining or correcting the tax base with reference to the income amount of another corporation of the same business type which is deemed to have the most accurate accounting records: *Provided*, That where there is not other corporation of the same business type and the account books and other documentary evidence are destroyed after the tax base report, determination or correction of the tax base shall be in accordance with the report under the provisions of Article 60 of the Act and the attached documentary evidence, and where the account books and other documentary evidence are destroyed before the tax base report, it shall be in accordance with the income rate of the immediately previous business year; and
3. Where a small enterprise pursuant to the provisions of Article 7 (1) 2 (a) of the Special Tax Treatment Control Act has closed down, the

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method determined by the Commissioner of National Tax Service, which is deemed reasonable such as *mutatis mutandis* application, etc. of provisions of Article 143 (3) 1-2 of the Enforcement Decree of Income Tax Act.

(3) In case of an estimated determination or correction under the provisions of the proviso of Article 66 (3) of the Act of the tax base of a corporation with reserve funds or appropriated funds which shall be included in the calculation of earnings under Article 34 of the Act or the Special Tax Treatment Control Act, the sum of the amount calculated under the provisions of paragraph (2) and the reserve funds or appropriated funds which must be included in the calculation of earnings shall be deemed as the tax base in the determination or correction of the tax amount.

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

Article 105 (Calculation of Business Revenue Amount at Time of Estimated Settlement or Correction)

(1) Where the business revenue amount for each business year of a domestic corporation cannot be calculated from the account books or other documentary evidence, the calculation of the business revenue amount shall be in accordance with the methods under each of the following subparagraphs:

1. The method of calculating the business revenue amount with reference to the business revenue amount of other similar corporation of the same business type determined through investigation of the account books deemed to be proper;
2. Where there is an operational efficiency rate set by the Commissioner of the National Tax Service in consideration of the type of business and the region, the quantity of business related personnel, material facilities (such as employees, guest rooms, places of business, vehicles, waterworks, and electricity), or the value and sales amount, the method of calculating the business revenue amount by the application of such rate;
3. Where there is production rate set by the Commissioner of the National Tax Service through investigation of the input of raw materials by each business type, the method of calculating the business revenue amount by applying such rate and then applying the production output so obtained to the market price of the amount sold during the concerned

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business year;

4. The method calculating the business revenue amount in accordance with the standards falling under any one of the following items as prescribed by the Commissioner of the National Tax Service according to each business type and region:
 - (a) A unit input amount which determines the relationship between the quantity of all or part of the raw materials and secondary materials put into production and the production output;
 - (b) An expense related rate which determines the relationship between all or part of the labor costs, lease costs, raw materials costs, water, light, and heat costs, and other expenses and the sales amount;
 - (c) A commodities turnover rate which determines the relationship between the average stored amount during a fixed period and the sales amount or the sales price;
 - (d) A transactions profit rate which determines the ratio of the sales amount to the total profits from sales during a fixed period; and
 - (e) A value-added rate which determines the ratio of the sales amount to the value-added amount during a fixed period;
5. Where the rates under subparagraphs 2 through 4 can be calculated for corporations subject to estimated settlement or correction, the method of calculating the business revenue amount by the application of such rate; and
6. For businesses which primarily engage in transactions with final consumers, the method of calculating the business revenue amount in accordance with the direct investigation standards as determined by the Commissioner of the National Tax Service.
 - (2) Even in cases of estimated settlement or correction of the revenue amount under paragraph (1), where the income amount can be calculated on the basis of newly found account books and other documentary evidence, the tax base and tax amount for the relevant business year shall be determined or corrected through on the spot investigations.

Article 106 (Disposition of Income)

- (1) The amount included in the calculation of earnings under the provisions of Article 67 of the Act shall be disposed of in accordance with the provisions under each of the following subparagraphs. This shall also apply to non-profit domestic corporations and non-profit foreign corporations:

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<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. Where the amount included in the calculation of earnings has clearly flowed out of the company, the dividends, bonuses from the disposition of profits, other income, and other outflows from the company under each of the following items according to the person to whom they accrue: *Provided*, That where the accrual is unclear, it shall be deemed as accrual to the representative (where an executive who is not a minority shareholder, etc. and persons with a special relationship under Article 43 (8) holds 30% or more of the total number of stocks issued or total investment amount of the relevant corporation and actually controls the operation of the corporation, he shall be deemed as the representative, and where a corporation which has been exempted from withholding taxes under the provisions of Article 46 (12) of the Restriction of Special Taxation Act reports that there is a separate representative among the executives who are stockholders, the reported person shall be the representative, and where there are 2 or more representatives, the actual representative; hereinafter the same shall apply):
 - (a) Where the person of accrual is a stockholder (not including stockholders who are executives or employees), the dividends of the person of accrual;
 - (b) Where the person of accrual is an executive or employee, the bonuses of the person of accrual;
 - (c) Where the person of accrual is a corporation or an individual operating business, other outflows from the company: *Provided*, That this shall be limited to where the distributed profits make up the income for each business year of a domestic corporation or domestic place of business of a foreign corporation under the provisions of Article 94 of the Act or the business income of a resident or the domestic place of business of a non-resident under the provisions of Article 135 of the Income Tax Act; and
 - (d) Where the person of accrual is a person other than those under items (a) through (c), the other income of the person of accrual;
2. Where the amount included in the calculation of earnings has not

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flowed out of the company, it shall be the amount to be held in the company; and

3. The amounts under each of the following items shall be other outflows from the company, notwithstanding the provisions of subparagraph 1:
 - (a) Deleted; <by Presidential Decree No. 19328, Feb. 9, 2006>
 - (b) The amount included in the calculation of earnings under the provisions of Article 24 of the Act;
 - (c) The amount included in the calculation of earnings under Article 25 of the Act and Article 136 of the Restriction of Special Taxation Act;
 - (d) The amount corresponding to the withholding tax amount for interest, discount amounts, and marginal profits included in the calculation of earnings under the provisions of Article 28 (1) 1 and 2 of the Act;
 - (e) The amount included in the calculation of earnings under the provisions of Article 28 (1) 4 of the Act;
 - (f) Deleted; <by Presidential Decree No. 19328, Feb. 9, 2006>
 - (g) The amount included in the calculation of earnings under the provisions of Article 138 of the Special Tax Treatment Control Act;
 - (h) Where the amount included in the calculation of earnings under the provisions of the main sentence of subparagraph 1 is deemed to be accrued to the representative and disposed of, the amount included in the calculation of earnings which the relevant corporation pays as income tax on the disposition on behalf of the representative and appropriates as losses or does not collect until the special relationship with the representative is extinguished;
 - (i) The amount included in the calculation of earnings under the provisions of Article 88 (1) 1, 3, 8, 8-2 and 9 (limited to any activity or calculation similar to those provided for in subparagraph 1, 3, 8 and 8-2) which is the amount levied on the person of accrual as gift tax under the Inheritance Tax and Gift Tax Act; and
 - (j) In returning, or determining or revising the corporate tax base on the revenues in each business year at the domestic business places of foreign corporations under Article 94 of the Act, the revenues whose amount included in the earnings is to be reverted to the

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head office, etc. of the same foreign corporation.

(2) The difference between the tax base determined under Article 104 (2) and the net profits for the current term on the balance sheet of the corporation (referring to the amount where the amount of the corporate tax has not been deducted) shall be the bonus from the disposition of profits of the representative: *Provided*, That in cases falling under the proviso to Article 68 of the Act, it shall be other outflows from the company.

(3) Where a corporation under paragraph (2) makes a report on losses, the losses shall be deemed not to exist.

(4) In case where any domestic corporation recovers the money, including the omission of the gross income and the processing cost, etc. which have been illegally flowed out of it and then includes the recovered money, etc. in the calculation of earnings through the adjustment of the taxable income within the fixed deadline of the amended tax return provided for in Article 45 of the Basic Act for National Taxes, the attribution of the gross income shall be retained in such domestic corporation: *Provided*, That the same shall apply to a case where the domestic corporation includes the money that has been flowed out of it in the calculation of earnings after being notified of the tax audit or learning of the start of the tax audit or the correction of the tax in question in advance. *<Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005>*

Article 107 (Special Cases concerning Estimation of Tax Base and Calculation of Tax Amount)

The term "amounts estimated under the conditions as prescribed by Presidential Decree" in the proviso to Article 68 of the Act means the case of estimated settlement or correction under the provisions of Article 104 (2) 2.

Article 108 (Determination of Occasional Imposts)

(1) The term "cause as prescribed by Presidential Decree" in the fore part of Article 69 (1) of the Act means the cases falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

1. Where the headquarters, etc. is moved without making a report;
2. Where the business is suspended or closed down due to a slump in business or other causes; and
3. Where there are other reasonable grounds for concern about the

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possibility of tax evasion.

(2) Where the head of tax office having jurisdiction over the place of tax payment or the Commissioner of the competent Regional Tax Office imposes occasional imposts under the provisions of Article 69 (1) of the Act on a corporation in which the causes under each subparagraph of paragraph (1) have occurred, he shall determine the tax base and tax amount by applying *mutatis mutandis* the provisions of Articles 103 (2) and 104 (2) of this Decree and the provisions of Article 55 (2) of the Act. In this case, the provisions of Article 76 of the Act shall not apply.

(3) Where a corporation receives business revenue amounts from the United Nations Forces in Korea or a foreign institution through a foreign exchange bank in the form of foreign exchange certificates or won currency, the head of tax office having jurisdiction over the place of tax payment may determine the tax base for the amount to received under the provisions of Article 69 of the Act.

(4) Where occasional imposts are levied under paragraph (3), the tax amount shall be an amount calculated by applying *mutatis mutandis* the provisions of Article 104 (2), multiplied again by the tax rate under Article 55 of the Act. <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

(5) In applying *mutatis mutandis* Article 104 (2) in accordance with the provisions of paragraph (2), in the case falling under paragraph (1) 2, the head of tax office having jurisdiction over the place of tax payment or the Commissioner of the competent Regional Tax Office having jurisdiction over the place of tax payment shall, where he recognizes the non-existence of any clear tax evasion as a result of a tax audit, determine the tax base and tax amount according to the method prescribed in the main sentence of Article 104 (2) 2 and in case that another corporation with the same business type is nonexistent, may determine the tax base and tax amount according to the method prescribed in the proviso to the same subparagraph. <Newly Inserted by Presidential Decree No. 16658, Dec. 31, 1999>

Article 109 (Notification of Tax Base and Tax Amount)

(1) Where the head of tax office having jurisdiction over the place of tax payment makes notification of the tax base and the tax amount under the provisions of Article 70 of the Act, he shall notify the corporation through a written tax notification with a detailed statement on the calculation of the tax base and tax amount attached, and where there

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is no tax base or no tax amount to be paid for the business year, he shall make notification of the contents of such determination. In this case, the Commissioner of the competent Regional Tax Office having jurisdiction over the place of tax payment shall state in writing that he investigated and determined the tax base determined under the proviso to Article 103 (1).

(2) Where the head of tax office having jurisdiction over the place of tax payment determines the tax base of a corporation under Article 104 (2), he shall state the standard revenue amount in the detailed statement on calculation under paragraph (1) in the notification.

(3) In the application of the provisions of paragraph (1), where determination of the tax base of a foreign corporation with no reported person responsible for management or a domestic corporation of which the location is unclear, it shall be conveyed by public announcement.

Sub-Section 2 Collection and Return of Tax Amount

Article 110 (Calculation of Amount Returned by Retroactive Deduction of Losses)

(1) The term "corporate tax amount as prescribed by the Presidential Decree" in Article 72 (1) of the Act means the amount of corporate tax calculated for the immediately previous business year (excluding the corporate tax on the income accruing from the transfer of land under Article 55-2 of the Act; hereafter in this Article the same shall apply) minus the corporate tax amount deducted or reduced or exempted (hereafter in this Article referred to as "reduced or exempted tax amount") from the corporate tax on income for the immediately previous business year (hereinafter referred to as "corporate tax amount for the immediately previous business year"). <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

(2) The term "amount calculated as prescribed by Presidential Decree" in Article 72 (1) of the Act means the amount under subparagraph 1 minus the amount under subparagraph 2:

1. The tax amount calculated as the corporate tax for the immediately previous business year; and
2. The amount calculated by application of the tax rate of the immediately previous business year to the balance of the tax base of the immediately

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previous business year minus the amount for which retroactive deduction as losses for the relevant business year under the provisions of Article 14 (2) of the Act (limited to the tax base of the immediately previous business year; hereafter in this Article referred to as an "amount of retroactively deducted losses").

(3) A corporation which wishes to receive a return under the provisions of Article 72 (2) of the Act shall file an application (including filing such application through the national tax information and communications network) for the return of retroactively deducted corporate taxes as prescribed by Ordinance of the Ministry of Strategy and Finance within the time limit for report under the provisions of Article 60 of the Act to the head of tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 20720, Feb. 29, 2008>*

(4) The calculation of the corporate tax amount to be collected in accordance with the reduction of losses under the provisions of Article 72 (5) of the Act shall be in accordance with the following mathematical formula: *Provided*, That where only part of the losses under Article 14 (2) of the Act is subject to retroactive deduction, the losses which have not been deducted retroactively shall be deemed to have been reduced first:

[Amount of returned taxes under the provisions of Article 72 (3) of the Act (hereafter in this Article referred to as "initial amount of returned taxes")] × The amount in excess of the reduced amount of losses which have not been deducted retroactively/ The amount of losses retroactively deducted.

(5) The term "amount equivalent to the interest calculated as prescribed by Presidential Decree" in Article 72 (5) of the Act means the amount calculated by multiplying the amount under subparagraph 1 by the rate under subparagraph 2: *<Amended by Presidential Decree No. 17826, Dec. 30, 2002>*

1. The corporate tax amount collected under paragraph (4); and
2. The rate of 3/10,000 per day beginning with the day following the date of the notification of the returned tax amount until the date of the notification of the corporate tax amount collected under paragraph (4).

(6) Where the corporate tax amount or the tax base amount of the immediately previous business year which was the basis for the calculation

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of the relevant returned tax amount changes after the determination of the initially returned tax amount, the head of tax office having jurisdiction over the place of tax payment shall redetermine the initially returned tax amount without delay and return the additional tax amount or collect the tax amount returned in excess. In this case, the provisions of paragraph (5) shall apply *mutatis mutandis* to the collection of the tax amount returned in excess.

(7) In the redetermination of the initially returned tax amount under the provisions of paragraph (6), where the amount of retroactively deducted losses is in excess of the tax base amount, the amount of losses in excess shall not be deemed as retroactively deducted losses.

Article 110-2 (Calculation of Tax Refund following Correction due to Wrongful Accounting Handling)

(1) The refund amount pursuant to the provisions of Article 72-2 (1) of the Act shall be the final remainder after deducting taxes in regular sequence pursuant to the provisions of Article 58-3 of the Act.

(2) The additional refund pursuant to the provisions of Article 72-2 (1) of the Act shall be the amount calculated according to any method of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. In case there remains refund amount in the business year after the elapse of 5 years from the starting day of business year to which the correction date pursuant to Article 66 (2) 4 of the Act belongs: Total of the amounts calculated by applying respectively the provisions of Article 52 of the Basic Act for National Taxes to the tax deduction amount of each business year as tax-deducted in sequence pursuant to the provisions of Article 58-3 of the Act, and the refund pursuant to the provisions of paragraph (1); and
2. In case all of the overpaid tax amount has been deducted, which has been paid within 5 years from the starting day of the business year to which the correction date pursuant to Article 66 (2) 4 of the Act belongs: Total of the amounts calculated by applying respectively the provisions of Article 52 of the Basic Act for National Taxes to the tax deduction amount of each business year as tax-deducted in sequence pursuant to the provisions of Article 58-3 of the Act.
- (3) In the application of the provisions of Article 72-2 (1) and (2) of the Act, in case where the relevant domestic corporation is dissolved on the

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grounds of its merger or its division and any amount remains after the tax amount is deducted pursuant to the provisions of Articles 58-3 and 59 of the Act, the merged corporation or the corporation that is newly incorporation as a result of division (including the counterpart corporation of a merger or a division) shall take over the remaining amount and pay the refund amount and the additional refund amount during the remaining period only in case where any amount remains after the tax amount is deducted pursuant to the provisions of Articles 58-3 (1) and 59 of the Act. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

[This Article Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003]

Article 111 (Scope of Income Subject to Withholding)

(1) Income under each of the following subparagraphs shall not be included in the interest income amount and the proceeds from investment trust under the provisions of Article 73 of the Act: <Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 16762, Mar. 28, 2000; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18146, Nov. 29, 2003; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. Income on which corporate tax is not levied or is exempted;
2. Income reverting to the trust property of a corporation under the application of the Trust Business Act and the Indirect Investment Asset Management Business Act (hereinafter referred to as a "trust company"): *Provided*, That this shall not include interest, discounts, etc. (hereinafter referred to as "interest, etc.") on bonds, etc. under Article 46 (1) of the Income Tax Act (hereinafter referred to as "bonds, etc.") subject to the withholding taxes under the provisions of Article 73 of the Act;
3. Income already included in the calculation of the reported tax base, which has not been paid;
4. Interest revenue on loans to members of non-profit corporations or members of their associations under the Acts and subordinate statutes or articles of association, and interest revenue on money deposited by non-profit corporations with the cooperatives or central organizations of the relevant non-profit corporations;
5. Interests, etc. that accrue from the continued possession of government

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and public bonds, etc. falling under each of the following items, which are registered in accordance with the State Bond Act and the Registration of Bonds and Debentures Act, from the date on which they are issued to the date on which the interest thereon is paid or they are repaid by any non-profit domestic corporation that runs the business of health care insurance, pension management and mutual-aid (limited to the business of the relevant fund in case of any corporation provided in Article 17 (1) 4) from among corporations provided in Article 17-2 (8) 4 and 5:

- (a) Bonds or securities issued by the State or local governments;
 - (b) Currency stabilization bonds issued by the Bank of Korea in accordance with the Bank of Korea Monetary Stabilization Bond Act; and
 - (c) Bonds or securities prescribed by Ordinance of the Ministry of Strategy and Finance;
6. Interest revenue accruing from funds deposited jointly by corporations, which are members of an association (excluding any corporation that runs the financial insurance business under the Korea Standard Industrial Classification) that falls under any of the following items, according to the rules and regulations of such association:
- (a) An association provided for in Article 17-2 (8) 6; and
 - (b) An association that has been established for the purpose of stabilizing the bond market and is prescribed by Ordinance of the Ministry of Strategy and Finance; and
7. Interest revenue accruing from funds deposited in the National Housing Fund under the provisions of Article 61 (2) of the Housing Act by the Korea National Housing Corporation under the Korea National Housing Corporation Act (limited to deposits of funds made up of loans borrowed from the national pension under the National Pension Act and postal deposits under the Postal Savings and Insurance Act in which the national pension and postal deposits continue to hold such loans at the time of payment of interest income).
- (2) The term "revenue amount of financial insurance business prescribed by Presidential Decree" in Article 73 (1) of the Act means the interest income amount paid to a corporation (excluding corporations falling under any of the following subparagraphs) that operates the financial insurance

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business: <Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. Corporations under each subparagraph of Article 61 (2);
 2. The Bank of Korea under the Bank of Korea Act;
 3. Asset management companies under the Indirect Investment Asset Management Business Act;
 4. Futures traders under the Futures Trading Act;
 5. Cooperatives under the Agricultural Cooperatives Act;
 6. Fisheries cooperatives under the Fisheries Cooperatives Act (including the fishing village credit union);
 7. Forestry cooperatives under the Forestry Cooperatives Act;
 8. Credit unions and the National Credit Union Federation of Korea under the Credit Unions Act;
 9. Community credit cooperatives under the Community Credit Cooperatives Act;
 10. Corporations or funds with principal purposes of funding under the Acts (limited to those classified and accounted separately from other businesses);
 11. Investment companies under the Indirect Investment Asset Management Business Act;
 12. Funds subject to the application of the Framework Act on Fund Management (limited to corporations or organizations regarded as corporations under Article 13 of the Basic Act for National Taxes); and
 13. Other corporations carrying on the finance insurance business as stipulated by Ordinance of the Ministry of Strategy and Finance.
- (3) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>
- (4) In applying the provisions of Article 73 of the Act, where convertible or exchangeable bonds are converted into equity stocks, the interest, etc. on the relevant bonds shall be deemed to have been paid. <Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000>
- (5) In applying the provisions of Article 73 of the Act, the date of payment of interest income shall be the date under any subparagraph of Article 190 of the Enforcement Decree on Income Tax Act: *Provided*, That where

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a corporation under Article 61 (2) 1 through 7 and 10 issues and sells promissory notes as provided for in subparagraph 1 of Article 190 of the Enforcement Decree on Income Tax Act, withholding tax shall be collected at source by treating the date when such promissory notes are issued at discounted prices as the date of the payment of interest, etc. <Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005>

(6) Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

Article 112 (Withholding on Interest Amount of Bonds Reverting to Trust Property)

(1) The term "interest income prescribed by Presidential Decree" in Article 73 (2) of the Act means the interest, etc. on bonds, etc. <Amended by Presidential Decree No. 17033, Dec. 29, 2000>

(2) The term "financial institutions, etc. as prescribed by Presidential Decree" in Article 73 (3) of the Act means financial institutions also operating the trust business, and trust companies under the Indirect Investment Asset Management Business Act. <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

(3) Any financial institution that concurrently operates the trust business and any asset management company under the Indirect Investment Asset Management Business Act shall pay by withholding the corporate tax payable on proceeds from investment trusts under Article 17 (1) 5 of the Income Tax Act by month after deducting the amounts under the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17338, Aug. 14, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. Tax amount paid by any corporation referred to in paragraph (2) through the withholding of the income at source that reverts to the trust property; and
2. Tax amount withheld at source from the trust property, etc. on acquisition of bonds, etc. that are subject to withholding tax on the date prescribed by subparagraph 1 of Article 190 of the Enforcement Decree of the Income Tax Act (hereinafter referred to as "original issue discount bonds").

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(4) In the application of the provisions of paragraph (3), where the total amount under each subparagraph of the same paragraph is in excess of the corporate tax amount to be paid by withholding under the same paragraph (referring to the corporate tax amount before the deduction of the amounts under each subparagraph of the same paragraph), the amount in excess shall be returned to the relevant corporation without delay: *Provided*, That where the relevant corporation collectively calculates and pays the withholding tax amount under Article 7 (1) 3 and there is a corporate tax amount to be withheld and paid other than on the profits of trust and the proceeds from investment trust of the relevant corporation, the returned tax amount may be appropriated as the tax amount to be paid. *<Amended by Presidential Decree No. 19891, Feb. 28, 2007>*

(5) Deleted. *<by Presidential Decree No. 20619, Feb. 22, 2008>*

(6) Matters necessary for withholding and payment, etc. of interest income reverting to the trust property and the properties of investment companies other than those under paragraphs (1) through (5) shall be prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17338, Aug. 14, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

Article 113 (Amount Subject to Tax Withheld at Source on Amount Equivalent to Interest during Holding Period of Bonds, etc.)

(1) In the application of Article 73 of the Act, the income subject to the tax withheld at source on the interest, etc. accruing from bonds, etc. (referring to the interest, etc. accruing from the sales of the bonds, etc., in case where the bonds, etc. are sold before the interest, etc. accruing from them are paid) shall be the income amount accruing in the period during which any domestic corporation acquires and holds bonds, etc. *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

(2) In the application of paragraph (1), the income that accrues in the period during which any domestic corporation acquires and holds bonds, etc. shall be the amount calculated by applying the period under items of subparagraph 1 and the interest rates under items of subparagraph 2 to the face value of the bonds, etc. (hereafter referred to as the "amount equivalent to the interest during the holding period" in this Article, Articles 114-2 and 138-3): *<Amended by Presidential Decree No. 16810, May 16, 2000; Presidential*

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Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>

1. The holding period of bonds, etc.:
 - (a) Where the bonds, etc. are sold before the interest income amount is received, the period from the date of the acquisition of the relevant bonds, etc. or the day after the last day of the immediately previous interest income amount calculation period until the date the bonds, etc. are sold (in case of good offices, mediation, or commission in order to sell, the date of actual sale and delivery); and
 - (b) Where the interest income amount on the bonds, etc. has been received, the period from the date of the acquisition of the relevant bonds, etc. or the day after the last day of the immediately previous interest income amount calculation period until the last day of the interest income amount calculation period; and
2. Interest rate to be applied:
 - (a) The interest rate obtained by adding the interest rate under the calculation method in the contract on the interest calculation period of the relevant bonds, etc. and the discount rate at the time of issue, and subtracting the premium rate at the time of issue: *Provided*, That with respect to bonds that are issued on the open market pursuant to each subparagraph of Article 22-2 (1) and (2) of the Enforcement Decree on Income Tax Act, the discount rate and premium rate at the time of issue shall neither be added to nor subtracted from the interest rate; and
 - (b) For convertible bonds or exchangeable bonds with the condition that on the redemption maturity date the payment is made by adding the guaranteed rate for each interest calculation period, the additionally paid interest rate shall be added to the interest rate under item (a): *Provided*, That where convertible bonds or exchangeable bonds are requested to be converted or exchanged for stocks and the interest payment is in the contract, the rate as prescribed by Ordinance of the Ministry of Strategy and Finance shall be deemed as the contract interest rate from the date of the request for conversion or the date of the request for exchange.
- (3) In applying the provisions of paragraphs (1) and (2), the sales of

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bonds, etc. shall include the transfer of those that have been acquired and held by a corporation in its own asset account to the account of assets managed by the corporation on behalf of others, the transfer between such managed accounts, or the transfer from such managed accounts to its own asset account, all in return for a consideration: *Provided*, That this shall not apply to such cases as prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20720, Feb. 29, 2008>

(4) Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

(5) In applying the provisions of paragraph (1), where a corporation that acquired securities under Article 102 (1) 3 of the Enforcement Decree on Income Tax Act among the beneficiary certificates under the Indirect Investment Asset Management Business Act has sold such beneficiary certificates (including securities acquired and sold by an asset management company under the Indirect Investment Asset Management Business Act), at halfway of the period of computing proceeds from investment trust, the amount corresponding to interest for the period of holding of such beneficiary certificates shall be computed under Article 23 (4) through (10) of the Enforcement Decree on Income Tax Act, notwithstanding the provisions of paragraph (2). <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

(6) Where the withholding tax deducted before the corresponding business year exceeds the tax amount on the amount equivalent to the interest during the holding period that is calculated by applying *mutatis mutandis* paragraph (2) as a corporation sells original issue discount bonds, etc. in the following business year before their maturity arrives although it duly reported its corporate tax base with full deduction of such tax withheld at source on such bonds, etc. at the close of the corresponding business year where it acquired them, such excess amount shall be paid in addition to the corporate tax payable for the business year whereto the sale of such bonds, etc. belongs. <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005>

(7) A corporation that sells one kind of bonds, etc. acquired on different dates may select the method of computing the period under paragraph (2) 1 between the method applied *mutatis mutandis* under Article 74 (1)

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1 (a) through (c) and the method prescribed by Ordinance of the Ministry of Strategy and Finance. Such a corporation shall continually apply the same method it selects after reporting the same to the head of tax office having jurisdiction over the place of tax payment within the period given in any of the following subparagraphs. In such cases, if the corporation fails to report the method of computing the period of holding or applies a computing method that is different from what it reported, the period of holding shall be computed by the method applied *mutatis mutandis* under Article 74 (1) 1 (b): <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20720, Feb. 29, 2008>

1. Payment date of tax collected by withholding on the amount corresponding to interest for the period of holding; and
2. Report date of corporate tax base for amount corresponding to interest for the period of holding.

(8) In applying the provisions of paragraphs (1) through (7), the provisions of Article 102 (8) of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to the confirmation of the period of holding bonds, etc., and the holding period shall be computed based on the agreement on calculation of the number of interest days under the terms of issue of the relevant bonds, etc.: *Provided*, That where there is no such agreement, the holding period shall be computed by including either the date following the date of their acquisition or the last date of the immediately previous interest period, or the date of their sales. <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18706, Feb. 19, 2005>

(9) Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

(10) A corporation that falls under any of the following subparagraphs shall make a written confirmation of the tax amount withheld at source equivalent to the amount of the interest during the holding period of the bonds, etc., which revert to the relevant trust property and submit such written confirmation to the head of tax office having jurisdiction over the place of tax payment by the end of the month following the month in which the tax amount is withheld at source. In this case, the corporation referred to in subparagraph 2 shall deliver a copy of the written confirmation to the relevant asset management company provided for in the Indirect Investment Asset Management Business Act: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No.

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1. The financial institution that concurrently runs the trust business provided for in the Trust Business Act; or
2. The trustee company provided for in the Indirect Investment Asset Management Business Act;
3. Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

(11) Where any corporation (including trust property under Article 73 (2) of the Act; hereafter the same shall apply in this paragraph) sells the bonds, etc. in the form of original issue discount bonds (limited to bonds, etc. whose tax amount is withheld at source at the time they are sold; hereafter the same shall apply in this paragraph) during an interest-calculation period, such corporation (referring to any financial institution, where such financial institution brokers the sales of the relevant bonds, etc.) shall be deemed to resell the relevant bonds, etc. on the date on which they are sold at halfway and withhold interest, etc. thereon at source after calculating them. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

(12) In the application of Article 73 of the Act, in case where any corporation sells its bonds, etc. to the corporations in each of the following subparagraphs, when any contract is entered between parties with respect to the tax withheld at source of the amount equivalent to the interest during the holding period referred to in paragraph (2), the act performed by anyone who acts as an withholding agent or is commissioned to withhold the tax at source in accordance with the relevant contract shall be deemed as the act of the principal or the delegating person within the scope of authority and delegation: <Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19214, Dec. 30, 2005>

1. The corporation provided for in each subparagraph of Article 61 (2); and
2. The asset management company provided for in the Indirect Investment Asset Management Business Act.

(13) In case where the bonds, etc. are deemed to be sold under paragraph (3), a withholding tax shall be imposed on the amount equivalent to the interest during the holding period of the managed property by deeming that any corporation that manages the relevant property sells the bonds, etc. <Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005>

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Article 114 Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

Article 114-2 (Tax Withheld at Source and Refund, etc. in Bond Transactions with Repurchase Agreement)

(1) The term "bond transactions with repurchase agreement, etc. that is prescribed by Presidential Decree" in Article 73 (8) of the Act means the following transactions that are confirmed by means of accounts of the Korea Securities Depository that is established pursuant to Article 173 of the Securities and Exchange Act or under the conditions as prescribed by Ordinance of the Ministry of Strategy and Finance: <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. The bond transactions with repurchase agreement under which financial institutions (referring to the financial institutions that fall under any of items of subparagraph 1 of Article 2 of the Act on Real Name Financial Transactions and Guarantee of Secrecy and corporations that fall under any subparagraph of Article 111 (2)) sell or purchase bonds, etc. on the condition that they resell or repurchase them at certain prices after the lapse of a certain period; and
2. The transactions similar to those referred to in subparagraph 1, which are prescribed by Ordinance of the Ministry of Strategy and Finance.

(2) The transactions referred to in paragraph (1) shall be governed by the provisions of Article 73 of the Act by deeming that the amount equivalent to the interest income accruing from the bonds, etc. during the period ranging from the date on which they are sold to the date on which they are repurchased reverts to sellers.

(3) In case where the bonds, etc. that are purchased by purchasers (hereafter referred to as the "purchasers of bonds with repurchase agreement" in this Article) under paragraph (1) are sold to third parties, the tax amount equivalent to the amount of the interest during the holding period shall be withheld at source from the purchaser [excluding the corporation falling under any of the subparagraphs of Article 111 (2)] of bonds with repurchase agreement and the purchaser of the bonds with repurchase agreement may receive the refund of the tax withheld at source under paragraph (4). <Amended by Presidential Decree No. 19214, Dec. 30, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

(4) Any purchaser of bonds with repurchase agreement who intends to receive the refund of the tax amount withheld at source pursuant to

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paragraph (3) shall file a refund application, accompanied by the document prescribed by Ordinance of the Ministry of Strategy and Finance substantiating that the bonds, etc. that have been sold to any third party are purchased through the transaction referred to in paragraph (1), with the head of tax office having jurisdiction over the place of tax payment of the purchaser of bonds with repurchase agreement on or before the 10th day of the month following the month in which the tax amount withheld at source is paid, and the head of the competent tax office shall immediately refund the tax amount after confirming the fact of the transaction and contents of the application for the fund. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

[This Article Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005]

Article 115 (Payment of Withholding Tax Amount)

(1) The person responsible for collecting withholding taxes under Article 73 (1) of the Act shall pay the corporate tax withheld under the same Article at the tax office with jurisdiction over withholding taxes in accordance with the statement of payment under the National Tax Collection Act, and shall submit the report (including submitting such report through the national tax information and communications network) on the status of the performance of withholding as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office with jurisdiction over withholding taxes. *<Amended by Presidential Decree No. 18312, Mar. 17, 2004; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

(2) The term "person responsible for collecting withholding taxes as prescribed by Presidential Decree" in Article 73 (7) of the Act shall mean a person responsible for collecting withholding taxes with 10 or fewer regular employees in the immediately previous year (not including corporations operating the financial insurance business) who has received approval from the head of tax office having jurisdiction over withholding taxes to pay semi-annually the withholding tax amounts under the provisions of each subparagraph of Article 73 (1) of the Act, or has been designated as determined by the Commissioner of the National Tax Service. *<Amended by Presidential Decree No. 18174, Dec. 30, 2003>*

(3) The number of regular employees in the immediately previous year under the provisions of paragraph (2) shall be the average number of

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regular employees as of the last day of each month from January to December of the immediately previous year.

(4) A corporation which wishes to receive the approval under the provisions of paragraph (2) shall apply to the head of tax office with jurisdiction over withholding tax between the first and the last day of the month immediately preceding the semi-annual term in which the corporation wishes to pay the withholding corporate tax semi-annually.

(5) The head of tax office having jurisdiction over withholding tax, who receives an application under the provisions of paragraph (4) shall determine whether he will approve the application in consideration of the reliability in the report and payment of the withholding tax amount of the relevant person responsible for collecting withholding taxes and notify the applicant by the last day of the month after the semi-annual term which includes the date of the application.

(6) Matters necessary for the semi-annual payment of withheld corporate tax under Article 73 (7) of the Act and other necessary matters shall be prescribed by the Commissioner of the National Tax Service.

Article 116 (Succession to Duty to Pay Withholding Tax)

(1) In the dissolution of a corporation, where the corporate tax to be withheld under the provisions of Article 73 of the Act has not been collected or the collected corporate tax is not paid and residual assets have been distributed, the liquidator and the persons receiving the distribution of the residual assets shall be jointly and severally liable for the payment of the corporate tax, up to the limit of the value of the assets distributed and the value of the assets received, respectively.

(2) Where a corporation is extinguished through merger or division, the merged corporation, etc. shall be responsible for payment of corporate tax of extinguished corporation, etc. which must be withheld under Article 73 of the Act which is not collected or collected corporate tax which is not paid by the extinguished corporation.

Article 117 (Issuance of Withholding Receipt)

(1) Article 193 of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to the issuance of the withholding receipt under Article 74 (1) of the Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) The provisions of paragraph (1) shall also apply to the issuance of the withholding receipt of the corporate tax amount withheld by a

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corporation which pays interest income on future interest payment method bonds.

Article 118 <by Presidential Decree No. 19891, Feb. 28, 2007>

Article 119 (Rate of Additional Tax on Nonpayment)

The term "interest rate prescribed by Presidential Decree" in the fore part of Article 76 (2) 1 of the Act means 3/10,000 a day.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120 (Application of Additional Taxation)

(1) The term "cases as prescribed by Presidential Decree" in Article 76 (4) of the Act means where the documents under each subparagraph of Article 157 (1) are not submitted.

(2) The term "corporation as prescribed by Presidential Decree" in Article 76 (5) and (9) of the Act means a corporation falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000>

1. The State or local governments; and
2. Non-profit corporations (excluding parts that are related to profit-making businesses falling under the provisions of Article 2 (1)).

(3) The term "businessmen as prescribed by Presidential Decree" in Article 76 (5) of the Act means businessmen under each subparagraph of Article 158 (1).

(4) The provisions of Article 76 (5) of the Act shall not apply to entertainment expenses not included in the calculation of losses under the provisions of Article 25 (2) of the Act.

(5) The term "case where it is unclear as prescribed by Presidential Decree" in Article 76 (6) of the Act means cases falling under any one of the following subparagraphs: *Provided*, That this shall not include cases in which part of the necessary stated matters on the submitted statement on the state of fluctuation are erroneously stated differently from the facts and the state of the fluctuation of the stocks can be verified through other stated matters:

1. Where the fluctuation of the stocks cannot be verified because all or part of the stated matters under Article 161 (5) 1 through 3 (hereafter in this paragraph referred to as "necessary stated matters") are not stated or are stated incorrectly in the submitted statement on the state of fluctuation; and
2. Where the fluctuation of the stocks cannot be verified because the

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necessary stated matters on the submitted statement on the state of fluctuation is different from the stated matters on the list of names of the stockholders or employees.

(6) The term "where it is unclear as prescribed by the Presidential Decree" in Article 76 (7) of the Act means where the facts of payment cannot be verified because the address, name, or the identification number (the citizen registration number where it is used instead) or the business registration number of the payer and receiver, or the type of income, the year of accrual of the income, or the amount of payment is not stated or is incorrectly stated in the submitted payment protocol and where the standard securities identification code is not stated or is incorrectly stated in the submitted statement of payment and statement of payment of interest and dividend income: *Provided*, That this shall not include cases falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. Where payment is made to a person who has been issued a businessman registration card or has been given an identification number as of the date of payment; and
2. For payments other than those under subparagraph 1, where it is verified that the location of the person receiving payment has become unclear after the payment.

(7) Where a corporation reports, settles, or corrects the tax base under Article 84, 85, or 87 of the Act before the time limit under the provisions of Article 120 of the Act through a merger, division, or dissolution, the amount of payment under the provisions of Article 76 (7) of the Act shall be the amount to be submitted by the date of the registration of the merger, the date of the registration of the division, or the date of the registration of the dissolution.

(8) The term "business year which includes the date of payment" in Article 76 (8) of the Act means the business year which includes the date on which the obligation to submit the statement of payment is incurred. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(9) The term "matters to be stated as prescribed by the Presidential Decree" in Article 76 (9) 1 of the Act means the stated matters under Article 211 (1) 1 through 4 of the Enforcement Decree on Income Tax Act (hereafter in this paragraph referred to as "necessary stated matters"): *Provided*,

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That where part of the necessary stated matters in the issued invoice are erroneously stated differently from the facts or the facts of the transaction can be verified by deeming other stated matters on the relevant invoice than the stated matters, it shall not be deemed as an invoice in which the matters are stated differently from the facts under the provisions of Article 76 (9) 1 of the Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(10) The term "matters which must be stated as prescribed by Presidential Decree" in Article 76 (9) 2 of the Act means the business registration number and the value provided in the transaction: *Provided*, That where the stated matters in the submitted aggregate balance sheet of sales and purchase invoices are erroneously stated differently from the facts but the facts of the transaction can be verified by the issued or received invoice, it shall not be deemed as an aggregate balance sheet of sales and purchase invoices in which the stated matters are different from the facts under the provisions of Article 76 (9) 2 of the Act.

(11) The term "where all or part of the matters which shall be recorded as prescribed by the Presidential Decree are not recorded or are recorded differently from the actual facts" in Article 76 (9) 3 of the Act means where the business registration numbers of customers or the values of supply by customers are not recorded or are recorded differently from the actual facts: *Provided*, That this shall not include where the matters to be stated in the submitted aggregate balance sheet of purchase tax invoices are erroneously stated differently from the actual facts but the facts of the transaction can be verified by the issued tax invoice. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

CHAPTER II-2 CORPORATE TAX ON INCOME OF FAITHFUL SMALLER CORPORATIONS FOR EACH BUSINESS YEAR

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SECTION 1 Tax Base and Its Calculation

Article 120-2 (Application of Method of Faithful Tax Payment)

(1) The term "corporation prescribed by Presidential Decree" in the part other than each subparagraph of Article 76-2 (1) of the Act means the corporation falling under any of the following subparagraphs:

1. Corporation liable for external audit pursuant to Article 2 of the Act on External Audit of Stock Companies;
2. Corporation that operates the real estate rental business; or
3. Corporation that operates the consumptive service business pursuant to Article 10 (1) of the Special Tax Treatment Control Act.

(2) The term "income amount" in Article 76-2 (1) 1 of the Act means the sales amount calculated pursuant to the corporate accounting standard: *Provided*, That where the period of the relevant business year is less than 1 year, the amount gained by converting the sales amount for the relevant period into the amount for one year shall be the criterion. In this case, the number of months shall be calculated according to the calendar, however, the days less than one month shall be deemed as one month.

(3) Where the income amount of a faithful smaller corporation for each business year to which the faithful tax payment method (hereinafter "faithful tax payment method") pursuant to Article 76-2 (1) of the Act applies exceeds 500 million won (excluding the cases where it exceeds 500 million won after merger with another corporation), the faithful tax payment method shall apply for three business years (hereinafter "suspension period") including the first business year in which the income amount has exceeded 500 million won, and the faithful tax payment method shall apply continuously if the income amount of the first business year thereafter is less than 500 million won.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-3 (Establishment, etc. of Business Account)

(1) The term "business account" in Article 76-2 (1) 2 (e) and (i) of the Act means the account established in the name of the relevant corporation at a financial institution falling under each item of subparagraph 1 of Article 2 of the Act on Real Name Financial Transactions and Guarantee of Secrecy.

(2) The amount which is settled through a settlement agency as referred

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to in Article 76-2 (1) 2 (e) of the Act means the sales amount, and the amount which is settled through the business account as referred to in Article 76-2 (1) 2 (i) of the Act means the sales amount and purchase amount.

(3) The corporation that intends to have the faithful tax payment method applied pursuant to Article 76-2 (1) 2 (e) or (i) of the Act shall report the business account when requesting for the application of faithful tax payment method pursuant to Article 76-2 (2) of the Act, and the number of accounts to be reported may be two or more in this case.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-4 (Request, etc. for Application of Faithful Tax Payment Method)

(1) The faithful smaller corporation (hereinafter "faithful smaller corporation") pursuant to Article 76-2 (1) of the Act that intends to have the faithful tax payment method applied shall submit a request for the application of faithful tax payment prescribed by Ordinance of the Ministry of Strategy and Finance to the head of competent tax office within one month from the end of the business year in which it intends to have the faithful tax payment method applied. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(2) The head of tax office who has received the request pursuant to paragraph (1) shall decide whether to authorize and shall notify the requester of the result within one month from the date when the request was received.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-5 (Cancellation of Approval on Application of Faithful Tax Payment Method)

(1) Where it is deemed that the faithful smaller corporation to which the faithful tax payment method applies fails to meet the requirements in Article 76-2 (1) 2 of the Act, the head of competent tax office shall notify the relevant corporation to explain the detailed reasons that are recognized as not meeting the requirements in Article 76-2 (1) 2 of the Act after specifying a period within one month.

(2) Where there is no explanation pursuant to paragraph (1) or the explanation is incomplete, the head of competent tax office may cancel the approval on the application of faithful tax payment method to the relevant corporation.

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[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-6 (Faithful Tax Payment Advisory Committee)

(1) Where the head of competent tax office approves the application of faithful tax payment method pursuant to Article 120-4 (2) or cancels the approval on the application of faithful tax payment method pursuant to Article 120-5 (2), he shall have the matter deliberated by the faithful tax payment advisory committee.

(2) The faithful tax payment advisory committee shall consist of 15 members or less including one chairman; the head of tax office shall become the chairman and the persons falling under the following subparagraphs shall become its members:

1. Persons appointed by the head of tax office from among the public officials of Grade 5 or Grade 6 under his control: 4 persons or less; and
2. Persons commissioned by the head of tax office from among the persons who have abundant knowledge and experience in law or taxation: 10 persons or less.

(3) The meeting of the faithful tax payment advisory committee shall consist of the chairman and six persons designated by the chairman at each meeting, however, four or more of the persons in paragraph (2) 2 shall be included.

(4) The term of office for the members pursuant to paragraph (2) 2 shall be two years.

(5) Article 53 (4) through (8), (10) and (13) of the Enforcement Decree on Basic Act for National Act shall apply *mutatis mutandis* to the decommissioning of members of the faithful tax payment advisory committee, convocation and notification of meetings, method of resolution, payment of allowance, etc. In this case, the "Commissioner of the National Tax Service" shall be deemed as the "head of tax office", and the "National Tax Examination Committee" shall be deemed as the "faithful tax payment advisory committee".

(6) Other matters necessary for the operation of the faithful tax payment advisory committee shall be determined by the Commissioner of the National Tax Service.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-7 (Special Cases concerning Calculation of Depreciation)

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(1) The term the "amount calculated as prescribed by Presidential Decree" in Article 76-3 (2) of the Act means the amount calculated according to the straight line method in paragraph (2) 1 of the same Article on the amount of depreciated asset (including the amount denying depreciation) that has not been included in the loss as of the end of business year which is immediately before the business year in which the faithful tax payment method applied for the first time, notwithstanding Article 26 (1): *Provided*, That as for the depreciated asset that has been used for business after having been acquired in the business year in which the application of faithful tax payment method is intended, it refers to the amount equivalent to 50/100 of the amount calculated according to the straight line method in Article 26 (2) 1, notwithstanding Article 26 (9).

(2) In applying paragraph (1), the durable years of depreciated asset shall be 5 years (20 years for buildings and structures) notwithstanding Article 28 (1). In this case, the durable years of depreciated asset that was held before the faithful tax payment method has become applicable shall be determined pursuant to the methods in the following subparagraphs:

1. Buildings and structures: 20 years - the years that have passed as of the end of the business year immediately prior to the business year in which the faithful tax payment method applied for the first time; and
2. Depreciated asset other than those in subparagraph 1: 5 years - the years that have passed as of the end of the business year immediately prior to the business year in which the faithful tax payment method applied for the first time.

(3) In cases where the durable year is below zero in applying the subparagraphs of paragraph (2), the value of depreciated asset that has not been included in the loss pursuant to paragraph (1) shall be included in the loss in the business year in which the faithful tax payment method applied for the first time.

(4) To a corporation to which the faithful tax payment method applies, "three million won" shall apply in place of "one million won" in the part other than the subparagraphs of Article 31 (4).

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-8 (Special Cases concerning Calculation of Reserve for

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Retirement Allowance)

As for a corporation to which the faithful tax payment method applies, 20/100 of the total wages of the executives or employees in office as of the end of the relevant business year shall be the limit of the cumulative amount of reserve for retirement allowance that shall be included in the loss, notwithstanding Article 60 (2).

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

SECTION 2 Calculation of Tax

Article 120-9 (Deduction of Standard Tax Amount)

(1) Where a faithful smaller corporation operates businesses in two or more types of business and one of the types of business falls under the types of business in Article 7 (1) 1 of the Special Tax Treatment Control Act, Article 76-5 (1) of the Act shall apply to all of the income of the relevant corporation for each business year.

(2) To a corporation that has two or more places of business in applying Article 76-5 (1) of the Act, the deduction rate of 15/100 shall apply only when its main office is located in the Seoul Metropolitan area.

(3) The amount of tax deduction carried forward pursuant to Article 144 (1) of the Special Tax Treatment Control Act, which was not deducted before the faithful tax payment method applied to a corporation to which the faithful tax payment method now applies shall be deemed to have become null.

[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

Article 120-10 (Tax Deduction for Increase in Revenue)

The term the "cause prescribed by Presidential Decree" in Article 76-6 (2) of the Act means the cases falling under any of the following subparagraphs:

1. Where the area of place of business increases by not less than 50/100 (30/100 in the cases of moving the place of business) of the area in the immediately previous business year; or
2. Where the type of business is changed to a type of business which can be classified to another large classification according to the Korean Standard Industrial Classification, or a type of business which belongs to another large classification is added.

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[This Article Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008]

CHAPTER III CORPORATE TAX ON
LIQUIDATION INCOME OF
DOMESTIC CORPORATIONS

SECTION 1 Tax Base and Its Calculation

Article 120-11 (Scope of Organizational Change for Corporations)

The term "case prescribed by Presidential Decree" in subparagraph 3 of Article 78 of the Act means the cases in which a law firm makes its organizational change into a law firm (with limited liability) pursuant to the Attorney-at-Law Act, and in which a customs brokerage corporation makes its organizational change into a customs brokerage corporation pursuant to the Licensed Customs Broker Act. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

[This Article Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005]

Article 121 (Calculation of Liquidation Income Amount from Dissolution)

(1) The value of residual assets under Article 79 (1) of the Act shall be the total amount of assets minus the total amount of liabilities.

(2) The term "total amount of assets" in paragraph (1) shall be the sum of all assets as of the date of the registration of the dissolution, and debentures to be collected and assets to be converted to currency shall be the amounts under each of the following subparagraphs:

1. For debentures to be collected and assets to be converted to currency, the amount as of the date of collection or conversion; and
2. For cases of distribution prior to collection or conversion, the amount evaluated in accordance with the market price as of the date of distribution.

(3) The term "losses carried forward prescribed by the Presidential Decree" in the main sentence of Article 79 (4) of the Act means the losses carried forward provided for in Article 18 (1): *Provided*, That the amount of deficit carried forward that is already offset or is deemed offset by the total amount of the equity capital shall be excluded. *<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006>*

Article 122 (Calculation of Amount of Liquidation Income due to Merger)

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- (1) The total cost of merger under Article 80 (1) of the Act shall be the sum of the amounts under each of the following subparagraphs: *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>*
1. The total cost of merger under Article 16 (1) 5 of the Act;
 2. The amount added up under Article 80 (2) of the Act: *Provided*, That in case that the requirements falling under each of the following items are met, such amount shall be an amount obtained by adding the amount that is not used for the acquisition of stocks of the merged corporation from among the transfer amount of combined stocks to the value (referring to the value calculated based on the face value in case that the acquisition value of stocks is higher than the face value) of stocks of the merged corporation, which are acquired by stockholders, etc. of the extinguished corporation under the provisions of item (b):
 - (a) The merged corporation and the extinguished corporation shall not be persons with a special relationship at the time that the merged corporation purchases combined stocks, etc. referred to in Article 80 (2) of the Act (hereafter in this Article referred to as "combined stocks, etc.") from stockholders, etc. of the extinguished corporation;
 - (b) The stockholders, etc. of the extinguished corporation shall acquire the stocks of the merged corporation (referring to stocks newly issued by the merged corporation) that are equivalent to not less than 95/100 of the transfer amount of the combined stocks, etc. within 7 days from the date on which they transfer the combined stocks, etc. to the merged corporation; and
 - (c) The requirements provided for in Article 44 (1) 1 and 2 of the Act shall be met; and
 3. The sum of the amounts falling under any one of the following items paid by the merged corporation:
 - (a) The corporate tax imposed on liquidation income of an extinguished corporation and the national tax imposed on the corporate tax (including the abated tax amount); and
 - (b) Resident taxes levied on the corporate tax under item (a) in accordance with the Local Tax Act.
- (2) In the application of the provisions of the latter part of Article 80

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(2) of the Act, the value of transferred stocks shall be the value calculated under the provisions of each subparagraph of Article 14 (1).

(3) In the calculation of the amount of liquidation income accruing from corporation merger or division under Articles 80 and 81 of the Act, the surplus included in the total amount of equity capital shall be calculated by deducting the non-deductable loss amount from among the matters of tax adjustment that are succeeded by the merged corporation, etc. when a corporation merger or division takes place and by adding up the amount not included in earnings from among such matters of tax adjustment.

<Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

Article 123 (Calculation of Amount of Liquidation Income due to Division)

(1) The total cost of division under Article 81 (1) of the Act shall be the sum of the amounts under each of the following subparagraphs:

<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005>

1. The total cost of division under Article 16 (1) 6 of the Act;
2. The amount added up under Article 81 (2) of the Act; and
3. The sum of the amounts falling under each of the following items paid by the corporation newly established by division or the counterpart corporation to the merger and division:
 - (a) The corporate tax imposed on liquidation income of a divided corporation and the national tax imposed on the corporate tax (including the abated tax amount); and
 - (b) Resident taxes levied on the corporate tax of item (a) under the Local Tax Act.

(2) The total cost of division under the provisions of paragraph (1) 1 shall be the amount of the sum of all the costs of division the relevant divided corporation receives in connection with the division from the corporation newly established by division or the counterpart corporation to a division and merger.

(3) In the application of the provisions of the latter part of Article 81 (2) of the Act, the value of transferred stocks shall be the amount calculated under the provisions of each subparagraph of Article 14 (1).

(4) The provisions of paragraphs (1) through (3) shall apply *mutatis mutandis* to the calculation of liquidation income of an extinguished counterpart corporation to a merger and division.

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SECTION 2 Report and Payment

Article 124 (Settlement Report)

(1) When making the report under the provisions of Article 84 (1) of the Act report, the documents under the provisions of each subparagraph of Article 84 (2) of the Act shall be attached to the report on corporate tax base and tax amount on liquidation income as prescribed by Ordinance of the Ministry of Strategy and Finance, which states the liquidation income amount calculated under the provisions of Articles 79 through 81 of the Act, and submitted to the chief of the district tax office having jurisdiction over the place of tax payment. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(2) The term "documents as prescribed by Presidential Decree" in Article 84 (2) 3 of the Act means documents stating the matters falling under any one of the following subparagraphs:

1. For dissolution (not including dissolution due to merger or division), the location of the headquarters of the dissolved corporation, the name and address or residence of the dissolved person, the date of the settlement of the value of the residual assets and the expected date of their distribution, and other necessary matters; and
2. For merger or division, the location of the headquarters of the merged corporation, the name of the representative, the name of the extinguished corporation, the date of the registration of the merger or the date of the registration of the division, and other necessary matters.

(3) The term "date of settlement of the value of the residual assets as prescribed by Presidential Decree" in Article 84 (1) 1 of the Act means the dates under each of the following subparagraphs:

1. The date of the completion of the collection or conversion of the residual assets as of the date of the registration of the dissolution; and
2. Where the residual assets as of the date of the registration of the dissolution are distributed as they are, the date of the completion of the distribution.

Article 125 (Interim Report)

(1) Where a report is made under the provisions of Article 85 (1) of the

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Act, the documents under the provisions of each subparagraph of Article 85 (2) of the Act shall be attached to the report on corporate tax base and tax amount on liquidation income as prescribed by Ordinance of the Ministry of Strategy and Finance, which states the liquidation income amount calculated under the provisions of Article 86 (3) and (4) of the Act, and submitted to the head of tax office having jurisdiction over the place of tax payment. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) The term "documents as prescribed by Presidential Decree" in Article 85 (2) of the Act means documents stating the matters under Article 124 (2) 1.

Article 126 (Payment)

(1) Where the corporate tax on liquidation income is paid under the provisions of Article 86 of the Act, it shall be paid together with the report under the provisions of Article 84 or 85 of the Act at the tax office with jurisdiction over the place of tax payment. In this case, the provisions of Article 101 (1) shall apply *mutatis mutandis*.

(2) The term "estimated value of the residual assets as prescribed by Presidential Decree" in Article 86 (4) of the Act means the sum of the assets evaluated in accordance with the market price as of the date of one year from the date of the registration of the dissolution minus the total amount of liabilities.

Article 127 (Duty to Pay Taxes on Liquidation Income)

(1) Where a dissolved corporation does not pay the corporate tax on liquidation income or the corporate tax on income for each business year and distributes the residual assets, the dissolved person and the person who received the distributed residual assets shall be jointly and severally liable for the payment of corporate taxes up to the limit of the value of the distributed assets and the received assets, respectively.

(2) In case of a corporation extinguished through merger or division, the merged corporation shall be liable for the payment of corporate tax on income for each business year or corporate tax on liquidation income not paid by the extinguished corporation.

CHAPTER IV CORPORATE TAX ON INCOME FOR EACH

BUSINESS YEAR OF
FOREIGN CORPORATION

SECTION 1 Tax Base and its Calculation

Article 128 (Calculation of Tax Base)

In the calculation of the tax base for corporate tax on income for the business year of a foreign corporation under the provisions of Article 91 (1) of the Act, the provisions of Article 10 (1) and (2) shall apply *mutatis mutandis* to the deduction of losses under the provisions of subparagraph 1 of the same paragraph.

Article 129 (Calculation of Income Amount Generated in Korea)

(1) In the calculation of the total amount of income generated in Korea for each taxable year by a foreign corporation under the provisions of Article 92 of the Act, the calculation of the earnings and losses shall be in accordance with the provisions of each of the following subparagraphs, except as otherwise prescribed in the Act or this Decree: <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

1. For losses under the provisions of Article 14 of the Act, it shall be limited to the revenue amount, property value, and amount of reasonably distributed income generated in Korea in connection with income generated in Korea under the provisions of Article 93 of the Act;
2. Where allowances for severance and retirement benefits are appropriated under Article 33 of the Act, it shall be limited to those for executives or employees of the relevant foreign corporation who are employed in Korea for the business operated by the relevant foreign corporation in Korea and ordinarily work at the domestic place of business under Article 94 of the Act (hereinafter referred to as a "domestic place of business") or at the location of the generation of real estate income under subparagraph 3 of Article 93 of the Act or forestry income under subparagraph 8 of the same Article;
3. For corporate tax, resident tax, fines, penalties, fines for negligence, additional funds, delinquency disposition fees, and public imposts under subparagraphs 1, 4 and 5 of Article 21 of the Act, it shall include those levied under the Acts and subordinate statutes of the foreign country;

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4. For tangible fixed assets provided for in Article 24 (1) 1 and intangible fixed assets provided for in subparagraph 2 (a) through (d) of the same paragraph, it shall be limited to the fixed assets for business use which the relevant foreign corporation owns in Korea;
5. Where it comes to no longer have a domestic place of business during the period of a long term installment plan under the provisions of Article 68 (3), the uncollected sales or transfer amount and the corresponding expenses shall be included in the calculation of earnings and losses, respectively, in the business year which includes the date on which it came to no longer have a domestic place of business; and
6. For intangible fixed assets provided for in Article 24 (1) 2 (e) through (g), it shall be limited to the intangible fixed assets of the relevant foreign corporation, which are related to the continuous operation of a business in Korea or the assets which the relevant foreign corporation owns in Korea.

(2) The sales costs, general management costs, and other operational costs generated at the domestic place of business which are not related to the generation of income generated in Korea as prescribed by Ordinance of the Ministry of Strategy and Finance shall not be included in the calculation of losses under the provisions of Article 14 of the Act. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) The term "acquisition value and transfer expenses confirmed under Presidential Decree" in the proviso to Article 92 (2) 2 of the Act means the acquisition value and transfer expenses of securities under each of the following subparagraphs among those confirmed by submitting the receipt for payment of equity investment money or equity investment shares, transfer deeds, receipt of payment of proceeds, or other records that prove the amount spent to acquire or transfer that are supposed to be submitted by the transferor of securities or his agents under Article 132 (8) to the person liable for collecting withholding taxes by the date of withholding tax: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 20619, Feb. 22, 2008>

1. The amount actually and directly spent to acquire or transfer the relevant securities (including taxes, public imposts, and brokerage commissions directly paid for the acquisition or transfer): *Provided*, That where the relevant securities are the subscription certificates

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or equity stocks which include the amounts accruing from the conversion of all or part of the surplus funds of the corporation into the capital or financing, it shall be the amount calculated by applying *mutatis mutandis* under Article 14 (2); and

2. The acquisition value of securities transferred by the person who received them or another corresponding person shall be the amount calculated under subparagraph 1, and the person who initially donated the relevant transferred assets or another corresponding person shall be deemed as the transferor of the relevant securities: *Provided*, That it shall be the market price of the corresponding securities at the time of their donation in cases where they were taxed pursuant to the provisions of subparagraph 11 (c) of Article 93 of the Act.

Article 129-2 (Calculation of Transfer Income Amount for Foreign Corporation, etc. having No Place of Business)

(1) The term "land, etc. prescribed by Presidential Decree" in the proviso to Article 92 (3) 1 of the Act means the lands, etc. that are transferred within 3 years from the date on which they are contributed: *Provided*, That the same shall not apply to any lands, etc. that are used directly for the business (excluding the profit-making business falling under Article 2 (1) with the exception of the medical care business) falling under each of the following subparagraphs for not less than one year:

1. Business prescribed by Acts and subordinate statutes; and
2. Business for which permission or authorization, etc. is granted by the relevant administrative agency.

(2) For any contributed property which is not included in the taxable value of the inheritance tax or the taxable value of the gift tax under the Inheritance Tax and Gift Tax Act, if the cause of taxation thereof accrues and an amount equivalent to the total amount of such inheritance tax or gift tax is levied, the provisions of paragraph (1) shall not apply thereto. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(3) In the application of Article 92 (3) 1 of the Act, the acquisition value of assets transferred by any donee or any person corresponding to such donee shall be an amount calculated by regarding the original donee or any person corresponding to such donee as the transferor of the transferred assets: *Provided*, That in the event that the relevant assets are taxed in accordance with subparagraph 11 (c) of Article 93 of the Act, the

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acquisition value of the relevant assets shall be an amount calculated on the basis of the market price at the time that the assets are transferred.

(4) In the application of Article 92 (3) 2 of the Act, expenses spent directly for the transfer of land, etc. shall be an amount calculated by applying *mutatis mutandis* the provisions of Article 163 (5) of the Enforcement Decree of the Income Tax Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(5) In the application of Article 92 (4) of the Act, the actual transaction price of the acquisition value shall be an amount calculated by applying *mutatis mutandis* Article 163 (1) and (3) of the Enforcement Decree on Income Tax Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(6) In case that any foreign corporation provided for in Article 91 (2) of the Act transfers assets provided for in subparagraph 7 of Article 93 of the Act not less than twice in each business year, the calculation of the amount of income accruing from the transfer of such assets under Article 92 (3) of the Act shall be an amount obtained by adding up the income amount calculated under Article 92 (3) of the Act by assets transferred in the relevant business year. In this case, if the total amount provided for in Article 92 (3) 1 and 2 of the Act is in excess of the transfer value of the relevant assets from among transferred assets, the amount of the transfer income shall be calculated by deducting the excess amount.

[This Article Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001]

Article 130 (Division of Headquarters Expenses)

(1) In the settlement of the income amount of the domestic places of business of foreign corporations for each business year, of the common expenses of the headquarters and the related branches with authority over the domestic place of business branches, an amount which has a reasonable connection with the generation of income generated in Korea by the domestic place of business shall be allotted and included in the calculation of losses of the domestic place of business.

(2) Matters necessary for the scope and method of allotment of expenses to the domestic place of business under paragraph (1), the method of dividing the expenses by business type, the method for conversion of currency when dividing expenses, the invoice for the division of expenses and other attached documents, and other necessary matters shall be prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended

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by Presidential Decree No. 20720, Feb. 29, 2008>

Article 131 (Scope of Normal Price)

(1) The term "normal price as prescribed by Presidential Decree" in the main sentence of Article 92 (2) 3 of the Act means the amount calculated by the method applied *mutatis mutandis* under Article 5 of the Act for the Coordination of International Tax Affairs and Article 4 of the Enforcement Decree of the same Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(2) The term "special relationship as prescribed by the Presidential Decree" in Article 92 (2) 3 (a) of the Act means the special relationship falling under any of the following subparagraphs: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. The relationship in which one party directly or indirectly owns not less than 50/100 of the voting shares of other party: and
2. In case where the third party directly or indirectly owns not less than 50/100 of the voting shares of one party or other party, the relationship between one party and other party.

(3) Only where normal price cannot be calculated under the provisions of paragraph (1), the normal price shall be the value evaluated by applying *mutatis mutandis* under Article 99 (1) 3 through 6 of the Income Tax Act. <Amended by Presidential Decree No. 17338, Aug. 14, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

(4) The provisions of Article 2 (2) of the Enforcement Decree on Act for the Coordination of International Tax Affairs shall apply *mutatis mutandis* to the calculation of the indirect ownership ratio of shares referred to in paragraph (2) 1 or 2. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

Article 131-2 (Submission by Foreign Corporations of Data concerning Trading of Securities at Over-the-Counter Market)

Any person who pays income accruing from transfer of securities under Article 92 (2) 3 (a) of the Act not through a securities market or the Association-brokerage market under the Securities and Exchange Act (hereinafter referred to as the "securities market, etc.") shall submit a review report of stock transfer prices between specially related foreign parties prescribed by Ordinance of the Ministry of Strategy and Finance by the closing date for payment of withholding taxes as prescribed by Article 98 (1) of the Act. <Amended by Presidential Decree No. 17338, Aug. 14, 2001;

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Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 132 (Scope of Income Generated from Sources in Korea)

(1) The term "tools as prescribed by Presidential Decree" in subparagraph 4 of Article 93 of the Act means transporters, tools, apparatus, and fixtures.

<Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003>

(2) The term "income as prescribed by Presidential Decree" in subparagraph 5 of Article 93 of the Act means income generated from businesses under Article 19 of the Income Tax Act operating in Korea under each of the following subparagraphs: *<Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Where a foreign corporation receives inventories by transfer outside of Korea and does not manufacture, process, rear, or perform any other action to increase the value outside of Korea (hereafter in this Article referred to as "manufacture") and transfers the assets in Korea (including where the relevant inventories are transferred after manufacture in Korea), all the income accruing from the transfer in Korea;
2. Where a foreign corporation transfers inventories manufactured outside of Korea in Korea (including where the relevant inventories are transferred after manufacture in Korea), the income accruing from the transfer when it is assumed that the relevant inventories were acquired from the person who manufactured them outside of Korea under normal transaction conditions (including cases of transfer after manufacture in Korea);
3. Where a foreign corporation which manufactures inventories in Korea transfers them outside of Korea (including where the relevant inventories are transferred after manufacture outside of Korea), the income accruing from the transfer of the inventories manufactured in Korea when it is assumed that the relevant inventories manufactured in Korea were transferred to other person outside of Korea under normal transaction conditions;
4. Where a foreign corporation procures necessary labor or materials and carries out work in Korea by concluding a contract in relation to construction, installation, assembling, and other projects outside of

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- Korea, all the income accruing from the relevant work;
5. Where a foreign corporation operates a non-life insurance business or life insurance business in Korea and abroad, income accruing to the business offices of the relevant business in Korea or generated by insurance contracts concluded through the representative for conclusion of insurance contracts;
 6. Where a foreign corporation operating a publishing business or broadcasting business in Korea and abroad conducts business related to advertising for others, the income accruing from the advertisement conducted in Korea;
 7. For a foreign corporation operating an international transport business with ships in Korea and abroad, the amount of income accruing from business in Korea as judged by the standard of the revenue amount generated in connection with the travelers boarding ships or the commodities shipped;
 8. For a foreign corporation operating an international transport business with aircraft in Korea and abroad, the income of the corporation accruing from business in Korea calculated in accordance with the method as prescribed by Ordinance of the Ministry of Strategy and Finance in consideration of the degree of the contribution to the generation of income of the revenue amount and costs generated in Korea in connection with the travelers boarding aircraft or the commodities shipped, the value of fixed assets used for business in Korea, and other domestic business affairs of the transport business;
 9. For a foreign corporation operating a business in Korea and abroad other than those under subparagraphs 1 through 8, the estimated income generated in connection with the business in Korea, judged in consideration of the revenue amount and costs generated in Korea and other reasonable factors if, hypothetically, the related businesses were separated into the business in Korea and businesses abroad and the separate businesses functioned independently, and transactions took place between them under normal transaction conditions;
 10. Income accruing from investment or similar acts on stocks or subscription certificates listed or registered in the securities market, etc. among those issued by foreign corporations; and
 11. Income accruing from transfer of industrial, commercial or scientific

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machinery, equipment, installation, transporter, tool, apparatus, fixture by a foreign corporation.

(3) Notwithstanding the provisions of paragraph (2), income generated outside of Korea under each of the following subparagraphs which accrues to the domestic place of business shall be included in the income under the provisions of subparagraph 5 of Article 93 of the Act: *<Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 20720, Feb. 29, 2008>*

1. Income accruing from investment in foreign securities or lending money to a foreigner or other similar action;
2. Income accruing from the lease, granting permission to use, transfer, or exchange of assets or rights outside of Korea;
3. Income accruing from the issue, acquisition, transfer, or exchange of stocks, bonds, and other assets outside of Korea; and
4. Other income as prescribed by Ordinance of the Ministry of Strategy and Finance.

(4) Where a foreign corporation performs advertising, propaganda, gathering and providing information, market research, and other activities of a preparatory and supporting nature outside of Korea for the execution of a business operated in Korea, or performs these activities in Korea for a business operated outside of Korea, the relevant activities shall be deemed not to generate income.

(5) Where the inventories under the provisions of paragraph (2) 1 through 3 fall under any of the following subparagraphs, it shall be deemed that the relevant inventories are transferred in Korea and the provisions of the same paragraph shall apply: *<Amended by Presidential Decree No. 18174, Dec. 30, 2003>*

1. Where the relevant inventories were in Korea immediately prior to being delivered to the transferee, or managed through business conducted at the domestic place of business of the relevant transferring foreign corporation;
2. Where the contract for the transfer of the relevant inventories was concluded in Korea; and
3. Where in order to conclude the contract for the transfer of the relevant inventories, the important part of the receipt of orders or deliberation occurs in Korea.

(6) The term "human services that are prescribed by the Presidential

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Decree" in the former part of subparagraph 6 of Article 93 of the Act means the services falling under each of the following subparagraphs:

<Amended by Presidential Decree No. 19328, Feb. 9, 2006>

1. The services that are rendered by movie and drama players, musicians and public entertainers;
2. The services that are rendered by professional sportsmen;
3. The services that are rendered by attorneys-at-law, certified public accountants, certified architects, certified surveyors, patent attorneys or free-lancers; and
4. The services that are rendered by persons who have professional knowledges and special skills in the fields of science, technology, management and control in use of their knowledges or skills.

(7) The term "expenses that are prescribed by Presidential Decree" in the latter part of subparagraph 6 of Article 93 of the Act means that persons who are provided with human services pay airfares, the prices of accomodations or the prices of meals related to the provision of human services to airlines, accomodations business operators or restaurant business operators. *<Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>*

(8) The term "income as prescribed by Presidential Decree" in the main sentence of subparagraph 10 of Article 93 of the Act means the income falling under the following subparagraphs: *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17338, Aug. 14, 2001; Presidential Decree No. 18706, Feb. 19, 2005>*

1. Income accruing from transfer of stocks or subscription certificates by a foreign corporation with a domestic place of business;
2. Income accruing from transfer of stocks or subscription certificates by a foreign corporation without a domestic place of business: *Provided*, That this shall not include income accruing from transfer of stocks or subscription certificates through the securities market, etc. (including a case where the stocks are transferred by an intermediary or an agent under Article 2 (8) 8 of the Securities and Exchange Act) of which the relevant transfer corporation and a person with a special relationship own less than 25/100 of the total amount of the stocks or total amount of subscription certificates (the total number of stocks or subscription certificates that are listed or registered in the securities market, etc. in case of stocks or subscription certificates that are issued

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- by foreign corporations) of the corporation that issued the stocks or subscription certificates during the year to which the date of the transfer of the relevant stocks or subscription certificates belongs and the immediately previous five year period;
3. Income accruing from transfer of securities other than stocks or subscription certificates by a foreign corporation with a domestic place of business: *Provided*, That this shall not include income taxed under the provisions of subparagraph 1 of Article 93 of the Act at the time of the transfer of the relevant securities; and
 4. Income accruing from the transfer of securities other than stocks or subscription certificates by a foreign corporation with no domestic place of business at a domestic corporation or the domestic place of business of a resident, non-resident, or foreign corporation: *Provided*, That this shall not include income taxed under subparagraph 1 of Article 93 of the Act at the time of the transfer of the relevant securities.
- (9) Any income earned by a foreign corporation with no domestic place of business through futures trading of securities indexes in accordance with the Securities and Exchange Act (including the trading as prescribed in subparagraph 5 (b) and (c) of Article 2-3 of the Enforcement Decree of the same Act) or futures trading under the Futures Trading Act shall not be deemed income earned in Korea. *<Amended by Presidential Decree No. 16658, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005>*
- (10) The term "income prescribed by Presidential Decree" in subparagraph 11 (b) of Article 93 of the Act means the value of money or other goods paid or delivered in excess of compensation *per se* for payment under the original contract irrespective of its title or pretext among damages paid in penalty compensation for violation or cancellation of contracts on property rights. *<Amended by Presidential Decree No. 17033, Dec. 29, 2000>*
- (11) The term "income prescribed by Presidential Decree" in the main sentence of subparagraph 7 of Article 93 of the Act means the income that falls under any of the following subparagraphs: *<Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>*
1. Income of Article 94 (1) 1 and 2 of the Income Tax Act; and
 2. Income of Article 94 (1) 4 of the Income Tax Act. In this case, "stocks, etc." in the same subparagraph shall, notwithstanding the provisions of Article 158 (1) of the Enforcement Decree of the same Act, be stocks

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or subscription certificates (excluding stocks or subscription certificates listed or registered on the securities market, etc.) of a corporation whose total asset value under Article 94 (1) 1 and 2 of the same Act is 50/100 or more of the total assets of the relevant corporation as of the first day of the business year to which the date of the transfer belongs.

(12) The total amount of assets and property value under the provisions of paragraph (11) 2 shall be calculated by the *mutatis mutandis* application of Article 158 (3) of the Enforcement Decree on Income Tax Act. <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007>

(13) The term "persons in the special relationship that is prescribed by Presidential Decree" in subparagraph 11 (i) of Article 93 of the Act means foreign corporations in the special relationship falling under any of the following subparagraphs: <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

1. The special relationship provided for in Article 2 (1) of the Enforcement Decree on Act for the Coordination of International Tax Affairs with residents or domestic corporations; and
2. The special relationship provided for in Article 131 (2) 1 or 2 with non-residents and foreign corporations.

(14) The term "income that accrues from the increased value as a result of capital transactions that are prescribed by Presidential Decree" in subparagraph 11 (i) of Article 93 of the Act means the income that accrues from profits that are provided to foreign corporations that are shareholders by other shareholders, etc. who are in the special relationship provided for in each subparagraph of paragraph (13) as a result of the transaction falling under any item of Article 88 (1) 8. <Amended by Presidential Decree No. 19328, Feb. 9, 2006>

(15) The amount equivalent to the reimbursement, including the dividend, etc. that is paid by the borrower of securities to any foreign corporation without its business place in Korea that performs the loaning and borrowing transactions of securities (excluding bonds, etc.; hereafter the same shall apply in this paragraph) with any other non-resident or any other foreign corporation without its business place in Korea in accordance with the Securities and Exchange Act shall not be deemed as the income to be withheld at source. <Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005>

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(16) In the application of the proviso to paragraph (8) 2, the ownership ratio of stocks or the investment ratio shall mean the larger of the ratios calculated in accordance with the standards set in the following subparagraphs: <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

1. Where a stockholder, etc. acquires the stocks (hereafter in this paragraph referred to as "stocks") of a domestic corporation or a foreign corporation (referring to a foreign corporation listed on or registered with the securities market, etc.) or makes an investment (hereafter in this paragraph referred to as an "investment") therein through an investment organ (referring to a corporation in case where a tax is levied on the stockholder, etc. of the corporation, who is not a corporation, with respect to the income accruing from transfer of stocks or subscription certificates, for purposes of tax collection, in a country where the relevant corporation resides; hereinafter the same shall apply): The ratio of stocks owned by the investment organ or the ratio of investment made by the investment organ. In this case, if the investment is made through two or more investment organs, the ratio of stocks or the ratio of investment shall be calculated by adding up the ratios of stocks owned by the investment organs or the ratios of investments made by the investment organs; and
2. Where a stockholder, etc. makes an investment through an investment organ (hereafter in this subparagraph referred to as an "indirect investment") as well as a direct investment not through an investment organ (hereafter in this subparagraph referred to as a "direct investment"): The ratio calculated by adding up the ratios of stocks owned by the stockholder, etc. or the ratios of investments made by the stockholder, etc. through the direct investment and indirect investment, respectively. In this case, the ratio of indirect investment made by the stockholder, etc. shall be calculated by multiplying the ratio of investment by the stockholder, etc. in the investment organ by the ratio of investment by the investment organ in a domestic corporation, etc.

Article 133 (Scope of Domestic Place of Business)

- (1) The term "person as prescribed by Presidential Decree" in Article 94
- (3) of the Act means a person falling under any of the following

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subparagraphs:

1. A person who regularly keeps custody and customarily distributes or delivers the assets of a foreign corporation;
 2. A person who performs important business functions such as concluding contracts for particular foreign corporations as an intermediary, general consignee salesperson, or other independent representative (including where such activities are performed in the normal course of one's own business); and
 3. A person who collects insurance premiums for a foreign corporation operating an insurance business (not including re-insurance businesses) or provides insurance guarantees for the insured items located within the country.
- (2) Foreign corporations under paragraph (1) shall include the oligopoly stockholders of the relevant foreign corporation, other corporations which are stockholders in the relevant foreign corporation, and other persons with a special relationship with the relevant foreign corporation.

SECTION 2 Calculation of Tax Amount

Article 134 (Calculation of Income Amount Subject to Taxation of Domestic Place of Business)

(1) The term "amount deemed as the amount to be reinvested for the business by the relevant domestic place of business" in Article 96 (2) 2 of the Act means the amount of capital funds as of the last day of the relevant business year in excess of the amount of capital funds as of the first day of the relevant business year, and where the amount of capital funds as of the first day of the relevant business year is in excess of the amount of capital funds as of the last day of the relevant business year, the amount in excess (hereinafter referred to as "capital funds reduction amount") shall be added to the income amount for the relevant business year. In this case, the sum amount shall not be in excess of the untaxed accumulated reserve income as of the last day of the immediately previous business year.

(2) The term "amount equivalent to capital" in paragraph (1) means the amount that is obtained by deducting the total amount of debts (including any money appropriated and excluding any unpaid corporate tax) from

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the total amount of assets on the balance sheet as of the end of the relevant business year. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(3) The term "untaxed accumulated reserve income" in paragraph (1) shall mean the portion of the income amount for each business year which was not taxed under the provisions of Article 96 of the Act, which is the amount of subparagraph 1 minus the amount of subparagraph 2:

1. The sum of the income amounts for each taxable year until the business year immediately preceding the relevant business year minus both the sum of the losses for each business year until the business year immediately preceding the relevant taxable year and the sum of the corporate tax and income-proportional resident tax on the income for each business year until the business year immediately preceding the relevant business year; and
2. The sum of the income amount subject to taxation under the provisions of Article 96 of the Act for each business year until the business year immediately preceding the relevant business year.

(4) The provisions of paragraph (1) shall apply *mutatis mutandis* to the calculation of the income amount subject to taxation under Article 96 (1) of the Act where losses are generated for the relevant business year: *Provided*, That for the relevant business year, where the capital funds reduction amount is in excess of losses, the amount in excess shall be the income amount subject to taxation, up to the limit of the untaxed accumulated reserve income under paragraph (3).

(5) The term "remittance amount prescribed by Presidential Decree" in Article 96 (1) of the Act means profits actually remitted from among incomes earned in each business year (in case that profits actually remitted in each business year are in excess of the income amount subject to taxation of the immediately preceding business year under Article 96 (2) of the Act, the limit thereof shall be the untaxed accumulated reserve income provided for in paragraph (3) until the immediately preceding business year from among the excess amount). <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

(6) Where a foreign corporation comes to have no domestic place of business, the amount equivalent to capital as of the last day of the business year referred to in Article 8 (4) of the Act (hereafter in this Article referred to as a "fictitious business year") shall be deemed "zero", in calculating

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the income amount subject to taxation of the fictitious business year pursuant to paragraphs (1) through (4). <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(7) Where a foreign corporation comes to have no domestic place of business, the amount equivalent to profits not yet remitted by the last day of the fictitious business year shall be deemed to be remitted in full on the last day of the fictitious business year, in calculating the income amount subject to taxation of the fictitious business year pursuant to paragraph (5). <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

Article 135 (Tax Deduction Amount for Losses in Disaster of Foreign Corporation)

In the application of the tax amount deduction for losses in disasters under the provisions of Article 58 of the Act to a foreign corporation, the assets under each subparagraph of Article 95 (1) shall be the assets held in Korea.

SECTION 3 Report, Payment, Settlement, Correction, and Collection

Article 136 (Report of Foreign Corporation)

(1) For foreign corporations which have to report the tax base for corporate tax on income for each business year under Article 97 (1) of the Act, where it is impossible to submit the report under Article 60 of the Act because the settlement of accounts of the headquarters is not settled or for other unavoidable causes, the foreign corporation may apply for approval of extension of the period for report with the documentation of the causes within 45 days from the last day of the relevant business year to the head of tax office having jurisdiction over the place of tax payment.

(2) Where the head of tax office having jurisdiction over the place of tax payment receives an application under the provisions of paragraph (1), he shall decide whether to grant approval within 7 days from that day.

(3) Where the head of tax office having jurisdiction over the place of tax payment decides whether to grant approval under paragraph (2), he shall notify the relevant foreign corporation without delay.

(4) The term "rate as prescribed by Presidential Decree" in Article 97 (3) of the Act means the rate of 3/10,000 per day.

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Article 136-2 Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

Article 137 (Withholding for Foreign Corporations)

(1) The provisions of Articles 191 and 192 of the Enforcement Decree of the Income Tax Act shall apply *mutatis mutandis* with respect to the time of paying dividend income and other income in the case of withholding under the provisions of Article 98 of the Act. <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

(2) Notwithstanding the provisions of paragraph (1), if a domestic corporation falling under any subparagraph of Article 51-2 of the Act fails to pay dividend income accruing from disposal of the profits or surplus funds not later than three months after the disposal is decided on, the dividend income shall be deemed to be paid on the day when the three months pass. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(3) The provisions of Articles 115 through 117 and Article 185 of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to the payment of the collected withholding tax amount under the provisions of Article 98 of the Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(4) In the withholding under the provisions of Article 98 of the Act, the time of payment of income under the provisions of subparagraph 1 (b) of Article 93 of the Act shall be the last day of the time limit for report on the tax base on income for the tax period or the relevant taxable year of the foreign corporation or non-resident making the payment the said income (where the time limit for report is extended under the provisions of Article 97 (2) of the Act, the last day of the extended time limit for report).

(5) In making the collection of withholding taxes under Article 98 of the Act, if the withholding agent does not have any domicile, any residence, any headquarter, any principal office, any *de facto* business management place or any domestic business place (including domestic business places under Article 120 of the Income Tax Act) in the country, the tax payment manager under Article 82 of the Basic Act for National Taxes shall be appointed and reported to the head of competent tax office. <Newly Inserted by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

(6) The term "time prescribed by Presidential Decree" in Article 98 (10) of the Act means the day falling under any of the following subparagraphs:

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<Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003>

1. The case of Article 88 (1) 8 (a): In case a corporation disappeared due to merger, the day of merger registration, in case a corporation disappears or exists due to division or divided merger, the day of division registration or divided merger registration; and
 2. The case of Article 88 (1) 8 (b) and (c): The day capital increase or capital decrease has been decided.
- (7) The domestic corporation who issued stocks or subscription certificates shall withhold income pursuant to the provisions of subparagraph 11 (i) of Article 93 of the Act at the time under the provisions of paragraph (6). *<Newly Inserted by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 19891, Feb. 28, 2007>*

Article 138 (Withholding for Securities Companies, etc.)

In the application of the proviso to Article 98 (1) 4 of the Act, where foreign corporations which possess securities of the same type with different acquisition values (for bonds, it shall mean bonds of the same type with the same issue conditions, such as the face value, date of issue and term of maturity, interest rate) transfer the relevant securities, the acquisition value to be deducted from the transfer value shall be calculated in accordance with the average turnover method.

Article 138-2 (Special Cases on Report, Payment of Tax, etc. on Securities Transfer Income of Foreign Corporations)

(1) A foreign corporation shall report and pay to the head of tax office having jurisdiction over the location of a domestic corporation that issued the corresponding securities, the amount corresponding to the withholding tax on its income from transfer of stocks or subscription certificates for which no withholding tax was collected pursuant to Article 98-2 of the Act as the foreign corporation did not satisfy the requirements for local taxation under the relevant tax treaty at the time of their transfer.

(2) A foreign corporation that intends, pursuant to paragraph (1), to report and pay the tax corresponding to the withholding tax on its income from the transfer of stocks or subscription certificates for which no withholding tax was collected at the time of their transfer, shall submit a foreign corporation's report of reconciliation of income from transfer of securities, separating the total amount of stocks it transferred and the total amount of stocks for which the withholding tax was not collected during the same

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business year, under the Ordinance of the Ministry of Strategy and Finance.

<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) The term "cases prescribed by Presidential Decree where they are transferred to a nonresident or to a foreign corporation that does not have a domestic place of business" in the main text of Article 98-2 (3) of the Act means the cases of transferring securities in the following subparagraphs: *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*

1. Securities, such as stocks, etc. that are taxed pursuant to Article 18 (4) 1 and 2 of the Enforcement Decree on Special Tax Treatment Control Act; and

2. Securities (refers to those that are traded outside the foreign securities market) denominated in Korean won that are traded in foreign countries.

(4) The foreign corporation that intends to report and pay tax pursuant to Article 98-2 (3) of the Act shall report and pay it after preparing a report of tax on securities transfer income of foreign corporations as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having the jurisdiction over the address of the domestic corporation that has issued the relevant securities, such as stocks. *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 138-3 (Special Cases for Withholding Tax on Interest, etc. on Bonds, etc. by Foreign Corporations)

(1) Anyone who pays interest, etc. on bonds, etc. to a foreign corporation that is subject to Article 98 (1) of the Act (hereafter in this Article, referred to as a "foreign corporation") or who purchases bonds, etc. from any foreign corporation before the foreign corporation is paid the interest, etc. on bonds, etc. shall collect the withholding tax computed by applying the tax rate under the following subparagraphs to the amount paid to such a foreign corporation where the tax rates under the Act, the Special Tax Treatment Control Act, or the relevant tax treaty (hereafter in this Article referred to as "applicable tax rates") are applicable. In such a case, where the tax rate under subparagraph 1 is higher than the one under Article 73 (1) 1 of the Act and a foreign corporation fails to prove its holding period of bonds, etc., the total of the paid amount shall be deemed the amount equivalent to the interest that accrues during the holding period

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of the relevant foreign corporation, while when the applicable tax rate under subparagraph 1 is lower than the one under Article 73 (1) 1 of the Act and the foreign corporation fails to prove its holding period of bonds, etc., the amount of the interest, etc. for the holding period of the relevant foreign corporation shall be deemed nonexistent: <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>

1. The tax rates applicable to the interest for the period that the relevant foreign corporation holds such bonds;
2. The tax rate under Article 73 (1) 1 of the Act applicable to the amount paid less the amount of interest, etc. for the holding period under subparagraph 1.

(2) through (5) Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

(6) The provisions of Article 111 (5) shall apply *mutatis mutandis* to the date when interest, etc. on bonds, etc. is paid to a foreign corporation. The provisions of Article 113 shall apply *mutatis mutandis* to the computation of the period of holding bonds, etc., to the computation method of the amount of the interest for the holding period, and to the method of proving the holding period. The provisions of Article 137 (2) shall apply *mutatis mutandis* to the payment of withholding taxes.

(7) Deleted. <by Presidential Decree No. 18706, Feb. 19, 2005>

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 138-4 (Application for Non-Taxation of Income Generated from Sources in Korea by Foreign Corporation)

(1) Any foreign corporation that intends to apply for non-taxation or tax exemption under Article 98-4 of the Act shall submit an application for non-taxation or tax exemption, prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this Article referred to as an "application for non-taxation or tax exemption"), to the income payer, and the relevant income payer shall file it, not later than the 9th of the month next to that on which such income is first paid, with the head of tax office having jurisdiction over the place of tax payment of the income payer. The same shall apply to a case where contents of the application for non-taxation or tax exemption are altered on the grounds of a change, etc. in the contents of contract after an application for non-taxation or tax exemption is filed. <Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 20720, Feb. 29, 2008>

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(2) The application for non-taxation or tax exemption referred to in paragraph (1) shall be accompanied by a resident certificate issued by the authorities of a country where the relevant foreign corporation resides.

(3) Any foreign corporation may get its agent (including any tax payment manager under Article 82 of the Basic Act for National Taxes) to file the application for non-taxation or tax exemption referred to in paragraph (1). *<Amended by Presidential Decree No. 18706, Feb. 19, 2005>*

(4) In cases where any financial institution takes over, trades, brokers or acts by proxy on bonds, etc. of any foreign corporation in accordance with Article 98-3 of the Act, the relationship of agency or delegation shall be deemed to exist between such financial institution and such foreign corporation and the provisions of paragraph (1) shall apply thereto.

(5) In cases where any securities company or any corporation issuing stocks withholds taxes at source in connection with the transfer of securities under Article 98 (6) of the Act, the relationship of agency or delegation shall be deemed to exist among the relevant securities company, the relevant corporation issuing stocks and the relevant foreign corporation, and the provisions of paragraph (1) shall apply thereto.

(6) In case, not applicable to paragraphs (4) and (5), that any income payer does not have his domicile, residence, main or principal office, *de facto* business management place and the place of business in Korea (including the place of business in Korea provided for in Article 120 of the Income Tax Act), notwithstanding the provisions of paragraph (1), any application for non-taxation or tax exemption may be filed directly by the income recipient with the head of tax office having jurisdiction over the tax payment place, without submitting it to the income payer. *<Amended by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006>*

(7) With respect to any income generated from sources in Korea provided for in Article 93 of the Act, which falls under each of the following subparagraphs, notwithstanding the provisions of paragraph (1), the application for non-taxation or tax exemption thereof may not be filed: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>*

1. The income generated from sources in Korea to which the corporate tax is not levied or exempted under the Act or the Restriction of Special

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Taxation Act;

2. The income generated from sources in Korea under subparagraphs 3, 7 and 8 of Article 93 of the Act; and
3. Other income generated from sources in Korea, which is prescribed by Ordinance of the Ministry of Strategy and Finance.

[This Article Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001]

Article 138-5 (Procedures for Prior Approval for Application of Non-Taxation, Tax Exemption and Restricted Tax Rates in Tax Treaty)

(1) Anyone who intends to obtain the prior approval provided for in the proviso to Article 98-5 (1) of the Act shall file an application for the prior approval for the special case of the tax withheld at source, which is prescribed by Ordinance of the Ministry of Strategy and Finance, accompanied by the documents falling under each of the following subparagraphs, with the Commissioner of the National Tax Service. In this case, evidential documents shall be accompanied by Korean-version evidential documents and in cases where it is recognized by the Commissioner of the National Tax Service, only English-version documents may be submitted: <Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. The resident certificates that are issued by the counterpart country of the tax treaty (hereafter referred to as the "counterpart country of the tax treaty" in this Article);
2. The copies of the report on the incorporation or the establishment of the corporation or the organization as well as the articles of incorporation and the articles of association;
3. The names and domiciles of the members of the board of directors;
4. Matters concerning the identities of stockholders, etc. and their current equity holdings;
5. The number of employees working for the corporation and the organization and the division of work by employee;
6. The statement detailing the economic and business motives related to investment in order to earn the relevant income generated from sources in Korea;
7. Ways to raise the investment fund in order to earn the income generated from sources in Korea;
8. The statement or the plan, both of which detail how to spend the

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income generated from sources in Korea after earning such income;

9. The tax return, the audit report, the financial statement and attached documents that have been submitted to the tax authorities of the counterpart country of the tax treaty over the past 3 years (in case of a corporation which has not yet passed 3 years after its establishment, it shall be the period from the establishment date to the application date);
 10. In the case that falls under paragraph (2) 3, matters that are listed or registered on the securities market of the counterpart country of the tax treaty and documents confirming the fact that transactions are regularly executed on that securities market;
 11. In the case that falls under paragraph (2) 5, documents confirming persons who are eligible for the benefits of pensions and funds; and
 12. In the case that falls under paragraph (2) 7, documents confirming that the financial authorities of the counterpart country of the tax treaty properly regulate and documents confirming the shares and equities held currently by the investors of investment companies, etc. referred to in the same subparagraph.
- (2) In case where the corporation (hereafter referred to as the "corporation entitled to receiving the income" in this Article) that is directly and indirectly entitled to receiving the income provided for in subparagraphs 1,2, 9 or 10 of Article 93 of the Act (hereafter referred to as the "income generated from sources in Korea" in this Article and Article 138-6) falls under any case of the following subparagraphs in connection with the relevant income generated from sources in Korea, grant such prior approval to the corporation, the Commissioner of the National Tax Service may, upon receiving an application for the prior approval filed pursuant to the provisions of paragraph (1): <Amended by Presidential Decree No. 20720, Feb. 29, 2008>
1. Where the corporation entitled to receiving the income falls under the person who holds the right to dispose of the income at its legal and economic risk and actually holds the ownership of the income in connection with the relevant income generated from sources in Korea (hereinafter referred to the "person to whom the income actually accrues") and is the corporation of the counterpart country of the tax treaty;
 2. Where the corporation entitled to receiving the income falls under

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- the government agency, etc. (hereafter referred to as the "government agency, etc.") of the counterpart country of the tax treaty, which is prescribed by Ordinance of the Ministry of Strategy and Finance;
3. Where the shares that are issued by the corporation entitled to receiving the income are the shares of the corporation listed on the securities market (hereafter referred to as the "listed corporation" in this Article) that is recognized pursuant to Acts and subordinate statutes of the counterpart country of the tax treaty and transactions that are prescribed by Ordinance of the Ministry of Strategy and Finance are regularly performed on such securities market;
 4. Where not less than 50/100 of the total number of shares (including equities) that are issued by the corporation entitled to receiving the income are owned directly and indirectly by the individuals, government agencies or listed corporations of the counterpart country of the tax treaty;
 5. Where the company entitled to receiving the income is the pension, the fund or the organization similar thereto of the counterpart country of the tax treaty, not less than 50/100 of persons who benefit from such pension, such fund and such organization are the residents of the counterpart country of the tax treaty;
 6. Where the ratio of the revenue amount (in the case of any corporation that has been incorporated within 3 years, the revenue amount that has been earned from the time when it is incorporated to the present time) that accrues from the holding and the transfer of shares and bonds or the use or transfer of intangible assets is not more than 10/100 over the past 3 years from among the revenue amount (in the case of any corporation that has been incorporated within 3 years, the revenue amount that has been earned from the time when it is incorporated to the present time) of the corporation entitled to receiving the income;
 7. Where the corporation entitled to receiving the income is the investment company or the organization corresponding thereto that each meets the requirements falling under each of the following items (hereinafter referred to as the "investment company, etc."):
 - (a) The financial authorities of the counterpart country of the tax treaty are required to regulate the investment company, etc. in order to ensure the transparency and independence of the business activities

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- of the investment company, etc.; and
- (b) Where the number of investors of the investment company, etc. is not less than 100 daily on average during the period of the immediately preceding taxable year (in the case of the newly incorporated corporation, the current taxable year); and
8. Where the tax amount that the corporation entitled to receiving the income has to bear on the relevant income is not less than 50/100 of the marginal profit between the tax amount that is calculated by applying the tax rate provided for in Article 98 of the Act and the tax amount that is taxed according to the tax treaty of the relevant country.
- (3) The Commissioner of the National Tax Service may, when it is deemed necessary to supplement and correct the contents of the application for the prior approval after receiving the application for the prior approval pursuant to the provisions of paragraph (1), ask the applicant to supplement and correct it within the fixed period of not more than 30 days. In this case, the supplement and collection period shall not included in the period referred to in paragraph (5).
- (4) The request for the supplement and correction referred to in paragraph (3) shall be made in a document in which the matters falling under each of the following subparagraphs are entered:
1. Matters needed to be supplemented and corrected;
 2. Reasons for requesting the supplement and correction;
 3. The period during which the supplement and correction have to be made; and
 4. Other necessary matters.
- (5) The Commissioner of the National Tax Service shall notify the applicant of whether he grants the approval within 3 months from the date on which he receives an application for such approval in accordance with paragraph (1).
- (6) The Commissioner of the National Tax Service shall, in case where any document submitted is confirmed that false matters are entered therein, revoke his prior approval.
- (7) The provisions of Article 2 (2) of the Enforcement Decree on Act for the Coordination of International Tax Affairs shall apply *mutatis mutandis* to the calculation of the indirect ownership ratio of the shares referred

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to in paragraph (2) 4.

[This Article Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006]

Article 138-6 (Procedures for Claiming Correction for Application of Non-Taxation, Tax Exemption or Restricted Tax Rate Pursuant to Tax Treaty)

(1) Anyone who intends to claim any correction pursuant to the provisions of Article 98-5 (2) of the Act shall submit to the head of tax office having jurisdiction over the place of the tax payment of the withholding agent a written correction claim for the application of the special case of the tax withheld at source that is prescribed by Ordinance of the Ministry of Strategy and Finance, accompanied by documents provided for in Article 138-5 (1) 1 through 9. In this case, evidential documents shall be submitted together with Korean-version evidential documents and in case where the Commissioner of the National Tax Service recognizes, only the documents that are prepared in English may be submitted. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

(2) Where the person who has received the income generated from sources in Korea that was claimed for correction pursuant to paragraph (1) corresponds to the person to whom the relevant income generated from sources in Korea actually belongs, the head of tax office shall make a correction. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

(3) The head of tax office who receives the written correction claim under paragraph (1) may, when it is deemed necessary to supplement the contents of the written correction claim, ask the claimant to supplement it within the fixed period of not more than 30 days. In this case, the supplement period shall not be included in the period provided for in Article 98-5 (3) of the Act.

(4) The written correction claim referred to in paragraph (3) shall be filed in the form of a document in which matters falling under each of the following subparagraphs are entered:

1. Matters to be corrected;
2. Reasons for asking for the correction;
3. The period during which the correction has to be made; and
4. Other necessary matters.

[This Article Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006]

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CHAPTER V Deleted.

Articles 139 through 151 Deleted. <by Presidential Decree No. 17457, Dec. 31, 2001>

CHAPTER VI SUPPLEMENTARY
PROVISIONS

Article 152 (Report on Establishment or Foundation of Corporation)

(1) The representative of the corporation under Article 109 (1) of the Act shall submit the report on the establishment of the corporation as prescribed by Ordinance of the Ministry of Strategy and Finance, with the documents under each subparagraph of paragraph (2) attached, to the head of tax office having jurisdiction over the place of tax payment.

<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) The term "documents as prescribed by Presidential Decree" in Article 109 (1) of the Act means the documents falling under each of the following subparagraphs: <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. Deleted; <by Presidential Decree No. 17826, Dec. 30, 2002>
2. The articles of association (where there are investors in kind, a detailed statement of the objects invested shall be attached); and
3. A list of stockholders as prescribed by Ordinance of the Ministry of Strategy and Finance.

(3) The person responsible for management of a foreign corporation under Article 109 (2) of the Act shall make a report of establishment, with the documents under each subparagraph of paragraph (4) attached, to the head of tax office having jurisdiction over the place of tax payment.

(4) The term "documents as prescribed by Presidential Decree" in Article 109 (2) of the Act means the documents falling under each of the following subparagraphs:

1. Documents concerning the registration of the headquarters;
2. The articles of association; and
3. A copy of the registration of the branch or documents which can prove the contents of the business operations of the domestic place of business.

Article 153 (Report on Person Responsible for Management)

(1) Where a foreign corporation changes a person responsible for

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management of the corporation changes, the name and address or residence of him shall be reported without delay to the head of tax office having jurisdiction over the place of tax payment.

(2) The person responsible for management under paragraph (1) shall be a person who has an address or residence of 6 months or more in the area of jurisdiction of the tax office having jurisdiction over the place of tax payment of the relevant foreign corporation.

(3) Where the person responsible for management under paragraph (1) changes his address or residence, he shall report without delay to the head of tax office having jurisdiction over the place of tax payment.

Article 154 (Registration of Business)

(1) A corporation which wishes to register under the provisions of Article 111 (1) of the Act shall submit an application for business registration for each place of business within 20 days from the starting date of the relevant business to the head of tax office having jurisdiction over the place of tax payment.

(2) The provisions of Articles 7 through 13 of the Enforcement Decree on Value-Added Tax Act shall apply *mutatis mutandis* to the registration under paragraph (1). <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(3) Where the Commissioner of the National Tax Service does not give a business registration number to a corporation, he shall give an identification number to the corporation.

Article 155 (Bookkeeping by Double Entry)

The bookkeeping by double entry under Article 112 of the Act shall be bookkeeping in accordance with the standard fixed format of making duplicate records and calculations of each and every change in the properties and capital of the corporation.

Article 155-2 (Obligations, etc. to Prepare Detailed Statement of Issuance of Donation Receipts and to Keep Them)

The term "details of donations by donation corporation prescribed by Presidential Decree" in the part other than the subparagraphs of Article 112-2 (1) of the Act means that all the contents of the following subparagraphs are included: <Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. The trade names, the registration numbers of business operators and the locations of the principal offices of donation corporations;

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2. The amount of donations;
3. The dates on which donations are made;
4. The dates on which the donation receipts are issued; and
5. Other matters that are prescribed by Ordinance of the Ministry of Strategy and Finance.

[This Article Wholly Amended by Presidential Decree No. 19329, Feb. 9, 2006]

Article 156 (Separate Accounting)

Corporations falling under the provisions of Article 113 (1) through (3) of the Act shall keep separate accounting systems with independent titles of account for assets or liabilities and earnings or losses which must be separated by business or asset type in the account books of the corporation as prescribed by Ordinance of the Ministry of Strategy and Finance. *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

Article 157 (Submission of Combined Financial Statements)

(1) The term "documents as prescribed by Presidential Decree" in Article 115 of the Act means detailed statements on the status of matters under each of the following subparagraphs drawn up through the *mutatis mutandis* application of Financial Accounting Standards and the detailed statement on offsetting internal transactions as prescribed by Ordinance of the Ministry of Strategy and Finance which states the total amount of the purchase and sale of commodities or manufactured goods between affiliated companies, the sale of fixed assets and other transactions subject to drawing up combined financial statements, classified by corporation or type: *<Amended by Presidential Decree No. 20720, Feb. 29, 2008>*

1. The status of mutual loans of capital relationships between affiliated companies;
 2. The status of sales and purchase transactions between affiliated companies;
 3. The details of the sales transactions of fixed assets between affiliated companies;
 4. Detailed statement on profits and losses transaction between affiliated companies (not including sales and purchase transactions under subparagraph 2); and
 5. Other details of transactions between affiliated companies as prescribed by Ordinance of the Ministry of Strategy and Finance.
- (2) Companies which make combined financial statements shall submit

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a business group aggregate balance sheet drawn up through the *mutatis mutandis* application of Financial Accounting Standards, a business group aggregate income statement, and a detailed statement on offsetting internal transactions under the provisions of paragraph (1) to the head of tax office having jurisdiction over the place of tax payment of the relevant corporation within the time limit for submission under the provisions of Article 115 of the Act. In this case, the detailed statements under each subparagraph of paragraph (1) may be substituted for the auditor's report and the attached detailed statements drawn up and submitted to the Securities Futures Committee by the auditor under the Act on External Audit of Stock Companies. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

Article 158 (Receipt and Safekeeping of Documentary Evidence of Expenditures)

(1) The term "businessman as prescribed by Presidential Decree" in Article 116 (2) of the Act means a businessman falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 17033, Dec. 29, 2000; Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007>

1. Corporations: *Provided*, That this shall not include corporations falling under any of the following items:
 - (a) Non-profit corporations (excluding the parts corresponding to a profit-making business falling under the provisions of Article 2 (1));
 - (b) The State and local governments;
 - (c) Corporations which render financial and insurance services (limited to such corporations that render finance or insurance services prescribed by Article 208-2 (1) 3 of the Enforcement Decree on Income Tax Act); and
 - (d) Foreign corporations with no domestic place of business;
2. Businessmen under Article 2 of the Value-Added Tax Act: *Provided*, That this shall not include simplified tax rate taxpayers under Article 25 of the Value-Added Tax Act located in *Eups* or *Myeons* other than the credit card affiliate members under the Specialized Credit Financial Business Act (hereinafter referred to as "credit card affiliate members") or the cash receipt affiliate members under Article 126-3 of the Special Tax Treatment Control Act (hereinafter referred to as "cash receipt

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affiliate members"); and

3. Businessmen provided for in Article 28 of the Income Tax Act and non-residents who earn their incomes pursuant to the provisions of subparagraphs 3, 5 or 10 of Article 119 of the same Act: *Provided*, That this shall not include non-residents with no domestic place of business under the provisions of Article 120 of the same Act.

(2) The term "cases as prescribed by Presidential Decree" in the proviso of Article 116 (2) of the Act means cases falling under any one of the following subparagraphs: <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20720, Feb. 29, 2008>

1. Where the transaction amount (including value-added tax) of commodities or services rendered in each transaction does not exceed the amount provided for in each of the following:

- (a) Not later than December 31, 2007: 50,000 won;
- (b) From January 1, 2008 to December 31, 2008: 30,000 won; and
- (c) On or after January 1, 2009: 10,000 won;

2. Where commodities or services are rendered directly by fishermen or farmers (referring to persons engaging in the crop growing industry, the livestock industry, the combined farming industry, the forestry industry, or the fisheries industry, as listed under the farming industry in the Korean Standard Industrial Classification, and excluding corporations);

3. Where services are rendered by a business income earner subject to withholding tax under the provisions of Article 127 (1) 3 of the Income Tax Act (limited to those withheld);

4. Where services are provided pursuant to Article 164 (7) 1; and

5. Other cases as prescribed by Ordinance of the Ministry of Strategy and Finance.

(3) The term "things as prescribed by Presidential Decree" in Article 116 (2) 1 of the Act means debit cards under the Specialized Credit Financial Business Act, credit cards issued abroad, and prepaid cards pursuant to the provisions of Article 126-2 (1) of the Special Tax Treatment Control Act (hereafter referred to as "debit cards, etc." in this Article). <Amended by Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007>

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(4) In case where the evidences falling under one of the following subparagraphs are kept, it shall be deemed that the credit card sales slips referred to in Article 116 (2) 1 of the Act are received and kept: <Newly Inserted by Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 18706, Feb. 19, 2005>

1. Specification of payments for monthly use of credit cards, debit cards, etc. delivered by the credit card business operator under the Specialized Credit Financial Business Act; and
2. Transaction information on credit cards and debit cards, etc. which are kept in the enterprise resource planning systems after having been transmitted by the credit card business operator under the Specialized Credit Financial Business Act (limited to the case of satisfying the requisites under Article 65-7 of the Enforcement Decree on Basic Act for National Taxes).

Article 159 (Participation, etc. in Credit Card Affiliation)

(1) The term "corporation which meets the requirements prescribed by Presidential Decree" in Article 117 (1) of the Act means a corporation operating a type of business serving consumers pursuant to annexed Table 3-2 of the Enforcement Decree on Income Tax Act. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(2) Where a credit card affiliate member refuses to issue a credit card sales slip or issues a false credit card sales slip, the relevant consumer shall, when intending to make a report on the details of the relevant transaction pursuant to Article 117 (3) of the Act, submit a report stating the matters provided for in the following subparagraphs, accompanied by the documents or materials which can attest to the relevant facts, to the Commissioner of the National Tax Service, the Commissioner of the competent Regional Tax Office or the head of the competent tax office, within 15 days from the date when the issuance of the sales slip is refused or the sales slip is falsely issued: *Provided*, That the evidential documents or materials shall be accompanied only to the extent that it is possible: <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

1. Name of the person who reports on the refusal to issue the sales slip;
2. Name of the relevant credit card affiliate member; and
3. Date when the issuance of the sales slip is refused or it is falsely issued, and the details and amount of the relevant transaction.

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(3) Where the head of the tax office having jurisdiction over the place of tax payment notifies the relevant credit card affiliate member of the amount reported for the relevant business year pursuant to the latter part of Article 117 (4) of the Act, he shall do so within two months from the date when the business year comes to an end. <Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007>

(4) The Commissioner of the National Tax Service may prescribe necessary detailed matters regarding the procedures for designating corporations subject to participation in the credit card affiliation, procedures for report and notification of the refusal of issuance, etc. within the scope necessary for the management of taxation. <Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19891, Feb. 28, 2007; Presidential Decree No. 20619, Feb. 22, 2008>

Article 159-2 (Participation, etc. in Cash Receipt Affiliation)

(1) The term "corporation which meets the requirements prescribed by Presidential Decree" in Article 117-2 (1) of the Act means a corporation pursuant to Article 159 (1): *Provided*, That to the State, local governments and the corporations which have difficulty in participating in cash receipt service affiliation and are prescribed by Ordinance of the Ministry of Strategy and Finance, this shall not apply. <Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

(2) through (5) Deleted. <by Presidential Decree No. 20619, Feb. 22, 2008>

(6) An amount subject to issuance of a cash receipt shall be an amount of not less than 1 won in each transaction. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

(7) The provisions of Article 159 (2) and (3) shall apply *mutatis mutandis* with respect to the report and notification of the refusal of issuance of a cash receipt and the issuance of a false cash receipt. In this case, the term "credit card sales slip" shall be read as "cash receipt", and the term "credit card affiliate member" as "cash receipt affiliate member".

(8) The Commissioner of the National Tax Service may prescribe necessary detailed matters regarding the joining and withdrawal of the corporations subject to participation in the cash receipt service affiliation and the procedures for report and notification of the refusal of the issuance, etc. within the scope necessary for the management of taxation. <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

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[This Article Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007]

Article 160 (Making and Keeping List of Stockholders, etc.)

The term "stockholder list or employee list with the matters as prescribed by Presidential Decree" in Article 118 of the Act means a stockholder list under the provisions of Article 352 of the Commercial Act or an employee list under the provisions of Article 566 of the same Act which has the personal matters stated in accordance with the following subparagraphs:

<Amended by Presidential Decree No. 18706, Feb. 19, 2005>

1. For individuals, the name, address, and resident registration number (for citizens abroad, their passport number or the registration number under the Registration of Korean Nationals Residing Abroad Act);
2. For corporations (including organizations to be treated as corporations), the name of the corporation, the location of the headquarters, and the business registration number (including the identification number under the provisions of Article 154 (3));
3. For organizations which are not corporations, the name, address, and resident registration number of the person representing the relevant organization: *Provided*, That for organizations which have been given an identification number under the Value-Added Tax Act, it shall be the name of the organization, the location, and the identification number; and
4. For foreigners and foreign organizations, the name, organization name, temporary place of residence, and registration number stated on the record of registration of foreigners or the foreign organization registry under the Immigration Control Act: *Provided*, That for those who are not issued a foreign registration card, it shall be the name and number on their passport or identification card.

Article 161 (Submission of Detailed Statement on Change of Stocks, etc.)

(1) The term "partnership corporations prescribed by Presidential Decree" in Article 119 (1) of the Act means corporations falling under any of the following subparagraphs: *<Amended by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*

1. The corporation (excluding its central association and its federation) referred to in subparagraphs 1 through 11 of Article 1;
2. The investment company and the private equity company provided for in the Indirect Investment Asset Management Business Act;

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3. The corporate restructuring investment company and the corporation provided for in each subparagraph of Article 2 (2) of the Enforcement Decree of the Indirect Investment Asset Management Business Act;
 4. The corporation whose stockholders, etc. consist of public agencies prescribed by Ordinance of the Ministry of Strategy and Finance, institutional investors pursuant to Article 17-2 (8), minority stockholders of stock-listed corporations, minority stockholders of KOSDAQ-listed corporations; or
 5. Other corporations that are prescribed by Ordinance of the Ministry of Strategy and Finance.
- (2) The term a "corporation prescribed by Presidential Decree" in Article 119 (2) 1 of the Act means a corporation that prepares the stockholder list one time or more in the relevant business year through a person who handles changes in the ownership of stocks or change thereto. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*
- (3) The term "controlling stockholder (including a person with a special relationship therewith)" in Article 119 (2) 1 of the Act means a controlling stockholder, etc. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*
- (4) The term "minority stockholder" in paragraph (1) 4 and Article 119 (2) 2 of the Act means a stockholder, etc., who falls under any of the following subparagraphs: *<Amended by Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>*
1. In the case of a stock-listed corporation, the stockholder who holds stocks whose total amount of face value is less than 300 million won and whose total amount of market value (refers to the market value as prescribed by Ordinance of the Ministry of Strategy and Finance) is 10 billion won or less;
 2. In the case of a KOSDAQ-listed corporation, the stockholder who holds stocks whose total amount of face value is less than 300 million won and whose total amount of market value (refers to the market value as prescribed by Ordinance of the Ministry of Strategy and Finance) is 10 billion won or less: *Provided*, That the stocks were acquired before they were listed on the KOSDAQ, the stockholder who holds stocks whose total amount of face value is 5 million won or less and the stockholder who has transferred stocks of small and medium enterprises through the KOSDAQ market; or

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3. In the case of a corporation other than those in subparagraphs 1 and 2, the stockholder, etc. who holds the total amount of stocks or the total amount of investment below 5 million won.

(5) The controlling stockholder, etc., minority stockholder, etc., face value, market value or total amount of investment as referred to in paragraphs (3) and (4) shall be according to the state as of the opening date of business year or the end of business year of the relevant corporation. In this case, if a person falls under the controlling stockholder, etc. even for one day, he shall be deemed as the controlling stockholder, etc. pursuant to paragraph (3); if a person does not falls under the minority stockholder, etc. even for one day, he shall not be deemed as the minority stockholder, etc. pursuant to paragraph (4). *<Newly Inserted by Presidential Decree No. 20619, Feb. 22, 2008>*

(6) The form of detailed statement on change of stocks, etc. under the provisions of Article 119 of the Act shall be prescribed by Ordinance of the Ministry of Strategy and Finance, and the detailed statement shall include the matters falling under each of the following subparagraphs on the basis of matters concerning the entry of a change of holders on stockholder list: *<Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18174, Dec. 30, 2003; Presidential Decree No. 20720, Feb. 29, 2008>*

1. The name of the stockholders, etc. or the corporation, and the resident registration number, the business registration number, or the identification number;
2. The state of the possession of the stocks, etc. by stockholders, etc.;
3. The state of change of stocks, etc. during the business year; and
4. Deleted. *<by Presidential Decree No. 18706, Feb. 19, 2005>*

(7) The change of stocks, etc. under paragraph (6) 3 shall mean the change in the stockholders, etc., distribution ratio, total face value amount of stocks held, and total amount of investment due to sales, capital increases, capital reductions, succession, donations, and investment. *<Amended by Presidential Decree No. 20619, Feb. 22, 2008>*

Article 162 (Submission of Detailed Statement of Payment)

Any person under an obligation to withhold taxes at source under the provisions of Article 73 (1) of the Act shall furnish a detailed statement of payment for income to the head of tax office having jurisdiction over the place of tax payment by applying *mutatis mutandis* the provisions

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of Article 164 of the Income Tax Act and Articles 213 and 214 of the Enforcement Decree of the same Act except as otherwise prescribed by this Decree: *Provided*, That he may not furnish any detailed statement of payment for income with respect to any income on which the corporate tax is not imposed or is exempted. <Amended by Presidential Decree No. 16358, Dec. 31, 1999; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

Article 162-2 (Special Cases on Duties of Submitting Detailed Statement of Payment on Foreign Corporation's Income from Domestic Sources)

(1) Any person who pays the income generated from sources in Korea provided for in Article 93 of the Act to any foreign corporation shall file a detailed statement of payment, prescribed by Ordinance of the Ministry of Strategy and Finance (hereafter in this Article referred to as "detailed statement of payment"), with the head of tax office having jurisdiction over the place of tax payment in accordance with Article 120-2 (1) of the Act: *Provided*, That the same shall not apply to the income falling under each of the following subparagraphs: <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

1. Income generated from sources in Korea to which the corporate tax is not levied or exempted under the Act and the Special Tax Treatment Control Act;
2. Income generated from sources in Korea under subparagraphs 1, 2, 4, 9, 10 and 11 (excluding the income falling under item (g) of the same subparagraph) of Article 93 of the Act that is practically related to the place of business in Korea under Article 94 of the Act or reverts to the place of business in Korea (excluding the income that is withheld at source under Article 73 (1) or 98-3 of the Act);
3. Income generated from sources in Korea under subparagraphs 3 and 8 of Article 93 of the Act;
4. Income generated from sources in Korea under subparagraphs 5 and 6 of Article 93 of the Act (excluding any income that is withheld at source under Article 98 of the Act);
5. Income falling under subparagraph 11 (g) of Article 93 of the Act;
6. Income generated from sources in Korea for which an application for

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non-taxation or tax exemption is filed under Article 98-4 of the Act;

7. Income whose withholding tax amount is less than 1000 won; and
8. Other income that is deemed to lack the effectiveness to file a detailed statement of payment thereon and prescribed by Ordinance of the Ministry of Strategy and Finance.

(2) Deleted. <by Presidential Decree No. 17826, Dec. 30, 2002>

(3) In case that the corporate tax is withheld at source under Article 138-3 of this Decree or Article 98 (6) of the Act, the relevant person liable to withhold such corporate tax shall file a detail of payment thereon. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20619, Feb. 22, 2008>

(4) The form of detailed statement of payment to be submitted with regard to the income provided in subparagraphs 1, 2 and 10 of Article 93 of the Act may be prescribed by Ordinance of the Ministry of Strategy and Finance. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 20619, Feb. 22, 2008; Presidential Decree No. 20720, Feb. 29, 2008>

(5) The provisions of Articles 215 and 216 of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to the submission of the detailed statement of payment on the income, etc. generated from sources in Korea by any foreign corporation. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20619, Feb. 22, 2008>

[This Article Newly Inserted by Presidential Decree No. 17033, Dec. 29, 2000]

Article 163 (Special Cases concerning Submission of Detailed Statement of Payment)

(1) Deleted. <by Presidential Decree No. 17457, Dec. 31, 2001>

(2) In case of natural disasters or other special causes, the duty of submission of the detailed statement on the change of stocks and the detailed statement of payment under the provisions of Articles 119 and 120 of the Act may be waived or the period of submission may be extended under the provisions of each of the following subparagraphs: <Amended by Presidential Decree No. 20619, Feb. 22, 2008>

1. Where the account books and other documentary evidence are lost due to natural disasters and other *force majeure*, the duty to submit the reports shall be waived from the month prior to the month during which such cause occurred until the month prior to the month in which

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the relevant business is completely restored; and

2. Where the account books and other documentary evidence are confiscated or kept in custody by an agency with such jurisdiction, the time limit for submission of the report for the month in which such cause occurred and the immediately previous month shall be extended until the last day of the month following the month in which it becomes possible to submit the report.

(3) A corporation which wishes to receive exemption or extension under paragraph (2) shall apply for approval to the head of tax office having jurisdiction over the place of tax payment within the time limit for submission of the report under Article 121 of the Act.

Article 163-2 (Submission, etc. of Aggregate Tax Invoice for Individual Suppliers)

(1) The term "period set by Presidential Decree" in Article 120-3 (1) of the Act means January 31 every year.

(2) With respect to the submission, etc. of aggregate tax invoices for individual suppliers pursuant to Article 120-3 of the Act, the provisions of Articles 66 and 66-2 of the Enforcement Decree on Value-Added Tax Act shall apply *mutatis mutandis*.

[This Article Newly Inserted by Presidential Decree No. 19891, Feb. 28, 2007]

Article 164 (Making and Issuing of Invoice)

(1) The provisions of Articles 211 through 212-2 of the Enforcement Decree of the Income Tax Act shall apply *mutatis mutandis* to the making and issuing of the invoice under the provisions of Article 121 of the Act. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 17826, Dec. 30, 2002; Presidential Decree No. 18706, Feb. 19, 2005>

(2) The term "where the invoice is issued as prescribed by Presidential Decree" in the proviso to Article 121 (2) of the Act means where the invoice is issued in the name of the trustor or the person in question under Article 212 (2) of the Enforcement Decree on Income Tax Act. <Amended by Presidential Decree No. 18706, Feb. 19, 2005>

(3) The term "case prescribed by Presidential Decree" in Article 121 (4) of the Act means the case that land and buildings are supplied. <Newly Inserted by Presidential Decree No. 17457, Dec. 31, 2001>

(4) The term "time limit as prescribed by Presidential Decree" in Article 121 (5) of the Act means by January 31 each year. <Amended by Presidential

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Decree No. 17457, Dec. 31, 2001>

(5) Corporations shall submit the sales and purchase aggregate balance sheet as prescribed by Ordinance of the Ministry of Strategy and Finance to the head of tax office having jurisdiction over the place of tax payment by the time limit (February 19 of every year in the case of foreign corporations) under paragraph (4). <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 19328, Feb. 9, 2006; Presidential Decree No. 20720, Feb. 29, 2008>

(6) The provisions of Article 212 of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to the submission of the sales and purchase aggregate balance sheet under the provisions of paragraph (5), except as otherwise prescribed by this Decree. <Amended by Presidential Decree No. 17457, Dec. 31, 2001; Presidential Decree No. 18706, Feb. 19, 2005>

(7) The provisions of Article 211 (2) of the Enforcement Decree on Income Tax Act shall apply *mutatis mutandis* to a case where goods and services falling under any of the following subparagraphs are supplied or rendered from among the goods or the services provided for in Article 106 (1) 6 of the Special Tax Treatment Control Act: <Newly Inserted by Presidential Decree No. 18706, Feb. 19, 2005; Presidential Decree No. 20720, Feb. 29, 2008>

1. The services rendered by the Port Authority provided for in the Port Authority Act to collect freight rates provided for in Article 13 (1) 1 (b) of the Enforcement Decree of the same Act; and
2. Other goods and services that are prescribed by Ordinance of the Ministry of Strategy and Finance taking into account the amount and number of transactions.

Article 165 (Inquiry and Investigation)

(1) Where a public official engaged in affairs related to corporate tax investigates the account books, documents, and other items in order to conduct an investigation on corporate taxes under the provisions of Article 122 of the Act, he shall present his identification as an investigator as prescribed by Ordinance of the Ministry of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) Where necessary in order for a public official engaged in affairs related to corporate tax to perform his duties under the provisions of Article 122 of the Act, he may demand the submission of materials necessary for the settlement of the investigation of the revenue amount from transactions

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which are exempt value-added tax.

ADDENDA

Article 1 (Enforcement Date)

This Enforcement Decree shall enter into force on January 1, 1999: *Provided*, That the amended provisions of Articles 5, 9, 12 through 15, 72, 82 through 85, 88, 96, 97, 116, 120, 123, and 124 (limited to the section concerning division) and the amended provisions of Articles 36 (2), 56 (1), 62 (1) 5 and 14, and the provisions of Article 13 (1) of the Addenda shall enter into force on the day of its promulgation, and the amended provisions of Articles 54 and 120 (2) through (4) shall enter into force on January 1, 2000.

Article 2 (Examples General Application)

This Enforcement Decree shall apply from the first business year which begins after the entry into force of this Decree: *Provided*, That the amended provisions on the corporate tax on liquidation income shall apply from the first dissolution or merger after the entry into force of this Decree or the division in the business year which includes the date of the entry into force of this Decree, and the amended provisions on the special transfer income tax shall apply from the first transfer after the entry into force of this Decree.

Article 3 (Examples of Application to Special Cases of Merger and Division)

The amended provisions of Articles 5, 9 (3), 15 (2) and (3), 24 (4), 72 (1) 3 and 4, 80 through 85, 88 (1) 8 (a), 96 (2) through (4), 97 (6), 116 (2) and 120 (7) shall apply from the first merger after the entry into force of this Decree or the first division in the business year which includes the date of the entry into force of this Decree.

Article 4 (Examples of Application to Repudiation of Wrongful Calculation)

(1) The amended provisions of subparagraph 9 of Article 11, and Articles 87 through 89 and 106 (1) 3 (i) shall apply from the first transaction after the entry into force of this Decree.

(2) The amended provisions of Article 90 shall apply from the transactions in the first business year which begins after the entry into force of this Decree.

(3) The amended provisions of Article 131 shall apply from the first transfer after the entry into force of this Decree.

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Article 5 (Examples of Application to Fictitious Dividends)

The amended provisions of Articles 12 through 14 shall apply from the first retirement of stocks or transfer to capital or dissolution after the entry into force of this Decree: *Provided*, That the amended portion concerning mergers or divisions shall apply from the first merger after the entry into force of this Decree or from the divisions in the business year which includes the date of the entry into force of this Decree.

Article 6 (Examples of Application to Inclusion of Depreciation Costs in Calculation of Losses)

(1) The amended provisions of Articles 24 through 34 shall apply from the depreciation in the first business year which begins after the entry into force of this Decree.

(2) The amended provisions of Article 24 (5) shall apply from the loan of facilities in the first business year which begins after the entry into force of this Decree.

Article 7 (Examples of Application to Calculation of Losses)

(1) The amended provisions of Articles 36 (2) and 56 (1) shall apply to the expenditures or the inclusion in the calculation of losses in the business year which includes the date of the entry into force of this Decree.

(2) The amended provisions of Article 44 (2) 2 and 4 shall apply from the first payment after the entry into force of this Decree.

(3) The amended provisions of Article 54 shall apply from the first business year which begins after January 1, 2000.

(4) The amended provisions of Articles 56 (not including paragraph (1)) through 67 (not including Articles 58 and 62 (1) 5 and 14) shall apply from the inclusion in the calculation of losses in the first fiscal year which begins after the entry into force of this Decree.

(5) The amended provisions of Articles 58 and 62 (1) 5 and 14 shall apply from the inclusion in the calculation of losses in the fiscal year which includes the date of the entry into force of this Decree.

Article 8 (Examples of Application to Fiscal Year of Accrual of Losses)

(1) The amended provisions of Articles 68, 69, and 71 shall apply from the sale, transfer, or rental of property or the provision of service in the first fiscal year which begins after the entry into force of this Decree.

(2) The amended provisions of Article 70 shall apply from the revenue and payments in the first fiscal year which begins after the entry into

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force of this Decree.

(3) The amended provisions of Article 72 shall apply from the first acquisition after the entry into force of this Decree.

(4) The amended provisions of Articles 73 through 76 and 78 shall apply to evaluation in the first fiscal year after the entry into force of this Decree.

(5) The amended provisions of Article 77 shall apply from the expenses and contributions in the first fiscal year which begins after the entry into force of this Decree.

Article 9 (Examples of Application to Settlement)

(1) The amended provisions of Article 105 shall apply from the first settlement or correction after the entry into force of this Decree.

(2) The amended provisions of Article 110 (5) shall apply from the first collection of returned taxes to receive a deduction after the entry into force of this Decree.

Article 10 (Examples of Application to Withholding)

(1) The amended provisions of Article 111 (1) 7 and paragraph (2) 1 of the same Article (limited to the portion under the application of Article 61 (2) 18 and 22) and the amended provisions of Article 115 shall apply from the first payment after the entry into force of this Decree.

(2) The amended provisions of Article 116 (1) shall apply from the first dissolution after the entry into force of this Decree.

Article 11 (Examples of Application to Additional Taxes)

(1) The amended provisions of Articles 118 and 119 (1) shall apply from the collection of corporate tax in the first fiscal year which begins after the entry into force of this Decree.

(2) The amended provisions of Articles 120 (1) and 157 shall apply from the submission concerning the first fiscal year which begins after the entry into force of this Decree.

(3) The amended provisions of Article 120 (2) (not including the portion concerning the invoice) through (4) shall apply from the first reception of commodities or services after January 1, 2000, and the amended provisions of Article 158 shall apply from the first reception of commodities or services after the entry into force of this Decree.

(4) Of the amended provisions of Article 18 (1) of the Addenda, the amended provisions of Article 41 of the Enforcement Decree on Act for the Coordination of International Tax Affairs shall apply from the first mutual

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consultation after the entry into force of this Decree in the first fiscal year which begins after the entry into force of this Decree.

Article 12 (Examples of Application to Inclusion of Depreciation Costs in Calculation of Losses)

(1) A corporation which possesses depreciable assets as of the first day of the first fiscal year which begins after the entry into force of this Decree shall report under the amended provisions of Article 26 (1) and (3) the depreciation method to be applied to the assets under the amended provisions of paragraph (1) of the same Article to the head of tax office having jurisdiction over the place of tax payment by the time limit for report on the corporate tax base for the concerned fiscal year.

(2) Where a corporation which must report the method of depreciation under the provisions of paragraph (1) does not report, the method of depreciation of the depreciable assets shall be the method of depreciation under each subparagraph of the amended provisions of Article 26 (4).

(3) A corporation which possesses depreciable assets as of the first day of the first fiscal year which begins after the entry into force of this Decree shall report in accordance with the amended provisions of Articles 28 (1) and (3) and 29 (1) and (2) the lifespan to be applied to the assets falling under the amended provisions of Article 28 (1) 2 to the head of tax office having jurisdiction over the place of tax payment by the time limit for report on the corporate tax base for the concerned fiscal year, and where it wishes to receive approval under the amended provisions of Article 29 (1), it shall apply to the Commissioner of the Regional Tax Office having jurisdiction over the place of tax payment by the date of 3 months prior to the last day of the concerned fiscal year. In this case, assets falling under the amended provisions of Article 28 (1) 1 shall be in accordance with the lifespan under the same amended provisions.

(4) Where a corporation which must report the lifespan under the provisions of paragraph (3) does not report, the lifespan of the depreciable assets shall be the standard number of years under the amended provisions of Article 28 (1) 2.

(5) In the application of the amended provisions of Articles 24 through 34 to depreciable assets in possession as of the first day of the first fiscal year which begins after the entry into force of this Decree, the acquisition value of the concerned assets shall be the acquisition value as of the starting

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date of the fiscal year.

(6) In the application of the amended provisions of Articles 24 through 34 to depreciable assets in possession as of the first day of the first fiscal year which begins after the entry into force of this Decree, cumulative total amount of depreciation of the individual assets as of the starting date of the fiscal year shall be in accordance with each of the following subparagraphs:

1. For assets acquired on or before December 31, 1994, the reserve funds for the individual assets appropriated as of the starting date of the fiscal year; and
2. For assets acquired on or after January 1, 1995, the cumulative total amount of depreciation of individual assets calculated by the *mutatis mutandis* application of the previous provisions of Article 63, where the individual assets are deemed as having been transferred as of the starting date of the fiscal year: *Provided*, That where detailed statements on the settlement of depreciation costs of individual assets are made and kept, it may be the cumulative total amount of depreciation of the concerned individual assets.

(7) In the application of the amended provisions of Articles 24 through 34 to depreciable assets in possession as of the first day of the first fiscal year which begins after the entry into force of this Decree, the disapproved depreciation amount (the amount not confirmed as losses) of the individual assets as of the starting date of the fiscal year shall be in accordance with each of the following subparagraphs:

1. For assets acquired on or before December 31, 1994, the amount calculated by multiplying the disapproved depreciation amount under each subparagraph of Article 54 (in cases of subparagraph 3 of the same Article, by each asset) of the Enforcement Decree on Corporation Tax Act prior to the entry into force of the amended Enforcement Decree on Corporation Tax Act (Presidential Decree No. 14468) by the ratio of the disapproved depreciation amount of the individual assets to the total amount of the disapproved depreciation amount of all individual assets; and
2. For assets acquired on or after January 1, 1995, the disapproved depreciation amount of the individual assets calculated by the *mutatis mutandis* application of the previous provisions of Article 63, where

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the individual assets are deemed to have been transferred as of the starting date of the fiscal year: *Provided*, That where a detailed statement on the settlement of depreciation costs are made and kept for individual assets, it may be the amount calculated by multiplying the disapproved depreciation amount of the same lifespan by the ratio of the disapproved depreciation amount of the concerned individual assets of the same lifespan to the disapproved depreciation amount of the total of the individual assets of the same lifespan.

(8) In the application of the amended provisions of Articles 24 through 34 to depreciable assets in possession as of the starting date of the first fiscal year which begins after the entry into force of this Decree, assets under the application of the previous provisions of Article 55-2 shall be deemed assets under the application of the amended provisions of Article 30 as of the starting date of the fiscal year.

(9) Assets under the application of the previous provisions of Article 48 (3) as of the first day of the first fiscal year which begins after the entry into force of this Decree shall remain under the previous provisions until the last day of the facilities lending period of the concerned assets.

(10) Assets subject to the application of the provisions of Article 51 of the Enforcement Decree on Corporation Tax Act prior to the entry into force of the amended Enforcement Decree on Corporation Tax Act (Presidential Decree No. 14468) as of the first day of the first fiscal year which begins after the entry into force of this Decree shall remain under the previous provisions until the completion of the depreciation of the concerned assets.

(11) The disposition of the amount of special depreciation costs included in the calculation of losses for each fiscal year under the previous provisions of Article 84 not included in the calculation of earnings as of the first day of the first fiscal year which begins after the entry into force of this Decree shall be in accordance with the previous provisions.

(12) For assets subject to the application of Article 11 of the Addenda of the amended Regulation of Tax Reduction and Exemption Act (Act No. 4806), as of the first day of the first fiscal year which begins after the entry into force of this Decree, the inclusion of special depreciation costs in the calculation of losses shall be in accordance with the previous provisions of Article 84 and the amended provisions of Article 30.

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Article 13 (Special Cases concerning Inclusion of Business Expenses in Calculation of Losses)

(1) For debentures of a corporation judged bankrupt on or before December 31, 1998 which are held by a corporation entrusted to operate a government business, the amount of the calculated dividend deducted from the debentures may be included as bad debts in the calculation of losses for the fiscal year which includes the date of the judgement of bankruptcy, notwithstanding the amended provisions of Article 62.

(2) In the application of the amended provisions of Article 47 (1), for the fiscal year which includes December 31, 1999, "10%" in the amended provisions of Article 47 (1) shall read "20%".

(3) In the application of the amended provisions of Article 88 (1) 6, where there are loans under the previous provisions of the proviso of Article 46 (2) 7 as of the date of the entry into force of this Decree, the concerned funds shall not be deemed as loans of cash under the amended provisions of Article 88 (1) 6 until December 31, 2000.

(4) As of the date of the entry into force of this Decree, where a corporation receives the approval of the principal creditor bank and acquires the stocks of a corporation with no special relationship under the amended provisions of Article 87 (1) for the purpose of merger and merges on or before December 31, 1999, it shall be deemed as a merger between corporations with no special relationship and the provisions of Article 45 (1) 1 of the Act shall apply, notwithstanding the amended provisions of the proviso of Article 88 (2).

Article 14 (Special Case of Additional Tax on Undelivered Account Statement)

In the application of the additional tax provided for in the provisions of Article 76 (9) of the Act, every auction wholesaler provided for in the provisions of Article 2 of the Act on Distribution and Price Stabilization of Agricultural and Fishery Products shall be deemed the corporation that falls under the provisions of Article 120 (2) by the business year that ends on or before December 31, 2001 and in case where the ratio of the amount for which the account statement is delivered by each business year in the total amount of sales exceeds the ratio falling under any of the following subparagraphs from the business year that ends during period ranging from January 1, 2002 to December 31, 2002 to the business year

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that ends during the period ranging from January 1, 2010 to December 31, 2010, the auction wholesaler shall be deemed the corporation that falls under the provisions of Article 120 (2) in the relevant business year. In this case, if the ratio of the amount for which the account statement is delivered by the auction wholesaler in each business year in the total amount of sales falls short of the ratio that falls under each of the following subparagraphs, the difference between the amount that is calculated by applying the ratio falling under each of the following subparagraphs to the total amount of sales by each business year and the amount for which the account statement is delivered shall be deemed the supply value and the additional tax shall be levied thereon:

1. The auction wholesalers of the Central Wholesale Market located in the Seoul Metropolitan City provided for in the Act on Distribution and Price Stabilization of Agricultural and Fishery Products; and

Business Year	Ratio
The business year that ends during the period ranging from January 1, 2002 to December 31, 2002	10/100
The business year that ends during the period ranging from January 1, 2003 to December 31, 2003	20/100
The business year that ends during the period ranging from January 1, 2004 to December 31, 2004	40/100
The business year that ends during the period ranging from January 1, 2005 to December 31, 2005	40/100
The business year that ends during the period ranging from January 1, 2006 to December 31, 2006	40/100
The business year that ends during the period ranging from January 1, 2007 to December 31, 2007	45/100
The business year that ends during the period ranging from January 1, 2008 to December 31, 2008	50/100
The business year that ends during the period ranging from January 1, 2009 to December 31, 2009	55/100
The business year that ends during the period ranging from January 1, 2010 to December 31, 2010	60/100

2. The auction wholesalers other than those referred to in subparagraph

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1;

Business Year	Ratio
The business year that ends during the period ranging from January 1, 2002 to December 31, 2002	10/100
The business year that ends during the period ranging from January 1, 2003 to December 31, 2003	20/100
The business year that ends during the period ranging from January 1, 2004 to December 31, 2004	40/100
The business year that ends during the period ranging from January 1, 2005 to December 31, 2005	20/100
The business year that ends during the period ranging from January 1, 2006 to December 31, 2006	20/100
The business year that ends during the period ranging from January 1, 2007 to December 31, 2007	25/100
The business year that ends during the period ranging from January 1, 2008 to December 31, 2008	30/100
The business year that ends during the period ranging from January 1, 2009 to December 31, 2009	35/100
The business year that ends during the period ranging from January 1, 2010 to December 31, 2010	40/100

[This Article Wholly Amended by Presidential Decree No. 19328, Feb. 9, 2006]

Article 15 (General Transitional Measures)

Corporate tax levied or to be levied under the previous provisions prior to the entry into force of this Decree shall be in accordance with the previous provisions.

Article 16 (Transitional Measures on Inclusion of Public Imposts in Calculation of Losses)

(1) In the application of the amended provisions of Article 23, public imposts under the provisions of each subparagraph of Article 25 (1) of the Enforcement Decree of the Corporation Tax Act (not including subparagraph (2) prior to the entry into force of the amended Enforcement Decree on Corporation Tax Act (Presidential Decree No. 15564) falling

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under the amended provisions of Article 23 shall not be deemed as public imposts falling under the amended provisions of Article 23 until after the business year ending before December 31, 2001.

(2) In the application of the amended provisions of Article 42 (3), the expenses paid by a financial institution under the previous provisions of Article 44 (3) until the business year which includes December 31, 1999 shall be in accordance with the previous provisions.

Article 17 (Transitional Measures on Business Year of Accrual of Profits and Losses)

(1) The business year of accrual of profits and losses for the sale, transfer, or rental of property or the provision of services which began before the starting date of the first business year after the entry into force of this Decree shall be in accordance with the previous provisions of Articles 36 and 37-2.

(2) The amount set off for the disposition of the balance of the exchange rate settlement account and the revaluation reserve fund under the previous provisions of Article 38-2 (1) and (7) at the time of the entry into force of this Decree shall be in accordance with the previous provisions.

(3) The undepreciated balance of deferred assets under the previous provisions of Article 38 at the time of the entry into force of this Decree shall be in accordance with the previous provisions.

(4) The previous provisions shall apply to stocks which are subject to the application of the previous provisions of Article 43-2 (9) 8 and 14 at the time that this Decree is enforced. <Newly Inserted by Presidential Decree No. 16658, Dec. 31, 1999>

Article 18 Omitted.

Article 19 (Relationship with Other Acts and Subordinate Statutes)

Where other Acts and subordinate statutes cite the previous Enforcement Decree on Corporation Tax Act Act at the time of the entry into force of this Decree, the corresponding provisions of this Decree shall be deemed to have been cited if such provisions exist in this Decree.

ADDENDA <Presidential Decree No. 16658, Dec. 31, 1999>

Article 1 (Enforcement Date)

This Decree shall enter into force on January 1, 2000: *Provided*, That the amended provisions of Articles 49, 62 (1), and 77, and the amended

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provisions of Article 17 of the Addenda of the Enforcement Decree on Corporation Tax Act, Presidential Decree No. 15970, shall enter into force on the date of the promulgation of this Decree, the amended provisions of subparagraphs 2 and 6 of Article 1 and the amended provisions of Articles 57 (1) 1, 58 (1), 61 (2) 8, and 111 (2) 9 and 11 on July 1, 2000, the amended provisions of Articles 2 (1) 2, and 41 on January 1, 2001, and the amended provisions of Article 162 on January 1, 2002. <Amended by Presidential Decree No. 17033, Dec. 29, 2000>

Article 2 (General Application Example)

This Decree shall apply starting with the business year commencing first after the enforcement of this Decree: *Provided*, That the amended provisions of Articles 49, 62 (1), and 77, and the amended provisions of Article 17 of the Addenda of the Enforcement Decree on Corporation Tax Act, Presidential Decree No. 15970, shall apply starting with the business year to which the date of the promulgation of this Decree belongs.

Article 3 (Application Example concerning Calculation of Non-Inclusion Amount of Earnings, etc.)

- (1) The amended provisions of Article 20 shall apply starting with the portion of piece dividend bonus paid first after the enforcement of this Decree.
- (2) The amended provisions of Articles 81 and 89 shall apply starting with a merger made first after the enforcement of this Decree.
- (3) The amended provisions of Article 108 shall apply starting with the portion of the occasional imposition made first after the enforcement of this Decree.
- (4) The amended provisions of Articles 122 and 123 shall apply starting with the portion of a declaration on the tax base of the Corporate Tax with respect to liquidation income filed first after the enforcement of this Decree.
- (5) The amended provisions of Article 132 (7) shall apply starting with the portion of the transfer made first after the enforcement of this Decree and the amended provisions of paragraph (8) of the same Article shall apply starting with the portion of the income earned first after the enforcement of this Decree.
- (6) The amended provisions of Article 61 shall apply starting with the portion of what is submitted first after the enforcement of this Decree.

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Article 4 (Application Example to Income Accruing from Technical Services Business, etc. of Non-Profit Foreign Corporation)

(1) The amended provisions of Article 2 (1) 2 shall apply starting with income first accrued on and after January 1, 2001.

(2) The amended provisions of Article 162 shall apply starting with income first accrued on and after January 1, 2002.

[This Article Wholly Amended by Presidential Decree No. 17033, Dec. 29, 2000]

Article 5 (Application Example concerning Non-Inclusion of Entertainment Expenses into Operating Loss)

The amended provisions of Article 41 (6) shall apply starting with the portion of entertainment expenses spent in the business year commencing first after January 1, 2001.

ADDENDA <Presidential Decree No. 16703, Feb. 7, 2000>

(1) (Enforcement Date) This Decree shall enter into force on the date of its promulgation.

(2) (Application Example) The amended provisions of Article 45 (1) 4 (c) shall apply starting with the portion filed first after the enforcement of this Decree.

ADDENDA <Presidential Decree No. 16762, Mar. 28, 2000>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Article 2 Omitted.

ADDENDA <Presidential Decree No. 16810, May 16, 2000>

(1) (Enforcement Date) This Decree shall enter into force on the date of its promulgation.

(2) (Application Example) The amended provisions of Article 113 (2) 2 (a) shall apply starting with the portion of the interest rate of State bonds issued on the open market first after the enforcement of this Decree.

ADDENDA <Presidential Decree No. 17033, Dec. 29, 2000>

Article 1 (Enforcement Date)

This Decree shall enter into force on January 1, 2001: *Provided, That*

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the amended provisions of Articles 29-2, 53 (4), 61 (2), 62 (1), 63 (1) and (3) 2, 82 (3) 2, 85 (1) 3 and (2) 3, 86 (4), and 138-2 shall enter into force on the date of its promulgation, the amended provisions of Articles 112 (1), 113, 114, 131-2, 136-2, and 138-3 on July 1, 2001, the amended provisions of Articles 54 (3) and (4) on January 1, 2002, and the amended provisions of Article 162-2 on July 1, 2002, respectively. <Amended by Presidential Decree No. 17457, Dec. 31, 2001>

Article 2 (General Application Examples)

This Decree shall apply starting with the first business year after the enforcement of this Decree.

Article 3 (Application Example to Appraisal of Asset Values, etc.)

The amended provisions of Article 14 (1) 1 shall apply starting with the first merger or division after the enforcement of this Decree.

Article 4 (Application Example to Losses Forwarded)

The amended provisions of Article 18 (1) 1 shall apply starting with the losses first confirmed by a law court after the enforcement of this Decree.

Article 5 (Application Example to lifespan of Used Assets, etc.)

The amended provisions of Article 29-2 shall apply starting with the acquisition of used assets, merger or division that is first effected in the business year to which the enforcement date of this Decree belongs, and with the portion revaluated in the business year that first starts after January 1, 1999: *Provided*, That the same shall apply to revaluated assets only when the report of changed lifespan is submitted at the time of reporting the corporate tax base for the business year to which the enforcement date of this Decree belongs.

Article 6 (Application Example to Exclusion of Interest Paid on Assets Not Related to Business from Deductible Expenses)

The amended provisions of Article 53 (4) shall apply starting with the borrowings in the business year to which the enforcement date of this Decree belongs.

Article 7 (Application Example to Inclusion of Loan Losses in Deductible Income)

The amended provisions of Articles 61 (2), 62 (1), and 63 (1) and (3) 2 shall apply starting with the deductible losses in the business year to which the enforcement date of this Decree belongs.

Article 8 (Application Example to Inclusion in Deductible Income of Evaluation Margin for Corporate Division)

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The amended provisions of Articles 82 (3) 2 (proviso) and 85 (1) 3 (proviso) and (2) 3 (proviso) shall apply starting with the merger or division in the business year to which the enforcement date of this Decree belongs.

Article 9 (Application Example to Inclusion in Deductible Expenses of Asset Transfer Margin by Exchange)

The amended provisions of Article 86 (4) shall apply starting with the assets exchanged in the business year to which the enforcement date of this Decree belongs.

Article 10 (Application Example to Disposal of Income)

The amended provisions of Article 106 (4) shall apply starting with the corrected reports in the business year that first starts after the enforcement of this Decree.

Article 11 (Application Example to Tax Deduction of Fictitious Presumed Withholding Tax, etc.)

The amended provisions of Articles 112 (1), 113, 114, 136-2, and 138-3 shall apply starting with the bonds, etc. sold or interest, etc. received after July 1, 2001: *Provided*, That the previous provisions of Articles 112 (1), 113, and 114 shall apply until the first payment date of interest, etc. on the corresponding bonds, etc. arriving after July 1, 2001 where the period for interest, etc. on bonds, etc. issued before July 1, 2001 spans over the period before July 1, 2001 and on or after July 1, 2001.

Article 12 (Application Example to Foreign Corporations' Income from Domestic Sources)

(1) The amended provisions of Articles 129 (3), 131-2, and 132 (7) and (10) shall apply starting with the first transfer after the enforcement of this Decree.

(2) The amended provisions of Article 132 (1) and (9) shall apply starting with the income first accrued after the enforcement of this Decree.

Article 13 (Application Example of Special Cases to Report of Foreign Corporations' Transfer Margin Tax on Securities)

The amended provisions of Article 138-2 shall apply starting with the portion that first satisfies the local taxation criteria in the relevant tax treaty after the promulgation date of this Decree.

Article 14 (Application Example to Submission of Written Payment Statement on Foreign Corporations' Income from Domestic Sources)

The amended provisions of Article 162-2 shall apply starting with the portion first paid after July 1, 2002. *<Amended by Presidential Decree No. 17457,*

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Article 15 (Transitional Measures for Group Retirement Insurance Premium, etc. to be Included in Taxable Income)

The previous provisions shall apply to gross income inclusion of group retirement insurance premium, etc. that was included in taxable income under the previous provisions of Article 45 (3) before the enforcement of this Decree.

ADDENDA <Presidential Decree No. 17338, Aug. 14, 2001>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Article 2 (Application Examples to Deduction of Fictitious Withholding Tax Amount)

(1) The amended provisions of Article 112 (3) shall apply from the portion of first issuance of the bonds, etc. after July 1, 2001, and the portion of commencing the period for interest calculation.

(2) The amended provisions of Article 113 (4) shall apply from the portion of first deduction under Article 73 (8) of the Act after the enforcement of this Decree.

(3) The amended provisions of Article 113 (10) shall apply from the portion of first selling after the enforcement of this Decree from among the first issuance of the bonds, etc. after July 1, 2001, or the portion of commencing the period for interest calculation for the bonds, etc.

Article 3 (Application Example to Electronic Over-the-Counter Transaction of Foreign Corporation)

The amended provisions of Article 132 (7) 2 (proviso) shall apply from the portion of first transfer after the enforcement of this Decree.

Article 4 (Application Example to Special Cases for Tax Withholding on Interests, etc. of Foreign Corporation's Bonds, etc.)

The amended provisions of Article 138-3 (5) shall apply from the portion of first application for the refund after the enforcement of this Decree.

Article 5 (Application Example to Special Surtax)

The amended provisions of Article 144-2 shall apply from the portion of first settlement or correction (limited to the transferred portion after January 1, 2001) after the enforcement of this Decree.

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ADDENDA <Presidential Decree No. 17457, Dec. 31, 2001>

Article 1 (Enforcement Date)

This Decree shall enter into force on January 1, 2002: *Provided*, That the amended provisions of Articles 14 (1) 1, 56 (6) 4, 57 (2), 61 (2), 62 (5), 70 (4), 72 (1) 3, subparagraph 2 and 5 of 73, 75 (1), 76, 85, 86-2, and the amended provisions of Article 14 of the Addenda of the Enforcement Decree of the Corporation Tax Act (No. 15970) shall enter into force on the date of promulgation of this Decree and the amended provisions of Articles 138-4 and 162-2 shall enter into force on July 1, 2002.

Article 2 (General Application Example)

This Decree shall apply, starting with the business year that commences for the first time after the enforcement of this Decree.

Article 3 (Application Example concerning Report on Alteration of Place of Tax Payment)

The amended provisions of Article 9 (3) shall apply, starting with the portion of a merger or division that is made for the first time after enforcement of this Decree.

Article 4 (Application Example concerning Appraisal, etc. of Property Value)

The amended provisions of Article 14 (1) shall apply, starting with the portion of stocks, etc. that are acquired in the business year to which the date of promulgation of this Decree belongs.

Article 5 (Application Example concerning Non-Inclusion of Amount of Dividend Earned in Earnings)

The amended provisions of the proviso of Article 17-2 (3) shall apply, starting with the portion of dividend that is given for the first time after the enforcement of this Decree.

Article 6 (Application Example concerning Inclusion of Reserve for Proper Purpose Business in Losses)

The amended provisions of Article 56 (6) 4 shall apply, starting with the portion of the business year to which the date of promulgation of this Decree belongs.

Article 7 (Application Example concerning Inclusion of Liability Reserve, etc. in Losses)

The amended provisions of Article 57 (2) shall apply, starting with the

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portion of losses that are included in the business year to which the date of promulgation of this Decree belongs.

Article 8 (Application Example concerning Inclusion of Bad Debt Reserve in Losses)

The amended provisions of Article 61 (2) shall apply, starting with the portion of losses that are included in the business year to which the date of promulgation of this Decree belongs.

Article 9 (Application Example concerning Scope of Bad Debts)

The amended provisions of Article 62 (5) shall apply, starting with the portion of claims that are readjusted in the business year to which the date of promulgation of this Decree belongs.

Article 10 (Application Example concerning Reversion Business Year of Insurance Premiums, etc.)

(1) The amended provisions of Article 70 (3) shall apply, starting with the portion of securities that are traded for the first time after the enforcement of this Decree.

(2) The amended provisions of Article 70 (4) shall apply, starting with the portion that is included in earnings in the business year to which the date of promulgation of this Decree belongs.

Article 11 (Application Example concerning Acquisition Value of Assets)

The amended provisions of Article 72 (1) 3 shall apply, starting with the portion of a merger or division that is made in the business year to which the date of promulgation of this Decree belongs.

Article 12 (Application Example concerning Appraisal of Securities, etc.)

The amended provisions of subparagraphs 2 and 5 of Article 73, Article 75 (1) and Article 76 shall apply, starting with the portion of appraisal that is made in the business year to which the date of promulgation of this Decree belongs.

Article 13 (Application Example concerning Inclusion of Amount Equivalent to Transfer Marginal Profits due to Spin-off in Losses)

The amended provisions of Article 83 shall apply, starting with the portion that is divided or merged for the first time after the enforcement of this Decree.

Article 14 (Application Example concerning Succession, etc. of Assets and Liabilities When Divided and Merged)

The amended provisions of Article 85 shall apply, starting with the portion that is merged or divided in the business year to which the date of

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promulgation of this Decree belongs.

Article 15 (Application Example concerning Income Deduction on Company Specializing in Asset-Backed Securitization)

The amended provisions of Article 86-2 shall apply, starting with the portion of the business year to which the date of promulgation of this Decree belongs.

Article 16 (Application Example concerning Special Case for Taxation of Income Accruing from Transfer of Land, etc.)

The amended provisions of Articles 92-2, 97 (1), 99-2, 102 (4) and 110 (1) shall apply, starting with the portion that is transferred for the first time after the enforcement of this Decree.

Article 17 (Application Example concerning Disposal of Income)

The amended provisions of Article 106 (4) shall apply, starting with the portion on which a revised report is filed for the first time after the enforcement of this Decree.

Article 18 (Application Example concerning Scope of Income Subject to Withholding)

(1) The amended provisions of Article 111 (2) shall apply, starting with the portion of the interest income that is paid for the first time after the enforcement of this Decree.

(2) The amended provisions of Article 111 (6) shall apply, starting with the portion of the interest income that is paid on bonds issued for the first time after the enforcement of this Decree.

Article 19 (Application Example concerning Deduction Amount of Fictitious Withholding Tax)

(1) The amended provisions of Article 113 (2) shall apply, starting with the portion of securities that are issued for the first time after the enforcement of this Decree.

(2) The amended provisions of Article 113 (11) shall apply, starting with the portion of bonds that are traded at halfway for the first time after the enforcement of this Decree.

Article 20 (Application Example concerning Calculation of Liquidation Income Accruing from Merger)

The amended provisions of Article 122 (1) shall apply, starting with the portion that is merged for the first time after the enforcement of this Decree.

Article 21 (Application Example concerning Calculation of Amount of

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Income Accruing from Transfer of Land by Foreign Corporation, etc.
Having No Place of Business in Korea)

The amended provisions of Article 129-2 shall apply, starting with the portion that is transferred for the first time after the enforcement of this Decree.

Article 22 (Application Example concerning Scope of Income Generated from Sources in Korea)

The amended provisions of Article 132 (10) shall apply, starting with the portion of stocks, etc. that are transferred for the first time after the enforcement of this Decree.

Article 23 (Application Example concerning Withholding Tax on Bonds, etc. Held by Foreign Corporation)

The amended provisions of 138-3 (3) shall apply, starting with the portion of interest that is paid and of bonds, etc. that are sold for the first time after the enforcement of this Decree.

Article 24 (Application Example concerning Submission, etc. of Detailed Statement Showing Change in Stocks, etc.)

(1) The amended provisions of Article 161 (5) shall apply, starting with any detailed statement showing change in stocks that is submitted for the first time after the enforcement of this Decree.

(2) The amended provisions of Article 164 shall apply, starting with the portion of goods or services that are supplied or imported for the first time after the enforcement of this Decree.

Article 25 (Application Example concerning Submission of Written Evidence of Payment on Income Generated from Sources in Korea by Foreign Corporation)

The amended provisions of Article 162-2 shall apply, starting with the portion that is paid for the first time after July 1, 2002.

Article 26 (Application Example concerning Additional Tax on Non-Delivery of Calculation Statement, etc.)

The amended provisions of Article 14 of the Addenda of the Enforcement Decree on Corporation Tax Act (No. 15970) shall apply, starting with the business year to which the date of promulgation of this Decree belongs.

Article 27 (Special Case concerning Standard for Calculating Revenue Amount of Entertainment Expenses)

In the application of the amended provisions of Article 40 (1) 1, for the business year that commences prior to December 31, 2003, notwithstanding

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the amended provisions of the same subparagraph, the sales amount shall be calculated according to the calculation method falling under each of the following subparagraphs:

1. The business year that commences after January 1, 2002 and before December 31, 2002: Sales amount + an amount equivalent to 19 times the commission related to the business provided for in the provisions of Article 2 (8) 2 through 7 of the Securities and Exchange Act; and
2. The business year that commences after January 1, 2003 and before December 31, 2003: Sales amount + an amount equivalent to 14 times the commission related to the business provided for in the provisions of Article 2 (8) 2 through 7 of the Securities and Exchange Act.

Article 28 (Transitional Measure concerning Inclusion of Value of Deferred Assets in Losses)

Start-up expenses, expenses incurred for opening of business, research and development costs, expenses involving issue of bonds and the inclusion of the value of earnings accruing from use of contributed assets in losses, notwithstanding the amended provisions of Articles 24 and 26, shall be governed by the previous provisions of Article 77.

Article 29 (Transitional Measure concerning Inclusion of Amount Equivalent to Marginal Profit Accruing from Transfer of Assets through Exchange)

In the calculation of an amount equivalent to the marginal profit accruing from the transfer of fixed assets used for the business, obtained by exchange, to be included in losses, if the relevant assets are land for which an amount equivalent to the reappraised amount thereof is included in losses under Article 67 (1), this case shall be governed by the previous provisions, notwithstanding the amended provisions of Article 86 (4).

Article 30 Omitted.

ADDENDA <Presidential Decree No. 17791, Dec. 5, 2002>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of promulgation.

Articles 2 and 3 Omitted.

ADDENDA <Presidential Decree No. 17826, Dec. 30, 2002>

Article 1 (Enforcement Date)

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This Decree shall enter into force on January 1, 2003: *Provided*, That the amended provisions of subparagraph 5-2 of Article 19, Articles 24 (1) 2 (f) and (h), 26 (excluding the amended provision of paragraph (1) 5), 28, 63, 89 (3) and 158 (4) shall enter into force on the date of promulgation.

Article 2 (General Application Example)

This decree shall apply from the portion of business year commencing first after enforcement of this Decree.

Article 3 (Application Example to Scope of Losses)

The amended provision of subparagraph 5-2 of Article 19 shall apply from the portion of the amount equivalent to depreciation costs incurred in the business year whereto belongs the date of promulgation of this Decree.

Article 4 (Application Example to Depreciation of Development Costs)

The amended provisions of Articles 24 (1) 2 (f), 26 (1) 6 and (4) 4, and 28 (1) 2 shall apply from the development cost incurred in the business year whereto belongs the enforcement date of this Decree.

Article 5 (Application Example to Depreciation of Right to Utilize Frequency, etc.)

The amended provisions of Articles 24 (1) 2 (h), 26 (1) 8 and (4) 5, and 28 (1) 2 shall apply from the portion of depreciation incurred in the business year whereto belongs the enforcement date of this Decree.

Article 6 (Application Example to Additional Tax Rate when Including Balance of Proper Purpose Businesses Reserve Fund in Calculation of Earnings)

The amended provision of Article 56 (7) 2 shall apply from the portion of first reaching to the time limit of statutory return after enforcement of this Decree.

Article 7 (Application Example to Inclusion of Fund for Payment of Claims for Compensation in Calculation of Losses)

The amended provision of Article 63 shall apply from the portion of business year whereto belongs the enforcement date of this Decree.

Article 8 (Application Example to Inclusion of Treasury Subsidies, etc. in Calculation of Losses)

The amended provision of Article 64 (6) 3 shall apply from the portion first provided after enforcement of this Decree.

Article 9 (Application Example to Acquisition Value of Assets)

The amended provision of Article 72 (3) 3 shall apply from the portion

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of first acquisition after enforcement of this Decree.

Article 10 (Application Example to Scope of Market Value, etc.)

The amended provision of Article 89 (3) shall apply from the portion of loaning in the business year whereto belongs enforcement date of this Decree.

Article 11 (Application Example to Disposition of Income)

The amended provision of Article 106 (1) 3 shall apply from the portion of first return, determination or revision after enforcement of this Decree.

Article 12 (Application Example to Additional Tax Rate of Returned Tax Amount Following Adjustment of Deficits)

The amended provision of Article 110 (5) 2 shall apply from the portion of first reaching to the time limit of statutory return after enforcement of this Decree.

Article 13 (Application Example to Scope of Income Subject to Withholding)

The amended provision of Article 111 (2) shall apply from the portion of first payment to the domestic corporation after enforcement of this Decree.

Article 14 (Application Example to Tax Rate on Unpaid Additional Taxes)

The amended provision of Article 119 (1) shall apply from the portion of first reaching to the time limit of statutory return after enforcement of this Decree.

Article 15 (Application Example to Evidences of Expenditures, etc.)

The amended provision of Article 158 (4) shall apply from the portion of the business year whereto belongs the enforcement date of this Decree.

Article 16 (Transitional Measures for Inclusion of Start-Up Expenses in Calculation of Losses)

The previous provisions shall govern any inclusion in losses of the start-up expenses incurred prior to the first date of the business year first commencing after enforcement of this Decree, notwithstanding the amended provisions of Articles 24 (1) 2 (e), 26 (1) 5 and 26 (4) 4.

Article 17 (Transitional Measures for Unpaid Additional Taxes, etc.)

The amount equivalent to interests under Articles 56 (7) 2 or 110 (5) 2, or the unpaid additional taxes under Article 119 (1), for which the time limit of statutory return has elapsed prior to the enforcement date of this Decree, shall be calculated by the previous provisions.

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ADDENDA <Presidential Decree No. 18146, Nov. 29, 2003>

Article 1 (Enforcement Date)

This Decree shall enter into force on November 30, 2003. (Proviso Omitted.)
Articles 2 through 15 Omitted.

ADDENDA <Presidential Decree No. 18174, Dec. 30, 2003>

Article 1 (Enforcement Date)

This Decree shall enter into force on January 1, 2004: *Provided*, That the amended provisions of Articles 2 (1) 8, 56 (6), 86-2 (1), 97 (4) and (9) shall enter into force on the date of promulgation, and the contents regarding the Indirect Investment Asset Management Business Act from among the amended provisions of Articles 14, 17, 40, 70, 73, 75, 86-2, 111, 112 and 113 shall enter into force on January 5, 2004, and the amended provisions of Article 36 (4) shall enter into force on January 1, 2005.

Article 2 (Example of General Application)

This Decree shall apply starting with the business year that commences after the enforcement of this Decree.

Article 3 (Application Example to Exclusion of Profit-Making Business in Deposit Insurance System Management Business through Credit Union Depositor Protection Fund)

The amended provisions of Article 2 (1) 8 shall apply, starting with the portion of the business year to which the enforcement date of this Decree belongs.

Article 4 (Application Example concerning Extent of Amount in Excess of Face Value of Issued Stocks in case Liability is Converted into Investment)

The amended provisions of Article 15 (1) shall apply, starting with the portion of conversion of liability into investment after the enforcement of this Decree.

Article 5 (Application Example concerning Extent of Subsidiaries whose Holding Companies' Received Dividend Amount is not Counted into Earnings)

The amended provisions of Article 17-2 (2) 1 shall apply, starting with the portion of dividend that is given for the first time after the enforcement of this Decree.

Article 6 (Application Example concerning Composition Approval where

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Losses Carried Forward is Approved and Management Normalization Plan)

The amended provisions of Article 18 (1) 2 shall apply, starting with the portion of losses confirmed by the court, or resolved by the council of creditor financial organizations.

Article 7 (Application Example concerning Keeping of Donation Receipts)

The amended provisions of Article 36 (4) shall apply, starting with the portion of expenditure on January 1, 2005 and afterward.

Article 8 (Application Example concerning Extent of Proper Purpose Business Reserve Acknowledged Inclusion of Loss)

The amended provisions of Article 81 (4) 1 shall apply, starting from the business year to which the date of enforcement of this Decree belongs.

Article 9 (Application Example concerning Conditions where Succession of Carried Forward Loss is Excluded in case of Merger)

The amended provisions of Article 81 (4) 1 shall apply, starting with the portion of merger after the enforcement of this Decree.

Article 10 (Application Example concerning Extent of Distributable Profit of Securitization Companies, etc. where Income Deduction is Acknowledged)

The amended provisions of Article 86-2 (1) shall apply, starting with the portion of business year to which the enforcement date of this Decree belongs.

Article 11 (Application Example concerning Transfer Income of Land, etc.)

The amended provisions of Article 92-2 shall apply, starting with the portion of transfer after the enforcement of this Decree.

Article 12 (Application Example concerning Methods, etc. of Tax Deduction following Correction due to Wrongful Accounting Handling)

The amended provisions of Articles 95-3 and 110-2 shall apply, starting with the portion where disposition of warning, attention, etc. pursuant to the amended provisions of Article 103-2 are received because of wrongful accounting handling.

Article 13 (Application Example concerning Submission of Cash Flow Chart at Time of Report of Tax Base)

The amended provisions of Article 97 (4) and (9) shall apply, starting with the portion of the business year to which the enforcement date of this Decree belongs.

Article 14 (Application Example concerning Method of Estimation

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Decision)

The amended provisions of Article 104 (2) shall apply, starting with the portion of estimation decision and correction after the enforcement of this Decree.

Article 15 (Application Example concerning Extent of Domestically Generated Income of Foreign Corporations)

The amended provisions of Article 132 (1) shall apply, starting with the lease after the enforcement of this Decree.

ADDENDUM <Presidential Decree No. 18312, Mar. 17, 2004>

This Decree shall enter into force on the date of its promulgation.

ADDENDA <Presidential Decree No. 18324, Mar. 22, 2004>

(1) (Enforcement Date) This Decree shall enter into force on the date of its promulgation: *Provided*, That the amended provisions of Article 56 (4) shall enter into force on January 1, 2005.

(2) (General Application Example) This Decree shall apply, starting with the business year to which its enforcement date belongs.

(3) (Application Example concerning Inclusion of Losses in Proper Purpose Business Reserve) The amended provisions of Article 56 (4) shall apply, starting with the business year that commences after the enforcement of this Decree.

(4) (Application Example concerning Income Deduction for Specialized Liquidity Company) The amended provisions of Article 86-2 shall apply, starting with the business year that commences after the enforcement of this Decree.

(5) (Application Example concerning Scope of Bonds Subtracting Income Tax Amount Accruing from Interest from Amount of Tax Withheld at Source) The amended provisions of Article 111 (6) 3 shall apply, starting with the portion that occurs in the business year to which the enforcement date of this Decree belongs.

ADDENDA <Presidential Decree No. 18706, Feb. 19, 2005>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation: *Provided*,

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That the amended provisions of Articles 111 through 114, 114-2, 136-2 and 138-3 shall enter into force on July 1, 2005.

Article 2 (General Application Example)

This Decree shall apply, starting with the portion of the business year that commences after January 1, 2005.

Article 3 (Application Example concerning Scope of Profit-Making Business)

The amended provisions of Article 2 (1) 9 shall apply, starting with the portion of the tax base and the tax amount that are returned, determined or corrected after the enforcement of this Decree.

Article 4 (Application Example concerning Scope of Losses)

The amended provisions of Article 19 shall apply, starting with the portion that is acquired after the enforcement of this Decree.

Article 5 (Application Example concerning Inclusion of Losses of Subsidy, etc. from National Treasury)

The amended provisions of Article 64 (6) 4 shall apply, starting with the portion that is paid after the enforcement of this Decree.

Article 6 (Application Example concerning Scope, etc. of Market Price)

The amended provisions of Article 89 shall apply, starting with the portion that is traded after the enforcement of this Decree.

Article 7 (Application Example concerning Attribution of Income)

The amended provisions of Article 106 (4) shall apply, starting with the portion on which an amended return is filed.

Article 8 (Application Example concerning Tax Withheld at Source)

The amended provisions of Articles 111 through 114, 136-2 and 138-3 shall apply, starting with the portion whose tax is withheld at source after July 1, 2005.

Article 9 (Application Example concerning Tax Withheld at Source and Refund, etc. of Bond Transactions with Repurchase Agreement, etc.)

The amended provisions of Article 114-2 shall apply, starting with the portion that is sold in bond transactions with repurchase agreement, etc. after July 1, 2005.

Article 10 (Application Example concerning Rate of Unpaid Additional Tax, etc.)

The amended provisions of Article 119 (1) shall apply, starting with the portion to which the income amount accruing from the interest and the amount of the dividend from the gains of the investment trust are paid

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after January 1, 2005.

Article 11 (Application Example concerning Amount Equivalent to Compensation in Loaning and Borrowing Transactions of Securities)

The amended provisions of Article 132 (14) shall apply, starting with the portion for which the amount equivalent to the compensation is paid after the enforcement of this Decree.

Article 12 (Application Example concerning Receipt and Keeping of Evidential Document of Expenditures and Making and Delivery of Accounting Statements)

The amended provisions of Articles 158 (2) 4 and 164 (7) shall apply, starting with the portion that is traded in the transaction period that is entered in the total table of accounting statements by sale and purchase customer that is submitted in the business year that commences after January 1, 2005.

Article 13 (Application Example concerning Submission of Share Fluctuation Statement, etc.)

The amended provisions of Article 161 shall apply, starting with the portion on which the share fluctuation statement is submitted after the enforcement of this Decree.

Article 14 (Special Case concerning Additional Tax on Undelivered Accounting Statement)

In the application of the additional tax provided for in Article 76 (9) of the Act, in case where any market wholesaler provided for in Article 2 of the Act on Distribution and Price Stabilization of Agricultural and Fishery Products for whom the ratio of the amount of the accounting statement delivered by each business year in the total sales amount is in excess of the following ratio from the business year that ends in the period ranging from January 1, 2004 to December 31, 2004 to the business year that ends in the period ranging from January 1, 2010 to December 31, 2010, the market wholesaler shall be deemed a corporation that falls under the provisions of Article 120 (2) in the relevant business year and in case where the ratio of the amount of the accounting statement delivered by each business year in the total sales amount falls short of the following ratio, the difference between the amount that is calculated by applying the following ratio to the total sales amount by each business year and the amount that is entered in the accounting statement shall be deemed

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as the supply value and the additional tax shall be levied on such supply value: <Amended by Presidential Decree No. 19891, Feb. 28, 2007>

Business Year	Ratio
The business year that ends in the period ranging from January 1, 2004 to December 31, 2005	40/100
The business year that ends in the period ranging from January 1, 2006 to December 31, 2006	40/100
The business year that ends in the period ranging from January 1, 2007 to December 31, 2007	45/100
The business year that ends in the period ranging from January 1, 2008 to December 31, 2008	50/100
The business year that ends in the period ranging from January 1, 2009 to December 31, 2009	55/100
The business year that ends in the period ranging from January 1, 2010 to December 31, 2010	60/100

Article 15 (Transitional Measures concerning Calculation of Amount Equivalent to Interest Accruing in Period of Holding Bonds, etc.)

(1) In case where the interest income accruing from the relevant bonds, etc. is paid to any corporation (including the corporation that falls under any subparagraph of Article 111 (2)) that acquires the bonds, etc. before June 1, 2005 for the first time after July 1, 2005 after the bonds, etc. are first sold, notwithstanding the provisions of Article 113 (2) 1, an amount equivalent to the interest shall be calculated for the period ranging from the day on which the relevant bonds, etc. are issued or the day following the day when the immediately preceding interest calculation period ends to the day on which the interest calculation period ends or the day on which the bonds, etc. are sold halfway. In this case, when the period calculation method (excluding the method of applying *mutatis mutandis* Article 74 (1) 1 (a) through (c) shall be excluded) provided for in Article 113 (7) is applied, the period calculation method shall apply separately to the bonds, etc. that are acquired before June 30, 2005 and those acquired after July 1, 2005 and it shall be deemed that the bonds, etc. that are acquired before June 30, 2005 shall be deemed to be sold first.

(2) In case where the provisions of paragraph (1) apply to the bonds, etc. that are held by any corporation that falls any of the subparagraphs of Article 111 (2), the bonds, etc. shall be governed by the previous

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provisions, notwithstanding the amended provisions of Article 111 (2).

(3) The calculation and handling of the deducted amount, etc. from among the amount of the tax withheld at source referred to in paragraph (1) shall be governed by the previous provisions.

Article 16 Omitted.

ADDENDA <Presidential Decree No. 18736, Mar. 8, 2005>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Articles 2 through 5 Omitted.

ADDENDA <Presidential Decree No. 18903, Jun. 30, 2005>

Article 1 (Enforcement Date)

This Decree shall enter into force on July 1, 2005.

Article 2 Omitted.

ADDENDA <Presidential Decree No. 18945, Jul. 15, 2005>

(1) (Enforcement Date) This Decree shall enter into force on the date of its promulgation.

(2) (Application Example regarding Requirement for Income Deduction with Respect to Investment Company) The amended provisions of Article 86-2 (2) and (3) 1 shall apply to the dividend amount paid after the enforcement of this Decree.

ADDENDA <Presidential Decree No. 19010, Aug. 19, 2005>

Article 1 (Enforcement Date)

This Decree shall enter into force on December 1, 2005.

Articles 2 and 3 Omitted.

ADDENDA <Presidential Decree No. 19214, Dec. 30, 2005>

(1) (Enforcement Date) This Decree shall enter into force on January 1, 2006.

(2) (Application Example concerning Scope, etc. of Income Withheld at Source) The amended provisions of Articles 111 through 113 and 114-2 shall

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apply to the portion on which the interest, etc. of bonds, etc. are paid and the bonds, etc. are traded after the enforcement of this Decree.

(3) (Special Case of Taxable Year of Accrual of Interest Income, etc.) In the application of the provisions of the proviso of Article 70 (1) 1, in case where any corporation that runs the financial and insurance business, from among the claims, etc. that are held by the corporation as of December 31, 2005, in relation to the interest, etc. the tax of which is withheld from January 1, 2006, appropriate the interest, etc. corresponding to the period already passed when the settlement of accounts of the business year that ends on December 31, 2005 is confirmed as the revenue of the relevant business year, the relevant income, etc. may be deemed as the income, etc., the tax of which is withheld at source pursuant to the provisions of Article 73 of the Act. <Newly Inserted by Presidential Decree No. 19328, Feb. 9, 2006>

ADDENDA <Presidential Decree No. 19255, Dec. 31, 2005>

(1) (Enforcement Date) This Decree shall enter into force on January 1, 2006: *Provided*, That the amended provisions of Articles 92-3 through 92-11 shall enter into force on January 1, 2007.

(2) (General Application Example) This Decree shall apply to the portion that is transferred after the enforcement of this Decree.

(3) (Application Example concerning Scope of Long-Term Rental Housing) The amended provisions of Article 92-2 (2) 1-2 shall apply to the housing whose use is approved and inspected for the first time after the enforcement of this Decree.

ADDENDA <Presidential Decree No. 19328, Feb. 9, 2006>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation: *Provided*, That the amended provisions of Articles 138-5 and 138-6 shall enter into force beginning on July 1, 2006 and the amended provisions of Article 92-11 shall enter into force on January 1, 2007.

Article 2 (General Application Example)

This Decree shall apply, starting with the portion of the business year that first begins after January 1, 2006.

Article 3 (Application Example concerning Place of Tax Payment of

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Withholding Agents)

The amended provisions of Article 7 (1) 3 shall apply, starting the portion that is first paid after the enforcement of this Decree.

Article 4 (Application Example concerning Non-Inclusion Amount of Income of Dividends Earned by Holding Companies)

The amended provisions of Article 17-2 (9) and the latter part of Article 17-3 (1) shall apply, starting with the portion of the dividend that is first paid after the enforcement of this Decree.

Article 5 (Application Example concerning Scope of Losses)

The amended provisions of subparagraph 15 of Article 19 shall apply, starting with the portion that is first disbursed after the enforcement of this Decree.

Article 6 (Special Case of Durable Years and Application Example concerning Change)

The amended provisions of Article 29 (2) and (3) shall apply, starting with the portion for which an application is first filed after the enforcement of this Decree.

Article 7 (Application Example concerning Value, etc. of Donations)

The amended provisions of Article 37 (1) shall apply, starting with the portion that is first disbursed after the enforcement of this Decree.

Article 8 (Application Example and Special Case concerning Scope of Inclusion of Donations in Amount of Deficit)

(1) The amended provisions of Article 38 (3) and (4) shall apply, starting with the portion that is first disbursed in the business year that first begins after January 1, 2006.

(2) In the application of the amended provisions of Article 38 (3), in case where any corporation disburses its donations provided for in the provisions of Article 73 of the Special Tax Treatment Control Act or the provisions of Article 24 of the Act, such corporation shall orderly include the relevant donations in the amount of deficit within the scope of the amount falling under each of the following subparagraphs from the business year that begins after January 1, 2006 to the business year that ends within 3 years after the date on which the former business year begins, notwithstanding the amended provisions of the same paragraph of the same Article:

1. In the case of the donation provided for in the provisions of each

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subparagraph of Article 24 (2) of the Act (hereafter referred to as the "statutory donation" in this paragraph), the amount that is calculated according to the following formula:

[The income amount (referring to the income amount before the donation is included in the amount of deficit; hereafter the same shall apply in this paragraph) of the relevant business year - the amount of deficit carried forward (referring to the total of the amount of deficit provided for in the provisions of subparagraph 1 of Article 13; hereafter the same shall apply in this paragraph)] $\times 75/100$

2. In the case of the donation provided for in the provisions of Article 73 of the Special Tax Treatment Control Act, the amount that is calculated according the following formula; and

(The income amount of the relevant business year - the amount of deficit carried forward - the amount of statutory donation) $\times 50/100$;

3. In the case of the designated donation provided for in the provisions of Article 24 (1) of the Act, the amount that is calculated according to the following formula;

(The income amount of the relevant business year - the amount of deficit carried forward - the amount of statutory donation - the donation provided for in the provisions of Article 73 of the Restriction of Special Taxation Act) $\times 5/100$.

- (3) In the application of the provisions of paragraph (2), any donation that is subject to the application of the provisions of Article 18 (2) of the Addenda of the Special Tax Treatment Control Act that is partially amended by Act No. 7839 shall be deemed the statutory donation by December 31, 2006, notwithstanding the provisions of paragraph (2) 1 and 2.

Article 9 (Application Example concerning Entertainment Expenses Paid in Use of Credit Cards)

The amended provisions of Article 41 (1) shall apply, starting with the portion that is first disbursed after the enforcement of this Decree.

Article 10 (Application Example concerning Exclusion of Retirement Insurance Premiums, etc. in Amount of Deficit)

The amended provisions of Article 44-2 shall apply, starting with the portion of the business year during which a tax return is first filed after the enforcement of this Decree.

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Article 11 (Application Example concerning Inclusion of Proper Purpose Business Reserve in Amount of Deficit)

The amended provisions of Article 56 shall apply, starting with the portion that is included in the amount of deficit in the business year that first begins after January 1, 2006.

Article 12 (Application Example concerning Inclusion of Emergency-Danger Reserve in Amount of Deficit)

The amended provisions of Article 57 (2) and (3) shall apply, starting with the portion that is included in the amount of deficit of the business year to which the enforcement date of this Decree belongs.

Article 13 (Application Example concerning Application Example and Application Special Case of Inclusion of Reserve for Retirement Benefits in Amount of Deficit)

(1) The amended provisions of Article 60 (1) and (2) shall apply, starting with the portion that is included in the amount of deficit in the business year that first begins after the enforcement of this Decree.

(2) In the application of the amended provisions of Article 60 (2), with respect to the portion that is included in the amount of deficit from the business year that first begins after the enforcement of this Decree to the business year that ends within 2 years after the date on which the business year begins, "30/100" provided for in the same paragraph of the same Article shall be deemed "35/100," notwithstanding the amended provisions of the same paragraph of the same Article.

Article 14 (Application Example concerning Scope of Bad Debts)

(1) The amended provisions of Article 62 (1) 5 shall apply, starting with the portion for which it is decided to authorize the rehabilitation program or its responsibility is immunized by the court for the first time after the enforcement of this Decree pursuant to the Debtor Rehabilitation and Bankruptcy Act.

(2) The amended provisions of Article 62 (1) 7 shall apply, starting with the portion of the business year, which is first reported after the enforcement of this Decree.

Article 15 (Application Example concerning Inclusion of Treasury Subsidies, etc in Amount of Deficit)

The amended provisions of Article 64 shall apply, starting with the portion that is first acquired and improved after the enforcement of this Decree.

Article 16 (Application Example concerning Taxable Year of Accrual of

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Dividend Income, etc.)

The amended provisions of Article 70 shall apply, starting with the portion of the business year during which a return is first filed after the enforcement of this Decree.

Article 17 (Application Example concerning Acquisition Value, etc. of Assets)

(1) The amended provisions of Article 72 (1) shall apply, starting with the portion that is first converted to investments after the enforcement of this Decree.

(2) The amended provisions of Article 72 (2) shall apply, starting with the portion that is first acquired after the enforcement of this Decree.

Article 18 (Application Example concerning Appraisal of Foreign Assets and Liabilities)

The amended provisions of Articles 73 and 76 shall apply, starting with the portion for which the currency swap contract is first concluded after the enforcement of this Decree.

Article 19 (Application Example concerning Difference Loss from Appraisal of Shares, etc.)

The amended provisions of Article 78 (2) and (3) shall apply, starting with the portion that is first appraised after the enforcement of this Decree.

Article 20 (Application Example concerning Inclusion of Amount Equivalent to Marginal Profit from Merger Appraisal in Amount of Deficit)

The amended provisions of Article 80 (1),(2) and (4) shall apply, starting with the portion that is first merged after the enforcement of this Decree.

Article 21 (Application Example concerning Succession of Amount of Deficit Carried Forward Following Merger)

The amended provisions of Article 81 (5) (referring to the previous paragraph (4)) shall apply, starting with the portion that is first merged after the enforcement of this Decree.

Article 22 (Application Example concerning Inclusion of Amount Equivalent to Marginal Profit From Division Appraisal in Amount of Deficit)

The amended provisions of Article 82 (1) and (2) shall apply, starting with the portion that is first divided after the enforcement of this Decree.

Article 23 (Application Example concerning Income Deduction of Specialized Liquidity Companies, etc.)

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(1) The amended provisions of of Article 86-2 (3) (previous paragraph (2)) 1 (a) shall apply, starting with the portion that is first established after the enforcement of this Decree.

(2) The amended provisions of Article 86-2 (9) shall apply, starting with the portion that first allots profits (including the retained earnings carried forward) of the business year that begins after January 1, 2006.

Article 24 (Application Example concerning Types, etc. of Unfair Act and Calculation)

The amended provisions of Article 88 (1) 8 and Article 89 (6) shall apply, starting with the portion that is first merged or increases its capital after the enforcement of this Decree.

Article 25 (Application Example concerning Special Case of Taxation on Transfer Income of Lands, etc.)

The amended provisions of Article 92-2 (2) 3 and (4) 4 shall apply, starting with the portion that is first transferred after the enforcement of this Decree.

Article 26 (Application Example concerning Standards for Judging Lands That Are Not Deemed Non-Business Lands on Grounds of Inevitability)

The amended provisions of Article 92-11 (3) 3 shall apply, starting with the portion that is first transferred after the enforcement of this Decree.

Article 27 (Application Example concerning Special Case of Deduction of Tax Amount Paid Abroad by Private Equity Companies, etc.)

The amended provisions of Article 94-2 shall apply, starting with the portion of the income that accrues after the enforcement of this Decree.

Article 28 (Application Example concerning Calculation of Tax Amount To Be Refunded Out of Need to Correct Inappropriate Performance of Accounting)

The amended provisions of Article 110-2 shall apply, starting with the portion that is first merged or divided after the enforcement of this Decree.

Article 29 (Application Example concerning Special Case of Tax Withheld at Source on Income, etc. of Bonds, etc.)

The amended provisions of Article 113 (2) and Article 138-3 shall apply, starting with the portion that is withheld at source after the enforcement of this Decree.

Article 30 (Application Example concerning Calculation, etc. of Understated Tax Amount Return)

The amended provisions of Article 118 (4) shall apply, starting with the

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portion that is included in the gross income after the enforcement of this Decree.

Article 31 (Application Example concerning Calculation of Amount of Liquidation Income Following Dissolution)

The amended provisions of the proviso of Article 121 (3) shall apply, starting with the portion that is first dissolved after the enforcement of this Decree.

Article 32 (Scope, etc. of Normal Prices)

The amended provisions of Article 131 (2) and (4) shall apply, starting with the portion that is first traded after the enforcement of this Decree.

Article 33 (Application Example concerning Scope of Income Generated from Source in Korea)

The amended provisions of Article 137 (7) shall apply, starting with the portion that first occurs after January 1, 2006.

Article 34 (Application Example concerning Special Case of Procedures for Tax Withheld at Source by Foreign Corporations)

The amended provisions of Articles 138-5 and 138-6 shall apply, starting with the portion that is first withheld at source after July 1, 2006.

Article 35 (Application Example of Receipts and Custodies of Disbursement Evidential Documents)

The amended provisions of Article 158 (1) 3 shall apply, starting with the portion that is first traded after the enforcement of this Decree.

Article 36 (Application Example concerning Special Case of Obligations of Foreign Corporations to Submit Information Return on Income Generated from Sources in Korea, etc.)

The amended provisions of Article 162 (1) shall apply, starting with the portion of the information return on the transfer income tax that first accrues after the enforcement of this Decree.

Article 37 (Application Example concerning Preparation and Delivery, etc. of Account Statement)

The amended provisions of Article 164 (5) shall apply, starting with the portion for which the submission deadline first arrives after the enforcement of this Decree.

Article 38 (Application Example concerning Special Case of Additional Tax on Failure to Deliver Account Statement)

The amended provisions of Article 14 of the Addenda of the Enforcement Decree on Corporation Tax amended by Presidential Decree No. 15970 shall apply, starting with the portion on which a tax return is first filed

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after the enforcement of this Decree.

Article 39 (Transitional Measures concerning Decision, etc. on Rehabilitation Program Authorization)

(1) The decision to authorize the reorganization program provided for in the Company Reorganization Act, which is made before March 31, 2006, the decision to authorize the composition provided for in the Composition Act and the decision to authorize the forced composition provided for in the Bankruptcy Act shall be deemed the decision to authorize the rehabilitation program provided for in the Debtor Rehabilitation and Bankruptcy Act pursuant to the amended provisions of Articles 15 (4), 18 (1) and 62 (1) 5.

(2) The immunity decision made by the court pursuant to the Individual Debtor Rehabilitation Act made on or before March 31, 2006 shall be deemed the immunity decision made by the court pursuant to the Debtor Rehabilitation and Bankruptcy Act provided for in the amended provisions of Article 62 (1) 5.

ADDENDA <Presidential Decree No. 19422, Mar. 29, 2006>

Article 1 (Enforcement Date)

This Decree shall enter into force on April 1, 2006.

Article 2 Omitted.

ADDENDA <Presidential Decree No. 19494, May 30, 2006>

Article 1 (Enforcement Date)

This Decree shall enter into force on June 4, 2006.

Articles 2 through 6 Omitted.

ADDENDA <Presidential Decree No. 19815, Dec. 30, 2006>

Article 1 (Enforcement Date)

This Decree shall enter into force on January 1, 2007.

Articles 2 through 5 Omitted.

ADDENDA <Presidential Decree No. 19891, Feb. 28, 2007>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

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Article 2 (General Application Example)

This Decree shall apply with respect to the portion of a business year that begins on or after January 1, 2007.

Article 3 (Application Example concerning Place of Tax Payment of Withholding Agents)

The amended provisions of Article 7 (1) 3 shall apply with respect to the portion that is withheld at source on or after the enforcement date of this Decree.

Article 4 (Application Example, etc. concerning Scope of Earnings)

(1) The amended provisions of subparagraph 10 of Article 11 shall apply with respect to the portion of a business year that begins on or after the enforcement date of this Decree.

(2) The indemnity gains appropriated according to corporate accounting standards prior to the entry into force of this Decree shall not be included in the earnings of the relevant business year, notwithstanding the amended provisions of subparagraph 10 of Article 11.

Article 5 (Application Example concerning Non-Inclusion of Holding Company's Received Dividend Amount from Earnings)

The amended provisions of Article 17-2 (4) and (5) 4 (proviso) shall apply with respect to the portion of the dividend that is paid on or after the enforcement date of this Decree.

Article 6 (Application Example, etc. concerning Scope of Losses)

(1) The amended provisions of subparagraph 18 of Article 19 shall apply with respect to the portion of a business year that begins on or after the enforcement date of this Decree.

(2) The indemnity losses appropriated according to corporate accounting standards prior to the entry into force of this Decree shall not be included in the losses of the relevant business year, notwithstanding the amended provisions of subparagraph 18 of Article 19.

Article 7 (Application Example concerning Scope of Depreciable Assets)

The amended provisions of Article 24 (5) shall apply with respect to the portion of lease assets that are lent on or after the enforcement date of this Decree.

Article 8 (Application Example concerning Scope, etc. of Designated Donations)

(1) The amended provisions of Article 36 (1) 1 (g) shall apply with respect to the portion that is designated on or after the enforcement date of this

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Decree.

(2) The amended provisions of Article 36 (6) shall apply with respect to the portion for which the ground concerned accrues on or after the enforcement date of this Decree.

Article 9 (Application Example concerning Scope of Entertainment Expenses)

The amended provisions of Article 42 (4) and (5) shall apply with respect to the portion that is disbursed on or after the enforcement date of this Decree.

Article 10 (Application Example concerning Non-Inclusion of Joint Expenses in Calculation of Losses)

The amended provisions of Article 48 (1) 2 and 3 shall apply with respect to the portion that is disbursed on or after the enforcement date of this Decree.

Article 11 (Application Example concerning Inclusion of Bad Debts Fund in Calculation of Losses)

The amended provisions of the proviso of Article 61 (2) shall apply with respect to the portion that is appropriated on or after the enforcement date of this Decree.

Article 12 (Application Example concerning Scope of Bad Debts)

(1) The amended provisions of Article 62 (1) 15 shall apply with respect to the portion of receivable claims that are renounced on or after the enforcement date of this Decree.

(2) The amended provisions of Article 62 (4) shall apply with respect to the portion of a merger or division that is made on or after the enforcement date of this Decree.

Article 13 (Application Example concerning Business Year of Accrual of Earnings and Losses from Sale of Assets)

The amended provisions of the main sentence of Article 68 (1) 3 shall apply with respect to the portion of a foreign currency price that is sold on or after the enforcement date of this Decree.

Article 14 (Application Example concerning Scope of Assets and Liabilities Subject to Evaluation)

The amended provisions of subparagraphs 4 and 5 of Article 73 shall apply with respect to the portion that is evaluated on or after the enforcement date of this Decree.

Article 15 (Application Example concerning Appraisal of Foreign Assets

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and Liabilities)

The amended provisions of the proviso of Article 76 (3) shall apply with respect to the portion of a foreign currency amount that is sold on or after the enforcement date of this Decree.

Article 16 (Application Example concerning Income Deduction for Special Purpose Companies, etc.)

The amended provisions of Article 86-2 (3) shall apply with respect to the portion that is distributed on or after the enforcement date of this Decree.

Article 17 (Application Example concerning Types, etc. of Repudiation of Wrongful Calculation)

The amended provisions of Article 88 (1) 7-2, (3) and (4) shall apply with respect to the portion that is transacted on or after the enforcement date of this Decree.

Article 18 (Application Example concerning Scope of Market Price, etc.)

(1) The amended provisions of Article 89 (1) shall apply with respect to the portion that is transacted on or after the enforcement date of this Decree.

(2) The amended provisions of Article 89 (3) shall apply with respect to the portion that is lent or borrowed on or after the enforcement date of this Decree.

Article 19 (Application Example concerning Disposition of Income)

The amended provisions of Article 106 (1) 3 (i) shall apply with respect to the portion that is disposed of on or after the enforcement date of this Decree.

Article 20 (Application Example concerning Application of Additional Taxation)

The amended provisions of the main sentence of Article 120 (6) with the exception of its subparagraphs shall apply with respect to the portion that is submitted on or after the enforcement date of this Decree.

Article 21 (Application Example concerning Scope of Income Generated from Source in Korea)

The amended provisions of Article 132 (16) shall apply with respect to the portion that is transferred on or after the enforcement date of this Decree.

Article 22 (Application Example concerning Withholding for Foreign Corporations)

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The amended provisions of Article 137 (2) shall apply with respect to the portion of profits or surplus funds that are disposed of on or after the enforcement date of this Decree.

Article 23 (Special Application Example concerning Inclusion of Liability Reserve Fund, etc. in Calculation of Losses)

In the application of the amended provisions of the proviso to Article 57 (1) 2, with respect to the estimated amount of the insurance money which must be paid for an accident regarding personal insurance that already occurred but has yet to be reported to a domestic corporation running the insurance business (hereafter in this Article referred to as the "damages incurred but not reported") as of the last day of a business year, an amount equivalent to 30/100 of the damages incurred but not reported in the relevant business year for the portion of a business year appropriated on or after the enforcement date of this Decree, and an amount equivalent to 60/100 of the damages incurred but not reported in the relevant business year for the portion of the subsequent business year, respectively, shall be deemed the insurance money amount estimated pursuant to Article 57 (1) 2, notwithstanding the amended provisions of the proviso to Article 57 (1) 2.

Article 24 (Special Application Example concerning Additional Tax on Undelivered Accounting Statement)

The amended provisions of Article 14 of the Addenda of the amended Enforcement Decree on Corporation Tax Act, Presidential Decree No. 18706, shall apply with respect to the portion of a business year that is reported on or after the enforcement date of this Decree.

Article 25 (Transitional Measures concerning Designated Organizations, etc.)

Among the non-profit corporations established with permission of the competent authorities pursuant to Article 32 of the Civil Act at the time of the entry into force of this Decree, the corporations designated and publicly announced by the Minister of Finance and Economy as designated organizations, etc. shall be deemed those designated as designated organizations, etc. pursuant to the amended provisions of Article 36 (1) 1 (g).

ADDENDA <Presidential Decree No. 20619, Feb. 22, 2008>

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Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation: *Provided*, That the amended provisions of Articles 111 (2) and (3), 112 (2) and (5), 113 (10) and 114-2 (3) shall enter into force on June 1, 2008 and the amended provision of Article 159-2 (6) shall enter into force on July 1, 2008.

Article 2 (General Applicability)

This Decree shall apply from the business year that begins after the partial amendment to the Corporation Tax Act, Act No. 8831 enters into force.

Article 3 (Applicability concerning Place of Tax Payment for Person Responsible for Collecting Withholding Taxes)

The amended provision of Article 7 (1) 3 shall apply beginning with the portion that is withheld for the first time after this Decree enters into force.

Article 4 (Applicability concerning Extent of Earnings)

The amended provision of subparagraph 10 of Article 11 shall apply beginning with the portion that is appropriated for indemnity gains for the first time after this Decree enters into force.

Article 5 (Applicability concerning Exclusion of Holding Company's Received Dividend Amount from Earnings)

The amended provision of Article 17-2 (2) 1 shall apply beginning with the portion of dividend that is allotted for the first time after this Decree enters into force.

Article 6 (Applicability concerning Scope of Loss)

The amended provision of subparagraph 18 of Article 19 shall apply beginning with the portion that is appropriated for indemnity loss for the first time after this Decree enters into force.

Article 7 (Applicability concerning Designation, etc. of Designated Organizations for Receiving Donations)

The amended provisions of Article 36 (1) 1 (g) (i), (iii) and (iv) shall apply beginning with the organization that is designated as a designated organization receiving donations after this Decree enters into force.

Article 8 (Applicability concerning Scope of Assets and Liabilities Subject to Evaluation)

The amended provisions of subparagraphs 3 through 5 of Article 73 shall apply beginning with the portion that is evaluated for the first time after this Decree enters into force.

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Article 9 (Applicability concerning Evaluation of Foreign Assets and Liabilities)

The amended provisions of Article 76 shall apply beginning with the portion whose methods of appraising currency forward and currency swap are reported for the first time after this Decree enters into force.

Article 10 (Applicability concerning Evaluation of Stocks, etc.)

The amended provisions of Article 78 (2) shall apply beginning with the portion that is evaluated for the first time after this Decree enters into force.

Article 11 (Applicability concerning Income Deduction for Special Purpose Companies)

The amended provision of Article 86-2 (1) shall apply beginning with the portion of dividend that is allotted for the first time after this Decree enters into force.

Article 12 (Applicability concerning Deduction of Tax Amount Paid in Foreign Country)

The amended provisions of Article 94 shall apply beginning with the portion of revenue dividend that is received by a domestic corporation for the first time after this Decree enters into force.

Article 13 (Applicability concerning Withholding)

The amended provisions of Articles 111 (2) and (3), 112 (2) and (5), 113 (10) and 114-2 (3) shall apply beginning with the portion for which interest, etc. on bond is paid or bonds, etc. are sold after June 1, 2008.

Article 14 (Applicability concerning Rate of Additional Tax on Nonpayment)

The amended provisions of Article 119 shall apply beginning with the portion for which the additional tax on nonpayment is paid for the first time after this Decree enters into force.

Article 15 (Applicability concerning Procedures for Claiming Correction for Application of Non-Taxation, Tax Exemption or Restricted Tax Rate Pursuant to Tax Treaty)

The amended provisions of Article 138-6 shall apply beginning with the portion for which correction is claimed for the first time after this Decree enters into force.

Article 16 (Applicability concerning Participation, etc. in Credit Card Affiliation)

The amended provisions of Article 159 shall apply beginning with the

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portion for which guidance for participation in credit card affiliation is performed for the first time after this Decree enters into force.

Article 17 (Applicability concerning Participation, etc. in Cash Receipt Affiliation)

(1) The amended provisions of Article 159-2 (1) through (5) shall apply beginning with the portion in which it participates in the cash receipt affiliation for the first time after this Decree enters into force.

(2) The amended provisions of Article 159-2 (6) shall apply beginning with the portion for which cash receipt is issued for the first time after July 1, 2008.

Article 18 (Applicability concerning Submission of Detailed Statement on Change of Stocks)

The amended provisions of Article 161 shall apply beginning with the portion for which report is made for the first time after this Decree enters into force.

Article 19 (Special Cases concerning Inclusion of Fund for Payment of Claims for Compensation in Calculation of Losses)

Notwithstanding Article 63 (2), the incidence of claims for compensation from the business year that begins between January 1, 2008 and December 31, 2008 until the business year that begins between January 1, 2011 and December 31, 2011 shall be pursuant to the following incidence of claims for compensation:

Business year beginning between January 1, 2008 and December 31, 2008	8/1000 or the incidence of claims for compensation, whichever is bigger
Business year beginning between January 1, 2009 and December 31, 2009	6/1000 or the incidence of claims for compensation, whichever is bigger
Business year beginning between January 1, 2010 and December 31, 2010	4/1000 or the incidence of claims for compensation, whichever is bigger
Business year beginning between January 1, 2011 and December 31, 2011	2/1000 or the incidence of claims for compensation, whichever is bigger

Article 20 (Special Cases concerning Business Year of Accrual of Interest Income, etc.)

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(1) In cases where the proviso to Article 70 (1) 1 applies, the interest, etc. appropriated as the earnings of the business year, which corresponds to the period already passed when a corporation falling under any of the subparagraphs of Article 111 (2) settles accounts for the business year that expires before June 1, 2008 shall become the profit of the business year to which the day corresponding to the receipt date pursuant to Article 45 of the Enforcement Decree on Income Tax Act belongs, notwithstanding the amended provision of Article 111 (2).

(2) Where a corporation falling under any of the subparagraphs of Article 111 (2) appropriates the interest, etc. of bonds, etc. corresponding to the period already passed as the earnings of the relevant business year in cases where the settlement of accounts becomes definite in the business year that expires for the first time after June 1, 2008, it may regard 50/100 of the appropriated amount as profit of the relevant business year and the rest as profit of the next business year.

Article 21 (Special Cases concerning Evaluation of Foreign Assets and Liabilities)

When the method of evaluation pursuant to Article 76 (2) 1 applies for the first time to the currency forward and currency swap contracted before the start of the business year (hereafter in this Article "immediately previous business year") immediately prior to the business year in which the first report pursuant to Article 76 (2) is made, the registered amount which is denominated in Korean won pursuant to paragraph (4) of the same Article means the amount calculated according to the standard exchange rate or arbitrated exchange rate of the day before the start of the immediately previous business year.

Article 22 (Transitional Measures concerning Exclusion of Holding Company's Received Dividend Amount from Earnings)

(1) Notwithstanding the amended provisions of Article 17-2 (5) 1 and 2, the dividend revenue received between January 1, 2008 and December 31, 2008 shall be governed by the former provisions, however, "60/100" in the former provisions of Article 17-2 (5) 3 shall be deemed as "80/100."

(2) Notwithstanding the amended provisions of Article 17-2 (6) 1, the dividend revenue received between January 1, 2008 and December 31, 2008 shall be governed by the former provisions, however, "60/100" in the former provisions of Article 17-2 (6) 1 shall be deemed as "80/100."

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Article 23 (Transitional Measures concerning Withholding by Financial Institutions)

Where a corporation falling under any of the subparagraphs of Article 111 (2) sells bonds, etc. acquired before June 30, 2005 or receives interest, etc. (limited to the cases where interest has not been received between July 1, 2005 and May 31, 2008) for the first time after June 1, 2008, Article 15 of Addenda of partial amendment to the Enforcement Decree on Corporation Tax Act, Presidential Decree No. 18706 shall govern notwithstanding the amended provisions of Articles 111 (2) and (3), 112 (2) and (5), 113 (10) and 114-2 (3).

Article 24 (Transitional Measures concerning Participation, etc. in Cash Receipt Affiliation)

The corporation that has come to meet the requirements for the cash receipt affiliation pursuant to the amended provisions of Article 159-2 (1) shall participate in the cash receipt affiliation within three months after this Decree enters into force.

ADDENDA <Presidential Decree No. 20720, Feb. 29, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 8 Omitted.

ADDENDA <Presidential Decree No. 20763, Apr. 3, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on April 7, 2008.

Articles 2 through 4 Omitted.

ADDENDA <Presidential Decree No. 20799, Jun. 5, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Article 2 Omitted.

ADDENDA <Presidential Decree No. 20849, Jun. 20, 2008>

Article 1 (Enforcement Date)

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This Decree shall enter into force on June 22, 2008.
Articles 2 through 11 Omitted.

ADDENDA <Presidential Decree No. 20930, Jul. 24, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Article 2 (Applicability concerning Special Taxation for Capital Gain from Land, etc.)

The amended provisions of Article 92-2 shall apply from the first case of transfer after this Decree enters into force.

ADDENDA <Presidential Decree No. 21025, Sep. 22, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Articles 2 through 4 Omitted.

ADDENDA <Presidential Decree No. 21063, Oct. 7, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Article 2 (Applicability)

This Decree shall apply beginning from the first house transferred after this Decree enters into force.