The following tax information is translated from Korean for foreign-invested companies, and is not legally binding.

(Continued from last month) Major revisions to this year’s tax laws III

※ Adjustment of the scope of Other Income and necessary expense rate

☐ Adjustment of the scope of Other Income

○ Income from the placement or lease of easement or superficies that are unrelated to public works shall be taxed as business income.

☐ Adjustment of necessary expense rate for Other Income

○ The necessary expense rate for Other Income such as lecture fee and consulting fee shall be lowered from the current 80% to 70% (for payments on or after Apr. 1, 2018) to 60% (for payments on or after Jan. 1, 2019) (Article 87, Enforcement Decree of the Income Tax Act).

○ Minimum taxable amount of Other Income

<table>
<thead>
<tr>
<th>Classification</th>
<th>Jan.- Mar.</th>
<th>Apr.-Dec.</th>
<th>2019 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount paid</td>
<td>250,000 won</td>
<td>166,666 won</td>
<td>125,000 won</td>
</tr>
<tr>
<td>Necessary expense deduction rate</td>
<td>80%</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Other Income amount</td>
<td>50,000 won</td>
<td>(minimum taxable amount)</td>
<td>None</td>
</tr>
<tr>
<td>Income tax</td>
<td>None</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Applied income: One-off lecture fee, consulting fee, income from placement or lease of easement related to public works, income from transfer or lease of intangible assets, manuscript fee, royalty, etc.

○ Application of separate taxation : Separate taxation can be applied if the sum of Other Income (i.e., amount paid – necessary expenses) is 3 million won or less per year.

○ Application of necessary expense rate: The necessary expense rate applied shall be 80% for payments from January to March, 70% for payments from April to December, and 60% for payments from January 2019 and onwards.

< Application of change >

○ (Scope of other income) Applied to business years commenced on or after Jan. 1, 2018

○ (Necessary expense rate) Applied to the income period arriving on or after Apr. 1, 2018.

※ Non-price related conditions to be considered when calculating arm’s length price (Article 5, Adjustment of International Taxes Act)

☐ When determining the arm’s length price, non-price related transaction conditions shall be considered as well to enhance the effectiveness of transfer pricing methodology.

○ Non-price related transaction conditions: Characteristics and functions of goods or services, contract conditions, economic environment, business strategy, etc.

* Applicable period: Starting from the taxable year which begins on or after Jan. 1, 2018.
※ Change of period for application for Advance Pricing Agreement (Article 6 (1) of the Adjustment of International Taxes Act)

○ Before: When applying for a specific method of computing an arm’s length price for a specific period of taxable years, the applicant may file an application with the relevant tax office no later than the end of the first taxable year in the specific period of taxable years to which he/she intends to apply the method of computing.

○ After: The application should be filed no later than the day before the first day of the first taxable year in the specific period of taxable years to which the applicant intends to apply the method of computing an arm’s length price.

* Applicable period: Starting from the applications filed for a specific period of taxable years commencing on or after Jan. 1, 2019.

※ Expansion of scope of use of application documents for prior approval of advance pricing agreement (Article 9 (5) of the Enforcement Decree of the Adjustment of International Taxes Act)

○ Before: Documents used for application for prior approval of advance pricing agreement should only be used for examination and ex post facto management of prior approval.

○ After: Exchange of information with the advance pricing agreement counterpart country is permitted to enhance transparency in taxation.

* Applicable period: Starting from the exchange of information with the tax authorities of the counterpart country on or after Feb. 13, 2018.

For more information, please contact the International Tax Resource Management Office of the National Tax Service (82-44-204-2872~75).