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

**Q.** If a Korean company that has a partnership with a U.S. company pays out dividends to the U.S. company’s shareholders, is the dividend income subject to a tax rate of 10 percent, as prescribed by the United States - Republic of Korea Income Tax Convention?

* The United States - Republic of Korea Income Tax Convention states that the rate of tax imposed on dividends shall not exceed 10 percent if the recipient is a corporation meeting certain conditions. In other cases, the tax rate shall not exceed 15 percent.

**A.** The United States - Republic of Korea Income Tax Convention makes a clear distinction between a corporation and a partnership. Also, in the United States, corporations and partnerships are governed by different domestic laws with respect to their establishment and registration. In this regard, a partnership is not subject to a limited tax rate of 10 percent for dividend income as prescribed by the United States - Republic of Korea Tax Convention.

<Supreme Court Ruling: 2011 Du 22747 (October 24, 2013)>

* Related law: Article 12 (2) of the United States - Republic of Korea Tax Convention

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**Q.** If a foreigner who is a short-term resident of Korea is dispatched to a Korean subsidiary of a Japanese company and receives salary income for labor performed in Korea from the Japanese company in Japan, is the income non-taxable in Korea, in accordance with Article 3 (1) of the Income Tax Act?

**A.** If a foreign resident has had his/her domicile or place of residence in Korea for not more than five years in total from ten years before the end of the relevant taxable period (hereinafter, “short-term resident alien”), the salary income for labor performed in Korea that he/she receives from a foreign company outside Korea constitutes domestic source income. Therefore, Article 3 (1) of the Income Tax Act shall not apply to the salary income and the short-term resident alien is imposed a tax on his/her income in Korea regardless of whether he/she received the salary income within or outside Korea.

<Document no.: Letter Tax Ruling Division 1402 (December 26, 2013)>

* Related law: Article 3 of the Income Tax Act

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For more information, please contact the International Tax Resource Management Office of the National Tax Service (82-2-397-1438~9).