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

Q. The National Tax Service (NTS) released guidelines for easing the tax and audit burden on foreign companies on Nov. 6. What are the details?
A. On Nov. 6, the NTS announced new guidelines for easing the tax and audit burden on foreign companies. The following is a summary of the guidelines:

- Communication with foreign companies will be strengthened through the Joint Working Group.
- Meetings will be held on a regular basis to listen to foreign companies’ tax-related grievances and suggestions and to provide solutions.

" The simplified Advance Pricing Arrangement (APA) system* will be implemented from 2015 to ease the burden of small- and medium-sized foreign companies undergoing tax audits.
- Under the simplified APA system, the documentation submission requirements for foreign companies engaging in a retail and wholesale business, service business or manufacturing business with annual sales of KRW 50 bil. or less** are minimized and the review process is shortened so that applications can be processed within one year.
* Advance Pricing Arrangement (APA): An arrangement between a taxpayer and the NTS on the application of transfer pricing methodology in determining the arm’s length price for future international transactions with foreign related parties.
** Out of 9,212 foreign companies in Korea, 76 percent, or 7,023 companies, qualifies for the conditions.

- An English guidebook on tax audits for foreign companies will be provided.
- The NTS will translate its guidebook on tax audits into English for foreign companies. In the English guidebook, topics of interest to foreign companies, such as mutual agreements and the APA system, will be added.

- The transparency of tax audits will be enhanced through an interview with the Director of the Tax Investigation Division at the NTS.
- To enhance the transparency of the tax audit process, foreign companies will be given the opportunity to consult with the Director of the Tax Investigation Division at the NTS when they experience difficulties or disagree with the auditors in regard to arm’s length price computation and other matters during a tax audit.

Q. If a foreigner has earned income from both Korea and overseas, does the income earned from outside Korea need to be reported when filing a year-end tax settlement in Korea?
A. Yes. When a foreigner who is not a short-term resident (i.e. foreigners whose aggregate period of stay in Korea for the past 10 years is five years or less) files a year-end tax settlement, all earned income made in the tax year should be reported. However, regarding tax paid in another country, foreign tax credits shall apply.

* Related Law: Article 3 of the Income Tax Act
Q. Are foreign employees in Korea entitled to special taxation?

A. Yes. The income tax on the earned income of foreign executives or employees (excluding daily workers) can be computed by multiplying the relevant income (including non-taxable income) by 17% instead of basic tax rates.

In such cases, provisions concerning income taxation, such as non-taxation, deduction, reduction or exemption and tax credit under relevant laws, shall not apply, and the earned income shall not be included in the calculation of the tax base of the global income.

* Applicable to foreign employees who do not have Korean citizenship as of the end of the relevant taxable year. A foreign employee who wishes to be eligible for the special taxation should submit a report of exemption and deduction from wage & salary income with an application for the flat tax rate for foreign employees attached and submit the documents to the withholding agent or the taxpayer’s association at the time of the year-end tax settlement.

* Related law: Article 18-2 of the Restriction of Special Taxation Act

Q. What is the year-end tax settlement and is it for foreign employees as well?

A. A year-end tax adjustment finalizes the income tax liabilities of employees (excluding daily workers) for the relevant taxable year based on the report of exemption and deduction from income submitted by employees.

Therefore, a withholding agent who pays earned income shall make deductions from employees' earned income for the taxable year based on the report. Using the deducted income as the tax base, tax reductions and deductions shall be made based on relevant laws and the amount of income tax withheld at source during the relevant tax year shall be deducted as well. Finally, the balance between the tax paid and tax payable shall be collected or refunded to the taxpayer.

Foreign employees are also eligible for the year-end tax settlement if the withholding agent has withheld income tax from their monthly earned income.