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

**Q.** What is value added tax?

**A.** Value added tax (VAT) is computed by subtracting the VAT a company paid when purchasing raw materials or goods from the VAT the company collected from the purchaser of its goods or services. In other words, VAT is tax levied on the added value created by a company in each step of the production, supply or distribution process for goods or services. The taxable period for VAT is six months, which is divided into three-month periods. Therefore, businesses should file and pay VAT four times a year.

<table>
<thead>
<tr>
<th>General taxable persons</th>
<th>Tax Base &amp; Taxable Period</th>
<th>Period for Tax Filing and Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st period</td>
<td>Preliminary return</td>
<td>Turnover of sales from Jan 1. to March 31</td>
</tr>
<tr>
<td></td>
<td>Finalized return</td>
<td>Turnover of sales from Apr. 1 to June 30</td>
</tr>
<tr>
<td>2nd period</td>
<td>Preliminary return</td>
<td>Turnover of sales from July 1 to Sept. 30</td>
</tr>
<tr>
<td></td>
<td>Finalized return</td>
<td>Turnover of sales from Oct. 1 to Dec. 31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Simplified taxable persons</th>
<th>Tax Base &amp; Taxable Period</th>
<th>Period for Tax Filing and Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Turnover of sales from Jan. 1 to Dec. 31</td>
<td>Jan. 1-25 of the following year</td>
</tr>
</tbody>
</table>

*In July of this year, a VAT return for the turnover of sales from the finalized return period of the 1st period (April - June) should be filed. (Individual entrepreneurs who have received a notification of preliminary imposition for the 1st period of 2015 should file sales turnover from January to June. The amount of preliminary payment will be subtracted from the finalized tax payable.)*
Q. How is the value added tax calculated?

A. The amount of value added tax is calculated as follows:

\[
\text{Output tax} - \text{Input tax} = \text{Tax payable or refundable}
\]

- Input tax on tax invoices
- Input tax on credit card sales slips, etc.
- Deemed input tax, collected bad debt tax
- Input tax credit for the recycling of scrapped materials, etc.
- Input tax on tax invoice issued by purchaser

\[
\text{Sales\% 10\%}
\]

\[
\text{(-) Common input tax credit}
\]
\[
\text{(-) Non-deductible input tax}
\]

\[
\text{Tax payable or refundable} + \text{Penalties} = \text{Total tax payable (refundable)}
\]

Q. What are the penalties for the false filing of corporate tax return or value added tax return?

A. Corporate tax, value added tax, etc. imposed on companies are based on a voluntary tax system that requires companies to file and pay the taxes they owe. In this regard, the insincere filing and payment of tax is subject to the following penalties:

- **Imposition of additional taxes**
  Additional taxes are imposed for the non-reporting or under-reporting of corporate tax, etc. In particular, if a taxpayer fails to report or under-reports in an unjust manner, 40 percent (60 percent in the case of international transactions) of the calculated tax amount is imposed as additional tax for insincere tax returns.

- **Additional imposition of composite income tax for companies**
  If a company has underpaid corporate tax by under-reporting revenue or inflating costs, the underpaid tax (including additional tax) shall be collected. In addition, it will be considered that the under-reported amount is paid as a bonus or dividend to the person who took the under-reported amount (the representative of the company if the person who took the under-reported amount is unclear) and a composite income tax will be additionally imposed.

- **Selection as subject of tax investigation**
  A company’s tax returns and attached documents are recorded in the National Tax Service (NTS) database. Based on the data, the NTS conducts an evaluation on all companies to verify the propriety of returns. Companies classified as insincere taxpayers are subject to tax investigation.
Can the due date for tax filing or payment be extended if there is an inevitable cause?

If a taxpayer’s business is disrupted due to disasters, etc., tax payment can be postponed through an extension of the due date for payment or a deferment of tax collection.

- **Extension of due date for payment**
  In the case of taxes to be voluntarily reported and paid, an application for approval of an extension of the due date for payment should be submitted at least three days before the due date.

- **An application for an extension of the due date can be made in the following cases:**
  1. Where a natural disaster has occurred
  2. Where a taxpayer suffered from fire, damage from war or other calamities or is robbed
  3. Where a taxpayer or a family member living with him/her is critically ill, or has died and is in mourning
  4. Where the taxpayer's books or documents are seized or provisionally held by any authoritative agency
  5. Where there is a reason equivalent to those under 2) - 4)
  6. Where a taxpayer suffers serious losses from his/her business or his/her business is in a major crisis
  7. Where the normal operation of the information and communications networks of the Bank of Korea (including its branches) and communications offices is impossible due to power failure, error in programs or any other inevitable grounds
  8. Where the Commissioner of the National Tax Service deems it difficult to pay taxes normally due to the holidays of financial institutions
  9. Where the tax accountant (tax firm) or certified public accountant (accounting firm) that keeps the books of the taxpayer's business has suffered from fire, damage from war or other calamities or is robbed

- The due date for application, claim or document submission, etc. can be extended by up to three months (an additional extension by up to one month is permitted), while the due date for tax returns and payments can be extended by up to nine months.

- **Deferment of collection**
  If a taxpayer received a notification of tax payment, an application for the deferment of collection should be submitted at least three days before the payment due date.

- **Reasons for deferment of collection**
  1. Where serious damage or loss has been inflicted on the taxpayer's properties due to theft or disasters
  2. Where the taxpayer's business has suffered significant damage or loss
  3. Where the taxpayer's business is in serious crisis
  4. Where the taxpayer or family members living with him/her requires require long-term medical treatment due to a serious disease or injury
  5. Where there is a reason equivalent to 1) - 4)
  6. Where a procedure for mutual agreement is in progress

- Deferment of collection is permitted for up to nine months.

For more information, please contact the International Tax Resource Management Office of the National Tax Service (82-44-204-2888~90).