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

**Q.** Are small and medium-sized enterprises (SMEs) entitled to tax reduction or exemption?

**A.** The tax reduction rate for SMEs depends on the type and size of a business.

* Companies with total assets of KRW 500 billion or less operating a business suitable for SMEs (manufacturing, construction, etc.) and meeting the standards for the amount of sales set forth in the Framework Act on Small and Medium Enterprises, and whose actual independence of its management from ownership is not applicable to the conditions set forth in Article 3 (1) 2 of the Enforcement Decree of the Act are eligible for various tax incentives for SMEs.

### Tax Incentives for SMEs

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Details</th>
</tr>
</thead>
</table>
| **Tax reduction and exemption** | - Tax deduction (3%) for investment by SMEs  
- Tax reduction (50%) for small and medium start-ups and venture companies  
- Special tax reduction (5-30%) for SMEs  
- Tax reduction (50-100%) for businesses relocating to areas outside over-concentrated control areas in Seoul metropolitan area  
- Deduction of social insurance premium for newly employed workers  
- Tax deduction for SMEs employing women whose careers have been interrupted |
| **Inclusion in deductible expense** | - Inclusion of informatization subsidies in expense (SMEs under the Framework Act on Small and Medium Enterprises)  
- Inclusion in deductible expense for SME support facilities  
- Special taxation for SMEs retaining employees (for businesses considered SMEs under the Framework Act on Small and Medium Enterprises) |
| **Others** | - Application of minimum tax rate (7% for SMEs, 10-17% for non-SMEs)  
* 8% tax reduction for three years from graduation from SME designation and 9% reduction for the following two years  
* Minimum tax rate for non-SMEs with tax base exceeding KRW 100 billion raised from 16% to 17% (effective from 2014)  
- Higher ceiling for entertainment expenses  
- Carried-forward taxation of capital gains tax for mergers between SMEs  
- Refund through retroactive deduction of deficit  
- Permission of tax reduction or exemption for investment in equipment replacement in over-concentrated control areas in Seoul metropolitan area  
- Semi-annual payment of withholding tax (For companies with 20 or less full-time employees in the preceding year that obtained approval for semi-annual payment. Companies engaging in finance and insurance businesses are excluded.)  
- Extension of installment period for payment of corporate tax |

### Comparison of Corporate Tax by Location

<table>
<thead>
<tr>
<th>Classification</th>
<th>Over-concentrated Control Area</th>
<th>Seoul Metropolitan Area</th>
<th>Other Areas</th>
<th>Area</th>
</tr>
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### Q. Does the amount of tax differ depending on the location of a business?

### A.

The amount of tax to be paid greatly differs depending on the location of a business.

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<tr>
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<th>Seoul Metropolitan Area</th>
<th>Other Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>Seoul Metropolitan City, parts of Incheon and Gyeonggi Province (Attached Table 1 of the Enforcement Decree of the Seoul Metropolitan Area Reallocation Act)</td>
<td>Seoul metropolitan area that is not an over-concentrated control area</td>
<td>Areas outside the Seoul metropolitan area covering Seoul and parts of Incheon and Gyeonggi Province</td>
</tr>
<tr>
<td>Tax reduction/exemption for small and medium start-ups (Article 6 of the Act)</td>
<td>50% tax reduction for 5 years</td>
<td>Not applicable (applicable if a company is recognized as a venture company within 3 years of business start-up)</td>
<td>Applicable</td>
</tr>
</tbody>
</table>
| Special tax reduction/exemption for SMEs (Article 7 of the Act) | 5.30% tax reduction every year | - 10% reduction for medical, wholesale and retail businesses  
- 20% reduction for businesses other than the above | - 10% reduction for medical, wholesale and retail businesses  
- 30% reduction for businesses other than the above |
| Inclusion of informatization subsidies in expense | - No tax reduction/exemption (10% reduction for knowledge-based industries) | - 5% reduction for medical, wholesale and retail businesses  
- 15% reduction for businesses other than the above |
| Tax deduction for investment (Article 130 of the Act) | Excluded from tax deduction (permitted for SMEs' investment in equipment replacement) | Deduction permitted |

* The “Act” refers to the Restriction of Special Taxation Act

* Tenant companies in agro-industrial complexes satisfying certain conditions, and SMEs moving into Naju industrial complex, Gumi Horizon industrial complex and Bukpyeong industrial complex (including tourist accommodation businesses moving into abandoned mine promotion districts) enjoy the same tax benefits as small and medium start-ups.

* Companies that meet certain qualifications moving into special research and development zones, Jeju Science Park, Jeju Free Trade Zone, enterprise city development zones, Hub City of Asian Culture promotion zones, financial hubs or high-tech medical complexes are entitled to corporate tax reduction - 100 percent reduction for three years and 50 percent reduction for the following two years. (The total amount of tax reduction is decided based on the total amount of investment and the number of full-time employees.)

* If a company that has operated overseas for two years or longer relocates to Korea (outside the Seoul metropolitan area) and starts a business or establishes a new business establishment by Dec. 31, 2015, or if an SME operating overseas without any manufacturing facility in Korea starts a business or establishes a new business establishment, corporate tax will be reduced by 100 percent for five years (or three years) and 50 percent for two years thereafter.
**Tax News**

**Q.** Are there tax incentives for special corporate activities such as investment, R&D and M&A?

**A.** Yes. Various tax incentives are provided for corporate activities as follows:

- **Tax incentives for facility investment**
  Because facility investment by businesses creates jobs and stimulates the economy, tax incentives such as tax deduction are provided for facility investments.

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| Tax deduction | - Tax deduction for investments that create jobs: In non-SMEs, the number of full-time employees should not be reduced, while in SMEs, a deduction is granted even if the number of employees decreases (However, in this case, KRW 10 million shall be subtracted for each decreased employee from the basic deduction amount.)  
  1. Basic deduction:  
     - SMEs: 3% of the investment amount in the taxable year  
     - Mid-sized companies: 1-2%  
     - Large companies: Not applicable  
  2. Additional deduction: The lesser between the following amounts:  
     - 3-4% of the investment amount for large companies (4-5% for SMEs and mid-sized companies)  
     - KRW 10-20 million per increased employee  
     *An additional 1% deduction is granted for service businesses prescribed by Presidential Decree  
   - Tax deduction for investment by SMEs: 3% of the investment amount  
   - Tax deduction for investment in facilities for enhancing safety, productivity and energy efficiency  
   - Tax deduction for investment in facilities for employee welfare: 7% of the investment amount (10% for unsold housing outside the Seoul metropolitan area and workplace childcare centers) |

| Others | - Separate taxation of interest income from social overhead capital bond, etc. |

- **Tax incentives for R&D**
  Tax incentives are provided for R&D investment in new growth driver technologies, source technologies, etc.

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| Tax deduction | - 20% of new growth driver research expense and manpower development expense (30% for SMEs)  
  - 20% of source technology research expense and manpower development expense (30% for SMEs)  
  - Tax deduction for general research expense and manpower development expense  
  - Deduction for incurred expense: Expense for the taxable year x 3-4% (25% for SMEs)  
  - SMEs: 15% deduction for 3 years from graduation from SME designation and 10% deduction for the following 2 years; Mid-sized companies: 8% deduction  
  - Deduction for increased expenditure: Expenditure for the taxable year - Expenditure for the previous taxable year (average expenditure for the past three years in the case of 2014) x 40% (50% for SMEs)  
  - Tax deduction for facility investment for R&D  
    - Facilities: Assets for R&D purpose, etc.  
    - Deducted amount:  
      - SMEs: 10% of the investment amount  
      - Mid-sized companies: 5% of the investment amount  
      - Other companies: 3% of the investment amount |

| Others | - Exclusion of R&D-related contributions from gross revenue |

- **Tax incentives for M&A**
  To facilitate corporate restructuring, various tax incentives are provided for corporate mergers and divisions that satisfy certain conditions.

<table>
<thead>
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</table>
| Tax incentives for corporate mergers or divisions (mergers or divisions on or after July 1, 2010) | - Tax incentives for newly established entities created through a corporate merger or division  
  - Deduction of the merged or divided entity's deficit carried forward  
  - Revised durable years applied to succeeded depreciable assets  
  - Tax incentives for the merged (divided) entity and its shareholders  
  - Postponement of taxation on profit or loss from the transfer of assets due to corporate merger or division  
  - Book value applied to the tax base when taxing fictitious dividends  
  - For physical divisions, the gains on transfer of assets are included in deficit  
  * Taxation is based on the income for each business year, and income from liquidation is not taxed. |

| Others | - Transfer income tax for merger between SMEs is carried forward  
  - Transfer income tax for conversion to corporation is carried forward  
  - Special taxation for gains on exemption from debt arising from financial structure improvement plans, etc.  
  - Special taxation for establishment of a holding company through investment-in-kind of stocks, etc.  
  - Special taxation for transfer of overlapping assets arising from mergers, etc. |

For more information, please contact the International Tax Resource Management Office of the National Tax Service (82-44-204-2882~5).