



Tax News Flash

Corporate Local Income Tax Compliance for 2015

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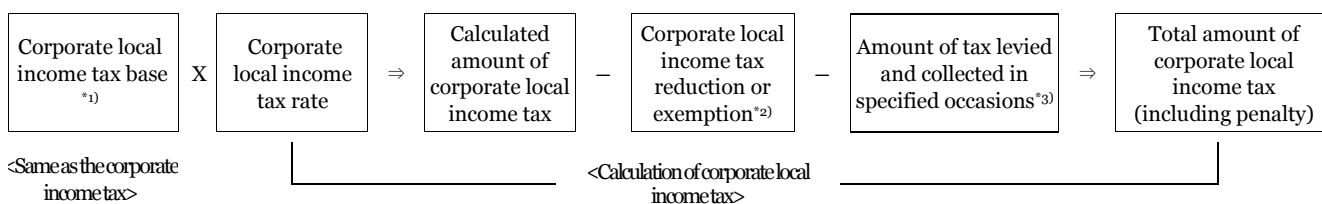
In brief

Effective January 1, 2014, the amended Local Tax Act imposes local income tax as a separate tax line item (“corporate local income tax”) rather than a surcharge on corporate income tax. As a consequence, there are significant changes in the filing and payment of local income tax for fiscal years beginning on or after January 1, 2014. In addition, those subject to withholding obligations as prescribed in Article 73 of the Corporate Income Tax Law (CITL)—in other words, the income paying corporations who pay interest or dividends (only applicable to the income from investment trust) to domestic corporations, must withhold local income tax in addition to corporate income tax when making such payments from January 2015. Provided below is a brief summary of the latest changes in the local income tax compliance.

I. Corporate Local Income Tax Compliance for the fiscal year 2014

1. Corporate Local Income Tax as a Separate Tax Line Item

Effective January 1, 2014, the amended Local Tax Act imposes local income tax as a separate tax line item rather than a surcharge on corporate income tax. This change shall apply to fiscal years beginning on or after January 1, 2014. The corporate local income tax shall be calculated as shown in the diagram below.



1) The corporate local income tax base is the amount of corporate income tax base calculated as specified in Article 13 of the CITL (or Article 76-13 of the CITL for consolidated group of companies), minus the amount reduced or exempt applicable under the Special Tax Treatment Control Law (STTCL) and other tax laws or plus the additional taxable income amount under these laws. This can be found in Articles 103-19 and 103-34 of the Local Tax Act.

2) Currently, there are no specific provisions on corporate local income tax reductions or exemptions under the Local Tax Special Treatment Control Law.

3) Interest income and dividends (only applicable to the income from investment trust) shall be subject to corporate local income tax as long as the income tax liability is created on or after January 1, 2015.

2. Significant Changes Effective January 1, 2014

- **Tax rates** (found in Articles 103-20 and 103-35 of the Local Tax Act)

<Previous >			<Amended>	
Tax base	Tax rate	⇒	Tax Base	Tax Rate
Calculated amount of corporate income tax	10%		KRW200 million or less	1% of the tax base
			more than KRW200 million up to KRW20 billion	KRW2 million + (amount in excess of KRW200 million × 2%)
			More than KRW20 billion	KRW398 million + (amount in excess of KRW20 billion × 2.2%)

Before the amendment, the corporate local income tax was levied and paid based on the calculated amount of corporate income tax, minus corporate income tax credits and exemptions. However, effective January 1, 2014, the amended rules levy local income tax based on the corporate income tax base as a separate line item and corporate local income tax exemptions or reductions are not available to reduce the liability. This could result in an increase in the corporate local income tax burden by as much as 10% of the amount of corporate income tax credits or exemptions.

- **New filing requirement for local income tax return**

Under the amended rules, companies must file corporate local income tax returns along with paying the corporate local income tax liability. Unless a local income tax return is filed, a penalty against the non-filing will be imposed, regardless of whether the payment of the tax is made by a due date. Previously, the non-filing penalty was not charged if the payment of local income tax was made by the due date. This change shall apply to tax liabilities created on or after January 1, 2014.

3. Local Income Tax Return and Attachments

When filing the corporate local income tax return, documents as specified in appendix 43 of the working rules of the Local Tax Act must be submitted. Major examples of such documents include the financial statements, the statement of comprehensive income and the statement of appropriation of retained earnings (or the statement of disposition of deficit) of each company which are prepared based on the financial reporting standards; corporate local income tax base and reconciliation statement; and tax credit and additional payment statement.

4. Electronic Filing

Local income tax returns may be filed electronically using the internet-based local tax compliance. Detailed information is found on notices and the compliance manual posted on www.wetax.go.kr.

II. Corporate Local Income Tax Withholding in Specified Cases from January 2015

Who will be subject to the withholding requirement?

The income paying corporations as prescribed in Article 73 of the CITL and those prescribed in Articles 98, 98-2, 98-3, 98-4, 98-5 and 98-6 of the CITL.

What will be subject to the withholding requirement?

In addition to corporate income tax withheld at the time of paying interest and dividends to domestic corporations, a local income tax equivalent to 10% of the corporate income tax shall be withheld. If tax exemptions or reductions or heavy taxes are applied according to the STTCL or other tax laws, 10% local income tax shall be collected on the calculated corporate income tax amount, minus or plus the amount of reduced or exempt taxes or heavily imposed taxes.

With respect to Korean source income earned by foreign corporations subject to withholding tax according to Articles 98, 98-2, 98-3, 98-4, 98-5 and 98-6 of the CITL, 10% of the corporate income tax withheld shall be withheld as a local income tax.

When will the local income tax withheld be paid?

The payment shall be due on the 10th day of the next month after the tax is withheld.

When will it become effective?

Previously, when corporate income tax was withheld at the time of paying interest and dividend to domestic corporations, no local income tax was collected. The new withholding requirement for local income tax shall be applicable to the payment of interest and dividends on which tax liability is created on or after January 1, 2015.

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