

# RESTRICTION OF SPECIAL TAXATION ACT

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Wholly Amended by Act No. 5584, Dec. 28, 1998

Amended by Act No. 5825, Feb. 8, 1999

Act No. 5960, Mar. 31, 1999

Act No. 5980, Apr. 30, 1999

Act No. 5982, May 24, 1999

Act No. 5996, Aug. 31, 1999

Act No. 6055, Dec. 28, 1999

Act No. 6054, Dec. 28, 1999

Act No. 6045, Dec. 28, 1999

Act No. 6073, Dec. 31, 1999

Act No. 6136, Jan. 12, 2000

Act No. 6194, Jan. 21, 2000

## Article 1 (Purpose)

The purpose of this Act is to contribute to the sound development of the national economy through fair taxation and efficient execution of tax policies, by prescribing for matters concerning special taxation such as tax reduction and exemption or the imposition or restriction of heavy taxes.

## Article 2 (Definitions)

(1) For the purpose of this Act, the definitions of terms shall be as follows:

1. The term “national” means a resident under the Income Tax Act, and a domestic corporation under the Corporate Tax Act;
2. The term “taxable year” means a taxable period under the Income Tax Act, or a business year under the Corporate Tax Act;
3. The term “tax base return” means a final tax base return as provided in Articles 70 through 72, 74 and 110 of the Income Tax Act, or a return of tax base under Article 60

- of the Corporate Tax Act;
4. The term “gross income” means the total gross income under Article 24 of the Income Tax Act, or the taxable revenue under Article 14 of the Corporate Tax Act;
  5. The term “expenses” means the necessary expenses under Article 27 of the Income Tax Act, or the deduction under Article 14 of the Corporate Tax Act; and
  6. The term “taxation carried forward” means that where an individual or a corporation transfers fixed business assets used for its business (hereafter, “pre-fixed business assets” in this subparagraph) to any other corporation through contribution in kind, etc., neither the tax on the transfer income under Article 94 of the Income Tax Act (hereinafter “transfer income tax”) nor the special surtax under Article 99 of the Corporate Tax Act (hereinafter “special surtax”) shall be imposed on the transferring individuals or corporations, but, instead, where the corporation which has acquired the fixed business assets (hereafter, “new fixed business assets” in this subparagraph) transfers them, the acquisition price of the fixed business assets shall be deemed to be the acquisition price of the new fixed business assets, and the special surtax shall be imposed on the difference between the price of the earlier acquired fixed assets and the transfer price of the new fixed assets, being referred to as taxation carried forward. In this case, the time of acquisition of the earlier acquired fixed business assets shall be deemed to be the time of acquisition of the new fixed business assets;
  7. The term “deferment of taxation” means that where individuals or corporations transfer fixed business assets used in their businesses (hereafter, “pre-fixed business assets” in this subparagraph) and acquire other fixed business assets in substitution for the transfer price (hereafter, “new fixed business assets” in this subparagraph) in order to relocate a factory, neither the transfer income tax nor the special surtax shall be imposed on the amount calculated by the following formula among gains on transfer of the pre-fixed business assets (where the acquisition price of the new fixed business assets exceeds the transfer price of the pre-fixed business assets, the amount shall be within the limits of gains on transfer of the pre-fixed business assets; hereafter, “deferred tax amount” in this subparagraph). In this case, with respect to the transfer of the new fixed business assets, the transfer income tax or special surtax shall be imposed on the balance when the deferred tax amount is deducted from the acquisition price of the new fixed business assets; and
  8. The term “special taxation” means the application of special tax rates, reduction and

exemption of tax amount, tax credit, income deduction, tax reduction and exemption such as the inclusion of reserves in expenses, and imposition of heavy taxes such as inclusion of gross income and non-inclusion of expenses for specific purposes under any certain circumstances.

(2) Except as otherwise prescribed in this Act, the terms other than those as referred to in paragraph (1) shall conform to the terms used in such Acts as provided in Articles 3 (1) 1 through 19.

### **Article 3 (Restrictions on Special Taxation)**

(1) No special taxation shall be made, unless it is prescribed by this Act, the Framework Act on National Taxes, treaties, and Acts which fall under one of the following subparagraphs: *<Amended by Act No. 6054, Dec. 28, 1999>*

1. Income Tax Act;
2. Corporate Tax Act;
3. Inheritance Tax and Gift Tax Act;
4. Value-Added Tax Act;
5. Special Consumption Tax Act;
6. Liquor Tax Act;
7. Stamp Tax Act;
8. Securities Transaction Tax Act;
9. National Tax Collection Act;
10. Traffic Tax Act;
11. Customs Duties Act;
12. Local Tax Act;
13. Provisional Import Surtax Act;
14. Assets Revaluation Act;
15. Adjustment of International Taxes Act;
16. Act on Real Name Financial Transactions and Guarantee of Secrecy;
17. Telephone Tax Act;
18. Education Tax Act;
19. Special Tax for Rural Development Act;
20. Deleted; *<by Act No. 5982, May 24, 1999>*
21. Inter-Korea Exchange and Cooperation Act;
22. Act on Lump Sum-Building Savings of Farming and Fishing Households; and

23. Act on Designation and Operation of Tariff-Free Zone for Building International Physical Distribution Base.

(2) Except as otherwise prescribed in this Act, the Framework Act on National Taxes, treaties, and Acts as referred to in subparagraphs of paragraph (1), the taxes reduced and exempted under such Acts and treaties shall not include the additional tax, the transfer income tax, and the special surtax.

**Article 4 (Inclusion in Expenses Reserves of Small and Medium Business Investment)**

(1) Where a national operating a small and medium enterprise as prescribed by the Presidential Decree (hereinafter the “small and medium enterprise”) appropriates the investment reserves for expenses in order to cover the funds required for any replacement or new acquisition of assets for business as prescribed by the Presidential Decree (hereinafter the “assets used for business”) until the taxable year which ends on or before December 31, 2003, it shall be included in the expenses in calculating the income amount in the corresponding taxable year, within the limit of the amount calculated by multiplying the value of the assets used for business as of the end of the corresponding taxable year by 20/100.

(2) The investment reserves included in the expenses under paragraph (1) shall be included in the gross income in such manner as prescribed in the following subparagraphs:

1. The reserves equivalent to the amount needed for any capital expenditure, such as a new acquisition or replacement of assets for business used in the business, until the end of the taxable year including the day marking the end of three years after the end of the taxable year in which the investment reserves are included in the expenses, the amount calculated by multiplying the amount obtained by dividing such reserves by 36, by the number of months of the corresponding taxable year shall be included in the gross income in calculating the income amount in each taxable year from the taxable year including the day on which the period of three year ends; and
2. If the investment reserves included in the expenses exceed the amount to be included in the gross income under subparagraph 1, the reserves equivalent to the exceeding portion shall be included in the gross income, in calculating the income amount in the taxable year including the day on which the period of three years ends.

(3) Where any of the following cases occurs to a national having some amount in an account of the investment reserves included in the expenses under paragraph (1), the total amount in the account of the reserves not included in the gross income, in calculating the income amount in the taxable year including the day on which the case occurs, shall be included in

the gross income:

1. Where he discontinues the business; and
  2. Where a corporation is dissolved: Provided, That if it is dissolved due to a merger or division (including division and merger; hereinafter the same shall apply) and the corporation surviving after merger, corporation newly established by division, or the other party to division and merger succeeds to the amount in the account of the investment reserves, this shall not apply.
- (4) Where the investment reserves are included in the gross income under paragraph (2) 2 or (3), the additional amount equivalent to the interest calculated as prescribed by the Presidential Decree shall be collected as the income or corporate tax at the time of tax base return of the taxable year concerned, and the amount shall be deemed the tax amount to be collected under Article 76 of the Income Tax Act or Article 64 of the Corporation Tax Act: Provided, That this shall not apply where the investment reserves included in the gross income are within the limit as referred to in paragraph (2) 1, and such cause for the inclusion in the gross income falls under any of the following subparagraphs:
1. Consolidation between small and medium enterprises under Article 31;
  2. Conversion into a corporation under Article 32;
  3. Contribution in kind under Article 38; and
  4. Division.
- (5) A national who wishes to have the provisions of paragraph (1) applied shall submit a detailed statement on the investment reserves under the conditions as prescribed by the Presidential Decree.

#### **Article 5 (Tax Credit for Investments by Small and Medium Enterprise)**

- (1) Where a national operating a small and medium enterprise newly acquires any assets for business, and invests them (excluding any investment in used articles) by December 31, 2003, the amount equivalent to 3/100 of such investment amount shall be deducted from the income tax (limited to the income tax on any business income) or the corporate tax in the taxable year including the day on which such investment is completed.
- (2) Where an investment under paragraph (1) is made extending over two or more taxable years, the provisions of paragraph (1) may apply to the amount invested in each taxable year in which such investment is made.
- (3) Matters necessary for the calculation of the amount invested as referred to in paragraph (2) shall be prescribed by the Presidential Decree.

(4) A national who wishes to have the provisions of paragraphs (1) and (2) applied shall make an application for the tax credit under the conditions as prescribed by the Presidential Decree.

**Article 6 (Reduction and Exemption of Tax Amount for Small and Medium Start-Up Enterprise)**

(1) Any small enterprise which will be started up in areas other than the Seoul metropolitan areas and their surrounding areas prescribed by the Presidential Decree on or before December 31, 2003 (hereinafter the “small and medium start-up enterprise”) and a national who is designated as the operator of a start-up business promotion center pursuant to the provisions of Article 5 (2) of the Act on Support for Small and Medium Enterprise Establishment shall be given reduction or exemption of the tax amount equivalent to 50/100 of its or his income tax or corporate tax imposed on its or his income from the first taxable year belonging to the date on which the first income is generated from its or his business to the taxable year ending within 5 years from the date on which the taxable year following the first taxable year begins. *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6194, Jan. 21, 2000>*

(2) In case that any venture enterprise prescribed by the Presidential Decree from among venture enterprises under the provisions of Article 2 (1) of the Act on Special Measures for Promotion of Venture Businesses is confirmed to be a venture enterprise (hereinafter the “small and medium start-up venture enterprise”) within 2 years from the date of its start-up under the provisions of Article 25 of the same Act, the small and medium start-up venture enterprise shall be given reduction or exemption of the tax amount equivalent to 50/100 of its income tax or corporate tax imposed on its income generated from its enterprise from the first taxable year during which the first income is generated since the date of such confirmation to the taxable year ending within 5 years from the date on which the taxable year following the first taxable year commences: Provided, That the same shall not apply to the case where the provisions of paragraph (1) are applied. *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

(3) The scope of the small and medium start-up enterprises and the small and medium start-up venture enterprise shall include those engaged in manufacturing, mining, secondary communications, research and development, broadcasting business (limited to the system operators, program providers, and broadcasting program production business as prescribed by the Composite Cable Broadcasting Act; hereinafter the same shall apply), such engineering business by the Presidential Decree (hereinafter the “engineering business”), and such busi-

ness related to data processing and computer operation as prescribed by the Presidential Decree (hereinafter the “data processing and computer operation-related business”), and such distribution industry as prescribed by the Presidential Decree (hereinafter the “distribution industry”). *<Amended by Act No. 5996, Aug. 31, 1999>*

(4) A national who wishes to get tax credit pursuant to the provisions of paragraphs (1) and (2) shall make an application for tax abatement or exemption as prescribed by the Presidential Decree. *<Amended by Act No. 5996, Aug. 31, 1999>*

#### **Article 7 (Special Reduction and Exemption of Tax Amount for Small and Medium Manufacturing Industry)**

(1) For a domestic small and medium enterprises engaged in a manufacturing industry, secondary communication business, research and development business, broadcasting business, engineering business, data processing and computer operation-related business, or logistics industry, the tax amount equivalent to 20/100 of the income tax or corporate tax on any income accruing from the business concerned shall be reduced or exempted until the taxable year which ends on or before December 31, 2003.

(2) A national who wishes to have the provisions of paragraph (1) applied shall make an application for the reduction or exemption under the conditions as prescribed by the Presidential Decree.

#### **Article 8 (Special Cases for Inclusion of Deductible Expenses with Respect to Facilities and Equipment of Small and Medium Enterprises)**

(1) Where a national donates or transfers such facilities prescribed by the Presidential Decree, including office automation equipment and tools used in his business to a small and medium enterprise at prices lower than market prices by the tax year ending on or December 31, 2003, the value of such donated facilities or the value deducting transfer prices from the value of such facilities shall be included in deductible expenses in calculating his income amount of the corresponding tax year. *<Amended by Act No. 6045, Dec. 28, 1999>*

(2) The value of such facilities or the value deducting transfer prices from the value of such facilities donated or transferred to a small and medium enterprise pursuant to paragraph (1) shall not be included in the operating income in calculating the income amount for the corresponding tax year. *<Amended by Act No. 6045, Dec. 28, 1999>*

(3) In applying the provisions of paragraphs (1) and (2), the scope of the small and medium enterprises and other necessary matters shall be prescribed by the Presidential Decree.

#### **Article 8-2 (Inclusion of Business Loss Reserves in Deductible Expenses for Small Business)**

**esses Registered with Association)**

(1) Where any small and medium enterprise registered with the Korea Securities Dealers Association under the provisions of Article 172-2 of Securities Transaction Act (hereafter, the “small and medium enterprise registered with the association” in this Article) treats its reserve (hereafter, “business loss reserve” in this Article) as a deductible expense for the purpose of making up for its business loss, such deductible expense shall be counted within the limit of 50/100 of its income amount during the relevant business year.

(2) The business loss reserve treated as the deductible expense in paragraph (1) shall be offset by any deficit if incurred in the next business year under the provisions of Article 14 (2) of the Corporate Tax Act. Any balance from such offset shall be added to the operating income of the business year belonging to the fifth year from the closing day of the business year in which the reserve was treated as a deductible expense.

(3) In case that the small and medium enterprise registered with the association which treats its business loss reserve as a deductible expense under the provisions of paragraph (1) lists its stocks in the Korea Stock Exchange, it shall add the entire balance of its business loss reserve as of the closing day of the relevant business year to its operating income.

(4) Any person who intends to be eligible for the tax reduction or exemption under the provisions of paragraph (1) shall file a detail account of his business loss reserve as prescribed by the Presidential Decree.

**Article 9 (Inclusion of Technical Development Reserves in Expenses)**

(1) Where a national engaged in a manufacturing or mining industry or a business as prescribed by the Presidential Decree appropriates the technical development reserves for the expenses in order to cover the expenses needed for the development or innovation of the technology, such reserves shall be included in the expenses in calculating the income amount in the corresponding taxable year until the taxable year which ends on or before December 31, 2003, within the limit of the amount calculated by multiplying the income amount in the corresponding taxable year by the rates which fall under any of the following subparagraphs:

1. In the capital goods industry as prescribed by the Presidential Decree (hereinafter the “capital goods industry”) and the industry of a technically intensive type as prescribed by the Presidential Decree, the rate of 5/ 100; and
2. In the industries other than those referred to in subparagraph 1, the rate of 3/100.

(2) The technical development reserves included in the expenses under paragraph (1) shall be included in the gross income in such a manner as fall under one of the following subpar



agraphs:

1. The reserves equivalent to the amount disbursed for the expenses (in case of parties other than a small or medium enterprise, excluding the expenses to which the tax deduction under Article 10 (1) is applicable) as prescribed by the Presidential Decree, such as technical development expenses until the end of the taxable year including the day on which the period of three years falls, the amount calculated by multiplying the amount obtained by dividing such reserves by 36, by the number of months of the corresponding taxable year shall be included in the gross income in the calculation of the income amount in each taxable year after the taxable year including the day on which the said period of three years falls; and
  2. If the reserves included in the expenses exceeds the amount to be included in the gross income under subparagraph 1, the reserves equivalent to the exceeding portion shall be included in the gross income in the calculation of the income amount in the taxable year including the day on which the period of three years falls after the taxable year in which the reserves are included in the expenses ends.
- (3) Where any of the cases falling under one of the following subparagraphs occurs to a national having any amount in the account of the technical development reserves included in the expenses under paragraph (1), the total amount in such account not included in the gross income in calculation of the income amount in the taxable year including the day on which the case occurs shall be included in the gross income:
1. Where he discontinues the business; and
  2. Where a corporation is dissolved: Provided, That if it is dissolved due to a merger or division (including division and merger; hereinafter the same shall apply) and the corporation surviving after merger, corporation newly established by division, or the other party to division and merger succeeds to the amount in the account of the technical development reserves, this shall not apply.
- (4) The provisions of Article 4 (4) shall apply mutatis mutandis where the technical development reserves are included in the gross income under paragraph (2) 2 or (3).
- (5) A national who wishes to have the provisions of paragraph (1) applied shall submit a detailed statement on the technical development reserves under the conditions as prescribed by the Presidential Decree.

#### **Article 10 (Tax Credit for Technology and Manpower Development Expenses)**

- (1) Where a national engaged in a manufacturing industry, mining industry, or any business

s as prescribed by the Presidential Decree disburses any expenses as prescribed by the Presidential Decree among the expenses for the development of technology and manpower in each taxable year (hereinafter the “technology and manpower development expenses”) until the taxable year which ends on or before December 31, 2003, he may be entitled to the tax credit applied for by selection of the methods which fall under any of following subparagraphs:

1. Where the expenditure amount for the technology and manpower development expenses in the then-current taxable year exceeds the yearly average expenditure amount of the technology and manpower development expenses disbursed for four years retroactively as of the beginning day of the then-current taxable year, the method of deducting the amount equivalent to 50/100 of the exceeding amount from the income tax (limited to the income tax on the business income) or corporate tax in the then-current taxable year; and
2. The method of deducting the amount calculated by multiplying the technology and manpower development expenses disbursed in the then-current taxable year by the ratio fall under each of the following items from the income tax (limited to the income tax on the business income) or corporate tax in the then-current taxable year:
  - (a) In case of technology and manpower development expenses disbursed by a small and medium enterprise (including technology and manpower development expenses disbursed for other small and medium enterprises), the ratio of 15/100; and
  - (b) In case of technology and manpower development expenses disbursed by a person other than a small and medium enterprise, the ratio of 5/100: Provided, That in case of technology and manpower development expenses disbursed for a small and medium enterprise, the ratio of 10/100.
- (2) The calculation of the yearly average expenditure amount of the technology and manpower development expenses disbursed for four years under paragraph (1) 1 shall be prescribed by the Presidential Decree.
- (3) A national who wishes to have the provisions of paragraph (1) applied shall make an application for the tax credit under the conditions as prescribed by the Presidential Decree.

**Article 11 (Tax Credit for Investment in Equipment to Develop Technology and Manpower)**

- (1) Where a national makes an investment in facilities for developing technology and manpower or commercializing any new technology (excluding any investment in used articles) u

ntil the taxable year which ends on or before December 31, 2003, 5/100 of such investment amount shall be deducted from the income tax (limited to the income tax on the business in come) or corporate tax in the taxable year including the day on which the investment in facilities has been completed.

(2) For the purpose of paragraph (1), the term “facilities for developing technology and manpower or commercializing new technology” means those which fall under any of the following subparagraphs:

1. Facilities for research and experimentation as prescribed by the Presidential Decree;
2. Facilities for vocational training as prescribed by the Presidential Decree; and
3. Assets for business to commercialize any new technology as prescribed by the Presidential Decree.

(3) Where the investment under paragraph (1) is made extending over two or more taxable years, the provisions of paragraph (1) may apply to the amount invested in each taxable year in which such investment is made.

(4) Matters necessary for calculating the investment amount as referred to in paragraph (3) shall be prescribed by the Presidential Decree.

(5) A national who wishes to have the provisions of paragraph (1) or (3) applied shall make an application for the tax credit under the conditions as prescribed by the Presidential Decree.

#### **Article 12 (Reduction and Exemption of Tax on Income from Technological Transfer)**

(1) With respect to any income accruing from a transfer or lease of a patent right, etc. by a national who has registered patent rights or utility model right (hereafter, “patent right, etc.” in this Article) by December 31, 2003, or accruing from the furnishing of any technical know-how by a contract by a national holding such technical know-how as prescribed by the Presidential Decree (hereinafter the “technical know-how”) by December 31, 2003, the tax amount equivalent to 50/100 of the income or corporate tax on such income shall be reduced or exempted.

(2) A national who wishes to have the provisions of paragraph (1) applied shall make an application for the reduction or exemption under the conditions as prescribed by the Presidential Decree.

#### **Article 13 (Non-Imposition of Capital Gains Tax on Stock Transfer of Small Start-Up Investment Company, etc.)**

(1) No corporate tax shall be imposed on any gains accruing from the transfer of the stocks

or investment equities falling under any of the following subparagraphs by a small start-up investment company established under the Support for Small and Medium Enterprise Start-Up Act (hereinafter the “small and medium enterprise start-up investment company”), or a new technology project financier established under the Specialized Credit Financial Business Act (hereinafter the “new technology project financier”):

1. Stocks or equities invested in a founder as prescribed by the Support for Small and Medium Enterprise Start-Up Act (hereinafter the “founder”) or venture business referred to in Article 2 (1) of the Act on Special Measures for the Promotion of Venture Business (hereinafter “venture business”) by a small and medium enterprise start-up investment company; and
2. Stocks or equities invested in a new technology enterpriser under the Financial Assistance to New Technology Businesses Act (hereinafter the “new technology enterpriser”) by a new technology project financier.

(2) No corporate tax shall be imposed on any dividend income received by a small and medium enterprise start-up investment company or new technology project financier from the founder, new technology enterpriser, or venture business by December 31, 2003.

#### **Article 14 (Special Taxation on Investments in Small and Medium Enterprise Start-Up Investment Company)**

(1) The provisions of subparagraphs 3 and 4 of Article 94 of the Income Tax Act shall not apply to a transfer of stocks or investment equities which fall under any of the following subparagraphs: Provided, That this shall not apply where investment is made by taking over others' stocks or investment equities, and such stocks or equities are transferred. *<Amended by Act No. 6045, Dec. 28, 1999>*

1. Stocks or investment equities acquired by investing directly in a small and medium enterprise start-up investment company or a specialized credit financing company which has registered for only new technology projects financial business under Article 3 (1) of the Specialized Credit Financial Business Act;
2. Stocks or investment equities acquired by investing in a founder or venture business by a small and medium enterprise start-up investment amended established under the Support for Small and Medium Enterprise Start-Up Act (hereinafter the “small and medium enterprise start-up investment amended”);
3. Stocks or investment equities acquired by investing directly in a new technology enterpriser or venture business by a new technology project investment cooperative estab

lished under the Financial Assistance to New Technology Businesses Act (hereinafter the “new technology project investment amended”);

4. Stocks or investment equities, acquired first by investing in a venture business (including acquisition of venture business stocks by investing the amended referred to in Article 14 of the Act on Special Measures for the Promotion of Venture Business), which are determined by the Presidential Decree; and
5. Stocks or equity shares acquired by a corporate restructuring cooperative established pursuant to the provisions of Article 15 of the Industry Development Act (hereinafter “corporate restructuring cooperative”) through its investment in an enterprise subject to restructuring pursuant to the provisions of Article 14 (4) of the same Act (hereinafter “enterprise subject to restructuring”).

(2) With respect to any transfer income earned through a transfer of the stocks or investment equities of the founder, new technology project enterpriser, or venture business which an institutional investor as prescribed by the Presidential Decree acquires through the direct investment in the small and medium enterprise start-up investment amended or the new technology project investment amended, the corporate tax shall not be imposed.

(3) With respect to the dividend income received by a resident from small and medium enterprise start-up investment companies or special credit financing companies which have registered for only new technology project financial business under Article 3 (1) of the Specialized Credit Financial Business Act, the provisions of Article 14 (4) of the Income Tax Act shall not apply.

(4) With respect to the following incomes, the amended concerned shall withhold income tax where it pays income to partners, and the provisions of Article 14 (4) of the Income Tax Act shall not apply: <Amended by Act No. 6045, Dec. 28, 1999>

1. Dividend income accruing from an investment in a founder or venture business by a small and medium enterprise start-up investment amended;
2. Dividend income accruing from investment in a new technology enterprise or venture business by a new technology project investment amended; and
3. Dividend income accruing from investment made by a corporate restructuring cooperative in an enterprise subject to restructuring.

(5) With respect to income reverting to a small and medium start-up enterprise investment cooperative, a new technology project investment cooperative or a corporate restructuring cooperative and which is listed in any subparagraph of Article 16 (1) and Article 17 (1) 5 of

the Income Tax Act, the amended concerned shall withhold income tax or corporate tax where it pays income to partners notwithstanding the Income Tax Act and the Corporate Tax Act.

(6) With respect to income listed in paragraphs (4) and (5), notwithstanding the provisions of Article 16 (2) and the main sentence of Article 17 (3) of the Income Tax Act, the amount obtained by deducting the expenses (limited to those equivalent to the total income) expended by the cooperative from the total income shall be the interest income amount or dividend income amount.

(7) The provisions of paragraphs (3) through (6) shall apply to the income accruing until December 31, 2003.

#### **Article 15 (Special Taxation on Stock Option)**

(1) Profits earned (the difference between the actual purchase price of the stock and the market price thereof; a preemptive right is deemed to be included in the stock) by an employee of a domestic corporation meeting the requirements of the founder, new technology enterprise, or venture business as prescribed by the Presidential Decree, of a listed corporation under the Securities and Exchange Act, or of an association-registered corporation meeting the requirements as prescribed by the Presidential Decree (hereafter, the “start-up corporation” in this Article) (including the persons as prescribed by the Presidential Decree in case of venture business; hereafter, “employee” in this Article) through exercising the stock option allocated until December 31, 2003 shall not be deemed to be earned income, business income, or other income. In this case, the provisions of Article 52 of the Corporate Tax Act shall not apply to such profits.

(2) Stock options under paragraph (1) shall be limited to those meeting the following requirements:

1. The start-up corporation before allocating the stock option shall agree with an employee concerned on the volume, purchase price, eligible persons, and period of the stock option through a resolution of the general meeting;
2. The purchase price of the stock under subparagraph 1 shall be equal to or higher than the price as prescribed by the Presidential Decree;
3. The stock option under subparagraph 1 shall be prohibited from being transferred to other persons;
4. The stock option shall be exercised with the lapse of three years after the date on which the stock option has been allocated: Provided, That where the employee retires wi

th the lapse of three years, such stock option shall be limited to that exercised within 3 months from the date of retirement; and

5. The stock option shall be allocated to the same employee within the limit of 10/100 (the ratio as determined by the Presidential Decree within the limit of 20/100 for a venture business) of the total number of stocks issued by the start-up corporation, and the yearly total sum of the purchase price of stock under subparagraph 2 shall be not more than the amount as prescribed by the Presidential Decree.

(3) The provisions of paragraphs (1) and (2) shall also apply where an employee who has been allocated the stock option receives the difference between the actual purchase price of the agreed stock and the market price thereof (referring to the difference where the purchase price of the agreed stock is lower than the market price thereof) in cash or with stock issued by the start-up corporation, instead of buying stocks during the agreed period.

(4) In applying Article 94 of the Income Tax Act, where an employee transfers the stock bought pursuant to paragraph (1) or (2), the actual purchase price of the stock shall be considered as the acquisition price pursuant to Article 97 (1) 1 of the said Act.

(5) In applying paragraphs (1) through (4), the scope of the employee, the calculation of the market price of stock, or other necessary matters shall be prescribed by the Presidential Decree.

#### **Article 16 (Income Deduction for Contribution to Small and Medium Enterprise Investment Cooperative)**

(1) Where a resident makes contributions or investment falling under any of the following subparagraphs, the amount equivalent to 30/100 of the contribution or investment shall be deducted from the total income amount of a taxable year which the resident selects, from the taxable year in which the date of contribution or date of investment is included to the taxable year including the date on which the second year ends, by December 31, 2003: Provided, That this shall not apply where contributions or investments are made by taking over others' contribution quotas, investment quotas or beneficiary certificates: *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

1. Where he invests in a small and medium enterprise start-up investment cooperative, a new technology project investment cooperative, or an enterprise restructuring cooperative;
2. Where he invests in beneficiary certificates of venture business securities investment trust (hereafter, "venture business investment trust" in this Article) as determined by

the Presidential Decree;

3. Where he invests the amount of contributions made to cooperative referred to in Article 14 of the Act on Special Measures for the Support of Venture Businesses in venture businesses under the conditions as determined by the Presidential Decree; and
4. Where he invests in venture businesses under the Act on Special Measures for the Support of Ventures Businesses.

(2) Where a resident who is under the application of the income deduction pursuant to the main sentence of paragraph (1) falls under any of the following subparagraphs before the expiration of five years from the date of contribution or date of investment, the head of the tax office having jurisdiction over the domicile of the resident or a withholding agent shall collect additionally the tax amount deducted from his income under the conditions as determined by the Presidential Decree: Provided, That this shall not apply where an investor or contributor dies or other causes as determined by the Presidential Decree occur:

1. Where he transfers or recovers his contribution quotas referred to in paragraph (1) 1;
2. Where he transfers beneficiary certificates of venture business investment trust referred to in paragraph (1) 2, or any management company referred to in Article 2 (3) of the Securities Investment Trust Business Act repurchases the beneficiary certificates; and
3. Where he transfers or recovers his contribution quotas or investment quotas referred to in paragraph (1) 3 and 4.

(3) In applying the provisions of paragraphs (1) and (2), the limit and calculation of deduction amount, application for income deduction, or other matters necessary for the income deduction shall be determined by the Presidential Decree.

#### **Article 17 (Inclusion of Investment and Financing Loss Reserves in Expenses)**

(1) Where a small and medium enterprise start-up investment company or a new technology project financier appropriates any investment and financing loss reserves for expenses in order to make up for any loss incurred by investing in the business of the founder or venture business, or by investing in or financing a new technology enterpriser or venture business by the taxable year which ends on or before December 31, 2003, the amount calculated pursuant to the following provisions, whichever is smaller, shall be included in the expenses in calculating the income amount in the then current business year:

1. The amount calculated by multiplying the investment or financing amount as prescribed by the Presidential Decree by 50/100; or



2. The amount calculated by deducting the investment or financing loss reserves from the amount of investment and financing as of the end of the then-current business year : Provided, That the amount, if it is a negative quantity, shall be deemed as zero.

(2) Where a loss is incurred by any such investment or financing, the person who has appropriated the investment and financing loss reserves for expenses under paragraph (1) shall offset the loss against such reserves already appropriated for expenses.

(3) The balance of the reserves offset under paragraph (2) up to the end of the business year including the day on which four years end after the business year in which the reserves are included in the expenses as the investment and financing loss reserves under paragraph (1), shall be included in the gross income in calculating the income amount in the business year including the day on which four years end.

(4) Where a person wishes to have the provisions of paragraph (1) applied, he shall submit a detailed statement on the investment and financing loss reserves under the conditions as prescribed by the Presidential Decree.

#### **Article 18 (Exemption from Income Tax for Foreign Engineer or Technician)**

(1) With respect to any earned income which a foreign engineer or technician as prescribed by the Presidential Decree receives after supplying any labor to a national in Korea, and which accrues until the month including the day on which five years have passed from the day on which the foreign engineer or technician supplies the labor for the first time in Korea (limited to prior to December 31, 2003), the income tax shall be exempted.

(2) Earned income received by a foreign technician who provides labor to a national in Korea under the contract for introduction of technology under the Foreign Investment Promotion Act shall be exempted from income tax: Provided, That this shall be limited to earned income of a foreign technician which is exempted from income tax or corporate tax for royalties pursuant to the said Act, and which arises from the date of issuance of a certificate of report on the contract of introduction of technology to the month which includes the date which marks the elapse of five years.

(3) Where a person wishes to have the provisions of paragraph (1) or (2) applied, he shall make an application for the exemption under the conditions as prescribed by the Presidential Decree.

#### **Article 19 (Income Deduction for Field Technical Manpower in Capital Goods Industry)**

(1) With respect to such field technical manpower as prescribed by the Presidential Decree

among those employees who work for small and medium enterprises engaged in the capital goods industry, the amount obtained by multiplying the following rate determined according to the number of years of work by the amount obtained by excluding the amount of any non-taxable income under Article 12 of the Income Tax Act from the total salary or wage under Article 20 of the said Act or twenty four million won, whichever is smaller in amount, shall be deducted from the salary or wage received in the then-current year:

(2) Where a withholding agent pays the monthly earned income to the field technical manpower as referred to in paragraph (1), it may apply the simplified tax rate table as provided in Article 129 (3) of the Income Tax Act to the monthly salary or wage after deducting the amount as referred to in paragraph (1).

(3) In applying the provisions of paragraph (1), the calculation, etc. of the number of years of work or other necessary matters shall be prescribed by the Presidential Decree.

(4) Where a person wishes to have the provisions of paragraph (1) applied, he shall apply for the income deduction under the conditions as prescribed by the Presidential Decree.

(5) The provisions of paragraph (1) and (2) shall apply only to the portion of the taxable period which ends on or before December 31, 2000.

#### **Article 20 (Special Taxation Pursuant to Inducement of Public Loans)**

(1) Tax to be borne by the lender referred to in subparagraph 10 of Article 2 of the Inducement and Management of Public Loans Act (hereafter, “lender” in this Article) in direct connection with the inducement of public loans referred to in subparagraph 6 of Article 2 of the said Act (hereafter, “public loans” in this Article) shall be reduced and exempted on such terms and conditions as prescribed by the public loan agreement referred to in subparagraph 7 of Article 2 of the said Act (hereafter, “public loan agreement” in this Article).

(2) Royalties or service fees paid to a foreigner in connection with the inducement of a public loan shall be reduced or exempted from income tax or corporate tax on such terms and conditions as the public loan agreement may determine.

(3) The tax reduction and exemption referred to in paragraphs (1) and (2) may be decided not to be granted if the lender or licensor makes an application for non-granting of such license.

#### **Article 21 (Exemption from Corporate Tax, etc. on Interest Income, etc. Pursuant to International Financial Transactions)**

(1) A person who is paid the incomes falling under any of the following subparagraphs shall be exempted from income tax or corporate tax: Provided, That this shall not apply where

a person as prescribed by the Presidential Decree is paid it:

1. Interest and commission on foreign currency-denominated bonds issued by the State, local governments, or domestic corporations;
2. Interest and commission to be paid for foreign currency debts which a foreign exchange agency under the Foreign Exchange Transactions Act borrowed from a foreign financial institution and has to redeem in foreign currency on such terms and conditions as the said Act may determine; and
3. Interest and commission on any foreign currency-denominated bills and foreign currency certificates of deposit issued or sold overseas by a financial institution as determined by the Presidential Decree (hereafter, “financial institution” in this Article) on such terms and conditions as the Foreign Exchange Transactions Act may determine.

(2) Where a financial institution conducts offshore financial business as determined by the Presidential Decree, income which the financial institution pays to or is paid by a non-resident shall be exempted from income tax or corporate tax.

(3) Any income accruing from the transfer of any securities by a nonresident or a foreign corporation abroad, which are issued by the State, local governments or domestic corporations, shall be exempted from income tax or corporate tax. <Amended by Act No. 6045, Dec. 28, 1999>

#### **Article 22 (Exemption from Corporate Tax on Income from Dividends on Overseas Resources Development Investment)**

(1) Where a domestic corporation's income in each business year which ends on or before December 31, 2003 includes a dividend income paid by investing in any overseas resource development project as prescribed by the Presidential Decree under the Foreign Exchange Control Act (including the resources processing business under the conditions of foreign capital inducement by a host country), the only portion which is exempted from the tax on such dividend income in the host country shall be exempted from corporation tax.

(2) Where the provisions of paragraph (1) and those of Article 57 (3) of the Corporate Tax Act are concurrently applicable to the dividend income of a domestic corporation, it shall be applied by choosing only either of the two.

#### **Article 23 (Inclusion of Gains on Transfer of International Ships in Expenses)**

(1) Where a domestic corporation transfers a ship (meaning any ship registered pursuant to the International Ship Registration Act; hereafter, the same shall apply in this Article) which is directly used for its business by December 31, 2001 and acquires a new ship with the p

rice of the transfer by the last day of the business year in which the transfer date of such ship is included, the amount equivalent to 80/100 of capital gains used to acquire the new ship shall be included in the expenses in calculating the income amount of business year as prescribed the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

(2) Where a corporation which has not acquired a new ship in the business year in which the transfer date is included after its transfer intends to acquire a new ship within two years from the starting date of the following business year, the provisions of paragraph (1) shall apply mutatis mutandis. In this case, the term “the amount used” shall be deemed as “the amount to be used”.

(3) Where a corporation which has included the gains on transfer in the expenses pursuant to paragraph (2) fails to use the amount included in the expenses to acquire a new ship within the period or is dissolved (excluding where it merges) before it acquires the ship, the amount included in the expenses in calculating the income amount of the business year in which such cause occurs shall be included in the gross income.

(4) In applying the provisions of paragraphs (1) through (3), the calculation of the gains on transfer used to acquire a new ship, the amount to be included in the gross income, the submission, etc. of ship acquisition specifications and a plan for the acquisition of ships, and other necessary matters shall be determined by the Presidential Decree.

#### **Article 24 (Tax Credit for Investment in Productivity Improvement Facilities)**

(1) Where a national as prescribed by the Presidential Decree invests in those falling under any of the following subparagraphs (excluding any investment in used articles) as prescribed by the Presidential Decree in order to improve productivity by December 31, 2000, the amount equivalent to 5/100 of the investment amount shall be deducted from the income tax (limited to the income tax on the business income) or corporate tax. In this case, Article 11 (1), (3) and (4) shall apply mutatis mutandis to the methods of granting the tax credit:

1. Facilities for process improvement and automation;
2. High-tech facilities; and
3. Facilities for improving obsolete facilities.

(2) Where a national wishes to have the provisions of paragraph (1) applied, he shall apply for the tax credit under the conditions as prescribed by the Presidential Decree.

#### **Article 25 (Tax Credit for Investment in Specific Equipment)**

(1) Where a national invests in facilities (excluding any investment made in used articles) which are deemed necessary for the industrial policy and prescribed by the Presidential Decree

ee, out of those falling under any of the following subparagraphs until December 31, 2000, the amount equivalent to 5/100 of such investment amount shall be deducted from the income tax (limited to the income tax on the business income) or corporate tax. In this case, Article 11 (1), (3) and (4) shall apply mutatis mutandis to the methods of granting the tax credit.

1. Energy-saving facilities;
2. Anti-pollution facilities;
3. Facilities for the distribution business conducted under the Distribution Industry Development Act;
4. Facilities installed in any entrusted enterprise by an entrusting enterprise under the Act on the Protection of the Business Sphere of Small and Medium Enterprises and Promotion of Their Cooperation;
5. Industrial accident prevention facilities;
6. Mining safety facilities; and
7. Facilities reinforced or expanded by a person designated as an object of priority control under the Emergency Resources Management Act, for the purpose of carrying out the emergency preparedness duties in compliance with the government's order to reinforce and expand the facilities.

(2) Where a national wishes to have the provisions of paragraph (1) applied, he shall apply for the tax credit under the conditions as prescribed by the Presidential Decree.

#### **Article 26 (Tax Credit for Temporary Investment)**

(1) Where the Government deems it necessary for a business adjustment, the tax amount equivalent to the amount calculated by multiplying the amount as prescribed by the Presidential Decree within the limit of 10/100 of the amount of such investment (excluding any investment made in used articles) by such rate as prescribed by the Presidential Decree, shall be deducted from the income tax (limited to the income tax on the business income) or corporate tax in the taxable year as prescribed by the Presidential Decree.

(2) Where a national wishes to have the provisions of paragraph (1) applied, he shall apply for the tax credit under the conditions as prescribed by the Presidential Decree.

#### **Article 27 (Tax Credit for Investment in Used Facilities and Equipment)**

(1) Where a national engaged in the manufacturing business invests in used facilities and equipment (including the case where investment is made in a factory which is acquired through a business acquisition by transfer, a public or other auction sale) as prescribed by the P

residential Decree from August 25, 1998 to December 31, 2000, an amount equivalent to 10/100 of such investment shall be deducted from his income tax (limited to the income tax payable on his business income) or corporate tax: Provided, That the same shall not apply to transactions between specially-related persons, the acquisition by transfer of a factory in operation through a public auction and other auction or other methods, and investments as prescribed by the Presidential Decree. <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

(2) The provisions of Article 11 (1), (3) and (4) shall apply mutatis mutandis to the methods of tax credit under paragraph (1).

(3) A national who wants to have the provisions of paragraph (1) applied shall make an application for tax credit under the conditions as prescribed by the Presidential Decree.

(4) The scope of the specially related persons and the acquisition by transfer of a factory in operation referred to in paragraph (1) and other necessary matters shall be prescribed by the Presidential Decree. <Amended by Act No. 5996, Aug. 31, 1999>

#### **Article 27-2 (Tax Credit for Disposal of Excess Production Facilities and Equipment)**

(1) Where a national disposes of any excess production facilities and equipment prescribed in the Presidential Decree (hereinafter “excess production facilities and equipment”) from June 12, 1999 to December 31, 2000 after obtaining confirmation from the head of a competent tax office, an amount equivalent to 3/100 of the value of such disposed assets prescribed by the Presidential Decree shall be deducted from his income tax or corporate tax to be paid in the relevant taxable year. In this case, such facilities and equipment shall not be deemed disposed if they are reused after being disposed of as prescribed by the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

(2) Procedures for the conformation by the head of a competent tax office with respect to the disposal of excess production facilities and equipment and other necessary matters shall be prescribed by the Presidential Decree.

#### **Article 28 (Inclusion of Social Overhead Capital Investment Reserves in Expenses)**

(1) Where a corporation which constructs facilities as prescribed by the Presidential Decree such as roads, harbors (hereafter, “social overhead capital” in this Article) and is prescribed by the Presidential Decree has appropriated any investment reserves for expenses up to the business year ending on or before December 31, 2000, the reserves shall be included in the expenses within the limit of the amount calculated by multiplying the amount invested in the social overhead capital in the then-current business year by 10/100 in calculating the inc

ome amount in the thencurrent business year.

(2) The investment reserves included in the expenses under paragraph (1) shall be included in the gross income under the following subparagraphs:

1. The reserves equivalent to the amount necessary for constructing the social overhead capital up to the end of the business year including the day on which three years have passed after the end of the business year to the date on which the investment reserves are included in the expenses belongs, shall be included in the gross income within the limit of the amount calculated by multiplying the amount obtained by dividing the reserves by 36, by the number of months in the then-current business year, in calculating the income amount in each business year for the business year including the day on which such period of three years falls; and
2. Where the reserves included in the expenses exceed the amount to be included in the gross income under subparagraph 1, the reserves equivalent to the exceeding portion shall be included in the gross income in calculating the income amount in the business year including the day on which three years have passed after the end of the business year in which the reserves are included in the expenses.

(3) Where the cases falling under any of the following subparagraphs occur to a corporation holding any amount in the investment reserves account included in the expenses under paragraph (1), the total amount in the reserves account not included in the gross income shall be included in the gross income in calculating the income amount in the business year including the day on which such case occurs:

1. Where it discontinues the business; and
2. Where it is dissolved: Provided, That if it is dissolved due to a merger or division (including division and merger; hereinafter the same shall apply) and the corporation surviving after merger, corporation newly established by division, or the other party to division and merger succeeds to the amount in the account of the investment reserves, this shall not apply.

(4) Where the investment reserves are included in the gross income under paragraph (2) or (3), the additional amount equivalent to interest calculated under the conditions as prescribed by the Presidential Decree shall be collected as the corporate tax at the time of the tax base return for the business year and the tax amount shall be deemed a tax amount to be collected under Article 64 of the Corporation Tax Act: Provided, That this shall not apply to the amount which is required for constructing the social overhead capital out of the amount e

equivalent to the amount of the investment reserves to be included in the gross income.

(5) Where a corporation wishes to have the provisions of paragraph (1) applied, it shall submit a detailed statement on the investment reserves under the conditions as prescribed by the Presidential Decree.

**Article 29 (Special Cases for Tax Rates on Interest Income of Social Overhead Capital Bonds)**

The withholding tax rate on the interest and discount amount of social overhead capital bonds as determined by the Presidential Decree whose period from the date of issue to the last redemption date is over twelve years and which is issued until December 31, 2000 shall be 15/100, notwithstanding the provisions of Article 129 of the Income Tax Act.

**Article 30 (Inclusion of Energy-Saving Facilities Investment Reserves in Expenses)**

(1) Where a national has appropriated the energy-saving facilities investment reserves for expenses up to the taxable year ending on or before December 31, 2000 in order to appropriate the funds required for acquiring the energy-saving facilities as prescribed by the Presidential Decree (hereafter, “energy-saving facilities” in this Article), the reserves shall be included in the expenses within the limit of the amount calculated by multiplying the amount invested in the energy-saving facilities in the taxable year in which the investment is made, and in each taxable year ending within two years thereafter, by 15/100.

(2) The provisions of Article 4 (2) through (5) shall apply mutatis mutandis to the inclusion of the energy-saving facilities investment reserves included in the expenses under paragraph (1) in the gross income.

**Article 31 (Carried Forward Taxation of Transfer Income Tax, etc. on Consolidation between Small and Medium Enterprises)**

(1) Where a small or medium enterprise to be extinguished by a consolidation between small and medium enterprises engaged in the categories of business as determined by the Presidential Decree transfers any fixed assets used for business as determined by the Presidential Decree (hereinafter “fixed assets used for business”) to the corporation established by or surviving after the consolidation (hereafter, “consolidated corporation” in this Article), the fixed assets used for business may be subject to the application of taxation carried forward.

(2) The scope of and requirements for consolidation between small and medium enterprises subject to the application of paragraph (1) shall be determined by the Presidential Decree.

(3) A national who intends to be eligible for the provisions of paragraph (1) shall file an application for taxation carried forward as prescribed by the Presidential Decree.



(4) Where a small and medium start-up enterprise and a small and medium start-up venture enterprise under the provisions of Article 6 (1) and (2), or a national whose tax is abated or exempted under the provisions of Article 64 (1), is consolidated with others as provided in paragraph (1) before the abatement and exemption period under Article 6, 64 or 121 elapses, the consolidated corporation may be eligible for application of the provisions of Article 6, 64 or 121 during the remaining abatement and exemption period as prescribed by the Presidential Decree. However, the provisions of Article 121 shall be applied only to business as sets acquired before the consolidation is effected as provided in paragraph (1) above. *<Amended by Act No. 5996, Aug. 31, 1999>*

(5) Where a business-converted small or medium enterprise under Article 34, a small or medium enterprise moving into any area outside the Seoul Metropolitan Area under Article 63, or any agricultural company under Article 68 conducts a consolidation under paragraph (1) before the reduction and exemption period as provided in Article 34, 63 or 68 elapses, the consolidated corporation may have the provisions of Article 34, 63 or 68 applied during the remaining reduction and exemption period under the conditions as determined by the Presidential Decree.

(6) Where a national having the undeducted tax amount as provided in Article 144 conducts a consolidation under paragraph (1), the consolidated corporation may succeed to such undeducted tax amount and have it deducted under the conditions as determined by the Presidential Decree.

### **Article 32 (Taxation Carried Forward of Transfer Income Tax for Conversion into Corporation)**

(1) Where a resident engaged in manufacturing, mining, construction industry or other business as prescribed by the Presidential Decree (hereafter, “manufacturing industry, etc.” in this Article) converts into a corporation engaged in manufacturing industry, etc. by investing in kind

any fixed assets used for business or by a business transfer method as prescribed by the Presidential Decree, such fixed assets used for business may be subject to the application of taxation carried forward.

(2) The provisions of paragraph (1) shall apply only where the capital stock of the newly established corporation exceeds the amount as prescribed by the Presidential Decree.

(3) A national who wishes to have the provisions of paragraph (1) applied shall apply for application of taxation carried forward under the conditions as determined by the President

al Decree.

(4) The provisions of Article 31 (4) through (6) shall apply mutatis mutandis to any corporation established under paragraph (1).

**Article 33 (Reduction and Exemption of Transfer Income Tax for Business-Converted Small and Medium Enterprises)**

(1) With respect to any income accruing from a transfer of fixed assets used for business by a small and medium enterpriser as determined by the Presidential Decree by December 31, 2000 in order to convert business which it conducts for not less than five consecutive years (hereafter, “pre-converted business” in this Article) into any business as determined by the Presidential Decree such as manufacturing industry, distribution and logistics industry, and knowledge service industry (hereafter, “converted business” in this Article), the tax amount may be reduced or exempted or taxation may be deferred according to the following methods:

1. Where the machines and equipment of the converted business are acquired by the transfer price of the workplace buildings and their accessory land of the pre-converted business (hereafter, “transfer price of the pre-converted business” in this Article), the method of reducing or exempting the tax amount equivalent to 50/100 of transfer income tax or special surtax under the conditions as determined by the Presidential Decree; and
2. Where the workplace buildings and their accessory land of the converted business are acquired by the transfer price of the pre-converted business, the method of deferring taxation under the conditions as determined by the Presidential Decree.

(2) Where a small and medium enterprise which has the tax amount reduced or exempted or has the taxation deferred under paragraph (1), fails to convert the business, the tax amount which has been reduced or exempted or the taxation of which has been deferred shall be collected additionally under the conditions as determined by the Presidential Decree.

(3) The scope of business conversion under paragraphs (1) and (2) shall be prescribed by the Presidential Decree.

(4) Where the tax amount which is reduced or exempted, or the taxation of which is deferred under paragraph (1) is collected additionally under paragraph (2), the amount equivalent to interest calculated under the conditions as determined by the Presidential Decree shall be additionally collected.

(5) Where a person intends to have the provisions of paragraph (1) applied, he shall make a

n application for the exemption or reduction of the tax or the deferment of taxation under the conditions as determined by the Presidential Decree.

**Article 34 (Reduction and Exemption for Tax Amount for Business-Converted Small and Medium Enterprise)**

(1) For any small and medium enterprise which has conducted the business as prescribed by the Presidential Decree for 5 consecutive years and has been converted into the small and medium enterprise engaged in manufacturing or mining industry under the provisions of the following subparagraphs (hereinafter the “business-converted small and medium enterprise”) by December 31, 2000, the tax amount equivalent to 50/ 100 of the income or corporate tax on any income accruing from such converted-business in the taxable year including the day on which the first income accrues after the business is converted and in each taxable year ending within five years after the commencing date of the following taxable year shall be reduced or exempted:

1. Where a business-converted small and medium enterprise transfers or discontinues the previous category of business and has been converted into a new category of business under the Presidential Decree; and
2. Where a business-converted small and medium enterprise reduces the scale of the previous category of business and adds a new category of business thereto under the Presidential Decree.

(2) Where a person wishes to have the provisions of paragraph (1) applied, he shall apply for such reduction and exemption under the conditions as prescribed by the Presidential Decree.

**Article 35 (Reduction and Exemption of Transfer Income Tax, etc. for Relocation of Existing Business Place)**

(1) With respect to any income accruing from the transfer of land or buildings falling under any of following subparagraphs (hereinafter “land, etc.”) by a small and medium enterprise as prescribed by the Presidential Decree or an operator of goods terminal and warehouse facilities under the Goods Distribution Promotion Act (limited to subparagraph 3 of this Article) by December 31, 2000, in order to relocate the business place, the tax amount equivalent to 50/100 of the transfer income tax or the special surtax shall be reduced or exempted:

1. Land, etc. of the business place transferred in order to relocate the business place in which he has conducted the business for five or more consecutive years in the conventional market to a new business place (including the case of a reconstruction in the co

ventional market; hereafter, the same shall apply in this Article), under the conditions as prescribed by the Presidential Decree;

2. Land, etc. of the business place transferred in order to relocate the business place in which he has conducted the business for five or more consecutive years to such distribution complex as prescribed by the Presidential Decree, under the conditions as prescribed by the Presidential Decree; and

3. Land, etc. of the business place transferred in order to relocate the existing business place in which he has conducted business for five or more consecutive years in the metropolitan area as determined by the Presidential Decree (hereinafter “metropolis”) to any logistics facilities as prescribed by the Presidential Decree in any area outside metropolis, under the conditions as prescribed by the Presidential Decree.

(2) Where a person who has the transfer income tax or the special surtax reduced or exempted under paragraph (1) falls under any of the following subparagraphs, the tax amount calculated under the Presidential Decree shall be collected additionally: Provided, That if there is an inevitable reason as prescribed by the Presidential Decree, this shall not apply.

1. Where he fails to start the business by relocating the business place under paragraph (1); and

2. Where he discontinues the business or disposes of the business place within three years after he has started the business at the new business place.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted under paragraph (1) is collected additionally under paragraph (2).

(4) Where a person wishes to have the provisions of paragraph (1) applied, he shall apply for the reduction or exemption of the tax amount under conditions as prescribed by the Presidential Decree.

#### **Article 36 (Reduction and Exemption of Transfer Income Tax, etc. for Support for Managerial Stability of Small and Medium Enterprise Owner)**

(1) With respect to any income accruing from transfer of land, etc. used for business by a small and medium enterprise owner as prescribed by the Presidential Decree (hereafter, “small and medium enterprise owner” in Articles 40 and 41) in order to repay any debt to a financial institution as prescribed by the Presidential Decree (hereinafter “debts to financial institution”) on or before December 31, 2000, the tax amount equivalent to 50 /100 of the transfer income tax or the special surtax shall be reduced or exempted under the conditions as determined by the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

(2) Where a person who has the capital gains tax or the special surtax reduced or exempted under paragraph (1) falls under any of the following subparagraphs, the tax amount calculated under the Presidential Decree shall be collected additionally: Provided, That if there is an inevitable reason as prescribed by the Presidential Decree, this shall not apply:

1. Where he fails to use the proceeds accruing from the transfer of land, etc. for the repayment of any debt to a financial institution from the date on which the land, etc. is transferred (referring to the date as determined by the Presidential Decree for a long-term installment terms, and where there exists any inevitable cause as determined by the Presidential Decree, the date on which such cause disappears) within the time limit as prescribed by the Presidential Decree; and
2. Where he discontinues or transfers the business within three years after the land, etc. is transferred.

(3) The scope of land, etc. used for business under paragraph (1) and other necessary matters shall be prescribed by the Presidential Decree.

(4) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted under paragraph (1) is collected additionally under paragraph (2).

(5) Where a person wishes to have the provisions of paragraph (1) applied, he shall apply for the reduction or exemption of tax amount under the conditions as prescribed by the Presidential Decree.

#### **Article 37 (Exemption, etc. of Special Surtax for Support, etc. to Improvement of Financial Structure of Corporations)**

(1) Where a corporation as prescribed by the Presidential Decree transfers real properties meeting each of the following requirements on or before December 31, 2000 according to a plan for improvement of its financial structure as prescribed by the Presidential Decree (including an enterprise improvement plan referred to in Article 45 (1); hereafter, the same shall apply in this Article), such a corporation shall be exempted from the special surtax payable on the income accruing from transfer of such real properties. However, the following requirements shall not apply where a financial institution as prescribed by the Presidential Decree (hereafter, "a financial institution" in this Article Articles 39 through 42, 44 and 45) transfers real properties acquired through exercise of mortgage rights, to get repayment for a claim, or other real properties for business use as prescribed by the Presidential Decree according to a self-survival plan approved by the head of the supervisory agency over the financial institutions in such a manner as prescribed by the Presidential Decree: *<Amended by Act*

No. 6045, Dec. 28, 1999>

1. A corporation shall transfer real estate for business, acquired on or before June 30, 1997, as determined by the Presidential Decree: Provided, That this shall not apply where it transfers real estate donated under Article 41; and
  2. A corporation shall submit a plan for the improvement of financial structure to the organization composed of financial institutions, etc. which have claims to the corporation (hereinafter the “financial institutions consultative council”) and obtain an approval therefor (including an approval for modification on the approved contents thereof) : Provided, That this shall not apply where it transfers real estate according to a corporate improvement plan under Article 45 (1), or where it transfers real estate to the Korea Land Corporation established under the Korea Land Corporation Act and the Korea Land Corporation directly redeems the liabilities to a financial institution by the price of real estate.
- (2) Where a corporation (excluding financial institutions) which has been exempted from a special surtax pursuant to paragraph (1) falls under any of the following subparagraphs, the tax amount calculated under the Presidential Decree shall be collected additionally:
1. Where a corporation fails to redeem the liabilities to financial institutions by the transfer price for real estate within the time limit as prescribed by the Presidential Decree from the date (referring to the date as determined by the Presidential Decree in case of long-term installment terms, and where there exists any unavoidable cause as prescribed by the Presidential Decree, the date on which such cause disappears) on which the real estate has been transferred according to a plan for the improvement of financial structure approved pursuant to paragraph (1) 2;
  2. Where the debt ratio of a corporation which transfers real estate increases no more than five years after the transfer of real estate; and higher than the basic debt ratio during the period of no more than five years after the transfer of real estate; and
  3. Where a corporation discontinues the business or is dissolved within three years from the date on which real estate is transferred: Provided, That this shall be excluded where the corporation surviving after merger, corporation newly established by division, or the other party to division and merger succeeds to the business concerned or there exists any unavoidable cause as prescribed by the Presidential Decree such as bankruptcy.
- (3) Where a financial institution which has been exempted from special surtax pursuant to t

he proviso of paragraph (1) fails to use the transfer price for real estate according to an approved self-rescue plan, the tax amount calculated under the Presidential Decree shall be collected additionally.

(4) The provisions of Article 33 (4) shall apply mutatis mutandis to other case where the tax amount exempted pursuant to paragraph (1) is collected additionally pursuant to paragraph (2) or (3).

(5) Even if a domestic corporation that meets each of the requirements of the following subparagraphs fails to continue a business taken over from a merged corporation by the closing day of the business year belonging to the date of the registration of the merger, the special surtax payable on the transfer margin arising from the transfer of the ownership title of assets of a merged corporation to a joint corporation in a merger deal may be deferred to the next business year, notwithstanding the provisions of Article 99 (11) of Corporate Tax Act:  
*<Newly inserted by Act No. 5996, Aug. 31, 1999>*

1. Such a domestic corporation shall merge with another domestic corporation fulfilling the requirements provided in Article 44 (1) 1 and 2 of Corporate Tax Act; and
2. Such a merger corporation shall transfer the assets taken over from the merged corporation pursuant to the provisions of paragraph (1).

(6) A corporation which wishes to have the provisions of paragraph (1) applied shall apply for an application for exemption of tax amount under the conditions as determined by the Presidential Decree.

(7) The head of the financial institutions consultative council or the supervisory agency which has approved a plan for the improvement of financial structure or a self-rescue plan (referring to the creditors financial institutions council referred to in Article 45 (1) for a transfer of real estate under a corporate improvement plan referred to in the said Article and paragraph) shall submit the approved plan, the contents of self-rescue plan, and the results of performance every year to the Administrator of the National Tax Administration under the conditions as determined by the Presidential Decree.

(8) Matters on the time of transfer, composition of the financial institutions consultative council, and the standards, etc. for approval for a plan for the improvement of financial structure or self-rescue plan referred to in paragraph (1), the scope of liabilities and calculation of exempted tax amount, calculation of debt ratio and basic debt ratio referred to in paragraph (2), and other necessary matters shall be determined by the Presidential Decree.

#### **Article 38 (Special Taxation on Investments in Kind)**

(1) Where a domestic corporation establishes a new domestic corporation (hereafter, “new corporation” in this Article) by investing assets in kind meeting the requirements falling under each of the following subparagraphs on or before December 31, 1999, an amount equivalent to the transfer margin accruing from assets contributed in kind among the stock prices of the new corporation which it acquires from such contributions may be carried forward by including such transfer margin in the operating expenses in calculating the income amount for the then-current business year under the conditions as prescribed by the Presidential Decree, and special surtax may be also carried forward under the conditions as prescribed by the Presidential Decree: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. Such assets shall be invested in kind by a domestic corporation which has continuously operated its business for not less than five years as of the date on which the newly founded corporation is registered; and
2. Stocks or assets prescribed by the Presidential Decree shall be invested in kind.

(2) Where a domestic corporation establishes a new corporation through a joint investment with nationals and foreigners, the provisions of paragraph (1) shall apply only to the case where persons who make joint investments in such domestic corporation are not the specially related persons under the provisions of Article 52 (1) of the Corporate Tax Act: Provided, That the same shall not apply to the case where a domestic corporation establishes a holding company (hereinafter “holding company”) under the provisions of Article 18-2 of the Corporate Tax Act through a joint investment in kind of stocks with an affiliated company as prescribed in the Monopoly Regulation and Fair Trade Act. *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

(3) Where a domestic corporation, which has included an amount equivalent to the transfer margin in its operating expenses pursuant to paragraph (1), falls short of the required ratio of stockholding as of the date of organization registration of the new corporation, such an amount in proportion to the corresponding shortage in the ratio, as prescribed by the Presidential Decree, out of the total that has been included in the expenses, shall be added to its operating income. *<Amended by Act No. 6045, Dec. 28, 1999>*

(4) Where the case falling under each of the following subparagraphs arises after a domestic corporation includes an amount equivalent to the corresponding transfer margin in its operating expenses pursuant to the provision of paragraph (1), the entire amount that has not yet been included in its operating income pursuant to paragraph (3) from among the amount included in its operating expenses shall be added to its operating income in calculating the



operating income of such domestic corporation in the corresponding business year belonging to the date on which such case occurs: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. In case that such newly organized corporation discontinues the business it has taken over from such domestic corporation within three years from the starting day of the business year following the business year belonging to the date of the registration of the newly founded corporation; and

2. In case that the newly founded corporation under provisions of the proviso of paragraph (2) does not fall under a holding company.

(5) A domestic corporation which wants to have the provisions of paragraph (1) applied shall make an application for taxation carried forward under the conditions as prescribed by the Presidential Decree.

(6) Where a corporation, which had the taxation of special surtax on income accrued from the transfer of assets pursuant to Article 60 or 71 deferred, contributes assets acquired as a substitute in kind pursuant to paragraph (1), special surtax the taxation of which was deferred shall not be imposed, and where the new corporation transfers the assets contributed in kind, they shall be taxed under the conditions as prescribed by the Presidential Decree.

(7) In case that such a domestic corporation invests in kind its assets revaluated according to the Assets Revaluation Act pursuant to the provisions of paragraphs (1) and (2), an amount equivalent to the revaluation margin that has been included in the deductible expenses pursuant to Article 39 of the Corporate Tax Act may not be added to its operating income and the taxation thereon may be deferred as prescribed by the Presidential Decree. *<Newly inserted by Act No. 5996, Aug. 31, 1999>*

(8) Deleted. *<by Act No. 6045, Dec. 28, 1999>*

(9) In applying the provisions of paragraphs (1) through (5), the calculation of the transfer margin subject to inclusion in the expenses, standards for judging the discontinuance of the business taken over, submission of a specification on contributions in kind, or other necessary matters shall be determined by the Presidential Decree.

#### **Article 38-2 (Reduction and Exemption of Special Surtax on Spin-off Enterprises)**

(1) In case that a domestic corporation prescribed in the Presidential Decree transfers land, etc. or invests in kind to spin off its enterprises (hereafter, “spin-off enterprise” in this Article) to another enterprise acquired by business managers or another enterprise acquired by workers by December 31, 2000, an amount equivalent to 50/100 of the special surtax payable on the transfer margin shall be reduced or exempted: Provided, where the provisions of the

is Article and other Articles of this Act, and the Corporate Tax are simultaneously applied to such transfer margin, one of such provisions shall be selected for application.

(2) In applying the provisions of paragraph (1), the enterprise acquired by business managers and the enterprise acquired by workers mean a small and medium enterprise falling under each of the following subparagraphs:

1. The enterprise acquired by business managers mean a corporation that has the requirements falling each of the following items at the time of its incorporation: and
  - (a) One of the executives of the enterprise that has spined off one of its enterprises (hereinafter the “parent corporation”) shall be the representative director of such a spin-off enterprise;
  - (b) The aggregate of stocks or equity shares held by the executives of the parent corporation (hereafter, “stocks, etc.” in this Article) shall be the largest among the stockholders or ownership investors of such a spin-off corporation; and
  - (c) The aggregate of stocks, etc. acquired by employees (excluding the executives; hereafter, the same shall apply in this Article) of the parent corporation shall exceed 10/100 of the total outstanding stocks issued by such a spin-off corporation.
2. The enterprise acquired by workers means a corporation and the aggregate of stocks, etc. held by the employees of the parent corporation at the time of its incorporation shall be the largest among the stocks held by the shareholders and ownership shares of the spin-off corporation and the employees of the parent corporation shall constitute not less than 50/100 of the total number of the executives of the spinoff corporation.

(3) In case that any reasons falling under each of the following subparagraphs arise to the parent company, the spin-off corporation acquired by the business managers or the spin-off corporation acquired by the workers after the parent corporation has been exempted from the special surtax pursuant to the provisions of paragraph (1), the exempted amount plus an amount calculated on the basis of the applicable provisions of Article 33 (4) shall be collected as its corporate tax in the business year belonging to the date on which such reasons arise :

1. The parent corporation, the spin-off corporation acquired by the business managers or the spin-off corporation acquired by the workers discontinues its business or is dissolved within three years from the opening date of the business year following the business year in which those corporations are spined off: Provided, That the same shall

not apply to the case where the corresponding business is taken over by a newly incorporated corporation through a merger or division of a corporation or a corporation that takes over such business as a partner to a partial merger, or the case where the subject corporation goes bankrupt or unavoidable reasons prescribed by the Presidential Decree exist; and

2. The spin-off corporation acquired by the business managers or the spin-off corporation acquired by the workers fails to meet the requirements provided in paragraph (2) within three years from the opening day of the business year following the business year in which the spin-off corporation is incorporated.

(4) The Presidential Decree shall prescribe the scope of the parent corporation, the spin-off corporation acquired by the business managers and the spin-off corporation acquired by the workers, and other necessary matters.

(5) Any corporation which intends to get the tax reduction and exemption under the provisions of paragraph (1) shall file an application thereon as prescribed by the Presidential Decree.

#### **Article 39 (Special Taxation on Acceptance and Performance of Guarantee Liabilities)**

(1) Where a stockholder who guarantees a domestic corporation's liabilities accepts and performs the guarantee liabilities and the following requirements are satisfied, an amount referred to in paragraph (2) shall be included in the expenses in calculating the stockholder's income amount under the conditions as prescribed by the Presidential Decree: *<Amended by Act No. 5996, Aug. 31, 1999>*

1. Stocks held by a controlling stockholder of a domestic corporation and his associated persons shall be transferred in full to any person other than associated persons as determined by the Presidential Decree under a restructuring plan as approved by a key creditor financial institution as determined by the Presidential Decree (hereafter, "key creditor financial institution" in this Article) by December 31, 1999; and
2. A corporate liquidation plan approved by the key creditor financial institution shall be submitted to the head of the tax office having jurisdiction over the place of tax payment for the domestic corporation, and the domestic corporation's liquidation shall be completed by December 31, 2000.

(2) An amount which the stockholder includes in the expenses pursuant to paragraph (1) shall be limited to an amount (where a corporation is to be transferred, an amount which the stockholder accepted and performed as of the date of its stock transfer) which the stockholder

er accepted and performed against the liabilities of a corporation to be transferred or liquidated (hereafter, “corporation to be transferred, etc.” in this Article), which was calculated by the following formula, or the amount which the stockholder guaranteed against the liabilities held by the corporation as of August 31, 1998 (including an amount of guarantee liabilities accepted and performed where it accepted and performed guarantee liabilities on or before August 30, 1998), whichever is smaller in amount:

(3) A corporation to be transferred, etc. the liabilities of which decrease as they are accepted and performed pursuant to paragraph (1) shall not include the decrease in liabilities (limited to an amount exceeding the deficit as determined by the Presidential Decree; hereafter, “liability decrease” in this Article ) in the gross income of the then-current business year and during the period of three business years after the end of the business period in calculating an income amount, and where it obtains approval by the head of the tax office of the place of tax payment by meeting the requirements as determined by the Presidential Decree such as the improvement in business performance or improvement of financial structure, it shall not additionally include the liability decrease in the gross income within the period of two business years and instead include equal portions or more in the gross income during the subsequent three business years.

(4) Where a corporation to be transferred, etc. discontinues the business or is dissolved prior to the inclusion of the liability decrease in full in the gross income pursuant to paragraph (3), it shall include the amount not included in the gross income in full in the gross income, in calculating an income amount for the business year in which such cause occurs.

(5) In applying the provisions of paragraphs (1) through (3), where a corporation which has included as expenses the amount of guarantee liabilities accepted and performed or a corporation which has not included in the expenses the liability decrease on conditions set forth in paragraph (1) 2, fails to meet any of such conditions, it shall return and pay by recalculating (referring to the inclusion in the expenses of the total amount not included in the expenses in case of a corporation failing to include the amount in the expenses; and in case of a corporation failing to include the amount in the gross income, this refers to the inclusion in the gross income of the total amount not included in the gross income) corporate tax on the income for the business year not included in the expenses or gross income when it returns corporate tax for the business year which failed to meet the requirements. In this case, it shall pay an additional amount equivalent to interest calculated under the conditions as prescribed by the Presidential Decree by adding it to the corporate tax and the tax amount shall be

a tax amount to be paid pursuant to Article 64 of the Corporate Tax Act.

(6) Liabilities (limited to the amount included in the expenses pursuant to paragraph (2)) which the stockholder accepted pursuant to paragraph (1) shall not be included in the borrowings referred to in the main sentence of Article 135.

(7) Where a corporation to be transferred, etc. includes in the gross income and then disposes of its deficiency in assets found in the transfer or take over of a corporation under paragraph (1) 1 pursuant to Article 67 of the Corporate Tax Act, it shall not be taxed at the source of income tax on its amount of disposal, notwithstanding the provisions of Article 67 of the Corporate Tax Act.

(8) With respect to profits earned by the corporation's other stockholders as the corporation's liabilities are accepted and performed pursuant to paragraph (1), the provisions of Article 41 of the Inheritance Tax and Gift Tax Act shall not apply.

(9) Where a domestic corporation is reduced in and exempted from its liabilities by any financial institution (limited to a financial institution which has no special relationship as determined by the Presidential Decree with the domestic corporation) by December 31, 1999, and meets the following requirements, it shall include its liability decrease (limited to an amount exceeding the deficit as determined by the Presidential Decree) in the gross income by applying mutatis mutandis to the provisions of paragraphs (3) and (4), in calculating an income amount:

1. It shall submit a corporate liquidation plan approved by the key creditor financial institution to the head of the tax office having jurisdiction over the place of tax payment for the corporation; and
2. It shall complete its liquidation by December 31, 2000.

(10) A financial institution which has reduced in and exempted from a corporation's liabilities pursuant to paragraph (9) shall include an amount equivalent to the liabilities reduced and exempted in the expenses in calculating an income amount for the business year.

(11) Where a corporation which has failed to include its liability decrease in the gross income pursuant to paragraph (9) or a financial institution which has included an amount equivalent to liabilities reduced and exempted pursuant to paragraph (10) in the expenses fails to meet any of the requirements listed in paragraph (9), the provisions of paragraph (5) shall apply mutatis mutandis.

(12) In applying the provisions of paragraphs (1) through (11), the scope of liabilities, the contents of and approval standards for a restructuring plan, the scope of controlling stockhol

der and his associated persons, methods of acceptance and performance, calculation of the number of stocks held, conditions and reporting methods for deficiency in assets, submission of specifications of corporation transfer and takeover, submission of a corporation liquidation plan, or other necessary matters shall be determined by the Presidential Decree. <Amended by Act No. 5996, Aug. 31, 1999>

**Article 40 (Reduction and Exemption of Transfer Income Tax Pursuant to Transfer of Assets by Stockholder, etc.)**

(1) Where corporation's stockholders, etc. as determined by the Presidential Decree (hereafter, "stockholders" in this Chapter) transfer their assets on hold (limited to those acquired on or before December 31, 1997 such as real estate, stocks, investment equities, or others as determined by the Presidential Decree; hereafter, the same shall apply in this Article) on or before December 31, 1999, and donate the money for transfer to the corporation, and the following requirements are met, for income accruing from the transfer of such assets, a tax amount equivalent to 100/100 of transfer income tax imposed on a donated amount (limited to an amount calculated under the Presidential Decree, taking into account the ratio, etc. of stockholdings by stockholders) out of the money for transfer shall be reduced and exempted:

1. The corporation (excluding small and medium enterprise) shall obtain approval for a plan for the improvement of financial structure or a self-rescue plan (including any modification approval to the approved matters; hereafter, the same shall apply in this Article) according to the following classification:
  - (a) For a corporation which is not a financial institution: It shall submit to the financial institutions council a plan for the improvement of financial structure which includes the transfer of assets by stockholders, donated details of the money for such transfer, and plan for redemption of liabilities to financial institutions in order to redeem the liabilities to financial institutions, and obtain approval therefor from the financial institutions council; and
  - (b) For a financial institution: It shall submit to the head of its supervisory agency a self-rescue plan which includes the transfer of assets by stockholders, donated details of the money for such transfer, plan for the use of a donated amount, and obtain approval therefor from the head of its supervisory agency.
2. Stockholders shall transfer assets and donate the money for such transfer to the corporation within the time limit as determined by the Presidential Decree from the date of

f the transfer (the date as determined by the Presidential Decree for long-term installment terms): Provided, That where the corporation is not a small and medium enterprise, it shall only be limited to where it has complied with a plan for the improvement of financial structure or a self-rescue plan approved under subparagraph 1; and

3. The corporation shall use (referring to the use according to a self-rescue plan where the corporation is a financial institution) the total amount donated by stockholders for the redemption of liabilities to financial institutions within the time limit as determined by the Presidential Decree from the date on which the corporation was granted a donation (where there exists any inevitable cause as determined by the Presidential Decree, the date following that on which such cause disappears).

(2) Where a corporation falls under any of the following subparagraphs, an amount equivalent to a tax amount calculated under the Presidential Decree from the transfer income tax amount reduced and exempted pursuant to paragraph (1) shall be collected from the corporation, and added to the corporate tax. In this case, the provisions of Article 33 (4) shall apply *mutatis mutandis*:

1. Where the corporation discontinues the business or is dissolved within three years from the date on which it receives the price for transfer of assets: Provided, That this shall not apply where any merged corporation, corporation newly established due to division, or the other party to a division and merger succeeds to such real estate or there exists any cause as determined by the Presidential Decree such as bankruptcy; and
2. Where the debt ratio of the corporation (excluding any financial institutions and small and medium enterprises) increases higher than the basic debt ratio during a period of less than three years after the redemption of liabilities to financial institutions.

(3) A corporation which has received the money for transfer of assets pursuant to paragraph (1) shall make an application for reduction and exemption under the conditions as prescribed by the Presidential Decree.

(4) The financial institutions council or the head of the supervisory agency which has approved a plan for the improvement of financial structure or self-rescue plan pursuant to paragraph (1) shall submit the contents of such plan and its performance to the Commissioner of the National Tax Administration under the conditions as prescribed by the Presidential Decree.

(5) The matters on the scope of stockholders, time of transfer, and the contents and approval for a plan for the improvement of financial structure or a self-rescue plan referred to in paragraph (1) shall be determined by the Presidential Decree.

paragraph (1), the calculation of debt ratio and basic debt ratio referred to in paragraph (2), or other necessary matters shall be determined by the Presidential Decree.

**Article 41 (Special Taxation of Corporate Tax, etc. on Asset Donation by Stockholders)**

(1) Where a corporation referred to in the main sentence of Article 40 (1) is granted assets gratuitously by stockholders on or before December 31, 1999 and meets the following requirements, the asset value (limited to the amount exceeding the deficit as determined by the Presidential Decree) shall not be included in the gross income in calculating an income amount of the business year:

1. The corporation shall be granted money, real estate and assets as determined by the Presidential Decree (limited to those acquired by stockholders on or before December 31, 1997 for assets other than money; hereinafter the same shall apply) gratuitously;
2. The corporation (excluding small and medium enterprises) shall obtain approval for a plan for the improvement of financial structure or a self-rescue plan (including any modification approval to the approved matters; hereafter, the same shall apply in this Article) according to the following classification: and
  - (a) For a corporation which is not a financial institution: It shall submit to the financial institutions councils a plan for the improvement of financial structure which includes the donated details of assets by stockholders and a plan for redemption of liabilities to financial institutions, and obtain the approval therefor from the financial institutions council; and
  - (b) For a financial institution: It shall submit to the head of its supervisory agency a self-rescue plan which includes the donated details of assets by stockholders and a plan for the use thereof, and obtain approval therefor from the head of its supervisory agency.
3. The corporation shall use (referring to the use according to a self-rescue plan where the corporation is a financial institution) the money for transfer in full for the redemption of liabilities to financial institutions within the time limit as determined by the Presidential Decree from the date on which it was granted money or within the time limit as determined by the Presidential Decree from the date of transfer of assets other than money (the date as determined by the Presidential Decree for long-term installment terms) by December 31, 1999: Provided, That it shall use it in full for the redemption of liabilities on the date following that on which such cause disappears where there exists any inevitable cause as determined by the Presidential Decree.



(2) Where a corporation which is subject to the application of paragraph (1) for having been granted assets (excluding money) gratuitously transfers the assets, the loss accruing from the transfer shall not be included in the expenses in calculating the income amount for the business year to which the date of transfer belongs.

(3) Where any cause falling under the following subparagraphs occurs to a corporation which did not include the asset value granted gratuitously in the gross income pursuant to paragraph (1), the total amount not included in the gross income shall be included in the gross income in calculating the income amount for the business year in which such cause occurs. In this case, the provisions of Article 4 (4) shall apply mutatis mutandis:

1. Where the corporation discontinues the business or is dissolved within three years from the date on which it was granted the assets gratuitously: Provided, That this shall not apply where any merged corporation, corporation newly established due to division or the other party to a division and merger succeeds to such business or there exists any inevitable cause as determined by the Presidential Decree such as bankruptcy;
2. Where the debt ratio of the corporation (excluding any financial institution and small and medium enterprise) increases higher than the basic debt ratio during a period of less than three years after the redemption of liabilities to financial institutions; and
3. Where the corporation fails to transfer assets (excluding money) granted gratuitously pursuant to paragraph (1) 3.

(4) With respect to profit earned by the corporation's other stockholder as the corporation is granted assets by stockholders pursuant to paragraph (1), the provisions of Article 41 of the Inheritance Tax and Gift Tax Act shall not apply, except as otherwise included in the corporation's gross income under paragraph (3) 3.

(5) The financial institutions council or the head of the supervisory agency which approved a plan for the improvement of financial structure or a self-rescue plan pursuant to paragraph (1) shall submit the contents of such plan and its results of performance under the conditions as prescribed by the Presidential Decree.

(6) In applying the provisions of paragraphs (1) through (3), the matters regarding the time of transfer, the contents and approval for a plan for the improvement of financial structure or a self-rescue plan, the calculation of debt ratio and basic debt ratio, or other necessary matters shall be determined by the Presidential Decree.

**Article 41-2 (Special Taxation on Assets Donated by Stockholders of Entrusting Companies)**

(1) In case that stockholders of an entrusting company under the provisions of subparagraph h 6 of Article 2 of the Act on Protection of Business Sphere of Small and Medium Enterprises and Promotion of Their Cooperation (hereafter, “entrusting company” in this Article) donate assets without compensation on or before December 31, 2000, meeting the requirements falling under each of the following subparagraphs, to an entrusted company the provisions of Article 2 subparagraph 6 of the same Act (hereafter, “entrusted company” in this Article), the value of such assets (limited to the amount exceeding the operating losses prescribed by the Presidential Decree; hereafter, “income accruing from accepting donated assets” in this Article) shall not be included in its operating income for the corresponding business year and the period of three business years following the closing date of the corresponding business year but, the value of such assets shall be included in its operating income for the period of the next three business years:

1. Such entrusting company shall be a corporation which it has filed an application for the start of procedures for reorganization under the Company Reorganization Act, an application for the start of composition under the Composition Act or an application for bankruptcy under the Bankruptcy Act (hereafter, “application for the start of reorganization procedures, etc.” in this Article); and
2. Both entrusting company and entrusted company shall not be the specially related persons as prescribed in the provisions of Article 52 (1) of the Corporate Tax Act.

(2) Where such entrusted company discontinues its business or is dissolved before its income accruing from accepting such donated assets is fully included in its operating income pursuant to paragraph (1), the entire amount of such income not yet included in its operating income shall be fully included in its operating income in computing its income amount of the business year belonging to the date on which such cause occurs.

(3) Where stockholders of a corporation meeting the requirements under paragraph (1) donate assets to those employed by such corporation as of the date on which such corporation files an application for reorganization procedures, etc., on or before December 31, 2000, the donation tax on the value of such donated assets shall be exempted.

(4) The Presidential Decree shall prescribe the submission of a detailed statement describing such assets donated without compensation and other necessary matters concerning the application of the provisions of paragraphs (1) through (3).

**Article 42 (Abatement of Transfer Income Tax for Supporting Corporate Mergers, Business Transfer and Take-Over, etc.)**

(1) Where an enterprise prescribed in the Presidential Decree transfers its duplicate assets or unused assets (hereafter, “duplicate assets, etc.” in this Article) acquired through a merger, a business transfer, a business take-over, a corporation take-over, etc. or a corporation incorporated pursuant to the provisions of Article 38 (2) transfers its duplicate assets, etc., fulfilling the requirements falling under each of the following subparagraphs, a tax amount equivalent to 50/100 of the transfer income tax or the special surtax payable on the income accruing from the transfer of such duplicate assets shall be reduced or exempted as prescribed by the Presidential Decree: <Amended by Act No. 5996 Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

1. The duplicate assets, etc. which are business real estates prescribed in the Presidential Decree (limited to the portion acquired on or before December 31, 2000. In this case, the business real estates acquired through a merger, a business transfer and take-over and investment in kind, etc. shall be based on the date on which the immediately preceding owner acquires such business real estates) shall be transferred on or before December 31, 1999 according to the corporate restructuring plans prescribed in the Presidential Decree (hereafter, the “corporate restructuring plans” in this Article); and
2. It shall submit a corporate restructuring plan to and obtain the approval (including approval for modification of the approved matters; hereafter, the same shall apply in this Article) from the financial institutions council as determined by the Presidential Decree composed of financial institutions which have claims to the enterprise (hereafter, the “creditor financial institutions council” in this Article).

(2) Where an enterprise, the transfer income tax or special surtax pursuant to paragraph (1) of which was exempted or reduced falls under any of the following subparagraphs, a tax amount calculated under the Presidential Decree shall be collected additionally:

1. Where it fails to use the money for transfer of real estate within the time limit as determined by the Presidential Decree under the terms specified in a corporate restructuring plan;
2. Where it discontinues the business or is dissolved within three years from the date of transfer of real estate: Provided, That this shall not apply where any merged corporation, corporation newly established due to division, or the other party to division and merger succeeds to such real estate or where there exists any inevitable cause as determined by the Presidential Decree such as bankruptcy; and
3. For an enterprise which has liabilities, where the enterprise’ debt ratio increases high

er than the basic debt ratio during a period of less than three years after the transfer of real estate.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where a tax amount reduced and exempted pursuant to paragraph (1) is collected additionally pursuant to paragraph (2).

(4) The financial institutions council which has approved of a corporate restructuring plan shall submit the contents of the corporate restructuring plan and the resulting performance of the corporation to the head of the tax office of the place of tax payment for the enterprise falling under the conditions as prescribed by the Presidential Decree.

(5) An enterprise which intends to have the provisions of paragraph (1) applied shall make an application for reduction and exemption under the conditions as prescribed by the Presidential Decree.

(6) The matters on the time of transfer, composition of the financial institutions council and the contents and approval for a corporate restructuring plan referred to in paragraph (1), liabilities, the calculation of debt ratio and basic debt ratio referred to in paragraph (2), or other necessary matters shall be determined by the Presidential Decree.

**Article 43 (Reduction in and Exemption from Transfer Income Tax, etc. on Acquirers of Real Estate to be Restructured)**

(1) With respect to income accruing from a transfer of real estate to be reduced in and exempted from transfer income tax or special surtax pursuant to Articles 36 (1), 37 (1), 40 (1) and 42 (1) (hereafter, “real estate to be restructured” in this Article) within five years from the date on which a person who acquires the real estate to be restructured on or before December 31, 1999 transfers it, a tax amount equivalent to 50/100 of transfer income tax or special surtax shall be reduced and exempted. Where he transfers the real estate to be restructured after the elapse of five years from the date of acquisition of such real estate, the amount equivalent to 50/100 of transfer income accrued for five years from the date of acquisition of the real estate to be restructured shall be subtracted from an income amount subject to transfer income tax or special surtax.

(2) A person who intends to have the provisions of paragraph (1) applied shall make an application for reduction and exemption under the conditions as prescribed by the Presidential Decree.

(3) The confirmation of any real estate to be restructured, or calculation of transfer income amount accrued for five years from the date of acquisition of such real estate under paragraph

ph (1) or other necessary matters shall be determined by the Presidential Decree.

**Article 44 (Special Case for Taxation of Debt Exemption Income of Corporation under Approved Reorganization Plan)**

(1) Where a corporation for which the court has adjudged company reorganization under the Company Reorganization Act, the authorization of composition under the Composition Act, or the authorization of compulsory composition under the Bankruptcy Act is exempted from part of its liabilities by a financial institution, fulfilling the requirements falling under each of the following subparagraphs, an amount equivalent to such exempted liabilities (limited to an amount exceeding its operating losses prescribed by the Presidential Decree; hereafter, “income accruing from exempted debts” in this Article) shall not be included in its operating income for the corresponding business year and for the period of three business years after the closing date of the corresponding business year in calculating the amount of its income, but such amount shall be included in its operating income for the next three business years:

1. The decision on the authorization of reorganization plan, the authorization of composition and the authorization of compulsory composition shall include the amount of exempted liabilities; and
2. Financial institutions which exempt such liabilities shall not be the specially related persons as prescribed in the provisions of Article 52 (1) of the Corporate Tax Act.

(2) Where a corporation which has been exempted from its liabilities under the provisions of paragraph (1) discontinues its business or is dissolved before it includes the entire amount of income accruing from the exemption of its liabilities in its operating income, the entire amount of such income shall be included in its operating income in calculating the income amount of the business year belonging to the date of occurrence of the cause thereof.

(3) The financial institutions that have exempted such liabilities under paragraph (1) shall include an amount equivalent to such exempted liabilities in their operating expenses in computing the amount of its income for the corresponding business year.

(4) The Presidential Decree shall prescribe the submission of a detailed statement on such exempted liabilities and other necessary matters concerning the application of the provisions of paragraphs (1) through (3).

**Article 45 (Special Taxation on Workouts)**

(1) Where a domestic corporation is reduced in and exempted from its liabilities by a financial institution which has no special relationship (hereafter, “creditor financial institution” i

n this Article) under a workout program approved (including approval for modification of the matters approved) by any creditor financial institutions council or a corporate restructuring commission organized by the corporate restructuring agreement as determined by the Presidential Decree (hereafter, “workout program” in this Article ) on or before December 31, 1999, it shall include an amount equivalent to liabilities reduced and exempted (limited to an amount exceeding a deficit as determined by the Presidential Decree; hereafter, “liability decrease” in this Article) in the gross income by applying mutatis mutandis under Article 39 (3) in calculating the amount of income.

(2) Where the corporation discontinues the business or is dissolved before including the liability decrease in full under paragraph (1) in the gross income, it shall include the total amount not included in the gross income in the gross income in calculating an income amount for the business year to which such cause occurred. In this case, the provisions of Article 4 (4) shall apply mutatis mutandis.

(3) A creditor financial institution which has reduced and exempted liabilities pursuant to paragraph (1) shall include the amount equivalent to the liabilities reduced and exempted in the expenses in calculating the income amount for the business year.

(4) Where a domestic corporation which is granted its stocks from stockholders gratuitously under a workout program retires them on or before December 31, 1999, the value for such stocks (limited to an amount exceeding a deficit as determined by the Presidential Decree ) shall not be included in the gross income in calculating an income amount for the business year. In this case, with respect to profits earned by the corporation’s other stockholders, the provisions of Article 41 of the Inheritance Tax and Gift Tax Act shall not apply.

(5) Stockholders who donated stocks pursuant to paragraph (4) shall include the values for stocks (referring to book value) in the expenses in calculating an income amount for the business year.

(6) With respect to profits earned by other stockholders as a domestic corporation retires part of its stocks in order to decrease capital under a workout program on or before December 31, 1999, the provisions of Article 39 of the Inheritance Tax and Gift Tax Act shall not apply, and in calculating the income amount of its stockholders who have stocks retired for each business year, the provisions of Article 52 of the Corporate Tax Act shall not apply.

(7) A creditor financial institutions council or a corporate restructuring commission which has approved a workout program shall submit the contents of a workout program and its results of performance annually to the head of the tax office of the place of tax payment for t

he corporation concerned under the conditions as prescribed by the Presidential Decree.

(8) In applying the provisions of paragraphs (1) through (7), the contents of and approval standards for a workout program, the scope of special relationship, the scope of liabilities and other necessary matters shall be determined by the Presidential Decree.

#### **Article 46 (Special Taxation on Stock Exchange between Enterprises)**

(1) Where a stockholder of a corporation (hereafter, “corporation to be exchanged” in this Article) affiliated with an enterprise group referred to in subparagraph 2 of Article 2 of the Monopoly Regulation and Fair Trade Act (hereafter, “enterprise group” in this Article and Article 47) transfers stocks of a corporation to be exchanged to any stockholder of a corporation affiliated with any other enterprise group and takes over stocks of a corporation which took over his stocks or a corporation affiliated with another enterprise group (hereafter, “exchange and takeover corporation” in this Article) as a consideration for the transfer by December 31, 1999 and the conditions under the following subparagraphs are met, the amount equivalent to the gains on the transfer of stocks may be deferred from taxation by including it in the expenses under the conditions as prescribed by the Presidential Decree:

1. Where the transfer and takeover of stocks are done according to a restructuring improvement plan approved by any key creditor financial institution as determined by the Presidential Decree and a corporate exchange contract which includes the substance of stock transfer and takeover are submitted to the head of the tax office of the place of tax payment for the corporation to be exchanged;
2. Where all the stocks of controlling stockholders and their associated persons as determined by the Presidential Decree (hereafter, “controlling stockholders” in this Article) are transferred and taken over;
3. Where stocks of the exchange and takeover corporation are distributed to the stockholders who transferred stocks of the corporation to be exchanged according to the ratio of their stockholdings;
4. Where there are no special relationship as determined by the Presidential Decree between corporations affiliated with all enterprise groups which participated in the transfer and takeover of stocks; and
5. Where the requirements as determined by the Presidential Decree such as specific management and the establishment of a financial improvement plan on the exchange and takeover corporation are satisfied.

(2) With respect to gains accruing as a resident stockholder transfers stocks on hold pursua

nt to paragraph (1), the amount equivalent to 50/100 of capital gains tax shall be reduced and exempted.

(3) Where stockholders of a corporation to be exchanged fall under any of the following subparagraphs after including the amount equivalent to gains on transfer of stocks in the expenses pursuant to paragraph (1), the amount included in the expenses in calculating the income amount for the business year in which such cause occurred shall be included in the gross income:

1. Where a corporation conducting the same type of business as that of an exchanged corporation is affiliated with an enterprise group with which the exchange of the corporation was conducted was affiliated within three years from the end of the business year in which they transferred stocks; and
2. Where the controlling stockholders hold the stocks of a corporation exchanged again within three years from the end of the business year in which they transferred stocks.

(4) Where a person, who had transfer income tax reduced and exempted pursuant to paragraph (2), falls under any of subparagraphs of paragraph (3), a tax amount reduced and exempted shall be collected in full additionally. In this case, the provisions of Article 33 (4) shall apply mutatis mutandis.

(5) Where the controlling stockholders of a corporation to be exchanged accept and perform the corporation's liabilities in order to adjust the difference between the prices of stocks which they transfer pursuant to paragraph (1) and those of stocks of an exchange and takeover corporation, the amount of liabilities accepted and performed shall be included in the expenses within the limit of the amount as determined by the Presidential Decree in calculating the income amount for controlling stockholders of the corporation to be exchanged under the conditions as prescribed by the Presidential Decree.

(6) A corporation to be exchanged whose liabilities decreased as its liabilities were accepted and performed pursuant to paragraph (5) shall include liability decrease (limited to an amount exceeding a deficit as determined by the Presidential Decree) in the gross income by mutatis mutandis application of the provisions of Article 39 (3) in calculating an income amount.

(7) In including the decreased liability referred to in paragraph (6) in the gross income, where it discontinues the business or is dissolved before including the total amount in the gross income, the amount not included in the gross income in calculating an income amount for the business year in which such cause occurred shall be included in the gross income in full



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(8) Liabilities (limited to the amount included in the expenses pursuant to paragraph (5)) which the controlling stockholders of a corporation to be exchanged accepted pursuant to paragraph (5) shall not be included in the borrowings referred to in the main sentence of Article 135.

(9) Where the controlling stockholders of a corporation to be exchanged donate real estate to the corporation in order to adjust the difference between the prices of stocks which they transfer pursuant to paragraph (1) and those of stocks of an exchange and takeover corporation, the book value of such real estate shall be included in the gross income within the scope as determined by the Presidential Decree in calculating the income amount for controlling stockholders of the corporation to be exchanged under the conditions as prescribed by the Presidential Decree.

(10) The value (limited to the amount exceeding deficit as determined by the Presidential Decree) of real estate which a corporation to be exchanged was granted gratuitously pursuant to paragraph (9) shall not be included in the gross income in calculating an income amount for the business year.

(11) With respect to profit earned by other stockholders as controlling stockholders accept and perform the liabilities of a corporation to be exchanged or donate real estate to the corporation pursuant to paragraphs (5) and (9), the provisions of Article 41 of the Inheritance Tax and Gift Tax Act shall not apply.

(12) Where a deficiency in assets of a corporation to be exchanged detected in the transfer and takeover of the corporation referred to in paragraph (1) is included in the gross income and is disposed of pursuant to Article 67 of the Corporate Tax Act, income tax on the amount disposed, notwithstanding the provisions of the Income Tax Act, shall not be taxed at the source.

(13) A person who intends to have the provisions of paragraph (2) applied shall make an application for reduction and exemption under the conditions as prescribed by the Presidential Decree.

(14) A key creditor financial institution which has approved of a plan for structural improvement referred to in paragraph (1) shall submit the contents of the plan for structural improvement and the results annually to the head of the tax office of the place of tax payment under the conditions as prescribed by the Presidential Decree.

(15) In applying the provisions of paragraphs (1) through (14), the calculation of gains on t

ransfer to be included in the expenses, the contents of and approval standards for a plan for structural improvement, submission of business exchange contract and specifications on stock transfer and takeover, scope of the type of business, scope of liabilities or other necessary matters shall be determined by the Presidential Decree.

**Article 46-2 (Abatement of Transfer Income Tax for Exchange of Stocks, etc. of Venture Enterprises)**

(1) Where stockholders or investors (limited to resident nationals; hereafter, “stockholders, etc.” in this Article) of a venture enterprise (hereafter, “enterprise transferring stocks, etc. in exchange” in this Article) transfer their stocks or equity shares (hereinafter “stocks, etc.”) to another venture enterprise (hereinafter “enterprise accepting stocks, etc. in exchange”) in exchange of equity stocks, etc. of such enterprise accepting stocks, etc. in exchange on or before December 31, 2000, fulfilling the requirements falling under each of the following subparagraphs, an amount equivalent to 50/100 of the transfer income tax on the income accruing from such transfers shall be abated:

1. Both the enterprise transferring stocks, etc. in exchange and the enterprise accepting stocks, etc. in exchange shall promote a strategic business tieup program as prescribed by the Presidential Decree and then transfer and accept stocks, etc. according to such program;
2. Any special relationship prescribed by the Presidential Decree shall not exist between stockholders, etc. of such enterprise transferring stocks, etc. in exchange and such enterprise accepting stocks, etc. in exchange;
3. The aggregate amount of equity stocks, etc. transferred by stockholders, etc. of such enterprise transferring stocks, etc. in exchange shall be equal to the aggregate amount of equity stocks, etc. accepted by stockholders, etc. of such enterprise accepting stocks, etc. in exchange; and
4. An exchange contract showing the aggregate amount, evaluation, quantities, etc. of such equity stocks, etc. transferred and accepted shall be filed to the heads of tax offices having jurisdiction over locations where each of such stockholders pay their taxes

(2) Where a person for whom the transfer income tax is abated pursuant to paragraph (1) falls under any case of the following subparagraphs, the entire amount abated shall be collected retroactively. In this case, the provisions of Article 33 (4) shall apply mutatis mutandis to such retroactive collection:

1. Where stockholders, etc. of an enterprise transferring stocks, etc. in exchange hold again stocks, etc. they have transferred such stocks to stockholders of an enterprise accepting stocks, etc. within 10 years from the date of such transfer;
  2. Stockholders, etc. of an enterprise transferring stocks, etc. in exchange transfer such stocks, etc., accepted from stockholders, etc. of such enterprise accepting stocks, etc. in exchange, to a third party, within five years from the date of such transfer; and
  3. Stocks, etc. of an enterprise transferring stocks, etc. in exchange discontinues its business within three years from the date of the transfer of stocks, etc.
- (3) Any person who intends to be eligible for the tax abatement under the provisions of paragraph (1) shall file an application for such tax abatement as prescribed by the Presidential Decree.

**Article 47 (Special Taxation on Stock Exchange by New Corporations, etc.)**

Where a domestic corporation exchanges all of the stocks of a new corporation or a newly established corporation by division (limited to a corporation established by spin-off) under Article 38 with stocks of a corporation affiliated with another enterprise group pursuant to Article 46 on or before December 31, 1999, the amount which is equivalent to gains on transfer of assets at the time of the contribution in kind or spin-off and is deferred for taxation by including it into the expenses may be deferred for taxation again under the conditions as prescribed by the Presidential Decree.

**Article 47-2 (Special Taxation on Succession of Loss Carried Forward in Merger)**

(1) Where a domestic corporation merges with another domestic corporation which is in a special relationship under the provisions of Article 52 (1) of Corporate Tax Act on or before December 31, 1999, meeting the requirements provided in each subparagraph of Article 44 (1) and Article 45 (1) 2 and 3 of the same Act, notwithstanding the provisions of Article 45 (1) 1 of the same Act, any deficits of such a merged corporation as of the date of the registration of such merger under the provisions of subparagraph 1 of Article 13 of the same Act may be deducted from the tax base of a joint corporation surviving the merger in each of its business years within the limit of an amount prescribed in the Presidential Decree under the provisions of Article 45 of the same Act.

(2) Where a domestic corporation merges with another domestic corporation which has no special relationship prescribed in the Presidential Decree on or before December 31, 1999 by taking over the stocks owned by controlling shareholders of another domestic corporation and specially related persons according to a corporate restructuring plan prescribed in the

Presidential Decree after obtaining approval from major creditor financial institutions, the provisions of Article 80 (2) of the Corporate Tax shall not apply to the corresponding stocks

(3) The Presidential Decree shall prescribe the scope of controlling shareholders, specially related persons and major financial institutions referred to in paragraph (2), and other necessary matters.

#### **Article 48 (Special Taxation for Financial Institutions)**

(1) With respect to any transfer margin accruing from the transfer of assets by financial institutions prescribed by the Presidential Decree (hereafter, “financial institutions” in paragraphs (2) and (3)), which such financial institutions acquire on or before December 31, 2000 to execute their mortgages or recover their credits, and any transfer difference accruing from the transfer of assets by the Korea Asset Management Corporation established under the Act on the Effective Management of Insolvent Assets, etc. of Financial Institutions and the Establishment of Korea Asset Management Corporation (hereinafter “the Korea Asset Management Corporation”), the Deposit Insurance Corporation established pursuant to the provisions of Article 3 of the Depositor Protection Act and reorganizing financial institutions (hereinafter “reorganizing financial institutions”) under the provisions of Article 36-3 of the same Act, which such institutions acquire on or before December 31, 2000, a tax amount equivalent to 50/100 of the special surtax shall be reduced or exempted. *<Amended by Act No. 6045, Dec. 28, 1999; Act No. 6073, Dec. 31, 1999>*

(2) The provisions of paragraph (1) shall apply to the case where such assets are transferred within two years for a financial institution and within five years for the Korea Asset Management Corporation, the Deposit Insurance Corporation and the reorganizing financial institutions from the date of their acquisition: Provided, That the period may be extended within the limit of six months for once where the Presidential Decree so determines. *<Amended by Act No. 6045, Dec. 28, 1999; Act No. 6073, Dec. 31, 1999>*

(3) Where any bad debts exceeding the amount of allowance for bad debts account incur to a financial institution, the financial institution may, notwithstanding the provisions of the Assets Revaluation Act, offset them against asset revaluation surplus within the limits of the excess amount under the conditions as prescribed by the Presidential Decree. In this case, the amount offset shall be included in the expenses in calculating an income amount for the financial institution.

(4) Any financial institution prescribed by the Presidential Decree may, notwithstanding the

e provisions of Article 34 of the Corporate Tax Act, include the allowance for bad debts in the operating expenses within the limit of an minimum amount accumulated according to the accumulation standards for the allowance for bad debts, which are set by the Chairman of the Financial Supervisory Commission in calculating the income amount for the business year ending on or before December 31, 2000: Provided, That a financial institution, which was prevented from applying an amount calculated according to the standard ratio for the limit on inclusion of allowance for bad debts in the expenses pursuant to the Corporate Tax Act before such Act is amended by Act No. 5581, shall apply it to the business year belonging to the date of December 31, 1999. *<Amended by Act No. 6045, Dec. 28, 1999>*

#### **Article 49 (Special Taxation of Corporate Tax on Financial Institution Merger)**

(1) Where a financial institution subject to the Act on Structural Improvement of Financial Industry (hereafter, “financial institutions” in this Article) is by another financial institution and transfers its entire business to another financial institution on or before December 31, 1999, no income tax or corporate tax shall be imposed on incomes paid to the stockholders, employees or investors of such dissolved financial institution under the provisions of Article 17 (2) 3 and 4 of the Income Tax Act or Article 16 (1) 4 and 5 of the Corporate Tax Act, and no corporate tax shall be imposed on incomes accrued from the liquidation of the dissolved financial institution under the provisions of Article 77 of Corporate Tax Act. *<Amended by Act No. 5996 Aug. 31, 1999>*

(2) Where a financial institution is dissolved by a merger with another financial institution on or before December 31, 1999 pursuant to the Act on Structural Improvement of Financial Industry, even failing to fulfill the requirements prescribed in Article 45 (1) 2 of Corporate Tax Act, any deficits of such a financial institution being dissolved by the merger under the provisions of Article 13 (1) of the same Act may be deducted from the tax base of the take-over financial institution in each of its business years under the provisions of Article 45 of the same Act. *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

#### **Article 50 (Abatement of Special Surtax for Merger of Financial Institutions)**

(1) With respect to capital gains accruing from which a financial institution falling under any of the following subparagraphs acquires assets as determined by the Presidential Decree due to a merger or a total transfer of its operations on or before December 31, 2000 and transfers them within five years from the date of merger registration or date of total takeover of its operations, a tax amount equivalent to 50/100 of special surtax shall be reduced and exempted. In this case, the special surtax on capital gains accruing from total transfer of oper

ations referred to in subparagraph 1, may be subject to the taxation carried forward: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. A financial institution which is established, continues to exist or takes over operations in whole due to a merger under the Act on the Structural Improvement of the Financial Industry;
2. A cooperative merged under the Agricultural Cooperatives Merger Promotion Act; and
3. The National Agriculture Cooperatives Federation established under the Agricultural Cooperatives Act.

(2) Any person who seeks to be eligible for the application of the provisions of paragraph (1) shall file a detailed description falling under any of the following subparagraphs with respect to the assets he intends to transfer to the head of a pertinent tax office within six months from the date of merger registration, the date of the take-over of whole business or the date of incorporation registration: *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

1. A detailed statement confirmed by the Chairman of the Financial Supervisory Commission in case of a financial institution;
2. A detailed statement confirmed by the Cooperative Merger Promotion Council under the Agricultural Cooperative Merger Promotion Act in case of a merger of cooperatives; and
3. A detailed statement confirmed by the Minister of Agriculture and Forestry in case of the National Agriculture Cooperatives Federation.

(3) A person who intends to have the provisions of paragraph (1) applied shall make an application for tax reduction and exemption or taxation carried forward.

**Article 51 (Reduction in and Exemption from Special Surtax on Transfer of Real Estate Pursuant to Structural Improvement of Financial Industry)**

(1) With respect to capital gains accruing from which an insolvent financial institution referred to in subparagraph 3 of Article 2 of the Act on the Structural Improvement of the Financial Industry (hereinafter “insolvent financial institution”) transfers its real estate by any timely corrective measures referred to in Article 10 of the said Act (hereafter, “timely corrective measures” in this Articles 52, 117, 119 and 120) or any decision on contract transfer referred to in Article 14 (2) of the said Act (hereafter, “decision on contract transfer” in this Article and Articles 52, 117, 119 and 120), the tax amount equivalent to 100/100 of special s

urtax shall be reduced and exempted.

(2) With respect to capital gains accruing from which the Korea Deposit Insurance Corporation established under Article 3 of the Depositor Protection Act (hereinafter “the Korea Deposit Insurance Corporation”), a reorganizing financial institution referred to in Article 36-3 of the said Act (hereinafter “reorganizing financial institution”) or a financial institution referred to in subparagraph 1 of Article 2 of the Act on the Structural Improvement of the Financial Industry (hereafter, “assuming financial institution” in Article 52) acquires real estate from an insolvent financial institution pursuant to a timely corrective measures or a decision on contract transfer and transfers it within five years (referring to an extended period where the period is extended within the limit of six months for once only where determined by the Presidential Decree) from the date of acquisition of such real estate, the tax amount equivalent to 50/100 of special surtax shall be reduced and exempted. *<Amended by Act No. 6045, Dec. 28, 1999>*

(3) In applying the provisions of paragraphs (1) and (2), any application for reduction and exemption or other necessary matters shall be determined by the Presidential Decree.

#### **Article 52 (Special Cases of Imposition of Corporate Tax on Purchases and Assumptions by Financial Institutions)**

Where an assuming financial institution takes over the liabilities the value of which exceeds that of assets from an insolvent institution pursuant to any timely corrective measures (limited to an order for contract transfer) or a decision on contract transfer and the following requirements are met, it shall include an amount exceeding the value of assets taken over amounting to the value of liabilities taken over (hereafter, “net liabilities” in this Article) in the expenses in calculating the income amount for the business year:

1. The assuming financial institution shall be compensated for an amount equivalent to the net liabilities by the Korea Deposit Insurance Corporation; and
2. The value of assets and liabilities taken over by the assuming financial institution shall be the value as confirmed by the Financial Supervisory Service Governor.

**Article 53 Deleted.** *<by Act No. 6045, Dec. 28, 1999>*

#### **Article 54 (Special Taxation on Corporate Restructuring Mutual Funds)**

(1) Where a corporate restructuring mutual fund referred to in Article 78 (1) of the Mutual Fund Act (hereafter, “corporate restructuring mutual fund” in this Article and Articles 117 and 120) appropriates reserve for investment loss of securities for the expenses by the business year which ends on or before December 31, 2003 in order to compensate for losses from

m an investment in securities issued by a business which is not affiliated with any large enterprise group under the Monopoly Regulation and Fair Trade Act pursuant to Article 78 (1) 1 of the said Act, any amount calculated pursuant to the following subparagraphs, whichever is smaller, shall be included in the expenses in calculating an income amount for the business year:

1. An amount calculated by multiplying the amount invested as determined by the Presidential Decree by 50/100; and
2. An amount calculated by subtracting reserve balance for investment loss of securities from an amount invested in securities as of the end of the business year: Provided, That where such amount is a negative, it shall be deemed as zero.

(2) The provisions of Article 17 (2) and (3) shall apply mutatis mutandis to offsetting reserve for investment loss of securities against losses, and inclusion of reserve balance in the gross income under paragraph (1).

(3) In case of a transfer of stocks or equities acquired by investing directly in a corporate restructuring mutual fund, the provisions of subparagraphs 3 and 4 of Article 94 of the Income Tax Act shall not apply to capital gains accruing from such transfer of stocks or equities, and the provisions of Article 14 (4) of the Income Tax Act shall not apply to dividends paid by a corporate restructuring mutual fund on or before December 31, 2003.

(4) Where a corporate restructuring mutual fund does not confirm to the requirements listed in any of subparagraphs of Article 78 (1) of the Mutual Fund Act (hereafter, “reduction and exemption requirements” in this Article), the provisions of paragraphs (1) through (3), (5) of this Article and subparagraph 11 of Article 117 shall not apply in the business year concerned.

(5) Where a corporate restructuring mutual fund pays 90/100 or more of distributable income as determined by the Presidential Decree even if it issues stocks by a method other than public offering of new or outstanding stocks referred to in Article 2 (3) and (4) of the Securities and Exchange Act, such an amount shall be deducted from an income amount for the business year. In this case, the corporate restructuring mutual fund shall make an application for income deduction under the conditions as prescribed by the Presidential Decree.

(6) In applying the provisions of paragraphs (1) through (4), the calculation of amounts included in the expenses and gross income, reduction and exemption requirements, and other necessary matters shall be determined by the Presidential Decree.

#### **Article 55 (Special Taxation on Vulture Funds, etc.)**



(1) With respect to marginal profits accruing from the transfer of stocks or equity shares in vested by a vulture fund (hereinafter “vulture fund”) established under the Industrial Development Act and dividend income earned from a company to be restructured on or before December 31, 2003 shall be exempted from the corporate tax. *<Amended by Act No. 6045, Dec. 28, 1999>*

(2) Where a vulture fund appropriates reserve for investment loss for the expenses by the business year which ends on or before December 31, 2003 in order to compensate for losses from an investment in or assumption of a company to be restructured, any amount calculated pursuant to the following subparagraphs, whichever is smaller, shall be included in the expenses in calculating an income amount for the business year: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. An amount calculated by multiplying the amount invested as determined by the Presidential Decree by 50/100; and
2. An amount calculated by subtracting reserve balance for investment loss from an amount invested as of the end of the business year: Provided, That where such amount is a negative, it shall be deemed a zero.

(3) The provisions of Article 17 (2) and (3) shall apply mutatis mutandis to offsetting reserve for investment loss against losses, and inclusion of reserve balance in the gross income, etc.

(4) Where a resident transfers stocks first acquired by investing in a vulture fund, the provisions of subparagraphs 3 and 4 of Article 94 of the Income Tax Act shall not apply, and the provisions of Article 14 (4) of the Income Tax Act shall not apply to dividend income earned from a vulture fund until December 31, 2003.

(5) A vulture fund which intends to have the provisions of paragraph (2) applied shall submit a specification on reserve for investment loss under the conditions as prescribed by the Presidential Decree.

(6) In applying the provisions of paragraphs (1) through (5), the calculation of amounts included in the expenses and gross income or other necessary matters shall be determined by the Presidential Decree.

#### **Article 56 (Reduction in and Exemption from Special Surtax on Special Purpose Companies)**

With respect to capital gains accruing from which a special purpose company referred to in subparagraph 5 of Article 2 of the Assets-Backed Securitization Act (including a foreign co

corporation specializing in asset-backed securitization operations; hereinafter “special purpose company”) acquires real estate from any assets holder by December 31, 2000 and transfers it within five years (referring to an extended period where the period is extended within the limits of six months for once only as prescribed by the Presidential Decree) from the date of its acquisition, a tax amount equivalent to 50/100 of special surtax shall be reduced or exempted. *<Amended by Act No. 6045, Dec. 28, 1999>*

**Article 57 (Revertible Business Year for Profit and Loss Derived from Investments in Securities Market Stabilization Fund, etc.)**

The revertible business year for profit and loss derived by the investment of a corporation in a cooperative, established for the stabilization of any securities market or securities investment trust market through investments in listed securities, which is determined by the Presidential Decree by December 31, 2003 shall be a business year in which the cooperative distributes such profit and loss to the corporation, notwithstanding the provisions of Article 40 of the Corporate Tax Act.

**Articles 58 and 59 Deleted.** *<by Act No. 5996, Aug. 31, 1999>*

**Article 60 (Abatement and Exemption of Transfer Margin Tax, etc. for Relocating Factory to Local Areas)**

(1) The tax on the income accrued from the transfer of a factory in a large city may be abated, exempted or deferred according to one of the following methods when a national who has conducted a business with a factory in a large city (hereafter, “factory in a large city” in this Article) transfers the factory site and buildings in order to relocate it to a local area other than large city areas (hereinafter “local area”) by December 31, 2000: *<Amended by Act No. 5996 Aug. 31, 1999>*

1. Where the machines and equipment of a local factory (meaning a factory which is newly acquired to locate it to a local area) are acquired by using the transfer price of the sites and buildings of the large city factory (hereinafter the “transfer price of large city factory”), the method of reducing and exempting the tax amount equivalent to 50/100 of transfer income tax or special surtax under the conditions as determined by the Presidential Decree; and
2. Where the buildings and sites are acquired by using the transfer price of the large city factory, the method of deferring taxation under the conditions as determined by the Presidential Decree.

(2) Any transfer margin accruing from the transfer of a factory site and building of a large c

ity by a native under the provisions of paragraph (1) may not be included into his operating income of the corresponding business year within the limit of an amount which is deducted by deficits carried forward under the provisions of Article 13 (1) of the Corporate Tax Act as of the closing date of the business year immediately preceding the business year belonging to the transfer date and is calculated as prescribed by the Presidential Decree. In this case, the said amount shall be included into the operating income evenly for the period of three business years from the business year belonging to the date of the third year after the closing date of the business year belonging to the date of such transfer. *<Newly inserted by Act No. 5996, Aug. 31, 1999>*

(3) Where a national who has transfer income tax or special surtax reduced or exempted or has taxation deferred pursuant to paragraph (1) fails to start the business by acquiring a local factory under the conditions as determined by the Presidential Decree, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally.

(4) Where a domestic corporation subject to the application of the provisions of paragraph (2) comes subject to the application of the provisions of paragraph (3), discontinues its business or is dissolved before such deferred amount is fully included in its operating income, an amount calculated as prescribed by the Presidential Decree from among the amount not included into the operating income shall be included into the operating income. In this case, the provisions of the partial main sentence, other than each subparagraph, of Article 4 (4) shall apply mutatis mutandis to the amount included into the operating income (excluding any amount included into the operating income after such domestic corporation discontinues its business or is dissolved through a merger or a spin-off and a spin-off merger). *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

(5) The provisions of Article 33 (4) shall apply mutatis mutandis to the case where the tax amount which has been abated, exempted or deferred under paragraph (1) is collected retroactively pursuant to paragraph (3). *<Amended by Act No. 5996, Aug. 31, 1999>*

(6) Where a person wishes to get tax abatement, etc. pursuant to the provisions of paragraphs (1) and (2), he shall make an application for tax abatement, exemption or deferment as prescribed by the Presidential Decree. *<Amended by Act No. 5996, Aug. 31, 1999>*

#### **Article 61 (Abatement and Exemption of Special Surtax on Corporate Headquarters Relocated from Seoul Metropolitan Area to other Area)**

(1) The tax amount payable on the income accrued to a corporation from its transfer of lan

d and buildings belonging to its headquarters or principal office for its relocation from the Seoul metropolitan area as prescribed by the Presidential Decree (hereinafter “Seoul metropolitan area”) to an area outside the Seoul metropolitan area by December 31, 2000 may be abated, exempted or deferred according to the following methods: <Amended by Act No. 5996, Aug. 31, 1999>

1. Where the machines and equipment of the headquarters or principal office outside the Seoul Metropolitan Area are acquired by using the transfer price of the sites and buildings of the headquarters or principal office in the Seoul Metropolitan Area (hereafter, “transfer price of the headquarters in the Seoul Metropolitan Area” in this Article), the method of reducing and exempting the tax amount equivalent to 50/ 100 of special surtax under the conditions as determined by the Presidential Decree; and
2. Where the sites and buildings of the headquarters or principal office of the area outside the Seoul Metropolitan Area are acquired by using the transfer price of the headquarters in the Seoul Metropolitan Area, the method of deferring taxation under the conditions as determined by the Presidential Decree.

(2) Where a corporation which has the special surtax reduced or exempted, or has the taxation deferred under paragraph (1) falls under the following subparagraphs, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally:

1. Where it fails to relocate its headquarters or principal office to a local area under the conditions as prescribed by the Presidential Decree;
2. Where it sets up offices beyond the standards under the Presidential Decree in the Seoul Metropolitan Area; and
3. Where it employs the proceeds accruing from disposal of the site and building of its headquarters or principal office in the Seoul Metropolitan Area for a purpose other than that as prescribed by the Presidential Decree.

(3) Any margin accruing from the transfer of a head office or a main office may not be included into the operating income of the corresponding business year within the limit of an amount which is deducted by deficits carried forward as of the closing date of the business year immediately preceding the business year belonging to the date of such transfer under the provisions of subparagraph 1 of Article 13 of the Corporate Tax Act and is calculated as prescribed by the Presidential Decree. In this case, the said amount shall be included into the operating income evenly for the period of three business years from the business year below

nging to the date of the third year after the closing of the business year belonging to the date of such transfer. *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

(4) The provisions of Article 33 (4) shall apply mutatis mutandis to the case where the tax amount which is reduced or exempted or deferred under the provisions of paragraph (1) is collected additionally under the provisions of paragraph (2).

(5) Where a corporation whose tax has been deferred pursuant to paragraph (3) or its business is discontinued or is dissolved before the deferred amount is fully included in its operating income or any of the reasons for additional collection occur, an amount calculated pursuant to the Presidential Decree from among such outstanding amount shall be added to its operating income of the business year belonging to the date of the occurrence of such reasons. In this case, the provisions of the partial main sentence other than each subparagraph of Article 4 (4) shall apply mutatis mutandis to an amount included in the operating income (excluding any amount included in the operating income following the business discontinuation or dissolution due to a merger, a spin-off or a spin-off merger). *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

(6) Where a person wishes to get tax credit pursuant to the provisions of paragraphs (1) and (3), he shall file an application for tax abatement, exemption or deferment as prescribed by the Presidential Decree. *<Amended by Act No. 5996, Aug. 31, 1999>*

## **Article 62 (Tax Credit for Investment in Equipment of Enterprise Relocated to Local Area)**

(1) Where a national starts the business in a local area after relocating all of his factory facilities which he had operated in a large city, as prescribed by the Presidential Decree, makes investments in new assets (excluding investment in used facilities) in order to use them directly in the relocated factory on or before December 31, 1999, the amount equivalent to 10/100 of the investment amount shall be deducted from the income tax (limited to the income tax on the business income) or corporate tax for the tax year where belongs the day on which such investment is completed. *<Amended by Act No. 5996 Aug. 31, 1999>*

(2) Where a corporation relocates its headquarters or principal office from the Seoul metropolitan area to a local area outside the Seoul metropolitan area and acquires a new building used for its headquarters or principal office as prescribed by the Presidential Decree by December 31, 2000, the amount equivalent to 10/100 of the amount used for such building acquisition as prescribed by the Presidential Decree shall be deducted from the corporate tax in the tax year where belongs the day on which the acquisition is made. *<Amended by Act No.*

5996 Aug. 31, 1999>

(3) Where a person wishes to get tax credit pursuant to the provisions of paragraphs (1) and (2), he shall apply for the tax credit as prescribed by the Presidential Decree.

**Article 63 (Abatement and Exemption of Tax Amount for Small and Medium Enterprises Relocated to Areas Outside Seoul Metropolitan Area)**

(1) Where a small and medium enterprise, which has been operated by a national for two years from its start-up, relocates its entire factory facilities which it has operated in the Seoul metropolitan area (limited to the case where its headquarters or principal office is also relocated together with the factory facilities if its headquarters or principal office has been located in the Seoul metropolitan area) to an area outside the Seoul metropolitan area as prescribed by the Presidential Decree, and starts its business operation on or on or before December 31, 2000, a tax amount equivalent to 100/100 of the income or corporate tax payable on any income accruing from the relocated factory shall be exempted in the tax year belonging to the date of such relocation and also in the tax year ending within three years from the opening day of the following tax year, and 50/100 of the income or corporate tax thereon shall be abated in the tax year ending within five years thereafter. <Amended by Act No. 5996 Aug. 31, 1999>

(2) Where any person wishes to get tax abatement or exemption pursuant to the provisions of paragraph (1), he shall make an application for tax abatement or exemption as prescribed by the Presidential Decree.

**Article 63-2 (Temporary Special Tax Abatement, etc. for Corporations' Factory and Head Office Relocated to Areas Outside Seoul Metropolitan Life Zone)**

(1) The corporate tax or special surtax payable by a corporation meeting the requirements falling under each of the following subparagraphs (hereafter, "corporation relocated to areas outside Seoul metropolitan life zone" in this Article) may be abated or exempted pursuant to the provisions of paragraphs (2) through (4):

1. A corporation shall have continuously carried on the business with factory facilities for not less than 5 years or maintained its head or principal office (hereafter, "head office" in this Article) in the overpopulation control zone (hereafter, the "over-population control zone" in this Article) under the provisions of Article 6 (1) 1 of the Seoul Metropolitan Area Readjustment Planning Act; and
2. A corporation shall have relocated its entire factory facilities or its head office to other area (limited to an industrial complex under the Industrial Sites and Development

Act in case that such factory facilities are relocated to any metropolitan city: the same in this Article shall apply) than the Seoul metropolitan life zone prescribed by the Presidential Decree (hereinafter the “Seoul metropolitan life zone”) and then commenced its business by December 31, 2002 as prescribed by the Presidential Decree.

(2) Any corporation relocated to an area other than the Seoul metropolitan life zone shall be exempted from the income falling under any of the following subparagraphs for the first tax year belonging to the date of such relocation, the entire corporate tax for the tax year ending within five years from the date of beginning of the tax year following the first tax year and a tax amount equivalent to 50/100 of the corporate tax for the tax year ending within five years thereafter:

1. Income generated from a factory in case of the relocation of such factory;
2. Income equivalent to an amount that derives from the multiplication of the income generated from the corresponding business operation (excluding the difference accruing from transfer of land and buildings) by the percentage of the total amount of annual salaries paid to the employees working at the head office relocated to an area other than the Seoul metropolitan life zone to the total amount of annual salaries paid to the entire employees of such a corporation in case of the relocation of its head office; and
3. Income equivalent to the amount computed adding such incomes as prescribed in paragraphs (1) and (2) in case that both the factory and head office are relocated together: such amount shall be within the limit of its annual operating income of the corresponding tax year.

(3) The provisions of Article 60 (2), (4), (6) or Article 61 (3), (5) or (6) shall apply mutatis mutandis to the corporate tax payable on the difference accruing from the transfer of a factory or head office in the over-population control zone by a corporation relocated to other area than the Seoul metropolitan life zone. In this case, a “factory in a major city” and the “head office or principal office in the Seoul metropolitan area” shall be deemed a “factory in the over-population control zone” and the “head office in the over-population control zone” respectively.

(4) The taxation of special surtax payable on the difference accruing from the transfer of sites or buildings belonging to a factory or head office in the over-population control zone by a corporation relocated to an area other than the Seoul metropolitan life zone shall be either deferred or exempted pursuant to the provisions of the following subparagraphs: Provided,

That the same shall not apply to the case where the special surtax is deferred or exempted under the provisions of Articles 60 (1) and 61 (1):

1. The special surtax shall be deferred as prescribed by the Presidential Decree in case that a corporation acquires new sites of land or buildings in an area other than the Seoul metropolitan life zone with the value accruing from the transfer of its factory or the sites of its buildings in the over-population control life zone; and
2. A tax amount equivalent to 50/100 of the special surtax shall be reduced or exempted from the income which is not made subject to the application of the taxation deferment referred to in paragraph (1).

(5) Where any corporation which has been relocated to an area other than the Seoul metropolitan life zone and has been made subject to the application of the deferment, reduction or exemption of taxation under the provisions of paragraphs (2) and (4) falls under any case of the following subparagraphs, an tax amount computed as prescribed by the Presidential Decree shall be collected retroactively:

1. Where such a corporation discontinues its corresponding business or is dissolved within three years from the date on which it relocates its factory or head office and then commences its business: Provided, That the same shall not apply to the case where such corporation is merged, divided or merged after division;
2. Where such corporation fails to commence its business operation after relocating its factory or head office to an area outside the Seoul metropolitan life zone as prescribed by the Presidential Decree;
3. Where such corporation establishes another factory or head office in the Seoul metropolitan life zone to produce the same products as those which were produced at the factory relocated under paragraph (1) within the period during which its tax is abated or exempted pursuant to paragraph (2);
4. Where such corporation fails to spend the proceeds from sales of its factory, or sites of its head office and buildings in the over-population control zone for purposes prescribed by the Presidential Decree; and
5. Where a corporation establishes another office of a size exceeding the standards as prescribed by the Presidential Decree in the Seoul metropolitan life zone in case that its head office is relocated.

(6) The provisions of Article 33 (4) shall apply mutatis mutandis to the case where taxes deferred, abated or exempted pursuant to paragraph (2) or (4) is collected retroactively pursuant



nt to paragraph (5).

(7) The Presidential Decree shall prescribe the method of calculating periods, the scope of salary, application for such tax abatement, exemption or deferment and other necessary matters.

**Article 64 (Reduction and Exemption of Tax Amount for Enterprise, etc. Housed in Agricultural and Industrial Complex)**

(1) For a national operating the agricultural and fishing villages income source development projects in the complex as prescribed by the Presidential Decree among the agricultural and industrial complexes under the Industrial Sites and Development Act and a small and medium enterprise conducting a business in the zone or area as prescribed by the Presidential Decree among the development promotion zone and the small and medium enterprise special support area under Articles 9 and 50 of the Balanced Regional Development and Support for Local Small and Medium Enterprises Act until December 31, 2000, the income tax or corporate tax on any income accruing from such project or business shall be reduced or exempted by applying mutatis mutandis under the provisions of Article 6 (1).

(2) Where any person wishes to have the provisions of paragraph (1) applied, he shall apply for the reduction or exemption under the provisions of the Presidential Decree.

**Article 65 (Tax Reduction and Exemption, etc. for Construction of New Hospital in Underprivileged Area in Medical Service)**

(1) For a national opening a hospital (including the dental and herbal medicine clinics; hereinafter “hospital”), or general hospital(hereinafter “general hospital”) under the Medical Service Act by December 31, 2000 and conducting the medical business in the underprivileged area in medical service as prescribed by the Presidential Decree (hereinafter “underprivileged area in medical service”), the income tax or corporate tax on any income accruing from the hospital or general hospital shall be reduced or exempted by applying mutatis mutandis to the provisions of Article 6 (1).

(2) Where a national operating a hospital or general hospital makes any investment in such facilities as prescribed by the Presidential Decree by December 31, 2000 to open the hospital or general hospital in an underprivileged area in medical service, the amount equivalent to 3/100 of the investment amount shall be deducted from the income tax (limited to the income tax on the business income) or corporate tax in the taxable year including the day on which the investment is completed.

(3) Where a person wishes to have the provisions of paragraph (1) or (2) applied, he shall a

apply for the reduction or exemption or the tax credit under the conditions as prescribed by the Presidential Decree.

**Article 66 (Exemption, etc. of Corporate Tax for Incorporated Farming Cooperative, etc.)**

(1) For an incorporated farming cooperative under the Act on the Special Measures for Development of Agricultural and Fishing Villages (hereinafter “incorporated farming cooperative”), the whole of the income as provided in Article 198 (1) of the Local Tax Act (hereinafter “farmland income”) and the amount of the income other than the farmland income falling within the limit as prescribed by the Presidential Decree shall be exempted from the corporate tax until the business year which ends on or before December 31, 2003.

(2) For the whole of the dividend income accruing from the farmland income and the amount of the dividend income accruing from income other than the farmland income out of those paid by an incorporated farming cooperative to its members until December 31, 2003, the amount falling within the limit as prescribed by the Presidential Decree shall be exempted from income tax. In this case, the dividend income accruing from the farmland income and that accruing from the income other than the farmland income shall be calculated under the conditions as prescribed by the Presidential Decree.

(3) Notwithstanding the provisions of Article 129 of the Income Tax Act, the withholding tax rate of the income tax on dividend income other than that exempted from the income tax under paragraph (2) out of that paid by an incorporated farming cooperative to its members until December 31, 2003 shall be 5/100, the resident tax is not imposed thereon, and the provisions of Article 14 (2) of the Income Tax Act shall not apply to such dividend income.

(4) Any income accruing from any farmland contributed in kind by a farmer as prescribed by the Presidential Decree to an incorporated farming cooperative until December 31, 2003 shall be exempted from the transfer income tax.

(5) Where a person who is exempted from the transfer income tax under paragraph (4) transfers the contribution shares to another person within three years after the date of contribution, the tax amount calculated under the conditions as prescribed by the Presidential Decree shall be collected additionally: Provided, That if it is prescribed by the Presidential Decree, this shall not apply.

(6) The provisions of Article 33 (4) shall apply mutatis mutandis where the transfer income tax exempted under paragraph (4) is collected additionally under the main sentence of paragraph (5).

(7) Where a person wishes to have the provisions of paragraphs (1), (2) and (4) applied, he shall apply for the exemption under the conditions as prescribed by the Presidential Decree

**Article 67 (Exemption, etc. of Corporate Tax for Incorporated Fishing Cooperatives, etc.)**

(1) For any incorporated fishing cooperative under the Fisheries Act (hereinafter “incorporated fishing cooperative”), the amount within the limit as determined by the Presidential Decree from among income of each business year until the business year which ends on or before December 31, 2003 shall be exempted from corporate tax.

(2) The amount within the limit as determined by the Presidential Decree from among dividend income paid by an incorporated fishing cooperative until December 31, 2003 to its members shall be exempted from income tax.

(3) Notwithstanding the provisions of Article 129 of the Income Tax Act, the withholding tax rate of income tax on dividend income other than that exempted from income tax pursuant to paragraph (2) from among dividend income paid by an incorporated fishing cooperative until December 31, 2003 to its members shall be 5/100, no resident tax shall be levied thereon, and the provisions of Article 14 (2) of the Income Tax Act shall apply to such dividend income.

(4) Any income accruing from any fishing land, etc. as determined by the Presidential Decree contributed in kind by a fisherman as prescribed by the Presidential Decree to an incorporated fishing cooperative until December 31, 2003 shall be exempted from transfer income tax.

(5) Where a person who has been exempted from transfer income tax pursuant to paragraph (4) transfers his contribution shares to any other person within three years from the date of contribution, the amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally: Provided, That this shall not apply to cases as determined by the Presidential Decree.

(6) The provisions of Article 66 (6) and (7) shall apply mutatis mutandis to the application for exemption referred to in paragraphs (1), (2) and (4) and the additional collection of tax amount referred to in the main sentence of paragraph (5).

**Article 68 (Tax Reduction and Exemption for Agricultural Company)**

(1) For an agricultural company as prescribed by the Act on the Special Measures for Development of Agricultural and Fishing Villages (hereinafter “agricultural company”), the cor

porate tax on any income accruing from the farmland shall be exempted until the business year which ends December 31, 2003 and the corporate tax on any income accruing from a source other than the farmland income shall be reduced or exempted by applying mutatis mutandis to the provisions of Article 6 (1).

(2) Any income accruing from any farmland contributed in kind until December 31, 2003 by a farmer as prescribed by the Presidential Decree to an agricultural company (limited to the company meeting the requirements necessary for a farming corporation pursuant to the Farmland Act) shall be exempted from the transfer income tax. In this case, the provisions of Article 66 (5) through (7) shall apply mutatis mutandis.

(3) Where a corporation wants to have the provisions of paragraph (1) applied, it shall apply for the reduction or exemption under the conditions as prescribed by the Presidential Decree.

#### **Article 69 (Exemption of Transfer Income Tax, etc. for Self-Cultivating Farmland)**

(1) Any income accruing from a transfer of the land as prescribed by the Presidential Decree, which has been cultivated directly by a person falling under any of the following subparagraphs for consecutive eight or more years and is subject to the farmland tax (including any land which is subject to the nontaxation, reduction, exemption, and non-collection of a petty sum), shall be exempted from the transfer income tax or the special surtax:

1. A resident living at the place where the farmland is located under the Presidential Decree; and
2. A corporation or an incorporated farming cooperative prescribed by the Presidential Decree operating agricultural production as a main business.

(2) Where a person desires to have the provisions of paragraph (1) applied, he shall apply for the exemption under the conditions as prescribed by the Presidential Decree.

#### **Article 70 (Reduction and Exemption of Transfer Income Tax, etc. on Transfer of Ranch Run)**

(1) With respect to any income accruing from a transfer of land, etc. within the limit as determined by the Presidential Decree by a national who has run a ranch for consecutive ten or more years (hereinafter “old ranch”) until December 31, 2000 in order to relocate it to a new ranch (hereinafter “new ranch”), the tax amount may be reduced or exempted or the taxation may be deferred according to the following methods:

1. Where the new ranch’s fixed assets used for business (excluding assets subject to the application of subparagraph 2) are acquired by using the transfer price of the old ranch

ch's land, etc., the method of reducing or exempting the tax amount equivalent to 50/100 of transfer income tax or special surtax under the conditions as determined by the Presidential Decree; and

2. Where the new ranch's land, etc. is acquired by using the transfer price of the old ranch's lands, etc., the method of deferring taxation under the conditions as determined by the Presidential Decree.

(2) Where a national who has tax amount reduced or exempted or has taxation deferred pursuant to paragraph (1) fails to start business by relocating the ranch under the conditions as determined by the Presidential Decree, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted or deferred under paragraph (1) is collected additionally under paragraph (2).

(4) A person who intends to have the provisions of paragraph (1) applied shall make an application for the reduction or exemption of the tax amount or an application for deferment of taxation under the conditions as determined by the Presidential Decree.

(5) The scope of fixed assets used for business referred to in paragraph (1) shall be determined by the Presidential Decree.

#### **Article 71 (Reduction and Exemption of Transfer Income Tax, etc. on Transfer of Factory Operated for Five Years or More)**

(1) With respect to any income accruing from a transfer of land, etc. by a national who has operated a factory for consecutive five years or more (hereafter, "old factory" in this Article) until December 31, 2000 in order to relocate it to a new factory (hereafter, "new factory" in this Article), the tax amount may be reduced or exempted or the taxation may be deferred according to the following methods:

1. Where the machines and equipment of the new factory are acquired by using the transfer price of the old factory's land, etc., the method of reducing and exempting the tax amount equivalent to 50/100 of transfer income tax or special surtax under the conditions as determined by the Presidential Decree; and
2. Where the sites and building of the new factory are acquired by using the transfer price of the old factory's land, etc., the method of deferring taxation under the conditions as determined by the Presidential Decree.

(2) Where a person who has transfer income tax or special surtax reduced or exempted or h

as taxation deferred fails to start business by relocating the factory under the conditions as determined by the Presidential Decree, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted, or deferred under paragraph (1) is collected additionally under paragraph (2).

(4) A person who intends to have the provisions of paragraph (1) applied shall make an application for the reduction or exemption of the tax amount or an application for deferment of taxation under the conditions as determined by the Presidential Decree.

**Article 72 (Special Cases of Imposition of Corporate Tax on Incorporated Cooperative)**

(1) Notwithstanding the provisions of Articles 13 and 55 of the Corporate Tax Act, the corporate tax on any income of a corporation falling under any of the following subparagraphs in each business year shall be the amount calculated by applying the tax rate of 12/100 to the net profit for the then-current period (referring to the net profit for the then-current period without deducting the corporate tax, etc.) in the financial statements for the settlement of accounts of the corporation, and such tax shall be imposed until December 31, 2003 (hereinafter “imposition of tax on the net profit for the then-current period”): Provided, That where the corporation waives the application of the imposition of tax on the net profit for the then-current period under the provisions of the Presidential Decree, the imposition of tax on the net profit for the then-current period shall not be applicable in the business years thereafter: <Amended by Act No. 6045, Dec. 28, 1999>

1. Credit cooperatives established under the Credit Cooperatives Act, and the Saemaul Savings Depository established under the Saemaul Savings Depository Act;
2. Local and special cooperatives organized under the Agricultural Cooperatives Act;
3. Deleted; <by Act No. 6045, Dec. 28, 1999>
4. Fisheries cooperatives by district and business category, and fisheries cooperatives manufacturing marine products (including a mutual loan club of a fishing village) established under the Fisheries Cooperatives Act;
5. Cooperatives, business cooperatives, and the federation of cooperatives established under the Small and Medium Enterprise Cooperatives Act;
6. Forestry cooperatives (including a mutual loan club of a forestry) established under the Forestry Cooperatives Act;
7. Tobacco producers cooperatives organized under Tobacco Producers Cooperatives Act

ct; and

8. Deleted. <by Act No. 6045, Dec. 28, 1999>

(2) The provisions of Articles 4 through 14, 22 through 27, 30, 31 (4) through (6), 32 (4), 34, 58, 59, 62 through 68, 94, 95, 101 through 103 shall not apply to the corporations under paragraph (1).

(3) The corporations as referred to in subparagraphs of paragraph (1) (excluding those which waive the application of the imposition of tax on the net profit for the then-current period under the proviso of paragraph (1)) may be granted not to keep books under a double entry system.

### **Article 73 (Special Cases of Inclusion of Contribution in Expenses)**

(1) Where a national disburses the contributions falling under any of the following subparagraphs until December 31, 2000, such contributions shall be included in the expenses within the limit of the amount calculated by deducting the deficit carried forward from the income amount, in calculating the income amount in the then-current taxable year: <Amended by Act No. 5960, Mar. 31, 1999; Act No. 6045, Dec. 28, 1999; Act No. 6136, Jan. 12, 2000>

1. An amount contributed as a culture and arts promotion fund under the Culture and Arts Promotion Act;
2. A contribution disbursed as equipment, educational or research expenses to private schools under the Private School Act, technical colleges under the Technical College Act, the national university hospitals under the Act on the Establishment of National University Affiliated Hospitals, and Seoul National University Hospital under the Establishment of Seoul National University Hospital Act;
3. A contribution disbursed by an enterprise to an intra-company labor welfare fund for improving the welfare of employees under the IntraCompany Labor Welfare Fund Act;
4. A contribution disbursed to the Independence Memorial Hall established under the Independence Memorial Hall Act;
5. A contribution disbursed for the 14th Busan Asian Games Organizing Committee which is an incorporated foundation established with the permission of the competent Minister under Article 32 of the Civil Act (hereinafter the “Busan Asian Games Organizing Committee”);
6. A contribution disbursed for the 4th Kangwon Winter Asian Games Organizing Committee which is an incorporated foundation established with the permission of the co

competent Minister under Article 32 of the Civil Act (hereinafter the “Winter Asian Games Organizing Committee”);

7. A contribution disbursed to the Korean Organizing Committee for the 2002 FIFA World Cup Korea and Japan which is an incorporated foundation established with permission of the competent Minister under Article 32 of the Civil Act (hereinafter the “Organizing Committee for the 2002 World Cup”);
8. A contribution disbursed to specific research institutes (including their joint management organizations) under the Support of Specific Research Institutes Act, the Korea Institute of Industrial Technology established under the Act on Establishment, Operation and Fosterage of Government-Invested Research Institutes and the Specialized Industrial Technology Research Institute established under the Act on Establishment of Industrial Technology Foundation;
9. A contribution disbursed for any social welfare community fund-raising association established under the Social Welfare Community FundRaising Act;
10. A contribution disbursed to such research institutes as prescribed under the Presidential Decree among the government-invested research institutes established under the Act on Establishment, Operation and Fosterage of Government-Invested Research Institutes (limited to such specific research institutes, specialized research institutes, and their attached research institutes falling under the category of the government-invested research institutes established under the previous Act on Support of Specific Research Institutes prior to the enforcement of the foregoing Act promulgated under Act No. 5733); and
11. A contribution disbursed to the Educational Broadcasting System established under the Educational Broadcasting System Act.

(2) Where the Labor Welfare Corporation established under the Industrial Accident Compensation Insurance Act contributes any assets to the Industrial Accident Medical Board established under the said Act until December 31, 2000, the value of such contributed assets shall be included in the expenses in calculating the income amount in the then-current taxable year. In this case, the value of the contributed assets other than money shall be subject to the book value at the time of contribution.

**Article 74 (Special Cases of Inclusion of Reserve for Proper Purpose Business in Expenses)**

- (1) In applying the provisions of Article 29 of the Corporate Tax Act to a corporation fallin



g under any of the following subparagraphs until the business year which ends on or before December 31, 2003, any income accruing from its profit-making business (limited to the proper purpose business in case of subparagraphs 5 and 6) may be included in the expenses as reserve funds for its proper purpose business, notwithstanding the provisions of paragraph (1) 4 of the same Article of the same Act:

1. School corporations as prescribed by the Private School Act;
2. Social welfare corporations as prescribed by the Social Services Act;
3. National university hospitals as prescribed by the Act on the Establishment of National University-Affiliated Hospitals, and the Seoul National University Hospital as prescribed by the Establishment of Seoul National University Hospital Act;
4. Busan Asian Games Organizing Committee;
5. A corporation operating a library registered under the Library and Reading Promotion Act;
6. A corporation operating a museum or art gallery registered under the Museum and Art Gallery Support Act;
7. A corporation which is permitted or authorized as a cultural and arts organization from the Government and prescribed by the Presidential Decree;
8. The Winter Asian Games Organizing Committee; and
9. The Organizing Committee for the 2002 World Cup.

(2) In applying the provisions of Article 29 of the Corporate Tax Act to a corporation falling under any of the following subparagraphs until the business year which ends on or before December 31, 2003, any income accruing from its profit-making business may be included in the expenses as reserves for its proper purpose business under the conditions as prescribed by the Presidential Decree:

1. National Agricultural Cooperative Federation established under the Agricultural Cooperatives Act;
2. Federation of Fisheries Cooperatives established under the Fisheries Cooperatives Act; and
3. Deleted. <by Act No. 6045, Dec. 28, 1999>

#### **Article 75 (Inclusion of Distribution Improvement Support Reserves in Expenses)**

(1) Where a corporation to which the provisions of Article 74 (2) apply appropriates distribution improvement support reserves in the expenses in order to cover the funds designed to provide a corporation referred to in Article 72 (1) 2 through 4 with support for the acquisition

on of or compensation for loss of distribution facilities as determined by the Presidential Decree (hereafter, “distribution improvement support” in this Article), it may include them in the expenses in calculating the income amount of the business year within the limit of the amount calculated by multiplying the income amount of the business year as determined by the Presidential Decree by 1/1000.

(2) The distribution improvement support reserves included in the expenses pursuant to paragraph (1) shall be included in the gross income according to the following subparagraphs:

1. The reserves equivalent to the amount (excluding the amount expended for reserves for its proper purpose business referred to in Article 74 (2)) required for distribution improvement support from the end of the business year in which such reserves are included in the expenses for the first time to the end of the business year including the date on which the period of three years falls, shall be included in the gross income within the limit of the amount calculated by multiplying the amount obtained by dividing the reserves by 36, by the number of months in each business year from the business year including the date on which the period of three years falls; and
2. Where the reserves included in the expenses exceed the amount to be included in the gross income pursuant to subparagraph 1, the reserves equivalent to the excess shall be included in the gross income in calculating the income amount in the business year including the date on which the period of three years falls.

(3) Where any cause falling under any of the following subparagraphs occurs to a corporation holding any amount in the account of distribution improvement support reserves included in the expenses pursuant to paragraph (1), the whole amount of reserves account not included in the gross income shall be included in the gross income in calculating the income amount in the business year including the date on which such cause occurs;

1. Where the corporation discontinues the business; and
2. Where the corporation is dissolved: Provided, That if it is dissolved due to merger or division (including division and merger; hereinafter the same shall apply) and the corporation surviving after merger, corporation newly established by division, or the other party to division and merger succeeds to the amount in the account of the investment reserves, this shall not apply.

(4) The provisions of Article 4 (4) shall apply mutatis mutandis where distribution improvement support reserves are included in the gross income pursuant to paragraphs (2) 2 and (3).

(5) A corporation who wishes to have the provisions of paragraph (1) applied shall submit specifications on distribution improvement support reserves under the conditions as determined by the Presidential Decree.

**Article 76 (Special Cases of Inclusion of Political Funds in Expenses)**

(1) Political funds contributed by a national to a political party pursuant to the Political Funds Act (including its supporters' association under the said Act), shall be deducted from the income amount in the then-current taxable year in which the funds are disbursed, or shall be included in the expenses within the limit of the amount calculated by subtracting the deficit carried forward from the income amount, in calculating the income amount.

(2) The donation tax shall not be imposed on the political funds contributed under paragraph (1).

**Article 77 (Reduction in and Exemption from Transfer Income Tax on Land for Public Activities)**

(1) With respect to any income falling under any of the following subparagraphs and accruing from transfer of land acquired prior to two years retroactively from the date of the public notice regarding the authorization of projects for the project area in which such land is included (if the transfer is made before the date of public notice regarding such authorization, the day of transfer) on or before December 31, 2000, the tax amount equivalent to 25/100 of the transfer income tax or the special surtax (with respect to a portion of the transfer price of the land which is paid by any bonds as prescribed by the Presidential Decree, 35/100), shall be reduced or exempted:

1. Income accruing from the transfer of land required for the public activities to which the Act on Special Cases concerning the Acquisition of Lands for Public Use and the Compensation for Their Loss apply, to a person executing such public activities;
2. Income accruing from the transfer of land in the urban redevelopment zones under the Urban Redevelopment Act (excluding urban redevelopment zones to which any public facilities are not appurtenant), to such person executing the public activities under the said Act; and
3. Income accruing from any expropriation under the Land Expropriation Act and other Acts.

(2) The amount equivalent to the tax amount reduced or exempted under paragraph (1) shall be collected from a purchaser in addition to the income tax or corporate tax, in the cases falling under any of the following subparagraphs:

1. Where a person executing the public activities as referred to in paragraph (1) 1 fails to start such public activities within three years after he has obtained the authorization for the public activities; and
  2. Where a person executing the public activities as referred to in paragraph (1) 2 fails to obtain the authorization for the redevelopment projects as prescribed by the Urban Redevelopment Act, or to complete such projects, within such period as prescribed by the Presidential Decree.
- (3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted under paragraph (1) 1 or 2 is collected under paragraph (2).
- (4) Where a person executing the public activities or redevelopment projects desires to have the tax amount reduced or exempted under paragraph (1) 1 or 2, he shall apply for the reduction or exemption under the conditions as prescribed by the Presidential Decree.
- (5) A person who desires to have the tax amount reduced or exempted under paragraph (1) 3 shall apply for such reduction or exemption under the conditions as prescribed by the Presidential Decree.

**Article 78 (Abatement or Exemption of Transfer Income Tax for Developers)**

(1) With respect to any income falling under any of the following subparagraphs and accruing from the transfer of land on or before December 31, 2000, the tax amount equivalent to 50/100 of the transfer income tax or special surtax shall be reduced or exempted: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. Income accruing from the transfer of the land formed by a person executing the projects as prescribed by the Presidential Decree for the purpose of a balanced regional development to the occupant end-users;
2. Income accruing from the transfer of the land formed by a person executing the projects in the area where the execution plan of the complex formation projects is approved under the Promotion of Small and Medium Enterprises and Encouragement of Purchase of Their Products Act to the occupant end-users;
3. Income accruing from the transfer of the land formed by a person executing the projects under the Tourism Promotion Act in a sightseeing complex as prescribed by the Presidential Decree;
4. Income accruing from the transfer of the land formed in the industrial complex by a person executing projects in the industrial complex (including special areas) designated under the Industrial Sites and Development Act, and income accruing from the tra

- nsfer of the land in the industrial complex by the Industrial Complex Management Corporation or Korea Industrial Complex Corporation established under the Industrial Placement and Factory Construction Act;
5. Income accruing from the transfer of the land used as roads by the Korea Highway Corporation established under the Korea Highway Corporation Act, or the land formed as projects under Article 12 (1) 1 of the said Act;
  6. Income accruing from the transfer of business-use land, etc. by the Agriculture Infrastructure Corporation established under the Act on Agriculture Infrastructure Corporation and Farmland Management Fund when such corporation performs its business operations pursuant to each subparagraph of Article 10 (1) of the same Act (limited to such business operations as prescribed under each subparagraph of Article 12 (1) of the Rural Development Corporation and Farmland Management Fund Act abolished pursuant to Act No. 5759);
  7. Income accruing from the transfer of the land formed as projects provided in each subparagraph of Article 9 (1) of the Korea Housing Corporation Act by the Korea Housing Corporation established under the said Act (including projects executed by it after being designated as a person executing the projects pursuant to other Acts);
  8. Income accruing from the transfer of the land by the Korea Land Corporation established under the Korea Land Corporation Act;
  9. Income accruing from the transfer of the land formed as new airport construction projects provided in subparagraph 2 of Article 2 of the Act on the Promotion of a New Airport for Seoul Metropolitan Area Construction by the Seoul Metropolitan Area New Airport Construction Corporation established under the Seoul Metropolitan Area New Airport Construction Corporation Act;
  10. Income accruing from the transfer of the land formed through the execution of projects by inducing private capital under the Act on Private Participation in Infrastructure by a solicitor of such project designated under the said Act;
  11. Income accruing from the transfer of an apartment-type factory built by the Small and Medium Enterprise Promotion Corporation established under the Promotion of Small and Medium Enterprises and Encouragement of Their Products Act pursuant to Article 29 of the Industrial Placement and Factory Construction Act to occupant end-users, or from the transfer of a factory built, acquired or owned under Article 46 of the Balanced Regional Development and Support for Local Small and Medium Enter

prises Act to a local small and medium enterpriser;

12. Income accruing from the transfer of the land formed by a person executing the distribution complex development projects as prescribed by the Presidential Decree in such distribution complex to occupant endusers; and

13. Income accruing from the transfer of the land formed by the Korea Container Wharf Corporation established under the Korea Container Wharf Corporation Act.

(2) Where a person wishes to have the tax amount reduced or exempted under paragraph (1), he shall apply for such reduction or exemption under the conditions as prescribed by the Presidential Decree.

**Article 79 (Reduction in and Exemption from Transfer Income Tax on Land Transferred to State, etc.)**

(1) With respect to incomes falling under any of the following subparagraphs, the tax amount equivalent to 25/100 of the transfer income tax or special surtax shall be reduced or exempted:

1. Income accruing from the transfer of the forest as prescribed by the Presidential Decree by a resident to the State or local governments (including the local governments association) on or before December 31, 2000; and

2. Income accruing from transfer of the land as prescribed by the Presidential Decree to a person as prescribed by the Presidential Decree among those executing the projects under the Special Act on Cheju-Do Development on or before December 31, 2001.

(2) A person who wishes to have the tax amount reduced or exempted under paragraph (1) 1 shall apply for such reduction or exemption under the conditions as prescribed by the Presidential Decree.

(3) The provisions of paragraph (1) 2 shall be applicable only where a person who has purchased the land makes an application for the reduction or exemption under the conditions as prescribed by the Presidential Decree.

(4) Where a person executing the projects as referred to in paragraph (1) 2 fails to complete the projects by the date of completion of the work as specified in the plan for the projects whose execution is approved, the amount equivalent to the tax amount reduced or exempted under paragraph (1) shall be collected from the person executing the projects in addition to the income tax or corporate tax.

(5) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted under paragraph (1) is collected under paragraph (4).

## **Article 80 (Reduction in and Exemption from Transfer Income Tax on Land for Construction of National Housing)**

(1) With respect to any income accruing from the transfer by a national of the land (excluding the land as prescribed by the Presidential Decree) acquired prior to two years retroactively from the date of transfer as the land for the construction falling under any of the following subparagraphs on or before December 31, 2000, the tax amount equivalent to 25/100 of the transfer income tax or special surtax shall be reduced or exempted:

1. Land for construction of houses smaller than those as prescribed by the Presidential Decree (hereinafter “national housing”) to be constructed by a house constructor registered under Article 6 of the Housing Construction Promotion Act (excluding where the registration is exempted pursuant to the proviso of paragraph (1) of the same Article; hereafter, “registered house constructor” in this Article);
2. Land for construction of rental houses for employees to be constructed by a person who constructs the national housing to be rented to homeless employees as prescribed by the Presidential Decree (hereafter, “rental housing for employees” in this Article), and who is prescribed by the Presidential Decree (hereafter, “constructor of rental housing for employees” in this Article); and
3. Land for construction of dormitories as prescribed by the Presidential Decree to be constructed by a dormitory constructor as prescribed by the Presidential Decree (hereafter, “dormitory constructor” in this Article).

(2) Where a registered house constructor, constructor of rental housing for employees or dormitory constructor fails to construct any national housing, rental houses for employees or dormitory on the land concerned under the conditions as prescribed by the Presidential Decree, or where any of the causes as prescribed by the Presidential Decree occurs, the amount equivalent to the tax amount reduced or exempted under paragraph (1) shall be collected from such constructors in addition to the income tax or corporate tax.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount reduced or exempted under paragraph (1) is collected under paragraph (2).

(4) The provisions of paragraph (1) shall be applicable only where a registered house constructor, constructor of rental houses for employees, or dormitory constructor applies for such reduction or exemption under the conditions as prescribed by the Presidential Decree.

## **Article 81 (Exemption from Special Surtax on Land of School Foundation)**

(1) With respect to income accruing from the transfer by a school foundation established u

under the Private School Act of the land falling under any of the following subparagraphs on or before December 31, 2000, the special surtax shall be exempted under the conditions as prescribed by the Presidential Decree:

1. Income accruing from the transfer of land which is the basic property owned by a school foundation for the purpose of using it for any educational projects; and
2. Income accruing from the transfer of land acquired by a school foundation prior to December 31, 1985 for the purpose of acquiring another profit-making property.

(2) Where a school foundation which has the special surtax exempted under paragraph (1) fails to use the land for any educational projects, or to acquire any profit-making property under the conditions as determined by the Presidential Decree, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount exempted under paragraph (1) is collected additionally under paragraph (2).

(4) A person who wishes to have the provisions of paragraph (1) applied shall make an application for the exemption of the tax amount under the conditions as determined by the Presidential Decree.

**Article 82 (Exemption from Special Surtax on Land of Social Welfare Corporation, etc.**

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(1) With respect to income accruing from the transfer of land falling under any of the following subparagraphs for the purpose of using it for the proper purpose business of the corporation concerned, the special surtax shall be exempted under the conditions as determined by the Presidential Decree:

1. Land used directly for three years or more by a social service corporation established under the Social Services Act for its proper purpose;
2. Land used directly for three years or more by a corporation established for the purpose of propagating religion or other enlightenment for its proper purpose;
3. Land used directly for three years or more by the Korea Patriots and Veterans Welfare Corporation established under the Korea Patriots and Veterans Welfare Corporation Act for its proper purpose to conduct projects as prescribed in subparagraph 1 of Article 6 the said Act;
4. Land used directly for three years or more by the Korea Rehabilitation Protection Corporation established under the Protection and Surveillance, etc. Act for its proper purpose;



5. Land used directly for three years or more by public service corporations as prescribed by the Presidential Decree, as dormitories for students attending middle and high schools, colleges and universities (including industrial colleges, teachers' colleges, junior colleges, air and correspondence colleges, and technical colleges), and various schools equivalent thereto under the Elementary and Secondary School Act or Higher School Act; and

6. Land used directly for three years or more as rehabilitation facilities which are established and operated by a social service corporation or any other non-profit corporation reported under Article 15 of the Mental Health Act.

(2) Where the corporation which has the special surtax exempted under paragraph (1) fails to use the land for its proper purpose business under the conditions as determined by the Presidential Decree, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally.

(3) The provisions of Article 33 (4) shall apply mutatis mutandis where the tax amount exempted under paragraph (1) is collected additionally under paragraph (2).

(4) A person who wishes to have the provisions of paragraph (1) applied shall apply for the exemption under the conditions as determined by the Presidential Decree.

#### **Article 83 (Exemption from Transfer Income Tax for Moving of Museum, etc.)**

(1) Where a national transfers land in order to move the facilities falling under any of the following subparagraphs which are operated by him for three years or more on or before December 31, 2000, the transfer income tax or the special surtax shall be exempted under the conditions as determined by the Presidential Decree:

1. A library registered under the Libraries and Reading Promotion Act; and
2. A museum or art gallery registered under the Museum and Art Gallery Support Act.

(2) Where a person who has been exempted from the transfer income tax or the special surtax under paragraph (1) falls under any of the following subparagraphs, the tax amount calculated under the conditions as determined by the Presidential Decree shall be collected additionally: Provided, That this shall apply unless there is an unavoidable reason as prescribed by the Presidential Decree:

1. Where he fails to move the facilities as referred to in each subparagraph of paragraph (1) under the conditions as determined by the Presidential Decree; and
2. Where he closes or disposes of the facilities within three years after such facilities as referred to in each subparagraph of paragraph (1) are moved completely.

(3) Where the tax amount exempted under paragraph (1) is collected additionally under paragraph (2), the provisions of Article 33 (4) shall be applied mutatis mutandis.

(4) A person who wishes to have the provisions of paragraph (1) applied, shall apply for the exemption under the conditions as determined by the Presidential Decree.

**Article 84 (Abatement and Exemption of Special Surtax for Agricultural Cooperatives, etc.)**

(1) The income accruing from the transfer of land between individual cooperatives established under the Agricultural Cooperatives Act, the Livestock Industry Cooperatives Act, or the Fisheries Cooperatives Act (including fishing and forestry village societies; hereafter, the same shall apply in this Article), or between any of such cooperatives and their national federation on or before December 31, 2000 shall be exempted from the special surtax. *<Amended by Act No. 6045, Dec. 28, 1999>*

(2) Where a cooperative, a national federation or the Agricultural Infrastructure Corporation established under the Korea Agricultural and Rural Infrastructure Corporation and Farm Land Management Fund Act as referred to in paragraph (1) transfers the assistance facilities for farmers and fishermen as prescribed by the Presidential Decree which it has used for five consecutive years or more (hereafter, “previous facilities” in this Article) in order to move into the new facilities (hereafter, “new facilities” in this Article), the provisions of Article 71 (1) through (4) shall apply mutatis mutandis to the transfer of such previous facilities. In this case, the term “factory” shall be deemed to read “facilities”; the term “new factory”, “new facilities”; and the term “old factory”, “previous facilities” respectively. *<Amended by Act No. 6045, Dec. 28, 1999>*

(3) Capital gains accruing from contributing in kind to a subsidiary distribution company under the Act on Distribution and Price Stabilization of Agricultural and Fishery Products by each cooperative and its national federation established under the Agricultural Cooperatives Act, the Fisheries Cooperatives Act, or the Forestry Cooperatives Act on or before December 31, 2000, may be included in the expenses as prescribed by the Presidential Decree in calculating the income amount of the corresponding business year, and the special surtax on such gains may be subject to the taxation carried forward. *<Amended by Act No. 6045, Dec. 28, 1999>*

**Article 85 (Exemption from Special Surtax for Busan Asian Games Organizing Committee)**

With respect to any income accruing from the transfer of land used for holding the 14th Bu

san Asian Games (hereinafter “Asian Games”) by the Busan Asian Games Organizing Committee on or before December 31, 2001, the special surtax shall be exempted.

**Article 86 (Income Deduction from Private Annuity Savings)**

(1) Where a resident has opened an account for savings which is paid in the form of an annuity after expire of a savings deposit contract period and is prescribed by the Presidential Decree (hereinafter “private annuity savings”), the amount equivalent to 40/100 of the savings deposit amount in the then-current year shall be deducted from the global income amount in the then-current year: Provided, That if the deduction amount exceeds seven hundred twenty thousand won, this amount (720,000 won) shall be deducted.

(2) Where a person who opened an account for private annuity savings, receives an annuity in accordance with the savings contract, income tax shall not be imposed on the income accruing from such savings, and where he terminates the savings deposit contract halfway before the expire of such contract period, or he is paid such savings money in a form other than an annuity after the elapse of such contract period, the income accruing from such savings shall be considered interest income as prescribed in Article 16 (1) 3 of the Income Tax Act, and income tax shall be imposed on such interest income: Provided, That the same shall not apply to the case where such contract is terminated by death, emigration and other reasons prescribed by the Presidential Decree and subscriber are paid in a manner other than pension. <Amended by Act No. 6045, Dec. 28, 1999>

(3) Where a person who has the income deducted under paragraph (1) terminates the private annuity savings after he has opened an account for the savings before the period as prescribed by the Presidential Decree expires, the financial institution operating the private annuity savings (hereinafter “institution operating the private annuity savings”) shall collect additionally the amount equivalent to 4/100 of the amount of savings which has been accumulated up to that time (limited to seventy-two thousand won per annum; hereinafter “tax amount collected additionally for savings terminated halfway”), and pay such tax amount to the head of the tax office having jurisdiction over the collection of withholding tax not later than the 10th of the month following the month including the day on which such savings are terminated halfway: Provided, That if a person who has the income deducted proves that the tax amount reduced or exempted by the income deduction is below the tax amount collected additionally for the savings terminated halfway, the amount equivalent to the tax amount actually reduced or exempted shall be collected subsequently.

(4) Where a person who has opened an account for the private annuity savings falls under a

ny of the following subparagraphs, the provisions of the purview of paragraph (3) shall not be applicable:

1. Where he proves that he has not had the income deducted with respect to the private annuity savings; and
2. Where he terminates halfway the private annuity savings due to the death, emigration or other cause as prescribed by the Presidential Decree.

(5) Where an institution operating the private annuity savings fails to pay the tax amount collected additionally for the savings terminated halfway as referred to in paragraph (3) within the time limit, or pays an amount short of the tax amount to be paid, such institution shall pay the amount equivalent to 10/100 of the unpaid or insufficient tax amount as additional tax, in addition to the tax amount collected additionally for the savings terminated halfway.

(6) Where an institution operating the private annuity savings enters into a contract on the private annuity savings, or terminates halfway the contract, it shall submit a detailed statement of the private annuity savings under the conditions as prescribed by the Presidential Decree.

(7) Other necessary matters for the deduction or nontaxation of income accruing from the private annuity savings shall be prescribed by the Presidential Decree.

#### **Article 87 (Non-Taxation on Long-term Savings for Purchasing Houses)**

(1) No income tax shall be imposed on any interest income of the long-term savings for purchasing a house for which an account is opened on or on or before December 31, 2003 as prescribed by the Presidential Decree.

(2) Where a worker, who has opened an account for savings deposit as referred to in paragraph (1) and whose income tax on the house-purchasing savings has been deducted pursuant to Article 52 (1) 5 (a) of the Income Act, terminates the savings account halfway before such period as prescribed by the Presidential Decree elapses, the financial institution that has carried such a savings account shall collect retroactively the amount equivalent to 4/100 of the savings accumulated from the day of opening such a savings account to the time of its termination (limited to 180,000 won per annum; hereafter, “retroactively collected tax amount for the long-term savings for purchasing a house terminated halfway” in this Article) to pay such a collected amount to the head of the pertinent taxation office responsible for withholding tax at source not later than the 10th of the month following the month where belongs the day on which such a savings account is terminated halfway. However, if a person wh

o deducted the income tax proves the fact that the tax amount abated or exempted by such deduction is less than the retroactively collected amount for such a savings account terminated halfway, the amount equivalent to the actually abated or exempted tax amount shall be collected retroactively. *<Amended by Act No. 5996, Aug. 31, 1999>*

(3) The provisions of Article 86 (4) and (5) shall apply mutatis mutandis to such a retroactively collected tax amount for a long-term savings account for purchasing a house terminated halfway.

(4) When an account of long-term savings for a home purchase is opened or terminated, the financial institution in charge shall file a detailed statement on such an account to the head of a tax office responsible for withholding tax at source as prescribed by the Presidential Decree. *<Newly Inserted by Act No. 6045, Dec. 28, 1999>*

#### **Article 88 (Non-Taxation on Workers Favored Savings)**

(1) No income tax shall be imposed on interest income or dividend income accruing from workers favored savings which any worker whose total annual employment income is 30 million won or less accumulates up to the limit of 500,000 won per month for three years or longer in an account that is opened by December 31, 2000 as prescribed by the Presidential Decree (hereafter, “workers’ favored savings” in this Article). *<Amended by Act No. 5996, Aug. 31, 1999>*

(2) Where a person who has opened an account for workers-favored savings terminates the contract of workers-favored savings within three years from the date on which he began the savings, income tax shall be imposed on interest income or dividend income paid to the person who has opened an account: Provided, That this shall not apply where the contract is terminated due to death, emigration or other unavoidable causes as determined by the Presidential Decree.

(3) Where a worker opens or terminates his account for worker preferential savings, the corresponding financial institution shall file a detailed statement on such an account to the head of a tax office responsible for withholding tax at source as prescribed by the Presidential Decree. *<Amended by Act No. 6045, Dec. 28, 1999>*

(4) The Presidential Decree shall prescribe necessary matters concerning the concluding of such worker preferential savings agreements and the non-taxation of the income tax. *<Newly Inserted by Act No. 6045, Dec. 28, 1999>*

#### **Article 89 (Special Cases of Withholding on Interest and Dividend Income)**

(1) Notwithstanding the provisions of Article 129 of the Income Tax Act, the withholding r

ate of the income tax on the income (limited to the portion opened, contracted or acquired by December 31, 2000) falling under any of the following subparagraphs shall be 10/100, and no resident tax shall be imposed thereon:

1. Interest on any special deposit to increase the savings of households or students;
2. Interest or dividend on any deposit not exceeding twenty million won in or contribution not exceeding ten million won to an association whose members are farmers, fishermen, or those having any mutual relation;
3. Interest or dividend accruing from the savings falling under any of the following items to promote the formation of employees' properties:
  - (a) Employees' long-term savings;
  - (b) Employees' long-term securities savings; and
  - (c) National stocks trust;
4. Interest and dividend income accruing from the employees' securities savings as prescribed by the Presidential Decree;
5. Interest income accruing from the household small savings as prescribed by the Presidential Decree;
6. Interest income accruing from bonds or securities issued by the State or local government, and those issued by corporations as prescribed by the Presidential Decree (hereinafter "state and public bonds"), which are prescribed by the Presidential Decree;
7. Dividend income paid to members of the employee stockholders association, which is prescribed by the Presidential Decree; and
8. Gains on insurance accruing from a small insurance contract as prescribed by the Presidential Decree.

(2) Where an institution providing services for savings as referred to in paragraph (1) 1 through 5 enters into a relevant savings contract, or makes a termination thereof, it shall submit a detailed statement on such savings to the head of the tax office having jurisdiction over the institution, under the conditions as prescribed by the Presidential Decree.

(3) The provisions of paragraph (1) 6 shall be applicable only where the national and public bonds are deposited in or registered with any financial institution under the conditions as prescribed by the Presidential Decree.

(4) Where the national and public bonds are deposited in or registered with a financial institution providing services for deposit or registration of national and public bonds under paragraph (3), the institution shall submit a detailed statement on such deposit or registration of

the state and public bonds, to the head of the tax office having jurisdiction over it under the conditions as prescribed by the Presidential Decree.

(5) Where a corporation paying any dividend under paragraph (1) 7 collects withholding tax on such dividend, it shall submit a certificate attesting a deposit of stocks to the head of the tax office having jurisdiction over it under the conditions as prescribed by the Presidential Decree.

(6) Where savings or trust referred to in paragraph (1) 3 (a) and (b), 4 through 7 are terminated or withdrawn or rights thereto are transferred within the savings period as prescribed by the Presidential Decree, a withholding agency shall withhold the difference between the tax amount withheld by applying the main sentence of paragraph (1) and the tax amount calculated by applying the provisions of Article 129 of Income Tax Act: Provided, That this shall not apply where there occurs an unavoidable cause as prescribed by the Presidential Decree such as death or emigration.

#### **Article 89 (Special Cases for Withholding Tax on Interest and Dividend Income)**

(1) Notwithstanding the provisions of Article 129 of the Income Tax Act, the tax rate of 10/100 shall be applied to the income tax withheld at source on such interest and dividend income accruing from a savings account fulfilling the requirements falling under each of the following subparagraphs (hereinafter “tax-favored comprehensive savings”) in case that a resident national opens such savings account while the resident tax under the Local Tax Act shall not be levied on such interest or dividend income:

1. Such accumulation or deposit savings (including trust, mutual aid, insurance, securities savings, and such bond savings prescribed by the Presidential Decree) deposited with financial institutions falling under each of the items of Article 2 (1) of the Act on Real Name Financial Transactions and Guarantee of Secrecy, for which tax-favored treatment shall be claimed at the time of opening such savings accounts;
2. Contract term of such savings accounts shall be for not less than one year; and
3. The total sum of contract amounts for such savings deposited with all the concerned financial institutions shall not exceed 40 million won per person (15 million won per person for persons below 20 years old; 60 million won per person for such aged and handicapped persons as prescribed by the Presidential Decree). The interest and dividend accruing from such savings deposits and converted into their principals shall be treated as tax-favored savings but, shall not be counted in computing the total savings contract amounts per person.

(2) The financial institutions handling tax-favored savings shall immediately notify the depositor's name, resident registration number, execution and termination of such savings contracts, and data concerning savings amounts deposited under such contracts (hereinafter "comprehensive data concerning tax-favored savings") to the agency prescribed by the Presidential Decree (hereinafter "tax-favored savings data center") through the telecommunications media including computers.

(3) The Commissioner of the National Tax Administration may ask such tax-favored savings data center for reference, inspection or submission of such depositors' comprehensive data concerning tax-favored savings.

(4) The financial institutions handling tax-favored savings may ask such tax-favored savings data center for information pertaining to a depositor's total contract amount of tax-favored savings deposited with other financial institutions (including beneficiaries of trust savings in case of trust, and the insured and beneficiaries of insurance contracts in case of insurance; hereafter the same in this Article shall apply) and may pass such information on to the corresponding depositors when requested or consented by them in writing.

(5) Such tax-favored savings data center shall establish an information database for each individual depositor's total contract amount and other particulars of tax-favored savings by immediately processing such comprehensive data concerning tax-favored savings as communicated with financial institutions handling tax-favored savings, and shall comply with such request or inquiries for information under the provisions of paragraphs (3) and (4).

(6) Such tax-favored savings data center shall maintain an individual depositor's comprehensive data concerning tax-favored savings for three years from the year following the year in which his corresponding tax-favored savings contract is terminated. Employees working for such financial institutions handling tax-favored savings and tax-favored savings data center (hereafter in this Article "employees of financial institutions, etc.") shall not disclose any information or data concerning tax-favored savings (hereafter in this Article "data, etc.") to a third party unless requested or consented in writing by the corresponding depositor and no one shall ask such employees, etc. for such information etc.: Provided, That the same shall not apply to the case falling under each subparagraph of Article 4 (1) of the Act on Real Name Financial Transactions and Guarantee of Secrecy.

(7) Where a depositor terminates, withdraws or transfers a tax-favored savings contract within one year from the date of contract, the person responsible for withholding tax at source



shall collect the difference between the tax amount withheld and the tax amount calculated by applying the provisions of Article 129 of Income Tax Act pursuant to the main sentence of paragraph (1): Provided, That the same shall not apply to the case where there exist such unavoidable causes as prescribed by the Presidential Decree, including his death or emigration.

(8) The Presidential Decree shall prescribe the methods of calculating the total contract amounts of tax-favored savings, their operations and management and other necessary matters

#### **Article 89-2 (Special Cases for Tax Withholding on Home Purchase Savings)**

Notwithstanding the provisions of Article 129 of the Income Tax Act, the income tax at the rate of 10/100 shall be withheld at source on the interest income accruing from home purchase savings under the Housing Development Promotion Act (limited to the amount of not more than 100,000 won paid monthly for such savings), and the resident tax under the Local Tax Act shall not be levied on such interest income.

#### **Article 90 (Separate Taxation on Housekeeping Fund Savings)**

(1) Notwithstanding the provisions of Article 129 of the Income Tax Act, the withholding tax rate on any interest income accruing from the housekeeping fund savings as prescribed by the Presidential Decree (hereinafter “housekeeping fund savings”) for which an account is opened by December 31, 2000 shall be 10/100, and any interest income accruing from such savings shall not be counted in calculating the global income tax base as prescribed in Article 14 of the Income Tax Act.

(2) Where an institution dealing with the housekeeping fund savings enters into a contract for the housekeeping fund savings as referred to in paragraph (1), or terminates the contract halfway, it shall submit a detailed statement of the housekeeping fund savings under the conditions as prescribed by the Presidential Decree.

(3) Other necessary matters, such as separate taxation procedure of the interest income accruing from the housekeeping fund savings shall be prescribed by the Presidential Decree.

**Article 90 Deleted.** <by Act No. 6045, Dec. 28, 1999> <<Enforcement Date: Jan. 1, 2001>>

#### **Article 90-2 (Special Cases for Tax Withholding on Home Purchase Savings)**

(1) Where the financial institution that is liable to file the tax-favored savings data pursuant to the provisions of Article 86 (6), 87 (4), 88 (3), 89 (2) or (4) (limited to the savings accounts contracted by December 31, 2000 in case of Article 89 (2) or (4)) fails to file such data within the period set by the provisions of each Article or files unclear data prescribed by th

e Presidential Decree, pursuant to or submits such unclear data as prescribed under the Presidential Decree within the time limit provided for under each of the above Articles, an amount equivalent to 1/100 of savings deposits involved in unclear data or 10,000 won per one savings contract or terminated contract, whichever is larger, shall be added to the tax payable as a penalty.

(2) An tax amount equivalent to 50/100 of such penalty provided for under paragraph (1) shall be abated in case that such tax-favored savings data are submitted by the end of the month following the month belonging to the date of the deadline for submission of such data.

#### **Article 91 (Special Cases of Withholding on Dividend Income of LongtermHeld Stocks)**

(1) Notwithstanding the provisions of Article 129 of the Income Tax Act, the withholding tax rate on any dividend income which is paid until December 31, 2003 to a resident who has held stocks as determined by the Presidential Decree for not less than three years and is determined by the Presidential Decree from among those falling under small stockholders referred to in Article 20 (3) of the Income Tax Act shall be 10/100.

(2) The dividend income referred to in paragraph (1) shall not be counted in calculating the global income tax base referred to in Article 14 (2) of the Income Tax Act.

(3) Matters necessary for the calculation of the period of stockholding and withholding on dividend income of long-term held stocks shall be determined by the Presidential Decree.

#### **Article 91-2 (Special Taxation on Dividends of Securities Investment Companies)**

(1) Notwithstanding the provisions of Article 17 (1) of the Income Tax Act, any dividend income paid to a resident national on or before December 31, 2001 by securities investment companies under the provisions of Article 51-2 (1) 2 (hereafter, “securities investment companies” in this Article) shall not include any amounts distributed from profits (excluding interest amounts accruing from bonds, etc. for the holding period of such bonds under the provisions of Article 46 (1) of the Income Tax Act: hereafter, “transfer margin of securities” in this Article) which accrue from trading and evaluation of the securities falling under any of the following subparagraphs: <Amended by Act No. 6045, Dec. 28, 1999>

1. Securities listed in securities exchanges under the Securities Transaction Act;
2. Securities registered in KOSDAQ under the Securities Transaction Act; and
3. Stocks issued by venture companies under the Act on Special Measures for Fostering Venture Enterprises.

(2) The dividend distributed from the transfer margin of securities referred to in paragraph (1) shall be calculated by multiplying the total dividend amount paid by a securities invest

ment company to its shareholders as of the base date for dividend payment (referring to the date of its dissolution in case of dissolution or the date of its repurchase in case of repurchase; hereinafter in this Article the same shall apply) by the percentage of the cumulative aggregate of the transfer margin of securities in the cumulative aggregate of the total net profits of the corresponding company.

(3) Where the total aggregate of profits other than the securities transfer margin exceeds the cumulative aggregate of total profits as of the date of its dissolution or repurchase where applicable, notwithstanding the actual amount paid to the shareholders by the corresponding securities investment company, the taxable dividend income of the shareholders shall be calculated by multiplying the profits other than the securities transfer margin by the percentage of their stockholding or shareholding (referring to the repurchased stocks or ownership shares in case of stock repurchase, where applicable) to its total outstanding issued stocks or ownership shares of the corresponding securities investment company.

(4) The securities investment company shall keep a separate accounting of the securities transfer margin from the profits other than the securities transfer margin. For this purpose, the common expenses accrued during the business year shall be divided and charged in proportion to the revenues of business divisions for the corresponding business year.

(5) The securities investment company shall separately handle the cumulative aggregate of its securities transfer margin from its total profits other than the securities transfer margin in each year-end closing and payment of dividends. In calculating the aggregate cumulative totals for this purpose, the proviso of paragraph (4) shall apply *mutatis mutandis* to the proportional allocation of the corporate tax, other taxes and excises.

(6) Deleted. <by Act No. 6045, Dec. 28, 1999>

#### **Article 92 (Separate Taxation, etc. on Lottery Prize Income)**

The withholding tax rate of the income tax on that paid until December 31, 2000 among any lottery prize income as prescribed by the Presidential Decree and the refunded amount as prescribed in Article 21 (1) 4 of the Income Tax Act and indemnifications for users of credit cards under the provisions of Article 32-4 of the Value-Added Tax Act shall be 20/100, and such income shall not be added up in calculating the tax base of the total income as prescribed in Article 14 (2) of the Income Tax Act. <Amended by Act No. 6045, Dec. 28, 1999>

#### **Article 93 (Special Cases of Noninclusion in Taxable Amount of Inheritance Tax on Employees Stocks)**

The value of stocks (limited to stocks acquired no later than December 31, 2000 and the tot

al face value of which is equivalent to five million won or less) which a member of an employee stockholders cooperative has acquired through the cooperative, shall not be included in the taxable amount of the inheritance tax.

#### **Article 94 (Tax Credit for Equipment Investment to Promote Workers' Welfare)**

(1) If a national as prescribed by the Presidential Decree acquires the equipment or facilities falling under any of the following subparagraphs (including new construction or purchase; hereafter, the same shall apply in this Article) to promote the welfare of his employees, such as residential stability by December 31, 2000, the amount equivalent to 3/100 of the acquisition value of the equipment (limited only to the amount of acquisition using the home-produced machines and materials as prescribed by the Presidential Decree, and excluding the purchasing price of the land appurtenant to the equipment), shall be deducted from the income tax (limited to the income tax on the business income) or the corporate tax in the taxable year including the acquisition day:

1. National houses to be rented to homeless employees (excluding officers who are investors; hereafter, the same shall apply in this Article);
2. Dormitories for employees;
3. Nursery facilities in a workplace under the Infant Care Act; and
4. Facilities for serving the disable and aged and pregnant women which are determined by the Presidential Decree.

(2) In a case where a house as referred to in paragraph (1) 1 is acquired together with other houses, or a dormitory as referred to in paragraph (1) 2, together with other buildings, the matters necessary for the calculation of the tax credit shall be prescribed by the Presidential Decree.

(3) Any national who wishes to have the provisions of paragraph (1) applied shall apply for the tax credit under the provisions of the Presidential Decree.

#### **Article 95 (Reduction and Exemption of Tax Amount for Business Operating Dormitory)**

With respect to such businessmen operating dormitories as are prescribed by the Presidential Decree, the tax amount equivalent to 50/100 of the income or corporate tax on any income accruing from the business operating the dormitory until the taxable period which ends on or before December 31, 2000 shall be reduced or exempted.

#### **Article 96 (Special Case of Tax Credit on National Pension Premium)**

With respect to any regional subscriber liable for joining the national pension insurance un

der the National Pension Act (including a case where he files an application with the National Pension Management Corporation after he reaches sixty years of age, and keeps on holding the eligibility for admission), the amount equivalent to 40/100 of the national pension premium paid by a resident in the then-current year shall be deducted from the global income amount in the then-current year: Provided, That if the deducted amount exceeds seven hundred and twenty thousand won, only seven hundred and twenty thousand won shall be deducted.

**Article 97 (Reduction and Exemption of Transfer Income Tax, etc. on LongTerm Rental House)**

(1) If a national as prescribed by the Presidential Decree transfers national housing falling under any of the following subparagraphs (including the land not larger than twice of the total floor area of the building, which is appartement thereto; hereafter, the same shall apply in this Article) after renting such housing for five or more years, the tax amount equivalent to 50/100 of the transfer income tax or special surtax on any income accruing from transfer of such housing (hereinafter the “rental house”), shall be reduced or exempted: Provided, That in case of a constructed rental house as prescribed by the Rental Housing Act (limited to the rental house rented for five or more years), a rental house among purchased rental houses as prescribed by the said Act, which is acquired and rented on or after January 1, 1995, and is thereafter rented for five or more years (limited to a house having no occupant at the time of acquisition), and a rental house which has been rented for ten or more years, the tax amount equivalent to 100/100 shall be reduced or exempted:

1. The Houses newly built between January 1, 1986 to December 31, 2000; and
2. An apartment constructed newly on or before December 31, 1985, but which has never been occupied as of January 1, 1986.

(2) In application of the provisions of subparagraph 3 of Article 89 of the Income Tax Act, the rental house shall not be considered as a house owned by a national.

(3) Any person who wishes to have the transfer income tax or special surtax reduced or exempted under paragraph (1), shall report matters concerning the rent of the house, and apply for the reduction or exemption of the tax amount, under the provisions of the Presidential Decree.

(4) The calculation of the rental period as to a rental house as referred to in paragraph (1), and other necessary matters shall be prescribed by the Presidential Decree.

**Article 97-2 (Exceptional Abatement or Exemption of Transfer Income Tax, etc. on Ne**

**wly Built Rental Houses)**

(1) Where a national prescribed by the Presidential Decree transfers a nationally standardized house (including the land not exceeding twice the total floor space of the corresponding house) falling under each of the following subparagraphs (hereafter, “newly built rental house” in this Article) after renting such house for not less than five years, the transfer margin tax or the special surtax payable on any income accruing from such transfer shall be exempted:

1. The rental house which is built under the Rental Housing Act and falls under each of the following items: and
  - (a) The house newly built between August 20, 1999 to December 31, 2001; and
  - (b) The joint house newly built on or before August 19, 1999 and never occupied as of August 20, 1999.
2. The rental house falling under any of the following subparagraphs from among rental houses built under the Rental Housing Act, which is purchased after August 20, 1999 (limited to the case where a purchase and sale contract is concluded and a contract surety money is paid between August 20, 1999 and December 31, 2001):
  - (a) The house newly built on or after August 20, 1999; and
  - (b) The house falling under item (b) of paragraph (1).

(2) The provisions of Article 97 (2) through (4) shall apply mutatis mutandis to newly built rental houses.

**Article 98 (Special Case of Taxation on Houses Unsold in Lots)**

(1) If a resident transfers such house unsold in lots as prescribed by the Presidential Decree (hereafter, the “house unsold in lots” in this Article), after acquiring it in the period from November 1, 1995 to December 31, 1997 (including a case of entering into a contract of sale and making the down payment on or before December 31, 1997), and holding and renting for five or more years, he may select one of the methods falling under any of the following subparagraphs to have it applied to any income accruing from transfer of such house:

1. A method of calculating the tax base and amount of the transfer income according to the provisions of Articles 92 and 93 of the Income Tax Act, and paying the transfer income tax. In this case, the tax rate of the transfer income tax shall be 20/100, notwithstanding the provisions of Article 104 (1) of the said Act; and
2. A method of calculating the tax base and amount of the global income according to the provisions of Articles 14 and 15 of the Income Tax Act, and paying the global inc

ome tax. In this case, the provisions of Article 19 (2) of the Income Tax Act shall apply mutatis mutandis to the calculation of the income amount accruing from the transfer of such house.

(2) In application of the provisions of paragraph (1), the matters necessary for the special case as to the houses unsold in lots, such as the determination of one house for one household as prescribed in subparagraph 3 of Article 89 of the Income Tax Act, or the request for application of the special case of taxation, etc. shall be prescribed by the Presidential Decree.

(3) If a resident transfers any house unsold in lots, after acquiring (including a case of entering into a contract of sales and making the payment by December 31, 1998) during the period from March 1, 1998 to December 31, 1998 and holding and renting it for five or more years, the provisions of paragraph (1) shall apply mutatis mutandis to income accruing from a transfer of such house.

#### **Article 99 (Exemption of Transfer Margin Tax for Purchasers of Newly Built Houses)**

(1) With respect to the income accruing from transfer of a newly-built house (including plots less than twice the total area of buildings attached thereto; hereafter, the same shall apply in this Article) falling under any of the following subparagraphs by a resident (excluding the housing development business operators) within five years from the date of its acquisition, 100/100 of transfer margin tax shall be exempted. Where he transfers it after five years have elapsed from the date of its acquisition, the transfer income accrued for a period of five years from the date of acquisition shall be deducted from his income subject to the transfer margin tax. However, this shall not apply where any newly built house is a deluxe house which is excluded from the nontaxable objects of transfer margin tax pursuant to subparagraph 3 of Article 89 of the Income Tax Act: *<Amended by Act No. 5996, Aug. 31, 1999>*

1. A house (including any house acquired by a housing cooperative's member under the Housing Construction Promotion Act or a redevelopment cooperative member under the Urban Redevelopment Act), constructed by himself, with the approval for use or inspection on use (including a provisional approval for temporary use) between May 22, 1998 to June 30, 1999 (referring to the period from May 22, 1998 to Dec. 31, 1999 in case of "houses below the nationally designated size"; hereafter, "new house acquisition period" in this Article); and
2. A house acquired by a person who concludes a purchase contract, for the first time, with a housing developer making a down payment within the new house acquisition period (including the houses prescribed by the Presidential Decree and acquired by m

members of a housing cooperative under the Housing Construction Promotion Act or a redevelopment cooperative under the Urban Redevelopment Act), except for a house where another person has already resided as of the date of the purchase contract or a house to which any of the events prescribed in the Presidential Decree has occurred during the new house acquisition period.

(2) In applying subparagraph 3 of Article 89 of the Income Tax Act, a newly built house applied under the provisions of paragraph (1) shall not be deemed as a house owned by the resident.

(3) A person who intends to have the provisions of paragraph (1) applied shall make an application for reduction and exemption under the conditions as prescribed by the Presidential Decree.

(4) The calculation of transfer income amount accrued for five years from the date of acquisition of a newly-built house referred to in paragraph (1) or other necessary matters shall be determined by the Presidential Decree.

#### **Article 100 (Special Taxation for Assistance to Workers' Residential Stability)**

(1) Where an employer referred to in Article 2 (2) of the Act on the Assistance to Residential Stability and Lump Sum-Raising Savings of Workers (hereafter, "employer" in this Article) subsidizes funds required for the acquisition of or rent for a house smaller in size than national housing under the Housing Construction Promotion Act to any worker who does not have the ownership of a house (hereafter, "worker who does not have the ownership of a house" in this Article), any subsidy as determined by the Presidential Decree (hereafter, "housing subsidy" in this Article) among such subsidies shall be included in the expenses and no income tax shall be imposed on the housing subsidy which a worker who does not have the ownership receives from the employer.

(2) Where a land owner rents his land to a rental housing constructor who intends to rent houses whose exclusive area is not more than sixty meters or provides land to be engaged in rental business in joint with a rental housing constructor, aggregate land tax on land shall be reduced and exempted by applying mutatis mutandis to the provisions of paragraph (4) 3. In this case, rental housing shall be constructed within two years from the date on which a land lease contract or a joint lease contract is made.

(3) Where no rental housing is constructed in applying the provisions of paragraph (2), the land owner for a land lease contract and the land owner and the rental housing constructed jointly for a joint lease contract shall pay the reduced aggregate land tax and an interest as d



etermined by the Presidential Decree on aggregate land tax reduced and exempted from the deadline for payment of aggregate land tax to the date of its actual payment.

(4) For rental housing (including land attached thereto) of not less than ten households segmented into sixty or less meters in an exclusive area as referred to in Article 2 (6) of the Act on the Assistance to Residential Stability and Lump Sum-Raising Savings of Workers (hereafter, “housing constructor” in this Article) constructed for rent, acquisition tax, registration tax, property tax and aggregate land tax shall be reduced and exempted as follows: Provided, That where the housing constructor fails to make preservation registration within one month from the date of usage inspection of rental housing and transfers it or uses it for purposes other than for rental of housing within five years from the completion of such rental of housing, acquisition tax, registration tax, property tax and aggregate land tax already reduced and exempted shall be collected additionally:

1. Exemption from acquisition tax and registration tax;
2. Reduction of 50/100 in property tax; and
3. Deduction of 50/100 of land price to be reduced and exempted from the land price calculated pursuant to Article 234-15 of the Local Tax Act for aggregate land tax.

(5) Where a housing constructor establishes a corporation in a large city to be engaged in rental housing construction business listed in paragraphs (2) through (4), the provisions of the main sentence of Article 138 (1) of the Local Tax Act shall not apply.

(6) Where a worker buys an apartment in lots and is the first to acquire an apartment newly built by a housing constructor or an employer, acquisition tax and registration tax on the acquisition and registration of a house and land attached thereto shall be reduced as follows:

1. Exemption from acquisition tax and registration tax where he acquires an apartment with forty or less meters of exclusive area; and
2. Reduction in 50/100 of acquisition tax amount and registration tax amount calculated by tax rates listed in Article 112 (1) and 131 (1) of the Local Tax Act where he acquires an apartment house with forty or more but sixty or less meters of exclusive area.

(7) The provisions of paragraphs (1) through (6) shall apply up to the portion for which the duty to pay tax was created on or before December 31, 2003.

#### **Article 101 (Deduction of Income for Livestock Industry)**

(1) Where a national engaged in a livestock industry as prescribed by the Presidential Decree has started a livestock industry by December 31, 2000, the amount equivalent to 20/100 of the income amount accruing from such livestock industry in the taxable year including t

the day on which the first income accrues from the livestock industry, and up to the taxable year ending within three years from the day on which the following taxable year begins, shall be deducted from the income amount in each taxable year.

(2) Any person who wishes to have the provisions of paragraph (1) applied, shall submit a detailed statement of the income deduction with the return on the tax base.

#### **Article 102 (Reduction and Exemption of Tax Amount for Forest Development Income)**

(1) With respect to any income accruing from a reforestation or transfer of a forest afforested newly by a national according to an afforestation plan or special development area project as prescribed by the Forestry Act (including any designated development projects executed in a development area designated pursuant to the previous Forestry Act before the amended Forestry Act (Act No. 4206) enters into force, and falling under Article 2 of the Addenda of the said amended Act), and any seed-gathering forest, reserve forest and natural forest reserve which he has afforested for ten years or more, the tax amount equivalent to 50/100 of the income or corporate tax shall be reduced or exempted.

(2) Any person who desires to have the provisions of paragraph (1) applied, shall apply for the reduction or exemption under the provisions of the Presidential Decree.

#### **Article 103 (Tax Credit for Investment in Medical Instruments)**

(1) In case where a nonprofit corporation which establishes and operates a medical corporation and a medical institution pursuant to the Medical Service Act (hereinafter the “medical corporation, etc.”) make an investment in such facilities as prescribed by the Presidential Decree (excluding any investment made with used articles) until December 31, 2000, an amount equivalent to 5/100 of such investment amount (in case where the investment is made by using home-produced machines and materials as prescribed by the Presidential Decree, 10/100 of the investment amount) is deducted from the corporate tax in the business year including the day on which the investment is completed.

(2) The provisions of Article 11 (3) through (5) shall apply mutatis mutandis to a person who wishes to have the provisions of paragraph (1) applied.

#### **Article 104 (Special Cases of Inclusion of Waste Deposits and Surplus Food Value in Expenses)**

(1) Any waste deposits paid by a national under the Act on the Promotion of Saving and Recycling of resources until the tax year which ends on or before December 31, 2000 shall be included in the expenses in calculating an income amount for each tax year. *<Amended by Act No. 6045, Dec. 28, 1999>*

(2) An amount returned to by a national from among that appropriated by it for the expenses pursuant to paragraph (1) shall be included in the expenses in calculating a tax amount for the tax year in which it was returned. *<Amended by Act No. 6045, Dec. 28, 1999>*

(3) Where a domestic corporation as determined by the Presidential Decree donates gratuitously any surplus food derived from the business to a surplus food recycler as determined by Presidential Decree (hereafter, “surplus food recycler” in this Article) or a person designated by the surplus food recycler by the tax year which ends on or before December 31, 2000, an amount equivalent to the donated surplus food value (referring to book value) shall be included in the expenses in calculating an income amount for each tax year. *<Amended by Act No. 6045, Dec. 28, 1999>*

#### **Article 104-2 (Subsidies for Fishery Business Operators in Connection with Fishery Treaties)**

(1) The income tax or the corporate tax shall be exempted from any subsidy falling under any of the following subparagraphs:

1. Subsidies granted to those engaged in fishing business, etc. (hereafter, “fishery business operators” in this Article) under the provisions of Article 4 (1) of the Special Act for Support to Fishery Business Operators in Connection with Fisheries Treaties and Development of Fisheries following the conclusion of fishery treaties; and
2. Unemployment subsidies granted to fishing vessel crews under the provisions of Article 5 (1) of the Special Act for Support to Fishery Business Operators in Connection with Fisheries Treaties and Development of Fisheries.

(2) Subsidies given to fishery business operators for the renovation of fishing vessels and gears and fishing operation costs under the provisions of Article 4 (3) of the Special Act for Support to Fishery Business Operators in Connection with Fisheries Treaties and Development of Fisheries (hereafter, “fishery subsidies” in this paragraph) shall not be included in their operating income in calculating the income amount of the corresponding fishery business operators, and the expenditure of such subsidies for fishery business or any depreciation allowances against assets purchased using such subsidies for fishery business shall not be included in their operating expenses.

#### **Article 105 (Application of Zero Tax Rate to Value-Added Tax)**

A zero tax rate shall apply to the value-added tax on a supply of the goods or services falling under any of the following subparagraphs under the conditions as determined by the Presidential Decree. In this case, the provisions of subparagraphs 5 and 6 shall apply only to th

e portions supplied until December 31, 2000: <Amended by Act No. 6045, Dec. 28, 1999>

1. Defense industry materials as prescribed by the Act on the Special Measures for Defense Industry, which are supplied by the defense industry designated under the said Act (including those used by the police for their operation), experimental products produced and supplied by those designated as a priority control target under the Emergency Resources Management Act, and services furnished as mobilization of resources ;
2. Oils supplied to military units and organizations established under the Act on the Organization of National Armed Forces;
3. Urban railway construction services furnished directly to the State, local governments or the Urban Railroad Corporation to which the Urban Railroad Act applies (including the Busan Traffic Corporation as prescribed by the Busan Traffic Corporation Act);
- 3-2. Social infrastructure facilities and their construction services supplied to the State or local governments in manners consistent with the provisions of subparagraph 1 of 2 of Article 44 the Act on Promotion of Private Capital into Social Overhead Capital Investment;
4. Supplementary aids for disabled persons, as prescribed by the Presidential Decree;
5. Machinery and materials falling under each of the following items, which are supplied to farmers and persons engaged in forestry business as prescribed by the Presidential Decree for the operations of agriculture, livestock and forestry (including machinery and materials supplied to them through cooperatives and their national federations established in accordance with the Agricultural Cooperatives Act, the Livestock Industry Cooperatives Act, the Tobacco Producers Cooperatives Act, the Ginseng Cooperatives Act, or the Forestry Cooperatives Act: and
  - (a) Fertilizers as prescribed by the Fertilizers Control Act, and prescribed by the Presidential Decree;
  - (b) Agricultural chemicals as prescribed by the Agrochemicals Control Act, and prescribed by the Presidential Decree;
  - (c) Farming machines to supplement the insufficient manpower in agricultural villages and to contribute to the improvement of agricultural productivity, and prescribed by the Presidential Decree;
  - (d) Machines and materials for the livestock industry to supplement the shortage of m

- anpower in the livestock industry, and to contribute to the improvement of productivity of the livestock industry, which are prescribed by the Presidential Decree;
- (e) Feed as prescribed by the Control of Livestock and Fish Feed Act (excluding that exempted from value-added tax pursuant to Article 12 of the Value-Added Tax Act); and
  - (f) Machines and materials for forestry to contribute to the protection and promotion of the development of forests, and prescribed by the Presidential Decree;
6. Fishing machinery and materials falling under each of the following items, which are supplied to fishermen prescribed by the Presidential Decree for the operations of coastal fishing and inland fish farm (including machinery and materials supplied to such fishermen through fisheries cooperatives and fishing village societies as well as their national federations established in accordance with the Fisheries Cooperatives Act:
- (a) Feed as prescribed by the Control of Livestock and Fish Feed Act (excluding that exempted from value-added tax pursuant to Article 12 of the Value-Added Tax Act); and
  - (b) Other things as prescribed by the Presidential Decree.

#### **Article 106 (Exemption of Value Added Tax)**

(1) The supply of goods or services falling under any of the following subparagraphs shall be exempted from the value added tax. In this case, the provisions of subparagraphs 1 through 3 and 9 shall apply only to the portions supplied by December, 31, 2003 while the same provisions shall apply only to the portions supplied by December 31, 2000 for those prescribed in the Presidential Decree among the items listed in subparagraph 6 and those listed in subparagraphs 7 and 8: *<Amended by Act No. 5996, Aug. 31, 1999>*

1. Petroleum supplied directly to the National Federation of Fisheries Cooperatives established under the Fisheries Cooperatives Act to be used for independent electricity generation in island areas in which the general electricity enterprisers as referred to in Article 2 of the Electricity Business Act are unable to supply the electricity, or it is difficult to supply the electricity for a considerable period of time, if such oils are attested by the Minister of Commerce, Industry and Energy (including any agency delegated under Article 65 of the said Act);
2. Food supply services (limited to meals) supplied by those who operate business places as prescribed by the Presidential Decree, such as factories, mines, construction sites and similar places, and schools as referred to in Article 2 of the Elementary and Se

condary Education Act and Article 2 of the Higher Education Act (hereafter, the “business place, etc.” in this subparagraph) by operating directly dining halls in premises or campuses of the business place, etc., for the welfare of employees or students or supplied by school meals suppliers entrusted by the heads of schools falling under any of subparagraphs of Article 4 of the School Meals Act directly to such schools in the method of entrusted meals. In this case, matters necessary for the exemption of value-added tax for entrusted meal such as attestation of supply value for entrusted meals shall be determined by the Presidential Decree;

3. Vicarious services for agricultural and fishery management and farming and fishing, as prescribed by the Presidential Decree;
4. National housing as prescribed by the Presidential Decree, and services for construction of such houses;
5. Deleted; <by Act No. 6045, Dec. 28, 1999>
6. Goods and services supplied by any organization acting for the Government affairs as determined by the Presidential Decree, which are determined by the Presidential Decree;
7. Petroleum for agriculture and the fishery industry, which are prescribed by the Presidential Decree;
8. Petroleum supplied directly to the Korea Shipping Association established under the Korea Shipping Association Act to be used for passenger vessels operating in coastal seas;
9. Buses which use natural gases as a fuel and are supplied for intra-city passenger transportation services under the Passenger Transport Service Act; and
10. Items which are used for treatment of rare diseases and prescribed by the Presidential Decree from among the goods as prescribed in the provisions of Article 28-6 (1) 5 of the Customs Duties Act.

(2) The value-added tax shall be exempted on any import of the goods falling under any of the following subparagraphs. In this case, the provisions of subparagraphs 5 and 6 shall apply only to the portions declared for import by December 31, 2003, and the provisions of subparagraphs 7 through 9 shall apply only to the portion declared for import by December 31, 2000: <Amended by Act No. 6136, Jan. 12, 2000>

1. Anthracite coal;
2. Goods for construction of urban railroads, public railroads or highspeed railways whi

- ch it is difficult to manufacture in Korea (limited to goods for which the customs duty is reduced);
3. Vessels to be used for any taxable projects;
  4. Bonded construction goods to be used for any taxable projects, which are prescribed by the Customs Duties Act;
  5. Goods which the local government or the Korean Organizing Committee for the 2002 FIFA World Cup Korea and Japan imports as goods for manufacturing and constructing the athletic facilities and for conducting the games, if such goods are difficult to manufacture in Korea;
  6. Goods to be used by local governments and the Busan Asian Games Organizing Committee for manufacturing and constructing the facilities for the Asian Games and for conducting the games, if such goods are difficult to manufacture in Korea;
  7. Goods to be used by local governments, the Winter Asian Games Organizing Committee and owners of the facilities related to the Winter Asian Games for manufacturing and constructing the facilities for the Winter Asian Games and for conducting the games, if such goods are difficult to manufacture in Korea;
  8. Goods to be used by the incorporated association, the Korea Traders Association established with the permission of the competent Minister under Article 32 of the Civil Act (hereinafter the “Korea International Trade Association”) for manufacturing and constructing the facilities for the Third Asia-Europe Meeting (hereinafter the “Asia-Europe Meeting”) and for conducting the conference, if such goods are difficult to manufacture in Korea and if such goods are prescribed by the Presidential Decree;
  9. Machines and materials for the agriculture and livestock industry which such farmers as prescribed by subparagraph 5 of Article 105 import directly or machines and materials for fishery which fishermen referred to in subparagraph 6 of the Article 105 import directly, if such machines and materials are prescribed by the Presidential Decree; and
  10. Equipment, machines and materials to be used directly for the business of the Educational Broadcasting System established under the Educational Broadcasting System Act.

**Article 107 (Special Cases of Indirect Tax on Foreign Businessman, etc.)**

- (1) With respect to goods which foreign tourists, etc. purchase from businessmen as designated by the Government to take out of Korea, the zero tax rate of the value-added tax may a

pply, or the amount of the valueadded tax on such goods may be refunded under the provisions of the Presidential Decree.

(2) With respect to goods which foreign tourists, etc. purchase at stores as designated by the Government to take out of Korea, the special consumption tax may be exempted, or the amount of the special consumption tax on such goods may be refunded under the provisions of the Presidential Decree.

(3) If the goods which are exempted from, or for which the value-added tax is refunded or the special consumption tax (including the application of the zero tax rate of the value-added tax) under paragraphs (1) and (2) fail to be taken out of Korea, the Government shall collect the value added tax and the special consumption tax under the provisions of the Presidential Decree.

(4) In application of the provisions of paragraphs (1) through (3), the matters necessary for the scope of the foreign tourists, etc., extent of the goods subject to such provisions, procedure of purchase and sale, and refund of the tax amount, etc. shall be prescribed by the Presidential Decree.

(5) If a foreign corporation which has no business place in Korea and carries on a business in a foreign country (hereafter, the “foreign businessman” in this Article) purchases or is supplied with such goods or services as provided in the following subparagraphs for business in Korea, the value-added tax related to such goods or services may be refunded to such foreign business under the provisions of the Presidential Decree:

1. Services for food and lodging;
2. Services for advertisement; and
3. Other goods or services as prescribed by the Presidential Decree.

(6) Any value-added tax imposed on goods or services (excluding any goods or services applicable to the provisions of Article 11 of the Value-Added Tax) which are bought or received by a foreign diplomat or other person with the corresponding status who is stationed in Korea and prescribed by the Presidential Decree (hereafter, “diplomat, etc.” in this Article) may be refunded to such diplomat, as within the limit of one million won per year as prescribed by the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

(7) The refund of the value-added tax pursuant to paragraphs (5) and (6) shall apply only when a relevant foreign country makes the same refunds to Korean businessmen, diplomats or diplomatic envoy missions.

#### **Article 108 (Special Cases of Input Tax Amount of Value-Added Tax Deduction on Rec**



**ycled Waste Resources, etc.)**

(1) If a businessman gathering any recycled waste resources and used Articles acquires any recycled waste resources and used articles from the State, local governments or other persons as prescribed by the Presidential Decree, and manufactures, or processes, or supplies them, the amount calculated under the provisions of the Presidential Decree may be deducted as the input tax amount from the output tax amount as provided in Article 17 (1) of the Value-Added Tax Act.

(2) In application of the provisions of paragraph (1), matters necessary for the scope of the businessmen gathering recycled waste resources and used articles, the scope of the recycled waste resources and used articles, a method of deducting the input tax amount, etc., shall be prescribed by the Presidential Decree.

**Article 109 (Exemption of Special Consumption Tax on Goods Whose Production Is Difficult in Korea)**

The goods falling under any of the following subparagraphs, which are imported from foreign countries as their production is difficult in Korea on or on or before December 31, 2000 shall be exempted from the special consumption tax: *<Amended by Act No. 6045, Dec. 28, 1999; Act No. 6136, Jan. 12, 2000>*

1. Goods to be used directly by any of corporations listed in the following items:

- (a) Any specific research institution (including any joint management organization) governed by the Support of Specific Research Institution Act;
- (b) and (c) Deleted; *<by Act No. 6045, Dec. 28, 1999>*
- (d) The Academy of Korean Studies established under the Act on the Support of the Academy of Korean Studies;
- (e) The National Defense Science Research Center established under the National Defense Science Research Center Act;
- (f) Deleted; and *<by Act No. 6045, Dec. 28, 1999>*
- (g) Research institutes prescribed by the Presidential Decree from among government-invested research institutes which are under the application of the Act on Establishment, Operation and Fosterage of Government-Invested Research Institutes (limited to specific research institutes established in accordance with the Support of Specific Research Institutions Act prior to the enforcement of the Act as the Act No. 5733, research institutes attached to specialized research institutes, which are included in government-invested research institutes, and other research institut

es which have been under the application of the Korea Development Institute Act, the Korea Institute for Industrial Economics and Trade Act, and the Korea Education Development Institute Act which have been all repealed by the Act on Establishment, Operation and Fosterage of Government-Invested Research Institutes).

2. Goods to be used directly for education in the vocational schools established under the Elementary and Secondary Education Act, and in the technical colleges (including the attached technical colleges) established under the Technical College Act, or for vocational abilities development training under the Vocational Training Promotion Act;
3. Equipment, machines and materials to be used directly for eliminating the areas in which it is difficult to watch and listen to television and radio, and for the improvement of overseas broadcasting, by the Korea Broadcasting System established under the Korea Broadcasting Corporation Act;
4. Raw materials to be used by a person engaged in a defense industry;
5. Samples to be used for experimentation and research to develop new products or technology by research institutes attached to enterprises, and departments in exclusive charge of the research and development of enterprises as prescribed by the Technology Development Promotion Act, and by the industrial technology research associations prescribed by the Act on the Support of the Industrial Technology Research Association;
6. Goods to be used directly for research by research institutes, or nonprofit corporations, as prescribed by the Ordinance of the Ministry of Finance and Economy;
7. Goods which local government and the Korean Organizing Committee for the 2002 FIFA World Cup Korea and Japan import as goods for manufacturing and constructing the athletic facilities and for conducting the games;
8. Goods to be used by local governments and the Busan Asian Games Organizing Committee for manufacturing and constructing the facilities for the Asian Games and for conducting the games;
9. Goods to be used by local governments, the Winter Asian Games Organizing Committee and owner of the facilities related to the Winter Asian Games for manufacturing and constructing the facilities for the Winter Asian Games and for conducting the games;

10. Goods to be used by the Korea International Trade Association for manufacturing and constructing the facilities for the Asia-Europe Meeting and for conducting the conference if such goods are prescribed by the Presidential Decree;
11. Samples for testing and research to develop new goods or new technology by a foundation which is a project executor of an industrial technology complex designated by the Act on Special Cases for Assisting Industrial Technology Complexes; and
12. Goods to be used directly for the business of the Educational Broadcasting System established under the Educational Broadcasting System Act.

**Article 110 (Exemption of Special Consumption Tax on Passenger Cars for Diplomats, etc.)**

(1) Any domestically-made passenger car purchased by a diplomat stationed in Korea as prescribed by the Presidential Decree, and such car purchased for business by a foreign civil assistance organization registered under the relevant convention on the recommendation of the competent minister, shall be exempted from the special consumption tax.

(2) Any national who wishes to take a domestically-made passenger car as referred to in paragraph (1) out of the manufacturing place shall obtain the approval by the chief of the competent tax office under the provisions of the Presidential Decree.

**Article 111 (Exemption of Special Consumption Tax or Traffic Tax on Oils)**

Oils falling under any of the following subparagraphs shall be exempted from the special consumption tax or the traffic tax. In this case, for oils listed in subparagraph 2 until December 31, 2000, and for oils listed in subparagraphs 3 and 4, until December 31, 2003, it shall apply only to the portion taken out of a manufacturing place or a bonded area:

1. Oils listed in subparagraph 2 of Article 105;
2. Oils listed in Article 106 (1) 1;
3. Oils listed in Article 106 (1) 7; and
4. Oils listed in Article 106 (1) 8.

**Articles 112 and 112-2 Deleted.** <by Act No. 6045, Dec. 28, 1999>

**Article 113 (Procedure, etc. for Exemption of Special Consumption Tax and Traffic Tax)**

(1) If any goods prescribed in Articles 109 through 111 are not used for the intended purpose or are transferred within five years after such goods are imported into the country as tax-free goods (within the period as prescribed by Commissioner of the National Tax Administration in case of those goods exempted from the special consumption tax pursuant to the pr

visions of subparagraphs 7 through 10 of Article 109), the exempted tax shall be collected retroactively. <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

(2) If any oils on which the special consumption tax or traffic tax is imposed are used for the purpose as provided in subparagraph 1 or 2 of Article 107, the already paid tax amount may be refunded, or deducted from the tax amount to be paid or collected.

(3) The Special Consumption Tax Act or the Traffic Tax Act shall apply mutatis mutandis to the procedures for exempting the special consumption tax or traffic tax (including the measures to be taken in a case where the tax exemption procedures are not fulfilled) pursuant to Articles 109 through 111, the procedure for collecting the tax pursuant to the provisions of paragraph (1), or the refund or tax credit pursuant to paragraph (2), depending on the corresponding goods. <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

#### **Article 114 (Exemption of Special Consumption Tax and Liquor Tax on Goods Sold to Military Personnel)**

(1) Goods (limited to goods manufactured in Korea) sold to military personnel, military service officials and those who have received the orders of military merit Taekeuk and Ulji, as prescribed by the Presidential Decree, at stores operated directly by the military authorities, shall be exempted from the special consumption tax or the liquor tax.

(2) The Minister of National Defense shall determine the ceiling of tax exemption by item in each year, in consultation with the Minister of Finance and Economy, not later than December 31 in the preceding year.

(3) Any goods exempted from tax under paragraph (2), or any packages and containers thereof shall carry the indication that the goods are taxfree subject to the conditions as determined by the Commissioner of the National Tax Administration.

(4) The amount equivalent to the liquor tax amount on the liquors to be used for raw materials of the liquors exempted from the tax under paragraph (1), shall be refunded or deducted, but it shall be subject to mutatis mutandis application of the provisions of Article 35 (3) of the Liquor Tax Act. <Amended by Act No. 6045, Dec. 28, 1999>

(5) Matters necessary for the scope of the goods to be exempted from tax, the procedure of tax exemption, and the collection of the exempted tax amount under paragraph (1) shall be prescribed by the Presidential Decree.

#### **Article 115 (Exemption of Liquor Tax)**

(1) Any liquor provided by an entertainment restaurant among the business facilities used by tourists as prescribed by the Tourism Promotion Act, which is used exclusively for foreign

n military personnel and foreign seamen in Korea shall be exempted from the liquor tax.

(2) The amount equivalent to the liquor tax amount on the liquors to be used for raw materials of the liquors exempted from the tax under paragraph (1) shall be refunded or deducted, but it shall be subject to mutatis mutandis application of the provisions of Article 35 (3) of the Liquor Tax Act. <Amended by Act No. 6055, Dec. 28, 1999>

(3) The provisions of Article 31 of the Liquor Tax shall apply mutatis mutandis to the procedures for exempting the liquor tax under the provisions of paragraph (1). <Amended by Act No. 6055, Dec. 28, 1999>

#### **Article 116 (Exemption of Stamp Tax)**

(1) The stamp tax shall be exempted on the documents falling under any of the following subparagraphs: <Amended by Act No. 6045, Dec. 28, 1999>

1. Documents concerning things to be used exclusively for the mails under the Postal Service Act;
2. Documents concerning postal money orders as prescribed by the Postal Money Order Act;
3. Documents concerning postal transfers as prescribed by the Postal Transfer Act;
4. Documents concerning things to be used exclusively for telecommunication, or to serve the utilization thereof, by a basic telecommunication enterpriser as prescribed by the Telecommunication Business Act;
5. Certificates of loans for consumption and contracts of bills prepared by each member (including a member of a cooperative and a member of a village society) to obtain loans from credit cooperatives established in accordance with the Credit Cooperatives Act, the Saemaul savings depositories established in accordance with the Saemaul Savings Depository Act, agricultural cooperatives established in accordance with the Agricultural Cooperatives Act, livestock cooperatives established in accordance with the Livestock Industry Cooperatives Act, fisheries cooperatives and fishing village societies established in accordance with the Fisheries Cooperatives Act, tobacco producers cooperatives established in accordance with the Tobacco Producers Cooperative Act, ginseng cooperatives established in accordance with the Ginseng Cooperatives Act, and forestry cooperatives established in accordance with the Forestry Cooperative Act, or from national federations thereof: Provided, That the same shall not apply to the case where the total amount of the loans extended to the same person exceeds thirty million won;

6. Children deposit passbooks, and the deposit and installment savings certificates and bankbooks of members concerned (including members of the fishing village fraternity as prescribed by the Fisheries Cooperatives Act) prepared by the credit cooperative associations established under the Credit Cooperatives Act, the saemaul saving depositories established under the Saemaul Saving Depository Act, the agricultural cooperatives established under the Agricultural Cooperatives Act, the livestock cooperatives established under the Livestock Industry Cooperatives Act, the fisheries cooperatives and the fishing village fraternities established under the Fisheries Cooperatives Act, the tobacco producers cooperatives established under the Tobacco Producers Cooperatives Act, the ginseng cooperatives established under the Ginseng Cooperatives Act, and the forestry cooperatives established under the Forestry Cooperatives Act;
7. Certificates and documents attesting the establishment, transfer, change or extinguishment of property rights due to the rearrangement projects of agricultural and fishing villages executed under the Rearrangement of Agricultural and Fishing Villages Act, projects for optimizing the management scale of a farm household, such as sale, purchase, lease, exchange, division and putting together, etc., of the farmland, executed under the Korea Agricultural and Rural Infrastructure Corporation and Farmland Management Fund Act, and projects forming the agricultural and fishing villages settlement living zones executed under the Act on the Special Measures for Development of Agricultural and Fishing Villages;
8. Documents prepared due to the necessity for taking the procedure of transfer, in case of a transfer of land, etc. to which the Act on Special Cases concerning the Acquisition of Lands for Public Use and the Compensation for Their Loss is applied, to the State, local governments, or corporations established under other special Acts;
9. Documents prepared to have the agricultural and fishing villages housing improvement funds extended as a loan, or to purchase on credit the materials for construction of houses, from the agricultural cooperative association established under the Agricultural Cooperatives Act;
10. Certificates and documents prepared by a farmer (including the farming association corporation and agricultural company), stock breeder, fisherman (including incorporated fishing associations), forest owner or forest manager for the purpose of a contract cultivation, shipment, sale, processing, keeping, etc. of agricultural, livestock, fisheries or forestry products, together with the agricultural cooperatives established und

er the Agricultural Cooperatives Act, the livestock cooperatives established under the Livestock Industry Cooperatives Act, the fisheries cooperatives by area and by category of business established under the Fisheries Cooperatives Act (including the fishing village fraternities established under the Fisheries Cooperatives Act), the tobacco producers cooperatives established under the Tobacco Producers Cooperatives Act, the ginseng cooperatives established under the Ginseng Cooperatives Act, the forestry cooperatives established under the Forestry Cooperatives Act, or the Federation thereof as well as documents prepared to purchase the goods on credit;

11. Documents prepared in connection with any farmland formation projects executed under the Public Waters Reclamation Act;
  12. Contract on a consignment of manufacture of any items designated to be systematized, which are prepared between the entrusting and entrusted enterprises under the Act on the Protection of the Business Sphere of Small and Medium Enterprises and Promotion of Their Cooperation;
  13. Documents prepared newly as a result of any change of the organization of such corporation among those established under the special Acts as is prescribed by the Presidential Decree into a company as prescribed by the Commercial Act due to the amendment or repeal of such special Acts;
  14. The monetary stabilization bonds issued by the Bank of Korea under the Bank of Korea Monetary Stabilization Bonds Act.
  15. Documents prepared by the Busan Asian Games Organizing Committee;
  16. Documents prepared in relation to a bond which an international financial institution, as prescribed in the Act on the Measures for the Admission of International Financial Institutions, issues and issuance of the bond;
  17. Documents prepared by the Winter Asian Games Organizing Committee;
  18. Documents prepared by the Korean Organizing Committee for the 2002 FIFA World Cup Korea and Japan; and
  19. Certificates, passbooks and contracts, etc. prepared by a founder under the Support for Small and Medium Enterprise Establishment Act (limited to category of business listed in Article 3 of the same Act) within two years from the founding day to obtain loans from financial institutions as determined by the Presidential Decree in connection with his business.
- (2) The provisions of paragraph (1) shall apply only to the tax documents prepared by the t

ime limit provided for in the following subparagraphs:

1. Paragraph (1) 12, 15, 18 and 19: December 31, 2003; and
2. Paragraph (1) 5, 6, 9, 10 and 17: December 31, 2000.

#### **Article 117 (Exemption of Securities Transaction Tax)**

(1) Securities transaction tax shall be exempted in any of the following subparagraphs: <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

1. Where a small and medium startup venture company or a small and medium startup venture cooperative transfers stock certificates or equities acquired by making direct investments in a business founder or a venture company;
2. Where a new technology project financier or a new technology project investment cooperative transfers stock certificates or equities acquired by making direct investments in a new technology businessman;
- 2-2. Where a venture investment cooperative established in accordance with the Act on Special Measures for the Promotion of Venture Businesses transfers stock certificates or equity shares acquired by investing in an enterprise subject to corporate restructuring;
- 2-3. Where a venture investment cooperative established in accordance with the Act on Special Measures for Promotion of Venture Businesses transfers stock certificates or equity shares acquired by investing in a business founder or a venture business;
3. Where the management company in a securities investment trust under the Securities Investment Trust Business Act incorporates stock certificates into or withdraw them from the trust money;
4. Where the trustee company in a securities investment trust listed in subparagraph 3 transfers stock certificates belonging to the trust property through a securities market (hereafter, “securities market” in this Article) or association brokerage market (hereafter, “association brokerage market” in this Article) under the Securities and Exchange Act;
5. Where a management company (excluding merchant banks engaged in securities investment trust business pursuant to Article 7 (2) 2 of the Merchant Banks Act) listed in subparagraph 3 transfers stocks on hold through a securities market or association brokerage market;
6. Where a foreign corporation established for stock investment transfers stock certificates acquired on permission, etc. by the Minister of Finance and Economy on stock in



- vestment in the country under the Foreign Exchange Transactions Act or the Securities and Exchange Act, through a securities market or association brokerage market;
7. Where an insolvent financial institution transfers stock certificates or equities on hold pursuant to any timely corrective measures or a decision on contract transfer or a financial institution which took over stock certificates or equities from the insolvent financial institution transfers them again;
  8. Where the Korea Deposit Insurance Corporation or a reorganizing financial institution transfers stock certificates or equities acquired from an insolvent financial institution to carry out the business of reorganizing insolvent financial institutions pursuant to Article 18 (1) 4 or 26-5 of the Depositor Protection Act;
  9. Where the Korea Asset Management Corporation transfers stock certificates or equities acquired from an insolvent financial institution to carry out the business of reorganizing insolvent financial institutions;
  10. Where a mutual fund under the Mutual Fund Act transfers stock certificates through a securities market or association brokerage market;
  11. Where a corporate restructuring mutual fund acquires stock certificates or equities which do not belong to a large enterprise group under the Monopoly Regulation and Fair Trade Act and transfers them pursuant to Article 78 (1) 1 of the Mutual Fund Act ;
  12. Where a corporate restructuring specialized company established under the provisions of Article 55 transfers stock certificates or equities of an enterprise subject to corporate restructuring after acquiring them;
  13. Where a stockholder affiliated with an enterprise group referred to in subparagraph 2 of Article 2 of the Monopoly Regulation and Fair Trade Act transfers stock certificates pursuant to Article 46 (1);
  14. Where stocks are invested in kind to establish a new corporation referred to in Article 38; and
  15. Where the controlling shareholders, investors or persons in a special relationship with them of a small and medium enterprise that has become insolvent (hereafter, “insolvent small and medium enterprise” in this Article) transfer all of their stocks or ownership shares of the insolvent enterprise to its employees (including its labor union) in the manners prescribed by the Presidential Decree.
- (2) The provisions of paragraph (1) shall apply only to the portions transferred, withdrawn,

incorporated or invested in kind by the time limit provided in the following subparagraphs:

*<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

1. Paragraph (1) 1, 2, 2-2, 2-3, 11,12 and 15: December 31, 2003;
2. Paragraph (1) 3, 4, 5 and 10: December 31, 2000; and
3. Paragraph (1) 13 and 14: December 31, 1999.

(3) The Presidential Decree shall prescribe the scope of the controlling shareholders, investors and persons in a special relationship with them referred to in paragraph (1) 15. *<Newly Inserted by Act No. 5996, Aug. 31, 1999>*

(4) A person who intends to have the provisions of paragraph (1) applied shall make an application for tax reduction and exemption.

#### **Article 118 (Reduction of Customs)**

(1) The customs duty may be abated on the goods, whose production is difficult in Korea, falling under any of the following subparagraphs: *<Amended by Act No. 6045, Dec. 28, 1999>*

1. Goods imported for construction of urban railroads, public railroads, high-speed railroads, or Incheon International Airport: Provided, That goods used for the construction of Incheon International Airport shall be limited to what are imported by December 31, 2000;
2. Parts for manufacturing farming machines, which are introduced by farming machines manufacturers to promote farming mechanization;
3. Machines and materials for manufacturing solar energy-driven machinery and tools, which are introduced by manufacturers of solar energy-driven machinery and tools;
4. Sophisticated medical instruments and appliances introduced by national and public medical institutions, medical centers and medical corporations which are local corporations(including medical institutions attached to school corporations, special corporations, social welfare corporations, incorporated associations and foundations);
5. Goods which local governments and the Busan Asian Games Organizing Committee import as goods for manufacturing and constructing the facilities for the Asian Games and for conducting the games (including machines and materials for the use of scientific training of athletes);
6. Goods which local governments, the Winter Asian Games Organizing Committee and owners of the facilities related to the Winter Asian Games import as goods for manufacturing and constructing the facilities for the Winter Asian Games and for conducting the games (including machines and materials for the use of scientific training of

athletes);

7. Goods which the Korea International Trade Association imports as goods for manufacturing and constructing the facilities for the Asia and Europe Summit Conference and for conducting the conference;
8. Goods which local governments and the Korean Organizing Committee for the 2002 FIFA World Cup Korea and Japan import as goods for manufacturing and constructing the facilities for the 2002 World Cup and for conducting the games (including machines and equipment for the use of scientific training of athletes); and
9. Goods imported for construction and operation of trade exposition centers under the provisions of Article 4 of the Foreign Trade Act.

(2) The goods on which the customs duty is reduced under paragraph (1), and rate of reduction shall be prescribed by the Ordinance of the Ministry of Finance and Economy.

(3) If goods on which the customs duty is reduced under paragraph (1) are used for any purpose other than that as referred to in each subparagraph of paragraph (1) in a period as determined by the Administrator of the Korea Customs Service within the limit of three years after the import license is granted (including a case where such goods are not used continuously for the prescribed purpose for a period of time as determined by the Administrator of the Korea Customs Service), or transferred to a person who will use them for a purpose other than that for which the customs duty is reduced, the reduced customs duty shall immediately be collected from the person who has used them for the purpose other than such purpose, or the transferor and, if it is impossible to collect the customs duty from the transferor, the reduced customs duty shall immediately be collected from the transferee: Provided, That such goods are destroyed due to any disaster or by any inevitable reason, or destroyed with the approval of the customs collector, this shall not apply.

(4) The provisions of the proviso of Article 34-2 (1) of the Customs Duties Act shall not be applicable in a case where the customs duties are collected under paragraph (3).

#### **Article 119 (Exemption of Registration Tax)**

(1) The registration tax shall be exempted on the cases of registration falling under any of the following subparagraphs: <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

1. Registration of any investment in kind under the Act on the Contribution In-kind of State Properties;
2. Registration of any property taken over due to a merger or transfer of the whole busi

- ness under Article 49 or other mergers as prescribed by the Presidential Decree;
3. Registration of any property for business taken over by a corporation established by, or surviving after, the consolidation of small and medium enterprises referred to in Article 31;
  4. Registration of any property for business acquired by an investment in kind as provided in Article 32;
  5. Registration of incorporation of a corporation by the change of organization as provided in Article 116 (1) 3, and on any property for business acquired by such change of organization;
  6. Registration of any property (limited to property as determined by the Presidential Decree) acquired by the Korea Asset Management Corporation;
  7. Registration of business property acquired through investment in kind or a spin-off of a company under the provisions of in Articles 38 and 38-2;
  8. Registration of any property acquired by a donation referred to in Article 41;
  9. Registration of any property acquired by a donation referred to in Article 46;
  10. Registration of any property acquired by a division meeting under any of subparagraphs (Article 47 (1) of the said Act for spin-off) of Article 46 (1) of the Corporate Tax Act;
  11. Registration of any property acquired by asset exchange referred to in Article 50 of the Corporate Tax Act;
  12. Registration of any property which a financial institution under subparagraph 1 of Article 2 of the Act on the Structural Improvement of the Financial Industry, the Korea Asset Management Corporation, the Korea Deposit Insurance Corporation or a reorganizing financial institution took over from an insolvent financial institution which has been subject to any timely corrective measures (limited to an order for business transfer or contract transfer) or a decision on contract transfer;
  13. Registration, where a special purpose company takes over securitized assets from an asset owner or operates or disposes of it according to an asset-backed securitization plan registered pursuant to Article 3 of the Asset-Backed Securitization Act until December 31, 2001, which falls under any of the following items:
    - (a) Registration of ownership transfer of real estate;
    - (b) Registration of transfer of mortgage; and
    - (c) Registration of provisional registration on auction application, provisional seizure

or provisional disposition.

14. Registration of any property acquired by a financial institution as determined by the Presidential Decree (hereafter, “financial institution” in this subparagraph and Article 120 (1) 13 and (5) 4) from a national being liquidated under the application of the provisions of Article 39 (9);
  15. Registration of any investment where the Korea Deposit Insurance Corporation invests pursuant to Articles 8, 11, and 12 of the Act on the Structural Improvement of the Financial Industry;
  16. Registration falling under any of the following subparagraphs in relation to acquisition, management, operation, or disposition of home mortgage rights transferred, on or on or before December 31, 2001, from financial institutions to a company organized pursuant to the Special Purpose Companies for Mortgage-Backed Bonds Act (or the Act on Home-Mortgage-Backed Security Companies) to perform the business of home-mortgage-backed securities (hereinafter “a homemortgage-security company”) pursuant to such asset securitization plans as prescribed under Article 4 of the same Act: and
    - (a) Registration on transfer of mortgage rights;
    - (b) Registration or provisional registration pertaining to petitions filed for auction sale, provisional seizure or disposition; or
    - (c) Registration on transfer of ownership titles through exercise of mortgage rights;
  17. Registration of assets (limited to those prescribed under the Presidential Decree) acquired by Savings Deposit Insurance Corporation or a financial institution responsible for liquidation of a bankrupt company.
- (2) In any of the following subparagraphs, the exempted registration tax shall be collected additionally:
1. Where a cause falling under any of subparagraphs of Article 41 (3) occurs for paragraph (1) 8; and
  2. Where the requirements listed in Article 39 (1) 2 are not met for paragraph (1) 14.
- (3) The registration tax shall be exempted on the business properties that a small and medium start-up or venture enterprise acquires within two years after the date of its start-up (referring to the date on which it is verified as a venture enterprise in case of the small and medium start-up venture enterprise; hereinafter the same shall apply for the operation of its business: Provided, in case that such properties are not used directly for the relevant business w

ithin two years from the date of registration without any justifiable reasons, the exempted r  
egistration tax shall be collected retroactively. *<Amended by Act No. 5996, Aug. 31, 1999>*

(4) With respect to a registration of any property for business acquired by transferring and t  
aking over the business under Article 32, the registration tax shall be reduced or exempted:  
Provided, That if the business is discontinued, or the property is disposed of, within two ye  
ars from the date of registration, without any justifiable reason as prescribed by the Preside  
ntial Decree, the reduced or exempted tax amount shall be collected additionally.

(5) For registration of such a corporation newly organized pursuant to the provisions under  
the Presidential Decree for restructuring the electric power industry, the rate provided unde  
r Article 138 (1) of Local Tax Act shall not be applied to its organization registration, but, i  
nstead, 50/100 of the tax amount computed applying the rate provided for under Article 13  
7 (1) 1 of the same Act shall be imposed on such registration. *<Newly Inserted by Act No. 604  
5, Dec. 28, 1999>*

#### **Article 120 (Exemption of Acquisition Tax)**

(1) The acquisition tax on the acquisition of the properties falling under any of the followin  
g subparagraphs shall be exempted: *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, D  
ec. 28, 1999>*

1. Property invested in kind under the Act on the Contribution In-kind of State Properti  
es;
2. Property of a business taken over by a corporation established by, or surviving after,  
consolidation of small and medium enterprises referred to in Article 31;
3. Property for a business acquired by investment in kind under Article 32;
4. Property for business acquired by a change of organization under Article 116 (1) 13;
5. Property acquired by the Korea Asset Management Corporation pursuant to Article 1  
19 (1) 6;
6. Property acquired through investment in kind or a spin-off of corporation under the p  
rovisions of Article 38-2;
7. Property acquired by donation as referred to in Article 41;
8. Property acquired by donation as referred to in Article 46;
9. Property acquired by a division falling under any of the subparagraphs (Article 47 (1  
) of the said Act for spin-off) of Article 46 (1) of the Corporate Tax Act;
10. Property acquired by asset exchange as referred to in Article 50 of the Corporate Ta  
x Act;

11. Property which a financial institution under subparagraph 1 of Article 2 of the Act on the Structural Improvement of the Financial Industry, the Korea Asset Management Corporation, the Korea Deposit Insurance Corporation, or a reorganizing financial institution took over from an insolvent financial institution which has become subject to any timely corrective measures (limited to the order for business transfer or contract transfer) or a decision on contract transfer;
  12. Real estate acquired by a special purpose company pursuant to Article 119 (1) 13 of the Asset-Backed Securitization Act;
  13. Property acquired by a financial institution from a domestic corporation (limited to any financial institution) being liquidated under the application of the provisions of Article 39 (9);
  14. Buses which use natural gases as a fuel and are supplied for intra-city bus transportation services under the Passenger Transport Service Act;
  15. Houses acquired by a home-mortgage-security company pursuant to Article 119 (1) 16; and
  16. Properties acquired by the Savings Deposit Insurance Corporation or a financial institution responsible for liquidation of a bankrupt company pursuant to Article 119 (1) 17.
- (2) In any of the following subparagraphs, the exempted registration tax shall be collected additionally:
1. Where a cause falling under any of subparagraphs of Article 41 (3) occurs for paragraph (1) 7; and
  2. Where the requirements listed in Article 39 (1) 2 are not met for paragraph (1) 13.
- (3) A tax amount equivalent to 75/100 of the acquisition tax shall be exempted on any business property which a small and medium start-up enterprise or venture enterprise acquires within two years after its start up for the purpose of operating its business: Provided, That such property is not used directly for the business within two years from the date of acquisition without any justifiable reasons, the exempted acquisition tax shall be collected retroactively. <Amended by Act No. 5996, Aug. 31, 1999>
- (4) With respect to any property of a business acquired by transferring or taking over the business under Article 32, the acquisition tax shall be exempted: Provided, That if the business is discontinued, or the properties are disposed of, within two years from the date of acquisition without any justifiable reason as prescribed by the Presidential Decree the reduced

or exempted tax amount shall be collected additionally.

(5) The provisions of Article 105 (6) of the Local Tax Act shall not apply to the oligopoly stockholders of a corporation pursuant to subparagraph 2 of Article 22 of the same act due to causes falling under any of the following subparagraphs: *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

1. Where it acquires the corporation's stocks or equities pursuant to Articles 39 through 42;
2. Where it acquires stocks or equities from an insolvent financial institution pursuant to an assumption by a third party, an order for contract transfer or an order on contract transfer referred to in Article 10 of the Act on the Structural Improvement of the Financial Industry;
3. Where a corporate restructuring mutual fund acquires stocks or equities of a business which is not affiliated with a large enterprise group under the Monopoly Regulation and Fair Trade Act pursuant to Article 78 (1) 1 of the Mutual Fund Act;
4. Where a financial institution acquires the corporation's stocks or equities as it converts loans to the corporation into investments;
5. Where a stockholder of a corporation affiliated with an enterprise group referred to in subparagraph 2 of Article 2 of the Monopoly Regulation and Fair Trade Act acquires stocks pursuant to Article 46 (1);
6. Where a vulture fund referred to in Article 55 acquires stocks or equities of a restructuring business referred to in the said Article;
7. Where the securities transaction tax is exempted under the provisions of Article 117 (1) 15;
8. Where a stockholder becomes a holding company under the Monopoly Regulation and Fair Trade Act or such a holding company acquires stocks of its subsidiary;
9. Where Savings Deposit Insurance Corporation or a financial institution responsible for liquidation of a bankrupt company acquires equity stocks or shares pursuant to Article 36-1 (1), 38 and 38-2 of the Depositor Protection Act; and
10. Where Korea Assets Management Corporation acquires equity stocks or shares through conversion of loans into equity investment pursuant to Article 36 (1) 1 of the Act on Effective Disposal of Assets Acquired by Financial Institutions for Non-Performing Loans and Establishment of Korea Assets Management Corporation.

#### **Article 121 (Abatement of Property Tax)**



A tax amount equivalent to 50/100 of the property tax and the aggregate land tax shall be abated on any business property owned by a small and medium start-up or venture enterprise for the purpose of operating its business for five years from the date of its start-up. <Amended by Act No. 5996, Aug. 31, 1999>

#### **Article 121-2 (Reduction and Exemption of Corporate Tax for Foreign Investment)**

(1) Any foreign investment (referring to foreign investment under Article 2 (1) 4 of the Foreign Investment Promotion Act; hereinafter the same shall apply) in the following business, which meets the standards as determined by the Presidential Decree, shall be reduced or exempted from corporate tax, income tax, acquisition tax, registration tax, property tax and aggregate land tax, under the conditions as prescribed by paragraphs (2) through (5):

1. Industry-supporting service business vital to the improvement of international competitiveness in the domestic industry, and business involving high technology;
2. Business carried out by any foreign-invested enterprise which moves in a foreign investment area under Article 18 of the Foreign Investment Promotion Act; and
3. Business necessitating tax reduction and exemption in order to attract foreign investment, which is determined by the Presidential Decree.

(2) Corporate tax or income tax on any foreign-invested enterprise under Article 2 (1) 6 of the Foreign Investment Promotion Act (hereafter, “foreign-invested enterprise” in this Chapter) shall be reduced or exempted for income accruing from a business subject to reduction and exemption pursuant to paragraph (1), and for a taxable year which ends within seven years from a taxable year (taxable year in which it becomes the fifth year if income does not accrue until the taxable year in which it becomes fifth year from the starting date of business) in which income accrues for the first time from such business since its opening, the amount in full (hereafter, “tax amount to be reduced or exempted” in this paragraph) by multiplying the ratio of foreign investment by any corporate tax or income tax equivalent (referring to an amount calculated by multiplying the ratio which income accruing by carrying out the following business listed in accounts for in the total tax base by the total calculated tax amount) on such business income and for a taxable year which ends within the next three years, the tax amount equivalent to 50/100 of tax amount to be reduced and exempted shall be reduced or exempted.

(3) Corporate tax or income tax on dividends on stocks or investment equities (hereafter, “stocks, etc.” in this Chapter) acquired by any foreign investor referred to in Article 2 (1) 5 of the Foreign Investment Promotion Act (hereafter, “investor” in this Chapter) shall be reduced

ced or exempted in proportion to income accruing from which the foreign-invested enterprise concerned carries out a business subject to reduction or exemption under paragraph (1), and the tax amount in full for the period in which the amount of corporate tax or income tax is reduced or exempted in full, and the amount equivalent to 50/100 of the tax amount for the period in which 50/100 of the tax amount is reduced or exempted shall be reduced or exempted pursuant to paragraph (2).

(4) For acquisition tax, registration tax, property tax and aggregate land tax on any property acquired and held by a foreign-invested enterprise in order to carry out its reported business, such tax amount shall be reduced or exempted or a certain amount is deducted from its tax base as follows: Provided, That where the local government extends a reduction period or deduction period up to fifteen years or raises such reduction or exemption ratio or deduction ratio within the extended period on such terms and conditions as the Municipal Ordinance may determine, it shall be according to such period or ratio notwithstanding the provisions of subparagraphs 1 and 2:

1. Reduction or exemption of an amount by multiplying the ratio of foreign investment by the calculated tax amount for the property (hereafter, “tax amount to be reduced or exempted” in this paragraph and paragraph (5)) in full within five years from the starting date of business, and 50/100 of tax amount to be reduced or exempted within the next three years for acquisition tax, registration tax and property tax; and
2. Deduction of an amount by multiplying the ratio of foreign investment by the tax base for such property (hereafter, “amount to be deducted” in this paragraph and paragraph (5)) from five years from the starting date of business and 50/100 equivalent to the amount deductible from the tax base for the next three years, for aggregate land tax.

(5) Where a foreign-invested enterprise acquires and holds any property for using it for a business listed in paragraph (1) prior to the starting date of business, for acquisition tax, registration tax, property tax and aggregate land tax on such property such tax amount shall be reduced or exempted or a certain amount is deducted from its tax base as follows, notwithstanding the provisions of paragraph (4): Provided, That where the local government extends the reduction or deduction period up to fifteen years or raises such reduction or exemption ratio or deduction ratio within the extended period on such terms and conditions as the Municipal Ordinance may determine, it shall be according to the raised period or ratio, notwithstanding the provisions of subparagraphs 2 and 3:

1. Reduction or exemption of tax amount to be reduced or exempted in full for acquisition tax and registration tax on any property which is acquired after the date of receipt of a decision on tax reduction or exemption pursuant to paragraph (8);
2. Reduction or exemption of tax amount to be reduced or exempted in full for five years, and equivalent to 50/100 of the amount deductible for the subsequent three years from the date of acquisition of such property, for property tax; and
3. Deduction of amount to be deducted in full for five years and an amount equivalent to 50/100 of the amount to be deducted from the tax base for the next three years from the date of acquisition of such property, for aggregate land tax.

(6) Where any foreign investor or a foreign-invested enterprise intends to have any reduction or exemption under paragraphs (2) through (5) applied, he or it shall make an application for reduction or exemption to the Minister of Finance and Economy not later than the closing date of the taxable year in which the foreign-invested enterprise started its business (for a capital increase, the date on which it becomes the second year from the date of a report on foreign investment): Provided, That where he or it intends to have any reduction or exemption on such modified business applied for a modification of business contents on which a decision on tax reduction or exemption has been made pursuant to paragraph (8), he or it shall make an application for modified contents of tax reduction or exemption to the Minister of Finance and Economy not later than the date on which it becomes the second year from the date of occurrence of such cause for modification, and where a decision on modified contents of tax reduction or exemption has been made thereto, such contents of modified decision shall apply only to the remainder of the initial reduction or exemption period.

(7) Any foreigner (referring to a foreigner under Article 2 (1) 1 of the Foreign Investment Promotion Act), foreign investor or foreign-invested enterprise may request the Minister of Finance and Economy to confirm whether any business which he or it intends to carry out is subject to reduction or exemption under paragraph (1) before making a report under Article 5 (1) of the Foreign Investment Promotion Act.

(8) Where the Minister of Finance and Economy receives an application for tax reduction or exemption or an application for modified contents of tax reduction or exemption under paragraph (6) or a request for preconfirmation under paragraph (7), he shall decide whether such application or request falls into one subject to such reduction or exemption, modified contents of reduction or exemption in consultation with the competent Minister and notify the applicant: Provided, That he shall consult with the head of the local government in respect

t of any reduction or exemption for acquisition tax, registration tax, property tax and aggregate land tax under paragraphs (4) and (5).

(9) In respect of foreign investment under Article 6 of the Foreign Investment Promotion Act, the provisions of paragraphs (2) through (5) shall not apply.

#### **Article 121-3 (Exemption from Customs Duties)**

(1) Where any capital goods as determined by the Presidential Decree from among the following capital goods required for any business listed in subparagraphs of Article 121-2 (1) (refers to “capital goods” in Article 2 (1) 8 of the Foreign Investment Promotion Act; hereafter in this Chapter the same shall apply) is introduced according to the reported contents pursuant to Article 5 (1) of the Foreign Investment Promotion Act, customs duties, special consumption tax and value-added tax thereon shall be exempted:

1. Capital goods which a foreign-invested enterprise introduces as a means of foreign payment or of domestic payment contributed from foreign investors; and
2. Capital goods which a foreign investor introduces as a subject matter contributed under Article 2 (1) 7 of the Foreign Investment Promotion Act (hereafter, “subject matter contributed” in this Chapter).

(2) Where any foreign investor or foreign-invested enterprise intends to have customs duties, special consumption tax and value-added tax exempted pursuant to paragraph (1), he or it shall make an application for exemption on such terms and conditions as the Ordinance of the Ministry of Finance and Economy may determine.

(3) In respect of foreign investment referred to in Article 6 of the Foreign Investment Promotion Act, the provisions of paragraph (1) shall not apply.

#### **Article 121-4 (Tax Reduction or Exemption of Capital Increase)**

(1) For a capital increase by any foreign-invested enterprise, in respect of any reduction or exemption for such increase, the provisions of Articles 121-2 and 121-3 shall apply: Provided, That for any application for tax reduction or exemption meeting the standards as determined by the Presidential Decree, the consultation with the competent Minister or the head of the local government may be omitted.

(2) For stocks which any foreign investor acquires through capital transfer of reserves, asset revaluation surplus, or other reserves provided for in other Acts and subordinate statutes under Article 7 (1) 1 of the Foreign Investment Promotion Act, any reduction or exemption shall be made, depending on the remainder of such reduction or extension period and the reduction or exemption ratio of such remainder following the example of reduction or exemp

tion for stocks forming a bases for such accrual.

(3) In applying the provisions of paragraph (1), the starting date of business shall be the date on which a registration of modification on capital increase has been made.

**Article 121-5 (Additional Collection of Taxes)**

(1) The head of a tax office shall collect additionally corporate tax or income tax reduced or exempted pursuant to Article 121-2 (2) 1, in any of the following subparagraphs, on such terms and conditions as the Presidential Decree may determine:

1. Where any registration is erased pursuant to Article 21 (2) of the Foreign Investment Promotion Act;
2. Where any foreign investment fails to meet the standards for tax reduction or exemption referred to in the main sentence of Article 121-2 (1);
3. Where any person, who has been given a corrective order referred to in Article 28 (4) of the Foreign Investment Promotion Act for failing to fulfil his reported contents, fails to fulfil it;
4. Where any foreign investor transfers stocks on hold to a national or a corporation of the Republic of Korea under this Act; and
5. Where such foreign-invested enterprise closes down its business.

(2) The director of a customs office or the head of a tax office shall collect additionally customs duties, special consumption tax, and value-added tax exempted pursuant to Article 121-3, in any of the following subparagraphs, on such terms and conditions as the Presidential Decree may determine:

1. Where any registration is erased pursuant to Article 21 (2) of the Foreign Investment Promotion Act;
2. Where the subject matter contributed is used or disposed of for any purpose other than as reported;
3. Where any foreign investor transfers stocks on hold to a national or a corporation of the Republic of Korea under this Act; and
4. Where such foreign-invested enterprise closes down its business.

(3) The head of a local government shall collect additionally the acquisition tax, registration tax, property tax and aggregate land tax reduced or exempted pursuant to Article 121-2 (4) and (5), in any of the following subparagraphs, on such terms and conditions as the Presidential Decree may determine. In this case, for cases falling under subparagraph 1, the amount of tax equivalent to the ratio of the deficient amount shall be collected additionally:

1. Where the ratio of stocks by foreign investors, after such tax was reduced or exempted pursuant to Article 121-2 (5) falls short of the ratio of stocks at the time of such reduction or exemption;
  2. Where any foreign investor, after such tax was reduced or exempted pursuant to Article 121-2 (4), transfers stocks on hold to a national or a corporation of the Republic of Korea under this Act;
  3. Where any registration is cancelled pursuant to Article 21 (2) of the Foreign Investment Promotion Act; and
  4. Where such foreign-invested enterprise closes down its business.
- (4) The scope of tax amount to be additionally collected pursuant to paragraphs (1) through (3) shall be determined by the Presidential Decree.
- (5) Notwithstanding the provisions of paragraphs (1) through (3), such reduced or exempted tax amount does not have to be collected additionally, in any of the following subparagraphs, on such terms and conditions as the Presidential Decree may determine:
1. Where any foreign-invested enterprise's registration is cancelled for being dissolved due to its merger;
  2. Where any capital goods in use after being introduced with their customs duties exempted pursuant to Article 121-3 are used or disposed of for any purpose other than their original one on approval by the Ministry of Finance and Economy as they were unable to be used for their original purpose due to the existence of a national disaster, force majeure or any other cause beyond control or any depreciation, technological progress or other changes in economic conditions;
  3. Where any foreign-invested enterprise transfers stocks to a national or a corporation of the Republic of Korea in order to make it go public pursuant to the Securities and Exchange Act; and
  4. Where the purpose of tax reduction or exemption other than those listed in subparagraphs 1 through 3 is deemed to have been achieved, as determined by the Presidential Decree.

#### **Article 121-6 (Tax Reduction or Exemption of Royalties for Technical License)**

- (1) Where two parties enter into an agreement meeting the standards as determined by the Presidential Decree to introduce high technology vital to the improvement of international competitiveness of the domestic industry, the corporate tax or income tax on royalties for technical license which the licensor receives according to the contents of such agreement shall

ll be reduced or exempted for five years from the date on which such royalties are to be paid for the first time under the agreement.

(2) Where the licensor who grants license under the agreement intends to have taxes exempted, he shall make an application for exemption to the Minister of Finance and Economy on such terms and conditions as the Ordinance of the Ministry of Finance and Economy may determine.

#### **Article 121-7 (Delegation of Authority)**

The Minister of Finance and Economy may delegate or entrust part of his authority granted under the provisions of this Chapter to the Commissioner of the National Tax Administration, the Commissioner of the Korea Customs Service or the heads of other institutions related to foreign investment as determined by the Presidential Decree.

#### **Article 122 (Tax Credit on Increase of Receipt Amount)**

(1) If the total amount of receipt of a business place reported in the final report of global income tax base by a person who is prescribed by the Presidential Decree as a resident who has real estate rental income or business income (hereinafter the “business income, etc.” in this Article), exceeds 120/100 of the standard receipt amount as prescribed by the Presidential Decree, the amount obtained by multiplying the calculated global income tax amount on the business income, etc. of such business place by the ratio of the amount equivalent to 30/100 of the exceeding amount (if the provisions of paragraph (2) are applied, it refers to an amount from which the amount exceeding the receipts pursuant to the said paragraph has been deducted) in the total amount of receipt of such business place, shall be deducted from the income tax in the then current taxable year.

(2) If the receipt amount from credit card (including things that are prescribed by the Presidential Decree among things similar to the credit card; hereafter, the same shall apply in this paragraph) or the receipt from a point-of-sale system by a business place (hereafter, the “receipts by a credit card, etc.” in this paragraph) stated in the final report of total income tax base by a person as determined by the Presidential Decree, as a businessman who operates a credit card member store pursuant to the Specialized Credit Financial Business Act or who introduces the point-of-sale system pursuant to the Distribution Industry Development Act, exceeds the receipts by a credit card, etc. in the immediately preceding taxable year, the amount obtained by multiplying the calculated total income tax amount on business income, etc. of such business place by the ratio of the amount equivalent to 50/100 of the excess amount (limited to the increased portion of total receipts by a business place) in the total rec

ceipts of such business place shall be deducted from the income tax in the then current taxable year.

(3) If any receipt (including receipts from credit cards) received through financial institutions from among the total receipts by the business place of the business reported by a businessman receiving income through financial institutions, who is determined by the Presidential Decree, at the time of the final return of combined income tax base exceeds the total receipts of the business place for the immediately preceding taxable year, the amount calculated by multiplying the calculated tax amount for combined income on the business place's business income, by the ratio of the amount equivalent to 50/100 of the excess amount (limited to the increased portion of the total receipts of a business place) in the business place's total receipts shall be deducted from income tax for the taxable year.

(4) In applying paragraphs (1) through (3), the tax amount to be deducted shall be limited to the increased portion of the calculated tax amount as prescribed by the Presidential Decree, and the matters necessary for the calculation of the amount of tax credit shall be prescribed by the Presidential Decree.

(5) Where a businessman is subject to tax credit referred to in paragraph (3) for the same business place's business income, etc., he shall not be subject to tax credit referred to in paragraph (1) or (2).

(6) A person who wishes to have the provisions of paragraphs (1) through (3) applied shall make an application for the tax credit under the conditions as prescribed by the Presidential Decree.

#### **Article 123 (Tax Credit Paid for Income Tax to Small Businessmen who Make Bona-Fide Returns)**

(1) Where a businessman meeting the following requirements makes a return of his receipts in excess of the standards which the Presidential Decree determines in consideration of economic growth rate and increasing rates in receipts by type of business, in making a final income tax return for receipts imputed for the year 1999, a tax amount to be reduced calculated pursuant to paragraph (2) shall be deducted from tax amount to be paid for the years 1999, 2000 and 2001: Provided, That this shall not apply where receipts increase due to a relocation of the business place or change in the type of business, which falls under a cause as determined by the Presidential Decree:

1. A businessman whose imputed receipts from the year 1998 is less than one hundred and fifty million won, who fulfills the duty of keeping and entering books referred to in



n Article 160 of the Income Tax Act; and

2. A man who has been engaged in the business for one or more years in a row as of January 1, 1999.

(2) A tax amount to be reduced referred to in paragraph (1) shall be an amount calculated pursuant to subparagraph 3 by applying receipts to be reduced and exempted under subparagraph 1 and reduction rates by year:

1. Receipts to be reduced
2. Reduction rates by year
  - (a) Part imputed for the year 1999: 100/100
  - (b) Part imputed for the year 2000: 50/100
  - (c) Part imputed for the year 2001: 20/100

3. Tax amount to be reduced

(3) Imputed income for the year 1999 and imputed income for the preceding taxable years of a businessman who has made a bona-fide return pursuant to paragraph (1) shall not be subject to any rectification referred to in the said Article for a cause provided for in Article 80 (2) 1 of the Income Tax Act: Provided, That this shall not apply where it is evident by corroborative facts that he makes a return too little.

(4) In applying the proviso of paragraph (3), where the part of imputed for the year 1999, which are receipts made a return too little, exceeds an amount calculated according to the standards as determined by the Presidential Decree, tax amount deducted pursuant to paragraphs (1) and (2) shall be collected in full additionally.

(5) In making a return of imputed receipts for the year 2000 or 2001, each receipt falls short of the smaller amount of imputed receipts for the year 1999 and an amount as determined by the Presidential Decree, taking into account increasing and decreasing rates in receipts by type of business for the said amount, the provisions of paragraphs (1) through (3) shall not apply to the taxable year and the taxable year thereafter.

(6) Where a businessman is entitled to both tax credit referred to in paragraphs (1) and (2) and tax credit referred to in Article 122, either tax credit chosen by the party concerned of the two shall apply.

(7) A person who intends to have the provisions of paragraph (1) applied shall make an application for tax credit under the conditions as prescribed by the Presidential Decree.

(8) The matters necessary in applying the provisions of paragraphs (1) through (6) shall be determined by the Presidential Decree.

**Article 124 (Reduction of Payable Tax Amount of Value-Added Tax for Businessman, etc. who has Introduced Point-of-Sale System)**

(1) For any individual businessman falling under any of the following subparagraphs, who has carried on business for not less than six months retroactively from the last day of the immediately preceding taxable period and is determined by the Presidential Decree, the amount calculated pursuant to paragraph (2) shall be reduced in the payable tax amount of value-added tax of the taxable period:

1. Any businessman who has introduced a point-of-sale system under the Distribution Industry Development Act and who operates the system under the conditions as determined by the Presidential Decree;
2. Deleted; and *<by Act No. 6045, Dec. 28, 1999>*
3. Any person for whom the rate of the value of goods or services supplied by the State, the local governments, the local government associate or any person as determined by the Presidential Decree (hereinafter “purchase rate by public agency”) from among the value of goods or services supplied during the taxable period to use for taxable business exceeds 50/100.

(2) The amount which is reduced by each taxable period pursuant to paragraph (1) shall be the amount calculated in the formula of the following subparagraphs:

1. Those who are referred to in paragraph (1) 1:
2. Deleted; and *<by Act No. 6045, Dec. 28, 1999>*
3. Those who are referred to in paragraph (1) 3:

(3) The amount which is reduced pursuant to paragraph (2) shall be limited to the following amount:

(4) For a person who has not carried on business for six months or more retroactively from the last day of the immediately preceding taxable period and who falls under paragraph (1) 1, the amount (meaning 1.5 million won if it exceeds 1.5 million won) equivalent to 1/100 of the supply value by point-of-sale system shall be deducted from the payable tax amount of value-added tax of the taxable period.

(5) Where the provisions of subparagraphs of paragraph (1) are applied at the same time or the provisions of paragraph (1) or (4), and the provisions of Article 32-2 (1) of the Value-Added Tax Act are applied at the same time, the taxpayer may choose any of them for each taxable period.

(6) Matters necessary for the reduction of payable tax amount referred to in each subparagraph

aph of paragraph (1) and paragraph (4) shall be determined by the Presidential Decree.

**Article 125 (Reduction of Payable Tax Amount of Value Added Tax for Businessmen who Make Bona-Fide Returns)**

**Article 125 (Reduction of Payable Tax Amount of Value Added Tax for Businessmen who Make Bona-Fide Returns)**

(1) Where a businessman meeting the following requirements makes a return on tax base in excess of the standards which the Presidential Decree determines in consideration of increasing rates in tax base by the type of business, in making the final return for value-added tax for the first or second taxable period for the year 1999, a tax amount to be reduced calculated pursuant to paragraph (2) shall be deducted from payable tax amount of value added tax for each taxable year for three years from the taxable period in which bona-fide return is made: Provided, That this shall not apply where he is deemed to have made a bona-fide return due to a relocation of the business place or change in the type of business:

1. A businessman whose annual supply value (referring to supply price for any simplified taxpayer or special taxable person referred to in Article 25 (1) of the Value-Added Tax Act) for the year 1998 is less than one hundred and fifty million won, who fulfills the duty of keeping and entering books referred to in Article 160 of the Income Tax Act for the part of the taxable period in which bona-fide return is made; and
2. A businessman who has been engaged in the business for six months on end as of the starting date of the taxable period in which bona-fide return is made.

(2) A tax amount to be reduced for the taxable year in which bona-fide return is made shall be the amount calculated pursuant to subparagraph 3 based on the tax base to be reduced referred to in subparagraph 1 and the reduction rates by the taxable period:

1. Tax base to be reduced
2. Reduction rates by taxable period
  - (a) First two taxable periods including the taxable period in which bona-fide return is made: 100/100
  - (b) Two taxable periods following the taxable period referred to in item (a): 50/100
  - (c) Two taxable periods following the taxable period referred to in item (b): 20/100
3. Tax amount to be reduced:
  - (a) Taxable period falling into a general taxpayer or a simplified tax payer;
  - (b) Taxable period falling into a special taxable person

(3) Where the returned tax base of the first and second taxable periods for the year 1999 bo

th meets the bona-fide return referred to in paragraph (1), the provisions of paragraphs (1) and (2) shall apply based on the taxable period which the businessman chose as a bona-fide return. In this case, where he chose the second taxable period for the year 1999 as a bona-fide return, tax amount to be reduced on the bona-fide return in the first taxable period for the year 1999 shall be reduced only in the taxable period.

(4) The part of the taxable period in which bona-fide was made and its previous taxable period referred to in the main sentence of paragraph (1) shall not be subject to rectification referred to in Article 2 of the Value-Added Tax Act: Provided, that this shall not apply where it is evident by corroborative facts that he made an underestimated return.

(5) In applying the proviso of paragraph (4), if the amount of underestimated tax base return in the taxable period in which bona-fide was made, exceeds the amount calculated according to the standards as determined by the Presidential Decree, the tax amount deducted pursuant to paragraphs (1) and (2) shall be collected in full additionally.

(6) Where a returned tax base amount of a taxable period falls short of the smaller amount of the tax base amount of the immediately preceding period and the amount as determined by the Presidential Decree allowing increasing rates in tax base by the type of business for the said amount, during the reduction period and he fails to fulfill the duty of keeping and entering books, the provisions of paragraph (1) shall not apply starting the taxable period.

(7) Where the provisions of paragraphs (1) through (3) and Article 124 or Article 32-2 (1) of the Value-Added Tax Act apply at once, it shall apply to one of the provisions chosen by the taxpayer by each taxable period.

(8) The reduced tax amount of each taxable period calculated pursuant to paragraphs (2) and (3) exceeds the payable tax amount of the taxable period, it shall be deemed that the excess part does not exist.

(9) Matters necessary for the application of paragraphs (1) through (8) shall be determined by the Presidential Decree

#### **Article 126 (Tax Credit for Investments in Establishment of Point-Of-Sale System)**

(1) Where a distributor as determined by the Presidential Decree (hereafter, “distributor” in this Article) makes an investment (excluding an investment by used articles) in a point-of-sale system under the Distribution Industry Promotion Act by December 31, 2000, an amount equivalent to 10/100 of the amount invested shall be deducted from income tax (limited to income tax for business income) or corporate tax. In this case, with respect to the methods of tax credit, the provisions of Article 11 (1), (3) and (4) shall apply mutatis mutandis.

(2) Any distributor who intends to have the provisions of paragraph (1) applied shall make an application for tax credit under the conditions as prescribed by the Presidential Decree.

**Article 126-2 (Income Deduction for Amounts Spent by Credit Cards, etc.)**

(1) Where the amount paid by a resident national (excluding any daily-wage earner; herein after the same shall apply) earning employment income on or before November 30, 2002 using his credit or direct payment cards under the provisions of Article 2 of the Specialized Credit Business Act for goods or services he is provided by a corporation (including any domestic business establishment of a foreign corporation) or by a business operator (including any domestic business establishment of a non-residential national) under the provisions of Article 28 of the Income Tax Act (hereafter, “amount spent using the credit cards, etc.” in this Article) exceeds 10/100 of his total annual employment income (excluding any amount spent abroad) for the corresponding tax year under the provisions of Article 20 (2) of the same Act, the amount equivalent to 10/100 of the excess amount (referring to a amount smaller than either three million won a year and or the amount equivalent to 10/100 of his total annual employment income for the corresponding tax year; hereafter, the “deductible amount for spending by credit cards, etc.” in this Article) shall be deducted from his employment income for the corresponding tax year.

(2) In applying paragraph (1), the amount spent using credit cards, etc. by those persons prescribed by the Presidential Decree, who are the spouse, direct lineage ancestors and descendants (including the spouse’s direct lineage ancestors) of a resident national earning employment income may be added to the deductible amount for spending by credit cards, etc. of the residential national.

(3) In applying paragraph (1), in case that the amount spent using credit cards, etc. falls under one of the following subparagraphs, such amount shall not be included in the deductible amount for spending by credit cards, etc.:

1. Expenses that are related to real property rental income, business income, or forestry income or expenses that are incurred for a corporation; or
2. An abnormal act of using credit or direct payment cards as prescribed by the Presidential Decree, such as falsified sales of goods or rendering of services.

(4) In applying paragraph (3) 2, where a person liable to withhold income tax at source under the provisions of Article 127 (5) of the Income Tax Act pays a tax amount falling short of the payable tax amount by withholding at source for the reasons prescribed by the Presidential Decree, he shall not be levied with the punitive additional tax for unfaithful payment o

f tax withheld at source under the provisions of Article 185 of the Income Tax Act.

(5) The Commissioner of National Tax Administration may instruct credit card operators under the provisions of Article 2 of the Specialized Credit Business Act to notify him of the amount spent using credit cards and matters necessary for the taxable income deduction on the amount spent using credit cards.

(6) Any person who seeks to benefit from the application of paragraph (1) shall file an application for deduction of taxable income as prescribed by the Presidential Decree.

(7) The Presidential Decree shall prescribe necessary matters concerning the calculation of annual total amounts spent using credit cards, methods for confirming amounts spent using credit cards and deduction of taxable income on amounts spent using credit cards. *<Amended by Act No. 6045, Dec. 28, 1999>*

#### **Article 127 (Exclusion of Overlapping Assistance)**

(1) Where a national appropriates the investment reserves for the expenses in each taxable year under this Act, if the provisions of Article 4, 28, or 30 are applied simultaneously to the same assets for business, he may select one of such provisions which shall be applied.

(2) Where the provisions of Articles 5, 11, 24 through 27, 62 (1) and (2), 65 (2), 94, 103, 126, the provisions of Article 14 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666), or Article 12 (2) of the Addenda of this Act (limited to the amendment to Article 37) are applied simultaneously to the assets in which a national makes an investment under this Act, he may select one of such provisions which shall be applied.

(3) In applying the provisions of Articles 5, 11, 24 through 27, 27-2, 62 (1) and (2), 65 (2), 94, 103, 126, Article 14 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4666), or Article 12 (2) of the Addenda of this Act (limited to the amendment to the previous Article 37), if the income tax or corporate tax is abated or exempted under Article 121-2 or 121-4 on assets in which a national invests under this Act, the amount arrived by multiplying the amount to be deducted pursuant to the said provisions by the percentage of the stocks or ownership shares invested by such a national investor to the total outstanding issued stocks or ownership shares of such an enterprise shall be deducted. *<Amended by Act No. 5982, May 24, 1999; Act No. 5996, Aug. 31, 1999>*

(4) Where the income tax or corporate tax is reduced or exempted under Articles 6, 31 (4) and (5), 32 (4), 34, 63, 63-2 (2), 64 through 68, the provisions of Article 13 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666),

or Article 12 (4) of the Addenda of this Act, the provisions of Articles 5, 11, 24 through 27, 62 (1) and (2), 65 (2), 94, 103, 126, the provisions of Article 14 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666), or the Article 12 (2) of the Addenda of this Act (limited to the amendment to Article 37) shall not be applicable. *<Amended by Act No. 6045, Dec. 28, 1999>*

(5) Where two or more provisions of Articles 6, 7, 31 (4) and (5), 32 (4), 34, 63, 63-2 (2), 64, Article 13 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666) or the Article 12 (4) of the Addenda of this Act, and Article 121-2 or 121-4, concerning the reduction and exemption of the income tax or corporate tax, are applicable to the same business place of a national in the same taxable year, he may select one of such provisions which shall be applied. *<Amended by Act No. 5982, May 24, 1999; Act No. 6045, Dec. 28, 1999>*

(6) Where two or more provisions from among the provisions of Articles 120 (3), 121, 121-2 or 121-4 which concern the abatement or exemption of the acquisition tax, the property tax or the aggregate land tax are applicable to the same business establishment of a national in the same tax year, he may select one of such provisions for such preferred taxation. *<Amended by Act No. 5982, May 24, 1999; Act No. 5996, Aug. 31, 1999>*

#### **Article 128 (Exclusion of Abatement and Exemption in Case of Estimated Taxation)**

(1) Where any tax base is estimated pursuant to the proviso of Article 80 (3) of the Income Tax Act, or Article 66 (3) of the Corporate Tax Act, the provisions of Articles 5, 10, 11, 24 through 27, 27-2, 62 (1) and (2), 65 (2), 94, 101 through 103, 123, 126 of this Act and Article 12 (2) (limited to the amendment to Article 370 and (3) of the Addenda of this Act shall not be applied: Provided, however, even when the estimation is made, the provisions of Articles 5, 26, 101 and 102 (where the investment tax amount is deducted, it is limited to the case where the documentary evidence of the investment is submitted) shall be applied only to residents. *<Amended by Act No. 5996, Aug. 31, 1999>*

(2) Where a decision is made pursuant to Article 80 (1) of the Income Tax Act or Article 66 (1) of the Corporate Tax Act, or where a report is made after the given period pursuant to Article 45-3 of the Framework Act on National Taxes, the provisions of Articles 6, 7, 12, 31 (4) and (5), 34, 63, 63-2 (2), 64 through 68, 95, 101 and 102 or Article 11 of the addenda of this Act shall not be applied. *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

(3) Where a rectification is made pursuant to Article 80 (2) of the Income Tax Act or Article

e 66 (2) of the Corporate Tax Act, the provisions of Articles 6, 7, 12, 31 (4) and (5), 34, 63, 63-2 (2), 64 through 68, 95, 101 and 102 or Article 11 of the Addenda of this Act shall not apply to an amount returned underestimated as determined by the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

**Article 129 (Exclusion from Reduction and Exemption, etc. of Special Surtax)**

(1) With respect to such real estate as prescribed by the Presidential Decree among those unrelated to the business of a juristic person (excluding the land, etc. for public activities to which the provisions of Article 63 are applied), the provisions of this Act or other Acts, concerning the nontaxation, reduction and exemption, taxation carried forward and taxation deferral of the special surtax, shall not be applicable.

(2) With respect to unregistered transferred property referred to in Article 104 (3) of the Income Tax Act or unregistered transferred land, etc. referred to in Article 101 (3) of the Corporate Tax Act, the provisions concerning non-taxation and reduction and exemption of capital gains tax or special surtax shall not apply.

**Article 130 (Exclusion of Tax Reduction and Exemption on Investment in National Capital Region)**

(1) In case where a domestic person starts up an enterprise in the Seoul Metropolitan Area (including cases where an enterprise located in an area outside the Seoul Metropolitan Area installs a new business place in the National Capital Region) after January 1, 1990, the provisions of Articles 5, 11, 24 through 26 and 94 shall not be applicable to the relevant fixed assets used for business located in the Seoul Metropolitan Area.

(2) The provisions of Articles 5, 11 (2) 3 and 24 (1) shall not be applicable to the fixed assets used for business which a domestic person carrying on any business in the Seoul Metropolitan Area continuously from the time on or before December 31, 1989 acquires for using such assets in a business place located in the Seoul Metropolitan Area, and which concerns such investment in an expansion of facilities as prescribed by the Presidential Decree: Provided, That if the domestic person makes an investment in any expanded facilities in such industrial complex or area as prescribed by the Presidential Decree, this shall not apply.

**Article 131 (Exclusion from Reduction and Exemption of Transfer Income Tax for Case, etc. of Moving Factory into Seoul Metropolitan Area)**

(1) The provisions of Article 78 (1) 1 through 4 of shall not be applicable in case of the transfer of the land, etc. formed in the Seoul Metropolitan Area after January 1, 1990.

(2) The provisions of Article 71 (1) shall not be applicable in case of the transfer of the land



d, etc. for the purpose of moving a factory acquired after January 1, 1990, into the Seoul Metropolitan Area (including moving within the boundary of the Seoul Metropolitan Area).

(3) In the application of the provisions of paragraph (2), if the ownership of a factory acquired on or before January 1, 1990, is changed due to a consolidation of small and medium enterprises under Article 31, or a conversion into a corporation under Article 32, the time of land acquisition shall be the day on which the extinguished enterprise acquired such land for the first time.

(4) Notwithstanding the provisions of paragraph (2), if a factory located in the Seoul Metropolitan Area is moved into an industrial complex or area in the Seoul Metropolitan Area, the transfer income tax or the special surtax may be reduced or exempted, or deferred.

### **Article 132 (Minimum Tax)**

(1) In calculating the corporate tax on any income of a domestic corporation (excluding incorporated associations to which the provisions of Article 72 (1) 1 are applied) in each business year, and on any domestic withholding income (excluding the corporate tax, the special surtax, the additional tax, and tax amount collected additionally as prescribed by the Presidential Decree on any income exceeding proper reserves, but it refers to the corporate tax from which the tax credit as prescribed by the Presidential Decree is not deducted) of a foreign corporation to which the provisions of Article 53 (1) of the Corporate Tax Act are applied, in each business year, if the tax amount after any reduction, exemption, etc. as referred to in each of the following subparagraphs are applied is below the tax amount as calculated by multiplying the tax base before making any inclusion in the expenses and any deduction of income, etc. under subparagraphs 1 and 2 (including the amount obtained by including the reserves as referred to in subparagraph 1 in the gross income pursuant to the pertinent provisions), by 12/100 (10/100 in case of the small and medium enterprise), the portion equivalent to such insufficient amount shall not be reduced or exempted: <Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>

1. Special depreciation allowances and reserves which are included in the expenses in calculating the income amount in each business year, pursuant to Articles 4, 8-2, 9, 17, 28, 30, and 75, Article 11 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4806), Article 14 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4666), Article 22 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4285), Article 14 of the Addenda to the Amendment of t

he Regulation of Tax Abatement and Exemption Act (Act No. 3865);

2. Deductible income amounts, amounts not to be included in the operating income, and nontaxable amounts as prescribed in Articles 13, 14, 49, 55, 60 (2), 61 (3), 63-2 (3) and 101, and Article 15 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4666) and Article 12 (3) of Addenda to this Act;
3. Tax credit amounts as prescribed in Articles 5, 10, 11, 24 through 27, 27-2, 31 (1), 32 (4), 62, 65 (2), 94, 103 and 126, and Article 14 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4666) and Article 14 of the Addenda to the Amendment (Act No. 3865) of the Regulation of Tax Abatement and Exemption Act (Act No. 3865) and Article 12 (2) of Addenda to this Act (limited to the amendment to the previous Article 37); and
4. Exemption and exemption or reduction of the corporate tax as prescribed in Articles 6, 7, 12, 21, 31 (4) and (5), 32 (4), 34, 63, 64, 65 (1), 68, 95 and 102 Article 14 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption (Act No. 4806), Articles 13 and 16 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666), and Articles 11 and 12 (2) (limited to the amendment to Article 35) and (4) of the Addenda of this Act.

(2) In calculating the income tax on any business income (in a case where the provisions of Articles 122 and 123 are applied, such business income shall include the income accruing from real estate; the same shall apply in this paragraph) of a resident and such business income accruing from a domestic business place of a non-resident (excluding the additional tax and the tax amount collected additionally as prescribed by the Presidential Decree, such tax refers to the income tax from which the tax credit on the business income as prescribed by the Presidential Decree is not deducted), if the tax amount after reduction and exemption, etc. as referred to in each of the following subparagraphs is below the tax amount calculated by multiplying the calculated tax amount on the business income (including the amount obtained by including the reserves as referred to in subparagraph 1 in the gross income pursuant to the relevant provisions) before making the inclusion in the expenses and deduction of the income, etc. as referred to in subparagraphs 1 and 2, by 30/100, no reduction or exemption, etc. shall be applicable to the portion of such insufficient tax amount: *<Amended by Act No. 5996, Aug. 31, 1999>*

1. Special depreciation cost and reserves which are included in the expenses in calculati

ng the income amount in each taxable year, pursuant to Articles 4, 9, 28, and 98, Article 11 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4806), Article 14 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666), Article 22 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4285), Article 14 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 3865);

2. Income deduction amount as provided in Articles 16 and 101, and Article 15 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666);
3. Tax credit amounts as provided in Articles 5, 10, 11, 24 through 27, 27-2, 31 (6), 32 (4), 62 (1), 65 (2), 94, 122, 123 and 124 and Article 14 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 4666), Article 14 of the Addenda to the Amendment of the Regulation of Tax Abatement and Exemption Act (Act No. 3865) or Article 12 (2) (limited to the amendment to the previous Article 37) and (5) of the Addenda of this Act; and
4. Exemption and reduction or exemption of the income tax as provided in Articles 6, 7, 31 (4) and (5), 32 (4), 34, 63, 64, 65 (1), 95 and 102 and Article 13 of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666), Article 12 (4) of Addenda of this Act.

(3) Matters necessary for application of the minimum tax as referred to in paragraphs (1) and (2) shall be prescribed by the Presidential Decree.

**Article 133 (Aggregate Ceiling of Reduction and Exemption from Transfer Income Tax)**

(1) Where the total amount of the transfer income tax to be reduced or exempted for an individual under Articles 43, 60, 70, 71, 77 through 80, and Article 16 (2) (excluding subparagraphs 1 and 3 of the said paragraph) through (3) and (6) of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666) exceeds one hundred million won for each taxable term, the amount equivalent to such excessive portion shall not be reduced or exempted.

(2) Where the reduced or exempted amount of the transfer income tax on the portion transferred under Article 69 (limited to the portion transferred after January 1, 1996) and on the portion transferred in a development restriction area under the proviso of Article 63 (1) exce

eds three hundred million won for each taxable term, the amount equivalent to such excessive portion shall not be reduced or exempted.

(3) Where the total transfer income tax to be reduced or exempted under paragraphs (1) and (2) exceeds three hundred million won for each taxable term, the reduction or exemption shall be made within the limit of three hundred million won. In this case, the calculation of the aggregate ceiling amount of reduction or exemption shall be subject to the conditions as

prescribed by the Presidential Decree.

#### **Article 134 (Aggregate Ceiling of Reduction and Exemption from Special Surtax)**

Where the total amount of the special surtax amount to be reduced or exempted for a corporation in each business year under Articles 43, 60, 61, 63-2 (4), 69, 70, 71, 77 through 80, 84 (2), and Article 16 (2) (excluding subparagraphs 1 and 3 of the said paragraph) through (3) and (6) of the Addenda of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 4666) exceeds the amount equivalent to 50/100 of the calculated amount of the special surtax as prescribed by the Presidential Decree, the amount equivalent to the excessive portion shall not be reduced or exempted: Provided, That if the amount equivalent to 50/100 of the calculated amount of the special surtax is less than one hundred million won, such amount shall be one hundred million won. <Amended by Act No. 6045, Dec. 28, 1999>

#### **Article 135 (Non-Inclusion of Interest Paid by Corporations Which Obtain Excessive Loans in Expenses)**

(1) Where a corporation, which holds borrowings in excess of the standards as determined by the Presidential Decree, holds any of the following property, the amount calculated under the conditions as determined by the Presidential Decree from among interests on borrowings paid for each business year shall not be included in the expenses:

1. Stocks or equities (excluding stocks or equities as determined by the Presidential Decree) of any other corporation); and
2. Real estate for (excluding real estate applied under Article 28 (1) 4 (a) of the Corporate Tax Act) forest land, arable land, and ranches, which is used for purpose as determined by the Presidential Decree.

(2) In applying the provisions of paragraph (1), the scope of borrowings or other necessary matters shall be determined by the Presidential Decree.

#### **Article 136 (Special Cases of Non-Inclusion of Entertainment Expenses in Expenses)**

(1) In applying the provisions of the main sentence of Article 35 (1) 3 of the Income Tax Act or the main sentence of Article 25 (1) 2 of the Corporate Tax Act to a national engaged in real estate business as determined by the Presidential Decree (hereinafter “real estate business”), with respect to receipts accruing from real estate business and consumptive service business, an amount equivalent to 20/100 of the amount calculated by multiplying the applicable rates referred to in the Table of the said subparagraph, shall apply.

(2) For the following corporations, the amount of entertainment expenses which are included in the expenses in calculating an income amount for each business year pursuant to Article 25 (1) of the Corporate Tax Act shall be the amount equivalent to 70/100 of the total amount referred to in the main sentence of the said Article and paragraph:

1. Government-invested institutions under the Framework Act on the Management of Government-Invested Institutions;
2. Government-contributed institutions as determined by the Presidential Decree; and
3. Corporations as determined by the Presidential decree to which any corporation referred to in subparagraphs 1 and 2 made contributions.

**Article 137 (Non-Inclusion in Expenses of Advertising and General Promotion Expenses by Consumption Service Business)**

(1) Where a national engaged in consumptive service business has paid advertising and general promotion expenses in connection with such consumptive service business, the amount corresponding to the excess ratio, if the ratio of advertising and general promotion expenses to its income exceeds the ratio as determined by the Presidential Decree, shall not be included in the expenses in calculating the income amount for each taxable year.

(2) The term “advertising and general publicity expenses” means expenses disbursed for giving advertising and general publicity to many and unspecified persons to promote sales or supply of goods and services, etc. relating to consumptive service business.

**Article 138 (Deemed Gross Income of Rental Deposits)**

(1) Where a domestic corporation (excluding non-profit domestic corporations) holding borrowings in excess of the standards as determined by the Presidential Decree, and which conducts real estate rental business as its main business receives deposits, key money or any such equivalents by leasing real estate except for houses as determined by the Presidential Decree or rights on the real estate, an amount calculated as the Presidential Decree may determine shall be added to the gross income referred to in Article 15 (1) of the Corporate Tax Act.

(2) The scope of borrowings, judging standards for main business or other necessary matters shall be determined by the Presidential Decree.

**Article 139 (Special Cases of Calculating Income for Small Business Converted into Corporation)**

(1) With respect to a small business which was converted into a corporation as determined in the business year which ends on or before December 31, 2003 (hereafter, “small businesses converted into a corporation” in this Article and Article 145), the provisions of Articles 135 through 137 shall apply in applying an income amount for the business year in which it was converted into a corporation and each business year within three years from the starting date of the business year thereafter.

(2) Matters necessary in applying special cases referred to in paragraph (1) shall be determined by the Presidential Decree.

**Article 140 (Special Cases of Taxation for Submarine Mineral Resources Development)**

(1) A person who has submarine mining rights listed in subparagraph 4 of Article 2 of the Submarine Mineral Resources Development Act (hereafter, “submarine mining concessionaire” in this Article) shall pay 50/100 of the tax base provided for in Articles 13 and 19 of the Corporate Tax Act as corporate tax for the business year income.

(2) A submarine mining concessionaire shall be exempted from:

1. Value-added tax, residential tax and business income tax imposed in connection with the exploratory and extractive project of submarine mineral resources;
2. Customs duties, value-added tax, special consumption tax and traffic tax on machinery, equipment and materials imported to be used for the exploratory and extractive project of submarine mineral resources;
3. Value-added tax, special consumption tax and traffic tax on machinery, equipment and materials purchased at home to be used for the exploratory and extractive project of submarine minerals;
4. Property tax, aggregate land tax, acquisition tax and automobile tax imposed in relation to property used or necessary for the exploratory and extractive project of submarine minerals; and
5. Tax imposed on services provided by the Government or a local government or imposed in connection thereto.

(3) Any machinery, equipment and materials, which a submarine mining concessionaire’s agent or contractor engaged in the exploratory and extractive project of su

submarine minerals imports in the submarine mining concessionaire's name to use for the exploratory and extractive project of submarine minerals shall be exempted from customs duties, valueadded tax, special consumption tax and traffic tax.

(4) Any deficit brought forward derived from any business year which started within ten years before the starting date of each business year in calculating the tax base of each business year for a submarine mining concessionaire shall be deducted from each business year's income.

(5) Salaries which a submarine mining concessionaire and his agent or contractor pays to a foreigner to explore and develop submarine petroleum shall be exempted from income tax until the business year in which he first pays corporate tax referred to in paragraph (1).

(6) The provisions of paragraphs (1) through (5) shall apply to the part of which the duty of payment occurs on December 31, 2003.

**Article 141 (Special Cases of Imposition of Taxes on Registration of Real Estate under Actual Titleholder's Name)**

(1) Where any real estate registered under the actual titleholder's name pursuant to Article 11 of the Act on the Registration of Real Estate under the Actual Title holder's Name is an object, the value of which is fifty million won or less and falls under any of the following subparagraphs, any tax already exempted or imposed in shortage or not imposed at all shall not be collected additionally. In this case, the scope and calculation of the price of real estate registered under the actual titleholder's name shall be determined by the Presidential Decree:

1. Where a title transferor and a householder who shares living with him was subject to non-taxation pursuant to one household one household transfer prior to the entry into force of this Act pursuant to subparagraph 3 of Article 89 of the Income Tax Act and which does not correspond to non-taxation on the date of transfer of the house due to registration under the actual titleholder's name; and
2. Where any gift tax whose duty to pay was created prior to the entry into force of the Act on the Registration of Real Estate under the Actual Titleholder's Name is imposed on a titleholder pursuant to Article 32-2 of the previous Inheritance Tax Act (referring to that prior to amendment to Act No. 5193 December 31, 1996).

(2) Where any real estate registered under the actual titleholder's name corresponds to a real estate for business purpose referred to in Article 112 (2) of the Local Tax Act, and which is directly used for the corporation's proper business until the elapse of the grace period (re

ferring to one-year period from the disappearance of such a cause for Article 11 (3) and (4) of the Act on the Registration of Real Estate Under Actual Titleholder's Name), tax rates listed in Article 112 (2) of the Local Tax Act shall not apply.

#### **Article 142 (Ex-Ante and Ex-Post Management of Special Taxation)**

(1) The Minister of Finance and Economy shall establish a basic plan on special taxation and its restriction and notify the heads of central administrative agencies not later than March 31 every year.

(2) The head of any central administrative agency shall present a recommendation for tax reduction and exemption including the objectives of tax reduction and exemption, policy effects expected from the tax reduction and exemption, estimated revenue effects by year and the related statistical data, etc. (hereafter, "recommendation for tax reduction and exemption" in this Article) with respect to matters as may be deemed necessary to reduce and exempt for the efficient discharge of economic and social policies, etc. to the Minister of Finance and Economy not later than May 31 every year.

(3) The head of any central administrative agency shall present a written opinion on effect analysis arising from tax reduction and exemption and an decision as to whether it should be maintained or abolished (hereafter, "statement of tax reduction and exemption" in this Article) with respect to the special taxation as determined by the Presidential Decree to the Minister of Finance and Economy not later than May 31 each year.

(4) The presentation of a recommendation for tax reduction and exemption or a statement of tax reduction and exemption referred to in paragraphs (1) through (3) or other necessary matters shall be determined by the Minister of Finance and Economy.

#### **Article 143 (Separate Accounting)**

(1) If a national operates concurrently a business to which the provisions of Articles 6, 7, 12, 31 (4) and (5), 32 (4), 34, 63, 63-2 (2), 64, 68, 95, 101, 102, and 122, and Articles 11 and 12 (4) of the Addenda and other businesses, he shall make a separate accounting under the provisions of the Presidential Decree. <Amended by Act No. 6045, Dec. 28, 1999>

(2) A national who carries out consumptive service business, real estate business or other business at the same time shall make separate accounts of assets, liabilities and profits and losses by business.

#### **Article 144 (Deduction of Amount of Carried-Over Tax Credit)**

(1) The amount equivalent to such portion of the tax amount to be deducted under Articles 5, 11, 24 through 27, 27-2, 62 (1) and (2), 65 (2), 94, 103 and 126 and Article 2 (2) (limited



to amendments to the previous provisions of Article 37) of Addenda, which has not been deducted because there is no tax amount to be paid in the corresponding tax year or because the minimum tax as provided in Article 118 is applied, shall be carried over to each tax year ending within four years (seven years in the case of the tax amount to be deducted under Article 10) from the beginning day of the tax year following the corresponding tax year for deduction from the income tax (limited to the income tax on business income) or corporate tax in each tax year in which such portion of the tax amount is carried over. *<Amended by Act No. 5996, Aug. 31, 1999>*

(2) If the amount to be deducted from the income or corporate tax in each tax year under Articles 5, 10, 11, 24 through 27, 27-2, 62 (1) and (2), 62 (2), 94, 103 and 126 and Article 2 (2) (limited to amendments to previous Article 37) of Addenda, and the non-deducted amount carried over under paragraph (1) overlap, the non-deducted amount under paragraph (1) shall be deducted first, and if any overlapping takes place between such non-deducted amounts carried over, the deduction shall be made sequentially in the order in which such non-deducted amount has accrued, but if the tax credit amount as provided in Article 10 and another tax credit amount accrues in the same year, the other tax credit amount shall be deducted first. *<Amended by Act No. 5996, Aug. 31, 1999>*

#### **Article 145 (Accumulation of Reserve for Enterprise Rationalization)**

(1) Any domestic corporation which wishes to have the tax credit, tax abatement and exemption, or income deduction (hereafter, “abatement and exemption, etc.” in this Article) applied under Articles 5 through 7, 10 through 12, 24 through 27, 27-2, 31 (4) through (6), 32 (4), 34, 37, 62, 63, 63-2 (2), 64, 65, 68, 94, 101, 103 and 126, and Articles 11 and 12 (2) (limited to amendments to Article 37) through (4) of the Addenda of this Act, shall accumulate as enterprise rationalization reserves the amount equivalent to the tax amount to be deducted (hereinafter “abated and exempted tax equivalent”) subtracted from the special tax for rural development imposed on such tax amount to be deducted (if he wishes to have the income deducted, the amount equivalent to the corporate tax on the income amount to be deducted) in appropriating its profits in the then-current business year. *<Amended by Act No. 5996, Aug. 31, 1999; Act No. 6045, Dec. 28, 1999>*

(2) Where any person who is liable to accumulate the reserve for enterprise rationalization pursuant to paragraph (1) fails to accumulate the reserve for enterprise rationalization in the business year, he may accumulate them by the time of appropriating profits of the business year in which profits as determined by the Presidential Decree (hereinafter “disposal pro

fits”) accrue after the business year.

(3) Where the reserve for enterprise rationalization is accumulated pursuant to paragraph (2), the amount equivalent to 20/100 of the reserves shall be collected by adding it to corporate tax of the business year in which the disposal profits accrue: Provided, That this shall not apply in the case of any inevitable cause as determined by the Presidential Decree.

(4) The reserve for enterprise rationalization as referred to in paragraphs (1) and (2) shall be accumulated continuously, except in the cases falling under any of the following subparagraphs:

1. Use of such reserves for making up any deficit brought forward; and
2. Transfer of such reserves into capital.

(5) Any resident who has the tax credit, tax reduction and exemption, or income deduction granted under paragraph (1), shall use the amount equivalent to the deducted tax amount less the special tax for rural development imposed on such deducted tax amount (if he has the income deducted, the amount equivalent to the income tax on the deducted income amount) for an investment in any fixed assets, or a repayment of a longterm loan amount under the conditions as determined by the Presidential Decree.

(6) In applying the provisions of paragraph (1), an amount, which a small business converted into a corporation used the reduced and exempted tax equivalent to invest in fixed assets or redeems its long-term borrowings by applying mutatis mutandis the provisions of paragraph (5) by the business year which ends within four years from the date of its conversion into a corporation (hereinafter “special period”) after it was reduced and exempted or otherwise in the business year which ends within three years from the date of its conversion into a corporation, shall be deemed to have accumulated and used it as reserve for enterprise rationalization: Provided, That an amount which was not used within the special period among the reduced and exempted tax equivalent shall be accumulated as reserve for enterprise rationalization in the business year in which the specific period ends, and the provisions of paragraphs (2) and (3) shall apply mutatis mutandis to any small business converted into a corporation which had not accumulated it.

#### **Article 146 (Additional Collection of Reduced or Exempted Tax Amount)**

Where a cause falling under any of the following subparagraphs occurs to a national whose tax has been abated or exempted, etc. under Article 145 (1), he shall pay income tax or corporate tax along with an amount equivalent to the interest calculated as the Presidential Decree prescribes to any amount provided in any of the following subparagraphs at the time of

f the return of tax base for the tax year in which such cause occurs, and such amount shall be deemed as payable pursuant to Article 76 of the Income Tax Act or Article 64 of the Corporate Tax Act: <Amended by Act No. 5996, Aug. 31, 1999>

1. Where a corporation which has been subject to the reduction and exemption, etc. under Article 145 (1) fails to accumulate, or accumulates insufficiently, the reserve for enterprise rationalization pursuant to paragraphs (2) and (6) of the said Article: An amount which fails to accumulate or insufficiently accumulates as reserve for enterprise rationalization among the reduced and exempted tax equivalent;
2. Where he disposes of reserve for enterprise rationalization as provided in Article 145 by the method other than that as prescribed in paragraph (4) of the said Article: Reserve for enterprise rationalization equivalent;
3. Where a person, who has the income tax or corporate tax deducted under Article 5, 11, 24 through 27, 62 (1) and (2), 65 (2), 94, 103 and 126, and Article 12 (2) (limited to amendment to Article 37) of the Addenda of this Act, disposes of such assets before the elapse of three years from the end of the taxable year in which an investment is completed pursuant to the said Article (excluding cases as determined by the Presidential Decree): An amount equivalent to the amount of tax credit on the assets;
4. Where a resident who has been subject to reduction and exemption, etc. under Article 145 (1) fails to use or uses insufficiently the amount to be used under Article 145 (5) (excluding cases where he invests any fixed assets used for business in kind or is converted into a corporation by a method of business transfer and takeover as determined by the Presidential Decree, and which are determined by the Presidential Decree): An amount which has not been used or used insufficiently;
5. Where a person, who has the income tax or corporate tax deducted under Article 94, diverts the assets for other purposes within three years from the day of completion or purchase of the assets: An amount equivalent to the tax amount imposable on the assets; and
6. Where a national, who has been granted a preferred taxation pursuant to the provisions of Article 27-2, reinvests in production facilities and equipment for manufacturing products belonging to the identical subdivision under the Korea Standard Industry Classification published by the Director of National Statistics Office pursuant to the provisions of Article 17 of the Statistics Act within the period prescribed by the Presidential Decree from the date the excess production facilities and equipment are dispos

ed of (excluding the case where the production facilities and equipment increase through a merger or a division merger and fresh investment is made to replace production facilities and equipment other than disposed production facilities and equipment): the exempted tax amount.

## ADDENDA

### **Article 1 (Enforcement Date)**

This Act shall enter into force on January 1, 1999: Provided, That amendments to Articles 38, 39 and 45 through 48 shall enter into force on the date of its promulgation.

### **Article 2 (Examples of General Application)**

- (1) Amendments relating to income tax and corporate tax in this Act shall apply to the part of the taxable year starting with the entry into force of this Act.
- (2) Amendments relating to transfer income tax and special surtax in this Act shall apply to the portions transferred after the entry into force of this Act.
- (3) Amendments relating to value-added tax in this Act shall apply to the portion of goods or services supplying or supplied or part of goods declared for import after the entry into force of this Act.
- (4) Amendments relating to special consumption tax in this Act shall apply to taxable period after the entry into force of this Act.
- (5) Amendments relating to liquor tax in this Act shall apply to the portion taken out of a factory or a bonded area after the entry into force of this Act.
- (6) Amendments relating to inheritance tax and gift tax in this Act shall apply to the part for which an inheritance commences or donated after the entry into force of this Act.
- (7) Amendments relating to stamp tax in this Act shall apply to tax documents prepared after the entry into force of this Act.
- (8) Amendments relating to securities transaction tax in this Act shall apply to the part transferred, withdrawn, incorporated, commissioned or invested in kind.
- (9) Amendments relating to customs duties in this Act shall apply to the parts declared for import after the entry into force of this Act.
- (10) Amendments relating to local tax in this Act shall apply to the portion to be acquired, registered or imposed of the property tax or aggregate land tax after the entry into force of this Act.

### **Article 3 (Examples of Application on Reserve for Small and Medium Business Investm**

ent)

Amendments to Articles 4, 9, 28, 30, 58, 59 and 75 shall apply to the reserves included in the expenses after the entry into force of this Act: Provided, That amendments relating to the payment of interest equivalent in Article 4 (4), 9 (4), 28 (4), 30 (2), 58 (4), 59 (5) and 75 (4) shall apply to the portions included in the gross income after the entry into force of this Act. In this case, amounts included in the gross income pursuant to Articles 4, 8, 28, 29, 41, 42 and 61-2 of the previous Regulation of Tax Reduction and Exemption Act shall be deemed amounts included in the gross income under this Act.

**Article 4 (Examples of Application on Tax Credit for Investment by Small and Medium Businesses)**

Amendments to Articles 5, 11, 24 through 26, 62, 65 (2), 94, 103 and 126 shall apply to the part invested after the entry into force of this Act.

**Article 5 (Examples of Application on Reduction and Exemption of Tax on Income from Technological Transfer)**

Amendments to Article 12 shall apply to the part transferred, provided or leased after the entry into force of this Act.

**Article 6 (Examples of Application on Exemption of Transfer Income Tax for Support, etc. for Improvement of Corporate Financial Structure)**

(1) Amendments to Articles 36 (2) 1, 37 (2) 1, 40 (1) 3 and 41 (1) 3 shall apply to the part of real estate transferred or donated prior to the entry into force of this Act but whose term of redemption of liabilities to financial institutions is not due.

(2) In applying amendments to Articles 37 (2) 2, 40 (2) 2, 41 (3) 2 and 42 (2) 3, which respect to the part of real estate transferred prior to the entry into force of this Act, the said amendments shall apply starting from the date of transfer of such real estate.

(3) Amendments to Articles 40 (1) 1 and 2, and 41 (1) 2 and (4) shall apply to the parts transferred or donated after February 24, 1998.

**Article 7 (Examples of Application on Minimum Tax, etc.)**

Where a person obtains any reduction and exemption referred to in Articles 127, 128, 132, 134, 144 and 145 in the taxable year which commences prior to the entry into force of this Act, the reduced and exempted tax amount shall be the reduced and exempted tax amount referred to in Articles 112, 117, 118 120, 121 and 123 of the previous Regulation of Tax Reduction and Exemption Act.

**Article 8 (Examples of Application on Non-Taxation, etc. of Capital Gains from Transf**

**er of Stocks by Small and Medium Business Start-Up investment Companies)**

- (1) Amendments to Articles 13, 14 (1) 2 through 4 and 14 (2) shall apply to the part of stocks or investment equities acquired after the entry into force of this Act.
- (2) Amendments to Articles 14 (4) and (5), 20 (limited to the part collected through withholding), 29, 89, 91 shall apply to the parts whose withholding time arriving after the entry into force of this Act.
- (3) Amendments to Article 15 shall apply to stock options granted after the entry into force of this Act.
- (4) Amendments to Article 16 shall apply to the part invested or financed after the entry into force of this Act.
- (5) Amendments to Article 16 shall apply to investment and financing loss reserves included in the expenses after the entry into force of this Act. In this case, the balance of investment and financing loss reserves included in the expenses pursuant to Article 14 (1) of the previous Regulation and Tax Reduction and Exemption Act at the time of the entry into force of this Act shall be deemed investment and financing loss reserves under this Act.
- (6) Amendments to Articles 21 and 22 (limited to the provisions relating to the entry into force of the Foreign Exchange Transactions Act) shall apply to the parts applicable under the Foreign Exchange Transactions Act after the entry into force of this Act.
- (7) Amendments to the proviso of Article 21 (1) shall apply to the parts of bonds in foreign currency issued after the entry into force of this Act.
- (8) Amendments to Article 23 shall apply to the parts transferred after the entry into force of this Act.
- (9) Amendments to Article 38 shall apply to the part invested in kind in the business year in which this Act enters into force.
- (10) Amendments to Article 39 shall apply to the part accepting or performing or reduced and exempted from liabilities in the business year in which this Act enters into force.
- (11) Amendments to Article 39 shall apply to the part exempted from liabilities decreased in capital in the business year in which this Act enters into force.
- (12) Amendments to Article 46 shall apply to the part of stocks transferred or taken over liabilities accepting or performing or real estate donated in the taxable year in which this Act enters into force.
- (13) Amendments to Article 47 shall apply to the part of stocks exchanged in the business year in which this Act enters into force.

(14) Amendments to Article 48 (4) shall apply to the part of allowance for bad debts in the business year in which this Act enters into force.

(15) Amendments to Article 100 (1) shall apply to housing subsidies paid after the entry into force of this Act.

(16) The assets provided for in Article 135 (1) 2 in amendments to the said Article shall apply only in the business year commencing before December 31, 1999.

(17) Amendments to Article 141 shall apply to the parts converted to the actual name after the entry into force of this Act.

(18) Amendments to Article 146 shall apply to the part in which a cause for additional collection occurs (including the part in which a cause for collection occurs in the reduced and exempted tax amount under the previous Regulation of Reduction and Exemption Act after the entry into force of this Act) after the entry into force of this Act.

#### **Article 9 (General Transitional Measures)**

(1) National taxes and local taxes taxed or to be taxed pursuant to the previous provisions prior to the entry into force of this Act shall be governed by the previous provisions.

(2) National taxes and local taxes reduced or to be reduced pursuant to the previous provisions prior to the entry into force of this Act shall be governed by the previous provisions.

(3) Acts and subordinate statutes which cite the previous Regulation of Tax Reduction and Exemption and its clauses at the time of the entry into force of this Act shall be deemed those which cite the respective relevant clauses of this Act.

#### **Article 10 (Transitional Measures on Reserve for Small and Medium Business Investment)**

The inclusion of reserves, which were included in the expenses in calculating an income amount for each taxable year pursuant to Articles 4, 8, 28, 29, 41, 42 and 61-2 of the previous Regulation of Tax Reduction and Exemption at the time of the entry into force of this Act, in the gross income shall be governed by the previous provisions.

#### **Article 11 (Transitional Measures on Reduction and Exemption of Tax Amount of Small and Medium Business Investment)**

(1) The part of patents, utility models and technical know-how leased prior to the entry into force of this Act shall be governed by the provisions of Article 11 of the previous Regulation of Tax Reduction and Exemption Act until the lease term expires.

(2) Nationals applied under the Articles 6, 34, 46, 50, 51 (1), 53 and 96 of the previous Regulation of Reduction and Exemption Act prior to the entry into force of this Act shall be go

verned by the Provisions of Articles 6, 34, 63, 64, 65 (1), 68 and 101 of the Act, respectively only from the taxable year starting after the entry into force of this Act to the remaining reduction and exemption period.

**Article 12 (Transitional Measures on Inclusion of Capital Gains from International Shares in Expenses)**

(1) The inclusion of an amount included in the expenses pursuant to Articles 24-2 and 40-4 of the previous Regulation of Reductions and Exemption Act, in the gross income shall be governed by the previous provisions.

(2) Where an enterprise designated for rationalization pursuant to Article 39 (1) of the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act meets the rationalization standards referred to in paragraph (2) of the said Article, it shall be governed by the provisions of Articles 35 through 37 of the previous Regulation of Tax Reduction and Exemption Act.

(3) Capital increases applied under Article 93 of the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act shall be governed by the previous provisions during the remaining deduction period.

(4) Any small and medium business applied under Article 54 of the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act shall be governed by the previous provisions during the remaining reduction and exemption period.

(5) Borrowing for housing funds applied under Article 92-4 of the previous Regulation of Tax Reduction and Exemption Act at the time of the entry into force of this Act shall be governed by the previous provisions until the completion of their redemption.

(6) Abandoned mine reserves applied under Article 123-2 of the previous Regulation of Tax Reduction and Exemption Act at the time of the entry into force of this Act shall be governed by the previous provisions.

**Article 13 (Transitional Measures on Household Long-Term Savings and Employees' Stock Savings)**

(1) For any household long-term savings referred to in Article 80-3 of the previous Regulation of Tax Reduction and Exemption Act, only the contracts which were concluded before December 31, 1998 shall be governed by the previous provisions until the expiration date of such savings contract.

(2) For any employees' stock savings referred to in Article 80-4 of the previous Regulation of Tax Reduction and Exemption Act, only the contract concluded before December 31, 19



98 and savings amount paid before December 31, 1998 shall be governed by the previous provisions until the expiration date of such savings contract.

**Article 14 (Transitional Measures on Reduction and Exemption, etc. of Transfer Income Tax)**

(1) The taxation carried forward on the assets which were subject to the application of taxation carried forward pursuant to Articles 31, 32 and 40-4 of the previous Regulation of Tax Reduction and Exemption prior to the entry into force of this Act shall be governed by the previous provisions.

(2) The reduction and exemption of tax amount, deferment of taxation, ex-post management and additional collection on assets which were subject to the application of reduction and exemption, etc. of tax amount pursuant to Articles 33, 40-8, 43, 44, 70, 71 and 75 (2) of the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act shall be governed by the previous provisions.

(3) Where any rental house began to be rented pursuant to the previous Article 67 at the time of the entry into force of the Amendments to the Regulation of Tax Reduction and Exemption Act (Act No. 4806), it shall be governed by the previous provisions.

(4) Where any land, etc. is transferred pursuant to the previous Articles 31 through 33, 43, 44, 68, 70 and 71 (including cases applied mutatis mutandis under Article 75 (2)) at the time of Amendments to the Regulation of Tax Reduction and Exemption Act (Act no. 5417), the reduction and exemption of tax amount, special cases of transfer value, deferment of taxation and additional collection, etc. shall be governed by the previous provisions.

**Article 15 (Transitional Measures on Exemption of Gift Tax on Farmland, etc. Donated to Children of Farming Households)**

(1) The ex-post management and collection of land, etc. which are exempted from gift tax pursuant to Article 58 of the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act shall be governed by the previous provisions.

(2) Any land, etc. subject to the exemption from gift tax pursuant to Article 58 (1) of the previous Regulation and Tax Reduction and Exemption Act at the time of the entry into force of this Act, which any self-cultivating farmer donates to his children of farming households by December 31, 2000, shall be exempted from gift tax pursuant to Article 58 (2) through (5) of the previous Regulation of Tax Reduction and Exemption Act.

**Article 16 (Transitional Measures on Exemption of Transfer Income Tax, etc. on Self-Cultivating Farmers, etc.)**

(1) The ex-post management and collection of land, etc. which is exempted from transfer income tax and gift tax referred to in the previous Articles 56 and 57 at the time of the entry into force of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 5195) shall be governed by the provisions of the previous Articles 56 and 57.

(2) Any land (limited to that within the agricultural development area under Farmland Act) subject to transfer income tax and gift tax referred to in the previous Articles 56 (1) and 57 (1) at the time of the entry into force of the Amendment to the Regulation of Tax Reduction and Exemption Act (Act No. 5195), which is transferred or donated by December 31, 2000, shall be exempted from transfer income tax or gift tax pursuant to the previous Article 56 (2) through (5) or 57 (2) through (4).

(3) Any fishing ship or fishing right subject to exemption from gift tax referred to in the previous Article 57 (1) at the time of the entry into force of the previous Regulation of Tax Reduction and Exemption Act (Act No. 5195), which is donated by December 31, 2000, shall be exempted from gift tax pursuant to the previous Article 57 (2) through (4).

**Article 17 (Transitional Measures on Exclusion of Tax Reduction and Exemption in Metropolitan Area)**

Foreign investments which were excluded from tax reduction and exemption pursuant to Article 47 (3) and (4) the previous Regulation of Tax Reduction and Exemption Act prior to the entry into force of this Act shall be governed by the previous provisions.

**Article 18 (Transitional Measures on Reduction of Payable Tax Amount of Value-Added Tax)**

Notwithstanding the provisions of Article 5 of the Amended Addenda of the Regulation of Tax Reduction and Exemption Act (Act No. 4952), the provisions of Article 100-2 (1) of the previous Regulation of Tax Reduction and Exemption Act shall apply to the part of taxable period which ends by December 31, 2000.

**Article 19 Omitted.**

ADDENDA <Act No. 5960, Mar. 31, 1999>

**Article 1 (Enforcement Date)**

This Act shall enter into force on April 1, 1999.

**Articles 2 through 5 Omitted.**

ADDENDA <Act No. 5980, Apr. 30, 1999>

- (1) (Enforcement Date) This Act shall enter into force on July 1, 1999.
- (2) (Examples of Application) The amendment to Article 106 (1) 2 shall apply to the portion supplied on and after the date of the entry into force of this Act.

ADDENDA <Act No. 5982, May 24, 1999>

**Article 1 (Enforcement Date)**

This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

**Articles 2 through 6 Omitted.**

ADDENDA <Act No. 5996, Aug. 31, 1999>

**Article 1 (Enforcement Date)**

This Act shall enter into force on the date of its promulgation: Provided, That the amended provisions of Article 126-2 shall enter into force on the first day of the month following the month belonging to the date of the promulgation of this Act.

**Article 2 (Examples of Application to Tax Abatement or Exemption)**

- (1) The amended provisions of Articles 6 and 31 shall apply starting with the new start-up or venture enterprise verified as established first after the enforcement of this Act.
- (2) The amended provisions of Article 63 shall apply starting with the factory facilities relocated first after the enforcement of this Act.

**Article 3 (Examples of Application to Reserves, etc.)**

- (1) The amended provisions of Article 8-2 shall apply starting with the portion of the tax year belonging to the date of the enforcement of this Act.
- (2) The amended provisions of Articles 60 and 61 shall apply starting with the portion transferred first after the enforcement of this Act.

**Article 4 (Examples of Application to Income Deduction)**

- (1) The amended provisions of Article 16 shall apply starting with the portion of investment or contribution made first after the enforcement of this Act.
- (2) The amended provisions of Article 126-2 shall apply starting with the portion of credit or direct payment cards used to spend first after the enforcement of this Act. In this case, where the amount spent using credit cards, etc. from the date of the enforcement of this Act to November 30, 1999 exceeds 10/100 of his total annual employment income for the corresponding period, an amount equivalent to 10/100 of the excess amount (up to a maximum of one million won) shall be deducted from his employment income for the corresponding ta

x year.

#### **Article 5 (Examples of Application to Investment Tax Deduction)**

The amended provisions of Articles 27 and 62 shall apply starting with the portion of investment or acquisition made first after the enforcement of this Act.

#### **Article 6 (Examples of Application to Deferred Taxation of Special Surtax)**

(1) The amended provisions of Articles 37, 47-2, and 49 shall apply starting with the portion of a merger made in the tax year belonging to the date of the enforcement of this Act.

(2) The amended provisions of Articles 38, and 42 shall apply starting with the portion of contribution in kind made in the tax year belonging to the date of the enforcement of this Act.

(3) The amended provisions of Article 38-2 shall apply starting with the portion of contribution in kind or transfer made first after the enforcement of this Act.

(4) The amended provisions of Article 39 shall apply starting with the portion of guaranty liabilities or repayment made first after the enforcement of this Act.

(5) The amended provisions of Article 44 shall apply starting with the tax year belonging to the date of the enforcement of this Act.

(6) The amended provisions of Article 99 (1) shall apply starting with the portion of transfer made first after July 1, 1999.

#### **Article 7 (Example of Application to Dividends of Securities Investment Companies)**

The amended provisions of Article 91-2 shall apply starting with the portion of the tax year belonging to the date the enforcement of this Act.

#### **Article 8 (Examples of Application to Value Added Tax, etc.)**

(1) The amended provisions of Article 106 shall apply starting with the portion of supply made first after the enforcement of this Act.

(2) The amended provisions of Article 112-2 and 113 shall apply starting with the portion of first shipped out of manufacturing factories or bonded areas after the enforcement of this Act.

#### **Article 9 (Examples of Application to Securities Transaction Tax)**

The amended provisions of Article 117 shall apply starting with the portion of stocks or ownership shares transferred first after the enforcement of this Act.

#### **Article 10 (Examples of Application to Local Municipal Taxes)**

The amended provisions of Article 119 through 121 shall apply starting with the portion of acquisition made first after the enforcement of this Act.

### **Article 11 (Examples of Application to Exclusion of Duplicate Assistance)**

The amended provisions of Articles 127, 128, 132, 144, 145, and 146 shall apply starting with the tax year belonging to the date of the enforcement of this Act.

### **Article 12 (Transitional Measures)**

(1) Any small and medium enterprise, which is subject to the application of the previous provisions of Articles 6 and 63 at the time of enforcing this Act, shall be made subject to the application of the same previous provisions.

(2) Any act performed by the Minister of Finance and Economy pursuant to the previous provisions of Article 50 (1) 1 prior to the enforcement of this Act shall be deemed the act performed by the Chairman of the Financial Supervisory Commission.

(3) The reserves which are included in the operating expenses but later included in the operating income and retroactively collected amount pursuant to the previous provisions of Articles 58 and 59 at the time this of enforcing this Act shall be dealt with according to the same previous provisions.

(4) The previous provisions of Article 87 (2) shall apply to the savings deposited on or before December 31, 1998.

### **ADDENDA <Act No. 6045, Dec. 28, 1999>**

#### **Article 1 (Enforcement Date)**

This Act shall enter into force on January 1, 2000: Provided, That the amended provisions of subparagraph 3 of Article 4 of the Act on Special Rural Development Tax from among the amended provisions of Articles 14, 16, 41-2, 44, 48 (4), 86 (2), 104-2, 117 (1) 2-2, and the amended provisions of Article 16 of the Addenda shall enter into force on the day of its promulgation, the amended provisions of Articles 50, 72 (1) 2, 3, and 7, 74, 84 (excluding matters concerning farmland improvement cooperatives and the Agriculture Infrastructure Corporation), subparagraphs 5 and 6 of Article 105 and Article 116 shall enter into force on July 1, 2000, and the amended provisions of subparagraph 4 Article 4 and Article 5 of the Act on the Special Rural Development Tax from among the amended provisions of Articles 89, 89-2, 90 and the amended provisions of Article 16 of the Addenda shall enter into force on January 1, 2001.

#### **Article 2 (General Application Examples)**

(1) The amended provisions concerning the income tax and corporate tax in this Act shall apply starting with the portion of the first tax year after the enforcement of this Act.

(2) The amended provisions concerning the transfer margin tax and the special surtax in this Act shall apply starting with the transfer margin first accruing after the enforcement of this Act.

(3) The amended provisions concerning the value-added tax in this Act shall apply starting with the goods and services supplied and rendered first after the enforcement of this Act.

(4) The amended provisions concerning the special consumption tax in this Act shall apply starting with the portion of the tax period arriving first after the enforcement of this Act.

(5) The amended provisions concerning the stamp tax in this Act shall apply starting with the portion of the taxable documents prepared first after the enforcement of this Act.

(6) The amended provisions concerning the customs duties in this Act shall apply starting with the portion of imports declared first after the enforcement of this Act.

### **Article 3 (Application Examples of Exemption of Corporate Restructuring Cooperative s from Transfer Margin Tax)**

The amended provisions of Articles 14 and 16 shall apply starting with the portion of investments made in a corporate restructuring cooperative, or stocks and equity shares acquired by such cooperative during the tax period belonging to the date of the enforcement of this Act.

### **Article 4 (Application Examples of Non-Residents' Income from Securities Transfer)**

The amended provisions of Article 21 (3) shall apply starting with the securities transferred first after the enforcement of this Act.

### **Article 5 (Application Examples of Special Taxation on Investment in Kind)**

(1) The amended provisions of Article 38 shall apply starting with the portion of investments in kind made first after the enforcement of this Act.

(2) The amended provisions of Article 41-2 (1) and (2) shall apply starting with the portion of the assets donated without compensation during the first business year closing after the enforcement of this Act, and the amended provisions of paragraph (3) of the same Article shall apply starting with the portion of the assets donated without compensation first after the date on which an application is filed for the beginning of procedures for liquidation proceedings, etc.

(3) The amended provisions of Article 44 shall apply starting with the portion of liabilities exempted in the business year closing first after the enforcement of this Act: Provided, That the exclusion of liability decrements, fulfilling the requirements of each subparagraph of Article 44 (1), from operating income and the inclusion of such liability decrements in operating

expenses shall be dealt with the previous provisions.

(4) The amended provisions of Article 48 (4) shall apply starting from such business loss reserves included in operating expenses for the business year where this Act enters into force

(5) The amended provisions of Article 120 (5) 8 shall apply starting with the portion of the stocks acquired first after the enforcement of this Act.

#### **Article 6 (Application Examples of Extraordinary Tax Abatement or Exemption for Corporations Relocated to Areas Outside Seoul Metropolitan Life Zone)**

(1) The amended provisions of Article 63-2 (2) shall apply starting with the portion of the tax year belonging to the date on which a factory or a head office is first relocated to areas outside the Seoul metropolitan life zone after the enforcement of this Act: Provided, that the same shall not apply to the case where a site or a building is transferred prior to the enforcement of this Act and then a factory or a head office is relocated after the enforcement of this Act.

(2) The amended provisions of Article 63-2 (3) and (4) shall apply starting with the portion of a site or a building transferred first after the enforcement of this Act: the same shall not apply to the case where such site or factory is relocated prior to the enforcement of this Act and then such property is transferred after the enforcement of this Act.

#### **Article 7 (Application Examples of Tax-Favored Savings)**

(1) The amended provisions of Article 86 (2) shall apply starting with the portion of tax-favored savings which are terminated or withdrawn in a from other than the annuity payment in the tax period belonging to the date of the enforcement of this Act.

(2) The amended provisions of Article 89 shall apply starting with savings contracts concluded first after this Act enters into force.

(3) The amended provisions of Article 90-2 shall apply starting with any savings contracts which are concluded or terminated first after the enforcement of this Act.

#### **Article 8 (Application Examples of Subsidies to Fishery Business Operators)**

The amended provisions of Article 104-2 shall apply starting with the portion of subsidies granted or received during the tax year belonging to the date of the enforcement of this Act

#### **Article 9 (Application Examples of Value-Added Tax)**

(1) The amended provisions of subparagraph 3-2 of Article 105 shall apply starting with the portion of contribution made without compensation to the State or local governments first

after this Act enters into force.

(2) The amended provisions of Article 107 shall apply starting with the portion of supplied or accepted first after this Act enters into force.

#### **Article 10 (Application Examples of Securities Transaction Tax)**

The amended provisions of Article 117 shall apply starting with stock certificates or equity shares transferred first after this Act enters into force.

#### **Article 11 (Application Example of Local Taxes)**

The amended provisions of Article 119 and 120 shall apply starting with the portion of the registration or acquisition made first after this Act enters into force.

#### **Article 12 (Transitional Measures concerning Tax-favored Savings to Which Exceptional Tax Withholding at Source Is Applied)**

(1) Any person who opens his tax-favored savings accounts as of December 31, 2000 (referring to December 31, 2001 in case of the previous provisions of Article 89 (1) 2) under the previous provisions of Article 89 (1) 1 (excluding the case where the amended provisions of Article 89-2 are applied), 2 (excluding investments) and 3 (excluding the trust of national stocks), 4, 5, 6 and 8 shall be deemed to open such his taxfavored savings accounts under the amended provisions of Article 89. In case that the total contracted amount of such previous savings exceeds such a limit of tax-favored savings contract amounts under the amended provisions of Article 89 (1) 3, such an excess portion shall also be deemed to be the tax-favored savings until their contract expires.

(2) Any financial institutions handling any savings which are deemed the tax-favored savings under the provisions of paragraph (1) shall notify the tax-favored comprehensive savings center of names, resident registration numbers, other particulars including conclusion and termination of such tax-favored savings contracts and the amounts of savings paid by December 31, 2000 (December 31, 2001 in case of deposits entrusted pursuant to the previous provisions of Article 89 (1) 2).

(3) Interest and dividend income subject to the application of the provisions of Article 1 (2) of the Addenda of the Regulation of Tax Reduction and Exemption Act amended by Act No. 4806 (referring to the amended provisions of the Regulation of Tax Reduction and Exemption Act amended by Act No. 5584) shall be subject to the application of the same provisions of the same Act by December 31, 2001 (by December 31, 2002 in case of dividend) notwithstanding the amended provisions of Article 89.

#### **Article 13 (Transitional Measures concerning Farmland Improvement Cooperatives, et**



c.)

In applying Article 84 (2), the period of using facilities by the previous farmland improvement cooperatives and their national federation at the time of enforcing this Act shall be considered to be the period of using such facilities by the Agriculture Infrastructure Corporation

#### **Article 14 (Transitional Measures concerning Household Life Fund Savings)**

(1) With respect to the household life fund savings under the previous provisions of Article 90, the provisions of the same Article shall apply only to any income accruing on or before December 31, 2000.

(2) The amended provisions of Article 90-2 shall apply to the tax-favored savings data in respect to household life fund savings under the previous provisions of Article 90 (2).

#### **Article 15 (Transitional Measures concerning Rents of Social Infrastructure Facilities)**

The previous provisions shall apply to any goods and services for which the value-added tax is exempted under the previous provisions of Article 106 (1) 5 at the time of enforcing this Act.

#### **Article 16 Omitted.**

#### **Article 17 (Application Example in Relation to Amendment to Other Act)**

The amended provisions of subparagraph 3 of Article 4 of the Act on Special Rural Development Act from among the amended provisions of the Addenda of Article 16 shall be applied starting with the tax year belonging to the date of the enforcement of this Act and the amended provisions of subparagraph 4 of Article 4 of the same Act and Article 5 of the same Act shall apply to the portion of the payment of any income accruing on or after January 1, 2001.

#### **Article 18 (Transitional Measures concerning Amendment to Other Act)**

With respect to the abatement or exemption of interest and dividend accruing from the savings under the provisions of Article 89 (1) 4 from among the amended provisions of subparagraph 4 of Article 4 of the Act on Special Rural Development Act, the previous provisions shall apply to any interest and dividend from the savings until such savings expire by December 31, 2000.

#### **ADDENDA** <Act No. 6054, Dec. 28, 1999>

(1) (Enforcement Date) This Act shall enter into force after the elapse of three months from the date of its promulgation.

(2) Omitted.

ADDENDA <Act No. 6055, Dec. 28, 1999>

**Article 1 (Enforcement Date)**

This Act shall enter into force on January 1, 2000. (Proviso Omitted.)

**Articles 2 through 20 Omitted.**

ADDENDA <Act No. 6073, Dec. 31, 1999>

**Article 1 (Enforcement Date)**

This Act shall enter into force on the date of its promulgation.

**Articles 2 and 3 Omitted.**

ADDENDA <Act No. 6136, Jan. 12, 2000>

**Article 1 (Enforcement Date)**

This Act shall enter into force two months after the date of its promulgation.

**Articles 2 through 7 Omitted.**

ADDENDA <Act No. 6194, Jan. 21, 2000>

**Article 1 (Enforcement Date)**

This Act shall enter into force three months after the date of its promulgation.

**Articles 2 through 4 Omitted.**

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