South Korea: Country VAT/GST Essentials

Contents

Scope and Rates
What supplies are liable to VAT?
What is the standard rate of VAT?
Are there any reduced rates, zero rates, or exemptions?

Registration
Who is required to register for South Korean VAT?
Are there penalties for not registering or late registration?
Are there any simplifications that could avoid the need for an overseas company to register for VAT?

VAT Grouping
Is VAT grouping possible?
Can an overseas company be included in a VAT group?

Returns
How frequently are VAT returns submitted?
Are there any other returns that need to be submitted?

VAT Recovery
Can I recover VAT if I am not registered?
Does your country apply reciprocity rules for reclaims submitted by non-established businesses?
Are there any items that you cannot recover VAT on?

International Supplies of Goods and Services
How are exports of goods and services treated?
How are goods dealt with on importation?
How are services which are brought in from abroad treated for VAT purposes?

Invoices
What do I have to show on a tax invoice?
Can I issue invoices electronically?
Is it possible to operate self-billing?

Transfers of Business
Is there a relief from VAT for the sale of a business as a going concern?

Options to Tax
Are there any options to tax transactions?

Head Office and Branch Transactions
How are transactions between head office and branch treated?

Bad Debt
Am I able to claim relief for bad debts?

Anti-Avoidance
Is there a general anti-avoidance provision under VAT law?

Penalty Regime
What is the penalty and interest regime like?

All information reflected in this document was obtained/summarized from KPMG in South Korea as of October 2011.
Scope and Rates

What supplies are liable to VAT?

Except where a specific exemption is provided by the VAT law, VAT is levied on the supply of all goods and services and the importation into South Korea of all goods.

Goods include all tangible and intangible properties that have values. Tangible properties include commodities, products, raw materials, machinery, buildings and other properties having a tangible form. Intangible properties include power, heat, and other properties (including “rights”) that do not have a tangible form.

For VAT purposes, the term “supply of services” refers to the provision of services for consideration pursuant to law or contract, except for services provided by an employee to his employer.

The importation of goods from outside Korea or from a bonded area is taxable under the Korean Value Added Tax Law (VATL).

What is the standard rate of VAT?
The standard VAT rate is 10 percent.

Are there any reduced rates, zero rates, or exemptions?

Although there is no applicable provision of reduced rates under the Korean tax law, the treatment of zero-rate VAT and exemptions are available as described below;

Zero Rate VAT

The following categories of transactions are zero rated:

- the export of goods
- the supply of services outside Korea
- the supply of international transportation services by vessel or aircraft
- the supply of certain goods or services the compensation for which is received in foreign exchange.

Tax exemption

The Korean tax law prescribes VAT-exempt goods and services; the examples of such goods and services are as follows:

- unprocessed basic foodstuffs
- tap water
- briquettes and anthracite coal
- medical and health services (including the services of veterinarians, nurses, midwives, and pharmacists) and the supply of human blood
- educational services
- passenger transportation services excluding transportation by aircraft, express bus, chartered bus, taxi, and certain other types of transportation
- books, newspapers, magazines, official gazettes, and broadcasting, excluding advertising, but including electronic publications
- postage stamps (excluding postage stamps for collections), revenue stamps, certificate stamps, notary certificates, and the use of public telephones
- goods subject to the control of the Office of Monopoly (particularly tobacco, processed tobacco of less than 200 won, and ginseng)
- banking and insurance services, such as the services rendered by commercial banks, securities companies, trust companies, securities investment trust companies, pawn shops, leasing companies, insurance companies, and other money lending businesses
- leases of residential housing and land associated with such housing, not exceeding 10 times the area of the land upon which the housing is situated
- land
- the personal services of writers, composers and other persons specified by Presidential Decree. The Presidential Decree specifies dancers, actors, professional sportspersons and entertainers
- artistic works, artistic events, cultural events and nonprofessional sports events
- admission to libraries, science exhibitions, museums, art galleries, zoos and botanical gardens
- goods and services supplied by religious, charitable, scientific or other organizations that are devoted to the public interest.
Registration

Who is required to register for South Korean VAT?

Every business person engaged in the business of supplying goods or services, whether or not for profit (a “business person”), is required to register for VAT purposes by applying for a business registration certificate. Business persons include individuals, corporations, the national and local governments and unincorporated organizations and associations.

Are there penalties for not registering or late registration?

Additional tax, in the nature of penalty, is imposed for failure to register or late registration in the following manner;

- 1 percent of the total value of goods and services supplied from the date of business commencement until the date of compliance/registration. In addition, a deduction of input VAT incurred during the unregistered period will not be permitted.

Are there any simplifications that could avoid the need for an overseas company to register for VAT?

No.

VAT Grouping

Is VAT grouping possible?

In general, a business person is required to register for VAT for each place of business he or she operates in Korea. However, a business person may also choose to register for VAT as a single business unit.

Can an overseas company be included in a VAT group?

No. A foreign corporation without a domestic PE is not liable for Korean VAT. In addition, there are no tax law provisions that allow the tax grouping of multiple entities (i.e. more than two) for the purpose of filing a VAT return under the Korean tax.

Returns

How frequently are VAT returns submitted?

Every business person engaged in the supply of goods or services subject to VAT is required to file VAT returns on a quarterly basis.

Are there any other returns that need to be submitted?

No.
**VAT Recovery**

**Can I recover VAT if I am not registered?**
No.

**Does your country apply reciprocity rules for reclaims submitted by non-established businesses?**
No.

**Are there any items that you cannot recover VAT on?**
In general, input VAT incurred in relation to the tax-exempt business will not be allowed a tax deduction. Additionally, the followings are specific examples of items where input VAT cannot be recovered pursuant to the Korean tax law:

- when there are no tax invoices or there is missing, omitted, or distorted information on tax invoices
- expenditures that bear no direct relationship to the taxpayers’ businesses
- purchase, rental and/or maintenance of small passenger vehicles
- expenditures that have similar nature to entertainment expenses or equivalents
- VAT-exempt goods or services (including input VAT incurred in relation to investment)
- purchase of land related to capital expenditures for items such as land development, etc.
- input VAT incurred more than 20 days prior to the date at which an application for VAT registration is filed.

**International Supplies of Goods and Services**

**How are exports of goods and services treated?**
In general, exports of goods and services are subject to zero-rate VAT. The followings categories of goods and services that are typically subject to the zero-rate VAT:

- goods for exportation
- services rendered outside Korea
- international transportation service by ships and aircraft
- other goods or services supplied for foreign exchange earning.

**How are goods dealt with on importation?**
Except where a specific exemption is provided by the VAT law, VAT is levied on the importation into Korea of all goods like domestic supply of goods. Related to the importation of goods, head of customs issues a tax invoice and levies taxes, which will be paid by an importer. However, when an importer uses the imported goods for VAT-exempt businesses, the importer will be able to file a refund claim for input VAT.

**How are services which are brought in from abroad treated for VAT purposes?**
When a domestic corporation makes a fee payment for service brought in from abroad, the domestic corporation will be liable for proxy VAT if the service recipient (i.e., the domestic corporation) is engaged in VAT-exempt businesses.
**Invoices**

**What do I have to show on a tax invoice?**

All valid tax invoices must contain the following information:

- the supplier’s name and registration number
- the registration number of the buyer
- the tax base
- the VAT amount
- the date of preparation or issuance.

**Can I issue invoices electronically?**

Effective from 1 January 2001, a supplier has been permitted to issue an electronic VAT receipt. From 2011, an electronic VAT receipt has become mandatory for corporations.

**Is it possible to operate self-billing?**

When a business person receives the supply of goods or services and is not able to take a receipt of tax invoices, self-billing may be permitted once the head of district tax office approves as long as the consideration of relevant transactions is more than equal to KRW100,000 and less than equal to KRW5,000,000.

**Transfers of Business**

**Is there a relief from VAT for the sale of a business as a going concern?**

Yes. A comprehensive business transfer in which, all rights and obligations related to a particular business are transferred will be exempted from VAT obligations.

**Options to Tax**

**Are there any options to tax transactions?**

Not applicable.

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**Head Office and Branch Transactions**

**How are transactions between head office and branch treated?**

In principle, inter-office transactions within a single entity (i.e., domestic transactions) are taxable for VAT purposes. However, if the entity has opted for the taxation method of business unit rather than the place of business, such transactions will not be liable for VAT.

**Bad Debt**

**Am I able to claim relief for bad debts?**

Yes. Provided that certain conditions stipulated by the applicable legal provisions are met, a business person may claim relief for bad debts within 5 years from the date of the supply.

**Anti-Avoidance**

**Is there a general anti-avoidance provision under VAT law?**

Yes. There are specific anti-avoidance provisions that apply to related parties not dealing at arm’s length and cases of self-supply. These include:

- a provision to reassess the consideration of a supply between the related parties by applying the fair market value if it is considered to be unreasonably insufficient or if it is absent
- a provision to apply the fair market value in the case of ordinary self-supply.

**Penalty Regime**

**What is the penalty and interest regime like?**

Each business person fixes his own VAT liability by filing a VAT return. However, the government may reassess the tax base and the net VAT payable or refundable and impose penalty tax if the business person fails to file a return, if the return contains errors or omissions, or if the business person is found to be evading taxes.