Highlights of the Amendment Bill to the Restriction of Special Taxation Act

On March 17th, 2020, Strategy and Finance Committee of the National Assembly passed the amendment bill to the Restriction of Special Taxation Act to minimize the fallout of COVID-19 and to swiftly overcome the outbreak. The highlights of the amendment are as follows;

1. Special tax reductions or exemptions for SMEs (both individual and corporate business entities) in Special Disaster Zones (Daegu, Gyeongsan, Bonghwa and Cheongdo)

During this year 2020, small or medium enterprises in the aforementioned regions are entitled to additional reduction of the income tax or corporate tax. The reduction rates are nearly doubled than the usual level (15~30%), as indicated below.

<table>
<thead>
<tr>
<th>Types of Business</th>
<th>Amended rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Enterprise</td>
<td>60%</td>
</tr>
<tr>
<td>(Sales amount: 1 ~ 12 billion KRW)</td>
<td></td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>30%</td>
</tr>
<tr>
<td>(Sales amount: 40 ~ 150 billion KRW)</td>
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</tbody>
</table>

- Types of business eligible for this tax reduction include the most of industries, excluding bar business and real estate rental business (the negative-listings)
- Around 130,000 people are expected to be benefited through this plan and tax benefits are estimated to be more than 340 billion KRW.

2. Exemption of Simplified Taxable Persons from Payment Obligations

The aggregated amount of a simplified taxable person’s proceeds in order to be exempted from payment obligations is extended from 30 million KRW to 48 million KRW (by annual sales). This increased amount is only applicable for this year.

- Exemption: bar business and real estate rental business
- This measure is expected to be reached to nearly 170,000 people and policy effects are estimated to be more than 20 billion KRW.

3. VAT break for individual entrepreneur

The amount of value-added tax for individual entrepreneurs with the annual sales of 80 million KRW or less is reduced to the level equal to simplified taxable persons, until the end of this year.
This reduction covers manufacturing, wholesale and retail businesses but excludes bar business and real estate business.

The simplified calculation method is \[\text{sales} \times \text{VAT rate by industry} \times 10\%\].

4. When a landlord voluntarily cuts the rent, the landlord will be given with an income tax/corporate tax deduction of 50 percent of the rent reductions during the first half of 2020 (January ~ June 2020).

5. A 70 percent individual consumption tax cut for car purchases that is made during March to June. The amount of the tax cut is up to one million KRW.

6. The tax deduction rate for personal credit/debit card spending is doubled up from March to June 2020. Changed deduction rates are as follows;
   - Credit card: 15% \(\rightarrow\) 30%
   - Debit card/cash receipt: 30% \(\rightarrow\) 60%
   - Spending in traditional market, public transportation: 40% \(\rightarrow\) 80%

※ this deduction is allowed when the spending was made with credit/debit card or cash receipt and the amount was over 25% of the gross pay of the employee.

7. The amount of entertainment expenses included in deductible expenses is temporarily increased for 2020, in order to encourage sales from small merchants and SMEs

*Limit on entertainment expenses from deductible expenses by company’s revenue

<table>
<thead>
<tr>
<th>Revenue</th>
<th>10 billion KRW or less</th>
<th>10 ~ 50 billion KRW</th>
<th>More than 50 billion KRW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.03%</td>
</tr>
<tr>
<td><strong>Amended</strong></td>
<td><strong>0.35%</strong></td>
<td><strong>0.25%</strong></td>
<td><strong>0.06%</strong></td>
</tr>
</tbody>
</table>

8. Tax support for overseas Korean companies that relocate to Korea with a newly established or expanded place of business in the country

- Income tax/corporate tax exemption for five years (or three years), and 50% tax cut for two more years