Major International Tax-related Amendments to the Tax Law

For your reference, we summarized below major international tax-related amendments to the tax law promulgated on December 31, 2011 and January 1, 2012.

1. New provisions requiring foreign entities to apply for application of reduced tax rates under the relevant tax treaties

Under the Corporate Tax Act promulgated as law no. 11128 on December 31, 2011 (the "amended CTA"), foreign entities which earn income sourced in Korea are required to submit an application for the application of treaty-reduced tax rates to the relevant withholding obligor in order to be taxed at the reduced tax rate under the relevant tax treaty. In case where the Korea sourced income is paid through overseas investment vehicle, such overseas investment vehicle (according to the amendment to the Presidential Decree of the Corporate Tax Act proposed by the Ministry of Strategy and Finance, the term "overseas investment vehicle" is defined as an organization established outside of Korea that manages the funds collected through investment solicitation by way of acquiring, disposing, or otherwise investing in proprietary targets and then distributes the outcome of such management to investors) must submit to the withholding obligor, an overseas investment vehicle report, together with an application for the application of treaty-reduced tax rates prepared by beneficial owners of such overseas investment vehicle. However, foreign investors who invest overseas depository receipts issued by Korean companies will be exempted from the obligation to submit an application for the application of treaty-reduced tax rates.

Accordingly, foreign funds wishing to enjoy the benefits afforded by tax treaties in respect of their income from Korean investments (e.g., exemption from tax on capital gains realized from the transfer of shares, and reduced tax on interest and dividend) are required to submit the list of investors (beneficial owners) to the withholding obligor. Those foreign funds that fail to submit such list may not be entitled to the tax treaty benefits.

However, based on the amendment to the Presidential Decree of the Corporate Tax Act proposed by the Ministry of Strategy and Finance, if an overseas investment vehicle having satisfied each of the following requirements ("Overseas Public Fund") submits an overseas investment vehicle report together with documents supporting such satisfaction, it will be exempted from the obligation to file the

list of investors.

1. Financial regulatory authorities of the contracting state must regulate the overseas investment vehicle in order to ensure the transparency and independency of such investment vehicle;
2. The overseas investment vehicle has at least an average of 100 investors on a daily basis during the immediate preceding fiscal year (or the current fiscal year if the overseas investment vehicle is newly established) (if an investor is an overseas investment vehicle, such overseas investment vehicle shall be counted as one investor); and
3. The overseas investment vehicle shall not fall under the overseas investment vehicles that are not eligible for the benefits under relevant tax treaties.

Additionally, the exemptions will cover public pensions or funds established under the laws of the contracting state as they are deemed as beneficial owners.

If an overseas investment vehicle has an investor which is also an overseas investment vehicle, the overseas investment vehicle is required to receive from such investor an overseas investment vehicle report and details of beneficial owner (or document showing that it constitutes an Overseas Public Fund) and submit the same to the withholding obligor.

The above amendment will become applicable to Korea sourced income to be withheld after July 1, 2012.

2. Taxation on foreign currency denominated bonds issued in Korea

Under the Special Tax Treatment Control Law effective as of 2011 (the “existing STTCL”), interest on foreign currency denominated bonds paid to non-residents or foreign companies is exempt from income tax or corporate tax.

However, under the Special Tax Treatment Control Law amended by a law no. 11133 on December 31, 2011 (the “amended STTCL”), the scope of tax exemption for interest income from foreign currency denominated bonds is decreased to enhance equal treatment of won-denominated and foreign currency denominated bonds. To be specific, under the amended STTCL, (i) interest on foreign currency denominated bonds issued in Korea and (ii) interest paid to a Korean permanent establishment of a foreign company will be subject to income tax or corporate tax.

The above amendment will become applicable to foreign currency denominated bonds issued after January 1, 2012.

3. Expansion of scope of indirect foreign tax credit for foreign subsidiaries

A domestic company, if dividends from a foreign subsidiary are included in its taxable income, is entitled to tax credits for the foreign corporate income tax assessed on the foreign subsidiary's income, to the extent of the foreign corporate income tax corresponding to such dividends received.

With respect to these indirect foreign tax credits, under the existing CTA and the existing STTCL, foreign corporate income taxes paid by the foreign subsidiary located in countries having a tax treaty with Korea which provides for indirect foreign tax credit can be credited up to 100% of the deductable amount. However, foreign corporate income taxes paid by the foreign subsidiary located in countries having a tax treaty with Korea that does not provide for indirect foreign tax credit or having no tax treaty with Korea can be deducted only up to 50% of the deductable amount.

However, in order to enhance the equal tax treatment and the neutrality of taxation, the amended CTA and the amended STTCL expand the scope of indirect foreign tax credits for foreign corporate income taxes paid by the foreign subsidiary up to 100% of the deductable amount, irrespective whether the country in which the foreign subsidiary domiciles has a tax treaty with Korea.

The above amendment will be applied from a fiscal year to which December 31, 2011 belongs.

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