

Payment by Proxy

This is a value-added tax payment system applicable for a taxpayer which purchases services (including imported goods not subject to import VAT and customs duties) or rights (hereinafter called “service(s)”) from a non-resident or foreign corporation with no domestic place of business or not attributable to domestic place of business. This applies only if such services and rights are consumed in VAT-exempt sales of the taxpayer.

Even if the above services or rights are consumed in Korea, the foreign suppliers cannot return and pay the VAT in Korea. To collect VAT on such supply, VAT laws require domestic purchaser to collect the VAT (10% on the supply amount) from the supplier when paying for the relevant services, etc. and to pay the collected VAT to tax authority on behalf of the foreign supplier.

1. Timing for Collecting the Tax Amount to Pay by Proxy

- For the value-added tax amount to be paid by proxy, at the time the services are paid for regardless of the timing of the services
- In the event that part of the cost of the service is paid in installments, at the time each allotment is paid.

2. Conditions for application of Payment by Proxy

- When the provider of the service is a non-resident or foreign corporation which does not have a domestic business location, or even if it has a domestic business location, if it is a non-resident or foreign corporation which has no relevance to the domestic business location.
- When the service is subject to taxation of the value-added tax.
- When the service is used or consumed domestically
- When the service provided is used or consumed on the business which is not subject to the value-added tax

3. Parties that can Make Payments by Proxy

- Those who use and pay for commodities, facilities, or rights of a non-resident or foreign corporation in Korea should make payments by proxy with the exception of cases where the commodities or the service is used for a taxable business. However, in the case it receives a service which is not subject to the value-added tax, it is not necessary to make payments by proxy.
- Commodities, facilities or rights mean any of the following: real estate rights, property ownership, mining ownership, mining rights, shipping, flights, automobiles, construction machines, machines, facilities, equipment, vehicular contrivances, tools, intellectual

property rights of academic work or art (including movie films), patent rights, trademark rights, design rights, models, blueprints, trade secret formulas or processes, films and tapes for radio or television broadcasting, information, experience or skillful information on industry, business or science, licensing or permission in accordance with Korean laws or any rights established by such disposition, or any such commodities, facilities, or rights.

- In the case where the party receives a service for the construction of a golf course from a non-resident or foreign corporation which does not have a domestic business location, the party is responsible for making payments by proxy if the purchase of the service requires capital spending such as for ground shaping.

4. Calculation of Tax Amount for Payments by proxy

- In the event there is a separate agreement between the parties in transaction for the collection and payment of the value-added tax, it shall abide by the applicable agreement.
- In the event there is no separate agreement between the parties in transaction for the collection and payment of the value-added tax and the entire contract amount is to be paid, it shall be deemed that no value-added tax is included in the calculation of the contract amount.
- In the event there is no separate agreement between the parties in transaction for the collection and payments of the value-added tax and the value-added tax amount is deducted from the payment, it shall be deemed that the value-added tax is included in the calculation of the contract amount.

5. Payments by Proxy for the Domestically-Incurred Expenses of the Non-resident Party

- In the event that a party establishes an agreement for technical importation with a foreign corporation which has no domestic business location and thus, receives the technical services defined by the agreement from the engineer of the corporation and pays for the service, the party shall collect the value-added tax and pay them by proxy, if the expenses incurred for the stay in Korea is included in the payment for the contract service.
- Although it is not subject to payments by proxy for the services on the overseas navigation business a non-resident or corporation provides in Korea (includes overseas navigation business by crews' non-ship chartering service), it shall make payments by proxy if the party uses and pays for the ship or flights according to the bare-boat chartering contract.
- In the event that a domestic branch with its main office in another country receives a service from the main or branch office located overseas, it is not subject to making payments by proxy.