

## Application of Zero-Rate VAT

Value Added Tax (“VAT”) is basically imposed on supplies of goods and/or services and imports of goods at a rate of 10% on the total supply price. There are, however, zero-rate VAT applied the following criteria:

### 1. Application Criteria

- I. Exported goods
- II. Services supplied overseas
- III. International navigation services by ships or aircrafts
- IV. Supplies of the defense industry
- V. Petroleum products supplied to the military units
- VI. Urban railway construction services
- VII. Infrastructure facilities and construction services
- VIII. Protection appliances for disabled people
- IX. Machinery or materials for agriculture, livestock industry and forestry
- X. **Goods or services for earning foreign currency** other than described above. Please refer to below for more detail about this.

### 2. What are goods or services for earning foreign currency

- I. A supply of goods or services to any diplomatic offices and the United Nations.
- II. A supply of goods or services to employees of diplomatic offices, etc., which is made in the manner prescribed by Presidential Decree.
- III. A supply of goods or services for acquiring foreign currencies, which is prescribed by Presidential Decree as below.
  - a. Goods delivered to domestic company designated by a foreign company to contribute to VAT-taxable sales
  - b. Professional, scientific and technical business services (excluding veterinary business, headquarters of manufacturing business and other industrial business) *subject to reciprocity principle.*
  - c. Intangible asset rental
  - d. Telecommunication
  - e. Repair of container, warehousing in bonded area, shipping agent and brokerage
  - f. News provider, movie production and distribution, software development, computer programming, system integration, data treatment, hosting, internet portal, other information service
  - g. Offer business
  - h. Business facility management and business support services excluding landscape management and travel, *subject to reciprocity principle.*
  - i. Investment advisory business in the Finance Investment Services and Capital Market Act, *subject to reciprocity principle.*
  - j. Education support
  - k. Clinical Test Service
  - l. Transportation Service in bonded area

### 3. Principle of Reciprocity

In case where the taxpayer is a Korean branch of foreign company, the above zero-rate shall apply only if a Korean resident is identically exempted from taxes of the foreign countries such as: Greece, South Africa, Netherlands, Norway, New Zealand, Denmark, Malaysia, USA, Belgium,

Germany, Sweden, Switzerland, Singapore, UK, Italy, India, Indonesia, Japan, Taiwan, Chile, Canada, Thailand, Finland, Pakistan, Australia, Hong Kong, France

**4. Reinforcement of Reciprocity - Application of zero-rated VAT for professional services and business support services on a reciprocal basis<sup>[1]</sup>**

From 1 July, 2016, in case of professional services and business support services supplied to a Korean non-resident or foreign enterprise without a permanent establishment in Korea, the zero-rated VAT will apply only if the foreign country where the non-resident or foreign enterprise is established gives similar VAT treatment (including VAT exemption) on the supply of similar services to a Korean resident (i.e. zero-rated VAT on a reciprocal basis).

Professional services include legal services (those rendered by lawyers, patent attorneys and judicial scriveners), accounting and tax services, advertising services, market survey and management consulting services. Business support services include human resources outsourcing, activities of employment placement agencies, office support services, etc.

**5. Required documents for application of Zero rate VAT**

In order to apply Zero rate VAT, following documents should be submitted to tax office along with VAT return

Classification	Documents Required
1. Exported goods	An export performance statement prescribed by Ordinance of the Ministry of Strategy and Finance (including a tape or diskette processed through the electronic data processing system): Provided, That when exports are shipped by parcel post, a parcel post receipt issued by the postmaster shall be submitted in lieu thereof.
2. Intermediary trade transaction, for which a contract, the receipt of payments, etc. are made at a domestic place of business;	A copy of an export contract or a certificate of receipt of foreign currency issued by a foreign exchange bank. In such cases, if an entrepreneur subject to Article 31 (1) 3 purchases goods, etc. from another entrepreneur subject to subparagraph 4 of the same paragraph, a purchase contract shall be additionally submitted.
3. Services Supplied Overseas	A certificate of receipt of foreign currency issued by a foreign exchange bank or a contract for services supplied overseas
4. Supply of Overseas Navigation Service	A certificate of receipt of foreign currency issued by a foreign exchange bank: Provided, That in the case of overseas navigation services by aircraft, a statement of fixed supply price shall be submitted in lieu thereof.
5. Goods or services for earning foreign currency	(a) A certificate of receipt of foreign currency issued by a foreign exchange bank; (b) A document evidencing that any operative Act, subordinate statute, etc. of a foreign country grant the identical tax exemption to

	Korean residents or corporations in the foreign country (only applicable to the professional activities referred to in Article 33 (2) 1 (b) and the services referred to in item (h) of the same subparagraph).
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<sup>[1]</sup> The VAT Law change is to give equal VAT treatment for professional services and business support services received by a domestic resident or company and a non-resident of foreign company in light of the fact that those services are actually consumed in Korea. This change is effective from July 1, 2016 in case that the contract creates, revises, changes and renews.