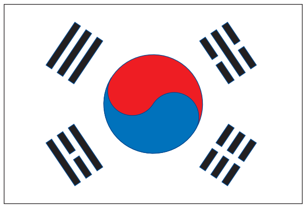
South Korea



In South Korea, the 2015 tax incentives include incremental and volume-based credits, as well as an investment tax credit for R&D equipment.

Background

The corporate tax rate in South Korea ranges from 11% to 24.2% (depending upon the taxpayer's tax base). South Korea offers a general tax credit for R&D expenditure, plus an additional credit for expenses incurred for investments in R&D equipment.

Nature of incentives

Small and medium-sized enterprises (SMEs):

- The credit equals the greater of: 1) 50% of current year R&D expenses that exceed the prior year's R&D expenditure; or 2) 25% of current R&D expenditure.
- 30% tax credit computed on current R&D expenditure if the R&D expenditure is incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.
- If an SME purchases or transfers certain IP prescribed by the tax law from a Korean third-party resident, the SME is entitled to claim a tax credit in the amount of 7% of the purchase price or 50% of the capital gains resulting from the transfer.

Large companies (non-SMEs):

- The credit equals the greater of: 1) 40% of the current year's R&D expenditure exceeding the prior year's R&D expenditure; or, 2) 8% of the current year R&D expenditure (for certain large companies of which annual revenue is less than KRW 500B), and for all other large companies, the R&D expenditure for the current year multiplied by the following rate capped at 3%: 2% plus "additional rate" defined as 50% of R&D expense ratio (R&D expense divided by revenue).
- 20% tax credit computed on current R&D expenditure if the R&D expenditure is incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.
- Unused R&D credits may be carried forward five years.
- Investment tax credit for R&D equipment:
  - Eligible expenses include costs of machinery, facilities, tools, office machines, telecommunications instruments, testing machines, optical instruments, etc. used in the conduct of R&D activities.
  - Unused R&D credits may be carried forward five years.

Eligible industries and qualifying costs

R&D activities include research conducted by the certified R&D department of the company and/or qualifying bodies (i.e., universities, colleges, research institutions) to develop technology for the company, trademark design, and development, manpower training, and quality control.

Qualified R&D costs include labor costs (salaries, wages, bonuses, etc.), materials costs (samples, parts, and raw materials used in the conduct of R&D), rent for R&D equipment, commissions paid to the qualifying body, training costs, and other costs (trademark development costs, design development costs, consulting fees, and quality guarantee costs). However, any R&D expenditure resulting from any government subsidy is not eligible for R&D tax credit.

IP and jurisdictional restrictions

All R&D expenditure directly related to the R&D activities of the company may be claimed in the tax credit computation regardless of the location of the R&D activities, except for research subcontracted to academic institutions, which must be located in South Korea. Any resulting IP does not have to be held by the South Korean company.

Other concerns

Companies may file an amended return to claim the credit up to three years from the date the original tax return was due.

Proposed legislation for 2015 would reduce the tax credit for investment in R&D facilities by reducing the credit rate for large corporations from 3% to 1% and for SMEs from 5% to 3%. The revised rule would be effective for investments made on or after 1 January 2016.

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South Korea

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits, investment tax credit, and IP transfer tax credit	1. Volume-Based and Incremental Tax credits for SMEs and large companies who perform qualified research. 2. Investment tax credits for capital assets used in research. 3. Tax credit for SMEs who purchase or transfer certain prescribed IP.	No	Unused credits may be carried forward five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No, except for research subcontracted to academic institutions, which must be located in South Korea.	Certain limitations apply to large company tax credits.	No	The R&D tax credits are not allowed for R&D service providers.