

Tax Audit Guidebook (Type A)

“How tax audits work”



국세청
National Tax Service

Happy Tax! Happy Together!

The National Tax Service(NTS) strives to establish a tax culture where honest taxpayers can feel proud and rewarded and where all citizens willingly pay their taxes.

Through a fair and transparent auditing process, the NTS will continuously enhance citizens' trust toward tax administration.



Taxpayers' Rights Charter

Taxpayers' rights must be respected and protected by the Constitution and law.

All taxpayers are presumed to be faithful, will only be subject to tax audits in accordance with the law, and have the right to be investigated within the minimum time period and scope needed for fair taxation unless the taxpayer fails to fulfill his or her obligation to cooperate by reporting, or suspected of tax evasion.

Unless there is no possibility of destruction of evidence, taxpayers have the right to get a prior notice of a tax audit and its reason, and have the right to request the postponement of the audit in unavoidable circumstances of business hardship and receive a response in return.

The taxpayer has the right to be assisted by a tax professional during the audit process and shall not be subject to double audits unless he or she is suspected of tax evasion. The documents and ledgers can only be temporarily stored in tax authorities when he or she is suspected of tax evasion and when it is agreed by the taxpayer.

In the event where an audit period is extended pursuant to relevant laws, the taxpayer shall have the right to be notified in writing of the reason for the extension or discontinuation or expansion of the audit, and the audit results and its reasons.

When taxpayer's rights or interests were infringed upon or when there is a possibility of infringement by unlawful or unfair dispositions or absence of lawful dispositions, the taxpayer is entitled to bring up disobedience and can protect one's right through the Taxpayer Protection committee and taxpayer advocates.

The taxpayer has the right to privacy and confidentiality of one's tax information, and has the right to be promptly provided with information that is necessary to exercise of his or her rights. Also the taxpayer is entitled to fair treatment from national tax officials.

Commissioner of the National Tax Service

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Tax Audit Guidebook

This Tax Audit Guidebook explains the tax audit process in an easy-to-understand manner.



A tax audit proceeds as follows:

Preparing for a Tax Audit



- A "Tax Audit Notification" is delivered at least 15 days prior to an audit.
- A "Tax Audit Orientation" is conducted before an audit begins.
- You can request a postponement, change of venue, or suspension of an audit.
- Job-Creating Companies, Startups, and Innovative SMEs may be allowed to defer an audit.

How a Tax Audit Begins and Proceeds



- Verify the identification of your tax auditor. Receive briefing on the Charter of Taxpayers' Rights, and sign an "Integrity Agreement."
- You may seek help from a tax agent.
- Tax audits are conducted within the minimum scope required.
- In the event that your rights are threatened by any illegitimate or unreasonable tax audit, you may petition the Tax Advocate at the tax office in charge for protection of taxpayers' rights.
- If you have any question or meet obstacles, you can request counselling with the Head of the Investigation Division and/or submit a letter of taxpayer's explanation.

How a Tax Audit Concludes



- You will receive a written notice of your audit results within 20 days from the tax audit's completion.
- You will be informed of your tax liabilities and payment procedures.
- If you are undergoing temporary financial hardship, you may apply for a deferment of collection.

Tax Remedy Procedures and Evaluation



- You may go through appeal proceedings to challenge the results of your tax audit.
- You may request the MAPs to avoid international double taxation.
- You may utilize APAs to minimize tax risks occurring from transfer pricing audits.
- You can evaluate the tax auditor's performance by submitting the satisfaction questionnaire form about whether the auditor abides by the legitimate proceedings.

Contact your audit office at:

Contact your Taxpayer Advocate at:

Checklist for Taxpayers under a Tax Audit

	Major Procedure	Things to checkout
 <p>Before a tax audit</p>	Delivering prior notice of tax audit	Notice document, the Taxpayers' Rights Charter, genuine identity of the auditor (Investigator ID card, or Civil servant ID card)
	Postponing tax audit, or changing of the audit venue	Reasonable background to postpone the audit (natural disaster, accident, disease, or long-term business trip) or change the venue (the case where the business office is not suitable for the investigation)
	Deferring tax audit against Job-Creating SMEs	The target business should be the small and medium enterprises (SMEs, except consumer service business) which recorded more than 2% year-on-year increase in its permanent employee number (i.e. more than one worker increase).
	Holding a tax audit orientation	The target taxpayer would designate the orientation date between the notice reception date and the audit commencement date. Detailed facts will be delivered through the orientation, including the reason of target business decision, scope of audit, rights protection system and basic requirements.
 <p>Proceeding the Tax Audit</p>	Starting the tax audit	The target taxpayer needs to verify the genuine identity of auditor (Investigator ID card, or Civil servant ID card), sign up for the Integrity agreement, and submit the tax practitioner designation document.
	Submitting documents and requesting for explanation	Auditor is not allowed to investigate or request for something beyond the planned audit scope unless there has been prior notice for expanding the scope. Furthermore, the target taxpayer should have sufficient chance to prove integrity by counselling with the Head of Investigation Division and submitting a letter of taxpayer's explanation.
	Extending the audit period, expanding the audit scope, and suspending the audit	Proper notice about the change is required. Otherwise, the auditor cannot extend period or expand scope. The notice should include reasonable grounds for extending period, expanding scope and suspending the audit.
	Keeping relevant documents or ledgers temporarily	There should be convincing reasons for taking data from the target taxpayer, including clear allegation of tax evasion. Only when the taxpayer agrees on providing one's data may the auditor keep the data. If the taxpayer request to take back such data, the auditor should return such data within 14 days after the request has been made. Even for a short term, data beyond the audit scope are not allowed to be stored.
	Tracking the audit progress	The target taxpayer can trace the progress of audit case by accessing the Hometax.
	Protecting the rights of taxpayers	If there is illegitimate or unfair tax audit trial or auditor's behaviour, taxpayers can ask for protection of their rights to Tax Advocates in a competent authority.
	Providing explanation amid the audit	The taxpayer can get detailed information about the progress, audit plan and review about taxation issue points.
 <p>Concluding the Tax Audit</p>	Providing taxation consulting service on the Tax Consultation day	The taxpayer can check the audit result details including taxable items, taxation background, income disposition result, and post-audit accounting process plan. The taxpayer can also go through the amended tax return for the result and learn how to raise objection against such result.
	Giving notice for the result	The following details will be included: the audit result, tax bases assessment and revision, and reasonable grounds for such assessment. Any audit result can go through the amended tax return, pre-taxation review, and objection processing if the taxpayer raises.
	Collecting the performance evaluation from the taxpayer	By filling and submitting the satisfaction questionnaire form, the targeted taxpayer can convey opinion to the Tax Advocate via phone or on-site visit.



Preparing for a Tax Audit

No need to be worried or stressed

We send a "Tax Audit Notification" beforehand.
Our process of selecting tax audit subjects is objective and fair.
Before an audit begins, there will be a Tax Audit Orientation.
You may request a postponement or change of venue.
You may request a tax audit suspension.



We send a "Tax Audit Notification" beforehand

In order to **protect taxpayers' rights** and **help them to prepare in advance**, an **advance notice of tax audit** will be delivered **15 days prior** to an audit.

A "Tax Audit Notification" includes information such as the items subject to audit, taxable period, auditing period, reasons for auditing, and items exempt from the audit (Article 81-7 of the Framework Act on National Taxes).

- ▶ You do not have to panic or worry when you receive a "Tax Audit Notification" from the NTS. Instead, please just carefully look through the Notification.
- ▶ If you want to know why you have been selected, please refer to "Reasons for Audit."
 - If you want to know in more detail, contact the tax office in charge indicated in the Notification or ask questions during the Tax Audit Orientation.
 - If you believe the explanation to be insufficient, please consult your Taxpayer Advocate at the tax office in charge.



Tax audits are conducted in a transparent and fair manner and at a minimum level necessary to secure compliance.

Our Process of Selecting Tax Audit Subjects is Objective and Fair.

Tax audit subjects are chosen among taxpayers by a **scientific system**.

Taxpayers subject to an audit may be selected periodically in order to verify the propriety of tax returns, or chosen whenever they are suspected of having made omissions or errors in tax returns (Article 81–6 of the Framework Act on National Taxes).

► **A taxpayer will be selected for a periodic audit in the following cases:**

- where a taxpayer is suspected to be non-compliant based on a periodic compliance analysis of his or her tax returns depending on data such as taxation information, and accounting compliance;
- where it is necessary to verify whether a taxpayer who has not been subject to any tax audit for the same items for the last four taxable periods or more has filed tax returns in a compliant manner; or
- where a sample tax audit is to be conducted through a random sampling method.

※ Tax compliance analysis uses computational analytics to objectively and comprehensively evaluate how faithfully a taxpayer filed tax returns and fulfilled his or her tax obligations.

► **A taxpayer will be selected for a non-periodic audit in the following cases:**

- where a taxpayer fails to fulfill his or her tax compliance obligation under tax-related Acts, such as filing a return and delivering and submitting an "Honest Tax Reporting Verification" form, tax invoices, and payment statements;
- where a taxpayer is suspected of false transactions, such as transactions without authentic documentation or disguised or fictitious transactions;
- where concrete information on a taxpayer's tax evasion is reported;
- where there is evident material that justifies a suspicion that a taxpayer made omissions or errors in his or her tax return; or
- where a taxpayer provides money and valuables to the tax officials directly or through a third person.



To ensure fairness and transparency, facts related to the selection of audit subjects are reviewed by the Tax Administration Reform Committee (Fair Taxation Realization Subcommittee), composed of external experts from the private sector.

Before an audit begins, there will be a Tax Audit Orientation

The NTS holds a Tax Audit Orientation session to **ease taxpayers' anxiety and answer their questions** about the audit process.

A Tax Audit Orientation proceeds as follows:



► When you receive a "Tax Audit Notification," you can apply for the session through the tax office in charge (in person or via phone or fax) before the audit is launched.



► You will learn about the audit subject selection criteria, audit process, your rights as a taxpayer, and what you need to do to prepare for the audit.



► You can receive counseling about problems regarding the time and venue of the audit and get detailed information for any other issue you want to know about the audit.



Those who have not applied before the audit will receive a detailed briefing about the process on the first day of the audit.

You may request a postponement or change of venue.

For your convenience, we take taxpayers' requests to reschedule the audit or change the venue for the audit if necessary.

Is it difficult for you to be audited at this time?

▶ **If it is difficult for you to be audited, you may submit a "Tax Audit Postponement Request" to the tax office no later than two days before the start date indicated in the "Tax Audit Notification" (Article 81-7 of the Framework Act on National Taxes).**

- After carefully reviewing your circumstances, we will notify you of our decision before the start date.

※ You can download the request form from the official Korean website of the NTS (NTS homepage (www.nts.go.kr) → Information Disclosure (정보공개, at the right upper corner) → Advance Information Notice (사전 정보 공표) → Daily Taxation Info for Citizen (국민생활에 밀접한 국세정보) → Tax Guide (세금가이드) → Tax Audit Guidebook (세무조사 가이드북) → Download All Forms (전체서식 다운받기)).

▶ **Valid reasons for postponing an audit include:**

- when it becomes difficult to be audited due to force majeure;
- when a fire or other disasters have caused hardship on the business;
- when you or your agent finds it difficult to be audited due to illness or long-term business trips;
- when accounting books or other evidential documents have been seized or provisionally held by the competent authorities; or
- other reasons of a similar nature.

※ Please note, however, that postponement is not allowed if the statute of limitations on assessing additional tax is soon to expire, when it is urgent to secure tax claims, or when there is strong allegation of specific tax evasion including a case report.

You may request a change of venue for the audit.

▶ **Audits normally take place at the taxpayer's place of business, but if it is not possible due to unavoidable circumstances, the audit can take place in the tax office in charge or at any other suitable venue.**

- You may submit a "Request to Change Audit Venue" no later than two days before the date of audit commencement. We will inform you of our decision before the audit begins.
- ※ You can download request forms from the official Korean website of the NTS.

You may request a tax audit suspension.

We have a **tax audit suspension system for Job-creating SMEs.**

After receiving a "Tax Audit Notification," you may apply for an "Application for Temporary Suspension of Audit" by no later than three days before the audit is launched if you satisfy the criteria below.

- You will be notified of the result of your application before the audit begins.
- ▶ **If you wish to resume the audit during the suspension (to avoid additional taxes, for example), you may revoke the suspension immediately.**

Reason for suspension	Criteria	Period allowed for suspension
Job-creating SMEs	<ul style="list-style-type: none"> • SMEs that have increased or plan to increase permanent employees by year-on-year 2% or more (one person at least) in the audit commencement year 	Two years from the scheduled date of audit commencement (three years for provincially located businesses)

※ Please note, however, that postponement is not allowed when the limitation period of national tax levying is soon to be expire, when it is urgent to secure tax claims, or when there is strong allegation of specific tax evasion including a case report.

※ You can download request forms from the NTS website.

- **Definition of SMEs** : Article 2 of the Enforcement Decree of the Restriction of Special Taxation Act
 - ▶ Enterprises whose core business is consumer service business (including i) hotel or inn business except tourist accommodation business under the Tourism Promotion Act and ii) bar business except tourist amusement restaurant business under the Tourism Promotion Act) are not classified as an SME.
 - ▶ Article 2-2 of the Enforcement Decree of the Restriction of Special Taxation Act (Even if an enterprise fails to meet the SME criteria, it shall be deemed a SME for the three subsequent taxable years thereafter) is not applicable.
 - ※ Whether a business falls into a category of SME will be determined based on the turnover, asset, and independence requirements of the business as of the last day of the taxable period subject to audit.
- **Permanent employees** : Permanent employees mean workers in continuous employment by the concerned company. The number of employees at the end date of every month is totaled for the year and divided by 12 to obtain the number of permanent employees used as criteria.
 - ▶ Definition of employees: Executives who fall under any of the items of Article 40, Clause 1, Subparagraph 1 to 5 of the Enforcement Decree of the Corporate Tax Act, and daily workers are excluded. Non-regular workers who are not daily workers and foreign workers are included.
 - ▶ When an employee meets one of the following standards, the number of such employee is calculated with a weighting of 100%: youth (aged between 15 and 34), senior (aged more than 65), disabled, recipient of the National Basic Living, or employee of a youth-friendly small giants (e.g. one young employee is counted as two employees)

How a Tax Audit Begins and Proceeds

A tax audit is performed in a fair and transparent manner.

A tax audit begins.

A tax audit follows the procedures specified in the law.

A tax audit is conducted within the minimum scope required.

We will make auditing periods as short as possible.

We protect taxpayers' rights.



A tax audit begins.

We **uphold taxpayers' rights and minimize inconvenience** to ensure that the auditing process will not disrupt your everyday business.

3 things you must do on the first day of your tax audit:



Check the auditor's ID

Your auditor will present his or her certificate of audit staff and public servant ID card at the start of the auditing process. Please verify the identity of auditor.



Receive the of Taxpayers' Rights Charter with explanation

Your auditor will read out the Taxpayers' Rights Charter and explain your rights in detail. (Article 81-2 of the Framework Act on National Taxes)



Sign an Integrity Agreement

In order to ensure the auditing process is clean and fair, fill out and sign an Integrity Agreement with your auditor.



You and your tax agent must not offer any money, entertainment, or other personal favor to the tax auditor. Both the taxpayer and tax auditor must work together to ensure a transparent audit process.

A tax audit follows the procedures specified in the law.

Auditors must **comply with the procedures** specified in the law and **give taxpayers a fair hearing**.

You may receive help from a tax practitioner.

- ▶ **While a tax audit is in process, you can at anytime enlist the aid of a tax practitioner (e.g. a lawyer, a certified public accountant, or a licensed tax accountant) by letting him or her attend the audit or state opinions** (Article 81–5 of the Framework Act on National Taxes).
 - In such a case, you must submit a document stating that the tax practitioner holds power of attorney and represents you during the tax audit. Failure to submit a power of attorney may constrain the tax practitioner from attending the audit or stating opinions.

Requests for submission of books and other evidential documents are kept at a minimum level.

- ▶ **A tax audit is conducted based on the auditor's authority to interrogate and investigate as stated in the tax law.**
 - An auditor has the authority to investigate only within the limited scope necessary to complete the audit. Any interrogations or investigations that are irrelevant to the audit's purposes shall not be conducted (Article 81–4 of the Framework Act on National Taxes).
- ▶ **Requests for submission, inspection, or explanation of books, documents, or articles are to be made only in writing to prevent superfluous demands on taxpayers.**
 - The NTS records and keeps a list of requested materials in order to prevent repetitive requests for the same item.
 - Please note, however, that accounting books and other related evidential documents, including those in electronic data format, which taxpayers are required to prepare and keep by law, may be requested verbally.
- ▶ **You are required to fully cooperate with your auditor's requests for materials.**
 - You are required to fully cooperate with your auditor's lawful questions, audits, and requests for materials (Article 81–17 of the Framework Act on National Taxes).
 - Any taxpayer who avoids the auditor's questions, audits, or requests for materials or responds with false statements will face a fine of up to 20 million won (Article 88 of the Framework Act on National Taxes).

An auditor may temporarily retain the taxpayer's documents, such as account books, at the auditor's office.

▶ **If an auditor deems certain account books and documents necessary for the auditing process, the auditor may temporarily retain them at the tax office with the consent of the taxpayers pursuant to Article 81–10 of the Framework Act on National Taxes.**

- Tax officials can keep the data in cases where,
 - a taxpayer fails to fulfill one's duty to cooperate in the payment of tax, such as filing a return and preparing, delivering and submitting "faithful tax return certificates", tax invoices, and/or payment records;
 - a taxpayer is suspected of false transactions, such as transactions without authentic documentation or disguised or fictitious transactions;
 - there is clear evidence on reporting omission or error;
 - evident material that justifies a suspicion that a taxpayer made omissions or errors in one's tax return; or
 - a taxpayer provides money and valuables to the tax officials directly or through a third person.
- In this case, NTS provides the taxpayer with "Certificate of Temporary Retention," a "List of Temporarily Retained Documents," and a "Request for Return of Documents."
- ▶ **When there is a taxpayer's request, documents temporarily held will be returned to you within 14 days after your request if it does not go against the purpose of the audit. (However, when the documents are needed for the audit after the aforementioned 14 days, NTS can extend the storage period at once only as much as 14 days through deliberation from the Taxpayer Protection Committee.)**
 - If you need your books and documents temporarily retained to be returned, please fill out and submit a "Request for Return of Documents."
 - ※ You can download the form from the official Korean NTS website.
 - Documents temporarily held must be returned to you before the end of the audit.

Auditors give sufficient opportunity for taxpayers to explain and listen to their voice.

- ▶ **During the audit process, the tax auditor will give you sufficient opportunity to explain.**
 - If you differ with the audit team as to taxation issues, you may submit a "Letter of Taxpayer's Explanation" to the head of the relevant Division or Team so that your valid views can be reflected in taxation.
- ▶ **Our system called "Counselling with the Head of the Investigation Division" provides taxpayers with the opportunity to talk to the head of the relevant Division in person.**
 - When you have questions or difficulties, you may seek consultation with the head of the relevant Division and solve problems regarding the audit.
 - ※ If you want to take counselling opportunity, please contact with the head of the investigation team in person or the head of the investigation division by e-mail or office call.
(E-mail: _____ Office phone no. _____)

You should receive and retain authentic documents as proof of transactions.

- ▶ **It will be easier to verify transactions if the incoming and outgoing funds are made transparent by using bank remittance or wire transfers.**
- ▶ **You should record or collect documentary evidence relating to business transactions and retain them for five years after the filing period has ended.**
 - Threshold amount: all transactions exceeding 50,000 won in 2007 and 30,000 won from 2008. (In case of entertainment expenses, all transaction exceeding 10,000 won from 2009 should be recorded or collected.)
 - Types of acceptable evidence: tax invoices, invoices for VAT exempt transactions, credit card sales slips, debit card and prepaid card receipts, and cash receipts
 - Please note, however, that cash receipts, NTS-registered credit card sales slips for business, and trucker welfare card sales slips received after February 15, 2013 are not required to be retained.
 - In addition, taxpayers are exempt from the obligation to retain tax invoices if they send an electronic tax invoice to the NTS.

A tax audit is conducted within the minimum scope required

Tax audits are conducted **within the smallest necessary scope** to realize fair taxation.

The scope of an audit (taxable items and taxation period) is stated in the "Tax Audit Notification."

- ▶ However, if a specific suspicion of tax evasion that exists for several taxable periods is confirmed during the auditing process, the scope of the audit may be extended (Article 81–9 of the Framework Act on National Taxes).



Any expansion of the scope of a tax audit is strictly controlled.

- ▶ Approval from the Taxpayer Protection Committee or the Taxpayer Advocate is required to expand the scope of a tax audit for limiting auditors' discretionary power.
 - If the expansion of the scope of the tax audit is approved, the reasons for expansion and the newly established scope of the audit must be explained in the "Notice of Audit Expansion."



Reasons for expanding a tax audit scope include:

1. when concrete evidence related to other taxable period(s) and/or other taxable item(s) exists enough to require additional audit for such period(s) or item(s);
2. when an audit needs to be conducted into a particular item for a particular taxable period other than the taxable period subject to audit because the item that involves an obvious evasion and/or misapplication of tax law during the taxable period subject to audit is also found in the particular taxable period, and therefore leads to suspicion that the period also involves a similar or the same form of evasion or law misapplication regarding the particular item.

We will make auditing periods as short as possible

Even before an auditing period ends, **the audit may be concluded in advance if it is determined that all tax obligations have been fulfilled.**

Your auditing period is stated in the "Tax Audit Notification."

- ▶ If, upon examining the transparency and accuracy of accounting books and treatment, it is judged that no further audit is needed, an audit may be terminated before the designated period ends (Article 81–8 of the Framework Act on National Taxes).
- ▶ If an audit is partially stalled due to the need for exchange of information with foreign countries or consultation with the Advisory Committee on Taxation Issues, the concerned issues will be set aside while the remaining parts of the audit can be concluded first.
- ▶ In order to avoid taxpayer's inconvenience, audits will be proceeded during business hours.
 - If the taxpayer requests or consents, however, the audit may continue outside of business hours.

Any extension of an auditing period is strictly controlled.

- ▶ An extension of an auditing period requires approval by the Taxpayer Protection Committee (civilian-led) or the Taxpayer Advocate in order to prevent auditing periods from being extended unnecessarily.
 - If the extension of a tax audit is approved, the reasons for extension and the newly established auditing period will be explained in the "Notice of Audit Extension."
- ▶ Please note, however, that pursuant to the Framework Act on National Taxes, an audit extension may be allowed in certain cases, such as the non-cooperation of the taxpayer or on-site investigation of financial transactions (Article 81–8 of the Framework Act on National Taxes).

► **Reasons for extending an auditing period include the following;**

1. where it is evident that a taxpayer has dodged investigation by such as hiding books or documents, etc. or delaying or refusing document submission;
2. where it is necessary to investigate transaction parties and conduct the on-site investigation of the transaction parties or financial transactions;
3. where a suspicion of tax evasion is detected or tax offense investigation begins;
4. when the audit is suspended due to a natural disaster or a labor dispute;
5. when the Taxpayer Advocate recognizes the need for further verification of facts related to a suspected act of tax evasion; or
6. when a taxpayer requests an extension so that he or she can give an explanation about the suspected evasion and if the Taxpayer Advocate agrees.

A tax audit may also be temporarily suspended.

► **If an audit cannot proceed properly because the taxpayer is in a situation that makes an audit difficult, the audit may be temporarily suspended.**

- You may apply for a temporary suspension of the tax audit if you fall in dire circumstances such as illness or extreme business distress (see the following four reasons).
- In the event of an audit suspension, you will be notified through a "Notice of Tax Audit Suspension."
- Tax officials cannot exert the right to question and audit, nor ask for the submission of documents during the suspension period. (Article 81–8 of the Framework Act on National Taxes)

► **Reasons for suspending a tax audit include:**

1. when it becomes difficult to be audited due to force majeure;
2. when a fire or other disasters have disrupted business;
3. when a taxpayer or his or her tax agent finds it difficult to undergo an audit due to illness or long-term business trips;
4. when the accounting books or other evidential documents have been seized or provisionally held by the competent authorities;
5. when documents need to be collected overseas or submitted by a foreign entity, or when consultation with foreign tax authorities becomes necessary after the Mutual Agreement Procedure has been initiated;
6. when the taxpayer's whereabouts are unknown or if the taxpayer has left the country;
7. when the taxpayer hides books and documents or refuses or delays submission;
8. when a labor dispute erupts; or
9. when the Taxpayer Advocate requests a temporary suspension of an audit to protect the taxpayer's right.

► **When the period of suspension comes to an end or if the reasons for suspension cease to exist even before the end of suspension, the audit will resume and proceed during the remaining period.**

- When your tax audit resumes, you will be notified in advance through a "Tax Audit Resumption Notification."

We protect taxpayers' rights

We operate various systems to protect taxpayers' rights.

Operation of the "Taxpayers' Rights Protection Request System"

▶ When an auditor violates your rights in the following ways, you may appeal to the Taxpayer Advocate (dial 126→③, no area code) and request protection:

1. An auditor clearly violates the tax law, enforcement decree or rules;
2. An auditor conducts double audits of the same item or the same taxable period without clear evidence to elicit suspicion of tax evasion or other reasons prescribed by law;
3. An auditor demands money, entertainment, or other personal favors unrelated to the audit from a taxpayer or his or her agent;
4. An auditor extends the audit period and/or expands investigation scope without any specific reason indicated in the Framework Act on National Taxes;
* A SME taxpayer: with maximum annual income or transfer value of less than 10 billion won during the taxation period being audited.
5. An auditor temporarily keeps account books or documents which is not relevant to the audit case, or does not give back account books or document to the taxpayer despite of his or her request

▶ A tax payer can request a deliberation to the Taxpayer Protection Committee of Local Tax Service regarding illegal or unfair tax audit and can request a retrial to the Taxpayer Protection Committee of National Tax Service.

Operation of the "Taxpayer Advocate in Attendance System"

▶ The taxpayer running small business that meets the following condition can get advice from the Taxpayer Advocate as the Advocate attends the investigation site.

- A small business: Corporate with annual income less than 300 million won, Individual with annual income less than 300 million won in wholesale and retail area, 300 million won in manufacturing, restaurant, and accommodation area, and 150 million won medical service and general service area.

National Tax Law Information System

▶ You can access information on tax laws, statutes, directives, rulings, Supreme Court precedent cases, and verdicts of administrative appeal procedures free of charge in the National Tax Law Information System.

- Visit <http://txsi.hometax.go.kr/docs/main.jsp>

Operation of the "Tax Audit Progress Tracing System" in Hometax

▶ During the tax audit period, you can check out which stage you are now going through (audit begins, period extended, audit concluded, etc.) by using the Hometax system.

- Hometax – My NTS – Tax audit history



How a Tax Audit Process Concludes

Auditors will be considerate of taxpayers throughout the process

We will inform you of your audit results in detail.
We will notify you of your tax amount due and payment methods.
You can extend your payment deadline through a tax deferment (for reasons such as severe financial difficulties).



We will inform you of your audit results in detail

On the final day of your audit, you will receive **consulting service on taxes and accounting** along with an explanation of your audit results.

"Tax Consultation Day"

► **The last day of your audit is set aside as a "Tax Consultation Day" on which you receive an explanation of your audit results and advice on taxes and accounting.**

- We explain your audit results, taxed items, grounds for taxation, and post-audit accounting treatment in an easy-to-understand manner.
- We explain follow-up steps, including the appeal system and payment methods.
- Your tax auditor will fully answer your questions about taxes, even if they are unrelated to the audit.



► **When your audit concludes, you will receive a "Tax Audit Result Notification."**

- When a tax auditor completes a tax audit, he or she shall notify the taxpayer of the results of the audit including the assessed (or revised) tax base by taxable item, payment methods, and things to be managed after the audit in writing (Article 81-12 of the Framework Act on National Taxes).
- A taxpayer can amend his or her tax returns and pay tax anytime until the NTS notifies the national tax base and the national tax amount. (Article 45 of the Framework Act on National Taxes)



We will notify you of your tax amount due and payment methods

Fulfill your duty and obligation as a citizen by paying tax.

You will receive a "Tax Notice and Receipt" 30 days after the written notice of audit results.

▶ Please note, however, that if you have applied for pre-taxation review, the tax amount due may change or the issuance of tax payment notice may be delayed, depending on the results of the review.

- If you do not object to your audit results explained in the pre-taxation review, you may apply for early decision before the 30-day period ends, and this may lessen the additional tax.
 - ※ You can download a "Request for Early Decision" form from the NTS website.



▶ You can pay your tax amount of notice at any bank or post office or through online banking, ARS, or ATM systems within the given period.

- You may also use electronic payment methods such as the NTS Home Tax Service (www.hometax.go.kr) and Internet Giro (www.giro.or.kr). You can pay by credit card as well at Credit Card Tax Payment (www.cardrotax.or.kr) or at your district tax office.
 - ※ You can pay your taxes on all types of items by credit card without limitation. Please note, however, that you will be charged an additional fee (0.8% of the payment for credit and 0.5% for debit as of May 1, 2018).



You can extend your payment deadline through a tax deferral

If you are undergoing temporary financial difficulties, **we extend the payment deadline** of your notified taxes.

For taxpayers who are experiencing temporary financial difficulties, we extend the payment deadline through a tax deferral of up to nine months.

► **Reasons for deferral are as follows (Articles 15 and 17 of the National Tax Collection Act):**

1. when substantial damage or loss has been inflicted on the taxpayer's property by disasters or theft;
2. when noticeable damage or loss has been inflicted on the taxpayer's business;
3. when the taxpayer's business is in dire straits (e.g. financial difficulties or labor disputes); or
4. when the taxpayer or his or her dependents need a long-term medical treatment due to serious injuries or diseases.

► **If you fill out a "Request for Tax Deferral" form and submit it to your district tax office's civil affairs office no later than three days before the deadline of the tax payment notice that you have received or will be receiving, we will notify you of whether your request has been approved after a careful examination.**

- In principle, security for deferred collection must be provided unless the tax amount is less than 70 million won (100 million won for productive SMEs, long-standing enterprises in business for five years or more, social enterprises, businesses categorized as standard workplace for disabled persons, Job-Creating SMEs, reopening SMEs, businesses successfully using the win-win payment system, startups, and Innovative SMEs; 500 million won for exemplary taxpayers; and 200 million won for Authorized Economic Operators (AEOs) and long-standing enterprises in business for 20 years or more) when there is no concern for tax losses.

Productive SMEs : Corporations or self-employed individuals in the manufacturing, mining, or fishery industry with incomes less than 10 billion won

Long-standing enterprises : Corporations or self-employed individuals that have continued to operate a business with the same business registration number for more than five years.

Social enterprises : Korean citizens whose businesses have been recognized under Article 2, Clause 1 of the Social Enterprise Promotion Act

Standard workplace for disabled persons: Korean citizens whose businesses meet the standards for hiring disabled persons under Article 2, Clause 8 of the Employment Promotion and Vocational Rehabilitation of Disabled Persons

Job-creating SMEs : SMEs which recorded more than 2% of year-on-year increase (at least one employee) in its permanent employees' number

Exemplary taxpayers : Recipients of a commendation or medal from NTS Commissioner, Minister of Strategy and Finance, Prime Minister, or President are exempt for three years thereafter. Those who received recognition from a Regional Tax Office Commissioner or a district tax office head are exempt for two years thereafter.

- For individuals and SMEs who desire to use Tax Points (minimum 1 point for individuals and minimum 100 points for SMEs) to apply for exemption from the tax security requirement, we offer exemptions at 100,000 won for each point (up to 500 million won a year).
※ Tax security exemption amount=Min (accumulated points x 100,000 won, 500 million won a year)



Tax Remedy and Customer Evaluation

We will listen to you.



You are entitled to fair taxation.

Taxpayers may request the competent authorities to invoke the Mutual Agreement Procedures (MAPs) in order to avoid double taxation.

Advance Pricing Agreements (APAs) help taxpayers minimize tax risks occurring from transfer pricing audits.

We will be evaluated by taxpayers, our customers.

You are entitled to fair taxation

In order to ensure that every taxpayer is treated fairly, we offer **pre- and post-taxation remedies**.

Before receiving your tax payment notice, you may seek tax remedy through the pre-taxation remedy.

▶ **Pre-Taxation Review (Article 81–15 of the Framework Act on National Taxes)**

- If you object to your audit results, you may fill out an "Application for Pre-Taxation Review" and submit it to the Taxpayer Advocate of the tax office in charge within 30 days of receiving the Notice of Audit Results.
- We will inform you of our decision within 30 days of the application submission.

You may seek post-taxation remedy after receiving your tax payment notice (Articles 55 to 81 of the Framework Act on National Taxes).

▶ **Filing an objection**

- You may file an objection within 90 days of receipt of your tax payment notice at the Taxpayer Advocate of the district or regional tax office that issued the notice.
- You will be notified of our decision within 30 days of filing an objection.

▶ **Making a request for examination or adjustment**

- A request for examination is made to the Commissioner of the NTS , while an adjustment is made to the Chief of the National Tax Tribunal (NTT), attached to the Prime Minister's Office.
- If you have an objection to the details stated in your tax payment notice, you may make a request for examination or adjustment without filing an objection. You may also appeal against the results of the objection you have filed.
- Please note, however, that you cannot make both a request for examination and adjustment regarding the same disposition.

- You may submit a request form to the Taxpayer Advocate of the tax office that sent you the notice or to the Chief of the NTT within 90 days after receipt of your tax payment notice or the decision on the objection that you have filed.
- You will be notified of the results within 90 days from the day you made the request.

► **Making a request for examination to the Board of Audit and Inspection (BAI)**

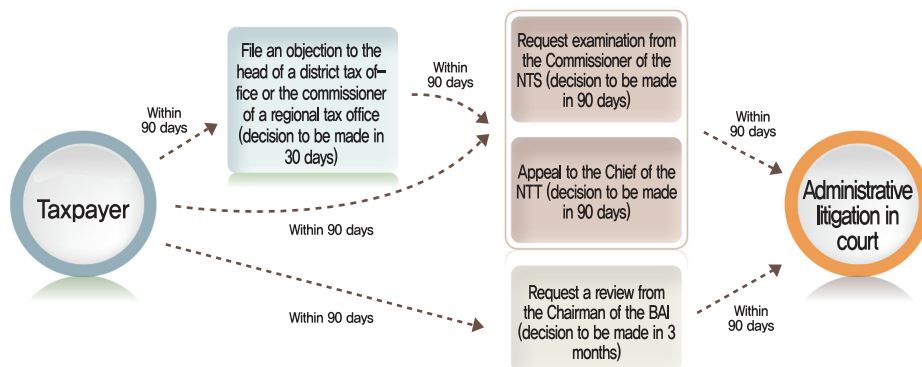
- You may appeal to the Chairman of the BAI for examination instead of filing an objection or making a request for examination or adjustment.
- You may submit a request to the Board within 90 days of receipt of your tax payment notice.
- You will receive the results within three months of your request.

► **Administrative litigation**

- If you object to the verdicts of the NTS, NTT, or BAI, you may seek court judgment.
- You can file an administrative litigation only after you have made an appeal to at least one of NTS, NTT, or BAI.
- You can file a litigation within 90 days of receipt of the results of your request for examination or adjustment, or request for examination to BAI.

Upon your request to the relevant tax office, we will promptly provide you with the information necessary to exercise your rights as a taxpayer (Article 81-14 of the Framework Act on National Taxes).

| Appeal Process |



Taxpayers may request the competent authorities to invoke the MAP in order to avoid double taxation

When double taxation risks arise, taxpayers may resolve the tax disputes through the Mutual Agreement Procedure.

Mutual Agreement Procedure(MAP) is an administrative procedure of discussion between the competent authorities of two countries in which they seek to explore the possibility of a solution to issues regarding interpretations of tax treaties, unreasonable taxation, or adjustment of taxable income.

▶ Applicant Requirements

- Any national, resident, or domestic corporation of the Republic of Korea, any nonresident, and foreign corporation may apply for the MAP where any taxation has been or is likely to be assessed by the tax authorities of a Contracting State in violation of the provisions of the relevant tax treaty or where a tax adjustment is needed under the tax treaty between Korea and a Contracting State.

▶ Application deadlines

- As application deadlines vary depending on the treaty, a deadline shall follow the provisions of each tax treaty. Where a tax treaty does not specify the application deadline, however, the deadline shall follow the domestic law. The Adjustment of International Taxes Act provides that an application for the MAPs shall be filed after the lapse of three years from the date on which the taxation became known to the applicant.
- Upon receipt of an MAP application, the Commissioner of the NTS shall request the competent authorities of the Contracting State to commence the MAPs and notify the applicant of the fact of such request, except for where the final decision has been made by a domestic or foreign court, where the application has been filed by an ineligible person under the tax treaty, etc.

► **Special regulations on MAPs**

- Where the MAPs have commenced, special regulations on appeal filing period, deferment of collection, exclusion period for imposition, etc. are applied (Articles 24 and 25 of the Adjustment of International Taxes Act).

► **Commencing and closing dates of MAPs**

- An agreement between the competent authorities of Korea and a Contracting State shall be reached within five years from the next date of commencement. Where the competent authorities of both countries agree to maintain the procedures, the agreement shall be reached within eight years from the next date of commencement. The tax authorities shall make a disposition of imposition, revised decision, or other necessary actions under the tax laws pursuant to the terms and conditions mutually agreed upon (Articles 23 and 27 of the Adjustment of International Taxes Act).

Classification	Procedures
Application and Commencement	<ol style="list-style-type: none"> 1. Receiving applications 2. Reviewing eligibility: refusing ineligible applications 3. Collecting taxation data: collecting tax data from the tax audit team 4. Initiating the MAP 5. Notifying the applicant of the MAP initiation
Discussion	<ol style="list-style-type: none"> 6. Competent authorities' meetings
Conclusion	<ol style="list-style-type: none"> 7. Exchanging closing letters 8. Notifying the MAP results to the applicant and other relevant authorities within 15 days from the next date of MAP closing 9. Taking follow-up measures

APAs help taxpayers minimize tax risks occurring from transfer pricing audits

You can utilize Advance Pricing Agreements (Advance Pricing Arrangement, APAs) to reduce the potential tax uncertainty regarding your cross-border transactions with related parties

► APA

- An APA is an arrangement between a taxpayer and the NTS on the application of transfer pricing methodology (TPM) to the determination of an arm's length price in advance of future international transactions with foreign related parties.

Once an APA is concluded, the taxpayer can use the approved TPM as the most appropriate method during the APA-covered term as long as he or she complies with the critical assumptions.

► Relationship between APAs and audits

- In general, a tax audit is not suspended by an APA request by the taxpayer who has been selected for the audit. The NTS, however, may suspend the audit on transactions during the APA-covered period if the taxpayer appropriately requests an APA on the transactions at issue before pre-notice of a tax audit.

[APA Process]



We will be evaluated by taxpayers, our customers.

Your opinion serves as **a strong foundation for the advancement of our tax administration.**

As soon as an audit is over, we conduct "Tax Audit Performance Monitoring."

- ▶ **When an audit is concluded, the Taxpayer Advocate of the tax office in charge will listen to your thoughts.**
 - Your Taxpayer Advocate will call you to express gratitude for your cooperation. He or she will then ask you if you have found anything unsatisfactory or inconvenient in the process.
 - If necessary, we also conduct "On-Site Survey and Monitoring" where the Taxpayer Advocate will visit your place of business to listen to your opinion.
 - Your valuable opinion will be applied to our system for improvement.

Have you experienced any unjust or unfair treatment from your tax auditor during an audit?

- ▶ **All tax auditors are subject to taxpayer evaluation of whether they have complied lawfully with the auditing procedures specified in the law and displayed integrity during the process.**
 - We will listen to your voices. We ask you to be objective and fair in evaluating the auditing process.
- ▶ **Please fill out and submit the Customer Satisfaction Checklist (on the right-hand page) to your Taxpayer Advocate.**
 - You may either tear off the Checklist from this guidebook or download it from the NTS website.
 - Please submit the completed Checklist to your Taxpayer Advocate by mail (using a self-addressed envelope), fax, or email.

Customer Satisfaction Checklist

Tax Office in Charge :

Regional Tax Office /
District Tax Office

Name of Auditor :

Audit Start Date:

* If you want to participate in the evaluation process in anonymity, you may leave "Name of Auditor" and "Audit Start Date" blank.

◆ Please rate the following items on a 7-point scale.

	Strongly disagree	Mostly disagree	Slightly disagree	Neutral	Slightly agree	Mostly agree	Strongly agree	
	1	2	3	4	5	6	7	
1-1	The auditor gave me a full explanation about the reason why I had been selected as an audit subject						()	points
1-2	The auditor conducted the audit within the scope and period as notified in advance and complied with the audit procedures specified in the law						()	points
1-3	The auditor gave me a sufficient explanation about audit procedures and other details about the process						()	points
1-4	The auditor gave me a detailed explanation about what was found during the process and provided me with sufficient opportunity to explain						()	points
1-5	The auditor gave me a full explanation about the details of taxation, such as taxed items and grounds for taxation, after the audit was complete						()	points
1-6	The auditor gave me a detailed explanation about follow-up steps and objection application						()	points
2-1	The auditor had the expertise needed to conduct a tax audit and other related duties						()	points
2-2	The auditor requested the minimum amount of documentation necessary for the audit						()	points
2-3	The auditor remained kind throughout the process						()	points
2-4	The auditor gave me a full explanation about related issues and handled them actively						()	points
3-1	The auditor asked me for neither money or entertainment during the audit nor personal contact after the audit						()	points
3-2	I believe that tax auditors have integrity						()	points
4-1	With respect to the tax audit process, what issues of the following do you think need to be addressed most urgently? Please choose three.							
	<ul style="list-style-type: none"> ① Unreasonable practices during the process without reflecting reality ② Insufficient explanation about the process ③ Delays in the process ④ Delays in result notification ⑤ Unfriendliness of the auditor ⑥ Auditor's lack of expertise ⑦ Lack of staff to speak with regarding the process ⑧ Poor transition process if the auditor was replaced with another in the process ⑨ Insufficient information in the tax audit guidebook ⑩ Poor handling of personal information ⑪ Others () ⑫ N/A 							
4-2	With respect to the promotion of integrity among tax auditors, what factors of the following do you think need to be improved most urgently? Please choose three.							
	<ul style="list-style-type: none"> ① Current anti-corruption institutions and systems ② Each individual auditor's commitment to promoting integrity ③ Transparency throughout the process ④ Organizational culture tolerant of corruption ⑤ Tax agents encouraging acts of corruption ⑥ Corruption audits ⑦ Organization-wide commitment to promoting integrity ⑧ High-ranking officials' commitment to eradicating corruption ⑨ Others () ⑩ N/A 							

Perforated Line

Application and Request Forms

You can download all of the following forms from the official Korean website of the NTS (NTS homepage (www.nts.go.kr) → Information Disclosure (정보공개, at the right upper corner) → Advance Information Notice (사전 정보 공표) → Daily Taxation Info for Citizen (국민생활에 밀접한 국세정보) → Tax Guide (세금가이드) → Tax Audit Guidebook (세무조사 가이드북) → Download All Forms (전체서식 다운받기)).

No.	Name	Note
1	Request for Tax Audit Postponement	
2	Request for Change of Venue	
3	Application for Temporary Suspension of Audit (for Employment Promoting Company)	
4	Application for Temporary Suspension of Audit (for Startup and Innovative SME)	
5	Power of Attorney for Tax Representation	
6	Request for Return of Documents	
7	Request for Suspension/Extension of Audit	
8	Request for Early Decision	
9	Request for Deferment of Tax Collection/Tax Arrears Disposition	
10	Statement of Special Application of Deferment of National and Local Taxes Collection	
11	Application for Pre-Taxation Review	
12	Application for Pre-Taxation Review (for NTS use)	
13	Statement of Objection	
14	Request for Examination	
15	Request for Adjustment	
16	Customer Evaluation Checklist	
17	Requisition form for Rights Protection Deliberation	

Should you have any further questions about our audit process, please visit the following websites for more information.

Inquiry Type	Name of Service	Website/Phone No.
General Information	NTS website	http://www.nts.go.kr
Legislative Information	National Tax Law Information System	http://txsi.hometax.go.kr/docs/main.jsp
Tax Return and Payment	NTS "Home Tax"	http://www.hometax.go.kr
General Inquiries	NTS Call Center	126 (no area code)

국세청 126 국세상담센터

국세관련 모든 상담은 국번없이 126
전국 어디서나 편리하게 상담받으세요.

Additional Information

- The NTS does not disclose information about target enterprises for tax audit. If the fact that your company is now under tax audit goes public, it will give you negative impact in terms of your business and company's image. Please be aware of the fallout in case of disclosure.
- The NTS prohibits auditors from accepting any money, entertainment, or personal convenience. If you provide money directly or indirectly to the auditor in charge of your case, you will have to take another audit as a result. Please keep in mind such fact and follow the principle.
 - Providing personal convenience to an auditor might be treated as the violation of the improper solicitation and graft act. When an auditor request unfair demand including the personal convenience, ask for face-to-face consultation with the Head of the Investigation Division or report to the Audit Office of the regional office (☎)
 - The following instructions are necessary for easing taxpayer's burden and securing auditor's fairness in regard to tax audit. Please make sure that you abide by such rules.

- ◆ **Prepare the audit venue as simple as possible**

- ▶ Placing separate rest room, reception sofa, TV, or refrigerator (except water purifier) is not allowed.

- ◆ **Do not provide snack or office supplies**

- ▶ You cannot provide any snack, beverage, slipper, toothbrush and toothpaste, or cosmetic to auditor.
- ▶ You cannot provide any writing supply, notepad, calculator, or tax law book, too.

- ◆ **Do not provide any irrelevant convenience to the investigation work**

- ▶ You should avoid providing meal ticket for free or at discounted price. Providing company car when the auditor visit company's facilities like factory is also not allowed. In addition, you cannot give your company's commercial parking lot for free to the audit team.

- ◆ **Avoid having dining with auditors**



www.nts.go.kr