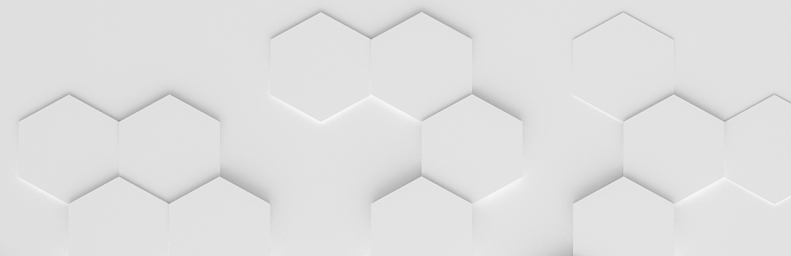




Accurate
Bookkeeping
Korea



Documenting Expenses in Korea

Guidelines on Legal Evidence for Taxation Matters
Using Payment Cards for Entertainment Expenses



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Expenses incurred in the course of normal business operations are deductible. As in the DACH countries, a prerequisite for this deductibility is the existence and storage of proper receipts for business expenses. These receipts are used to calculate and pay (or reimburse) corporate and value added tax (VAT). What documents are considered appropriate by the National Tax Service (the Korean tax office) and why debit and credit cards are the most convenient payment method for your employees is explained below.

There are several types of receipts in Korea which all come with their very own components, legal characteristics, and a distinctive appearance. This article gives an insight on those receipts and highlights why and how they differ from each other.

Appropriate evidence



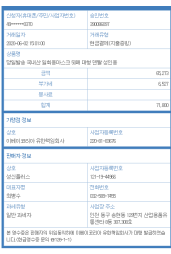
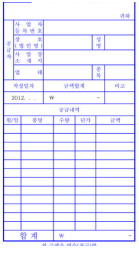
In general, there are four main distinct types of documents which are accepted as legal evidence for company expenses: tax/zero tax invoice, debit- and credit card sales slip, cash receipt or plain receipt/voucher.



Those four types differ from each other in terms of their components and their structure. Nevertheless, they all consist of the following basic elements:

- ◆ Name of Supplier
- ◆ Business Registration Number of Supplier
- ◆ Date of issuance
- ◆ Designation of item/service
- ◆ Quantity of item/service provided
- ◆ Unit Price
- ◆ VAT Amount
- ◆ Total Amount
- ◆ Remarks

These basic components may be supplemented by additional features that establish a direct link to the supplied party. They are also the basic prerequisite for all types of tax claims. The table below highlights the different types of receipts and provides an overview of their individual components.

	Tax invoice/ Zero tax invoice	Debit and credit card sales slip	Cash receipt	Plain receipt/voucher under KRW 30,000
Korean Example	세금 계산서 	카드 영수증 	현금영수증 	계산서/영수증 
Distinctive components	Basic elements + business registration number of supplied party	Basic elements + Number of debit/ credit card used (partially obliterated)	Basic elements + Business registration number of supplied party + billing category + cash receipt provider	Only basic elements
Transmission to NTS	√	√	√	X
Direct link to Business	√	Δ	√	X

Symbols: √ = [available], X = [not available], Δ = [depending]

If the receipts include a business registration number of the supplied party, this provides a direct link between the expenses and the (natural or legal) persons involved. These receipts - tax invoices and debit/credit card documents – are transmitted electronically to the National Tax Service (NTS). For cash receipts, the business registration number must be provided directly at the time of purchase so that the receipt can be automatically transmitted to the NTS.

If an employee uses her/his private debit or credit card for business-related expenditures, the process of establishing the aforementioned link between the company and the expenses is very time-consuming: The company needs to know the full card number of the employee's private card and must identify the date and location of the purchase. Additionally, the business registration number of the supplier needs to be determined. Furthermore, due to the fact that the private card has been used for company purposes, the employee's annual tax statement must be adapted: business expenses – for which the employee has been reimbursed – have to be deducted.

In case of a company's expenditure on goods or services is less than KRW 30,000 per receipt, the NTS will accept a plain receipt as evidence. Expenditures above the specified threshold must additionally be supported by either a tax or zero tax invoice (see article "Korean e-tax invoices", Nov. 2017), a debit or credit card sales slip (including registered prepaid cards) or a cash receipt to be considered legal evidence.

These specified documents must be retained or stored for a period of five years after submission. They will only be presented to the National Tax Service (NTS) on request. In the event that a company is unable to produce proper supporting documents for its payments, a fine of 2% on the amount of expenditure not supported by documentary evidence will be imposed by the NTS.

Specific vouchers required for respective expenses

The above rules for keeping and storing proper records form the basis of the tax evidence requirements for business expenses. Nevertheless, there are certain expenses that require additional documentation. Furthermore, there are cases where only one form of the legal evidence provided allows for official approval. The following table illustrates the respective category of expenses and the related required documents.

Category	Further Classification	Required Documents
Personal Expenses	Employee	Payroll register
	Worker	Payroll register (personal ID no., address, daily/hourly wage, total working days/ hours, contact no.)
Welfare	Meal allowances	Any legal device
	Others (congratulations and condolences)	Internal disbursement document
Entertainment	-	Corporate credit card sales slip, tax invoice
Business Travel and Transportation	Downtown	Internal disbursement document
	Domestic	Any legal evidence
	International/Overseas	Travel agency fee tax invoice, other receipts
Rent	General taxation	Tax invoice
	Simplified taxation	Remittance slip
Lease	Finance lease	Receipt
	Operating lease	(Tax exemption) Invoice

In certain cases, however a simplified evidence submission can be sufficient. Electricity charges, telephone charges, taxi fares, remittance charges, insurance contributions or other charges may only be substantiated by simple invoices issued by the originator.

Precautions on expense evidence submission and compulsory notification

There are certain guidelines for the filing and submission of documents to confirm or prove business expenses. Expense receipts need to be sorted by date, whereas tax invoices need to be collected separately. In case staff is hired, the submission of the resident registration documents is mandatory. Every company/person who intends to pay or receive payments for personal expenses, rent or other handling costs is obliged to use a (business) account in his/her name for these transactions so that the above-mentioned expenses can be guaranteed as deductible.

Corporate income tax returns must be submitted within three months of the last day of the financial year and a deduction from corporate income tax must be paid every six months. In addition to declarations of tax bases and taxes, the submission must include annual financial statements and other supplementary documents. Value Added Tax (VAT) is paid quarterly. In detail, the period for filing and payment of VAT extend from the 1st to the 25th of April, July, October and January (of the following year).

Excursion about the usage of payment cards for entertainment expenses

Background and general information

In Korea, the use of cash or paper-based payment and debit methods has declined in recent years in favor of direct debit cards and electronic transfers. Due to government deregulation and tax deductions that provide incentives for the use of credit cards, the use of such cards has gained popularity. In terms of volume, credit card payments and wire transfers are now the most popular payment methods in Korea.

Importance for entertainment expenses

Credit or debit card transactions are not only the most convenient method of payment but also have the advantage that their receipts serve as evidence for tax purposes. This advantage is particularly important with regards to entertainment costs: Entertainment expenses can be defined in business as an investment in promoting and maintaining business relationships and are often essential for doing business in Korea. As there is a risk of misuse for private purposes, these expenses are closely monitored by the Korean tax authorities to ensure transparency and appropriateness.

Unlike in the DACH countries*, the NTS does not accept debit or credit card receipts under an employee's name for entertainment expenses exceeding KRW 10,000. Therefore, it is advisable to set up a separate corporate bank account with several debit or credit cards and to make these debit or credit cards available to the employees who are incurring entertainment expenses (so-called corporate credit cards). The usage of a corporate credit card builds the basic connection between any expenditure and the company's tax number, which is necessary in order for the costs to be registered as corporate expenses.

Additional benefits

The use of card payments not only makes it possible to prove to tax authorities that entertainment and other expenses are corporate expenditures, it also has another important advantage: The payment service providers can automatically transfer all transactions made by debit or credit card to a company's own ERP system. The manual recording of all these transactions is no longer necessary. This makes using cards as the standard payment method in Korea both time and cost-saving for your accounting department.

*In general, employees are reimbursed for their expenses after they have paid with their personal card or in cash in advance.

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