



## Press Release

June 18, 2014

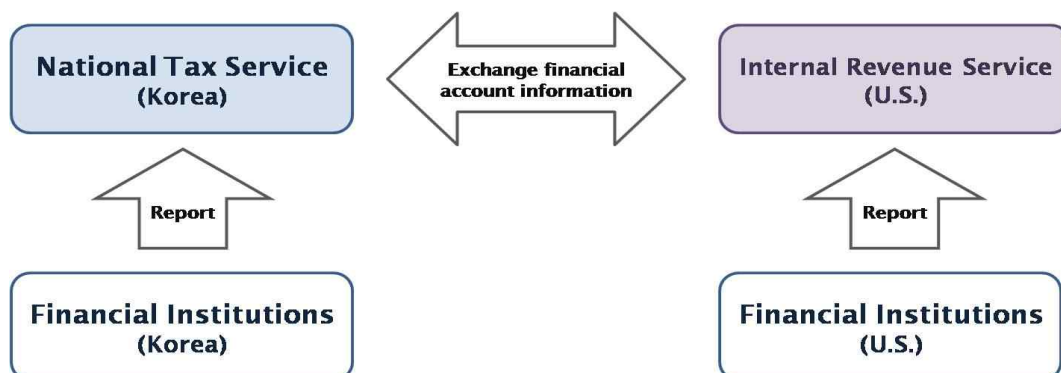
### IMPLEMENTATION RULES FOR THE KOREA-U.S. TAX INFORMATION EXCHANGE AGREEMENT

The FSC approved today the Implementation Rules for the Korea-U.S. Tax Information Exchange Agreement, which will be implemented from July 1, 2014. The purpose of the rules is to provide a clear guideline with Korean financial institutions that come under reporting obligation of the Foreign Account Tax Compliance Act(FATCA) in order to relieve their compliance burden.

#### **BACKGROUND: WHAT IS FATCA**

The Foreign Account Tax Compliance Act(FATCA) was enacted in 2010 to target tax non-compliance by U.S. taxpayers with foreign accounts. FATCA requires foreign financial institutions(FFIs) to report to the Internal Revenue Service(IRS) information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.<sup>1</sup> Non-compliant FFIs face a 30% withholding tax on certain U.S.-source payments made to them.

Governments around the world are signing intergovernmental agreements with the U.S. government to ease burden of their domestic financial institutions under FATCA reporting obligation. Korea signed a bilateral agreement with the U.S. in March 2014 on automatic exchange of tax information. Under the bilateral tax deal, financial institutions are required to report their own country's tax authorities – the National Tax Service(NTS) for Korean financial firms and the IRS for U.S. firms – information about their clients' financial accounts. The NTS and the IRS will exchange such information in every September starting from 2015.



<sup>1</sup> U.S. Department of the Treasury <http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/FATCA.aspx>

## **KEY CONTENTS OF THE IMPLEMENTATION RULES**

### **1. Financial institutions and financial accounts subject to FATCA reporting obligation**

- **(FINANCIAL INSTITUTIONS)\*** depository institutions (e.g. banks, savings banks), custodial institutions (e.g. securities firms), investment entities (e.g. private equity funds), insurers

\* Reporting requirement is relieved for certain small<sup>2</sup> financial institutions and local financial firms whose customer base is primarily local.<sup>3</sup>

- **(FINANCIAL ACCOUNTS)** depository account, custodial account, fund account, insurance contract<sup>4</sup>, annuity contract

\* Savings products with tax benefits for a certain amount of annual deposits are exempted from reporting obligation.

### **2. Implementation procedure**

#### **(1) Identification of U.S.-related financial accounts<sup>5</sup>**

A financial institution is required to identify U.S.-related financial accounts through reviewing electronic records of financial accounts.<sup>6</sup>

#### **(2) REPORTING ACCOUNT INFORMATION**

If a financial account is identified as U.S.-related, the financial institution is required to report the NTS information about the financial account – e.g. account holder's name, account number, account balance, and interest payments.

\* For accounts newly created by entities between July 1 and December 31 this year, the period of due diligence is deferred for up to 2 years, the same period applicable to financial accounts held by entities prior to July 1, 2014.

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<sup>2</sup> Banks or cooperatives with assets on balance sheet less than USD 175 million that meet certain criteria

<sup>3</sup> Financial firms that meet the following conditions:

- (i) The institution has no overseas branch and no offshore activities to attract deposits
- (ii) More than 98% of the balance in the accounts by the financial institution are held by residents in Korea
- (iii) The financial institution no longer maintains any financial account held by a U.S. citizen no longer resident in Korea after July 1, 2014.
- (iv) For financial accounts open prior to July 1, 2014, the financial firm is required to search for U.S.-related financial accounts and report information regarding U.S.-related accounts to NTS.

<sup>4</sup> Insurance policy whose refunds upon cancellation exceed USD 50,000

<sup>5</sup> Financial accounts held by U.S. taxpayers, or by entities in which U.S. taxpayers hold a substantial ownership interest

<sup>6</sup> (INDIVIDUALS) ① Whether the account holder is a US citizen or resident individual; ② The account holder's birth place in the U.S.; ③ Account holder's residential or postal address in the U.S.; ④ The account holder's U.S. phone number; ⑤ Whether the account holder request money transfer to U.S. account  
(ENTITIES) Place of incorporation or Address in the U.S.

<DEADLINE FOR IDENTIFICATION AND REPORTING>

		Identification Deadline	Balance of reportable accounts	Reporting deadline to Korea's NTS <sup>7</sup>
Accounts newly created after July 1, 2014		At the time of opening the account	Balance as of end-2014*	end-July 2015*
Accounts created before July 1, 2014	With balance exceeding USD 1 million as of end-June 2014	end-June, 2015	Balance as of end- 2014*	end-July 2015*
	With balance excess of USD 50,000 <sup>8</sup> and less than USD 1 million	end-June 2016	Balance as of end-2015**	end-July 2016**
	Accounts held by entities with balance exceeding USD 250,000 as of end-June 2014			

\* In case of financial accounts identified in 2014 as U.S.-related ones

\*\* In case of financial accounts identified in 2015 as U.S.-related ones

<sup>7</sup> The IRS(U.S.) and the NTS(Korea) will exchange tax information in September every year starting from 2015.

<sup>8</sup> In case of insurance or annuity contracts, accounts with balance exceeding USD 250,000 are subject to obligations of identification and reporting.