

### 3. Key Points of the Proposed CITA Amendments

#### A. [Principle 1] Maintain the same level of tax burden with respect to the same economic activity

(i) Mitigate the impact on tax burden arising from conversion to the K-IFRS

Category	Current Local GAAP	New Local GAAP <sup>1</sup>	K-IFRS	Current Tax Law	Proposed Amendment
<b>Asset Valuation Method</b>	Generally uses historical cost	Fair value revaluation permitted for more categories of assets	Similar to the new Local GAAP	Prohibits recognition of revaluation gains and losses in principle.	<b>Maintain the current tax treatment</b>
<b>Asset Liquidation</b>	Classified as sales transactions across-the-board	Classified as a sale or loan transaction according to its substance	Similar to the new Local GAAP	Classified as a sales transaction	<b>Maintain the current tax treatment</b>
<b>Catastrophic Loss Reserve of Insurance Companies</b>	Permits appropriation of catastrophic loss reserve as expense (debt: expected loss)	No specific reference	Appropriation for catastrophic loss reserve prohibited under the K-IFRS	Tax reconciliation item – loss recognition permitted only if recognized as an expense for book purposes	<b>Permit taxable income adjustment through tax returns – loss recognition allowed even if not treated as expense for book purposes</b>

<sup>1</sup> The amended Local GAAP framework is applicable from 2011 to non-listed companies that are not converting to the K-IFRS.

- (ii) Mitigate potential impact on tax burden arising from differences in the accounting standards under the K-IFRS and Local GAAP

<b>Category</b>	<b>Current Local GAAP</b>	<b>New Local GAAP</b>	<b>K-IFRS</b>	<b>Current Tax Law</b>	<b>Proposed Amendment</b>
<b>Convertible Preferred Stock</b>	Classified as capital	Same as the current Local GAAP	Classified as capital or a liability according to its substance	Classified as capital	<b>Maintain the current tax treatment</b>
<b>Revenue Recognition for Real Estate Sale</b>	Revenue recognition using the percentage-of-completion method of accounting	Same as the current Local GAAP	Revenue recognition at the time of the legal title transfer	Income recognition using the percentage-of-completion method of accounting	<b>Maintain the current tax treatment</b>
<b>Revenue recognition for short-term (i.e., less than 12 months) construction contracts of small and medium-sized enterprises (“SMEs”)</b>	Can select the “percentage-of-completion” standard or the date of the legal title transfer for the revenue recognition	Same as the current Local GAAP	Only permits the “percentage-of-completion” standard	Income recognition in accordance with the book settlement	<b>Permit the K-IFRS adopters the additional option of selecting the date of the legal title transfer as the standard for income recognition for tax purposes</b>
<b>Increase in the Value of Biological Asset</b>	Not recognized as revenue	Same as the current Local GAAP	Recognized as revenue	Not recognized as income	<b>Maintain the current tax treatment</b>
<b>Recognition Criteria for Liabilities Reserves</b>	Whether the likelihood of capital outflow is “significantly high”	Same as the current Local GAAP	Whether the likelihood of capital outflow is “high”	Loss recognition for liabilities reserves prohibited under tax law	<b>Maintain the current tax treatment</b>

**B. Minimize the additional compliance burden resulting from book-tax reconciliation by following the accounting treatment for items with relatively insignificant tax effects**

Category	Current Local GAAP	New Local GAAP	K-IFRS	Current Tax Law	Proposed Amendment
<b>Functional Currency (Translation of foreign operations)</b>	Financial statements must be presented in Korean Won (KRW)	Functional currency concept adopted – financial statements can be presented in a foreign currency	Same as the new Local GAAP	Only permits the use of KRW as the presentation currency for financial statements	<b>Prescribes a new method of computing the tax base for companies adopting functional currency<sup>2</sup></b>
<b>Translation of Foreign Currency Assets</b>	<b>Banks:</b> revenue/loss recognition for all foreign currency assets <b>Ordinary Companies:</b> revenue/loss recognition for foreign-currency monetary items	All Companies: Revenue/loss recognition of exchange differences on foreign-currency monetary items	Same as the new Local GAAP	<b>Banks:</b> income/loss recognition allowed for all foreign currency assets <b>Ordinary Companies:</b> income/loss recognition disallowed for exchange differences	<b>Banks:</b> income/loss recognition allowed for foreign-currency monetary items_ <b>Ordinary Companies:</b> income/loss recognition allowed for foreign-currency monetary items
<b>Lease Classification</b>	Provides specific	Same as the current	Provides classification	Follows the same	<b>Recognize the lease</b>

<sup>2</sup> An enterprise adopting its functional currency may select one of the following three methods to compute its tax base (which it must continue to use in the future):

- Method 1: Compute the tax base based on the financial statements presented in the functional currency and translate the amount to KRW;
- Method 2: Prepare a separate set of financial statements using KRW and compute the tax base based on such financial statements (applicable method under the current system); and
- Method 3: Compute the tax base based on the financial statements presented in the presentation currency (i.e., financial statements presented in KRW translated from the financial statements presented in the functional currency using the prescribed translation method for the purpose of public disclosure; translation of balance sheet items using the term-end exchange rate, and translation of income statement items using the transaction-date exchange rate (depreciation cost and bad-debt loss reserve translated using the average exchange rate).

	classification criteria* for financial and management leases * <u>Practical Guidelines:</u> ▪(Lease Period) at least 75% of the useful life ▪(Present Value of Lease Payments) at least 90% of the asset's fair value → classified as a financial lease	Local GAAP	criteria for financial and management leases only * Practical Guidelines abolished	classification criteria as the current Local GAAP	<b>classification          prescribed by the          Local GAAP and K-          IFRS for tax purposes          as well</b>
<b>Capitalization of Interest          Expense related to Loan          for Construction</b>	Scope: general borrowings and specific borrowings (Elective capitalization)	Same as the current Local GAAP	Same as the current Local GAAP except for mandatory capitalization	Items subject to capitalization: specific borrowings only (Mandatory capitalization)	<b>Specific borrowings:          maintain the current          tax treatment (i.e.,          mandatory          capitalization);          General borrowings:          permit elective          capitalization</b>
<b>Computation of Present          Value of Debt in the          Event of Debt          Rescheduling/Refinancing</b>	Discounted using the interest rate at the time when the obligation arises	Same as the current Local GAAP	Discounted using the interest rate at the time of debt rescheduling/refinancing	Same as the current Local GAAP	<b>Permit the use of the          computation methods          prescribed by the          Local GAAP and K-          IFRS</b>

**C. [Principle 3] Adopt the accounting measures that are considered reasonable for tax purposes even if such adoption would likely result in increased tax burdens for affected enterprise (however, implement measures to mitigate the initial impact during the early years of conversion to the K-IFRS)**

Category	Current Local GAAP	New Local GAAP	K-IFRS	Current Tax Law	Proposed Amendment
<b>Depreciation cost of Tangible Assets</b>	Each enterprise can determine the appropriate depreciation method and useful life. (Thus, companies may choose a different depreciation method and useful life with respect to the same tangible asset)	Same as the current Local GAAP	Depreciation methods and useful lives of tangible assets must be reviewed for each settlement term.	Book-tax reconciliation item - Loss recognition allowed only if the depreciation cost concerned is recognized for accounting purposes.	<b>Maintain the book reconciliation treatment but implement a tax adjustment measure<sup>3</sup> to mitigate the impact of reduced depreciation cost on the tax positions of the affected enterprises (i.e., increased tax burden)</b>
<b>Bad-Debt Loss Allowances</b>	A reasonable estimate of bad debt loss can be	Recognition permitted if the estimated amount	Same as the new Local GAAP; revised to allow	Book-tax reconciliation item	<b>Maintain the book-tax reconciliation</b>

<sup>3</sup> Special tax exemption for the enterprises whose depreciation cost would go down after conversion to the K-IFRS (i.e., increased tax liability) due to change in the depreciation method (e.g., declining balance method → straight-line method) or longer useful life applied to assets

- Assets acquired by the end of the year 2013: Adjustment of taxable income allowed for the depreciation cost computed based on the existing depreciation method useful life;
- Assets acquired from the year 2014 and onwards: Adjustment of taxable income allowed subject to the useful life standards prescribed by the tax law (revision of the useful life standards proposed for industries where tax-law standards differ significantly from the useful lives prescribed under the accounting standards).

	appropriated to the bad-debt loss allowances.	can be substantiated by objective evidence of impairment (incurred loss model)	recognition of estimated losses expected to be incurred after 2013(expected loss model)	- Loss recognition allowed only if the recognition of the bad debt loss is permitted under the accounting standards.	<b>treatment</b> <b>- however, tax on the recaptured amount is deferred for 2 years, after which the amount would be includible in calculating the taxable income concerned.</b>
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