

Global Tax Compliance

The Korean Taxable NAV calculation - favourable tax treatment for Korean investors



Capital gains (and losses) earned by individual Korean investors arising from investments in funds that respect several criteria (“qualifying funds”) will be tax exempted. The new rule results from a recent decree adopted by the Korean government, amending the Restriction of Special taxation Act (“RSTA”). The tax exemption will be applicable for 10 years from the date of the investment and is effective for investments made during the period from 1 January 2016 to 31 December 2017.

To benefit from this capital gains tax exemption, qualifying funds will have to calculate and publish a “taxable NAV” according to new requirements.

In case of Korean funds investing in foreign funds (master-feeder structure), the offshore funds will have to provide the onshore ones with the “Korean taxable NAV.”

The Korean Tax NAV framework

Funds managers will have to report to their local Korean distributor, on a daily basis, a second NAV (see details below) that will be used for the calculation of the capital gain tax under the new regulation.

Qualifying investments must respect the following criteria:

- **New or existing Funds** have to invest at least 60% of their assets in listed securities traded on foreign stock exchanges.
- **Individual Investors** have to make new investments in the “qualifying fund” in the eligible period via a dedicated account for this investment purpose.
- The investment amount per investor is limited to **KRW 30 million**.

What does it mean for you?

Korean individual investors will seek for investments in funds that offer a reporting allowing tax optimisation. The Korean Tax NAV reporting is strongly expected to become a market entry hurdle. Foreign funds will be requested to provide local distributors/ paying agents or local funds administrators (Master-feeder structure) with a Korean Tax NAV.

How is the Korean Tax NAV calculated?

The Korean Tax NAV is based on the booked NAV adjusted with (un)realised gains/(losses) including FX gains/(losses) as from the starting date of reporting from qualifying assets and equalised for subscriptions/redemptions. Since the tax exemption is applicable as from the start of the reporting date, (un)realised gain/losses will have to be calculated accordingly. The Korean Tax NAV has to be published on a daily basis (or NAV calculation frequency basis).

Why working with PwC?

We have the largest and most experienced cross-country investor tax team in our industry. Many large global asset managers rely on our one-stop-shop service which combines central coordination with an outstanding experience of our global team. Kim and Oliver have more than 15 years of experience in providing tax advice to asset managers. For many years, we have been supporting asset managers in ensuring that their products comply with local tax regulations through consulting, product structuring support and ongoing compliance support.

The global PwC network is one of the largest provider of professional services in audit, tax and advisory. We are a network of independent firms in 157 countries and employ more than 195,000 people. Tell us what matter to you and find out more by visiting us at www.pwc.com, www.pwc.lu and www.pwc.com/kr.

How can we help?

We help fund managers interested in such reporting comply with the Korean Tax NAV calculation requirements either by reviewing the existing calculation methodology or by calculating and reporting the Korean Tax NAV.

Monitoring model

We review the model of calculation of the Korean Tax NAV developed internally or externally (fund administrator), the list of qualifying assets, answers to ad-hoc questions. We can perform the review periodically (“trend analysis” of the Korean Tax NAV published).

Outsourcing model

We develop calculation models based on raw accounting data (NAV package) provided by fund administrators. We determine the best communication channel for the exchange of accounting information with fund administrators and fund distributors in Korea (FTP servers, extension of our GTC Platform...) and calculate, as well as report the taxable NAV on a daily basis.

Our credentials

We have already helped fund managers review the implementation of the Korean tax NAV calculation under different accounting environments.

We have a strong cooperation with our colleagues from PwC Korea and work closely together on this topic.



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