

Exchange of Notes

(Korean Note)

Seoul, December 27, 1999

Excellency,

I have the honour to refer to the Convention between the Republic of Korea and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income signed at Tokyo on the 3rd day of March 1970 (hereinafter referred to as "the Convention") and to the Exchange of Notes of the same date and the Exchange of Notes of the 27th day of March 1985 between the two Government concerning paragraph (3) (b) of Article 18 of the Convention (hereinafter referred to as "the Exchange of Notes of 1970" and "the Exchange of Notes of 1985" respectively).

I have further the honour to propose on behalf of the Government of the Republic of Korea the following arrangement to replace the arrangement effected by the Exchange of Notes of 1985:

1. The measures set forth in the following articles and paragraph of the Special Tax Treatment Control Act, Law No.5982, 1999 (hereinafter referred to as "the Special Tax Treatment Control Act of 1999") are "the special incentive measures designed to promote economic development in Korea" referred to in paragraph (3) (b) of Article 18 of the Convention:

- (i) Paragraphs 2 and 3 of Article 121-2 -- relating to reduction and exemption from income tax or corporation tax on the income of a foreign invested enterprise or foreign investor;
- (ii) Paragraph 1 of Article 121-4 -- relating to reduction and exemption from income tax or corporation tax in case where a foreign invested enterprise increases its capital;
- (iii) Paragraph 1 of Article 121-6 -- relating to exemption from income tax or corporation tax on the income derived from a technological inducement contract; and
- (iv) Article 5 of Addenda (only to the extent that the provisions contained therein are relevant to reduction and exemption from income tax or corporation tax under the Foreign Investment Promotion Act, Law No.5559, 1998 (hereinafter referred to as "the Foreign Investment Promotion Act of 1998")) -- relating to the transitional measures concerning reduction and exemption from income tax or corporation tax granted in accordance with the relevant provisions of the Foreign Investment Promotion Act of 1998.

2. The present arrangement shall be effective:

- (1) in respect of such income tax or corporation tax as has been or may be reduced or exempted under the Special Tax Treatment Control Act of 1999; and
- (2) in respect of such income tax or corporation tax as has been or may be reduced and exempted under the following articles and paragraphs of Korean taxation laws (only to the extent that the provisions contained therein are relevant to reduction and exemption from income tax or corporation tax under the Special Tax

Treatment Control Act of 1999 as stated in paragraph 1 above:

- (a) Foreign Capital Inducement law, Law No.3691, 1983
 - (i) Paragraph 2 (1) and 3 of Article 14;
 - (ii) Paragraph 1 of Article 16;
 - (iii) Paragraph 1 of Article 21 (only to the extent that the exemption from income tax or corporation tax has been or may be applied to the income derived from a loan contract concluded by February 28, 1991);
 - (iv) Paragraph 1 of Article 24; and
 - (v) Article 4 of Addenda (only to the extent that the provisions contained therein are relevant to reduction and exemption from income tax or corporation tax under the Foreign Capital Inducement Law, Law No.1802, 1966).
- (b) Foreign Investment and Foreign Capital Inducement Act, Law No.5256, 1997
 - (i) Paragraphs 2 and 3 of Article 14;
 - (ii) Paragraph 1 of Article 16; and
 - (iii) Paragraph 1 of Article 24.
- (c) Foreign Investment and Foreign Capital Inducement Act, Law No.5538, 1998 (hereinafter referred to as "the Foreign Investment and Foreign Capital Inducement Act of 1998")
 - (i) Paragraphs 2 and 3 of Article 14;
 - (ii) Paragraph 1 of Article 16; and
 - (iii) Paragraph 1 of Article 24.
- (d) The Foreign Investment Promotion Act of 1998
 - (i) Paragraphs 2 and 3 of Article 9;
 - (ii) Paragraph 1 of Article 11;
 - (iii) Paragraph 1 of Article 26; and
 - (iv) Article 5 of Addenda (only to the extent that the provisions contained therein are relevant to reduction and exemption from income tax or corporation tax under the Foreign Investment and Foreign Capital Inducement Act of 1998)

3. The arrangement effected by the Exchange of Notes of 1985 shall terminate on the date of entry into force of the present arrangement.

If this proposal is acceptable to the Government of Japan, this Note and Your Excellency's Note in reply confirming the acceptance by the Government of Japan of the above proposal shall be regarded as constituting an agreement between the two Governments which will enter into force on the date of your Excellency's reply.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

Hong Soon-young
Minister of
Foreign Affairs and Trade

His Excellency
Mr. Kazuo Ogura

Ambassador Extraordinary and Plenipotentiary
of Japan to the Republic of Korea

(Japanese Note)

Seoul, December 27, 1999

Excellency,

I have the honour to acknowledge the receipt of Your Excellency's Note of today's date, which reads as follows:

“..... (Korean Note)“

I have further the honour to confirm on behalf of the Government of Japan the foregoing arrangement and to agree that Your Excellency's Note and this Note shall be regarded as constituting an agreement between the two Governments which will enter into force on the date of this reply.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

Kazuo Ogura
Ambassador Extraordinary and Plenipotentiary
of Japan

His Excellency
Mr. Hong Soon-young
Minister of the Foreign Affairs and Trade
of the Republic of Korea