

## Zero Tax of VAT for GDC in FTZ (Summary)

- (As-Is) When a non-resident(foreign corporation) brings domestic goods into the Free Trade Zone, zero tax rate of VAT is applied only when the purpose is for use or consumption.
  - Not applicable if domestic goods are brought in for storage purposes.\*
- \* Zero tax rate of VAT is applied only at point of export.
- This is an obstacle in operating GDC(Global Distribution Center) in FTZ.

[ Case ]

In case that a resident(domestic firm) imports and sells part of components owned by a non-resident(foreign firm) operating a GDC in FTZ, and then the domestic firm retains leftover components, it would be inefficient inventory management to the domestic firm. And, the non-resident(foreign firm) does not purchase remaining parts and other domestic goods due to VAT applied on purchases.



- (To-Be) When non-resident(foreign corporation) brings domestic goods into Free Trade Zone for storage and re-export purposes, zero tax rate of VAT is applied.
  - 「Act on designation and management of free trade zones」  
Amendment(Effective July 28 2016)
    - \* Related Clause: Article 29 Clause 1 Number 3, Article 45 Clause 2
  - (Condition) Must have direct supply contract with domestic corporation, payment to be made in Korean won via foreign exchange bank, and delivery of goods to resident of FTZ designated by non-residents
  - Inward carriage to the customs territory (domestic area) will lead to 10M KRW fine as per clause on violations
    - \* Related Clause: Article 61 Clause 6