



Tax News Flash

- Customs

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Samjong KPMG provides readers Customs related recent local issues and trends. This newsletter is a monthly publication of Samjong KPMG. If you need more detailed explanation, please feel free to contact Key contacts.



The following is recent Customs related news in Korea

1. Korea-Israel Free Trade Agreement (FTA) to Take Effect December 1

1) Significance of the FTA

Korea has entered into force 18 free trade agreements (FTAs) with 58 countries around the world. If the Korea-Israel FTA goes into effect, Korea is the first Asian country to sign an FTA with Israel and can preoccupy the Israel market ahead of competitors located in Asian countries.

According to the Korea-Israel FTA, tariffs on 95.2% of Korea's and 95.1% of Israel's exports based on the total number of items will apply a zero tariff within 10 years. Tariffs on automobiles (tariff rate 7%) and parts (6 - 12%), textiles (6%), and cosmetics (12%), which are Korea's main export products, will be eliminated immediately.

2) Product-Specific Rule (PSR)

PSR means a list of working or processing operations that must be done on non-originating materials for the product to obtain originating status (and therefore benefit from the preferential tariff treatment provided under that preferential trade arrangement).

According to Korea-Israel FTA, automobiles adopted either the "Change in Tariff Heading (CTH)" rule, i.e., all non-originating materials used in the production of the good have undergone a change in tariff classification at the 4-digit level, or the value-added rule, requiring the value of foreign materials is less than or equal to 60% of the ex-factory price. Also, in the

case of machinery, electrical and electronic products, it adopted either the CTH rule or value-added rule, requiring the value of foreign materials is less than or equal to 50 - 60% of the ex-factory price.

For textile and apparel products, either the CTH rule or value-added rule, requiring the value of foreign materials is less than or equal to 60% of the ex-factory price can be adopted, however, it is recognized as originating only if it has been cut and sewn (or combined) in Korea or Israel.

For most chemical products, it adopted either the CTH rule or value-added rule, requiring the value of foreign materials is less than or equal to 50 - 60% of the ex-factory price, and some products are recognized as originating only if certain chemical processes are performed.

For steel and non-ferrous metal products, either the CTH rule or value-added rule, requiring the value of foreign materials is less than or equal to 50% of the ex-factory price can be adopted, but for Chapter 81(other base metals; cermets; articles thereof) adopted "Change of Tariff Sub-Heading (CTSH)", i.e., all non-originating materials used in the production of the good have undergone a change in tariff classification at the 6-digit level.

3) Issuance of Certificate of Origin (C/O)

The method for issuance of C/O is two-fold: to be issued by the institution and by exporters. In the case of self-issuance, approved exporters are entitled to self-issue C/Os to gain preferential tariff treatment provided that they export goods of value above 1,000 dollars. For goods under the value of 1,000 dollars, the exporter is entitled to self-issue the C/Os without the Approved Exporter status.

4) KPMG's Comment

To effectively utilize the Korea-Israel FTA after its entry into force, it is necessary to review the Product Specific Rule (PSR) for each item of the agreement and check in advance whether the company's main export products meet the requirement. If the PSR is met, then it is important to check the applicable tax rate to the exporting country to see if there is any benefit from using the FTA.

Particularly, it is vital to prepare for the risk of denial of the preferential tariff after its application by examining the provisions of the FTA overall and identifying the differences between existing agreements and new agreements. If the origin status is denied because of origin verification in Korea, sanctions such as additional tax imposition or suspension of the preferential tariff treatment will be taken. Therefore, companies utilizing FTA must be prepared to appropriately demonstrate at any time of verification that the goods subject to origin verification fulfil origin requirements.



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