

# PwC Korea

## Customs Newsletter

January 2021

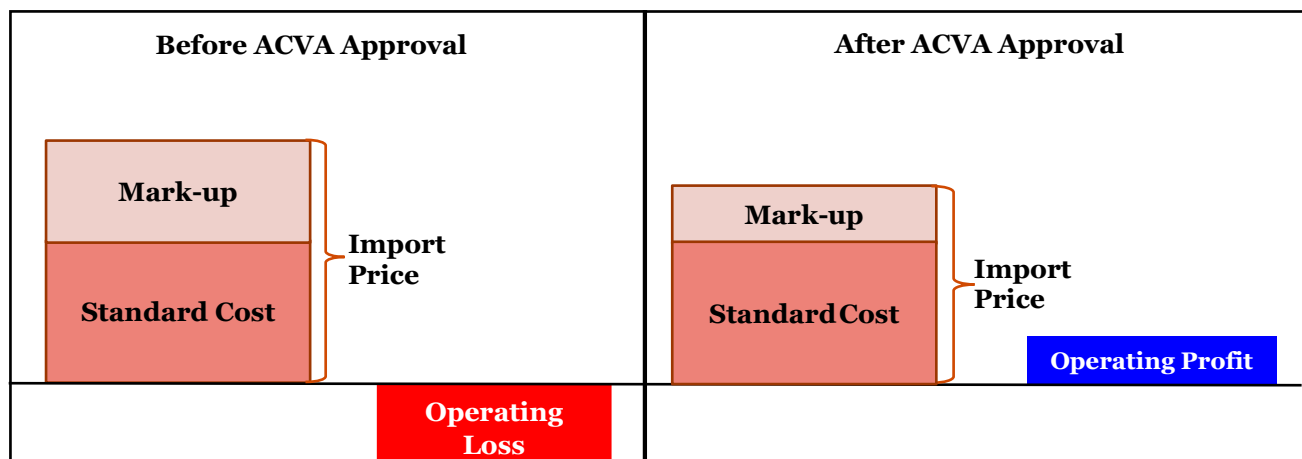
### I . A Recent Case of Successful ACVA

PwC Customs Services Corporation has recently assisted Company A in correcting risk areas identified during a prior custom audit and obtaining assurance on Company A’s import pricing which was adjusted for the corporate tax purposes as an appropriate customs value by the customs authorities.

Company A used the Transactional Net Margin Method (TNMM) to determine the arm’s length price and the cost plus method to determine the import price by adding a mark-up to the standard cost of the exporter.

Company A applied for an Advance Customs Valuation Arrangement (ACVA) to ensure that a reduction in mark-up rate applied to its import price due to continual operating losses would be accepted by the customs authorities. Company A received the approval of ACVA on its adjusted import price as an appropriate customs value in December 2020.

**[Changes in operating profit before and after ACVA approval]**



Company A has been able to demonstrate that a decrease in its import pricing resulting from a lower mark-up rate was not influenced by a special relationship by submitting i) expert analysis of cost factors to support the appropriateness of standard cost; ii) benchmark studies to justify the changes in mark-up rate, and iii) comparison of the seller’s selling price to Company A and a third-party buyer.

Considering that a reduction in mark-up rate and subsequent reduction in import pricing are generally challenged by the customs authorities in Korea, Company A’s ACVA results is notable for being able to find consensus between an importer and the customs authorities on the application of the reduced mark-up rate.

## II. 2021 Law Changes

### 1. Amendments to Customs Laws, effective from 1 January 2021

#### (1) Changes in the statute of limitations for the assessment of customs duties on Article 21

The statute of limitations for the assessment of customs duties in Korea, in principle, is five years from the initial assessment. As exceptions to the five-year statute of limitations, Article 21 of the Customs Law of Korea previously stipulated that an assessment may be made within one year from the date a ruling or decision is issued in regards to the request for examination or adjudication or litigation, or from the date the Korea Customs Service (KCS) receives a response from customs authorities in the country of exportation on the authenticity of the certificate(s) of origin declared for goods imported to Korea as part of an origin verification audit.

Under the amended Customs Law effective from 1 January 2021, the statute of limitations for assessment of customs duties resulting from an origin verification audit in accordance with the Law on Special Cases of the Customs Law for the Implementation of Free Trade Agreements is further extended to reflect the longer lead time needed to obtain the response from the customs authorities in the country of exportation.

The table below summarizes changes in the statute of limitations.

Before	Current
One year from the receipt date of response from customs authorities in the country of exportation regarding origin verification request	One year from the receipt date of response from customs authorities in the country of exportation regarding origin verification request or from the deadline stipulated in the relevant free trade agreement, whichever is earlier

#### (2) Extended validity period of product classification ruling on Article 86

A product classification or re-classification ruling issued by the Customs Valuation and Classification Institute (CVCI) was previously valid for three years from the issue date. Under the amended Customs Law effective from 1 January 2021, the ruling on product classification issued by the CVCI will be valid until the KCS decides that a modification to the classification of the good in question is necessary. With the product classification ruling expected to remain valid beyond the previous three-year validity period, the benefits of product classification rulings are expected to increase for importers.

The table below summarizes changes to the period during which a product classification ruling is valid.

Before	Current
A product classification ruling is valid for three years from the date on which the ruling is issued.	A product classification ruling is valid unless a modification to the classification of good in question is deemed necessary by the KCS.

## 2. Individual Consumption Tax Act, effective from January 12, 2021

As a remedy to boost the economy under COVID-19, the individual consumption tax rate imposed on automobiles has been reduced by 30%. Consumers can take advantage of this reduced tax rate for another 6 months, as the date has been extended to June 30, 2021. The tax rate remains the same as before at 3.5%, and the limit of the reduced tax amount is KRW 1 million.

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