

# NEW TAX DEDUCTIONS FOR INVESTMENT IN DIGITALIZATION AND THE ENVIRONMENT

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Under the current tax system, income or corporation taxes are deducted for investment in digitalization or environmental measures. For investment in enterprise resource planning, large companies get a 3% deduction, and small and medium sized companies get a 10% deduction. In addition, small and medium sized companies get a 3% deduction for investment in point-of-sale information management systems or information security systems. In terms of environmental deductions, 3% of investment in pollution prevention facilities is tax-free.

The government plans to expand the tax deduction to other areas. Investment in supply chain management and consumer relations management will be included in the investment categories eligible for tax deduction, and will be given the same treatment as enterprise resource planning investment. Tax deductions will also be expanded to the creation of facilities to collect and process volatile organic compounds, as well as pollution prevention facilities in the Seoul metropolitan area.

While the new policies are expected to invigorate facility investment, the policies should include a wider range of companies to promote large-scale investment. During the third quarter of 2001, investment was severely stagnant relative to other economic activity, with facility investment falling by 12.3% year-over-year. Investment in the IT sector in the third quarter fell by 9.1% year-over-year, while the IT industry's growth rate recorded -0.9%. In this regard, the latest tax support policies are very positive in that they will promote facility investment and can invigorate the IT industry. However, because they are focused on small and medium sized companies, the new measures are not expected to have much effect on the investment of larger companies.

*Under the current tax system, income or corporation taxes are deducted for investment in digitalization or environmental measures.*

*The latest tax support policies will promote facility investment.*

## Facility Investment Indicators

	(Annual Rate, %)									
	2000		2001				2001			
	Nov	Dec	Sep	Oct	Nov	Dec	2/4	3/4	4/4	Year
Facility Investment (National Accounts)	-	-	-	-	-	-	-10.4	-15.4	-	-
Facility Investment Estimates	-1.1	-2.2	-6.4	-4.4	4.8	5.5	-4.6	-12.3	1.9	-5.5
Shipments of Machinery for Domestic Use <sup>1)</sup>	6.9	11.7	-6.4	-10.7	4.4	10.9	-7.5	1.0	1.8	-5.9
Imports of Machinery for Domestic Use <sup>2)</sup>	13.9	-6.9	-27.8	-9.3	-18.6	-	-33.6	-28.1	-	-
Domestic Machinery Orders Received <sup>2)</sup>	15.2	41.7	4.8	4.2	-0.6	-19.6	-2.8	-5.8	-7.1	-3.1

Notes: 1) Figures computed using 1995 as the base year.

2) At nominal prices.

Sources: Current Industrial Activities by National Statistical Office and National Accounts by the Bank of Korea.