

Tax Authority imposes an inheritance tax after Rev. Sun Myung Moon's death? Launches a tax audit of the Tongil Group

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After some investigation Weekly Chosun has confirmed that in the beginning of October the National Tax Service (Korea's Internal Revenue Service) has launched a full-scale auditing of the Tongil Group and its subsidiaries. This tax investigation is being executed by a special branch of the (public) prosecutor called "Section 4" of the Seoul District National Tax Service. Because it is this specialized branch [that is undertaking the operation] it is understood that this is not just a regular scheduled tax audit over a few businesses, but an actual investigation of the overall flow of funds of the entire Tongil Group. The tax administration explains that it is the imposition of an inheritance tax that is the background of this special investigation being undertaken at this point--one year after Rev. Sun Myung Moon's death.

A person working in the National Tax Service who asked to remain anonymous said, "The Tongil Group did not pay almost any inheritance taxes at all. Some tried to encourage [the Tongil Group] to voluntarily report, but in the end they only paid a very small amount. Normally, whether the inheritance tax can be applied or not is investigated. You should think that the fact that Section 4, which is in charge of special audits, is being mobilized for this task means that they will strictly investigate in detail [to make their case]." It was made known that the amount that the Tongil Group's side reported as a target of inheritance taxes was an amount that was less than 1 billion won (less than \$940,000 dollars).

This special tax audit is raising a lot of interest from people within and out of the group due to it being the first of its kind after Rev. Sun Myung Moon's passing. There were some huge changes to the successor structure after the recent crack between mother Hak Ja Han and 4th son Kook Jin Moon and 7th son Hyung Jin Moon who were once thought to be the successors when Rev. Moon was alive. Mrs. Hak Ja Han is currently overseeing the entire Unification Church and Group. The main target focus of the tax audit will most likely be the late Rev. Sun Myung Moon's wife instead of his sons. In order to determine whether the inheritance tax applies or not the National Tax Service is planning an investigation of the real estate and all other assets that Rev. Sun Myung Moon left behind.

Back in 1999 a tax audit done over the Tongil Group's subsidiary companies. At the time many of the subsidiary companies that were improperly run were charged billions of won in additional taxes and some other companies went bankrupt. The National Tax Service is auditing the entire Tongil Group for the first time in 14 years.

There are over 20 affiliates and subsidiaries of the Tongil Group that are currently engaged in for-profit activities apart from mission (religious) and educational organizations. Some of the major representative affiliates include Segye Times, Sun Won Construction, Pyungil Planning, Saeilo, Yong Pyung Resort in the Kang Won province in the area of leisure, and Il Hwa in the manufacturing industry.

The Cheong Shim Group which is an affiliate of the Tongil Group has under its umbrella the Jin Hung Pineridge Leisure Resort, Cheong Shim IT, Elbon the Style, and other businesses in and outside of the country. Pyung Hwa Motors is an affiliate of Tongil Group but it is considered apart as a foreign investment company. Apart from the Tongil Group is the third son Hyun Jin Moon who manages Ilsung Construction, etc., and the fourth son Kook Jin Moon who operates KAHN Arms weapons manufacturing company in America.

A Unification Church representative who asked to remain anonymous said, "You can consider that all of the [Tongil] Group's subsidiaries and affiliates were founded with money from the Church Foundation. Each company is attributed a type of role to fulfill for the Foundation. However, the current ownership structure is unclear and there are some instances where specific persons have actually become the owners. I am worried whether [the entities] will be able to uphold Rev. Sun Myung Moon's dying wishes."

The religious sector of the Unification Church is under the Mission Foundation for the Family Federation for World Peace and Unification (Chairman Hak Ja Han), and the business sector is overseen by the Maintenance Foundation of the Holy Spirit Association for the Unification of World Christianity. In Korea, the "Maintenance Foundation" is usually referred to as the Tongil Group. Before the financial crisis of 1998 the Tongil Group had a wide range of more than 30 national companies. At one point it had more than 40 domestic and overseas affiliates with sales of more than 1 trillion won and it was classified as a major conglomerate. One of the Tongil Group's flagship products was the soft drink known as "McCol" made by Il Hwa. However, the Tongil Group underwent a period of difficulties and poor management was revealed in several of its businesses. It also had to undergo painful restructuring

processes to clean up non-performing companies such as Tongil Heave Industries, Ilsung Leisure Condo, etc. As a result, the Group's influence was greatly reduced.

In addition, the Group's external size and appearance was reduced after fourth son Kook Jin Moon--who once was unofficially arranged to be one of the successors--was inaugurated as the president of the Tongil Group in 2005 and executed restructuring of the affiliates. In an early interview with the press after he was inaugurated, former president Kook Jin Moon expressed that the management situation wasn't good by mentioning that, "the total profit from the Group's companies is only about 10 billion won." Although the exact reason is unknown, in the beginning of this year former president Kook Jin Moon stepped down from his position as president and left to America. Some in the Tongil Group also gave the analysis that the restructuring done by Kook Jin Moon worked as a stepping stone for the businesses to go from being dysfunctional to a profitable structure.

Despite the National Tax Service's special investigation of the Tongil Group, it will not be easy to charge them with an inheritance tax. Although the majority of the Tongil Group's companies are operated as corporations the majority shareholder is not an individual, but the Foundation. Also, our tax authority's hands can't reach [the Tongil Group's] foreign-based businesses. One official from the tax authority said, "To be able impose the inheritance tax it has to be proven that the [asset] is private property, but in the case of most of the affiliate companies of the Tongil Group the majority shareholder is the Foundation or the companies established a loose partner relationship with the Foundation which makes it difficult to impose the tax on them."

The reason the National Tax Service appointed Section 4 to carry out the audit is because they concluded that it will be very difficult for the tax authorities to do an analysis of all the tax-related information of the Unification Church... It is expected that many of the assets that were recently sold, but that were affiliates when Rev. Sun Myung Moon was alive will also be included in the investigation. The execution of the auditing of the Tongil Group is planned to carry on for three months.

Ho Yeol Ahn, public relations representative of the Tongil Group, expressed to Weekly Chosun the position regarding the special tax investigation that, "there is no inheritance tax to be paid." Mr. Ahn said that the tax investigation is an "error by the National Tax Service." It is known that the current flow of funds of the Tongil Group is managed in general by Hyo Yul Kim (Peter Kim) who was the former secretary of Rev. Sun Myung Moon. Kim is now the vice-chairman of the Mission Foundation for the Family Federation for World Peace and Unification. Ho Yeol Ahn--PR representative of the Tongil Group--who happens to be very close to Peter Kim explains the following: "We think that there is no point in discussing whether the inheritance tax applies to companies related to our entity. Currently we have some 15 affiliates, but they all belong to the Foundation. How can it make sense that [we] have to pay an inheritance tax if there's nothing owned by an individual? There almost aren't any companies among the subsidiaries that makes a profit."

The Tongil Group said that, "the authority to operate the companies is with the majority shareholder which is the Foundation. And the chairman can be changed according to the resolution of the members of the board." Those words imply that the succession of the Foundation after Chairperson Hak Ja Han could follow a legal tradition rather than a lineage-based tradition. An individual related to the situation who was once a Unification Church member said, "The greatest legacy left by Rev. Moon are his children. However, the current lack of harmony between the mother and her children is such that they are not even talking to one another. It would be good if the issue regarding inheritance became clearer."

Subsidiaries and Affiliates of the Tongil Group:

Yong Pyong Resort / Il Sang Marine Industry / Saeil Travel Agency / Il Hwa / Il Shin Stone / TIC (auto parts manufacturer) Special Vehicle Development / JC (chemical company) / Asian Marine / Segye Times / Sun Won Construction / Saeilo / Pyungil Planning / Onel Company / Elbon the style / Elbon the table / Cheongshim IT / Farmsco / Jin Heung Pineridge Leisure Resort / Pyungnong Il Sung Construction (third brother) / KAHR Arms (owned by fourth brother)