

# Newsletter

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## ■ Filing of Interim Corporate Income Tax Return due by September 2, 2019

A resident corporation (and a nonresident corporation having a permanent establishment in Korea) is required to pay interim corporate income tax within 2 months from the end of the first six months of each fiscal year. An Interim corporate income tax return must also be filed along with the tax payment. A corporation with the December 31 calendar fiscal year-end must file 2019 interim corporate income tax return **no later than September 2, 2019** (as the original due date of August 31, 2019 falls on weekend this year).

The interim corporate income tax return can be filed using either (i) the 1/2 method (that is, paying 1/2 of the corporate tax paid in the prior year) or (ii) the book-closing method (by closing the books of accounts of the corporation for the first six-month period and calculate interim corporate tax amount based on the financial results of such first six months). When a corporation had not paid corporate income taxes in the prior year due to tax loss or having no taxable income, only the option (ii) above should be applied.

The calculation formula of interim corporate income tax by using the book-closing method is as follows:

$$\text{Tax payable} = [\text{taxable income for interim period} \times 12/6] \times \text{tax rates} \times 6/12$$

- (tax exemption/withholding taxes paid and taxes assessed for the interim period)

If the interim corporate income tax payable exceeds Won 10 million, such tax can be paid in 2 installments as below. The second installment payment is due within 1 month from the end of the filing due date (2 months in the case of small and medium corporations (defined)).

If interim income tax payable is:		Installment payments can be broken down as below:
Over Won 10 million ~ up to 20 million	1 <sup>st</sup> installment 2 <sup>nd</sup> installment	10 million Excess over 10 million
Over Won 20 million	1 <sup>st</sup> installment 2 <sup>nd</sup> installment	50% or more of tax payable Remaining 50% balance

- 1<sup>st</sup> installment is due together with filing of the interim tax return within 2 months from the end of the first 6 months (i.e., August 31 for the calendar fiscal year-end).
- 2<sup>nd</sup> installment is due within 1 month from the end of the filing due date (i.e., September 30 for the calendar fiscal year-end).

Unlike the annual corporate income tax return, there is no additional local (provincial) income tax payable on interim corporate income tax liability.

## ■ Expanded Scope for Electronic Services of Foreign (Non-Korean) Company Subject to VAT effective from July 1, 2019

Under the revised Value-added Tax Law in Korea, the scope of electronic services of foreign (non-Korean) company subject to VAT was expanded to include advertising, brokerage and “cloud computing” **from July 1, 2019**. The cloud computing is defined as the services of renting storage space in central computer connected to internet, software stored in central computer, etc.

Therefore, if a foreign (non-Korean) company not having a PE in Korea provide electronic services including games, sounds, video files, electronic documents, software and additionally advertising, brokerage and cloud computing, etc. to an individual or a company in Korea (except for provision of electronic services to an individual or a company who is registered for VAT reporting purposes in Korea) and received compensation from such customers, the non-Korean company should apply for a simplified VAT registration and have an obligation to

file and pay VAT on such provision for electronic services quarterly in Korea.

## ■ Other Tips

### ● National Pension, Max Contribution Ceilings Increased Effective from July 1, 2019

**Effective from July 1, 2019**, the monthly max contribution ceiling of the statutory national pension was increased from KRW 210,600 to **KRW 218,700** each for employer and employee (*Ministry of Health and Welfare (MOHW) announcement, April 1, 2019*).

The statutory social insurance premium rates in effect in 2019 can be summarized as below.

Social Insurances:	Employee portion	Employer portion	Total	Remark
<b>National Pension (NP)</b>	4.5%	4.5%	9.0%	<b>Won 218,700</b> of monthly contribution ceiling each
<b>National Health Insurance (NHI)</b>				
a. Health Insurance (HI)	3.23%	3.23%	6.46%	<b>Won 3,182,760</b> of monthly contribution ceiling each Assessed at 8.51% of HI premium above
b. Long-term Care Insurance for the Elderly (LTCI) (Note a)	8.51%	8.51%	17.02%	
<b>Employment Insurance (EI)</b>	0.65%	0.9% ~1.5%	1.55% ~2.15%	Vary depending on the number of employees
<b>Industrial Accident Compensation Insurance (IACI) (Note b)</b>	NIL	0.6%~ 22.50%	0.6%~ 22.50%	Vary depending on type of business

**(NOTE)**

- LTCI contribution is imposed based on the medical insurance premium (while NP, HI, EI, and IACI contributions are imposed based on monthly wage income reported in the prior year).
- Wage bond surcharge and asbestos victim relief surcharge of 0.6/1,000 and 0.03/1,000 should be added to IACI rates additionally. Commute related injury surcharge is also assessed additionally at 1.5/1,000 regardless the business type starting from January 1, 2018.

### ● New Mandatory Subscription Requirements for Participation in the National Health Insurance of Korea for Foreigners Effective from January 1, 2019

**Effective from January 1, 2019**, under Article 76-3 of the National Health Insurance Law of Korea, foreigners who have resided in Korea for 6 months and intend to continue residing in Korea beyond the first 6 month-period will be mandatorily subscribed for participation in the statutory National Health Insurance from the next day following the first 6-month period (183 days). Foreigners who hold D-2/F-6 visas, however, are required to participate in the statutory National Health Insurance from day 1 in Korea regardless of the length of their residence in Korea.

**Subscription Procedure:**

- National Health Insurance Service (NHIS) processes the subscription/registration for participation in the National Health Insurance of foreigners concerned.
- NHIS then sends Medical Insurance Card as well as the insurance bills to the foreigners concerned.
- The insurance premium is calculated for each household according to income and property (if the calculated premium is below the average premium of all subscribers, the average premium will be imposed). The average premium in year 2019 is KRW 113,050 / month.

● **New Simplified Half-Year Withholding Tax Statement Filing Requirements for Companies Paying Salary & Wage Income or Business Income Starting from 2019**

Starting from 2019, under Article 164-3 of the amended Individual Income Tax Law (IITL) of Korea, all companies(withholding agents) who pay salary and wage income or business income are required to submit simplified half-year withholding tax statement to the governing tax office on a semi-annual basis by the filing due dates further explained below.

**Due Date of Filing the Statement**

- Employers (withholding agents) should submit the simplified half-year withholding tax statement by the 10th day of the following month after the end of each half-year period as follows:

Tax Period		Submission Due Dates
1 <sup>st</sup> half year period	For the income earned from January to June	By July 10 of the same tax year
2 <sup>nd</sup> half year period	For the income earned from July to December	By January 10 of the following year

- The Simplified Half-Year Withholding Tax Statement is an **additional tax filing requirement** that was newly introduced by the tax authorities in Korea, which is a separate filing requirement from the year-end declaration. The withholding agents should make additional two filings in July (for January to June) and January (for July to December) of the following year on a half year basis on top of the annual year-end payroll income tax withholding statement filing requirement.
- This additional tax filing requirement should be fulfilled by employer only without any additional income tax liabilities to the employees, and as such, there is no impact on employees' tax positions. Through the simplified half-year withholding tax statement, a summary including half year income (January to June and July to December) should be reported to the tax authorities. Failure to comply with such filing requirements shall be subject to a penalty equivalent to 0.5% of non-reported/underreported amount.

■ **FAQ on Amended Labor Standards Act of Korea**

We summarized below some of the frequently asked questions (FAQ) from foreign clients in relation to the amended Labor Standards Act that came into force in May 2018 as follows.

● **Expanded Paid Annual Leave Days Benefit in the First 2 Years for the New Hire**

Under Article 60 of the Labor Standards Act (LSA) of Korea, employers shall grant its employees 15 days of paid annual leave if the employees fulfilled at least 80% attendance during one (1) year. With respect to employees who have worked for less than one (1) year, employers shall grant one (1) day of paid leave for each completed month of service. Before amendment of the LSA, however, the paid leave days used during the first year can be deducted from the 15 days to be granted in the second year (Article 60, Paragraph 3).

Under the amended LSA effective from May 29, 2018, the paid leave days earned and used in the first year will no longer be deducted from the 15 days to be granted in the second year (Articles 60, Paragraph 3 was deleted). Employees will be granted one (1) day of paid leave for each completed month of service in their first year of hire and separately, employees should be granted 15 days in the second year if fulfilled 80% attendance requirement in the first year.

● **Reduced Work Hours to Max 52 Hours per Week in Korea (to be adopted in phases depending on the company sizes)**

Under the amended LSA, the Korean government adopted the new legislation stipulating that the maximum work hours including overtime and holiday work shall be limited to 52 hours per week in an effort to improve long working hours of the workers and their quality of life.



This change will be adopted in different phases depending on company size with the first phase already started from July 1, 2018 for the companies having 300 or more employees as we announced you earlier this year. The second phase will take effect from January 1, 2020 that will be applicable to companies having 50 to 299 employees.

For your future reference, the implementation schedules for the second and third (final) phases are as below:

- 1st phase - 300 or more employees: July 1, 2018
- **2nd phase - 50 or more but less than 300: January 1, 2020**
- **3rd phase (final) - 5 or more but less than 50: July 1, 2021**

- **Other Changes under the Amended LSA that may be relevant to Payroll and HR Administration**

- Special extended work hours over 52 hours (temporarily for July 1, 2021 ~ December 31, 2022): This special extended work hours of maximum 8 hours per week is allowed for the companies having less than 30 employees only temporarily if agreed between the company and the representative of the employees
- Maximum work hours for the minor under the age of 18 (effective from July 1, 2018): Work hours for the minors are limited to 35 hours per week and overtime work hours are reduced from 6 hours to 5 hours per week
- Acceleration rate for work on holidays/weekends clearly defined (effective from March 20, 2018): 50% additional pay for the first 8 hours of work on weekends/holidays, and 100% for work on holidays/weekends over 8 hours.

*Please contact any of the following individuals with any inquiries or comments.*

**KS Han, J W Choi, G S Sim, or S Y Lee at Tax & BPO Services**

**Hanul LLC**

Member Crowe Global

Sindo Building, 10th Floor, 14 Teheran-ro 88-gil,

Gangnam-gu, Seoul 06179, Korea

TEL: (82)(2) 316-6600 FAX: (82)(2) 775-5885

E-mail: [post@crowe.kr](mailto:post@crowe.kr)

Website: <http://www.crowe.kr>

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