

# Newsletter

March 2020

Bi-monthly Newsletter of Hanul LLC



Smart decisions. Lasting value.

## Contents

- **Important South Korean Tax Reporting Requirements Coming Due**
  - 2019 Annual Corporate Income Tax and Local Income Tax Filing Deadlines
  - Transfer Pricing (TP) and BEPS Requirements
  - 2019 Individual Income Tax Return Filing Deadline
- **Social Insurance Tips in 2020**
  - Increase in Premium Rates for the National Health Insurance and the Long-Term Care for the Elderly in 2020
  - Annual Settlement of Statutory Social Insurance Premiums required in April 2020 (excluding National Pension)
- **HR Tips**
  - Korean government subsidy available in relation to COVID-19 (Coronavirus) pandemic
  - Change in Childcare Leave Benefit
  - Change in Paternity Leave Benefit

*This newsletter is prepared and issued by Hanul LLC in Seoul, Korea on a bi-monthly basis and intended to provide foreign investors with an update on tax law changes in South Korea and other related subjects of special interests to foreign investors. The information provided herein should not form a basis of any decision as to a particular course of action, nor should it be relied upon as a substitute for a detailed advice in individual cases.*

*Hanul LLC is a member of Crowe Global, a Swiss Verein. Each member firm of Crowe Global is a separate and independent legal entity. Hanul LLC and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Hanul LLC.*

## ■ Important South Korean Tax Reporting Requirements Coming Due

### ● 2019 Annual Corporate Income Tax and Local Income Tax Filing Deadlines

Under the Corporate Income Tax Law (CITL), a company having a fiscal year ended December 31, 2019 should file the FY2019 annual corporate income tax return by March 31, 2020 together with necessary tax payments.

In this connection, we summarized the due dates of tax return filing and necessary tax payment related to corporate income tax and local income tax as follows:

In principle, annual/interim corporate income tax and local income tax returns are due filing together with tax payment as given below:

Tax returns	Filing due dates
● Annual corporate income tax return	- Within 3 months from the fiscal year-end
● Interim corporate income tax return	- Within 2 months after the first 6 months of each fiscal year
● Annual local income tax return	- Within 4 months after the fiscal year-end

If the annual/interim corporate income taxes payable are over Won 10 million, companies are allowed to make tax payments in 2 installments as below:

Tax returns	Payment due dates
● <u>Annual corporate income tax return</u> - 1st installment (*) - 2nd installment (*)	- Within 3 months from the fiscal year-end - Within 1 month from the end of the filing due date (within 2 months for a small and medium-sized company)
● <u>Interim corporate income tax return</u> - 1st installment (*) - 2nd installment (*)	- Within 2 months from the end of interim period - Within 1 month from the end of the filing due date (within 2 months for a small and medium-sized company)

(\*) The amount of installments shall be determined as follows:

If total taxes payable is:		Installment payments can be broken down as below:
Over Won 10 million ~ up to 20 million	1st installment	10 million
	2nd installment	Excess over 10 million
Over Won 20 million	1st installment	50% or more of taxes payable
	2nd installment	Remaining balance

(\*\*) Installment payment is not applicable for local income tax.

● **Transfer Pricing (TP) and BEPS Requirements**

Under the International Tax Coordination Law (ITCL), which governs the taxation of international transactions between taxpayers and overseas specially related parties (OSRP), a company is obliged to submit the following documents for the transactions made with its OSRPs during the fiscal year to the relevant tax office together with its annual corporate income tax return:

- a. "Schedules of international transactions"
- b. "Report on Arm's Length Price Determination Method"
- c. "Summarized Profit and Loss Statement of OSRP"

In addition, Multinational Enterprises (MNE) which meet the following conditions are also required to submit the Combined Report of International Transactions (CRIT) which is comprised of three elements (Local file, Master file, and CbC report).

CRIT	Local file and Master file	CbC report
Condition	Domestic corporations and foreign corporations with a domestic place of business that satisfy the following criteria: a. Annual gross sales of an individual entity exceed KRW100 billion; <b>and</b> b. International related party transaction exceeds KRW 50 billion per year.	<ul style="list-style-type: none"> <li>• <u>In the case where the ultimate parent company is a domestic company or a resident of Korea</u>, the CbC reporting obligator is the domestic parent company preparing the consolidated financial statements of a multinational group whose consolidated revenue exceeds KRW1 trillion during the preceding fiscal year.</li> <li>• <u>In the case where the ultimate parent company is a foreign company or a non-resident of Korea</u>, the CbC reporting obligator is a Korean affiliated company of a multinational group whose consolidated revenue exceeds 750 million Euros (or equivalent) in the preceding fiscal year. However, if both of the following conditions are met, submission of the Notification of CbC reporting obligator can substitute the CbC reporting obligation of the Korean affiliated company of a multinational group :               <ul style="list-style-type: none"> <li>a. There is an obligation to submit a CbC report under the laws and regulations of the country where the ultimate parent company is located at; and</li> <li>b. There is an arrangement for the exchange of CbC report information between Korea and the country where the ultimate parent company is located at.</li> </ul> </li> </ul>
Due date	Within 12 months from the end of each fiscal year	Within 12 months from the end of each fiscal year (within 6 months from the end of each fiscal year in case of submitting the Notification of CbC report obligator)

● **2019 Individual Income Tax Return Filing Deadline (due by June 1, 2020)**

Residents, regardless of their nationalities, are subject to Korean income tax based on worldwide income including global income (employment income, business profits, dividend, pension, interest, rental, and other miscellaneous income), severance pay and capital gains. However, under the revised Individual Income Tax Law (IITL), in the case where the period that a foreigner, who is a tax resident of Korea, has his address or abode in Korea does not exceed 5 years in aggregate during the past 10 years from the end of the concerned tax year, his/her foreign source income earned from January 1, 2009 shall be taxed in Korea only if such income is paid in Korea or such income is remitted into Korea.

Taxpayers making monthly tax payments and having only one source of worldwide income (i.e., either Class A or Class B) are generally not required to file a global income tax return since the employer (for Class A income earners) or the Class B taxpayers' association (for Class B income earners) finalizes the individual's tax liability at the end of the year. Taxpayers having more than one source of income, however, are required to file a global income tax return for the year and pay taxes due on such income on or before May 31 of the following year, or prior to permanently leaving Korea.

The filing of 2019 annual individual income tax return is coming due on June 1, 2020 together with necessary tax payments.

■ **Social Insurance Tips in 2020**

● **Increase in Premium Rates for the National Health Insurance and the Long-Term Care for the Elderly in 2020**

Effective from January 1, 2020, the premium rate of the National Health Insurance has been increased from 6.46% to 6.67% of monthly salary income (excluding non-taxable income). Employer and employee portion each rise from 3.23% to 3.335%, respectively. Meanwhile, the premium of the Long-Term Care for the Elderly (surcharge of the national health insurance) has been increased from 8.51% to 10.25% of the National Health Insurance premiums.

As an example, if an employee's monthly average taxable salary is KRW 5,600,000, the employee portion of the National Health Insurance and the Long-Term Care for the Elderly premiums are calculated as follows:

	2019 (KRW)	2020 (KRW)
National Health Insurance	5,600,000 * <u>3.23%</u> = 180,880	5,600,000 * <u>3.335%</u> = 186,760
Long-Term Care Insurance	180,880 * <u>8.51%</u> = 15,392	186,760 * <u>10.25%</u> = 19,143

● **Annual Settlement of Statutory Social Insurance Premiums required in April 2020 (excluding National Pension)**

Employers are required to perform annual settlement of statutory social insurance premiums in March of the following year after each calendar year end for the national health insurance, employment insurance and industrial accident compensation insurance, and reflect any overpayment (underpayment) during the year resulting from the annual settlement in April payroll accordingly. There is no annual settlement required for national pension.

For national health insurance, if the additional insurance resulting from 2019 year-end settlement is greater than the April 2020 insurance amount, employees may choose to pay by installment over 2 - 10 months starting from April 2020.

For your future reference, the statutory social insurance rates in effect for year 2020 can be summarized as below:

Social Insurances:	Employee portion	Employer portion	Total	Remark
National Pension (NP)	4.5%	4.5%	9.0%	Won 218,700 of monthly contribution ceiling each
National Health Insurance (NHI)	3.335%	3.335%	6.67%	Won 3,322,170 of monthly contribution ceiling each Assessed at 10.25% of NHI premium above
a. National Health Insurance (NHI)	10.25%	10.25%	10.25%	
b. Long-term Care Insurance for the Elderly (NHI-LTCI)				
Employment Insurance (EI)	0.8%	1.05% ~1.65%	1.85% ~2.45%	Vary depending on the number of employees
Industrial Accident Compensation Insurance (IACI)	NIL	0.793% ~18.693%	0.793% ~18.693%	Vary depending on type of business

## ■ HR Tips

### ● Korean government subsidy available in relation to COVID-19 (Coronavirus) pandemic

The Korean Ministry of Employment and Labor (MOEL) announced in February 2020 that the government subsidy for paid leave will be provided to employers who have granted paid leave to hospitalized or quarantined workers in accordance with the Infectious Disease Control and Prevention Act. The amount of support is based on the daily wage of the worker (up to KRW 130,000 per day) and employers can apply for the subsidy to the National Pension Service.

The MOEL also announced various other measures available to qualified companies in travel industry that are affected by the COVID-19 pandemic for job security of their workers.

### ● Change in Childcare Leave Benefit

Under the Equal Employment Opportunity and Work-Family Balance Assistance Act of Korea, employee who has a child of 8 years or under or attending the second grade or lower of an elementary school is entitled to take a maximum of one year of childcare leave to be able to take care of his/her child. The employee can split childcare leave into two, but the period of the childcare leave should not exceed one year in total. The employer may disallow childcare leave if the service period with the company is less than 6 months prior to taking the childcare leave.

The employee may receive childcare leave pay from the government agency under the Employment Insurance Act for 80% of his/her ordinary wage up to KRW 1.5 million per month for three months from the first day of a childcare leave. From the fourth month until the last day of a childcare leave, the childcare leave pay will be reduced to 50% of his/her ordinary wage up to KRW 1.2 million per month. The government agency holds 25% out of the childcare leave pay during the leave period and will pay this withheld amount to the employee at the time when 6 months elapse from the date the employee returns to his/her work.

During the childcare leave period, the employer does not have legal obligation to pay salaries. However, upon the employee's resignation at a future date, the child care leave period shall also be included in the service period for severance pay calculation.

The employer shall cooperate with the employee in receiving the childcare leave pay from the government agency by providing the supporting documents. The employee concerned should submit the requisite documents when applying for the childcare leave benefit to the government agency either in person or by post.

Effective from February 28, 2020, both parents may apply for childcare leave at the same time. In which case, however, childcare leave pay will be provided only to one parent.

### ● **Change in Paternity Leave benefit**

Before amendment of the Equal Employment Opportunity and Work-Family Balance Assistance Act, employers should provide minimum 3 days and up to 5 days of paternity leave when requested by a male employee (for a child birth of his spouse), and the minimum 3 days of paternity leave should be the paid leave.

Effective from October 1, 2019, the minimum 10 days of paternity leave should be the paid leave and the time to claim paternity leave is now extended from 30 days to 90 days from the date of child birth.

The maternity leave benefit for female employee remains unchanged in 2020. The employer shall grant a female employee who is pregnant a total of ninety (90) calendar days (120 calendar days of leave in case of pregnancy with multiple fetuses) in total including before or after the childbirth. Provided however, that at least forty-five (45) calendar days (60 calendar days of leave in case of pregnancy with multiple fetuses) of such maternity leave shall be used after the childbirth. For the first sixty (60) days (75 calendar days of leave in case of pregnancy with multiple fetuses) of ninety (90) calendar days maternity leave (120 calendar days of leave in case of pregnancy with multiple fetuses), the employer shall pay the difference between the ordinary salary received from the employer before her maternity leave and the maternity leave pay received from the Korean Labor Welfare Corporation in accordance with the provisions of the Employment Insurance Act (that is, KRW 1.8 million per month effective from January 1, 2019), if such maternity leave pay received is less than the ordinary salary of employee concerned.

*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>

*(You may find this newsletter and other items of interest at <http://www.crowe.kr>)*