

Newsletter

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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.

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■ Korean Tax Law Changes in 2024

The government’s tax reform bill (“government’s bill”) was sanctioned by the National Assembly on December 21, 2023 with several amendments and additions.

We had provided the summary of government’s bill in our earlier editions of Tax Newsletters in July and September 2023. Below are some major amendments and additions compared to the original government’s bill for 2024. Most of the tax law changes we discussed below came into force from the fiscal year starting, or income earned, on or after January 1, 2024 unless indicated otherwise.

I. Individual Income Tax Law (IITL)

● Expansion of child tax credit

Before revision (no government bill)	After revision
<p><u>Eligible scope</u></p> <ul style="list-style-type: none"> ● Children who are subject to basic deduction <p><u>Tax credit</u></p> <ul style="list-style-type: none"> ● For one child: KRW 150,000 ● For two children: KRW 300,000 ● For three or more children: KRW 300,000 + 300,000 per additional child over two 	<p><u>Expanded eligible scope¹</u></p> <ul style="list-style-type: none"> ● <u>Grandchildren</u> are also included. <p><u>Tax credit</u></p> <ul style="list-style-type: none"> ● For one child: KRW 150,000 ● For two children: <u>KRW 350,000</u> ● For three or more children: <u>KRW 350,000</u> + 300,000 per additional child over two

*1. Applicable from individual income tax return filing or year-end settlement on or after January 1, 2024.

● Increase in exemption limit of childcare allowance

Under the amended IITL, the exemption limit of the childcare allowance received from an employer in connection with the birth of a child or the care of a child under six years of age will increase from Won 100,000 to Won 200,000 per month effective from January 1, 2024.

To benefit from this non-taxable treatment of childcare allowance of Won 200,000 max per month, the employment contract shall be updated properly to reflect the exact amount of childcare allowance as a separate pay element. The monthly pay slips shall also be updated to show the childcare allowance component as a separate line item.

● Implementation of monthly submission obligation of simplified withholding tax statements for wage and salary income deferred for two years until January 2026

Under the previous IITL, the filing frequency of the simplified withholding tax statement filing obligation for salary and wage income has changed from a bi-annual to a monthly basis starting from January 2024.

However, considering the significant increase in administrative burden of companies as withholding agents resulting from this submission frequency change from bi-annual to monthly, the revised IITL grants a 2-year grace period before implementing the monthly filing obligation. As such, the filing frequency change from bi-annual to monthly will take effect **from January 2026**.

II. Corporate Income Tax Law (CITL)

- **Maintaining the shareholding requirements for dividend received deduction (DRD) paid from foreign subsidiary**

Government bill	After revision
<p><u>Lower shareholding requirements</u></p> <ul style="list-style-type: none"> ● Own at least 10% of shares or interests (2% for foreign subsidiaries engaged in overseas natural resources development) ● Holds more than 6 months as of the base date of dividend distribution 	<p><u>Maintaining current shareholding requirements</u></p> <ul style="list-style-type: none"> ● Own at least 10% of shares or interests (5% for foreign subsidiaries engaged in overseas natural resources development) ● Holds more than 6 months as of the base date of dividend distribution

III. Special Tax Treatment Control Law (STTCL)

- **Extension of application period of tax reduction in individual income tax for qualified foreign technicians and engineers**

Previously, qualified foreign(non-Korean) technicians and engineers in Korea who began working before December 31, 2023 could enjoy a 50% income tax reduction for 10 years. However, this tax reduction has been extended until December 31, 2026, while the government bill proposed an extension to December 31, 2028.

- **Extension of application period of flat tax rate for foreign(non-Korean) expatriate employees in Korea**

The application period of the flat tax rate for foreign expatriate employees in Korea has been extended until December 31, 2026, while the government bill proposed an extension to December 31, 2028.

In addition, for foreign employees who have applied the flat tax rate, housing benefits provided by the employer will be excluded from earned income of foreign employees concerned permanently. This sunset provision of excluding company housing benefits from earned income was originally scheduled to expire on December 31, 2023.

- **Extension of application period of income tax reduction for employees of small and medium-sized enterprises (SMEs)**

Under the revised STTCL, the application period of income tax reduction for employees of SMEs has been extended until December 31, 2026, which was previously by December 31, 2023.

IV. Others

- **Introduction of income deduction for credit card spending increase in 2024**

For credit card spending in 2024 which surpasses the amount of credit card spending in 2023, 10% of the amount exceeding 105% of the credit card expenditure in 2023 will be deducted from taxable income, capped at KRW 1 million.

- **Extension of benefits from special provision on gift tax on family business succession**

The threshold for special provisions on gift tax on family business succession (subject to a lower rate of 10%) has increased to KRW 12 billion from KRW 6 billion, while KRW 30 billion was initially proposed in the government bill.

- **Other Recent Tax Updates**

- **Adjustment of the threshold for capital gains tax on listed stocks**

On December 26, 2023, the Korean government passed the revised Enforcement Decree of the Individual Income Tax Law (IITL), raising the threshold for capital gains tax on Korean listed stocks from KRW 1 billion to KRW 5 billion.

<Criteria for taxation on transfer of listed stocks>

Category (per item)	KOSPI	KOSDAQ	KONEX
Ownership percentage	1%	2%	4%
Holding amount	(Before revision) KRW 1 billion -> (After revision) KRW 5 billion		

The revised regulation became effective from December 28, 2023. As a result, stock investors who hold less than KRW 5 billion worth of shares in a single company as of December 31, 2023 shall not be subject to capital gains tax on their stock transfer in 2024.

Under the previous regulation, the transfer of listed stocks was subject to capital gains tax at the rate of 20% for taxable income of up to KRW 300 million and 25% for taxable income over and above KRW 300 million . The tax was levied on shareholders who held a certain percentage of a company's shares or KRW 1 billion or more worth of shares as of the end of the previous year.

The government stated that the revision was made in consideration of the capital market situation, including the continued high-interest rate environment and increased uncertainty both domestically and internationally. The government also stated that the revision was intended to mitigate market volatility caused by year-end stock transfer by investors seeking to avoid capital gains tax.

- **NTS raised threshold for random periodic audit selection**

The National Tax Service (NTS) raised the annual revenue threshold for companies randomly selected for periodic audits from KRW 150 billion to KRW 200 billion. This threshold determines which companies shall be subject to periodic audits when the NTS randomly selects companies that have not been audited in at least the four of the past five years.

This threshold increase effective January 1, 2024 is to be in line with the revisions in the NTS's internal rules on corporate income tax administration and audit procedures. The NTS explained that the threshold increase is necessary to ensure an adequate pool of potential audit targets for periodic audits and to improve overall audit efficiency, reflecting both economic growth and the increasing size of corporations.

■ 2023 Annual Corporate Income Tax Return Filing (due filing by April 1, 2024 for December 31 fiscal year-end)

Under the Corporate Income Tax Law (“CITL”), a company having a fiscal year ended December 31, 2023 should file 2023 annual corporate income tax return by April 1, 2024 (as March 31 falls on weekend) together with necessary tax payments thereof.

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 (provincial) income tax returns are due filing together with tax payment as given below:

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

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

Tax returns	Payment due dates
<ul style="list-style-type: none"> • <u>Annual corporate income tax return</u> <ul style="list-style-type: none"> - 1st installment (*) - 2nd installment (*) 	<ul style="list-style-type: none"> - Within 3 months from the fiscal year-end - Within 1 month from the end of the filing due date (within 2 months for a SME)
<ul style="list-style-type: none"> • <u>Interim corporate income tax return</u> <ul style="list-style-type: none"> - 1st installment (*) - 2nd installment (*) 	<ul style="list-style-type: none"> - 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 SME)

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

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

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

■ Year-end Settlement and Declaration of Payroll Withholding Taxes for 2023 (due filing by March 10, 2024)

The employer as a tax withholding agent must perform the year-end settlement of exact payroll withholding taxes for and on behalf of its employees in February of the following year after each year end as required by the IITL of Korea.

In this connection, the employer should reflect the results of year-end settlement in the February payroll of the following year accordingly. Any overpayment resulting from the year-end settlement is used to offset the payroll taxes due in February of the following year and onward until fully utilized. For any underpayment resulting from the year-end settlement, the employer should withhold additionally from the February payroll and remit it to the tax office as scheduled by March 10 of the following year (i.e., by March 10, 2024 for year 2023).

For the year-end settlement processing, the employees should gather and submit supporting documents to claim tax deductions/credits.

By the year-end settlement and filing, employees having only salary income may fulfill his/her annual individual income tax reporting obligations in Korea. On the other hand, employees having other sources of income exceeding certain thresholds than salary income are required to file additionally an annual individual income tax return (“종합소득세신고” in Korean) together with tax payment on or before May 31 of the following year (i.e., by May 31, 2024 for 2023 income).

■ HR Tips

● Freeze in National Health Insurance (NHI) contribution rate and increase in Long-Term Care Insurance (LTCI) contribution portion from January 2024

The Ministry of Health and Welfare announced that the national health insurance contribution rate will be frozen at 7.09% (3.545% each for employee and employer) in 2024 while the long-term care insurance for the elderly (LTCI) will be increased from 0.9082% to 0.9182% (0.4591% each for employee and employer) as below.

Social Insurance:	2023	From 2024	Remark
a. National Health Insurance (NHI)	7.09%	7.09%	Won 4,240,710 of monthly contribution ceiling each
b. Long-Term Care Insurance for the Elderly (LTCI)	0.9082%	0.9182%	Assessed based on NHI premium(*)

(*) LTCI monthly contribution calculation formula:

$$= \text{NHI contribution} \times (\text{LTCI contribution rate } 0.9182\% / \text{NHI contribution rate } 7.09\%)$$

● Labor law update on minimum wage

The Ministry of Employment and Labor (MOEL) officially announced that the minimum hourly wage will increase from KRW 9,620 to KRW 9,860 effective from January 1, 2024. The monthly minimum wage will be KRW 2,060,740 with 209 work hours under the labor laws of Korea. This requirement shall be applied equally to across all industries.

	2023	2024	% Increase
Minimum Hourly Wage	KRW 9,620	KRW 9,860	2.5%
Minimum Monthly Wage	KRW 2,010,580	KRW 2,060,740	

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