

Newsletter

January 2023

Bi-monthly Newsletter of Hanul LLC



Smart decisions. Lasting value.

Contents

- **Korean Tax Law Changes in 2023**
 - I. Corporate Income Tax
 - II. Individual Income Tax
 - III. Others
- **2022 Annual Corporate Income Tax Return Filing**
(due filing by March 31, 2023 for December 31 fiscal year-end)
- **New Annual Status Reporting Requirement for Foreign Liaison Representative Offices in Korea** (due first filing by February 10, 2023)
- **Change in Tax Exemption Limit of Meal Allowance**
- **Major Changes in 2022 Year-End Settlement of Payroll Withholding Taxes**
- **Labor Law Update on Minimum Wage**
- **Notification of Increase in National Health Insurance (NHI) and Long-Term Care Insurance (LTCI) Contribution from 2023**

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.

■ Korean Tax Law Changes in 2023

The government's tax reform bill ("government's bill") was sanctioned by the National Assembly on December 23, 2022 with several amendments and additions. We summarized below some of the major tax law changes for 2023 to keep you updated. 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, 2023 unless indicated otherwise.

I. Corporate Income Tax

● Adjustment of corporate income tax rates

The marginal tax rate shall be lowered by one percentage point for each tax base bracket by revising the government's bill.

Before revision		After revision	
Tax base (KRW in millions)	Tax rate *	Tax base (KRW in millions)	Tax rate *
Up to 200	10%	Up to 200	9%
200~20,000	20%	200~20,000	19%
20,000~300,000	22%	20,000~300,000	21%
Above 300,000	25%	Above 300,000	24%

* Local (provincial) income tax is separately imposed at 10% on the corporate income tax liability.

● Adjustment of Dividend Received Deduction (DRD) ratios for dividends from domestic subsidiaries

The government's bill proposed a simplification of DRD ratios which differ depending on the type of corporation (i.e., listed or unlisted subsidiary / holding company or other company) and the ownership percentage of the parent company on a subsidiary.

The DRD ratios shall be adjusted only based on the ownership percentage regardless of the type of corporation as follows.

Ownership percentage	DRD ratio
50% or more	100%
<u>20%</u> ~ 50%	80%
Less than <u>20%</u>	30%

The amended DRD shall be applied for dividends received on or after January 1, 2023. But taxpayers can apply the DRD regulation before revision for dividends received in 2023.

II. Individual Income Tax

● Change in the applicable period of flat income tax rate for foreign workers

Currently, individual income tax liabilities of foreign (non-Korean) workers (excluding daily employed workers) on earned income from the rendering of his/her services to companies in Korea can be finalized by applying the 19% flat income tax rate (excluding local income tax equal to 10% of income tax) on gross earned income without applying any other income deductions, tax exemption, and tax credits.

Before the revision, this special taxation for foreign employees could be applied only for five years from the first day of their work, but this five (5) years applicable period limitation is extended to 20 years by revising the government's bill, which proposed to eliminate the limitation on the applicable period.

● Expansion of income tax reduction or exemption limitation for employees of small and medium enterprises ("SMEs")

Currently, youth, a person aged at least 60, a person with disability, or a career-interrupted woman employed by a SME prescribed in relevant regulation is entitled to income tax reductions or exemptions for his/her earned income from the SME.

Before the revision, the limitation for the income tax reduction or exemption was KRW 1.5 million for each taxable period, but the limitation is increased to KRW 2 million for each taxable period.

III. Others

● New rules for special tax treatment on income attributed to overseas pass-through entities

In the amended International Tax Coordination Law ("ITCL"), there is a new provision to apply a special tax treatment to income attributed to an overseas pass-through entity invested by domestic investors.

The term 'overseas pass-through entity' which is eligible for the special tax treatment refers to an entity that meets the following two requirements:

- It should be a foreign corporation, an overseas investment vehicle or a non-corporate entity established in a foreign country
- A shareholder, an investor or a beneficiary in the foreign corporation, etc. rather than foreign corporation itself should be directly liable for tax on income derived by the foreign corporation under the tax laws of the jurisdiction governing the foreign corporation.

Under the new regulation, income attributed to an overseas pass-through entity above shall be treated as income attributed to the shareholder, etc. in the overseas pass-through entity and be subject to corporate or individual income tax accordingly.

● Exception to applying premium rate for the largest shareholder, etc.

In accordance with Article 63(3) of the Korean Inheritance and Gift Tax Law ("IGTL"), the premium rate of 20% shall be applicable and added for the largest shareholder and its related parties in calculating inheritance or gift taxes. However, a company which falls under the category of a SME or which suffered a loss continuously within three years before the fiscal year in that the date of transfer or acquisition falls shall not be subject to applying the premium rate.

After revision, the scope of the exception to applying the premium rate for the largest shareholder, etc. is expanded to shares issued by a medium-scale company defined in the Presidential Decree of the IGTL, in addition to a SME.

■ 2022 Annual Corporate Income Tax Return Filing (due filing by March 31, 2023 for December 31 fiscal year-end)

● 2022 Annual Corporate Income Tax and Local Income Tax Returns Filing Deadlines

Under the Corporate Income Tax Law (“CITL”), a company having a fiscal year ended December 31, 2022 should file the 2022 annual corporate income tax return by March 31, 2023 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.

■ New Annual Status Reporting Requirement for Foreign Liaison Offices in Korea (due first filing by February 10, 2023)

For Korean tax purposes, liaison offices of foreign (non-Korean) corporations may engage in non-revenue generating liaison activities exclusively for the entity of which the liaison offices are a part (i.e., the head office). The non-revenue generating activities include conducting advertising, public relations, collection and supply of information, scientific research, or other similar activities of a preliminary or auxiliary nature and other liaison activities solely for the head office. Since a liaison office, by definition, acts only for its home office and does not generate revenue in Korea, it is not subject to the Korean corporate income tax and need not file a corporate income tax return in Korea.

Under the tax law changes, the liaison offices of foreign corporations shall be required to submit certain information on the status of the liaison office **by February 10th of the following year**. The required information includes basic information of the liaison office, its representative, information relating to its headquarters, other branches of the foreign corporation in Korea, list of domestic customers, etc. The purpose of this new reporting requirements of liaison offices in Korea is to prevent avoidance of corporate income tax liability of foreign corporations through their liaison offices in Korea, when in essence it is operated as a permanent establishment (PE) of the concerned foreign corporation.

Each of the liaison offices of foreign corporation in Korea is required to file the **first annual report** on its status in a designated form to the governing tax authority **no later than February 10, 2023**.

■ Change in Tax Exemption Limit of Meal Allowance

In accordance with the amended Individual Income Tax Law of Korea ("IITL") sanctioned the National Assembly earlier this year in August 2022, we bring to your attention once again that the non-taxable employee meal allowances received by employees for whom meals or other food are not provided has increased from KRW 100,000 to KRW 200,000 per month effective from January 1, 2023.

Before Revision	After Revision
<p><u>Scope of Non-Taxable Meal Expenses</u></p> <ul style="list-style-type: none"> ● Meals and other food and drinks provided to workers by in-house meal services or similar means or, ● Meal allowance of <u>not more than KRW 100,000</u> per month received by workers for whom meals and other food and drinks stipulated above are not provided. 	<p><u>Expansion of the tax exemption limit</u></p> <ul style="list-style-type: none"> ● Same as left ● Meal allowance of <u>not more than KRW 200,000</u> per month received by workers for whom meals and other food and drinks stipulated above are not provided.

Also please be advised that components of wage in the employment contract and (monthly/weekly) payslip must be updated which means meal allowance amount of KRW 200,000 should be included therein properly.

In addition, the four major insurance premiums paid by the employer will be correspondently reduced since taxable income (the basic amount for calculating the four major insurance premiums) will be lowered due to increased non-taxable meal allowance amount.

■ Major Changes in 2022 Year-End Settlement of Payroll Withholding Taxes

- **2022 additional income deduction for increased spending on credit card use**

Before Revision		After Revision	
<p>■ Income deductions for credit card use, etc.:</p> <ul style="list-style-type: none"> • (Eligibility) Applicable to the amount exceeding 25% of gross salary earned income • (Deduction rate) Income deduction rate varies depending on payment method as below 		<p>■ Newly added additional income deduction for increased spending on credit card use:</p> <ul style="list-style-type: none"> • Same as left • Increased deduction rate for public transportation use in the second half of 2022 is applied 	
Payment method	Deduction rate	Payment method	Deduction rate
① Credit card use	15%	① Credit card use	15%
② Cash receipts / debit cards	30%	② Cash receipts / debit cards	30%
③ Amounts spent on book purchases, performance, art museum expenses (eligible only for employees having salary earned income of KRW 70 million and less)	30%	③ Amounts spent on book purchases, performance, art museum and <u>theater expenses</u> (eligible only for employees having salary earned income of KRW 70 million and less)	30%
④ Amounts spent in traditional markets and public transportations	40%	④ Amounts spent in traditional markets and public transportations <u>(July 1, 2022~Dec.31 2022., Public transportation usage)</u>	40% <u>(80%)</u>
⑤ Increase of spending in 2021 (Compared to 2020)	10%	⑤ Increase of spending in 2022 (compared to 2021)	<u>20%</u>
- Total of ① ~ ⑤ < Newly added >		- Total of ① ~ ⑤ <ul style="list-style-type: none"> • (Amount subject to deduction for increased spending) - Attribution in 2022: <u>20%</u> of (a)+(b) (a) The amount of credit card spending in 2022 increased by more than 5% compared to 2021 (b) The amount of money spent in the traditional market in 2022 increased by more than 5% compared to 2021 • (Max deduction) KRW 1 million per year out of the total amount of (a)+(b) 	
(Application period) Applicable up to December 31, 2022		Applicable up to December 31, 2025	

(Amounts spent on public transportations, portion of increased spending): Will be applied from the year-end settlement made on or after January 1, 2023.

(Amounts spent on theater expenses): Will be applied from amounts spent on or after July 1, 2023.

This revised provision will be applicable for earned income incurred on or after January 1, 2023.

● **Expansion of tax credit for monthly housing rent**

Before Revision	After Revision
<ul style="list-style-type: none"> ■ Tax credit for monthly housing rent: <ul style="list-style-type: none"> • (Eligibility) Employees having annual gross salary earned income of KRW 70 million or less (having global income of KRW 60 million or less) • (Deduction rate) <ul style="list-style-type: none"> - Employees having annual gross salary of KRW 70 million or less (for employees having global income of KRW 60 million or less): 10% - Employees having annual gross salary of KRW 55 million or less (for employees having global income of KRW 45 million or less): 12% • Max deduction: KRW 7.5 million 	<ul style="list-style-type: none"> ■ Adjustment in threshold for taxpayers having global income: <ul style="list-style-type: none"> • Same • (Deduction rate) <ul style="list-style-type: none"> - Employees having annual gross salary of KRW 70 million or less (for employees having global income of KRW 60 million or less): <u>15%</u> - Employees having annual gross salary of KRW 55 million or less (for employees having global income of KRW 45 million or less): <u>17%</u> • Same as left

This revised provision shall be applicable from the amount filed or year-end settlement made on or after January 1, 2023.

● **Increasing the income deduction limit for principal and interest repayment of housing lease loans**

Before Revision	After Revision
<ul style="list-style-type: none"> ■ Income deduction limit for principal and interest repayment of housing lease loans <ul style="list-style-type: none"> • (Eligibility) Housing Lease Funds borrowed by the homeless class • (Deduction rate): 40% • (Max deduction): KRW 3 million 	<ul style="list-style-type: none"> ■ Extension of the deduction limit <ul style="list-style-type: none"> • Same as left • Same as left • <u>KRW 4 million</u>

This revised provision will be applicable from the amount filed or year-end settlement made on or after January 1, 2023.

■ Labor Law Update on Minimum Wage

The Ministry of Employment and Labor (MOEL) officially announced that the minimum hourly wage will increase from KRW 9,160 to KRW 9,620 **effective from January 1, 2023** (the monthly minimum wage will be KRW 2,010,580 with 209 work hours under the labor laws of Korea). The requirement shall be applied equally to across all industries.

	2022	2023	% increase
Minimum hourly wage	KRW 9,160	KRW 9,620	5.0
Minimum monthly wage	KRW 1,914,440	KRW 2,010,580	

■ Notification of Increase in National Health Insurance (NHI) and Long-Term Care Insurance (LTCI) Contribution from 2023

NHI contributions and LTCI contributions shall be increased as given below as from January 1, 2023.

- NHI contribution rate increased by 1.49%

* NHI contribution rate for the employee insured: 6.99%(2022) -> **7.09%(2023)**

	Total	Employee Insured	Employer	Government
Employee	7.09 (100%)	3.545 (50%)	3.545 (50%)	-
Public Officer	7.09 (100%)	3.545 (50%)	-	3.545 (50%)
Private school staff and teacher	7.09 (100%)	3.545 (50%)	2.127 (30%)	1.418 (20%)

- LTCI contribution rate increased by 0.9082%(0.0505% added)

* "New" LTCI contribution rate: 0.8577%(2022) -> **0.9082%(2023)**

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

KS Han, G S Sim, John Park 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
 Website: <http://www.crowe.kr>

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