

Newsletter

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This newsletter is prepared and issued by Hanul Choongjung LLC on a bi-monthly basis and intended to provide foreign investors with an update on tax law changes in 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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■ Recent Tax Law Change

On June 19, 2018, the government approved the bill to amend the Presidential Decrees of the Basic National Tax Law and the National Tax Collection Law. This amendment was announced and became effective from June 26, 2018. The major changes to the laws are as follows:

- **Extensions of tax payment and collection newly enacted for Small and Medium Enterprise (SME) in disaster regions effective from June 26, 2018**

Currently an extension period of nine months to a maximum 1 year is allowed to companies under certain limited circumstances.

Under the amended laws, however, extension periods of payment due date as well as extension of reprieve period for tax collection and disposition for failure in tax payment of Small and Medium Enterprise ('SME') in "disaster regions" (defined) will be expanded as follows.

Before	Revised
<ul style="list-style-type: none"> ● Qualification <ul style="list-style-type: none"> - Where a taxpayer suffers calamities or robbery - Where a taxpayer suffers disease - Where a taxpayer suffers serious loss in business or major crisis, etc. ● Extension period <ul style="list-style-type: none"> - Payment due date: extended for up to 9 months - Suspension periods for tax collection: extended for up to 9 months - Suspension periods of disposition for failure in tax payment: extended for up to 1 year 	<ul style="list-style-type: none"> ● Qualification <ul style="list-style-type: none"> - SME in "disaster regions" which suffers calamities, robbery, disease, serious loss in business or major crisis, etc. ● Extension period <ul style="list-style-type: none"> - Payment due date: extended for up to 2 years - Suspension periods for tax collection: extended for up to 2 years - Suspension periods of disposition for failure in tax payment: extended for up to 2 years

■ Recent Tax Ruling

- **When to recognize dividend income from a foreign(non-Korean) corporation and exchange rate to be applied**

In case where a company holds shares of a foreign(non-Korean) corporation and receives dividend income from such foreign corporation in foreign currency through the appropriation of the retained earnings of the foreign corporation, the company should recognize dividend income on the dividend resolution date based on Article 46 of Presidential Decree of Individual Income Tax Law.

The dividend income shall be converted to Korean Won by applying applicable exchange rate announced by Seoul Money Brokerage Services as of the dividend income recognition date.

In addition, the foreign currency exchange gain or loss from the dividend income which occurred by conversion of foreign currency into Korean Won after recognizing dividend income is non-taxable income or loss. (Sajeon-2018-Beobryeonghaeseoksodeuk-0250, 2018.05.11).

■ Other Tips

● National Pension and National Health Insurance, Max Contribution Ceilings increased effective from July 1, 2018

The monthly max contribution ceiling of the statutory national pension was increased from KRW 202,050 to KRW 210,600 each for employer and employee effective from July 1, 2018.

In addition, the monthly ceiling of statutory national health insurance was also increased from KRW 2,436,720 to KRW 3,097,000 each for employer and employee effective from July 1, 2018. All other statutory social insurance rates remain unchanged in 2018 as summarized below.

Social Insurances:	Employee portion	Employer portion	Total	Remark
National Pension (NP)	4.5%	4.5%	9.0%	Won 210,600 of monthly contribution ceiling each
National Health Insurance (NHI)				
a. Health Insurance (HI)	3.12%	3.12%	6.24%	Won 3,097,000 of monthly contribution ceiling each Assessed at 7.38% of HI premium above
b. Long-term Care Insurance for the Elderly (LTCI) (Note)	7.38%	7.38%	14.76%	
Employment Insurance (EI)	0.65%	0.9% ~1.5%	1.55% ~2.15%	Vary depending on the number of employees
Industrial Accident Compensation Insurance (IACI)	NIL	0.76%~ 32.36%	0.76%~ 32.36%	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).

● Extension of National Pension Exemption available for Expatriate Employees in Korea

Depending on their nationality, foreigner(non-Korean) expatriate employees may be eligible for extension of national pension exemption in Korea after the expiry of the original term of the exemption (provided that their home country has established a social security agreement with Korea and that they maintain equivalent retirement pension plan in their home country and submit a proper certificate of coverage).

For your reference, here is a summary of a few countries that established social security agreement with Korea and the extension availability in Korea:

Countries	Original exemption term allowed	Extension of original term allowed
China	First 5 years of assignment in Korea	Up to 8 years max if there is an agreement between the relevant social insurance authorities of both countries
France	First 3 years of assignment in Korea	Up to another 3 years max if there is an agreement between the relevant social insurance authorities of both countries
Italy	First 3 years of assignment in Korea	Up to another 3 years max

Netherlands	First 5 years of assignment in Korea	No extension available
USA	First 5 years of assignment in Korea	Up to 4 years max

The original certificate of coverage (CoC) issued from the home country social insurance authority should be submitted to the National Pension Service of Korea together with the designated application form for extension of national pension exemption.

There are also exemption extensions allowed for several other countries under the relevant social security agreement with Korea and we may advise in more detail upon request.

● **Flat Tax Rate Benefit available to Foreigner (non-Korean) Expatriate Employees and its Time Limit**

Under the Individual Income Tax Law of Korea, the individual income tax liabilities of foreign workers on earned income from the rendering of his/her services to companies in Korea including foreign invested companies can be finalized by applying the 20.9% flat tax rate (including 1.9% of local income tax) on gross earned income for the first five (5) year period notwithstanding Article 55 (1) of the Individual Income Tax Law (IITL) of Korea ([Article 18-2, Special Tax Treatment Control Law of Korea; STTCL](#)). Foreigners who have already been working in Korea as at Jan 1, 2014 will be eligible for the 20.9% flat tax rate limited to the taxable year ending December 31, 2018.

As such, depending on the employee's first start date of work in Korea, the foreign employee shall be eligible for flat rate application with limited time period as explained below.

Depending on the first start date of work in Korea:	Time limit of flat tax rate application will be determined as below:
<ul style="list-style-type: none"> If a foreigner(non-Korean) employee was working in Korea as at Jan 1, 2014 (regardless of whether the employee was applied the flat tax rate before or after Jan 1, 2014) 	Eligible to be applied the flat tax rate only up to Dec 31, 2018.
<ul style="list-style-type: none"> If the employee started working in Korea after Jan 1, 2014 	Eligible to be applied the flat tax rate for 5 years counting from the start year of work in Korea.

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

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