

Newsletter

July 2024

Update on Tax & BPO Trends in South Korea

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*We provide a wide range of services designed to meet the needs of companies considering foreign investment in Korea. Our services include: 1) **Corporate Administrative Services**, offering support from business entity establishment to liquidation and corporate secretarial services; 2) **Payroll, Social Insurances and HR Advisory Services**; 3) **Accounting and Financial Compliance Services**, including cash disbursement and bank account management; 4) **Tax Compliance and Advisory Services**, and 5) **Assurance and Business Advisory Services**. For companies considering foreign investment into Korea, we can be of your best assistant.*

This bi-monthly newsletter aims to provide foreign investors with updates on Tax & BPO trends in South Korea, as well as other related subjects of special interests to foreign investors.

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■ Proposed Korean Tax Law Revision for 2025

The Ministry of Economy and Finance (MOEF) announced the government's Korean tax reform bill on July 25, 2024.

This tax reform bill aims to enhance support for 1) promoting investment, employment, regional development, and capital market activation to ensure economic dynamism, 2) alleviating the burden of marriage, childbirth, and childcare, and providing support for ordinary people and small business owners to ensure public welfare, 3) pursuing appropriate tax burdens and efficient tax systems to establish a rational taxation framework, and 4) strengthening taxpayer convenience and rights to create a taxpayer-friendly environment.

The proposed revisions will undergo additional discussion and require approval from the National Assembly before finalized.

We summarized the major proposed tax law revisions which could be applicable to foreign-invested companies to keep you updated as below. Most of the tax law revisions we discussed below will come into force from the fiscal year starting, or income earned, on or after January 1, 2025, unless indicated otherwise.

● Promotion of corporate investment and employment

a. Extension of grace period for SMEs

Currently, the grace period of three years is applied for companies that exceed the criteria of Small and Medium-sized Enterprises (SMEs) in scale.

Under the tax reform proposal, the grace period for SMEs will be extended to five years (seven years for those listed on the Korea Exchange or KOSDAQ). This proposed revision will apply to companies that exceed SME criteria for the first time in the fiscal year when this revision takes effect.

b. Changes in criteria for Middle-scale companies

Regarding the criteria of middle-scale companies under the Special Tax Treatment Control Law in Korea,

- Real estate rental businesses will be added to the list of sectors disqualified from meeting middle-scale company criteria. This list already includes consumption-oriented services, banking, insurance, pension services, and other related financial services.
- The scale-based threshold will be adjusted considering business types.

Criteria	Current	Proposed	
Annual gross sales over the previous three years	<ul style="list-style-type: none"> • Less than KRW 300 billion (or KRW 500 billion if receiving R&D tax credits) 	<ul style="list-style-type: none"> • Less than three times (or five times if receiving R&D tax credits) the specified amount by business type 	
		Base amount (KRW)	Business Type (example)
		150 billion	Garment, primary metal manufacturing
		100 billion	Grocery manufacturing, construction, wholesale and retail
		800 billion	Transportation/warehouse, information and communication
		600 billion	Health and social welfare, other personal services
40 billion	Accommodation, restaurant, education services		

c. Gradual reduction in R&D and investment tax credits after the grace period

This tax reform bill proposes a gradual reduction in the R&D tax credit and the integrated investment tax credit for middle-scale companies over additional three (or five) years, following the grace period for SMEs transitioning to middle-scale companies.

- The R&D tax credit for qualifying R&D expenditures

Category	Basic credit rate (%)				Additional credit rate (%)
	Large company	Middle-scale company		SMEs	
		Current	Proposed		
General	2	8~15 ¹	8~20 ²	25	-
New growth and source technologies	20	20	20,25 ³	30	Up to 10
National strategic technologies	30	30	30~35 ⁴	40	Up to 10

- *1. Currently, 15% for the first three years after the grace period, 10% for the next years, and 8% from the sixth year onwards
- *2. 20% for the first three years after the grace period, 15% for the next two years, and 8% from the sixth year onwards
- *3. 25% for the first three years after the grace period and 20% from the fourth year onwards
- *4. 35% for the first three years after the grace period and 30% from the fourth year onwards

- The integrated investment tax credit for investing business-purpose tangible assets

Category	Basic credit rate (%)				Additional ¹ credit rate (%)	
	Large company	Middle-scale company		SMEs	Current	Proposed
		Current	Proposed			
General	1	5	5, 7.5 ²	10	3	10
New growth and source technologies	3	6	6, 9 ³	12		
National strategic technologies	15	15	15, 20 ⁴	25		

- *1. For investment amounts exceeding the previous three-year average, the additional tax credit would increase from 3 or 4% to 10%, regardless of corporate scale or type of facility.
- *2. 7.5% for the first three years after the grace period, 5% from the fourth year onwards
- *3. 9% for the first three years after the grace period and 6% from the fourth year onwards
- *4. 20% for the first three years after the grace period and 15% from the fourth year onwards

d. Reform of the integrated employment tax credit schemes

- The scope of eligible employees for the tax credit will expand to include fixed-term employees with contracts lasting at least one month but less than one year, as well as short-term workers who work less than 15 hours per week.
- As shown in the table below, the tax credit for continuous employment will be increased, and a new tax credit for flexible employment for SMEs and middle-scale companies will be introduced to promote flexible employment practices.

Category		Proposed tax credit (in KRW thousands, %)			
		SMEs		Middle-scale company	Large company
		Metropolitan area	Non-metropolitan area		
Continuous employment	Youth, disabled, aged over 60, rehired after parental leave, etc.	22,000 (←14,500)	24,000 (←15,500)	12,000 (←8,000)	400
	Others	13,000 (←8,500)	15,000 (←9,500)	7,000 (←4,500)	n/a
Flexible employment	Payroll increase from 3% to 20%	20% of the increase in payroll		10% of the increase in payroll	
	Payroll increase over 20%	40% of incremental increase exceeding the 20% increase		20% of incremental increase exceeding the 20% increase	

- The additional tax credits for transitioning non-regular workers to regular employment and for returning employees after parental leave in SMEs and middle-scale companies will be integrated into the basic tax credits, offering up to KRW 48 million over two years for continuous employment increases.
- Additionally, a new requirement that increases the number of employees needed to qualify for employment-related tax credits will be introduced. Specifically, middle-scale companies shall hire at least 10 new employees in the relevant fiscal year, while large companies shall hire at least 20 new employees.
- Under the tax reform bill, the current requirement for continuous employment retention to avoid recapturing the credited amount will be abolished. It suggests providing tax credits for an additional year if continuous employment requirements are met.

● Robustness of capital market

a. Abolition of the regulation on premium in valuation of shares owned by the largest shareholder

Under the current Inheritance and Gift Tax Law (IGTL), 20% premium is added to the value of company shares held by the largest shareholders and their related parties except for specific cases such as SMEs or middle-scale companies with less than KRW 500 billion in annual sales, etc.

Under the tax reform bill, by abolishing this regulation, no premium applies to the value of shares held by the largest shareholders.

b. Withdrawal of the financial investment income tax regime and deferral of taxation on income from virtual assets

The tax reform bill proposes withdrawing the financial investment income tax regime ¹, scheduled to start on January 1st, 2025. Instead, the existing capital gains taxation regime under the Individual Income Tax Law will be maintained.

*1. The comprehensive taxation of income arising from shares, bonds, funds, investments in contract securities, derivative-linked securities, derivatives, etc.

Additionally, under the tax reform bill, the taxation of individual income from the transfer or lending of virtual assets will be deferred from January 1, 2025 to January 1, 2027, considering the status of implementing the virtual asset user protection system, etc.

- **International taxation**

- a. **Requirement for submission of application for entitlement to tax exemption and payment statement for Korean-source personal service income**

Under current Korean income tax laws, non-residents or foreign corporations seeking tax exemption for Korean-source income (excluding business income and personal service income) under applicable tax treaties shall submit an “Application for Entitlement to Tax Exemption on Korean-source Income” and evidential documents proving to be an actual beneficiary of the Korean-source income.

Additionally, when Korean residents or corporations pay Korean-source income to non-residents or foreign corporations, they shall submit payment statements to the Korean tax authorities. Exclusions to this requirement include Korean-source income attributable to permanent establishments of non-residents or foreign corporations, income for which applications for entitlement to tax treaty exemption are submitted, Korean-source business income, and Korean-source personal service income.

The proposal will remove this exclusion for Korean-source personal service income, making it mandatory to submit an application for entitlement to tax exemption and payment statements for such income.

This change will be effective for payments made on or after January 1, 2026.

- b. **Changes in amended tax return for tax refund request based on arm’s length price adjustments**

For transfer pricing transactions where the transaction price deviates from an arm’s length price, taxpayers are allowed to file amended tax return for tax refund request by seeking an adjustment of the transaction price to the arm’s length price within the statutory deadline, which is generally five years from the statutory due date for the tax return. In this case, the taxpayer shall submit a statement on the adjustment of transaction prices to the Korean tax authority.

Under the tax reform bill, a document evidencing the arm's length price shall be submitted additionally for amended tax return for tax refund request. This document shall demonstrate the appropriateness of the transfer pricing method and will be prescribed by the relevant enforcement regulation.

Additionally, the deadline for the Korean tax authority to determine whether to accept or reject an amended tax return for a refund request will be extended from two months to six months from the filing date of the amended tax return.

Furthermore, the Korean tax authorities may request supplementary documents from the taxpayer within 30 days, if necessary. The period for providing supplementary documents will not count towards the six-month deadline.

- c. **Expansion of application of non-deductible net interest expenses exceeding the 30% threshold to non-financial holding companies**

Under the Korean International Tax Coordination law (ITCL), the net interest deduction claimed by a Korean company for overseas intercompany loans shall be limited to 30% of the adjusted taxable income of the Korean company. Currently, this regulation shall not be applied to holding companies.

Under the tax reform bill, this regulation shall be applied to non-financial holding companies.

- **Enhancing revenue source transparency**

- a. **Modifications to the residency test**

Consideration of the immediately preceding taxable period when calculating the residency period (183 days)

- An individual is considered a tax resident of Korea if they have a domicile or abode in Korea for at least 183 days during one taxable period. Under the tax reform bill, an individual will also be considered a tax resident of Korea if he/she consecutively resides in Korea for at least 183 days during any two taxable periods.

Specification of criteria for residence period recognition

- The residence period shall be calculated as the period from the day after the arrival date to the departure date, with the temporary departure period shall be included in the 183-day residence threshold. The tax reform bill specifies qualified reasons for temporary departure, including 1) personal reasons such as tourism, medical treatment, or visiting relatives; 2) business-related reasons such as business trips or professional training; and 3) other similar reasons.

The revised residency test will apply to taxable periods starting on or after January 1, 2026.

● **Protection of taxpayers' rights**

a. Relaxation of penalties for non-compliance with foreign financial accounts reporting requirements

Under the tax reform bill, the penalties will be relaxed as follows:

- The progressive penalty rate, which currently ranges from 10% to 20%, will be unified into a single penalty rate of 10% on the non-reported or under-reported amount.
- The penalty cap, currently set at KRW 2 billion, will be reduced to KRW 1 billion.
- Failure to provide an explanation or providing a fraudulent explanation will incur a penalty of 10% of the non-reported or violated amount, compared to the current rate of 20%.

b. Expansion of amended tax returns for tax refund requests on tax credits

Under current Basic Law for National Taxes, amended tax returns for tax refund are available if the tax base and tax payable were overreported, or if tax losses or refundable taxes were underreported.

The tax reform bill will allow taxpayers to also submit an amended tax return for a tax refund request if tax credit amounts are underreported even if there is no change in the tax payable or refundable.

c. Extension of prior notice period for general tax audit

Currently, tax auditors shall deliver a written notice of a general tax audit to taxpayers 15 days before the audit begins.

Under the tax reform bill, this notification period will be extended to 20 days. Additionally, in case of re-examination following decisions on tax appeals, the prior written notice period will be set at 7 days.

● **Others**

a. Extension of applicable period of tax credit and reduction of credit rate regarding Class B taxpayers' association

Currently, taxpayers who join a Class B taxpayers' association and meet the monthly tax payment obligations shall be entitled to receive a 5% tax credit (with an annual maximum cap of KRW 1,000,000) on income tax payable.

Under the tax reform bill, the sunset date of this tax credit will be extended from December 31, 2024 to

December 31, 2027. However, the credit rate will be reduced from 5% to 3%, with an annual maximum cap of KRW 1,000,000 unchanged.

■ Filing of Interim Corporate Income Tax Return due by August 31, 2024

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 a 2024 interim corporate income tax return along with the necessary tax payment **no later than September 2, 2024**.

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 option (ii) above should be applied. However, if a domestic corporation that is classified as SME in the business year immediately preceding the relevant business year has the computed amount of tax less than KRW 500,000 (i.e., 50% of the previous year's income tax is less than KRW 500,000), the company is not required to file the interim corporate income tax return.

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

$$\text{Tax payable} = [\text{taxable income for the interim period} \times 12/6] \times \text{tax rates} \times 6/12 \\ - (\text{tax exemption/withholding taxes paid and taxes assessed for the interim period})$$

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 SMEs (defined)).

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

(Notes)

- 1st 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).
- 2nd installment is due within 1 month from the end of the filing due date (i.e., September 30 for the calendar fiscal year-end) or within 2 months from the end of the filing due date in case of SMEs (i.e., October 31).

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

■ Statutory Social Insurance and HR Tips

- **Increase in max contribution ceiling of statutory national pension effective July 1, 2024**

Starting from July 1, 2024, the monthly max contribution ceiling of the statutory national pension increased from KRW 265,500 to KRW 277,650 each for employer and employee.

This has impact only to employees whose monthly gross salary is over and above the max ceiling of Won 6,170,000.

Before		July 1, 2024, and after	
Average monthly salary max ceiling * 4.5%	Monthly max contribution	Average monthly salary max ceiling * 4.5%	Monthly max contribution
Won 5,900,000 * 4.5%	Won 265,500 max	Won 6,170,000 * 4.5%	Won 277,650 max

- **Minimum wage increase in Korea effective January 1, 2025**

The Ministry of Employment and Labor (MOEL) announced that the minimum hourly wage will be raised from KRW 9,860 to KRW 10,030 effective January 1, 2025. With this raise, the monthly minimum wage will be KRW 2,096,270 using 209 work hours methodology (*). This minimum wage increase shall be applied equally across all industries in Korea.

	2024	2025	% Increase
Minimum Hourly Wage	KRW 9,860	KRW 10,030	1.7%
Minimum Monthly Wage	KRW 2,060,740	KRW 2,096,270	

(*) Under the labor laws of Korea, employer and its employee may agree on whether Saturdays should be treated as weekly non-paid leave or paid leave in its employee work rules/employee handbook. 209 work hours methodology is used for calculation of hourly/monthly wage if the Saturdays are treated as non-paid leave, which is derived as [40 hours work week with Saturdays as non-paid leave (5days x 8hours) + 8hours (Sunday as weekly paid leave)] / 7days (per week) x 365days / 12months = 208.57 (**209 hours**).

- **Government support for employees under reduced working hours during parental leave expanded effective July 1, 2024**

Previously, employees with reduced working hours during the parental leave were eligible to receive parental leave pay from the government agency under the Employment Insurance Act of Korea for 100% of the ordinary wage (up to a maximum monthly salary of KRW 2 million) for the first 5 hours per week, and 80% of the ordinary wage (up to a maximum monthly salary of KRW 1.5 million) thereafter. Starting from July 1, 2024, 100% of the ordinary wage support has been expanded from the first 5 hours per week to the first 10 hours per week.

- **Government subsidy program newly implemented for qualified employers (defined) to promote reduced working hours during parental leave effective July 1, 2024**

When employees use reduced working hours during their parental leave, it is common for their co-workers to fill the gap sharing workload. This increased workload to co-workers may discourage both employees and employers from actively utilizing the reduced working hours during parental leave period. To promote use of reduced working hours, the government newly implemented the government subsidy program to

support employers who are defined SMEs classified as preferential supported enterprises (“우선지원대상 기업” in Korean).

To be eligible for this government subsidy program, the SMEs classified as preferential supported enterprises shall meet the following conditions:

- (1) the company shall allow parental leave period of 30 days or longer for its employees (reduce working hours shall be 10 – 25 hours max per week);
- (2) the company shall designate an employee(s) who will fill the gap and share workload (“업무분담 근로자” in Korean) for the employee who is under reduced working hours during the parental leave period (up to 5 employees); and
- (3) the company shall provide monetary compensation for sharing workload to such designated employees who fill the gap and share workload.

For qualified employers who fulfill the conditions explained above, the government will provide government subsidy in the amount of KRW 200,000 max per month for each employee under reduced working hours during parental leave (provided that such government subsidy shall be limited to the actual compensation amount the company provides to the designated employees who fill the gap and share workload).

■ Global Mobility Tax Guide

● National pension contribution exemption for qualified foreign employee

A foreign (non-Korean) employee working in Korea shall be subject to monthly national pension contributions unless he/she is 60 years of age or older.

However, a foreign employee who comes from one of the following 40 countries with which Korea has signed a social security agreement shall be exempt from monthly national pension contribution requirements for the period as specified in the relevant social security agreement provided that the concerned foreign employee shall obtain and submit the certificate of coverage issued by his/her home country social security administration authority to the National Pension Service of Korea.

Australia	Austria	Belgium
Brazil	Bulgaria	Canada
Chile	China	Croatia
Czech Republic	Denmark	Finland
France	Germany	Hungary
India	Ireland	Italy
Japan	Luxembourg	Mongolia
New Zealand	Norway	Peru
Philippines	Poland	Quebec
Romania	Slovak Republic	Slovenia
Spain	Sweden	Switzerland
The Netherlands	The U.K.	The U.S.A.
Turkey	Uruguay	Uzbekistan
Vietnam		

In addition, even though Korea has not signed a social security agreement, foreign employees from the countries listed below which do not require social security contributions for the Korean national working in those countries shall be exempt on a reciprocal beneficial arrangement.

Armenia	Bangladesh	Belarus
Brunei Darussalam	Cambodia	East Timor
Ethiopia	Fiji	Georgia
Iran	Kazakhstan	Kingdom of Eswatini
Malaysia	Maldives	Nepal
Nigeria	Pakistan	Republic of South Africa
Republic of the Union of Myanmar	Saudi Arabia	Singapore
Tonga		

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