Crowe

한울회계법인
Hanul Choongjung LLC

Newsletter

May 2018

Bi-monthly Newsletter of Hanul Choongjung LLC

Smart decisions. Lasting value.

Contents

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.

■ Crowe Horwath International announced global rebrand to Crowe Global effective from June 4, 2018

On May 9, 2018, Crowe Horwath International, the eighth largest global accounting network (6th largest in Asia Pacific region), has announced that the network and its member firms would rebrand. The rebrand will see over 220 member firms in 130 countries globally adopt the name **Crowe**, reflecting the increasingly integrated and seamless nature of the network as well as its shared values and core purpose. Crowe Horwath International renamed to **Crowe Global** effective from **June 4, 2018**.

In line with this global rebrand, our company logo is changed as shown below:

Crowe

한울회계법인
Hanul Choongjung LLC

Our email domain and website address are also changed as below:

Email domain - @crowe.kr
Website address – **www.crowe.kr**

■ Proposed Tax Law Change

On May 17, 2018, the Strategy and Finance Committee of the National Assembly approved a bill to amend the Special Taxation Treatment Control Law of Korea. The major changes to the law are as follows:

■ Expansion of Tax Exemption for the Youth employed by Small and Midsize Enterprise ('SME')

Currently 70% exemption of income tax is applied to a youth who is employed by SMEs. However, the exemption will be expanded as follows:

Current	Revised
- youth : persons between ages of 15 and 29 - exemption rate : 70% - exemption period : for 3 years from employment - exemption limit amount : KRW 1,500,000 per year	- youth : persons between ages of 15 and 34 - exemption rate : 90% - exemption period : for 5 years from employment - exemption limit amount: KRW 1,500,000 per year

■ Guidance on CbC Reporting Requirements/Transfer Pricing

The Korean tax authorities has adopted the requirement to comply with the country-by-country (CbC) reporting in line with the recommendations by the Organization for Economic Co-operation and Development (OECD) following the implementation of the new transfer pricing rules requiring multinational companies in Korea to submit local files and master files on their cross-border transactions, which is effective for the fiscal year starting on or after January 1, 2016.

With the adoption of this CbC reporting requirement under the Korean tax law, the Korean ultimate parent company of a multinational group whose consolidated revenue exceeds KRW1 trillion during the preceding fiscal year is required to file the CbC reports within twelve months from the fiscal year end. The CbC reports must include information on a multinational group's revenue in each country, profit or loss before income tax, etc.

The Korean ultimate parent company and the taxpayers whose ultimate controlling shareholder is established in a foreign country is required to submit the application for the information concerning the CbC reporting obligator to the Korean tax authority within six months from the fiscal year end (e.g. by June 30, 2018 for the taxpayers having the fiscal year ended December 31, 2017).

Other key points of the Ministry's guidance include:

■ CbC Reporting Obligator

• In case the ultimate parent company is a domestic company or a resident of Korea, 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.

• In case the ultimate parent company is a foreign(non-Korean) company or a non-resident of Korea, 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 if any of the following conditions are met:

a. There is no obligation to submit a CbC report under the laws and regulations of the country where the ultimate parent company is established; or

b. There is no arrangement for the exchange of CbC report information between Korea and the country where the ultimate parent company is established.

■ Covered Scope of Entities

A CbC reporting obligator is required to prepare and submit a CbC report for affiliate companies which belong to a multinational group.

■ Guidance on Overseas Financial Account Reporting

Under the International Tax Coordination Law of Korea, if Korean resident individuals or domestic companies have financial accounts opened with overseas financial institutions and the total value of such accounts exceeds KRW 1 billion on any last day of each month of the relevant year, the Korean residents and domestic companies are required to file a report on their overseas financial accounts to the tax office from June 1 to 30 of the following year.

If the non-reported or underreported amount exceeds KRW 5 billion, the Korean resident individuals or companies that violated reporting requirements can be subject to imprisonment of up to 2 years or a fine of up to 20% of the amount in violation.

■ Reporting of Deemed Gift Taxes on Transaction with Specially Related Corporations

In case where a company's proportion of sales to another company which is a related party of dominant shareholder of the company accounts for more than 30% (40% for SMEs and 50% for medium-scale companies), the deemed gift taxes shall be imposed to the dominant shareholder and its relatives.

In applying the deemed gift taxation rule, the closing date of the relevant business year of a beneficiary corporation shall be deemed the date of donation. And the deemed gift tax return of the dominant shareholder should be filed within 3 months from the due date of corporate income tax return of the beneficiary company(e.g. by June 30, 2018 for the shareholders of the companies having the fiscal year ended December 31, 2017).

If the gift tax return is filed within the due date, the tax credit at 7% can be applied.

■ Updates on Amended Labor Laws of Korea

■ Expanded paid annual leave days benefit in the first 2 years for the new hire

Under Article 60 of the Labor Standards Act (LSA) of Korea, employers shall grant its employees 15 days of paid annual leave if the employees fulfilled at least 80% attendance during one (1) year. With respect to employees who have worked for less than one (1) year, employers shall grant one (1) day of paid leave for each completed month of service. Before amendment of the LSA, however, the paid leave days used during the first year can be deducted from the 15 days to be granted in the second year (Article 60, Paragraph 3).

Effective from May 29, 2018, the paid leave days earned and used in the first year will no longer be deducted from the 15 days to be granted in the second year (Articles 60, Paragraph 3 was deleted). Employees will be granted one (1) day of paid leave for each completed month of service in their first year and separately, employees should be granted 15 days in the second year if fulfilled 80% attendance requirement.

■ Reduced work hours to max 52 hours per week in Korea (to be adopted in phases depending on the company sizes)

In an effort to improve long working hours of the Korean workers and their quality of life, the Korean government announced that the maximum work hours including overtime and holiday work shall be limited to 52 hours per week under the amended LSA. This change will be adopted in different phases depending on company sizes as below:

- 300 or more employees: July 1, 2018
- 50 or more and less than 300: January 1, 2020
- 5 or more and less than 50: July 1, 2021

There are also other notable changes under the amended LSA as summarized below:

• Special extended work hours over 52 hours (temporarily for July 1, 2021 ~ December 31, 2022)	This special extended work hours of maximum 8 hours per week is allowed for the companies having less than 30 employees only temporarily if agreed between the company and the representative of the employees

• Maximum work hours for the minor under the age of 18 (effective from July 1, 2018)	Work hours for the minors are limited to 35 hours per week and overtime work hours are reduced from 6 hours to 5 hours per week
• Acceleration rate for work on holidays/weekends clearly defined (effective from March 20, 2018)	50% additional pay for the first 8 hours of work on weekends/holidays, and 100% for work on holidays/weekends over 8 hours.

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

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