

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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■ Filing of Interim Corporate Income Tax Return due by August 31, 2022

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 2022 interim corporate income tax return along with the necessary tax payment **no later than August 31, 2022**.

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 a Small and Medium-sized Enterprise (“SME”) in the business year immediately preceding the relevant business year has the computed amount of tax less than KRW 300,000 (i.e., 50% of the previous year’s income tax is less than KRW 300,000), 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:

$$\text{Tax payable} = [\text{taxable income for the interim period} \times 12/6] \times \text{tax rates} \times 6/12$$

- (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.

■ Disclosure of South Korea’s national tax statistics for the second quarter of 2022

The National Tax Service (NTS) discloses national tax statistics on a quarterly basis through the Tax Statistics Information Service (“TASIS”) before publishing the National Tax Statistics Yearbook at the end of December every year.

Below are the main contents of the national tax statistics for the second quarter of 2022.

Tax items	Contents
Corporate income tax (“CIT”)	<ul style="list-style-type: none"> • The total amount of CIT paid was KRW 60.2 trillion in 2021, an increase of 12.3% compared to the previous year • By industry, the CIT burden was the highest in the order of manufacturing, finance/insurance, and construction in 2021
Value-added tax (“VAT”)	<ul style="list-style-type: none"> • The number of VAT filings in 2021 was 7.464 million, an increase of 5.0% compared to the previous year • By industry, the number of VAT filings was the largest in the estate rental sector, and the total sales revenue was the highest in the manufacturing sector in 2021
Comprehensive real estate holding tax (“CREHT”)	<ul style="list-style-type: none"> • The number of taxpayers for CREHT increased by 36.7% to 1.017 million persons and the settled tax amount increased by 87.2% to KRW 7.3 trillion compared to the previous year • The number of taxpayers for CREHT for housing increased by 40.0% to 0.93 million persons
Inheritance Tax and Gift Tax	<ul style="list-style-type: none"> • The total value of the inherited property increased by 140.9% in 2021 compared to the previous year and by type of property, securities make up the largest share of the value • The total value of the gifted property increased by 15.8% in 2021 compared to the previous year and by type of property, buildings account for the largest share of the value
Consumption taxes	<ul style="list-style-type: none"> • All kinds of consumption taxes¹ payable increased by 1.3% to KRW 38.9 trillion in 2021 compared to the previous year <p>*1. Excise tax, Liquor tax, Transportation, Energy and environment tax, Securities transaction tax, and Stamp tax</p>
Daily workers	<ul style="list-style-type: none"> • Compared to the previous year, the number of temporary-day-to-day employees decreased by 1.3%, and the total income increased by 2.9% in 2021

■ AEO Mutual Recognition Agreement with Indonesia is effective

The Korea Customs Service (KCS) announced that the Authorized Economic Operator (AEO) Mutual Recognition Agreement between Korea and Indonesia would take effect from June 30, 2022.

The AEO program which is introduced by 97 countries around the world, provides companies certified by the KCS with the benefits of contracted customs inspection and quick customs clearance procedures for exports and imports.

The Mutual Recognition Agreement refers to the agreement between customs authorities that AEO certified by KCS is also recognized as AEO in the other country and allows them to benefit from customs procedures.

As the Mutual Recognition Agreement takes effect, AEO² in both countries* could save the required time and costs for customs clearance procedure by receiving the benefits of reduced customs inspection rate, etc., in the other country.

*2. As of June 2022, 276 Korean companies and 61 Indonesian companies are expected to enjoy the benefits of the recent agreement

Meanwhile, the KCS reported that Korea has the Mutual Recognition Agreements with 22 countries³, including Indonesia, United States, China, and Japan, and that the proportion of trade volume between Korea and these countries is more than 70%, so Korean exporters should use these AEO Mutual Recognition Agreements.

*3. United States, China, Japan, Canada, Singapore, New Zealand, Hong Kong, Mexico, Dominican Republic, Israel, Taiwan, India, Australia, UAE, Peru, Turkey, Thailand, Malaysia, Indonesia, Uruguay, Kazakhstan, Mongolia

The KCS plans to conclude the AEO Mutual Recognition Agreements with an increasing number of foreign countries with high customs barriers, such as the Middle East and Vietnam.

■ Tips for Statutory Social Insurance effective from July 1, 2022

● Max contribution ceiling of statutory national pension increased

Effective from July 1, 2022, the monthly max contribution ceiling of the statutory national pension increased from KRW 235,800 to KRW 248,850 each for employer and employee (Ministry of Health and Welfare (MOHW) of Korea announcement, April 1, 2022). This has impact to the employees whose monthly gross salary is over and above the max threshold of Won 5,530,000.

● Contribution rate of statutory employment (unemployment) insurance increased

Effective from July 1, 2022, the employment insurance rate was raised by 0.1% each for employee and employer as summarized below.

Employment Insurance:	Before	From July 1, 2022	
Employee portion	0.8%	0.9%	
Employer portion	1.05% ~1.65%	1.15 ~ 1.75%	Vary depending on the number of employees

For your future reference, the statutory social insurance rates in effect from July 1, 2022 can be summarized as below:

Social Insurances:	Employee portion	Employer portion	Total	Remark
National Pension (NP)	4.5%	4.5%	9.0%	Monthly contribution ceiling of Won 248,850 each from July 1, 2022
National Health Insurance (NHI)				
a. Health Insurance (HI)	3.495%	3.495%	6.99%	Monthly contribution ceiling of Won 3,653,550 each
b. Long-term Care Insurance for the Elderly (HI-LTCI)	12.27%	12.27%	12.27%(*)	(*) Assessed at 12.27% of HI premium above
Employment Insurance (EI)	0.9%	1.15% ~1.75%	2.05% ~2.65%	Vary depending on the number of employees
Industrial Accident Compensation Insurance (IACI)	NIL	0.60% ~18.6%	0.60% ~18.6%	Vary depending on type of business

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