

Newsletter

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**Smart decisions. Lasting value.**

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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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■ Important South Korean Tax Reporting Requirements Coming Due

● 2020 Annual Corporate Income Tax Return and Local Income Tax Return Filing Deadlines

Under the Corporate Income Tax Law (CITL), a company having a fiscal year ended December 31, 2020 should file the FY2020 annual corporate income tax return by March 31, 2021 together with necessary tax payments.

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 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 Won 10 million, companies are allowed to make tax payments in 2 installments as below.

Tax returns	Payment due dates
● <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 small and medium-sized company)
● <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 small and medium-sized company)

(*) The amount of installments shall be determined as follows:

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

(**) Installment payment is not applicable for local income tax.

- **Transfer Pricing (TP) and BEPS Requirements**

Under the International Tax Coordination Law (ITCL), which governs the taxation of international transactions between taxpayers and overseas specially related parties (OSRP), a company is obliged to submit the following documents for the transactions made with its OSRPs during the fiscal year to the relevant tax office within 6 months from the fiscal year end:

- a. "Schedules of International Transactions"
- b. "Report on Arm's Length Price Determination Method"
- c. "Summarized Profit and Loss Statement of OSRP"

In addition, Multinational Enterprises (MNE) which meet the following conditions are also required to submit the Combined Report of International Transactions (CRIT) which is comprised of three elements (Local file, Master file, and CbC report).

CRIT	Local file and Master file	CbC report
Condition	<ul style="list-style-type: none"> • Domestic corporations and foreign corporations with a domestic place of business that satisfy the following criteria: <ul style="list-style-type: none"> a. Annual gross sales of an individual entity exceed KRW100 billion; and b. International related party transaction exceeds KRW 50 billion per year. 	<ul style="list-style-type: none"> • <u>In the case where the ultimate parent company is a domestic company or a resident of Korea</u>, 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. • <u>In the case where the ultimate parent company is a foreign company or a non-resident of Korea</u>, 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. However, if both of the following conditions are met, submission of the Notification of CbC reporting obligator can substitute the CbC reporting obligation of the Korean affiliated company of a multinational group : <ul style="list-style-type: none"> a. There is an obligation to submit a CbC report under the laws and regulations of the country where the ultimate parent company is located at; and b. There is an arrangement for the exchange of CbC report information between Korea and the country where the ultimate parent company is located.
Due date	<u>Within 12 months</u> from the end of each fiscal year	<u>Within 12 months</u> from the end of each fiscal year (<u>within 6 months</u> from the end of each fiscal year in case of submitting the Notification of CbC report obligator)

- **2020 Individual Income Tax Return Filing Deadline (due by May 31, 2021)**

Residents, regardless of their nationalities, are subject to Korean income tax based on worldwide income including global income (employment income, business profits, dividend, pension, interest, rental, and other miscellaneous income), severance pay and capital gains.

However, under the revised Individual Income Tax Law (IITL), in the case where the period that a foreigner, who is a tax resident of Korea, has his address or abode in Korea does not exceed 5 years in aggregate during the past 10 years from the end of the concerned tax year, his/her foreign source income earned from January 1, 2009 shall be taxed in Korea only if such income is paid in Korea or such income is remitted into Korea.

Taxpayers making monthly tax payments and having only one source of worldwide income (i.e., either Class A or Class B) are generally not required to file a global income tax return since the employer (for Class A income earners) or the Class B taxpayers' association (for Class B income earners) finalizes the individual's tax liability at the end of the year for and on behalf of the employee concerned. Taxpayers having more than one source of income, however, are required to file a global income tax return for the year and pay taxes due on such income on or before May 31 of the following year, or prior to permanently leaving Korea.

The filing of 2020 annual individual income tax return is coming **due on May 31, 2021** together with necessary tax payments.

■ **Statutory Social Insurance Tips in 2021**

- **Increase in Premium Rates for the Statutory National Health Insurance and the Long-Term Care for the Elderly in 2021**

Effective from January 1, 2021, the premium rate of the National Health Insurance has been increased from 6.67% to 6.86% of monthly salary income (excluding non-taxable income). Employer and employee portion each has risen from 3.335% to 3.43%, respectively. The premium rate of the Long-Term Care for the Elderly (surcharge of the national health insurance) has also been increased from 10.25% to 11.52% of the National Health Insurance premiums.

As an example, if an employee's monthly average taxable salary is KRW 5,600,000, the employee portion of the National Health Insurance and the Long-Term Care for the Elderly premiums are calculated as follows:

	2020	2021
National Health Insurance	$5,600,000 * 3.335\% = 186,760$	$5,600,000 * 3.43\% = 192,080$
Long-Term Care Insurance	$186,760 * 10.25\% = 19,143$	$192,080 * 11.52\% = 22,128$

The total National Health Insurance rate including the Long-Term Care for the Elderly rate is around 3.8251% for employer and employee, respectively.

- **Rate Change for the Statutory Industrial Accident Compensation Insurance in 2021**

Effective from January 1, 2021, the premium rate of the Industrial Accident Compensation Insurance (IACI) has been changed ranging from 0.60% to 18.5% (which varies depending on the type of business).

- **Annual Settlement of Statutory Social Insurance Premiums required in April 2021 (excluding National Pension)**

Employers are required to perform annual settlement of statutory social insurance premiums in March of the following year after each calendar year end for the national health insurance, employment insurance and industrial accident compensation insurance, and reflect any overpayment (underpayment) during the year resulting from the annual settlement in April payroll accordingly. On the other hand, there is no annual settlement required for national pension.

For national health insurance, if the additional insurance resulting from 2020 year-end settlement is greater than the April 2021 insurance amount, employees may choose to pay by installment over 2 - 10 months starting from April 2021.

For your future reference, the statutory social insurance rates in effect for year 2021 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 226,350 each
National Health Insurance (NHI) a. NHI	3.43%	3.43%	6.86%	Monthly contribution ceiling of Won 3,523,950 each Assessed at 11.52% of NHI premium above
b. Long-term Care Insurance for the Elderly (NHI-LTCI)	11.52%	11.52%	23.04%	
Employment Insurance (EI)	0.8%	1.05% ~1.65%	1.85% ~2.45%	Vary depending on the number of employees
Industrial Accident Compensation Insurance (IACI)	NIL	0.60% ~18.5%	0.60% ~18.5%	Vary depending on type of business

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

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