한울회계법인
Hanul LLC

Newsletter

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Contents

Important South Korean Tax Reporting Requirements Coming Due (for the fiscal year ended December 31, 2022)

2022 annual corporate income tax return and local income tax return filing deadlines (due by March 31, 2023 and May 1, 2023, respectively)

Under the Corporate Income Tax Law (CITL), a company having a fiscal year ended December 31, 2022 should file the FY2022 annual corporate income tax return **by March 31, 2023** together with necessary tax payments thereof.

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.

Tax returns	Filing due dates
• Annual corporate income tax return	- Within 3 months from the fiscal year-end
• Interim corporate income tax return	- Within 2 months after the first 6 months of each fiscal year
• Annual local income tax return	- Within 4 months after the fiscal year-end

If the annual/interim corporate income taxes payable are over KRW 10 million, companies are allowed to make tax payments in 2 installments as below:

Tax returns	Payment due dates
• Annual corporate income tax return - 1st installment (*) - 2nd installment (*)	 - 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)
• Interim corporate income tax return - 1st installment (*) - 2nd installment (*)	 - 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 amounts of installments shall be determined as follows:

If total taxes payable is:	Installment payments can be broken down as below:	
Over KRW 10 million ~ up to 20 million	1st installment	KRW 10 million
	2nd installment	Excess over KRW 10 million
Over KRW 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 (OSRPs), 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. Report on the method of arm's length price determination
b. Schedules of international transactions with OSRPs
c. Summarized Profit and Loss Statement of OSRPs

In relation to the BEPS requirements, multi-national enterprises (MNEs) 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	• Domestic corporations and foreign corporations with a domestic place of business that satisfy the following criteria: a. Annual gross sales of an individual entity exceed KRW100 billion; **AND** b. Annual overseas specially related party transaction exceeds KRW 50 billion.	• In the case where 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 KRW 1 trillion during the preceding fiscal year. • In the case where the ultimate parent company is a foreign 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 located; **OR** b. There is no arrangement for the exchange of CbC report information between South Korea and the country where the ultimate parent company is located; **OR** c. The Korean affiliated company did not submit CbC Reporting Notification within 6 months from the end of each fiscal year (e.g., **by June 30, 2023** for the Korean company having the fiscal year ended December 31, 2022).
Due date	Within 12 months from the end of each fiscal year (e.g., **by December 31, 2023** for MNEs having the fiscal year ended December 31, 2022). *CbC Reporting Notification: within 6 months from the end of each fiscal year	

- **2022 individual income tax return filing deadline (due by May 31, 2023)**

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 2022 annual individual income tax return is coming **due on May 31, 2023** together with necessary tax payments.

For more details, our tax division will be able to provide a thorough consultation with separate fee arrangement upon request.

■ Recent Korean Tax Law Changes

- **Amended Presidential Decrees (“PD”) of tax laws (February 28, 2023)**

The amended PD of tax laws were proclaimed on February 28, 2023.

There were a few changes compared to the original bill, and the major changes are as follows.

○ Clarification on the scope of a qualifying overseas subsidiary when applying the dividend received deduction (“DRD”) rules

- Regarding the requirements for overseas subsidiaries (i.e., holding at least 10% of the shares for at least 6 months prior to the dividend record date), the amended PD of the Corporate Income Tax Law clarifies that if shares of an overseas subsidiary succeeded from another domestic company by a qualified merger, spin-off or property contribution in kind, the requirement shall be determined based on the original acquisition date of the other domestic company.

○ Relaxation of requirements for an overseas grandchild (or second tier) subsidiary when applying for indirect foreign tax credit

- The amended PD of the Corporate Income Tax Law relaxed criteria for an overseas grandchild subsidiary to receive an indirect foreign tax credit: (1) a threshold of shareholding from 25% to 10%, (2) a holding period from at least six months prior to the dividend declaration date to at least six months prior to the dividend record date to align the criteria for an overseas subsidiary for DRD rules.

- **Amended Enforcement Rule of tax laws (March 20, 2023)**

The amended Enforcement Rule of tax laws which was announced on February 22, 2023, was also proclaimed on March 20, 2023.

○ The scope of facilities to commercialize national strategic technologies[1] is expanded.

- 31 categories of facilities in three sectors (semiconductors, secondary battery, and vaccine) → 37 categories of facilities in four sectors including facilities of the display and semiconductor sector

(*1) Application of higher credit rates for investments (8%, 8%, and 16% for large companies, medium-scale companies, and small and midsize enterprises (SME), respectively) compared to general facilities (1%, 5%, and 10%)

○ The scope of facilities to commercialize new growth and source technologies[2] is expanded.

- 181 categories of facilities in 13 industrial sectors, including future cars and carbon-neutral technologies → 190 categories of facilities in 13 industrial sectors by adding facilities mainly in the carbon-neutral technologies sector

(*2) Application of higher credit rates for investments (3%, 6%, and 12% for large companies, medium-scale companies, and small and midsize enterprises (SME), respectively) compared to general facilities (1%, 5%, and 10%)

○ The interest rate applied on refund of overpaid national taxes or customs duties and deemed rental income from a rental deposit on real property is raised from 1.2% to 2.9% per annum, reflecting the recent upward trend in market interest rates.

- **Amended Local Tax Law (March 14, 2023)**

○ The marginal local income tax rate for corporations has been lowered by 0.1 percent point for each tax base bracket in conjunction with the revision of Corporate Income Tax Law.

Before revision		After revision	
Tax base (KRW in millions)	Tax rate *	Tax base (KRW in millions)	Tax rate*
Up to 200	1%	Up to 200	0.9%
200~20,000	2%	200~20,000	1.9%
20,000~300,000	2.2%	20,000~300,000	2.1%
Above 300,000	2.5%	Above 300,000	2.4%

(*) The equivalent of 10% of Korean corporate income tax rate

○ The lower tax base bracket of local income tax for individuals has been raised from KRW 12 and 46 million to KRW 14 and 50 million in conjunction with the revision of Individual Income Tax Law.

Before revision		After revision	
Tax base (KRW in millions)	Tax rate *	Tax base (KRW in millions)	Tax rate*
Up to 12	0.6%	Up to 14	0.6%
12~46	1.5%	14~50	1.5%
46~88	2.4%	50~88	2.4%

- Tax base brackets exceeding KRW 88 million are omitted.

(*) The equivalent of 10% of Korean individual income tax rate

Statutory Social Insurance Tips in 2023

Increase in premium rates for the statutory national health insurance and long-term care insurance for the elderly effected from January 2023

Effective from January 1, 2023, the insurance rate of the statutory national health insurance has been increased from 6.99% to **7.09%** of monthly salary income (excluding non-taxable income). Employer and employee portion has risen from 3.495% to 3.545% each. The insurance rate of the long-term care insurance for the elderly (which is the surcharge of the national health insurance) has also been increased from 12.27% to 12.81% of the national health insurance premiums each for employer and employee.

For your easy reference, 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 insurance premiums are calculated as follows:

(Unit: KRW)

	2022	2023
National health insurance	5,600,000 * **3.495%** = 195,720	5,600,000 * **3.545%** = 198,520
Long-term care insurance	195,720* **12.27%** = 24,015	198,520* **12.81%** = 25,430

Rate change for the statutory employment (unemployment) insurance effected from July 2022

Considering the financial status of the employment (unemployment) insurance fund and expectations for an economic recovery after COVID-19, the government raised the employment insurance rate by 0.2% from 1.6% to **1.8%** (employee and employer each bear 0.1% increase portion) **from July 1, 2022**.

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

Annual settlement of the statutory social insurance premiums required in April 2023 (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) 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 2022 year-end settlement is greater than the April 2023 insurance amount, employees may choose to pay by installment over 2 - 10 months starting from April 2023.

HR Tips

Increase in max limit of maternity leave pay provided by the Korean Labor Welfare Corporation

The Ministry of Employment and Labor announced that **effective from January 1, 2023**, the maximum limit of maternity leave pay provided by the government (Korean Labor Welfare Corporation) for the 90-day statutory maternity leave period shall be increased from KRW 2,000,000 per month to KRW 2,100,000 per month, that is KRW 6,300,000 in total for 90-day statutory maternity leave period (KRW 8,400,000 in total for 120 days for pregnancy with multiple fetuses).

Reduced retirement income tax burdens

On January 1, 2023, the Ministry of Economy and Finance announced that the deduction limit applied based on the number of service years when calculating retirement income tax for severance pay shall be increased as below in an effort to reduce retirement income tax burdens of retiring taxpayers.

(Unit: KRW)

Number of service years	Before Revision	After Revision
Not more than 5 years	300,000 * number of service years	**1,000,000** * number of service years
6 - 10 years	1,500,000 + 500,000 * (number of service years - 5 years)	5,000,000 + 2,000,000 * (number of service years - 5 years)
11 - 20 years	4,000,000 + 800,000 * (number of service years - 10 years)	15,000,000 + **2,500,000** * (number of service years - 10 years)
More than 20 years	12,000,000 + 1,200,000 * (number of service years - 20 years)	40,000,000 + **3,000,000** * (number of service years - 20 years)

** This revision will be applied to retirees who retire on or after January 1, 2023.

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

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