

# Newsletter

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## ■ Tax Incentive Plan for Creation of Ecosystem for Private Venture Investment

The Ministry of Strategy and Finance (“MoSF”) released a tax incentive plan related to private venture investment on November 4, 2022. These tax incentives would support the creation of private venture funds of funds (“FoFs”) at each stage of 1) Investment – 2) Operation – 3) Withdrawal.

The MoSF announced that it intends to complete the legislation of the tax incentive plan by early 2023.

### ● Tax credit for domestic corporations (including foreign-invested corporations) who invest in venture companies, etc., through private FoFs

Investment target	Current	Proposed
General venture funds	Actual investment amount in venture companies x 5%	(Same)
Private FoFs	-	Actual investment amount in venture companies <sup>1</sup> x 5% + Increase in investment amount <sup>2</sup> x 3%

\*1) Max (Actual investment amount in venture companies, investment amount in FoFs x 60%).

\*2) Investment amount in venture companies in the relevant year – Average investment amount in venture companies over the previous three years.

### ● Tax credit for domestic corporations who invest in private FoFs through contributions to funds for mutually beneficial cooperation

Purpose of contribution	Current	Proposed
Funding for mutually beneficial cooperation	Investment amount x 10%	(Same)
Funding for investment in FoFs	-	Investment amount x 10%

### ● Taxable income deduction for individual investors who invest in funds

Investment target	Current	Proposed
General venture funds	Investment amount x 10%	(Same)
Private FoFs	-	Investment amount x 10%

● **Value-added tax exemption for asset management and operation services provided by private FoF operators**

Service provider		Current	Proposed
Governmental FoFs	Provider: Korea Venture Investment Corp.	O	(Same)
General venture fund	Provider: Single-handed operator		
Private FoFs	Provider: Single-handed operator	-	O <sup>3</sup>
	Provider: Joint operator		

\*3) In case of a joint operator, VAT exemption is available only for the investment portion.

● **Non-taxation of capital gains from shares of start-ups and venture companies acquired by individuals or private FoF operators through investment in private FoFs**

Investment target	Investor	Current	Proposed
Venture funds	Individuals or private FoF operators	O	(Same)
	Asset managers, securities companies	X	
Private FoFs	Individuals or private FoF operators	-	O
	Asset managers, securities companies	-	O <sup>4</sup>

\*4) Asset managers or securities companies that additionally participate as joint operators with venture capital companies and new technology financial business operators.

● **Non-taxation for capital gains from shares of venture companies invested by qualified private equity funds through their venture funds**

Qualified funds <sup>5</sup>	Current	Proposed
Investment in venture companies through private equity funds	O	(Same)
Investment in venture companies through venture funds	X	O

\*5) Private equity funds that meet certain requirements (i.e., settlement of accounts, distribution, etc., at least a year).

## ■ Tax Support for Companies with Excellent Job Creation

- **Exclusion of job-creating small and medium-sized enterprises (SMEs) from FY2021 tax audit**

The National Tax Service (“NTS”) announced on October 18, 2022 that the SMEs will be excluded from the target list of periodic tax audits for corporate income tax or individual income tax returns filed for the fiscal year 2021 if certain requirements are met.

SMEs eligible for exclusion from tax audits are as below.

- SMEs<sup>1)</sup> as specified under the Korean Special Tax Treatment Control Law (“STTCL”) with a revenue of less than KRW 150 billion for the fiscal year 2021 (less than KRW 50 billion for corporations with total assets of KRW 200 billion or more or professional personal service providers);

\*1) Determined based on FY2021, and grace period (i.e., considered as SMEs up to 3 tax years after exceeding the criteria for SMEs) shall not be applied.

- Submission of ‘Job creation plans’ to the National Tax Service through ‘HomeTax’ by November 30, 2022, and implementation of the plans to increase the number of full-time employees in 2023 by more than 2% or 3% (and at least one new full-time employee) compared to the numbers in 2022.

<Required job creation ratio by the amount of revenue>

Revenue for FY2021	less than KRW50 billion	from KRW50 billion to less than KRW150 billion
Increase requirement	2%	3% or more

## ■ Statutory Social Insurance Rate Change in 2023

- **Statutory national health insurance rate to increase effective from January 1, 2023**

Effective from January 1, 2023, the National Health Insurance will be raised by 0.05%p from 3.495% to 3.545% each for employer and employee. The long-term care insurance for the elderly (LTCI) will also be increased by 0.54%p from 12.27% to 12.81% each for employee and employer as summarized below.

Social Insurance Change:	Prior to 2023	From 2023	Remark
Statutory national health insurance comprised of:			
a. Health Insurance (HI)	3.495%	<b>3.545%</b>	Monthly contribution ceiling of Won 3,653,550 each
b. Long-term Care Insurance for the Elderly (LTCI)	12.27%	<b>12.81%</b>	Assessed on HI premium in a. above.

## ■ HR Tips

### ● **Mandate to transfer traditional severance pay to Individual Retirement Pension (IRP) account opened with an external retirement pension management company under the amended labor laws in Korea**

As we receive this question very frequently from clients in recent months involving their employees leaving the company, we re-introduce you this new requirement under the amended labor laws in Korea as summarized below.

Before this amendment of Employment Retirement Benefit Security Law("ERBSL"), only the retirement payment for resigning/terminated employees who are enrolled in retirement pension scheme (either Defined Benefit or Defined Contribution type) shall be transferred to Individual Retirement Pension (IRP) account opened under the name of the resigning/terminated employee.

However, effective from April 14, 2022, under the amended ERBSL provisions, severance pay to be made to employees who are under the traditional severance pay scheme shall also be transferred to their respective IRP account. Such IRP account can be opened only by the employee himself/herself. When transferring severance pay to the IRP account of the employee concerned, the employer shall specifically designate it as tax deferred severance pay and pay in "gross" amount without withholding income taxes.

We bring this agenda for special attention to companies who currently have the traditional severance pay scheme and have not yet adopted the retirement corporate pension scheme for their employees in Korea.

For the transfer of severance pay to IRP account as of the termination date, companies under the traditional severance pay scheme should make sure to collect the information from the resigning/terminated employee including the following.

- (1) Copy of the IRP account bank passbook which indicates the account holder name, account number, retirement pension management company name and contact details (퇴사자 명의의 IRP계좌 통장 사본, IRP계좌 명의자, 계좌번호, 연금계좌운용사 및 연금계좌담당자 전화번호 포함)
- (2) Business entity registration certificate number/tax registration ID number of the retirement pension management company (연금계좌운용사의 사업자등록번호)

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

**KS Han, G S Sim, John Park, or S Y Lee at Tax & BPO Services**

**Hanul LLC**

Member Crowe Global

10th Floor, Sindo Building, 14 Teheran-ro 88-gil,

Gangnam-gu, Seoul 06179, Korea

TEL: (82)(2) 316-6600 FAX: (82)(2) 775-5885

E-mail: [post@crowe.kr](mailto:post@crowe.kr)

Website: <http://www.crowe.kr>

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