Crowe

한울회계법인
Hanul LLC

Newsletter

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Contents

■ Introduction of Amended External Audit and Accounting Regulations applicable to Yuhan Hoesa

Previously annual statutory external audit is only applied to Chusik Hoesa in Korea. However, under the amended regulations, Yuhan Hoesa shall also be subject to annual statutory external audit from the fiscal year **starting on or after November 1, 2019** unless the company meets at least 3 or more of the following conditions as of the end of immediately preceding fiscal year and is deemed as a small sized company.

1. Assets	2. Liabilities	3. Sales	4. # of employees	5. # of members
Less than Won 12 billion	Less than Won 7 billion	Less than Won 10 billion	Less than 100 employees	Less than 50 members

Small sized company means companies with less than Won 50 billion of total assets or sales under the relevant regulations.

If a company changes its form from Chusik Hoesa to Yuhan Hoesa after the implementing date of this regulation, the company shall be subject to the regulations for Chusik Hoesa for five years after the change.

A non-listed Chusik Hoesa is waived of annual statutory external audit requirement in Korea if the company satisfies at least 3 or more of the following conditions as of the end of immediately preceding fiscal year and is deemed as a small sized company.

1. Assets	2. Liabilities	3. Sales	4. # of employees
Less than Won 12 billion	Less than Won 7 billion	Less than Won 10 billion	Less than 100 employees

■ Tax Tips

● Reporting requirements of transfer pricing (“TP”) documentation

A company must submit the following TP documents together with its annual corporate income tax return within 3 months from the end of each fiscal year to the tax authorities:

- Report on the method of arm's length price determination
- Schedules of international transactions with Overseas Specially Related Parties ("OSRP")
- Summarized Profit and Loss Statements of OSRP

A company may omit submission of the “Report on the Method of Arm’s Length Price Determination”, if the company meets one of the following conditions:

- goods transactions (including both sales and purchase transactions) with its OSRP must not exceed KRW 5 billion in total AND service transactions (including both services rendered and received) with its OSRP must not exceed KRW 1 billion in total; or
- goods transactions (including both sales and purchase transactions) with its each OSRP must not exceed KRW 1 billion AND service transactions (including both services rendered and received) with its each OSRP must not exceed KRW 200 million.

Also, a company may omit submission of the “Summarized Profit and Loss Statement of OSRP”, if goods transactions (including both sales and purchase transactions) with its concerned OSRP does not exceed KRW 1 billion AND service transactions (including both services rendered and received) with its concerned OSRP does not exceed KRW 200 million.

If a company does not submit the reports explained above within the filing due date and fails to submit the reports upon request of the tax authorities, a penalty up to KRW 100 million may be assessed.

Reporting requirements of Base Erosion and Profit Shifting ("BEPS")

In addition to the requirements of TP documentation, 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 Country-by-Country ("CbC") report).

CRIT	Local file and Master file	CbC report
Conditions	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 KRW1 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, 2019 for the Korean company having the fiscal year ended December 31, 2018).
Due date	Within 12 months from the end of each fiscal year (e.g. by December 31, 2019 for the MNE having the fiscal year ended December 31, 2018).	

In the case where the threshold condition of Local file, Master file, and CbC report is satisfied, MNE failing to submit such reports (in whole or in part) or found to have submitted incorrect information may be subject to penalties up to KRW 30 million per report.

■ HR Tips and Benefits

● Increase in minimum wage from January 1, 2020

Under the revised Labor Standards Act, the minimum hourly wage in Korea will rise from KRW 8,350 to KRW 8,590. This change will take effect from January 1, 2020.

	2019	From Jan 1, 2020
Minimum hourly wage	Won 8,350 (Won 1,745,150 minimum monthly wage with 209 work hours per month)	**Won 8,590** (**Won 1,795,310** minimum monthly wage with 209 work hours per month)

The Minimum Wage Commission passed a proposal to set the minimum wage for 2020 at Won 8,590 per hour. This is an increase of Won 240 or 2.87% from this year's hourly minimum wage of Won 8,350. If translated into a monthly wage, this means Won 1,795,310 per month, an increase of Won 50,160 from this year (with 209 work hours per month including paid weekly holidays).

According to the Survey on Labor Conditions by Type of Employment by the Ministry of Employment and Labor (MOEL), the 2020 minimum wage will influence an estimated 1.37 million workers (8.6% of the total labor force in Korea), while the Supplementary Results of the Economically Active Population Survey by the Statistics Korea estimates 4.15 million workers (20.7% of the labor force) will be subject to this new minimum wage.

● Amended government cash grants program available for additional youth employment effective from August 20, 2019

The Korean government announced earlier on June 1, 2018 that it adopted a new program to provide cash grants for the eligible companies in an effort to encourage companies to hire more youth employees and create more jobs, which is named the Government Cash Grant Program for Additional Youth Employment ("청년 추가고용 장려금 지원사업" in Korean). An eligible company may claim for cash grants in the amount of maximum Won 9,000,000 per year and per person for the period of up to three (3) years.

This program was closed earlier on May 10, 2019 as the MOEL reached its annual quota for year 2019 of 90,000 newly hired youth employees. However, the government resumed this program again on August 20, 2019 after making some changes in the program as summarized below in an effort to continue actively supporting companies to hire more youth employees.

Comparison	Current	Revised
Limit per Entity	Up to 90 employees per month	Up to **30 employees** per month
Submission Due Date	Within 6 months from the minimum employment retention period (1 month) of the new youth employee.	Within **3 months** from the minimum employment retention period (**6 months**) of the new youth employee.
Differential Support by Company Size (For the Newly	By number of total employees, cash grant offering will be limited as below: - Less than 30 employees – cash grants for 1 youth employee will be given - 30 to 99 employees – cash grants for	By number of total employees, cash grant offering will be limited as below: - Less than 30 employees – cash grants for 1 youth employee will be given - 30 to 99 employees – annual cash

Participating Companies)	2 youth employees will be given - 100 or more employees – cash grants will be given to all youth employees from the third recruit (when the company hires 3 youth employees)	grants of Won 9 million per year and per person **from the second recruit** - 100 or more employees – annual cash grants of Won 9 million per year and per person will be provided **from the third recruit**

- **2nd phase of 52-hour work week legislation to be implemented from Jan 1, 2020 to companies having 50 to 299 employees**

As announced earlier this year, the Korean government introduced the 52-hour work week legislation stipulating that the maximum work hours including overtime and holiday work shall be limited to max 52 hours per week in an effort to improve long working hours of the workers and their quality of life.

This 52-hour work week legislation is being implemented in different phases depending on company size with the first phase already started from July 1, 2018 for the companies having 300 or more employees. The second phase will take effect **from January 1, 2020** that will be applicable to companies having 50 to 299 employees.

For your reference once again, the implementation schedules for the second and third (final) phases are as below:
- 1st phase - 300 or more employees: July 1, 2018
- **2nd phase - 50 or more but less than 300: January 1, 2020**
- 3rd phase (final) - 5 or more but less than 50: July 1, 2021

- **Complementary measures in 52-hour work week legislation enforcement to midsize companies announced on November 18, 2019**

On November 18, 2019, considering the great concerns from the midsize companies in Korea in connection with the 2nd phase implementation of 52-hour work week legislation starting from January 1, 2020 explained above, the Korean government announced its plan to adopt complementary measures in 52-hour work week legislation enforcement to midsize companies.

The government is mulling over (1) granting a waiver period of more than 6 months to midsize companies (companies with 50 to 299 employee) which become subject to this new statutory 52-hour work week legislation next year, as well as (2) widening the exceptional cases where working overtime is allowed.

The government also announced that it would ease the scope of state-authorized exceptions for overtime work. Companies can currently apply for a special exception to the MOEL to have their employees work beyond the statutory limit of 12 hours a week in case of “natural disasters, emergencies or other similarly severe circumstances”. These regulations may be relaxed to include other “business-related reasons” that call for a sudden increase in workload.

The government came up with these complementary measures as the amended Labor Standards Act (LSA) is still pending in parliament with little prospect of being passed by the end of 2019. The revised LSA bill seeks to expand the application period of the flex-work scheme from the current 3 months to 6 months. Under the existing system, business can adjust the work hours as long as the average hours in the 3-month period do not exceed the legal limit. Businesses have called for the application period to be extended to 6 months (or 12 months) to soften the blow of the new 52-hour work week legislation.

The government further announced that the MOEL would work towards implementing the follow-up measures by January 2020 if there is no progress in the legislative discussions at the parliament.

■ Social Insurance Changes in 2020

- **Increase in the national health insurance and the long-term care insurance for the elderly starting from January 1, 2020**

Effective from January 1, 2020, the insurance premium rate of the National Health Insurance will be increased from 6.46% to **6.67%** of monthly salary income (excluding non-taxable income). Each employer and employee portion rise from 3.23% to **3.335%**, respectively.

In addition, the insurance premium rate of the Long-Term Care Insurance for the Elderly (surcharge of the national health insurance) will also be increased from 8.51% to **10.25%** of the National Health Insurance premiums.

With the monthly salary income excluding non-taxable income of KRW 5,600,000, the insurance premiums will increase as shown below for example.

	Before	**From Jan 2020**
National Health Insurance	5,600,000 * **3.23%** = Won 180,880	5,600,000 * **3.335%** = Won 186,760
Long-Term Care Insurance for the Elderly	180,880 * **8.51%** = Won 15,390	186,760 * **10.25%** = Won 19,140

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

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