

# Newsletter

November 2024

Tax &amp; BPO Updates / South Korea

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*We provide a wide range of services designed to meet the needs of companies considering foreign investment in Korea. Our services include: 1) **Corporate Administrative Services**, offering support from business entity establishment to liquidation and corporate secretarial services; 2) **Payroll, Social Insurances and HR Advisory Services**; 3) **Accounting and Financial Compliance Services**, including cash disbursement and bank account management; 4) **Tax Compliance and Advisory Services**, and 5) **Assurance and Business Advisory Services**. For companies considering foreign investment into Korea, we can be of your best assistant.*

*This bi-monthly newsletter aims to provide foreign investors with Tax & BPO updates in South Korea, as well as other related subjects of special interests to foreign investors.*

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## ■ Recent Korean Tax Law Revisions

The following are the key finalized revisions to Korean tax laws promulgated in November 2024:

### ● Presidential decree of the value-added tax law

Previously, the value of goods provided by employers to employees free of charge or at below market value on special occasions - such as 1) holidays like Lunar New Year and Chuseok, and 2) company anniversaries and birthdays - was not regarded as a supply of goods for the VAT purposes, up to an annual combined limit of KRW 100,000 per employee.

Under the revised law, this cap increases to KRW 100,000 **per category** (i.e., for each of the two groups mentioned above).

This revision, aimed at enhancing employee welfare, applies to goods provided during the taxable period, including the revision's effective date (November 12, 2024).

### ● Presidential decree of the special tax treatment control law

Previously, companies that no longer qualified as small and medium-sized enterprises (SMEs) due to growth or scale expansion were granted a grace period covering the fiscal year in which the disqualification occurred plus the subsequent three years.

The revised presidential decree extends this grace period to **five years**. Additionally, if the company is listed on the Korea Exchange or KOSDAQ by the end of the five-year grace period, the grace period will be further extended for another 2 years (**seven years in total**).

This revision, designed to support the smooth growth of SMEs, applies to cases where the disqualification occurs in the fiscal year that includes the effective date of this revision (November 12, 2024).

## ■ Exclusion of SMEs Expanding Investment and Creating Jobs from Tax Audit Targets

The National Tax Service (NTS) has announced a new initiative aimed at fostering investment and job creation by excluding small and medium-sized enterprises (SMEs) that meet certain criteria from regular tax audits for the fiscal year 2023. The details are outlined below.

### ● SMEs expanding investment

- Eligibility criteria:

SMEs under the Special Tax Treatment Control Law (excluding those in the grace period) for the fiscal year ended in 2023, with annual revenue of KRW 150 billion or less<sup>1)</sup> in 2023.

\*1) Corporations: For entities with total assets of KRW 200 billion or more or engaged in professional services, annual revenue shall be less than KRW 50 billion.

Individuals: For professional service providers, annual revenue shall be less than KRW 50 billion.

Additionally, the SMEs shall plan to increase their investment ranging between 5% to 20% or more in 2025 compared to 2024 depending on their annual revenue volume as below.

Minimum investment growth rate by annual revenue

Annual revenue for FY2023	Less than KRW 50 billion	Between KRW 50 billion and 150 billion
General SMEs	10% or more	20% or more
SMEs investing in non-metropolitan areas <sup>2)</sup>	5% or more	15% or more

\*2) SMEs that invest 80% or more in non-metropolitan areas (outside of Seoul, Incheon and Gyeonggi-do) qualify as SMEs investing in non-metropolitan areas.

The qualified SMEs are required to submit an investment expansion plan between November 1, 2024 and December 2, 2024, and ensure the plan is fully implemented.

- Exclusion:

The following are not eligible for exclusion from tax audits:

- Dishonest businesses with tax in arrears, committing tax offenses, or accounting fraud.
- Individuals who are required to submit a confirmation of compliant tax filing, but have failed to do so.

● **SMEs creating jobs**

- Eligibility criteria:

SMEs under the special tax treatment control law (excluding those in the grace period) for the fiscal year ended in 2023, with annual revenue of KRW 150 billion or less<sup>3)</sup> in 2023.

\*3) Corporations: For entities with total assets of KRW 200 billion or more or engaged in professional services, annual revenue shall be less than KRW 50 billion.

Individuals: For professional service providers, annual revenue shall be less than KRW 50 billion.

Additionally, the SMEs shall plan to increase the number of full-time employees<sup>4)</sup> by 2% to 3% or more (net increase of at least one employee) in 2025 compared to 2024. They are required to submit a job creation plan between November 1, 2024 and December 2, 2024, and ensure it is implemented.

\*4) The monthly average of the number of full-time employees at the end of each month during the relevant year

Job creation rate by annual revenue

Annual revenue for FY2023	Less than KRW 50 billion	Between KRW 50 billion and 150 billion
Minimum job creation rate	2% or more	3% or more

- Exclusion:

The following are not eligible for exclusion from tax audits:

- Business owners whose name has been publicly disclosed by the Ministry of Employment and Labor for failing to pay wages and compensation to employees, under Article 43-2 of the Labor Standards Act.
- Dishonest businesses with tax in arrears, committing tax offenses, or accounting fraud.
- Corporations that previously submitted a plan, but failed to achieve the minimum net increase of one full-time employee.
- Individuals who are required to submit a confirmation of compliant tax filing, but have failed to do so.

## ■ Two-year Suspension of Tax Audits for SMEs Promoting Work-Life Balance

On October 30, the government announced a new incentive aimed at encouraging work-life balance among small and medium-sized enterprises (SMEs).

Starting from January 2025, regular tax audits will be suspended for two years for SMEs recognized for their commitment to fostering a culture of work-life balance. The government plans to evaluate the effectiveness of this policy and may consider extending the suspension period based on taxpayer satisfaction before the two-year term concludes.

This incentive is expected to benefit approximately 4,300 SMEs, including those certified as family-friendly (around 4,110 SMEs in 2023) or work-life balance-oriented (around 200 SMEs in 2023).

## ■ Statutory Social Insurance and HR Tips

### ● Freeze in National Health Insurance (NHI) contribution rate and Long-Term Care Insurance (LTCI) contribution portion for 2025

The Ministry of Health and Welfare announced that in 2025, the national health insurance contribution rate will be frozen at 7.09% (3.545% each for employee and employer) and the long-term care insurance for the elderly (LTCI) will also be frozen at 0.9182% (0.4591% each for employee and employer) as below.

Social Insurance:	2024	From 2025	Remark
a. National Health Insurance (NHI)	7.09%	7.09%	Won 4,240,710 of monthly contribution ceiling each
b. Long-Term Care Insurance for the Elderly (LTCI)	0.9182%	0.9182%	Assessed based on NHI premium(*)

(\*) LTCI monthly contribution calculation formula:

$$= \text{NHI contribution} \times (\text{LTCI contribution rate } 0.9182\%) / \text{NHI contribution rate } 7.09\%$$

### ● Amendments to laws for childcare support

On October 22, the Korean government promulgated amendments to three laws for childcare support (i.e., the Equal Employment and Work-Family Balance Assistance Act, the Employment Insurance Act, and the Labor Standards Act) to promote work-life-family balance.

The following are the key amendments. Unless otherwise specified, they will take effect on February 23, 2025.

#### 1. Childcare Leave

To encourage both parents to participate more actively in childcare, if both parents take at least 3 months of childcare leave for the same child, or if they are a single parent or a parent of a child with severe disabilities, the childcare leave period can be extended from 1 year to **18 months**. In addition, childcare leave can be split into up to four periods (three times division).

	Current	After the law revisions
Period	1 year	1 year 6 months (18 months) 1) In cases where both parents take at least 3 months of childcare leave for the same child, or 2) For single parents or parents of children with severe disabilities  <i>(Note) Those who have already used childcare leave, or are currently on childcare leave, if their child is under the age of 8 and they have been employed at their current workplace for more than 6 months, may be eligible to retroactively extend their childcare leave by an additional 6 months if the above conditions are met.</i>
Maximum split use allowed	Three periods (two-times split)	Four periods (three-times split)

## 2. Paternity Leave

The paternity leave period has been extended from 10 days to 20 days. For employees in small and medium-sized companies classified as preferential supported enterprises (“우선지원대상기업” in Korean), the government’s paternity leave pay benefit has been expanded from the previous 5 days to cover the full 20 days of paternity leave.

Additionally, previously, employees were required to request paternity leave within 90 days of their spouse’s childbirth. However, the application period has been extended to 120 days, and employees can now divide the paternity leave into up to four separate periods for use.

	Current	After the law revisions
Paternity leave period	10 days	20 days
Government’s paternity leave pay benefit	5 days for SME employees	20 days for SME employees
Applicable period	Within 90 days of their spouse’s childbirth	Within 120 days of their spouse’s childbirth
Maximum split use allowed	Up to two separate periods (one-time split)	Up to four separate periods (three-times split)

## 3. Reduced working hours for pregnancy and childcare leave period

### 1) Reduced working hours during childcare

The eligible age for reduced working hours during childcare will be raised from a child of 8 years old (or attending the second grade) to 12 years old (or attending the sixth grade). Additionally, any unused childcare leave can be converted into reduced working hours, with twice the unused leave period added to the reduced working hours (e.g., childcare leave of 1 year + unused childcare leave of 12 months x 2). Thus, employees who have not used any of their childcare leave can use reduced working hours for up to a maximum of 3 years. Additionally, the minimum duration for using childcare leave has also been reduced from three months to one month, allowing more flexibility and enabling it to be utilized for short-term childcare needs, such as during school vacations.

**2) Reduced working hours during pregnancy**

To protect from the risks of miscarriage and preterm birth, the period for reduced working hours during pregnancy has been expanded from the current “within 12 weeks and after 36 weeks of pregnancy” to “**within 12 weeks and after 32 weeks**” of pregnancy. Especially, high-risk pregnant women, such as those with early contractions or multiple pregnancies, can use reduced working hours throughout the entire pregnancy period with a doctor's diagnosis.

**3) Annual leave calculation (effect immediately from the date of its announcement, Oct 24, 2024)**

Previously, the period of childcare leave was legally considered a period of attendance at work, so full annual leave days were granted in accordance with the Labor Standards Act, just like other regular employees. However, during pregnancy and childcare periods, the reduced working hours used were included in the calculation of annual leave days in proportion to the actual hours worked. Under the revised law, reduced working hours during pregnancy and childcare are now included in the calculation of annual leave days, resolving this disadvantage.

The revised law regarding annual leave will take effect immediately from the date of its announcement, Oct 24, 2024.

		Current	After the law revisions
Pregnancy	Period	Within 12 weeks and after 36 weeks of pregnancy	Within 12 weeks and after 32 weeks of pregnancy
Childcare	Eligible child age	8 years old and under (or attending the second grade)	12 years old and under (or attending the sixth grade)
	Period	Up to 2 years (1 year + unused childcare leave period)	Up to 3 years (1 year + unused childcare leave period x2)
	Minimum duration	3 months	1 month
Pregnancy and Childcare	Annual leave calculation	Excluding reduced work hours	Including reduced work hours <i>(Note) Effect immediately from the date of its announcement, October 22, 2024.</i>

**4. Maternity leave (for the premature birth of the baby requiring hospitalization in a Neonatal Intensive Care Unit (“NICU”))**

The maternity leave period will be extended from 90 days to 100 days in case of premature birth of the baby requiring hospitalization in a Neonatal Intensive Care Unit (“NICU”).

	Current	After the law revisions
Maternity leave (in case of premature baby)	90 days	100 days

## 5. Subfertility treatment leave

Currently, subfertility treatment leave is allowed for 3 days per year, with only 1 day provided as paid leave. With the law revisions, subfertility treatment leave will be extended to 6 days per year, and the paid leave will be increased to 2 days. Additionally, the government will introduce a new salary support program to ease the burdens of employees and employers in SMEs classified as preferential supported enterprises (“우선지원대상기업” in Korean), helping to alleviate the burden during the employees' subfertility treatment leave.

	Current	After the law revisions
Subfertility treatment leave period	3 days per year (including 1 paid leave)	6 days per year (including 2 paid leave days)
Government support	Not applicable	SMEs
Confidentiality	Not applicable	Introduction of a new obligation for employers to protect confidential information.

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

**KS Han, GS Sim, John Park or SY Lee** at Tax & BPO Services

**Hanul LLC**

Member Crowe Global

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

Gangnam-gu, Seoul 06179, Korea

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

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

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

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