

# Newsletter

September 2023

Bi-monthly Newsletter of Hanul LLC



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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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## ■ Proposed Korean Tax Law Revisions for 2023 – Finalized by the Government

The finalized Korean tax reform bill was approved by the Cabinet council on August 29, 2023.

In comparison to the Korean tax reform proposals for 2023 initially announced by the Ministry of Economy and Finance (MOEF), there have been some significant modifications worth noting as below.

- To enhance the rights of small corporate taxpayers who disagree with taxation, corporations with less than a certain amount of income can apply for the selection of a public agent when raising objections or requesting examinations against the ruling tax authorities. Currently, only individuals have the option to select a public agent for these cases.
- In the initial tax reform proposals for 2023, the deadline for submission of master file and local file would be shortened from current 12 months after the end of the fiscal year to 6 months after the end of the fiscal year. However, the finalized proposal eliminates this initially proposed tax reform aimed at a shortened submission deadline for master file and local file.

The approved Korean tax reform bill was submitted to the National Assembly on September 1, 2023.

Please refer to the summary of the major proposed tax law revisions that could be applicable to foreign-invested companies in our July 2023 edition of Newsletter.

## ■ Korean Local Tax Law Revisions for 2023

The Ministry of the Interior and Safety (MOIS) announced on August 17, 2023 the government’s Korean local tax reform bill. This will be finalized and submitted to the National Assembly in October 2023.

This local tax reform bill focused on supporting the stability of local businesses and residents’ lives to promote a virtuous cycle of economic growth and tax revenue under these challenging conditions. It also actively incorporates the creation of a taxpayer-friendly environment, such as strengthening taxpayer rights and improving convenience in tax payments.

We summarized the major proposed local tax law revisions that could be applicable to foreign-invested companies to keep you updated as below.

### ● Introduced installment payment of local income tax for corporations

Current	Proposed
<ul style="list-style-type: none"> <li>• Payment of company’s local income tax               <ul style="list-style-type: none"> <li>- Payment on an installment is not allowed. (Full lump-sum payment within the due date)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Payment of company’s local income tax               <ul style="list-style-type: none"> <li>- If a tax due exceeds KRW 1 million, payment on an installment is <b>allowed within one month</b> (*).</li> </ul> </li> </ul> <p>(* ) The payment due date in an installment for SMEs shall be extended to two months.</p>

(Effective date) Applicable from the business year starting on or after January 1, 2023.

● **Reduced non-reporting penalty on local income tax of corporations in case of reporting error in allocation by workplace**

Current	Proposed
<ul style="list-style-type: none"> <li>If a corporation with workplaces in multiple local governments files a local income tax return with only one local government without allocation by workplaces, a non-reporting penalty of 20% of the tax due shall be imposed.</li> </ul>	<ul style="list-style-type: none"> <li>A non-reporting penalty will be reduced from 20% to <b>10% of the tax due</b>.</li> </ul>

(Effective date) Applicable from the business year starting on or after January 1, 2023.

● **Expanded secondary tax liability of foreign corporations**

Current	Proposed
<ul style="list-style-type: none"> <li>Secondary tax liability of a corporation when its investor defaults on tax payment               <ul style="list-style-type: none"> <li>Where an investor fails to pay its tax liabilities due to a local government by the payment due date, the corporation shall bear the secondary tax liability up to the value of stocks or investment shares held by such investor.</li> <li>This applies only in the following cases:                   <ol style="list-style-type: none"> <li>If there are no prospective buyers for the stocks or investment shares held by an investor when a local government intends to sell them through public auction or under a negotiated contract.</li> <li>If any Act or the articles of incorporation of such corporation restricts transfer of stocks or investment shares held by an investor.</li> </ol> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Expanded requirements for the secondary tax liability of a corporation when its investors defaults on tax payment               <ul style="list-style-type: none"> <li>Same as left</li> <li>The third case is added to the existing 2 cases:                   <ol style="list-style-type: none"> <li>Same as left</li> <li>Same as left</li> <li>If a compulsory collection by the local government under the Local Tax Collection is restricted in the case where a corporation invested in by an investor is a foreign corporation and the investor's shares in the foreign corporation are regarded as assets located in foreign country.</li> </ol> </li> </ul> </li> </ul>

(Effective date) Applicable in cases where an investor's tax obligation is established after this Act enters into force.

■ HR Tips

● **Statutory social insurance participation obligations by visa type**

Statutory social insurance participation obligations of foreigners working in Korea may vary depending on the visa type, which can be summarized by most common visa types of foreigners in Korea as below:

Visa type		Medical insurance	National pension	Unemployment insurance	Industrial accident compensation insurance
D-2	Student 유학	statutorily required	NOT statutorily required	NOT statutorily required	statutorily required
D-7	Expatriate 주재원		statutorily required	may elect to participate in the insurance at their discretion.	
D-8	Investment 기업투자				
F-4	Overseas Korean 재외동포				
D-10	Employment 구직			NOT statutorily required	

Unless the foreign(non-Korean) employee concerned is eligible for waiver of statutory social insurances and submits waiver applications with proper supporting documents thereof required by the Korean social insurance agencies, the foreign employee shall be subject to participation in the statutory social insurance programs in Korea mandatorily.

● **Waiver of statutory national health insurance participation in Korea allowed for “qualified” foreigners**

Under the National Health Insurance Act of Korea, foreign employees hired by an employer based in Korea are required to enroll and participate in the statutory national health insurance plan.

As an exception, however, if a foreign employee has medical insurance coverage under a global medical insurance plan that is sponsored by his/her employer or the national health insurance plan(s) provided by his/her home country, he/she may be eligible for waiver of participation in the statutory national health insurance plan in Korea.

To be qualified for a waiver, the National Health Insurance Service (NHIS) requires that the minimum criteria should be met including the following.

Criteria to be met for waiver of statutory national health insurance participation in Korea:	
①	Insurance launched in Korea cannot be qualified for a waiver.
②	Name and date of birth information of the insured should be specified in the insurance plan.
③	Insurance subscription date shall be before the foreigner/alien registration date in Korea.
④	Medical coverage for common disease/injuries shall be provided
⑤	There shall be no restrictions in the number of times/frequency of medical coverage/guarantee.
⑥	Foreigners shall be able to receive healthcare in Korea.
⑦	Minimum insurance coverage amount shall be at least <b>1 billion Korean Won</b>

- **Minimum 6-month sojourn period required for regional-based national health insurance enrollment for foreigners in Korea**

The statutory National Health Insurance Plans of Korea are categorized into (1) “business-based” plan and (2) “regional-based” plan. All foreigner(non-Korean) employees working at a workplace in Korea shall be enrolled as “business-based” plan subscribers mandatorily from the day they start employment in Korea (Day 1) unless they are exempt from such requirements.

On the other hand, if a foreigner (non-Korean) is self-employed or unemployed, he/she can be registered as “regional-based” plan subscribers only after such foreigner fulfills the minimum 6 months of sojourn period in Korea (extended from 3 months under the revised National Health Insurance Act in December 2018 as the government was concerned about foreigners coming into Korea specifically with the intent to work for a short period of time and take advantage of medical benefits unfairly).

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