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# 2024 Taxation in Korea

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## I Tax in Korea

(1) National tax.....	007
(2) Local tax.....	007

## II Taxes that foreign-invested companies should pay

### 1. Corporate Tax

(1) Overview.....	008
(2) Tax adjustment.....	012
(3) Major deductions and reduction/exemptions.....	018
(4) Taxation under the Adjustment of International Taxes Act.....	052

### 2. Value Added Tax

(1) Overview.....	071
(2) Zero tax rate.....	072
(3) Tax exemption.....	074
(4) Tax invoice.....	075



### III Tax for employees of a foreign-invested company

#### 1. Wage & salary income tax

(1) Process .....	076
(2) Income deduction .....	078
(3) Tax rate .....	084
(4) Tax credit .....	084
(5) Special taxation for foreigners .....	090

#### 2. Global income tax

(1) Types of income .....	092
(2) Tax rate .....	094
(3) Due date for filing .....	094

### IV Taxes to be paid by the shareholders of foreign-invested companies

#### 1. Tax on dividend income

(1) Local tax law .....	095
(2) Tax treaty .....	096
(3) Procedure for filing a return .....	097

#### 2. Taxes on stock transfer

(1) Tax on income from stock transfer .....	098
(2) Securities transaction tax .....	100

### V Tax related to incorporation, and acquisition and maintenance of assets

(1) Registration & license tax .....	101
(2) Acquisition tax .....	103
(3) Property tax .....	109
(4) Comprehensive real estate tax .....	111

## VI Other taxation schemes

### 1. Extension of due date and deferment of collection

(1) Extension of due date .....	116
(2) Deferment of collection .....	118

### 2. Request for correction, revised return, filing of return after the due date

(1) Request for correction .....	119
(2) Revised return .....	121
(3) Filing after the due date .....	122

### 3. Penalty tax

(1) Penalty tax for unfaithful returns .....	123
(2) Penalty tax for late or incorrect payment .....	124
(3) Penalty tax for late payment of withholding tax .....	124

### 4. Tax audit

(1) Selection of taxpayers subject to tax audit .....	125
(2) Deferment of tax audit .....	126
(3) Tax audit period .....	126

### 5. Interpretation of tax law

(1) Written inquiry .....	127
(2) Advance reply .....	128

### 6. Tax appeal and administrative suits

(1) Pre-assessment review .....	130
(2) Objection .....	131
(3) Request for examination or judgment .....	132
(4) Administrative litigation .....	133

### 7. Consulting on national tax

(1) Telephone .....	134
(2) Online .....	135





## Tax in Korea

- Taxes in Korea are divided into national taxes imposed and collected by the central government and local taxes imposed and collected by local governments. Among these, national taxes are divided into domestic taxes and customs duties.

Among the various types of taxes, the types most commonly encountered by business operators in Korea, including foreign-invested companies, are corporate tax (corporate), income tax (individual), and value-added tax.

This is because business taxpayers must file a quarterly value-added tax (VAT) return and corporate tax or income tax on annual income.

These three tax items also constitute the largest tax revenue, accounting for about 80% of all of the central government's tax revenues.

In this regard, this book focuses on the three taxes that are most commonly encountered by foreign-invested companies in Korea, namely corporate tax, income tax, and value-added tax, as well as the following tax items that are paid when establishing a corporation, transferring stocks, and acquiring and holding business assets (building, land, etc.).

## ( 1 ) | National tax

- Corporate tax: Tax levied on corporate income.
- Income tax: Tax levied on an individual's income.
- Value-added tax (VAT): Tax levied on the supply of goods or services and import of goods.
- Securities transaction tax: Tax levied at a certain percentage of the stock transfer price.
- Comprehensive real estate tax: Tax imposed when the total amount of housing and land exceeds a certain amount.

## ( 2 ) | Local tax

- Corporate local income tax: Tax imposed on corporate income.
- Registration and license tax: Tax imposed on corporate establishment and capital.
- Acquisition tax: Tax levied on the acquisition of certain assets such as real estate.
- Property tax: Tax levied on the owner of property such as real estate.







## Taxes that foreign-invested companies should pay

### 1. Corporate tax

#### ( 1 ) | Overview

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##### 1) Taxpayer

- Corporations are obligated to pay corporate tax for income for each business year, and there are some differences in the scope of taxation depending on the type of corporation.

Domestic corporations (headquarters, main office, or corporations with actual places of management in Korea) are liable for corporate tax on all income generated domestically and abroad, and foreign corporations (corporations whose headquarters or main office is in a foreign country) are liable for corporate tax only for income generated domestically (domestic-source income).

A foreign-invested company established in Korea through a foreigner (including foreign companies)'s capital investment as a shareholder is a domestic corporation, so it is obligated to pay corporate tax on all income generated at home and abroad.

### Taxpayer by type of corporation

Type of corporation		Income for each business year	Capital gains on land, etc.	Liquidation income
Domestic corporation	For-profit corporation	All domestic and foreign income	o	o
	Non-profit corporation	Income from for-profit domestic and foreign business	o	x
Foreign corporation	For-profit corporation	Domestic-source income	o	x
	Non-profit corporation	Income from for-profit business among domestic-source income	o	x

## 2) Types of corporate tax

### A. Corporate tax on income for each business year

A corporation is required to file and pay corporate tax on income for each business year on the income attributable to the corporation every business year. In general, corporate tax refers to corporate tax on income for each business year.

### B. Corporate tax on capital gains on land, etc.

When transferring housing (including attached land) prescribed by law, rights to acquire housing, and non-business use land, corporate tax for capital gains from transfer of land, etc. should be additionally paid.

### C. Corporate tax on liquidation income

When a corporation dissolves, corporate tax on liquidation income must be paid on the remaining assets of the corporation.

### 3) Business year

- A corporation's business year is determined by the articles of incorporation, etc., within the extent that it does not exceed one year.
- 

### 4) Tax rate

- A. Depending on the tax base bracket, a progressive tax rate of 9-24% shall be the corporate tax rate

Tax base	Tax rate
Not over KRW 200 mil.	9% of the tax base
Over KRW 200 mil. And not over KRW 20 bil.	KRW 18 mil. + (19% of amount over KRW 200 mil.)
Over KRW 20 bil. And not over KRW 300 bil.	KRW 3.78 bil. + (21% of the amount over KRW 20 bil.)
Over KRW 30 bil.	KRW 62.58 bil. + (24% of the amount over KRW 300 bil.)

- B. Corporate tax rate for capital gains from transfer of land, etc. shall be 10% for registered land (20% for housing), and 40% for unregistered land.
- 

### 5) Due date for filling

- A company must prepare a return of corporate tax base and tax amount and file corporate tax to the competent tax office within three months from the last day of the month to which the last day of each business year belongs, and pay the tax accordingly. The business year of most companies established in Korea runs from January 1 to December 31, and companies whose business year ends at the end of December must file and pay corporate tax on income from the business year by March 31 of the following year.
-

## 6) Documents to be submitted

- When filing corporate tax, the following documents shall be attached to the return of corporate tax base and tax amount. If the documents are not attached, it shall be deemed that corporate tax is not filed.

### A. Individual domestic corporations' financial statement\* and statement of tax adjustment calculation.

\* Statement of financial position, statement of comprehensive income, statement of appropriation of retained earnings (or statement of disposition of deficit).

### B. Other accompanying documents and cash flow chart, quote currency financial statement, won currency financial statement.

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## 7) Corporate local tax

- A company obligated to pay corporate tax shall file and pay corporate local tax to the relevant local authority with corporate income as the tax base. The deadline for filing and payment is four months from the last day of the month to which the last day of each business year belongs, and around 10% of the corporate tax is imposed as corporate local tax (refer to the Local Tax Act).

\* Corporate local income tax rate: Tax base for corporate tax ×  
0.9/1.9/2.1/2.4%

## (2) | Tax adjustment

• Tax adjustment refers to the process of calculating the revenue and expense of the current term for adjusting profit and loss pursuant to tax laws based on the net profit and loss on the financial statement prepared by corporate accounting standards in order to calculate taxable income according to the Corporate Tax Act. The difference between corporate accounting and tax accounting is adjusted by reflecting the following items.

Tax adjustment	Definition
Inclusion in gross revenue	Not recognized as income under corporate accounting but recognized as gross revenue under tax accounting
Exclusion from gross revenue	Recognized as income under corporate accounting but not recognized as gross revenue under tax accounting
Exclusion from deductible expense	Not recognized as expense under corporate accounting but recognized as deductible expense under tax accounting
Exclusion from deductible expense	Recognized as expense under corporate accounting but not recognized as deductible expense under tax accounting

Tax adjustment is necessary because although the provisions of tax laws respect corporate accounting standards in principle, there are some regulations that are exceptionally different from corporate accounting standards (e.g., non-inclusion of paid interest in loss) for taxation or social policy purposes.

## 1) Inclusion in gross revenue & exclusion from deductible expense

### A. Taxes, utility bills, etc.

Corporate tax, local corporate income tax, and value-added tax are not recognized as expense, while penalty and fine for traffic accidents, penalty for unfaithful payment of insurance premium for industrial accident compensation insurance, and fines paid under foreign laws are not recognized as deductible expense.

### B. Amount in excess of labor cost ceiling

Unlike labor costs for employees, labor costs for executives can be recognized as deductible expense within the ceiling. In the case of executive bonuses, bonuses paid in excess of the ceiling stated in the corporate articles of association or decided through a resolution of the general shareholders' meeting or board of directors' meeting shall not be recognized as deductible expense. If a corporation's articles of association, etc. do not set the standards for the payment of executive bonuses, the entire amount of bonuses paid to executives cannot be recognized as deductible expense.

In the case of executive retirement benefits, retirement benefits paid in excess of the ceiling stated on the corporate articles of association or decided through a resolution of the general shareholders' meeting or board of directors' meeting shall not be recognized as deductible expense. If the corporate articles of association, etc. do not set the payment criteria for executive bonuses, only the amount within the ceiling\* prescribed in the Corporate Tax Act can be recognized as deductible expense.

\*  $(\text{Total wage \& salary income amount for one year leading to the date of retirement} \div 10) \times \text{Total years of service}$ .

**C. Company housing maintenance expenses**

The maintenance expenses for company housing for employees and executives are recognized as deductible expense, but such expenses for investor executives (holding a stake of 1% or higher) are not recognized as deductible expense.

**D. Entertainment expense exceeding the ceiling**

Entertainment expenses are the amount spent by domestic corporations to facilitate business with those who are directly or indirectly related to business, and the amount spent beyond a certain limit is not recognized as deductible expense.

**1) Amount excluded from deductible expense**

Entertainment expenses expenditure – entertainment expenses ceiling.

**2) Ceiling for entertainment expenses (a+b+c)**

- a) Basic ceiling: KRW 12 million  
(small and medium-sized businesses: KRW 36 million).
- b) Ceiling based on revenue.

Revenue	Application rate
KRW 10 billion or less	Revenue x 0.3%
Not less than KRW 10 billion and not more than KRW 50 billion	Revenue x 0.2%
Over 50 KRW billion	Revenue x 0.2%

\* Only 10% of the amount calculated as above is recognized as deductible expense for revenue generated from transactions with special related persons.

**c) Ceiling on cultural entertainment expenses = lesser of (1, 2).**

- 1) Expenditure on cultural entertainment expenses.  
\* Domestic culture-related expenses such as spending on books and performances.
- 2) 20% of the general entertainment expenses (a+b) above.

### **E. Amount exceeding the deduction ceiling for depreciation expense**

Depreciation expenses for tangible and intangible assets can be included within the allowable limit for depreciation. If the amount of depreciation expense appropriated by the company exceeds the allowable limit for depreciation, the amount in excess of the limit will not be included in deductible expense.

However, if the depreciation expense appropriated by the company in a certain year is less than the allowable limit for depreciation, the depreciation expense that was excluded from deductible income in the past years can be recognized as deductible expense within the allowable limit for depreciation.

In other words, depreciation expense excluded from deductible expense ultimately become deducted as expense, although the timing may be delayed.

### **F. Personal expenses**

If personal expenses are paid for with a corporate credit card, the expenses are not recognized as deductible expense. If the card was used by an employee or executive, the amount will be treated as bonus and income tax will be imposed. In the case of shareholders, income tax shall be imposed with the amount treated as dividend.

### **G. Expenses on assets unrelated to business**

The expenses spent on assets acquired unrelated to business and the maintenance expenses for such assets are not recognized as deductible expense.



## H. Loan loss reserves

Where trade receivables held by a company are appropriated as loan loss reserves, they are recognized as deductible expense. However, the amount of loan loss reserves set\* in excess of the ceiling for loan loss reserves is not included in deductible expense.

\* Taxable receivables under tax laws at the end of the current period x  
The larger of [actual ratio of bad debts in the previous year (bad debts incurred in the current period ÷ amount of debt under tax laws at the end of the previous period), 1%]

## I. Deemed interest such as provisional payment unrelated to business

If money is lent interest-free or at an interest rate lower than the market rate to a special related party, the difference between the amount of interest calculated with the weighted average borrowing rate of interest (if not applicable, the interest rate of overdrawn account) and the actual amount of interest received shall be appropriated as gross revenue. In this case, income tax shall be imposed on the income recipient as a bonus for executives and employees, and dividend for shareholders.

## J. Interest paid on non-business assets

If a company spent corporate funds on provisional payments and assets unrelated to business even though it has debt, the portion (%) that the value of assets unrelated to business, etc. accounts for in the amount of debt is multiplied with the interest paid for debt, and the calculated amount shall not be included in deductible expense.

\* Amount not included in deductible expense = Interest paid x (Sum of daily accumulated balance of provisional payment unrelated to business and value of assets unrelated to business ÷ Total daily accumulated balance of debt)

## 2) Inclusion in deductible expense and exclusion from gross revenue

- The major items that are included in deductible expense and excluded from gross revenue are as follows:

### A. Profits from the evaluation of assets

Profits from the evaluation of assets are not recognized as gross revenue except for write-up of assets according to the Insurance Business Act and other laws.

### B. Dividend income from domestic companies

Where a domestic company is paid dividend from another domestic company in which it invested, a certain amount (30 to 100%) is recognized as deductible expense depending on the stakes held.

### C. Dividend income from a foreign subsidiary

Where a domestic company is paid dividend from a foreign company (the domestic company directly holds at least 10% of the total stakes of the foreign company and has held the stakes for at least six months as on the determination date of dividends), 95% of the amount of the dividend is not calculated in revenue.

### D. Interest on the refund of overpaid or erroneously-paid national or local taxes

If a company excessively pays or erroneously pays national tax and receives a refund, the interest on the refund paid by the government is not considered gross revenue.

### E. Amount reserved as loss carried forward

If a company is exempted from debt or is gifted assets, the gain on exemption of debt or assets contributed are considered gains, but when such amounts are appropriated as reserves for loss carried forward, they shall not be included as gains.

## [ 3 ] | Major deductions and reduction/exemptions

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- The Corporate Tax Act and Restriction of Special Taxation Act prescribe various tax deductions and tax reduction/exemptions. The major ones are as follows:

### 1) Deductions and reduction/exemptions under the Corporate Tax Act

#### A. Foreign tax credit

Where income generated overseas is included in the tax base of a domestic company (foreign-source income), foreign tax credit shall apply up to the tax credit ceiling for corporate tax paid to overseas tax authorities.

This is to prevent double taxation on the same income by Korean and foreign tax authorities.

#### 1) Type of foreign tax payments

##### ① Direct foreign tax payment

This is the amount that a domestic company paid to a foreign tax authority for income generated overseas. Examples include tax withheld when interest income or royalty income is paid, or when interest income from an overseas subsidiary is paid.

② Indirect foreign tax payment

A certain amount of the corporate tax paid to an overseas tax authority by an overseas subsidiary (holding at least 10% of the company's stake for at least six months as of the record date) that paid dividends to the domestic company is recognized as tax indirectly paid overseas.

③ Deemed foreign tax payment

Deemed foreign tax payment recognizes tax reduced or exempted overseas as tax paid overseas, and is only applicable in exceptional cases where foreign tax credit is permitted under tax treaties.

※ As of 2023, where a domestic company is paid dividend from a foreign company (the domestic company directly holds at least 10% of the total stakes of the foreign company and has held the stakes for at least six months as on the determination date of dividends), 95% of the amount of the dividend is excluded from the corporate tax base of the domestic company (non-inclusion in profit). In this regard, the overseas tax payment proportionate to such amount shall not be subject to foreign tax credit (direct, indirect and deemed) due to double taxation issues between the two countries.

## 2) Foreign tax credit ceiling

The foreign tax credit ceiling is calculated for each country concerned.

$$\text{Foreign tax credit ceiling} = \text{Tax calculated} \times \frac{\text{Foreign source income} - (\text{Foreign source income} \times \text{Reduction ratio})}{\text{Tax base for corporate tax}}$$

### B. Tax credit for losses from disasters

If a domestic company loses 20% or more of its total assets for business use due to natural disaster or other disasters during a business year and it is deemed impractical for the company to pay tax, the amount calculated by multiplying the amount of deductible corporate tax by the ratio of the value of the lost assets to the total amount of assets prior to the loss (limited to the value of lost assets) shall be deducted from the amount of tax.



## 2) Tax credits and tax reduction/exemptions under the Restriction of Special Taxation Act

### Summary of Major Tax Credits and Tax Reduction/Exemptions

Classification	Tax Benefits																																					
<p><b>Reduction/exemption of corporate tax for start-up SMEs (Article 6)</b></p>	<ul style="list-style-type: none"> <li>For SMEs established no later than Dec. 31, 2024, 50 to 100% of the corporate tax to be paid for five years from the year in which income first occurred is reduced (50% additional reduction where number of full-time employees increased ➔ Up to 100% exemption).</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="background-color: #008080; color: white;">Business</th> <th colspan="2" style="background-color: #008080; color: white;">Place of business</th> </tr> <tr> <th style="background-color: #008080; color: white;">In overconcentration control zones</th> <th style="background-color: #008080; color: white;">Others</th> </tr> </thead> <tbody> <tr> <td style="background-color: #008080; color: white;">General start-ups</td> <td style="text-align: center;">-</td> <td>50% reduction for 5 years</td> </tr> <tr> <td style="background-color: #008080; color: white;">Start-ups by youths, start-ups with income of not more than KRW 80 mil.</td> <td>50% reduction for 5 years</td> <td>100% exemption for 5 years</td> </tr> <tr> <td style="background-color: #008080; color: white;">High-tech start-ups, new energy tech business</td> <td colspan="2" style="text-align: center;">50% reduction for 5 years</td> </tr> <tr> <td style="background-color: #008080; color: white;">New growth service business</td> <td colspan="2">75% reduction for 3 years + 50% reduction for 2 years</td> </tr> </tbody> </table>	Business	Place of business		In overconcentration control zones	Others	General start-ups	-	50% reduction for 5 years	Start-ups by youths, start-ups with income of not more than KRW 80 mil.	50% reduction for 5 years	100% exemption for 5 years	High-tech start-ups, new energy tech business	50% reduction for 5 years		New growth service business	75% reduction for 3 years + 50% reduction for 2 years																					
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<p><b>Special tax credit for SMEs (Article 7)</b></p>	<ul style="list-style-type: none"> <li>For SMEs operating a manufacturing business or other businesses subject to tax reduction/exemption, 5 to 30% of corporate tax shall be reduced up to Dec. 31, 2025 as follows:</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="background-color: #008080; color: white;">Business</th> <th rowspan="2" style="background-color: #008080; color: white;">Size</th> <th colspan="2" style="background-color: #008080; color: white;">Place of business</th> </tr> <tr> <th style="background-color: #008080; color: white;">Seoul metropolitan area</th> <th style="background-color: #008080; color: white;">Others</th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="background-color: #008080; color: white;">A. Wholesale/retail, medical service (Wholesale, etc.)</td> <td style="background-color: #008080; color: white;">Small</td> <td colspan="2" style="text-align: center;">10%</td> </tr> <tr> <td style="background-color: #008080; color: white;">Middle</td> <td style="text-align: center;">-</td> <td style="text-align: center;">5%</td> </tr> <tr> <td rowspan="2" style="background-color: #008080; color: white;">B. Eligible businesses other than wholesale, etc.</td> <td style="background-color: #008080; color: white;">Small</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">30%</td> </tr> <tr> <td style="background-color: #008080; color: white;">Middle</td> <td style="text-align: center;">-</td> <td style="text-align: center;">15%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Ceiling: KRW 100 mil (Where number of full-time employees decreased from the previous year, KRW 5 mil. per decreased person shall be subtracted from KRW 100 mil.).</li> </ul>	Business	Size	Place of business		Seoul metropolitan area	Others	A. Wholesale/retail, medical service (Wholesale, etc.)	Small	10%		Middle	-	5%	B. Eligible businesses other than wholesale, etc.	Small	20%	30%	Middle	-	15%																	
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<p><b>Tax credit for integrated investment (Article 24)</b></p>	<ul style="list-style-type: none"> <li>Where an SME or middle-standing company invests in tangible assets for business use such as machinery, a certain portion (①+②) of the investment amount is deducted from corporate tax.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3" style="background-color: #008080; color: white;">Credit</th> <th colspan="3" rowspan="2" style="background-color: #008080; color: white;">General investment</th> <th colspan="3" style="background-color: #008080; color: white;">Investment in new growth tech</th> </tr> <tr> <th colspan="3" style="background-color: #008080; color: white;">Investment in nat'l strategic tech(temporarily extended until Dec.31, 2024 with rates rising to 15% for general/middle corporations and 25% for SMEs.)</th> </tr> <tr> <th style="background-color: #008080; color: white;">SMEs</th> <th style="background-color: #008080; color: white;">Middle</th> <th style="background-color: #008080; color: white;">General</th> <th style="background-color: #008080; color: white;">SMEs</th> <th style="background-color: #008080; color: white;">Middle</th> <th style="background-color: #008080; color: white;">General</th> </tr> </thead> <tbody> <tr> <td style="background-color: #008080; color: white;">① Basic credit</td> <td style="text-align: center;">10%</td> <td style="text-align: center;">5%</td> <td style="text-align: center;">1%</td> <td style="text-align: center;">12%</td> <td style="text-align: center;">6%</td> <td style="text-align: center;">3%</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">16%(25%)</td> <td style="text-align: center;">8%(15%)</td> <td style="text-align: center;">8%(15%)</td> </tr> <tr> <td style="background-color: #008080; color: white;">② Additional credit</td> <td colspan="6" style="text-align: center;">Where investment exceeds the average investment amount over the preceding 3 years, 3% tax credit is granted (4% for national strategic technology), up to 2 times the basic credit amount</td> </tr> </tbody> </table>	Credit	General investment			Investment in new growth tech			Investment in nat'l strategic tech(temporarily extended until Dec.31, 2024 with rates rising to 15% for general/middle corporations and 25% for SMEs.)			SMEs	Middle	General	SMEs	Middle	General	① Basic credit	10%	5%	1%	12%	6%	3%					16%(25%)	8%(15%)	8%(15%)	② Additional credit	Where investment exceeds the average investment amount over the preceding 3 years, 3% tax credit is granted (4% for national strategic technology), up to 2 times the basic credit amount					
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Classification	Tax Benefits																													
<p><b>Tax credit for R&amp;D expenses (Article 10)</b></p>	<ul style="list-style-type: none"> <li>• A certain portion of R&amp;D expenses is deducted from the relevant taxable year's corporate tax.                             <ul style="list-style-type: none"> <li>- New growth tech, source tech: 20~ 40%.</li> <li>- National strategic tech: 30~ 50%.</li> <li>- Tax credit for general R&amp;D expenses: The larger of (①, ②)                                     <ul style="list-style-type: none"> <li>① 25 to 50% of the amount in excess of preceding year's R&amp;D expenses.</li> <li>② 0 to 50% of relevant year's R&amp;D expenses.</li> </ul> </li> </ul> </li> </ul>																													
<p><b>Tax credit for companies that increased wages (Article 29-4)</b></p>	<p>For SMEs and middle-standing companies ① whose average wage increase rate of the taxable year exceeds the average wage increase rate of the previous 3 taxable years and ② whose number of full-time employees of the taxable year is more than that of the previous taxable year, 20% (10% for middle-standing companies) of the amount of wage exceeding the average of the previous 3 years shall be deducted from corporate tax.</p>																													
<p><b>Integrated tax credit for integrated employment (Article 29-8)</b></p>	<p>① Where the number of full-time employees of a company has increased from the number in the previous taxable year, a certain amount is deducted from corporate tax.</p> <ul style="list-style-type: none"> <li>- (Tax credit amount) No. of increased employees × Tax credit amount per person.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th rowspan="3" style="background-color: #808080; color: white;">Employee type</th> <th colspan="4" style="background-color: #808080; color: white;">Tax credit per person</th> </tr> <tr> <th colspan="2" style="background-color: #808080; color: white;">SMEs (3 years)</th> <th rowspan="2" style="background-color: #808080; color: white;">Middle-standing companies (3 years)</th> <th rowspan="2" style="background-color: #808080; color: white;">Large companies (2 years)</th> </tr> <tr> <th style="background-color: #808080; color: white;">Metropolitan areas</th> <th style="background-color: #808080; color: white;">Non-metropolitan areas</th> </tr> </thead> <tbody> <tr> <td style="background-color: #808080; color: white;">General</td> <td>KRW 8.5 mil.</td> <td>KRW 9.5 mil.</td> <td>KRW 4.5 mil.</td> <td>-</td> </tr> <tr> <td style="background-color: #808080; color: white;">Regular youth employees, the disabled, persons aged 60 or older, career-interrupted women, etc.</td> <td>KRW 14.5 mil.</td> <td>KRW 15.5 mil.</td> <td>KRW 8 mil.</td> <td>KRW 4 mil.</td> </tr> </tbody> </table> <p>② Tax credit for SMEs and middle-standing companies' employees newly given regular employees and employees returning from childcare leave.</p> <ul style="list-style-type: none"> <li>- (Tax credit amount) No. of persons × Tax credit amount per person.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th rowspan="2" style="background-color: #808080; color: white;">Employee type</th> <th colspan="2" style="background-color: #808080; color: white;">Tax Credit</th> </tr> <tr> <th style="background-color: #808080; color: white;">SMEs (1 yr)</th> <th style="background-color: #808080; color: white;">Middle-standing companies (1 yr)</th> </tr> </thead> <tbody> <tr> <td style="background-color: #808080; color: white;">Employees newly given regular employee status, employees returning from childcare leave</td> <td>KRW 13 mil.</td> <td>KRW 9 mil.</td> </tr> </tbody> </table>	Employee type	Tax credit per person				SMEs (3 years)		Middle-standing companies (3 years)	Large companies (2 years)	Metropolitan areas	Non-metropolitan areas	General	KRW 8.5 mil.	KRW 9.5 mil.	KRW 4.5 mil.	-	Regular youth employees, the disabled, persons aged 60 or older, career-interrupted women, etc.	KRW 14.5 mil.	KRW 15.5 mil.	KRW 8 mil.	KRW 4 mil.	Employee type	Tax Credit		SMEs (1 yr)	Middle-standing companies (1 yr)	Employees newly given regular employee status, employees returning from childcare leave	KRW 13 mil.	KRW 9 mil.
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Classification	Tax Benefits												
<b>Tax reduction/exemption for start-ups in a crisis area (Article 99-9)</b>	<ul style="list-style-type: none"> <li>For start-ups established as a company subject to tax reduction/exemption no later than Dec. 31, 2025, 100% of corporate tax shall be exempted for 5 years from the taxable year in which income first occurred, and 50% shall be reduced for 2 years thereafter.</li> </ul>												
<b>Tax reduction/exemption for companies relocating their factories outside the Seoul metropolitan area (Article 63, 63-2)</b>	<ul style="list-style-type: none"> <li>Corporate tax shall be reduced/exempted in the following cases:                             <ol style="list-style-type: none"> <li>① Where a company that has been operating a factory facility for 3 years (2 years in the case of SMEs) or longer in an overconcentration control zone in the Seoul metropolitan area relocates its factory facilities outside the Seoul metropolitan area (an overconcentration control zone for SMEs),</li> <li>② Where a company which has had its headquarters in an overconcentration control zone in the Seoul metropolitan area for 3 years or longer relocates outside of the Seoul metropolitan area.</li> </ol> </li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #9e9e9e; color: white;">Classification</th> <th style="background-color: #9e9e9e; color: white;">Area of Relocation</th> <th style="background-color: #9e9e9e; color: white;">Reduction/Exemption Period (reduction rate)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td> <ul style="list-style-type: none"> <li>Seoul metropolitan area (outside overconcentration control zones) * Applied to relocation of factories of SMEs</li> <li>Local metropolitan cities, middle-sized cities, etc.* * Gumi, Gimhae, Asan, Changwon, etc. (Article 60 (4) of Enforcement Decree of the Restriction of Special Taxation Act)</li> </ul> </td> <td style="text-align: center;">5 yrs (100%) +2 yrs (50%)</td> </tr> <tr> <td style="text-align: center;">2</td> <td> <ul style="list-style-type: none"> <li>Growth promotion areas, population decrease areas, employment/ industrial crisis areas in local metropolitan cities and middle-sized cities</li> <li>Areas other than ①, ③</li> </ul> </td> <td style="text-align: center;">7 yrs (100%) +3 yrs (50%)</td> </tr> <tr> <td style="text-align: center;">3</td> <td> <ul style="list-style-type: none"> <li>Growth promotion areas, areas with decreasing population, industrial and employment crisis areas * Seoul metropolitan area, local metropolitan cities, middle-sized cities are excluded.</li> </ul> </td> <td style="text-align: center;">10 yrs (100%) +2 yrs (50%)</td> </tr> </tbody> </table>	Classification	Area of Relocation	Reduction/Exemption Period (reduction rate)	1	<ul style="list-style-type: none"> <li>Seoul metropolitan area (outside overconcentration control zones) * Applied to relocation of factories of SMEs</li> <li>Local metropolitan cities, middle-sized cities, etc.* * Gumi, Gimhae, Asan, Changwon, etc. (Article 60 (4) of Enforcement Decree of the Restriction of Special Taxation Act)</li> </ul>	5 yrs (100%) +2 yrs (50%)	2	<ul style="list-style-type: none"> <li>Growth promotion areas, population decrease areas, employment/ industrial crisis areas in local metropolitan cities and middle-sized cities</li> <li>Areas other than ①, ③</li> </ul>	7 yrs (100%) +3 yrs (50%)	3	<ul style="list-style-type: none"> <li>Growth promotion areas, areas with decreasing population, industrial and employment crisis areas * Seoul metropolitan area, local metropolitan cities, middle-sized cities are excluded.</li> </ul>	10 yrs (100%) +2 yrs (50%)
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<b>Tax reduction/exemption for companies reshoring to Korea (Article 104-24)</b>	<ul style="list-style-type: none"> <li>Where a place of business that has been operated continuously for 2 years or longer overseas has been sold, closed or reduced in size and a place of business is newly established or expanded in Korea (excluding overconcentration control zones in the Seoul metropolitan area), corporate tax is 100% exempted for 5 years, and reduced by 50% for 2 years thereafter.</li> </ul>												



## A. Tax reduction or exemption for small and medium start-up businesses

For a small or medium business incorporated for a manufacturing business, etc. on or before Dec. 31, 2024, a certain percentage of corporate tax shall be reduced up to five years.

### Small and medium-sized businesses

Small and medium-sized businesses refer to businesses that meet all of the following requirements. However, businesses with assets of KRW 500 billion or more are not considered small and medium-sized businesses.

1. The amount of sales does not exceed the average sales ceiling (for small and medium businesses) by business category prescribed by attached Table 1 of the Enforcement Decree of the Framework Act on Small and Medium Enterprises.
2.
  - ① The company should not belong to a business group subject to public disclosure (including companies that are deemed included in and notified to a member of such business group).
  - ② The company is not a company in which a corporation with total assets of KRW 500 billion or more is the largest shareholder directly or indirectly owning 30% or more of the company's shares.
  - ③ In the case of a company belonging to a related company, the related company's sale should meet the standards for qualification as a small and medium business.
3. The company does not operate a consumptive service business (e.g., hotel and motel business, drinking places) as its main business.

## 1) Eligible businesses

### ① Small and medium-sized start-up businesses

Small and medium-sized businesses incorporated in businesses eligible for tax reduction/exemption such as the manufacturing business.

\* If the representative who is the largest shareholder at the time of business establishment is between the age of 15 and 34, the company is classified as a small and medium-sized youth startup.

### ② Small and medium-sized venture startups

Companies that have been certified as a venture company within three years of establishing a business eligible for tax reduction/exemption.

\* Venture capital investment companies, companies with an excellent technology rating, and small and medium-sized businesses whose research and personnel development expenses account for 5% or more of its revenue.

### ③ Small and medium-sized businesses in the field of new energy technology

A company where three taxable years have not passed from the taxable year to which belongs its business establishment date, which is designated as a small and medium-sized business in the field of new energy technology by the end of 2024.

\* Manufacturers of products with level 1 ranking in the energy efficiency label, and products certified as high energy efficiency equipment and new and renewable energy equipment.

## 2) Definition of starting a business

‘Starting a business’ means establishing a new SME. In this case, the business establishment date is the date of registration of incorporation, and tax reduction/exemption shall be applied to SMEs that operate a type of business subject to tax reduction/exemption under the Restriction of Special Taxation Act.

### **Activities that are not considered starting a business**

In any of the following cases, it shall not be considered ‘starting a business’:

1. Where the previous business has been succeeded through merger, division, investment-in-kind or business acquisition or the same type of business is operated by acquiring (purchasing) the assets used in the previous business (excluding cases where the sum of assets does not exceed 30% of the total value of the business assets)
2. Where the existing business is converted into a corporation and a new corporation is established
3. Where business is re-started after business closure and the same type of business is operated
4. Where business is expanded or another type of business is additionally operated but it is difficult to deem that a new business is started for the first time

### 3) Tax reduction or exemption

#### ① Tax reduction/exemption period

Tax shall be reduced or exempted for the taxable year in which income first incurred until the taxable year that ends within four years from the following taxable year.

#### ② Calculation of reduced/exempted tax

$$\text{Reduced/exempted tax} = \text{Calculated tax} \times \frac{\text{Income subject to tax reduction/exemption}}{\text{Tax base}} \times \text{Reduction rate (50-100\%)}$$

#### ③ Reduction rate

Type of Business	Location	
	Inside an overconcentration control zone <sup>1)</sup>	Outside an overconcentration control zone
General start-ups	-	50% reduction for 5 years
Youth start-ups, start-ups with income no more than KRW 80 mil <sup>2)</sup>	50% reduction for 5 years	100% exemption for 5 years
Start-up ventures, new energy technology business	50% reduction for 5 years	
New growth service business	75% reduction for 3 years + 50% reduction for 2 years	

1) Seoul special city, Incheon metropolitan city (part), Euijeongbu city, Guri city, Namyangju city (part), Hanam city, Goyang city, Suwon city, Seongnam city, Anyang city, Bucheon city, Gwangmyeong city, Gwacheon city, Euiwang city, Gunpo city, Siheung city (part) = Refer to attached Table 1 of the Enforcement Decree of the Seoul Metropolitan Area Readjustment Planning Act

2) Applied to the taxable year in which annual income is no more than KRW 80 mil. between the taxable year in which income was first incurred and four years thereafter

- ④ Additional reduction/exemption for increase in hiring
- (a) Additional reduction/exemption of up to 50% (25%) according to employment increase rate
- Additional reduction rate: YoY increase rate of number of full-time employees X 1/2.
  - Ceiling: Up to 50% (25% for start-up SMEs subject to 75% basic reduction rate).
- (b) Applied from the taxable year in which the minimum employment per business (manufacturing, mining, construction, logistics: 10, others: 5) is met.
- \* In the first year in which additional reduction is applied, the employment increase rate shall be calculated based on the minimum number of employees.

### Example

In any of the following cases, it shall not be considered 'starting a business':

1. Where the number of full-time employees of an SME that started business in 2020 continuously increased  
(2020) 10 → (2021) 15 → (2022) 20
- 2019: 50% reduction
  - 2020: 50% + Additional reduction of 25% (50% x 1/2)  
= Total reduction of 75%
  - 2022: 50% + Additional reduction of 16.7% (33% x 1/2)  
= Total reduction of 66.7%

2. Where a start-up manufacturer whose employees are less than the minimum requirement has been able to meet the minimum number due to increased employment

(2021) 8 → (2022) 16

- 2021: 50% reduction

- 2022: 50% + 30% Additional reduction (60% x 1/2)

= 80% reduction in total

\* Increase of 6 employees where minimum employment is 10 persons: 60% increase (6 persons)

## B. Special tax reduction/exemption for SMEs

### 1) Eligibility

For SMEs operating a business eligible for tax reduction/exemption such as manufacturing, the following tax amount shall be reduced/exempted up to Dec. 31, 2025.

### 2) Tax reduction/exemption rate

Business	Size	Location	
		Seoul metropolitan area	Others
A. Wholesale/retail, medical service (Wholesale, etc.)	Small	10%	
	Medium	-	5%
B. Eligible businesses other than wholesale, etc.	Small	20%	30%
	Medium	-	15%

① The Seoul metropolitan area refers to Seoul Special City, Incheon Metropolitan City and Gyeonggi-do.

\* Where the HQ and main office of a company is in the Seoul metropolitan area, it shall be considered that all places of business are in the Seoul metropolitan area and the reduction rate shall be applied accordingly.

② Small companies refers to SMEs whose average sales satisfy the minimum required to be satisfied as a small company, and the other companies shall be classified as medium companies (refer to attached Table 3 of the Enforcement Decree of the Framework Act on Small and Medium Enterprises).

\* Food manufacturing: Up to KRW 1.2 mil., Construction: Up to KRW 0.8 million, Wholesale & retail: Up to KRW 0.5 mil.

### 3) Calculation of reduced tax

$$\text{Reduced tax} = \text{Calculated tax} \times \frac{\text{Income subject to tax reduction/exemption}}{\text{Tax base}} \times \text{Tax reduction rate (5 to 30\%)}$$

### 4) Ceiling of tax reduction/exemption

① Where the number of full-time employees in the taxable year has decreased from the previous year

: KRW 100 mil. - (no. of full-time employees x KRW 5 mil.)

② Where the number of full-time employees has increased or remained unchanged: KRW 100 mil.

### Example of calculation

Small companies in the Seoul metropolitan area.

Classification		KRW (1,000)	Calculation (tax base x income subject to tax reduction/exemption x tax reduction rate)
Tax base		1,000,000	Manufacturing income: KRW 600 mil. Retail income: KRW 300 mil. Interest income: KRW 100 mil.
Calculated tax		180,000	KRW 20 mil. + (KRW 1 bil. - KRW 200 mil.) x 20%
Reduced tax	Sum	37,800	① + ②
	Manufacturing	32,400	① KRW 180,000,000 x (KRW 600 mil. / KRW 1 bil.) x 30%
	Retail	5,400	② KRW 180,000,000 x (KRW 300 mil. / KRW 1 bil.) x 10%
Tax payable		142,200	KRW 180,000,000 - KRW 37,800,000

\* Interest income is not income subject to tax reduction/exemption.

### Tax Reductions/Exemptions for Start-up SMEs, Article 6 (3) of the Restriction of Special Taxation Act

1. Mining	2. Manufacturing	3. Water supply, sewage and waste disposal, etc.
4. Construction	5. Retail sale via mail order or internet	6. Logistics
7. Restaurant	8. Telecommunication	9. Finance & insurance
10. Professional, science and technology service	11. Business facility management & landscaping service, etc.	12. Social welfare service
13. Art, sports & leisure services	14. Repair of personal and household goods, hair, nail and skin care	15. Private institute teaching vocational skills, etc.
16. Tourist accommodation, int'l conventions	17. Welfare facilities for the elderly	18. Exhibition



## Special Tax Reductions/Exemptions for SMEs, Article 7 (1) 1 of the Restriction of Special Taxation Act

1. Crop cultivating	2. Livestock	3. Fishery
4. Mining	5. Manufacturing	6. Sewage and waste disposal
7. Construction	8. Wholesale & retail	9. Passenger transport
10. Publishing	11. Production & distribution of video & audio record products	12. Broadcasting
13. Telecommunications	14. System integration, management	15. Information service
16. Research & development	17. Advertisement	18. Other science and technology service
19. Packaging & charging	20. Specialized design	21. Creation & art-related service
22. Outsourced manufacturing	23. Engineering	24. Logistics
25. Private institute for vocational skills, etc.	26. Motor vehicle maintenance factory operation	27. Ship management
28. Medical institution operation	29. Tourism	30. Welfare facilities for the elderly
31. Exhibition	32. Human resource supply & employment arrangement	33. Call center and telemarketing
34. Business engaged in by an enterprise specialized in energy saving	35. Operation of a domiciliary long-term care institution	36. Cleaning service for building and industrial facilities
37. Security and guard services	38. Market research and opinion survey	39. Social welfare service
40. Lease of intangible property rights	41. Research and development support	42. Individual nursing or other similar services
43. Housing rental & management	44. New & renewable energy generation	45. Security system service
46. Forestry	47. Customs clearance and related services	48. Automobile rental

※ In the case of some types of businesses that are sub-classified, reduction/exemption may not apply

Example: Information service business (excluding sales and intermediation of block-chain based crypto assets)

## C. Tax credit for integrated investment

### 1) Overview

A certain percentage of a company's investment in tangible assets for business use is deducted from corporate tax.

### 2) Eligibility

- ① Tangible assets for business such as machinery (excluding structures such as land, buildings, and vehicles, vessels and aircraft)
- ② Assets for business used for research and human resources development, energy conservation, environmental conservation or enhancement of employee welfare
- ③ Essential business assets considering the characteristics of the relevant business, such as vehicles that are directly used for business by a transport business operator

### 3) Tax credit amount

Tax credit amount = Investment amount x tax credit rate (basic credit + additional credit)

### 4) Tax credit rate

Tax credit rate	General investment			Investment in new growth tech		
				Investment in nat'l strategic tech (temporarily extended until Dec. 31, 2024, with rates rising to 15% for general/middle corporations and 25% for SMEs.)		
	SMEs	Middle Standing	General	SMEs	Middle Standing	General
① Basic credit	10%	5%	1%	12%	6%	3%
				16%(25%)	8%(15%)	8%(15%)
② Additional credit	Where the investment exceeds the average investment over the preceding 3 years, 3% of the amount (4% for national strategic technology), up to 2 times the basic tax credit amount					

① Basic tax credit rate

For general investment, tax credit rate of 1%, 5% or 10% is applied depending on the size of the enterprise.

For investment in new growth technology and national strategic technology (e.g., semiconductor, battery, vaccine), additional tax credit rate is applied.

② Additional tax credit rate

Where investment in the relevant taxable year exceeds the average investment over the preceding three years, additional tax credit equivalent to a portion of the amount in excess (3% for general investment & investment in new growth technology; 4% for national strategic technology) is granted, but the additional tax credit amount cannot exceed two times the basic tax credit amount.

**5) Additional collection of tax credit amount**

Where the relevant assets have been disposed of before two years (five years for buildings and constructions) have passed from the date of completing investment, the amount equivalent to the tax credit amount and interest thereof shall be additionally paid as corporate tax.

### Companies of middle standing

Companies of middle standing refers to companies that satisfy all the following conditions, and companies whose average sales over the three preceding taxable years are KRW 300 billion or more shall not be considered middle standing companies.

1. The company is not an SME.
2. ① The company shall not belong to a business group restricted from mutual investment.
  - ② The company's largest investor is not a company in which 30% or more of its stakes is owned directly or indirectly by a company or corporation (including a foreign corporation) with total assets exceeding the standard for designation as a business group restricted from mutual investment (i.e., amount equivalent to 5/1,000 of GDP).
3. The company shall not operate consumptive service business, financial business, as its main business etc.

\* Hotels and motels, drinking places, financial business, insurance and pension business, finance and insurance-related service.

### D. Tax credit for R&D and human resources development expense

#### 1) Eligibility

A certain percentage of a company's investment in tangible assets for business use is deducted from corporate tax.

#### 2) Expenses subject to tax credit

- ① Research and human resources development expenses for new growth technology and source technology
- ② Research and human resources development expenses for national strategic technology
- ③ General research and human resources development expenses

**3) Tax credit amount: ① + ② + ③**

\* Where ① and ② can be both applied, only one shall be selected and applied.

① R&D expenses for new growth technology and source technology  
 R&D expenses for new growth industry technology and source technology X The following tax credit rate

Expense	Company	Tax credit rate
<b>R&amp;D expenses for new growth industry technology and source technology</b>	SMEs	30% + The lesser of [(The relevant R&D expenses ÷ Revenue) x 3, 10%]
	KOSDAQ-listed middle-standing companies	25% + The lesser of [(The relevant R&D expenses ÷ Revenue) x 3, 15%]
	General companies	20% + The lesser of [(The relevant R&D expenses ÷ Revenue) x 3, 10%]

② R&D expenses for national strategic technology

A 10% additional tax credit rate shall be applied to the tax credit rate applied to new growth technology and source technology.

Expense	Company	Company
<b>Research and human resources development expenses for national strategic technology</b>	SMEs	40% + The lesser of [(R&D expenses for new growth tech & source tech ÷ Income) x 3, 10%]
	Other companies	30% + The lesser of [(R&D expenses for new growth tech & source tech ÷ Income) x 3, 10%]

③ General R&D and human resources development expenses: The larger of ((a), (b))

(a) Incremental basis: (Relevant expenses for the relevant taxable year – Relevant expenses for the preceding taxable year) x Tax credit rate (50% for SMEs, 40% for companies of middle standing, 25% for general companies).

\* Where general R&D and human resources development expenses have not incurred for four years retroactively or where the expenses for the preceding year are less than the expenses incurred for four years retroactively, (b) shall apply.

(b) Current portion basis: General R&D and human resources development expenses for the relevant taxable year x Tax credit rate.

Expense	Type of company	Tax credit rate
General R&D and human resources development expenses	SMEs	25%
	Companies whose grace period for losing SME status was expired within the past five years	15% (Within 3 years of expiration of the grace period) 10% (Within the following 2 years)
	Companies of middle standing	8%
	General companies	The lesser of [(Relevant expenses ÷ Revenue) x 50%, 2%]

## **E. Tax credit for companies increasing earned income (Tax credit for increase in earned income)**

### **1) Overview**

For SMEs and middle-standing companies that raised the wages of employees, a certain amount shall be deducted from corporate tax up to Dec. 31, 2025.

### **2) Companies that increased wages**

#### ① Where wage has increased

Where the wage increase rate of full-time employees in the relevant taxable year has exceeded the average wage increase rate in the preceding three taxable years and the number of full-time employees is not less than the number of full-time employees in the preceding taxable year.

#### ② Where there are employees that were transferred to full-time status

The company has employees that were transferred to full-time status and the number of full-time employees is not less than the number of full-time employees in the preceding taxable year.

### **3) Tax credit amount**

① Wage exceeding the average wage over the past 3 yrs x 5% (10% for middle-standing companies, 20% for SMEs).

② Wage increased for employees transferred to regular employee status x 5% (10% for middle-standing companies, 20% for SMEs).

### Persons who are excluded from the scope of full-time employees (employees changed to regular employee status)

- ① Executive officers
- ② Employees whose earned income is KRW 70 mil. or higher
- ③ The largest shareholder and employees who are his/her relatives
- ④ Persons whose withholding of wage & salary income cannot be confirmed
- ⑤ Employees whose contract period is less than 1 year
- ⑥ part-time employee

#### F. Comprehensive tax credit for employment

- Where the number of full-time employees has increased from that of the previous taxable year, a certain amount per increased employee shall be deducted from corporate tax in the relevant taxable year to the taxable year to which the day one year (two years for SMEs and middle-standing companies) elapses belongs from the last day of the above taxable year, and additional tax credit shall apply for SMEs and middle-standing companies for employees who were transitioned to regular employee status and employees who returned to work from childcare leave.



- (Basic deduction) No. of increased number of employees × Deduction amount

Employee	Deduction			
	SMEs (3 yrs)		Middle-standing companies (3 yrs)	Large companies (2 yrs)
	Seoul metropolitan area	Other areas		
<b>General</b>	KRW 8.5 mil.	KRW 9.5 mil.	KRW 4.5 mil.	-
<b>Regular-status youths, the disabled, aged 60 or older, career-interrupted women, etc.</b>	KRW 14.5 mil.	KRW 15.5 mil.	KRW 8 mil.	KRW 4 mil.

- (Additional deduction) No. of transitioned or returned employees × Deduction amount (applicable only for one year)

Employees	Deduction amount	
	SMEs (1 yr)	Middle-standing (1 yr)
<b>Persons transitioned to regular employee status* persons returning from childcare leave</b>	KRW 13 mil.	KRW 9 mil.

\* Where an SME or a middle-standing company transitions its fix-term, part-time or dispatched employees employed as of June 30, 2023 to regular employees by Dec. 31, 2024.

### 1) Additional collection of tax

Where the number of employees decreased within two years of the end of the taxable period for which tax credit was applied, or where employment relations with the relevant employee has been severed within two years of the day on which he/she was transitioned to a regular worker or returned to work from childcare leave, the deducted tax amount should be repaid.

## G. Tax reduction/exemption for SMEs relocating out of overconcentration control zones in the Seoul metropolitan area

### 1) About

Where an SME operating a factory facility in an overconcentration control zone in the Seoul metropolitan area relocates all of its factory facilities out of the Seoul metropolitan area (overconcentration control zone in the Seoul metropolitan area for SMEs) and commences business by Dec. 31, 2025, corporate tax shall be reduced or exempted for a certain period starting from the taxable year in which income first incurred at the relevant factory.

### 2) Requirements

- ① The company should have operated business with factory facilities for three years or longer (two years or longer for SMEs) in an overconcentration control zone in the Seoul metropolitan area.
- ② The company sold its existing factory within two years of the date of business commencement after relocating all of its factory facilities\* or is unable to operate its factory facility as it has been demolished and closed down; or the company commenced business outside the Seoul metropolitan area within two years (three years when establishing a new factory) from the date of factory sales.

\* Where an SME relocates its factory outside the overconcentration control zone in the Seoul metropolitan area: The HQ should also relocate.

\* Where a company that is not an SME relocates to a metropolitan city: The company should relocate to an industrial complex under subparagraph 8 of Article 2 of the Industrial Sites Development Act: Relocation to an industrial complex.

- ③ The type of business operated in the factory before relocation is the same as the one operated in the factory after relocation (based on KSIC classification).

### 3) Tax reduction/exemption

No.	Relocated Area	Reduction Period (Rate)
1	<ul style="list-style-type: none"> <li>• Seoul metropolitan area (outside overconcentration control zones). * Applicable only to factories of SMEs.</li> <li>• Local metropolitan cities, middle-sized cities, etc.* * Gumi, Gimhae, Asan, Changwon, etc. (Article 60 (4) of Enforcement Decree of the Restriction of Special Taxation Act)</li> </ul>	5 yrs (100%) + 2 yrs (50%)
2	<ul style="list-style-type: none"> <li>• Growth promotion areas, population decrease areas, employment/industrial crisis areas in local metropolitan cities and middle-sized cities</li> <li>• Areas other than ①, ③</li> </ul>	7 yrs (100%) + 3 yrs (50%)
3	<ul style="list-style-type: none"> <li>• Growth promotion areas, population decrease areas, employment and industrial crisis areas. * Seoul metropolitan area, local metropolitan cities, middle-sized cities are excluded.</li> </ul>	10 yrs (100%) + 2 yrs (50%)

※ Growth promotion areas, areas with decreasing population under the Special Act on National Development, employment crisis areas under the Framework Act on Employment Policy, special area for responding to industrial crisis pursuant to the Act on Response to Local Industrial Crisis Areas.

### 4) Additional collection of tax

Where the following causes occur, the corporate tax amount reduced or exempted for five years (three years in the case of business closure or dissolution) retroactively from the date on which such cause occurred shall be additionally collected.

- ① Where a business closes or is dissolved within three years of the factory relocation date

- ② Where the company did not commence business after relocating its factory
- ③ Where a factory (for SMEs, a factory or its HQ) manufacturing a product that is identical to the one manufactured in the relocated factory is established in the Seoul metropolitan area (for SMEs, overconcentration control zones)

## H. Tax reduction/exemption for companies relocating outside the Seoul metropolitan area

### 1) Overview

Where a company headquartered in an overconcentration control zone in the Seoul metropolitan area relocates outside the Seoul metropolitan area and commences an identical business by no later than Dec. 31, 2025, corporate tax shall be reduced/exempted.

### 2) Requirements

- ① The company should be headquartered in a overconcentration control zone consecutively for three years or longer.
- ② The company should sell or convert the use of the former headquarters in the Seoul metropolitan area within two years of the date of commencing business after relocating its headquarters outside the Seoul metropolitan area, or the company should commence business outside the Seoul metropolitan area within two years (three years in the case of construction of a new headquarters) of the date on which the former headquarters was sold or converted to another use.
- ③ The amount of investment in the HQ relocated outside the Seoul metropolitan area and the number of employees of the relocated HQ shall meet the prescribed standards.

**3) Income subject to tax reduction/exemption: [① × ② × ③]**

- ① The amount calculated by subtracting the capital gains from transfer of the right to acquire land, buildings and real estate and the following income from the tax base of the relevant taxable year.

(The sum of gains from disposal of fixed assets and securities, interest income, dividends received, and gains from assets contributed) - (The sum of loss from disposal of fixed assets, loss from disposal of securities and interest paid)

- ② The portion of the number of employees of the headquarters relocated outside the Seoul metropolitan area from the total employees of the company in the relevant taxable year.
- ③ The portion of the amount calculated by subtracting the sales from processing trade on consignment from total sales of the relevant taxable year from the amount of sales of the taxable year.



#### 4) Tax reduction/exemption

No.	Relocated Area	Reduction Period (Rate)
1	<ul style="list-style-type: none"> <li>Seoul metropolitan area (outside overconcentration control zones)</li> <li>* Applicable only to factories of SMEs.</li> <li>Local metropolitan cities, middle-sized cities, etc.</li> </ul>	5 yrs (100%) + 2 yrs (50%)
2	<ul style="list-style-type: none"> <li>Growth promotion areas, population decrease areas, employment/industrial crisis areas in local metropolitan cities and middle-sized cities</li> <li>Areas other than ①, ③</li> </ul>	7 yrs (100%) + 3 yrs (50%)
3	<ul style="list-style-type: none"> <li>Growth promotion areas, population decrease areas, employment and industrial crisis areas.</li> <li>* Seoul metropolitan area, local metropolitan cities, middle-sized cities are excluded.</li> </ul>	10 yrs (100%) + 2 yrs (50%)

※ Growth promotion areas, areas with decreasing population under the Special Act on National Development, employment crisis areas under the Framework Act on Employment Policy, special area for responding to industrial crisis pursuant to the Act on Response to Local Industrial Crisis Areas.

#### 5) Additional collection of tax

Where one of the following causes occurs, the amount of tax reduced/exempted for five years (three years for business closure and dissolution) retroactively from the date on which such cause occurred shall be additionally paid.

- ① Where business is closed or dissolved within three years from the date on which business was commenced after the headquarters was relocated.
- ② Where business is not commenced after relocation of the headquarters.

- ③ Where the number of average annual number of full-time employees engaged in the work of the headquarters in an office in the Seoul metropolitan area among the total annual average number of full-time employees in the headquarters after the taxable year to which belongs three years elapse from the date on which the headquarters is re-established in or relocated to the Seoul metropolitan area is 50% or more.
- ④ Where the portion of the number of executives working at the relocated headquarters among the total number of executives in the Seoul metropolitan area and the headquarters has fallen below 50%.

## I. Tax reduction/exemption for start-ups in a crisis area

### 1) Overview

For companies that start up a business subject to tax reduction/exemption or establish a new place of business (limited to cases of starting a business or newly establishing a place of business during the period designated or declared as a industrial crisis area, excluding relocation of existing place of business) in a crisis area no later than Dec. 31, 2025, a certain portion of corporate tax shall be reduced/ exempted.

#### Definition of Crisis Areas

- ① Areas designated and publicly announced by the Minister of Employment and Labor pursuant to Article 32 (1) of the Framework Act on Employment Policy and Article 29 of its Enforcement Decree
- ② Employment crisis areas publicly announced pursuant to Article 32-2 (2) of the Framework Act on Employment Policy
- ③ Special area for responding to industrial crisis designated pursuant to Article 17 (2) of the Special Act on Balanced National Development

## 2) Tax credits

### ① Businesses eligible for tax credit:

Identical to eligible businesses pursuant to Article 6 (3) of the Restriction of Special Taxation Act (Tax Credit for Investments by SMEs)

### ② Period and rate of reduction/exemption

From the first day of the taxable year in which income incurred for the first time from the business subject to tax credit to the taxable year which ends within five years from such date, 100% of corporate tax shall be exempted and 50% will be reduced for two taxable years thereafter.

## 3) Tax credit ceiling

Companies that are not SMEs have a ceiling on tax reduction/exemption, which is the sum of ① and ②.

① 50% of cumulative investment on assets for business used for the relevant business

② Number of full-time employees in the eligible place of business in the relevant taxable year × KRW 15 million (KRW 20 million for young adults and full-time employees of service businesses)

## 4) Additional collection of tax

① Where business eligible for tax credit is closed or dissolved (excluding merger and division) or relocated to an area outside a crisis area, the amount of tax credit received shall be paid.

② For businesses to which the tax credit ceiling based on the number of full-time employees (② of 3. Tax credit ceiling) applies, the amount calculated using the following formula shall be paid as corporate tax.



[Tax reduced/exempted within 2 taxable years preceding the taxable year in which the number of full-time employees decreased] - [Number of full-time employees of the eligible place of business in the taxable year the number of full-time employees decreased × KRW 15 mil. (KRW 20 mil. for full-time employees who are young adults, etc.)]

## J. Tax reduction/exemption for reshoring local companies

- The purpose of the tax reduction/exemption is to encourage the reshoring of local companies back to Korea, so that they can promote investment and create jobs in the country.

### 1) Eligibility

#### ① Qualification

Korean nationals and overseas Koreans who own or have control over a place of business that has been in operation for two years or longer.

#### ② Condition for reshoring and relocating

A reshoring company should open a new business or place of business in Korea (excluding overconcentration control zones in the Seoul metropolitan area) by Dec. 31, 2024 as follows:

##### (a) Complete reshoring

Where a place of business outside Korea that has been operating for two years or longer relocated to Korea and meets one of the following requirements:

- ① The company should close the overseas place of business within four years of commencing business by opening a new business or establishing a new place of business outside an overconcentration control zone.

- ② The company should open a business or establish a new place of business outside an overconcentration control zone within two years of the date of relocating or closing its overseas place of business.

(b) Partial reshoring

Where a Korean scales down or maintains the business it has operated for two years or longer overseas and relocates to Korea satisfying one or more of the two conditions:

- ① Where a domestic person without a place of business in Korea starts a business outside overconcentration control zones in the Seoul metropolitan area
- ② Where a business operated overseas is scaled down and a confirmation of business scale-down was obtained in accordance with the matters prescribed by the Minister of Trade, Industry and Energy, and a place of business is newly established or expanded in an area outside overconcentration control zones of the Seoul metropolitan area within 3 years of the date of completion of business scale-down

③ Requirements

The type of the business under the Korea Standard Industrial Classification (KSIC) that the company operated before relocation or reshoring should be identical to the type of business operated by the place of business after relocation or reshoring.

## 2) Tax credit rate

### ① Complete reshoring

100% for the year in which income first incurred and four years thereafter; 50% for the following two years

### ② Partial reshoring

100% for the year in which income first incurred and four years thereafter (two years in Seoul metropolitan areas); 50% for the following two years

## 3) Additional collection of tax

When filing a return of tax base for the taxable period in which one of the following causes occurred, the amount calculated by adding the reduced or exempted tax amount and the amount of interest shall be paid as corporate tax or income tax.

① Where a business is closed or a company is dissolved within three years of commencing business in Korea

② Where a place of business that was operated overseas is not sold or closed

## K. Notes when applying tax credit and tax reduction/exemption

### 1) Restriction of duplicate support

① Where the tax reduction/exemption regulations and tax credit regulations listed in Article 127 (4) of the Restriction of Special Taxation Act both apply in the same taxable year, only one of such can be applied.

e.g., Tax reduction/exemption for start-up SMEs (o)

↔ Tax credit for integrated investment (x)

② Where two or more of the tax reduction/exemption regulations in the clauses in Article 127 (5) can apply in the same taxable year to the same place of business, only one of such can be applied.

e.g., Special tax reduction/exemption for start-up SMEs (o)

↔ Special tax reduction/exemption for SMEs (x)

## 2) Application of special tax for rural development

A company that received tax reduction/exemption under the Restriction of Special Taxation Act should pay 20% of the reduced/exempted amount (tax base for special tax for rural development) as special tax for rural development (not applicable for some tax credits and tax reduction/exemption).

## 3) Application of minimum tax

The purpose of the minimum tax scheme is to ensure that all persons with income pay the minimum amount of tax even when tax is reduced or exempted pursuant to the Restriction of Special Taxation Act, on the basis of equality in taxation (Article 132 of the Restriction of Special Restriction Act).

For example, an SME should pay a minimum corporate tax equivalent to 7%\* of the tax base before deduction of all special taxations under the Restriction of Special Taxation Act. Therefore, if the tax amount borne by a company when special tax restrictions are applied is below the prescribed standard amount, tax benefits cannot apply to the amount that falls short of the standard amount.

\* Minimum tax rate: 7 to 17% depending on the size of the company.

## 4) Whether deduction can be carried forward

Deduction carried forward means deduction in the following year if a deduction cannot apply in the relevant year due to reasons such as classification of business year, application of minimum tax, etc. Most tax credits (not tax reduction/exemption) under the Restriction of Special Taxation Act can be carried forward and the period is 10 years.

## **[ 4 ] | Taxation under the Adjustment of International Taxes Act**

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### **1) Transfer pricing**

#### **A. Overview**

If the transfer price in an international transaction in which a party is an overseas special related party is lower or higher than the arm's length price, the tax authorities may determine or correct the tax base and tax amount of a resident (including a domestic company and domestic places of business) based on the arm's length price.

#### **B. How to calculate arm's length price**

Arm's length price refers to the price that applies or is expected to apply in a regular trade between a domestic company or a domestic place of business of a foreign company and a person who is not an overseas special related party (independent company), and it is calculated using the most reasonable method among the following. However, method 6) applies where it is not possible to calculate arm's length price through methods 1) through 5).

##### **1) Comparable uncontrolled price method**

Where there is an international transaction between a resident and an overseas special related party, the transfer price between independent businesses with no special relations in a similar transaction situation is considered the arm's length price.

## 2) Resale price method

Where a resident and an overseas special related party have asset transactions and a party to the transaction who is the purchaser of the asset resells the asset to a person without special relations, the amount that can be normally considered profit of the purchaser subtracted from the amount of sales is considered the arm's length price.

## 3) Cost plus method

Where there are international transactions between a resident and an overseas special related party, the amount calculated by adding the cost of manufacture or sales of assets or provision of service and the amount that can be normally considered the profit of the asset seller or service manufacturer is considered the arm's length price.

## 4) Profit split method

Where the net profit from transactions realized by both parties to an international transaction between a resident and an overseas special related party is distributed to the parties to the transaction based on the relative contribution of the relevant parties according to reasonable distribution standards, and the transaction price calculated based on the profit distributed as such is considered the arm's length price.

The relative contribution of the parties to a transaction is measured based on the general contribution in a transaction between independent businesses without special relations in a similar situation, based on distribution standards such as the cost related to the transaction, value of assets used, performed functions and risk taken.

#### **5) Transactional net margin method**

Where the transaction price calculated based on the normal transactional net margin of a similar transaction among transactions between a resident and a party who is not a special related person is considered the arm's length price in an international transaction between a resident and an overseas special related party.

#### **6) Other methods deemed reasonable based on the substance of the transaction and common practices**

### **C. Obligation to submit information on international transactions**

A taxpayer (domestic company and domestic place of business of a foreign company) who has international transactions with an overseas special related party shall submit a report of the method of calculating the arm's length price (report of method of calculating the arm's length price of intangible assets, report of method of calculating the arm's length price of service transactions, report of method of calculating arm's length price), statement of adjustment of share of costs, statement of international transactions, summary of income statement of overseas special related party, etc. when filing a return of tax base.

### **D. Advance Pricing Arrangement**

Under the OECD transfer pricing guidelines or Advance Pricing Arrangement (APA), the taxpayer obtains the advance approval of the head of the National Tax Service in regard to the method of calculating the arm's length price to be applied to future transactions between the taxpayer and a special related party.

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Where a taxpayer who received advance approval of the Commissioner of the National Tax Service has applied the approved arm's length price calculation method, the method approved by the tax authorities is recognized as the optimal method if the presumptions or conditions for the approved method determined at the advance approval are satisfied.

Where an application for mutual agreement is requested to the tax authorities of the country with jurisdiction over the transaction counterpart and a mutual agreement has been made between the tax authorities of both countries, the method recognized in the mutual agreement is recognized as the optimal arm's length price calculation method in both Korea and the transaction counterpart company.

### Terminology

- **International transaction**

A transaction in which either or both of the parties are non-residents or foreign corporations (excluding a domestic place of business of a non-resident or foreign corporation), including trading or leasing tangible or intangible assets; providing services; lending or borrowing money; and all other transactions involving profits or losses and property of the parties

- **Domestic place of business (fixed place of business)**

- ① A fixed place where a non-resident or foreign company performs part or all of its domestic business (e.g., branch, office, workplace, constructions standing for longer than six months)



- ② Where a non-resident or foreign company operates a business in Korea through a person who has the right to conclude a contract on his/her/its behalf or a person corresponding thereto, it shall be considered that a fixed place of business exists in Korea

- **Overseas special related party**

A “special relationship” means any of the following special relationships between a non-resident or foreign corporation (excluding a domestic place of business of a non-resident or foreign corporation) and a resident, domestic corporation or domestic place of business:

- ① Where either party to a transaction directly or indirectly owns 50% or more of the other party’s stocks with voting rights (including equity shares)
- ② A relationship between a third party and a party to the transaction, where the third party and his/her kin, etc. directly or indirectly owns 50% or more of either parties’ stocks with voting rights
- ③ A relationship where parties to the transaction have a common interest adjusting income through investments in capital, trade of goods or service, grant of loans, etc., and either party has a substantial power to decide on the other party’s business policy by any of the following means:
  - (a) The representative director or the executive officers corresponding to the majority of all executive officers of one corporation shall assume the positions of executive officers or employees of the other corporation, or shall have assumed said positions within three years retroactively from the end of the pertinent business year.

- (b) One party shall own at least 50% of the voting stocks of the other party, through an association or trust.
  - (c) One party shall depend on the trade with the other party for at least 50% of its business activities.
  - (d) One party shall borrow at least 50% of the funds required for its business activities from the other party or shall raise them through a payment guarantee of the other party.
  - (e) One party shall depend on the intellectual property right provided by the other party for at least 50% of its business activities.
- ④ A relationship where parties to the transaction have a common interest adjusting income through investments in capital, trade of goods or service, grant of loans, etc., and a third party has a substantial power to decide on both transaction party's business policy by any of the following means:
- (a) The third party shall directly or indirectly own 50% or more of a transaction party's stocks with voting rights, and shall have a substantial power to decide on all or part of the other party's business policy through one or more of the methods in subparagraph 3 above.
  - (b) The third party shall have a substantial power to decide all or part of both transaction parties' business policy through one or more of the methods in subparagraph 3 above.

- (c) Either party to a transaction is an affiliated company of an enterprise group as defined in any of the subparagraphs of Article 3 of the Enforcement Decree of the Monopoly Regulation and Fair Trade Act, and another affiliated company of the enterprise group shall directly or indirectly own 50% or more of the voting stocks of the other party to the transaction.

※ Related laws: Article 2 of the Adjustment of International Taxes Act, Article 2 of the Enforcement Decree of the Act.

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## 2) Thin capitalization rule

### A. Purpose

The purpose of the thin capitalization rule is to prevent foreign companies from lending funds instead of investing capital when investing in Korea, and receiving excessive deductions for interest paid from a domestic company to the foreign company as expense and reducing the income of domestic companies.

### B. Summary

Where the amount that a domestic company (including the domestic place of business of a foreign company) borrowed from an overseas controlling shareholder and the amount borrowed from a third party under a payment guarantee (including the guarantee of payment through provision of collateral, etc.) is over two times (six times for financial companies) the amount that the overseas controlling shareholder invested, the interest and discount price for the amount in excess of such amount shall not be included in the company's deductible expense.

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### C. Definition and scope of overseas controlling shareholders

“Overseas controlling shareholder” means one of the following persons who has substantial control over a domestic company or foreign company’s domestic place of business (e.g., branch):

- 1) In the case of a domestic company, an overseas shareholder or investor and the overseas company in which the overseas shareholder or investor invested
- 2) In the case of a domestic place of business of a foreign company, the headquarters and branch (located overseas) of the foreign company, the overseas shareholder of the foreign company and the foreign company in which the foreign company and foreign shareholder invested

#### ① Domestic companies

The scope of a domestic company’s overseas controlling shareholders shall be any person who falls under one of the following as of the last day of each business year:

- (a) A foreign shareholder who directly or indirectly owns 50% or more of a domestic company’s voting stocks
- (b) A foreign company in which a foreign shareholder satisfying the above directly or indirectly owns 50% or more of the stocks with voting rights
- (c) A foreign shareholder with substantial control (Article 2 (2) 3 of the Enforcement Decree of the Adjustment of International Taxes Act) over a domestic company

#### ② Domestic place of business of foreign companies

The scope of overseas controlling shareholders of a domestic place of business of a foreign company shall be persons who satisfy one of the following:

- (a) Headquarters or branch of a foreign company with a domestic place of business
- (b) A foreign shareholder who directly or indirectly owns 50% or more of the voting stocks of a foreign company satisfying ① above
- (c) A foreign company in which a headquarters under ① or a foreign shareholder under ② directly or indirectly owns 50% or more of the stocks with voting rights

#### **D. Calculation of the amount not appropriated as loss**

Interest and discount  $\times$  {Total cumulative loaned days – Total cumulative invested days  $\times$  2 ( $\times$  6 for financial businesses)} / Total cumulative loaned days.

#### **E. Borrowings from a third party**

Even when a domestic company borrowed from a third party instead of an overseas controlling shareholder, it shall be considered that: ① a loan contract has been signed between a domestic company and the overseas controlling shareholder; and ② the conditions of the loans have been substantially decided, and the same regulations shall apply.

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### **3) Restriction of deduction of interest expense that is excessive compared to income**

#### **A. Summary**

Where the net interest expenses for the amount that a domestic company (excluding finance & insurance businesses) borrowed from an overseas special related person exceed 30% of the adjusted income amount, the amount in excess shall not be included in deductible expense.

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### B. Scope of borrowings

Debt incurring interest and discount expense

### C. Scope of interest and discount expense

The expense which is substantially recognized as interest (excluding construction fund interests), such as discount amortization, accommodation bill discount, etc. to be paid to an overseas special related person

### D. How to calculate the amount not recognized as deductible expense

Amount not included in deductible expense = Net interest expense  
× (Adjusted income × 30%)

- ① Net interest expense: The total amount of interest and discount expense paid for a domestic company's total borrowing from all overseas special related persons – The total amount of interest income that the domestic company collected from overseas special related persons.
- ② Adjusted income: Income from the relevant business year + Depreciation + Net interest expense (①).

### E. Restriction of duplicate application of thin capitalization

Where thin capitalization also applies, only the one in which the amount not included in deductible expense is higher shall apply. If the amount is the same in the two cases, thin capitalization shall apply for calculation of non-inclusion of deductible expense.

## 4) Restriction of inclusion of interest expense from hybrid financial products in deductible expense

### A. Summary

Among the interest and discount expense paid as part of transaction of a financial product between a domestic company (excluding finance and insurance business) and an overseas special related party which has both the characteristics of capital and debt, the amount that is not taxed due to non-inclusion in overseas' special related person's income in the country where the person is located.

In this case, the domestic company shall pay the amount of interest (①×②) for the corporate tax of the business year to which the last day of the "reasonable period" belongs.

- 1) The difference in the corporate tax amount where corporate tax is computed by excluding the amount calculated under Calculation of amount included in income\* below from deductible expense in the business year in which interest, etc. paid to the transaction counterpart is included in deductible expense.

\* Calculation of amount included in income

Interest and discount × (Amount that is not taxed ÷ Dividend income paid by a domestic company).

- 2) Interest rate of 0.025% per day from the first day of the business year following the business year in which the amount was included in deductible expense to the last day of the business year in which the amount was included in income.

### B. Requirements for a hybrid financial product.

A hybrid financial product is a financial product that has both the characteristics of debt and capital (e.g., participating bond) and satisfies both of the following conditions:

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### 1) Korea

Pursuant to Korean tax laws, the financial product is considered debt, and the interest and discount paid to the foreign company that is an overseas special related party under the transaction of the relevant financial product is deemed interest expense

### 2) Counterpart country

Pursuant to the country's tax laws, the financial product is considered capital, and the interest and discount paid by the domestic company is treated as dividend income.

## C. Reasonable period

The period starting from the last day of the business year in which interest and discount are paid by the domestic company pursuant to transactions of a hybrid financial product to the last day of the business of the transaction counterpart commencing within 12 months of the aforementioned date.

## D. The amount of interest expense that is paid by a domestic company due to transaction of a hybrid financial product and treated as dividend income and not taxed

- 1) Where the amount is not included in the transaction counterpart's taxable income: The entire amount
- 2) Where less than 10% of the relevant interest, etc. is included in taxable income: The amount not included in taxable income

## E. Method of calculation of amount included in gains

Interest and discount X (Amount that is not taxed ÷ Dividend income paid by a domestic company)



## 5) Consolidated reports on international transactions information

- A domestic company or a foreign company with a domestic place of business that meets all of the following conditions shall submit a master file and local file to the head of the tax office with jurisdiction over the place of tax payment within 12 months of the last day of the month to which the last day of the business year belongs.
  - 1) The total amount of transactions of goods, transactions of services, and transactions of lending and borrowing with an overseas special related party in the relevant taxable year shall exceed KRW 50 billion.
  - 2) The amount of turnover for the relevant taxable year exceeds KRW 100 billion.
    - ※ Fine for non-compliance with obligation to submit: KRW 30 million per report

### A. Master file

The master file includes the organizational structure, details of business, details of intangible assets, financing activities, financial status, etc. of the taxpayer and the company that is obligated to prepare the consolidated financial statement that includes the taxpayer pursuant to international accounting standards (where there are two or more consolidated financial statements including the taxpayer, the company obligated to prepare the highest consolidated financial statement).

The master file shall, in principle, be prepared for the companies included in the consolidated financial statement of the highest controlling company of a multinational group, but the reports can be prepared for companies under the same business category or for each subsidiary of a holding company.

**Preparation by business category:** If a multinational group falls under two or more business categories, the consolidated reports can be prepared for each business category. The companies to be included in the consolidated reports by business category shall be the companies included in the consolidated financial statement prepared by the highest controlling company within the business category.

**By subsidiary:** Multinational corporate groups that are controlled by holding companies pursuant to subparagraph 2 of Article 2-1 of the Monopoly Regulation and Fair Trade Act can submit a consolidated report for each subsidiary if the businesses operated by each subsidiary are different.

## B. Local file

The local file includes a taxpayer's organizational structure, details of business, details of transactions with an overseas special related party, information on calculation of the price pertaining to the transactions, financial status, etc. However, where an application for an advance pricing arrangement has been approved for the method for calculating the arm's length price, the details of the relevant international transactions conducted during the period covered by the advance pricing agreement can be excluded from the local file.

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### C. Country-by-country report

- The following persons shall submit a country-by-country report within 12 months from the month to which belongs the last day of the business year.
  - 1) Where the ultimate parent company is located in Korea and its sales according to the consolidated financial statement of the immediately preceding taxable year is over KRW 1 trillion: The ultimate parent company.
  - 2) Where the ultimate parent company is located overseas and the amount of sales under the consolidated financial statement of the immediately preceding taxable year is over 750 million euros:  
Local related company
- ※ **The following persons who submitted documents related to persons obligated to submit a country-by-country report within the due date for submission are exempted from submission of the report.**
  - Where it is obligated under the law of the country in which the ultimate parent company to submit a country-by-country report and the report is exchanged with Korea pursuant to a tax treaty
  - Where a different domestic related company within the same multinational corporate group submits a country-by-country report
  - Where the ultimate parent company has a related company located in a third country submit a country-by-country report on its behalf, and country-by-country reports between Korea and the country in which the related company is located and is exchanged normally

## 6) Report of overseas financial account

- With the implementation of the report of overseas financial account in 2011, residents and domestic companies with an overseas financial account whose account balance (the sum of each account balance if there are multiple accounts) at any of the last day of each month of the relevant year exceeds KRW 500 million should report information on overseas financial accounts to the tax office with jurisdiction over the place of tax payment from June 1 through 30 of the following year.

### A. Persons obligated to file a report

Persons obligated to file a report shall satisfy all of the following conditions:

- 1) He/she is a resident or domestic company and is not exempt from reporting as of the last day of the year subject to reporting.
- 2) He/she owns an overseas financial account\* opened at an overseas financial company, etc.

\* Cash, stocks, bonds, collective investment security, derivatives, virtual assets, etc.

- 3) The sum of all of his/her assets in his/her overseas financial account at any of the last day of each month of the year subject to reporting exceeds KRW 500 million.

### Persons exempt from reporting

- ① Foreign resident under the proviso of Article 3 (1) of the Income Tax Act and overseas Koreans whose total period of having a residence in Korea starting from one year retroactively from the last day of the year subject to reporting is 183 days or less
- ② A central or local government organization and government agency pursuant to the Act on the Management of Public Institutions
- ③ Financial companies, etc.
- ④ Persons whose overseas financial accounts information can be verified through the report of a person related to their overseas financial account
- ⑤ An institution related to financial investment business, collective investment scheme, fund rating company, bond rating company pursuant to the Financial Investment Services and Capital Markets Act, financial holding company pursuant to the Financial Holding Companies Act, a foreign exchange agency and foreign exchange brokerage pursuant to the Foreign Exchange Transactions Act, and a credit information company pursuant to the Credit Information Use and Protection Act

## B. How to report

Information on overseas financial accounts for the relevant year subject to reporting shall be reported to the head of the tax office with jurisdiction over the place of tax payment from June 1 through 30 each year.

\* Personal information of the account owner such as name and address, account number, name of financial institution, maximum amount of the account balance, information on persons related to the overseas financial account.

## C. Penalty for violation of the obligation to report

Where information on overseas financial accounts was not reported within the due date or under-reported, an administrative fine not over 20% of the sum of the un-reported or under-reported amount per account subject to reporting.

### Amount of fine

- Where the unreported or under-reported amount is not more than KRW 2 billion: 10% of the relevant amount
- Where the unreported or under-reported amount is over KRW 2 billion but not over KRW 5 billion: KRW 200 million + 15% of the amount over KRW 2 billion
- Where the unreported or under-reported amount is over KRW 5 billion: The lesser of: "KRW 650 million + 20% of the amount over KRW 5 billion" and "KRW 2 billion"

## 7) Submission of information on a foreign company's liaison office

### A. Information of a foreign company's liaison office

Where a foreign company is operating a liaison office instead of a domestic place of business, information on the current status of the liaison office operated as of the last day of each year shall be reported to the head of the jurisdictional tax office by Feb. 10 of the following year (Article 94-2, Corporate Tax Act).

\* Basic information on the liaison office, current status of the overseas headquarters, other domestic branches, and domestic customers, etc.

### B. Submission of sum of tax invoice by place of purchase

Where the liaison office of a foreign company is issued a tax invoice, the sum of tax invoice by place of purchase should be submitted to the head of the jurisdictional tax office.

\* (Issuance/Submission) Jan.1-Jun.30/Jul.1-25; Jun. 1-Dec.31/Jan.1-25

### C. Submission of sum of invoice by place of purchase

Where the liaison office of a foreign company is issued an invoice, the sum of invoice by place of purchase should be submitted to the head of the jurisdictional tax office by February 10 of the following year

\* Applicable to goods or services supplied on or after Jan. 1, 2023

### Domestic place of business Vs. Liaison office

Classification	Domestic place of business	Liaison office
<b>Definition</b>	A place where essential and important business activities are carried out (e.g., branch, factory, warehouse)	A place for carrying out preparatory or supporting activities for the overseas headquarters (e.g., advertisement, market research, information gathering)
<b>Filing corporate tax returns</b>	O	X

## 2. Value Added Tax

### (1) | Overview

- Value added tax, or VAT, is imposed on the goods and services provided in Korea and goods that are imported. Except from providing duty-free goods, VAT is levied on most goods and services provided in Korea.

#### 1) Taxpayer

- Businesses providing goods and services and importers of goods should pay VAT.

#### 2) VAT payable

- The amount of VAT payable is calculated by subtracting input tax from output tax. While a business supplies taxable goods and services, a tax invoice should be issued to the recipient of the goods and services. If a tax invoice is not issued or issued late, penalty is imposed (equivalent to 1-3% of the supply price).

Where an input tax invoice is issued from a person supplying goods or services, the input tax amount can be deducted from the output tax. However, even if goods for which VAT is taxed are purchased, input tax cannot be deducted if a tax invoice is not issued.

#### Calculation of VAT payable

Output tax – Input tax = Tax payable (refundable)  
 Tax payable (refundable) + Penalty tax = Final tax payable (refundable)

\* If input tax is larger than output tax, tax may be refundable.



### 3) Tax rate

- A 10% flat tax rate applies for VAT, and a 0% tax rate applies to goods that are exported, etc.
- 

### 4) Due date for filing and paying VAT

- A business should file and pay VAT by the 25th day of the following month of the end of each quarter.

Taxable period	Due date
Jan. 1 - Mar. 31	Apr. 25
Apr. 1 - Jun. 30	Jul. 25
Jul. 1 - Sep.30	Oct. 25
Oct. 1 - Dec. 31	Jan. 25

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## ( 2 ) | Zero tax rate

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### 1) Overview

- Under the zero tax rate scheme, a 0% tax rate applies instead of the general VAT rate of 10%. Even if a 0% tax rate is applied to the output tax, VAT is calculated by subtracting input tax from output tax, so input tax is refunded.
-

## 2) Purpose

- The zero tax rate scheme is to ensure the destination principle of taxation and also for tax policy reasons. For goods that are not consumed in Korea such as goods exported, VAT is not imposed in Korea. On the other hand, for goods that are imported into Korea and consumed, the head of the relevant customs office imposes VAT. In other words, whether to impose VAT or not is decided depending on whether the goods or services are consumed in Korea or overseas.
- 

## 3) Application of the zero tax rate

- The zero tax rate is applied in the following cases, and the details are prescribed in the Value Added Tax Act.

### A. Export of goods

Direct export of goods, export through intermediary trade, supply pursuant to domestic credit, confirmation of purchase, etc.

### B. Overseas supply of services

Services that a domestic company provides overseas

### C. Supply of overseas navigation service by ships or aircraft

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## 4) Documents required for application of zero tax rate

- To apply the zero tax rate, an export record statement, foreign currency deposit certificate, etc. should be submitted.
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## **( 3 ) | Tax exemption**

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### **1) Overview**

- For certain listed products such as unprocessed agricultural products, VAT shall not be imposed. Unlike businesses subject to the zero tax rate, a tax-free business operator is not obligated to file and pay VAT, and cannot receive a VAT refund even if there is input tax paid when purchasing goods.
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### **2) Purpose**

- For items such as daily necessities prescribed by the Value Added Tax Act, tax exemption is applied so that people can consume the prescribed goods at a more affordable price.
- 

### **3) Tax-free items**

- The following categories are tax-free. The Value Added Tax Act prescribes more detailed goods and services
    - A. Unprocessed foodstuff (e.g., rice, salt, hot pepper), tap water, coal briquettes, public city bus, national housing-sized house
    - B. Medical and health service

Services provided by doctors, dentists, oriental medical doctors, funeral service providers, post-partum care providers, childcare providers, etc.
    - C. Education Service

Schools, private teaching institutes registered or reported to the competent authorities.
    - D. Books, newspapers, magazines, broadcastings
-

**E.** Supply of land

**F.** Personal service

Services provided by authors, composers, directors, professional athletes, waiter/waitress, insurance solicitors, lecturers, commentary or examination services, etc.

## **( 4 ) | Tax invoice**

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- A business operator should issue a tax invoice when providing goods and services.

A corporate business and an individual business whose sum of value of supply of goods is KRW 200 million or more\* can issue an electronic tax invoice. When a tax invoice is not issued, penalty tax equal to 2% of the value of supply is imposed. When a person subject to issuing an electronic tax invoice issues a tax invoice other than an electronic tax invoice, a penalty tax equal to 1% of the value of supply shall be imposed.

\* Starting from Jul. 1, 2023, issuance is mandatory if the sum is KRW 100 million or more.

A tax invoice should include the following information:

- A.** Business registration number and name of the supplying business
- B.** The registration number of the business that is the recipient
- C.** The value of supply and amount of VAT
- D.** Year, month and date of preparation of invoice



## Tax for employees of a foreign-invested company

### 1. Wage & salary income tax

- Wage & salary income tax is withheld from an employee's income every month when wage is paid. In February, employees file an year-end tax settlement reflecting the income deduction and tax credit items to confirm the final amount of tax to be paid for the previous year's wage & salary income, and the difference between the amount of tax withheld and tax pre-paid is refunded or paid.

#### ( 1 ) | Process

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##### 1) Tax withholding at the source

- A person who pays wage & salary income should withhold income tax from the amount paid to an employee every month based on the simplified wage & salary income tax table. The simplified tax table prescribes the amount of tax to be withheld based on the amount of wage & salary and the number of dependent family members. The person paying wage & salary income should pay the withheld tax to the competent tax office by the 10th day of the following month.

## 2) Year-end tax settlement

- Year-end tax settlement is conducted when paying wage & salary for February the following year. Through the simplified year-end tax settlement service provided by the National Tax Service in mid-January every year, employees can check the data for receiving income deduction and tax credit. The data for simplified year-end tax settlement is collected in Korea based on an employee's resident registration number or foreigner registration number. If an employee finalized the amount of wage & salary income tax to be paid through year-end tax settlement and the sum of monthly withheld tax is higher than the amount of tax determined, the employee can receive a refund of the difference. If the withheld tax amount is less than the determined tax amount, the difference should be additionally paid.

### Year-end tax settlement

Income tax determined after year-end tax settlement –  
Pre-paid tax (tax withheld) = Additional tax payable (refundable)

## 3) Due date for filing

- In the case of tax withholding, a report of status of tax withholding should be submitted by the 10th day of the following month of the wage & salary payment date and withholding tax amount should be paid. For year-end tax settlement, a company completes employees' year-end tax settlement when paying wage & salary for February and submits a report of status of withholding and statement of payment of wage & salary income reflecting the year-end tax settlement results to the National Tax Service by March 10 of the following year.

## (2) | Income deduction

- The income deduction amount is subtracted from the wage & salary income amount. Korea's income tax rate is based on the progressive tax rate system (6~45%), so the higher the income for the same income deduction bracket, the higher the amount of income tax reduced.

### 1) Wage & salary income deduction

- Wage & salary income deduction applies to a certain percentage of an employee's gross wage & salary amount. The amount of wage & salary income deduction subtracted from the amount of gross wage & salary income is the adjusted wage & salary income.

Gross wage & salary	Deduction (ceiling: KRW 20 mil.)
Up to KRW 5 mil.	70% of gross wage & salary
Over KRW 5 mil. and not over KRW 15 mil.	KRW 3.5 mil. + 40% in excess of KRW 5 mil.
Over KRW 15 mil. and not over KRW 45 mil.	KRW 7.5 mil. + 15% in excess of KRW 15 mil.
Over KRW 45 mil. and not over KRW 100 mil.	KRW 12 mil. + 5% in excess of KRW 45 mil.
Over KRW 100 mil.	KRW 14.75 mil. + 2% in excess of KRW 100 mil.

## 2) Personal deduction

### A. Basic deduction

For a resident with global income, KRW 1.5 million is deducted for the taxpayer and each of his/her dependent family members.

Dependent family	Eligibility for deduction
<b>Lineal ascendants</b>	Aged 60 or older
<b>Lineal descendants, adoptees living together</b>	Aged 20 or less
<b>Siblings</b>	Aged 20 or less or 60 or older
<b>Other dependent family members</b>	<ul style="list-style-type: none"> <li>• Recipients under subparagraph 2 of Article 2 of the National Basic Living Security Act and disabled persons: No age restrictions</li> <li>• Foster children pursuant to the Child Welfare Act (under 18 yrs old)                             <ul style="list-style-type: none"> <li>* Foster children who the taxpayer raised for at least 6 months during the taxable period</li> </ul> </li> </ul>

\* Dependent family members eligible for deduction are limited to persons with income of not more than KRW 1 million (or gross wage & salary of KRW 5 mil. or less if he/she only has wage & salary income).

\* Age restrictions do not apply to dependent family members who are disabled.

### B. Additional deduction

A resident, his/her spouse and dependent family members who are subject to basic deduction and meet the following qualifications are subject to additional deduction of the following amount:

- ① Where the person eligible for basic deduction is 70 or older: KRW 1 mil. per person.



- ② Where the person eligible for basic deduction is disabled: KRW 2 mil. per person.
  - ③ Where a woman without a spouse with global income of not more than KRW 30 mil. is the family head with a dependent family member eligible for basic deduction, or a woman with a spouse: KRW 500,000 per year
  - ④ Where a person without a spouse has a lineal descendent or adoptee eligible for basic deduction (not to be applied in duplicate with ③): KRW 1 mil. per year
- 

### **3) Deduction of pension insurance premium**

- Where a resident with global income paid contributions or personal contributions pursuant to public pension (national pension, etc.) related laws, the amount of pension insurance premium paid during the taxable period is deducted from the amount of global income of the relevant taxable period.
- 

### **4) Special income deduction**

#### **A. Insurance premium deduction**

Where a resident with wage & salary income (excluding daily workers) paid insurance premium under his/her name pursuant to the National Health Insurance Act, Employment Insurance Act, or Long-Term Care Insurance Act during the relevant taxable period, the amount is deducted from the wage & salary income of the taxable period from wage & salary income.

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## B. Housing fund deduction

The sum of ① and ② is deducted

① The sum of: 40% of the housing purchase savings subscription amount (ceiling: KRW 2.4 mil.) that an employee without a housing spent for housing purchase\* and 40% of the amount of repayment of principal of housing rental loans shall be deducted within the limit of KRW 4 mil.

\* If an employee is a foreigner, deduction for housing purchase savings does not apply.

② Where a person who does not own a housing or owns only one housing takes out a loan to purchase a house, income deduction of KRW 4 mil. to KRW 18 mil. applies for interest paid for long-term housing mortgage loan.

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## 5) Credit card deduction

### A. Overview

Where the sum of the credit card expense, debit card expense, and cash receipt amount of a resident with wage & salary income, his/her spouse and lineal descendants and lineal ascendants that share a livelihood and have annual income of not more than KRW 1 million is over 25% of gross wage & salary income, income deduction shall apply.

### B. Deduction amount

Of the amount spent in excess of 25% of the gross wage & salary income, 40% of the amount spent in traditional markets and on public transportation; 30% of the cash receipt amount, debit card expense and amount spent on books, etc.; and 15% of the amount spent on credit cards shall be deducted from income.

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### C. Deduction ceiling

A basic deduction ceiling of KRW 3 million applies (KRW 2.5 mil. where gross wage & salary is KRW 70 mil. or more; KRW 2 mil. where gross wage & salary is KRW 120 mil. or more), and an additional deduction ceiling of KRW 1 mil. applies each for the amount spent in traditional markets, on public transportation, and on books, etc.

### 6) Income deduction for contribution to employee stockholder association

- Where a member of an employee stockholder association pursuant to the Framework Act on Labor Welfare contributes to the association to acquire his/her company's stocks, the lesser of: the amount contributed in the relevant year; and KRW 4 million (KRW 15 million for employee stockholder association members of venture companies, etc.) shall be deducted from the relevant year's wage & salary income.



**Special income deduction & other income deductions**

Income deduction		Deduction items	Deduction ceiling																													
<b>Insurance premium</b>	National health insurance, employment insurance, long-term care insurance	Insurance premium borne by yourself	Total amount																													
<b>Housing fund</b>	① Savings account for housing purchase (not applicable to foreign employees)	40% of deposits in housing subscription account, collective housing subscription deposit (up to KRW 2.4 mil.) and contributions to employee housing purchase savings (up to KRW 1.8 mil.)	Lesser of (①+②, KRW 4 mil.)																													
	② Amount of principle repaid for housing rent loan	40% of the principal of a loan that a head (or member) of a household that does not own any housing took out to rent a national housing-sized house	Lesser of (①+②+③, KRW 18 mil.)																													
	③ Repayment of interest on long-term mortgage loan	Repaid interest on loans taken out by an employee who is the head (or member) of a household with no housing or only one housing to purchase housing not exceeding KRW 500 million in standard market price																														
<b>Contribution to an investment fund, etc.</b>	Investment in or after 2018	10% of the investment amount (100%, 70%, 30% where an individual invests in a venture company or venture association)	50% of the global income amount																													
<b>Credit card expenses, etc.</b>	Credit card, cash receipt, debit card, prepaid card expenses	<table border="1"> <thead> <tr> <th>Category</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>① Credit card</td> <td>15%</td> </tr> <tr> <td>② Cash receipt, debit card</td> <td>30%</td> </tr> <tr> <td>③ Books, performance tickets, museum and gallery tickets, movie tickets, etc. *</td> <td>30%</td> </tr> <tr> <td>④ Traditional markets, public transportation fare</td> <td>40%</td> </tr> </tbody> </table>	Category	Rate	① Credit card	15%	② Cash receipt, debit card	30%	③ Books, performance tickets, museum and gallery tickets, movie tickets, etc. *	30%	④ Traditional markets, public transportation fare	40%	<table border="1"> <thead> <tr> <th colspan="2">Gross wage &amp; salary ceiling</th> <th>Not over KRW 70 mil.</th> <th>Over KRW 70 mil.</th> </tr> </thead> <tbody> <tr> <td colspan="2">Basic deduction</td> <td>300</td> <td>250</td> </tr> <tr> <td rowspan="3">Additional deduction</td> <td>Traditional markets</td> <td rowspan="2">300</td> <td>200</td> </tr> <tr> <td>Public transportation</td> <td></td> </tr> <tr> <td>Books, performances, etc.</td> <td></td> <td>-</td> </tr> </tbody> </table>			Gross wage & salary ceiling		Not over KRW 70 mil.	Over KRW 70 mil.	Basic deduction		300	250	Additional deduction	Traditional markets	300	200	Public transportation		Books, performances, etc.		-
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<b>Deposits made in a mutual aid fund for small enterprises and small entrepreneurs</b>	Mutual-aid installment	Deposits made in a mutual aid fund for small enterprises and small entrepreneurs	Wage & salary income <ul style="list-style-type: none"> <li>• Up to KRW 40 mil. : KRW 5 mil.</li> <li>• KRW 40 mil.-100 mil. : KRW 3 mil.</li> <li>• Over KRW 100 mil. : KRW 2 mil.</li> </ul>																													

## ( 3 ) | Tax rate

- A progressive tax rate of 6-45% applies for income tax, and a 10% local income tax is additionally imposed.

Tax base	Tax rate	Progressive deduction
Up to KRW 14 mil.	6%	-
Over KRW 14 mil. and not over KRW 50 mil.	15%	KRW 1,260,000
Over KRW 50 mil. and not over KRW 88 mil.	24%	KRW 5,760,000
Over KRW 88 mil. and not over KRW 150 mil.	35%	KRW 15,440,000
Over KRW 150 mil. and not over KRW 300 mil.	38%	KRW 19,940,000
Over KRW 300 mil. and not over KRW 500 mil.	40%	KRW 25,940,000
Over KRW 500 mil.	42%	KRW 35,940,000
Over KRW 1 bil.	45%	KRW 65,940,000

## ( 4 ) | Tax credit

- Tax credit subtracts tax from the amount of tax calculated by multiplying the tax base with the tax rate.

### 1) Tax credit for wage & salary income

- A certain amount of tax credit applies to the calculated tax amount for wage & salary income.

#### A. Tax credit amount

Tax calculated for wage & salary income	Tax credit
KRW 1.3 mil. or less	55% of the calculated tax
Over KRW 1.3 mil.	KRW 715,000 + 30% of amount over KRW 1.3 mil.

## B. Tax credit amount

Gross Wage & Salary	Tax Credit Ceiling
Not over KRW 33 mil.	KRW 740,000
Over KRW 33 mil. ~ Not over KRW 70 mil.	The larger of: 1. KRW 740,000 - (Wage over KRW 33 mil. x 0.8%) 2. KRW 660,000
Over KRW 70 mil. ~ Not over KRW 120 mil.	The larger of: 1. KRW 660,000 - (Wage over KRW 70 mil. x 1/2) 2. KRW 500,000
Over KRW 120 mil.	The larger of: 1. KRW 500,000 - (Wage over KRW 120 mil. x 1/2) 2. KRW 200,000

## 2) Child tax credit

### A. General child tax credit

For the children aged eight and up (including adoptees and foster children) of a resident with global income who are subject to basic deduction (including children under eight enrolled in school), the following amount shall be deducted from the calculated global income tax.

Number of children eligible for tax credit	Child tax credit
One	KRW 150,000 per year
Two	KRW 300,000 per year
Three or more	KRW 300,000 per year + KRW 300,000 each from the third child and up

### B. Tax credit for childbirth and adoption

Number of children born or adopted	Tax credit for childbirth and adoption
One	KRW 300,000 per year
Two	KRW 500,000 per year
Three or more	KRW 700,000 per year

Where there is a newborn child or adopted child subject to tax credit, the following amount is additionally deducted from the calculated global income amount: KRW 300,000 for the first child, KRW 500,000 for the second child and KRW 700,000 for the third child and up per year.

However, if an employee applies for childcare subsidies pursuant to the Restriction of Special Taxation Act, child tax credit shall not apply.

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### 3) Tax credit for pension account

- The amount equal to 12% (15% if total wage & salary is not more than KRW 55 mil.) of the amount that a resident with global income deposited in a pension account shall be deducted from the calculated global income amount of the relevant taxable period. The maximum limit for pension account deposit is KRW 9 mil. per year (KRW 6 mil. for pension savings account)

However, the following amount shall be excluded:

- ① Income for which taxation is deferred such as retirement income for which income tax is not withheld.
  - ② The amount paid by transferring a contract from one pension account to another.
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### 4) Special tax credit

#### A. Insurance premium

Tax credit applies for coverage insurance premium expenditure for the taxpayer and his/her dependent family members. Tax credit of 12% applies for deposit of up to KRW 1 mil. For coverage insurance for the disabled, a 15% tax credit applies for deposit of not more than KRW 1 mil.

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## B. Medical expenses

Where the medical expenses that a taxpayer spent for himself/herself and his/her dependent family members exceed 3% of his/her gross wage & salary, 15% (20% in the case of expenses for infertility treatment) of the excess amount shall apply as tax credit. For the taxpayer himself/herself, persons aged 65 or older and disabled persons, the full amount of expenses shall apply, while for other dependent family members, the medical expense ceiling for tax credit is KRW 7 million.

Unlike other tax credit items, even where a dependent family member's income exceeds KRW 1 million, tax credit applies if the employee spent medical expenses for the family member.

## C. Education expenses

For education expenses that a taxpayer spent for himself/herself and his/her family members, tax credit of 15% shall apply. Education expenses refers to tuition for elementary school, middle school, high school and university. For pre-school children, kindergarten and private teaching institute tuition are subject to tax credit. Also, the graduate school tuition for the employee himself/herself is eligible for tax credit. The tax credit ceiling is KRW 9 million for university students, and KRW 3 million for pre-school, elementary school, middle school and high school students.

## D. Donations

For statutory donations by a resident or his/her dependent family member subject to basic deduction, contributions to an employee stock ownership association, designated donations and political fund donations, a 15% tax credit shall apply for the



amount exceeding KRW 100,000 (30% for the amount exceeding KRW 20 million). The deduction rate for political fund donations is 100/110 for up to KRW 100,000, and 15% (25% for amount over KRW 30 million) for the amount over KRW 100,000. There is no tax credit ceiling for statutory donations and political fund donations, but for contributions to an employee stock ownership association and designated donations, 30% (10% for donations to religious organizations) of the wage & salary income is the tax credit ceiling.

### Summary of special tax credit

	Credit	Tax Credit Items	Tax Credit Ceiling	Deduction Rate
<b>Insurance premium</b>	Coverage insurance	Coverage insurance such as life insurance, accident insurance, etc.	KRW 1 mil. per year	12%
	Coverage insurance for the disabled	Premiums paid for a coverage insurance for the disabled of which a disabled person is the insured or the beneficiary	KRW 1 mil. per year	15%
<b>Medical expenses</b>	① Self, the elderly aged 65 or older, the handicapped, fertility treatment expenses, persons eligible for special calculation of health insurance premium	Medical expenses, expenses paid for the purchase of medicinal products, eyeglasses (up to KRW 500,000), etc. Postpartum care center expenses (for those with wage & salary income of up to KRW 70 mil. up to KRW 2 mil. per birth)	The amount in excess of 3% of the total wage & salary income is deductible. ① No limit ② Up to KRW 7 mil. per year	15% (20% for infants born prematurely or with a congenital defect, 30% for fertility treatment)
	② Other dependents	Expenses paid for cosmetic surgery or plastic surgery and expenses for the purchase of medicinal products for the promotion of health shall be excluded.		

Credit		Tax Credit Items	Tax Credit Ceiling	Deduction Rate
Educational expenses	Self	Tuition for graduate schools, colleges, hour-based programs, vocational training institutes, redemption of tuition expense loans etc.	Full amount	15%
	Pre-school children	Tuition for daycare centers, kindergartens, sports education facilities, meal expenses, after-school program expenses (including expenses for purchasing books)	KRW 3 mill. per capita	
	Elementary school, middle school & high school students	Tuition, admission fee, meal expenses, textbook expenses, after-school program expenses, field trip expenses (up to KRW 300,000 per year), school uniform expenses (middle & high school students, up to KRW 500,000 per year)	KRW 3 mill. per capita	
	College students	Tuition, admission fee	KRW 9 mill. per capita	
	The handicapped	The handicapped	Full amount	
Donations	① Political fund donation	Contributions for national defense and military appreciation	Adjusted wage & salary income	Up to KRW 100,000 (100/110) Over KRW 100,000 (15%, 25%)
	② Statutory donation	Contributions for national defense and military appreciation	Adjusted wage & salary income	②+③+④ : 15% (30%)
	③ Contributions to employee stock ownership association	Contributions to an employee stock ownership association by a person who is not a member of the association	Adjusted wage & salary income × 30%	
	④ Designated donation	Non-religious organizations	Designated social, welfare, culture & art organizations	
Religious organizations		Religious organizations registered with the competent authorities	Adjusted wage & salary income × 10%	

## **[ 5 ] | Special taxation for foreigners**

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### **1) Special taxation for foreigners (flat tax rate)**

#### **A. Eligibility**

Foreigners who first started providing service in Korea on or before Dec. 31, 2026 and foreigners working for a regional headquarters are eligible for special taxation (flat tax rate).

#### **B. Application of special taxation (flat tax rate)**

For income tax on wage & salary income paid to foreign employees for providing service in Korea, a flat tax rate of 19% may be applied instead of the progressive tax rate (6-34%) for wage and salary income paid from the first day of providing service in Korea to the taxable period that ends within 20 years thereafter.

In this case, the Income Tax Act and regulations on non-taxation, tax deduction, tax reduction/exemption and tax credit related to income tax pursuant to the Act shall not apply, and the relevant wage & salary income shall not be included when calculating the tax base for global income pursuant to Article 14 (2) of the Income Tax Act.

Because the flat tax rate (19%) is lower than the progressive tax rate (maximum of 45%), foreign employees who are paid a high salary mainly file taxes by applying special taxation.

## 2) Tax reduction/exemption for foreign engineers

### A. Eligibility

“Foreign engineers” subject to tax reduction or exemption refers to persons without a Korean nationality meeting the following conditions:

- 1) Persons who provide technology in Korea based on an engineering technology introduction contract (worth USD 300,000 or more)
- 2) Foreign engineers meeting all of the following requirements:
  - ① The person has a bachelor's degree or higher in the field of science, technology and engineering, or medicine.
  - ② The person has five or more years of experience in research and technology development at an overseas university or research institute.
  - ③ The person is not a relative of the company to which he/she is providing labor as of the last day of the taxable year nor has management and control relations with the company.
  - ④ The person works as a researcher (excluding persons in charge of only administrative matters) at a corporate-affiliated research center, government-funded research center, etc.

### B. Tax reduction/exemption

For the wage & salary income that a foreign engineer receives for providing service to a domestic person from the first day of providing service (limited to on or before Dec. 31, 2026) to the month to which belongs 10 years elapse from such day, income tax shall be reduced by 50%.

## 2. Global income tax

### (1) | Types of income

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- The Income Tax Act lists the types of income. A person who has interest income, dividend income, business income, wage & salary income, pension income and other income should file global income tax if he/she meets certain conditions.
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#### 1) Interest income, dividend income

- Generally, income tax is withheld at a 14% tax rate for interest income and dividend income. If the withheld interest income or dividend income is KRW 20 million or less, tax obligations are concluded through separate taxation. If there is interest income that is not withheld or if financial income (i.e, interest income, dividend income) exceeds KRW 20 million, global income tax should be filed.
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#### 2) Business income

- A person with business income should file global income tax. The income amount is calculated by subtracting necessary expenses from the total income amount, and simplified bookkeeping or double-entry bookkeeping is required depending on the size of the business.
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### 3) Wage & salary income

- A person with business income should file global income tax. The income amount is calculated by subtracting necessary expenses from the total income amount, and simplified bookkeeping or double-entry bookkeeping is required depending on the size of the business.
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### 4) Other income

- Other income means income other than interest income, dividend income, business income, wage & salary income, pension income, retirement income and transfer income, and is mostly comprised of one-time income.

Certain types of other income not more than KRW 3 million are subject to separate taxation. The tax rate that applies when withholding tax is different depending on the type of other income, but it is generally 20%. If other income exceeds KRW 3 million, it should be included in global income when filing global income tax. The following are the most common types of other income pursuant to the Income Tax Act.

- ① Insurance settlement, compensation or compensation for damage received in relation to domestic real estate, other assets, or business operated in Korea
- ② Prize, award or reward paid in Korea or income corresponding thereto
- ③ Income from the transfer of licenses and permits pursuant to domestic law, rights provided in accordance with dispositions that are similar thereto, and domestic assets other than real estate

- ④ Money and valuables obtained through any lottery ticket, premium ticket, or other lottery ticket, refund received by a purchaser of a horse racing ticket, a winner wager ticket, a bullfighting match wager ticket, a sports promotion wager ticket, prize money and other valuables received by participating in acts using slot machines, etc.
- ⑤ The amount appropriated as other income pursuant to the Income Tax Act.
- ⑥ Profit obtained from a special related party due to unfair capital transactions

## ( 2 ) | Tax rate

- Income tax is levied at a progressive tax rate of 6-45%, and local income tax of 10% is imposed additionally.

Tax base	Tax rate	Progressive deduction
Up to KRW 14 mil.	6%	-
Over KRW 14 mil. - Not over KRW 50 mil.	15%	KRW 1,260,000
Over KRW 50 mil. - Not over KRW 88 mil.	24%	KRW 5,760,000
Over KRW 88 mil. - Not over KRW 150 mil.	35%	KRW 15,440,000
Over KRW 150 mil. - Not over KRW 300 mil.	38%	KRW 19,940,000
Over KRW 300 mil. - Not over KRW 500 mil.	40%	KRW 25,940,000
Over KRW 500 mil.	42%	KRW 35,940,000
Over KRW 1 billion	45%	KRW 65,940,000

## ( 3 ) | Due date for filing

- The tax returns should be filed from May 1 to 31 of the following year. When a taxpayer with not less than the prescribed amount of business turnover is certified to be subject to confirmation of compliant return, however, tax returns may be filed from May 1 to June 30.

# IV

## Taxes to be paid by the shareholders of foreign-invested companies

### 1. Tax on dividend income

- When the shareholders of a domestic company are foreign companies or non-residents, the tax treaty signed between Korea and the country where the foreign company or non-residents reside is applied preferentially over the Korean tax law. Therefore, to apply the tax rate on their dividend income, the Korean tax law and the tax treaty should both be examined.

#### (1) | Local tax law

- Non-residents' dividend income from domestic sources in Korea refers to the income listed below. A withholding tax rate of 20% under the Korean tax law (i.e., Corporate Tax Act, Income Tax Act) is applied to dividend income paid to foreign companies or non-resident shareholders (local income tax levied separately).
  - ① Dividends or distributions of profits or surplus received from a domestic company
  - ② Dividends or distributions received from an organization that is deemed a corporation
  - ③ Fictitious dividend



## **( 2 ) | Tax treaty**

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- When a tax treaty has been signed between Korea and the country where the shareholder resides, the tax treaty is applied preferentially over the Korean tax law.
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### **1) Limited tax rate**

When a non-resident receives dividend income from a domestic company, tax is imposed on the dividend income in Korea. When the recipient of the dividends is its beneficiary owner, however, no tax can be imposed in excess of the tax rate (limited tax rate) prescribed under the tax treaty. The limited tax rate varies depending on the tax treaty, but generally, 5-15% is applied, which is lower than the 20% stipulated in the domestic tax law.

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### **2) Exclusion from limited tax rate application**

When the equity or investment shares that are the basis for payment of the dividend are substantially related to the domestic business place of the non-resident, the dividend income is taxed as business income to which the limited tax rate is not applied. When the recipient of the dividend is not the beneficiary owner, the limited tax rate is not applied.

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### 3) Points to note when applying the limited tax rate

In some cases, the limited tax rates on dividend income under a tax treaty may differ depending on the type of the beneficiary owner receiving the dividend (e.g., individual, partnership, corporation), share ownership (e.g., 25%, 10%) or type of ownership (i.e., direct or indirect), so it is important to check such matters in advance. For example, a lower rate (5%) may be applied when 25% or more is directly owned by a corporation. When the equity shares are owned by an individual or a corporation indirectly, a higher rate (15%) may be applied.

## ( 3 ) | Procedure for filing a return

- When a domestic company pays dividend income to its shareholders who are non-residents or foreign companies, the domestic company should file and pay the withholding tax on the dividend income by the 10th of the month following the date the dividend is paid.



## 2. Taxes on stock transfer

### (1) | Tax on income from stock transfer

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- When shareholders of a domestic company are foreign companies or non-residents, the tax treaty signed between Korea and the country where the foreign corporation or non-resident resides is applied preferentially over the Korean tax law. Therefore, to determine whether income from stock transfer should be taxed, the Korean tax law and the tax treaty should both be examined.
- 

#### 1) Local tax law

- Where the foreign company or non-resident who is a shareholder of a domestic company transfers the stocks that the domestic company issued, income from transfer of the stocks is subject to taxation under Korean tax laws (i.e., Corporate Tax Act, Income Tax Act). However, where a listed company's stocks are transferred, income from the transfer of the stocks are not taxed if less than 25% of the company's stocks was continuously held in the year to which the transfer date belongs and five years retroactively from such year.

## 2) Tax treaty

- Depending on the tax treaty, the country where the shareholder resides is vested the right to tax income from the transfer of stocks, and the income is not taxed in Korea, the country of source of the stock transfer income.

Whether the income is taxed or not varies depending on the tax treaty, so it is necessary to check the tax treaty signed with the relevant country to confirm whether the income is taxed or not in Korea.

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## 3) Procedure for filing returns

- The withholding agent (the person who pays income from transfer of stocks; a stock brokerage if stocks are transferred through it) should withhold and pay the lesser of: ① 10% of the stock transfer amount; and ② 20% of the gains from the transfer of shares (transfer amount - acquired price & transfer expenses) for the taxable income from stock transfer.

However, if the transfer expenses cannot be confirmed, the method under ① shall apply.

When income from transfer of shares is not taxed pursuant to the relevant tax treaty, an application for non-taxation or tax exemption should be submitted to the head of the tax office with jurisdiction over the payer of the income until the 9th day of the month following the month to which the payment date belongs.

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## [ 2 ] | Securities transaction tax

### 1) Taxpayer

- The obligation to pay tax falls on the person transferring a company's stocks. If stocks are transferred by a foreign company without a domestic place of business or a non-resident, the person who acquires the stocks becomes the taxpayer. When listed stocks are transferred, the securities company becomes the taxpayer.

### 2) Tax rate

- Securities transaction tax is the amount calculated by multiplying the stock transfer price with the following tax rate:

Tax	Unlisted stocks	Listed stocks		
		KOSPI	KOSDAQ	KONEX
Securities transaction tax	0.35%	0.05%	0.20%	0.1%
Special tax for rural development	-	0.15%	-	-
Total	0.43%	0.20%	0.20%	0.1%

### 3) Procedure for filing returns

- The taxpayer should file securities transaction tax returns within two months of the last day of the half-year to which the stock transfer date belongs.



## Tax related to incorporation, and acquisition and maintenance of assets

- Registration & license tax, acquisition tax, and properties tax are imposed by the municipal governments as follows.

However, a foreign-invested company pursuant to the Foreign Investment Promotion Act that received a decision to grant tax reduction/exemption can receive a full exemption of acquisition tax and property tax\* for five years (or three years), and have the taxes reduced by 50% for the following two years.

\* Limited to real estate (land and buildings) acquired or owned to be directly used for a business subject to foreign investment notification

### (1) | Registration & license tax

- Registration & license tax should be paid for corporate registration when a domestic corporation is incorporated or capital is increased.

#### 1) Tax rate

Classification	Tax base	Tax rate or tax amount	Note
Incorporation and payment	Amount paid	0.4%	Minimum of KRW 112,500
Increase in capital or contribution			-
Relocation of headquarters or main office	Per case	KRW 112,500	-
Establishment of branch or branch office	Per case	KRW 40,200	-
Other registrations			-

## 2) Heavy tax rate

- A rate three times higher than the standard tax rate is imposed when a corporation is registered within a metropolitan city (overconcentration control zones excluding industrial complexes) as follows:
    - A. Registration of corporation, branch, or branch office newly established in a metropolitan city (including cases wherein the capital or investment amount is increased within five years of incorporation of a company or acquisition of a dormant company)
    - B. Registration due to relocation of the headquarters or main office outside a metropolitan city to a metropolitan city (including cases wherein the capital or investment amount is increased within five years of the relocation). In this case, the relocation is considered incorporation and the tax rate is applied accordingly.
- 

## 3) Exclusion from application of heavy tax rate

- A. Businesses excluded from heavy taxation applied to metropolitan cities\*
    - \* Banking, software development, high-tech businesses (refer to Article 26 of the Enforcement Decree of the Local Tax Act)
  - B. Division of a company that operated business for five years or longer as of the date of registration of the division
  - C. Merger of a company where five years have passed since its establishment in a metropolitan city
-

#### 4) Tax payment procedure

- A person intending to register should file and pay the tax computed by applying the tax rate to the tax base to the head of the municipal government having jurisdiction over the place for tax payment before the registration.

## ( 2 ) | Acquisition tax

- Acquisition tax is imposed on a person who acquires certain assets.

### 1) Taxpayer

- Acquisition tax is imposed on persons who acquire taxable assets such as real estate.

### 2) Taxable assets

- Acquisition tax is imposed on the acquisition of real estate, assets equivalent to real estate, and various rights such as memberships.

Classification	Assets
<b>Real estate</b>	Land, buildings
<b>Assets equivalent to real estate</b>	Vehicles, machinery and equipment, standing trees, aircraft, vessel
<b>Various rights</b>	Mining or fishing rights, memberships for golf clubs, riding clubs, condominiums, general sports facilities, yacht clubs



### 3) Tax base

- The tax base for acquisition tax is the price reported by the acquirer at the time of acquisition. When no acquisition price is reported or the reported price is lower than the standard market price, however, the standard market price becomes the tax base.

In any of the following cases, the actual acquisition price is treated as the tax base, notwithstanding the provision above that the standard market price should be the tax base:

- A. Acquisition from the central or municipal government
- B. Acquisition by importation from overseas
- C. Where the acquisition price is verified by a court ruling
- D. Where the acquisition price is verified by the company's books
- E. Acquisition through public sale or auction
- F. Acquisition verified through a real estate transaction price verification system by submitting a real estate transaction report



## 4) Taxable assets

### A. Standard tax rate

Classification		Standard tax rate	
Real estate	Gratuitous acquisition	Inheritance	2.8% (2.3% for farmland)
		Other than inheritance	3.5%
	Original acquisition		2.8%
	Acquisition through division of shared assets, or combined and total artifacts		2.3%
	Acquisition based on other causes		4% (3% for farmland)
	Housing acquired through paid transaction		1~3%
Ship		2.5% ~ 3%	
Passenger car for private use		7% (4% for compact cars)	
Machinery & equipment		3%	
Aircraft		2%	
Mining rights, etc.		2%	

### B. Heavy tax rate

1) Heavy taxation on real estate acquired in overconcentration control zones : Standard tax rate + 2% x 2

- ① When business-purpose real estate is acquired by building or expanding a building for the headquarters or main office within overconcentration control zones
- ② Where taxable assets for business purpose are acquired to build or expand a factory in an overconcentration control zone (excluding industrial complexes, investment inducement zones and industrial zones)

## Overconcentration control zones in the Seoul metropolitan area

### 1. Seoul metropolitan city

### 2. Incheon metropolitan city

\* Excluding Ganghwa-gun, Ongjin-gun, Daegok-dong, Bulro-dong, Majeon-dong, Geumgok-dong, Oryu-dong, Wanggil-dong, Dangha-dong, dang-dong in Seo-gu, Incheon Free Economic Zone (including areas whose status as an FEZ was lifted), and Namdong Techno Valley

### 3. Gyeonggi-do

① Euijeongbu-si, ② Guri-si, ③ Gunpo-si, ④ Hanam-si, ⑤ Goyang-si, ⑥ Suwon-si, ⑦ Seongnam-si, ⑧ Anyang-si, ⑨ Bucheon-si, ⑩ Gwangmyeong-si, ⑪ Gwacheon-si, ⑫ Euiwang-si, ⑬ Namyangju-si (limited to Hopyeong-dong, Pyeongnae-dong, Geumgok-dong, Ilpae-dong, Ipae-dong, Sampae-dong, Gawun-dong, Suseok-dong, Jigeum-dong, and Donong-dong), and ⑭ Siheung-si [excluding Banwol Special Area (including areas now excluded from Banweol Special Area)]

## 2) Heavy taxation on real estate acquired in metropolitan areas:

Standard tax rate x 3 – 2% x 2

- ① Where a company is established, or if any branch or branch office is established in a metropolitan city (overconcentration control zones excluding industrial complexes), or when real estate is acquired within a metropolitan city due to the relocation of the headquarters or main office, branch or branch office from outside a metropolitan city to inside a metropolitan city

② Where real estate is acquired due to the construction or expansion of a factory in a metropolitan city (excluding investment inducement areas and industrial areas)

3) Heavy taxation on the acquisition of luxurious properties:  
Standard tax rate + 2% x 4

① Country house, golf club, luxury house, high-end amusement facility, luxury boat, etc.

4) Heavy tax rate on housing

① When a household acquires a second housing (excluding two housings owned temporarily): 8%

② When a company or a household acquires three or more housing: 12%

③ When a housing with standard market value of KRW 300 million or more within an area subject to adjustment is acquired gratuitously: 12%

## 5) A company's deemed acquisition tax

- Where a company becomes an oligopolistic shareholder through acquisition (excluding acquisition at the time of incorporation) of shares by sale or capital increase, the oligopolistic shareholder is deemed to have acquired the company's taxable assets and acquisition tax shall be imposed accordingly.

### A. Assets subject to taxation of deemed acquisition tax

Classification	Assets
Real estate	Land, buildings
Assets equivalent to real estate	Vehicles, machinery and equipment, standing trees, aircraft, vessel
Various rights	Mining or fishing rights, memberships for golf clubs, riding clubs, condominiums, general sports facilities, yacht clubs

## B. Tax base

$$\text{Total value of the taxable assets} \times \frac{\text{Total number of the stocks and shares acquired by the oligopolistic shareholder}}{\text{Total number of the stocks and shares of the company}}$$

## C. Tax rate

A tax rate of 2% is applied to the tax base. However, 6% is applied if the acquired asset is subject to heavy taxation for factory construction or expansion in an overconcentration control zone, and 10% is applied if the asset is a luxury asset.

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## 6) Due date for filing

- Persons who acquired assets subject to acquisition tax should file and pay the tax computed by applying the tax rate to the relevant tax base within 60 days of the acquisition date (e.g., the day the balance is paid).



## ( 3 ) | Property tax

- Property tax is tax imposed on the owner of land, buildings, housing, vessel and aircraft for their ownership.

### 1) Taxpayer

- Property tax is to be borne by the person who is the de facto owner of the relevant asset as of the date of taxation (June 1 every year).

### 2) Tax base

Category	Taxable asset	Standard market price	Tax base for property tax
<b>Housing</b>	House and attached land	Publicly announced housing price	Standard market price x fair market price ratio (60%)
<b>Building</b>	General buildings	Price determined by the municipal government head	Standard market price x fair market price ratio (60%)
<b>Land</b>	Global aggregate land, Separate aggregate land	Individual official land price x area (m <sup>2</sup> )	Standard market price x fair market price ratio (70%)

\* Property taxes for housing and buildings are taxed for each asset, while property tax for land is taxed for each individual, for the aggregate ownership of land within a municipality.

### 3) Tax rate

Taxable asset	Tax base	Tax rate	Note
<b>Housing</b>	KRW 60 million or less	0.1%	Country house 4%
	KRW 150 million or less	KRW 60,000 + 0.15% of the amount in excess of KRW 60 million	
	KRW 300 million or less	KRW 195,000 + 0.25% of the amount in excess of KRW 150 million	
	Over KRW 300 million	KRW 570,000 + 0.4% of the amount in excess of KRW 300 million	
<b>Building</b>	Golf club, high-end amusement facility	4%	New or expanded factory built in an overconcentration control zone (1.25% for five years)
	Factory buildings inside a residential or other designated zone	0.5%	
	Other buildings	0.25%	
<b>Vacant lot (global aggregate taxation)</b>	KRW 50 million or less	0.2%	-
	KRW 100 million or less	KRW 100,000 + 0.3% of the amount in excess of KRW 50 million	
	Over KRW 100 million	KRW 250,000 + 0.5% of the amount in excess of KRW 100 million	
<b>Business-purpose land (separate aggregate taxation)</b>	KRW 200 million or less	0.2%	-
	KRW 1 billion or less	KRW 400,000 + 0.3% of the amount in excess of KRW 200 million	
	Over KRW 1 billion	KRW 2.8 million + 0.4% of the amount in excess of KRW 1 billion	
<b>Other land (separate taxation)</b>	Fields, paddies, orchards, ranches and forest land	0.07%	-
	Land for golf course and high-end amusement facility	4%	
	Land other than those listed above	0.2%	

#### 4) Due date for payment

Tax	When to pay	Tax payable	Governing authority
Property tax for buildings, 1/2 of property tax for housing	Jul. 16-31	Amount on the tax notice	Si / Gun /Gu office
Property tax for land, 1/2 of property tax for housing	Sep. 16-30		

### ( 4 ) | Comprehensive real estate tax

- If the sum of the publicly notified price of housing and land located in Korea subject to property tax owned by a taxpayer who is obligated to pay property tax on land and housing as of June 1 (date of taxation) every year exceeds a prescribed amount, comprehensive real estate tax is imposed on the amount in excess. For taxable real estate, the relevant si/gun/gu office having jurisdiction over the place of location of the real estate imposes property tax by classifying the types of taxation, and then the tax office with jurisdiction over the place of address (location of the headquarters for companies) imposes comprehensive real estate tax for the amount exceeding the prescribed deduction ceiling.



## 1) Taxable real estate

Real estate is classified into housing (including attached land), land subject to comprehensive aggregation (e.g., vacant lot, miscellaneous land), and land subject to separate aggregation (e.g., land attached to general buildings).

The publicly notified price of each category shall be added up and the amount in excess of the prescribed deduction ceiling shall be taxed.

\* Real estate excluded from aggregation: Dormitory, housing for employees (publicly notified price of less than KRW 300 million), housing developers' unsold housing, etc.

## 2) Deductible amount

Taxable real estate is classified by category. Taxation shall apply only when the sum of the publicly notified price of the nationwide properties owned by a taxpayer exceeds the following deduction amount:

Classification of taxable properties and unit of taxation		Deductible amount
Housing	Nationwide aggregate total per person	KRW 900 million (KRW 1.2 billion for 1 household owning 1 housing)
Comprehensively aggregated land (vacant lot, miscellaneous land, etc.)		KRW 0.5 billion
Separately aggregated land (land attached to general buildings, etc.)		KRW 8 billion

### 3) Tax base computing method

#### A. Housing

The tax base is computed by aggregating the publicly notified price of nationwide housing and attached land owned per person, deducting a certain amount and then multiplying the fair market value ratio.

#### B. Land

The tax base is computed by aggregating the publicly notified price (individually assessed land price) of comprehensively aggregated land and separately aggregated land in Korea owned per person, deducting a certain amount and then multiplying the fair market value ratio.

Taxable property	Tax base	Publicly notified price
Houses	(Nationwide aggregate of publicly notified price per person - KRW 600 million) x fair market price ratio	Publicly notified housing price
Comprehensively aggregated land (vacant lot, miscellaneous land, etc.)	(Nationwide aggregate of publicly notified price per person - KRW 500 million) x fair market price ratio	Individually assessed land price
Separately aggregated land (including land attached to general buildings, etc.)	(Nationwide aggregate total per person of the government-published land price - KRW 8 billion) x fair market price ratio	Individually assessed land price

#### 4) Tax rate

Housing		Comprehensively aggregated land		Separately aggregated land	
Tax base	Tax rate	Tax base	Tax rate	Tax base	Tax rate
Not over KRW 300 mil.	0.5%	Up to KRW 1.5 bil.	1%	Not over KRW 20 bil.	0.5%
KRW 300 mil, - not over KRW 600 mil.	0.7%				
KRW 600 mil. - not over KRW 1.2 bil.	1.0%	Up to KRW 4.5 bil.	2%	Not over KRW 40 bil.	0.6%
KRW 1.2 bil. - not over KRW 2.5 bil.	1.3%				
KRW 2.5 bil. - not over KRW 5 bil.	1.5%				
KRW 5 bil. - not over KRW 9.4 bil.	2.0%	Over KRW 4.5 bil.	3%	Over KRW 40 bil.	0.7%
Over KRW 9.4 bil.	2.7%				

\* Different comprehensive real estate tax rates apply for individuals and corporations, and the number of housings owned (1-2 housing/ 3 or more housing)

#### 5) Tax credit

##### A. Property tax on the taxable property subject to comprehensive real estate tax

The amount of property tax imposed on the taxable property subject to comprehensive real estate tax shall be deducted from the comprehensive real estate tax amount.

## B. Tax credit for households owning one house (not applicable to companies)

For households owning one house, the amount of tax calculated as follows shall be deducted from the tax amount:

Tax credit by age		Tax credit for long-term ownership		Tax credit ceiling
Age	Tax credit rate	Ownership period	Tax credit rate	
60 - 65	20%	5 - 10 yrs	20%	80%
65 - 70	30%	10 - 15 yrs	40%	
70 or older	40%	15 yrs or longer	50%	

## C. Amount in excess of the tax burden ceiling

If the amount of comprehensive real estate tax for the relevant year exceeds the amount calculated by multiplying the following percentage with the amount of comprehensive real estate tax imposed on the relevant housing in the immediately preceding year, such amount in excess shall be deemed nil.

Number of housings owned	Individual	Corporation
<b>Housing</b>	150%	Not applicable

## 6) Notice and payment of comprehensive real estate tax

- Whether comprehensive real estate tax should be imposed is determined based on the ownership of real estate as of June 1 every year (tax base date), and the jurisdictional tax office head determines and notifies the tax payable.

When the taxpayer wishes to file a return, he/she can file and pay tax within the tax payment period (Dec. 1-15) regardless of the notification, and in this case, the notified tax is cancelled.



## Other taxation schemes

### 1. Extension of due date and deferment of collection

#### ( 1 ) | Extension of due date

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- Where there occurs a cause that makes it difficult for the taxpayer to fulfil his/her obligation to file and pay pursuant to tax laws, he/she can apply for an extension of due date for filing and payment. If the jurisdictional tax office head approves, the due date for filing and payment is extended.

##### 1) When to apply

- The application for extension of due date should be made no later than three days before the due date. When it is recognized that the head of the relevant agency cannot apply no later than three days before the due date, application can be filed until the due date expires.

##### 2) Period of extension

- The due date can be extended by up to three months, which can be re-extended by a maximum of nine months. When extending the due date, the jurisdictional tax office head can request collateral equivalent to the amount of tax payable.
-

### 3) Causes for extension of due date

- A. Where the taxpayer experiences any natural disaster, earthquake, fire, war, similar calamities or theft
- B. Where the taxpayer or his/her family member is seriously ill or has died and he/she is in mourning
- C. Where the ICT network of the Bank of Korea and postal offices is unable to operate normally due to power failure, program error, or other inevitable causes
- D. Where books or documents are confiscated or seized by a law enforcement agency
- E. Where the taxpayer's tax agent experiences fire, war, similar calamities or theft
- F. Where the Commissioner of National Tax Service recognizes that tax cannot be properly paid due to closure of financial institutes, etc.
- G. Where the taxpayer suffers serious damages in business or faces a major crisis (limited to due date for payment)
- H. Where the taxpayer's economic conditions, financial viability, etc. satisfy those standards provided by the Commissioner of National Tax Service among cases wherein an extension of due date is deemed necessary (limited to due date for payment)

## **( 2 ) | Deferment of collection**

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- Where a cause for deferment occurs due to business difficulties, etc., a taxpayer can make an application for deferment of collection of the notified tax.
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### **1) Deadline for application**

- A taxpayer can apply for deferment of collection up to three days before the due date for collection on the tax notice.
- 

### **2) Cause for deferment of collection**

- A. Where the taxpayer suffered serious financial loss due to disaster or theft
  - B. Where the taxpayer suffered serious loss to his/her business
  - C. Where the taxpayer's business is in a serious crisis
  - D. Where the taxpayer or his/her family member living together requires long-term treatment due to illness or serious injury
  - E. Where a mutually agreed-upon procedure is under way
- 

### **3) Effects of deferment of collection**

- Where the jurisdictional tax office approves deferment of collection, penalty tax for late payment is not imposed, and no action such as seizure or public sale is taken for failure to pay tax.
-

## 2. Request for correction, revised return, filing of return after the due date

### (1) | Request for correction

- Where any of the following causes occurs to a company that has submitted a return of tax base within the statutory period or a company that has submitted a return of tax base after the statutory period, the company may request a determination or correction of the originally filed or revised tax base.

#### 1) Causes for request for correction

- A. Where the reported tax base and tax payable is more than the amounts to be reported
- B. Where the reported amount of deficit and tax refundable is less than the amounts to be reported

#### 2) Due date for request for correction

- A request for correction can be filed to the jurisdictional tax office head within five years of the expiration of the statutory due date.

#### 3) Request for retroactive correction

- Where the following has occurred, a request for correction can be made within three months of the day on which a taxpayer became aware of the cause.
- A. Where the transaction, act, etc. that became the basis for calculation of the tax base and tax amount was altered due to a court ruling or has been altered based on a court ruling



- B.** Where a decision is made to revert the ownership of income or other taxable items to a third party
- C.** Where a mutual agreement pursuant to a tax treaty is altered from the original
- D.** Where the initially reported tax base and tax amount in another business year exceeds the tax base and tax amount to be reported pursuant to tax laws due to correction, etc.
- E.** Where the approval or other dispositions of the authority related to the transaction or act that became the basis for calculation of the tax base and tax amount at the initial tax filing is cancelled
- F.** Where the contract related to the act that became the basis for calculation of the tax base and tax amount at the initial tax filing was rescinded due to exercise of the right of rescission, or rescinded or terminated due to inevitable causes after the contract's conclusion
- G.** Where the tax base and tax amount could not be calculated due to the seizure of books and evidentiary documents or other unavoidable causes, but such causes have been dissolved.



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## ( 2 ) | Revised return

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- Where there is a need to file a revised return because the tax base and tax amount (including tax refundable) or amount of deficit stated on the return of tax base filed after the due date are different from the actual amount, a revised return can be submitted before the head of the jurisdictional tax office corrects the tax base and tax amount and the period of exclusion from imposition of national taxes expires. However, the additional tax payable should be paid.
- 

### 1) Causes for filing a revised return

- A. Where the tax base and tax amount stated on the return of tax base is less than the tax base and tax amount to be reported pursuant to tax laws
  - B. Where the amount of deficit or tax refundable stated on the return of tax base exceeds the amount of deficit or tax refundable to be reported pursuant to tax laws
  - C. Where the amounts equivalent to government subsidies, etc. and customer's donation are not included in gross revenue and deductible expense at the same time in the tax adjustment process
- 

### 2) Due date for filing a revised return

- A revised return can be filed before the jurisdictional tax office head corrects and notifies the corporate tax base and tax amount and before the exclusion period for imposition of national tax expires.
-

### 3) Abatement of penalty tax

- Where a revised return is filed within two years, the taxpayer can receive abatement of the penalty tax for under-reporting

#### Abatement of penalty tax for under-reporting (or over-payment)

Period	Abated amount
Within 1 month of the statutory due date for filing	Penalty tax x 90%
Over 1 month but not over 3 months of the statutory due date for filing	Penalty tax x 75%
Over 3 months but not over 6 months of the statutory due date for filing	Penalty tax x 50%
Over 6 months but not over 12 months of the statutory due date for filing	Penalty tax x 30%
Over 12 months but not over 18 months of the statutory due date for filing	Penalty tax x 20%
Over 18 months but not over 24 months of the statutory due date for filing	Penalty tax x 10%

### [ 3 ] | Filing after the due date

- Where a taxpayer has not filed the tax base and tax amount by the statutory due date, a return can be filed before the tax authority determines and notifies the tax amount.

Where a return is filed within six months of the due date, penalty tax for non-filing is reduced as follows:

#### Abatement of penalty tax for non-reporting when filing after the due date

Period	Abated amount
Within 1 month of the statutory due date	Penalty tax x 50%
Over 1 month but not over 3 months of the statutory due date	Penalty tax x 30%
Over 3 months but not over 6 months of the statutory due date	Penalty tax x 20%

### 3. Penalty tax

- Penalty tax is imposed when the taxpayer fails to fulfill his/her obligations under the tax laws. Penalty taxes related to filing and payment are as follows:

#### (1) | Penalty tax for unfaithful returns

- Where a resident who is liable to file a finalized return of tax base does not file a return within the due date or under-reports revenue, the following penalty taxes shall be imposed.

##### 1) Penalty tax on non-filing

- The higher of the following:
  - A. Tax payable for unreported revenue x 20%
  - B. Revenue x 0.07%

##### 2) Penalty tax for under-reporting

- Tax payable for under-reported revenue x 10%

##### 3) When the taxpayer fails to file tax returns, makes an under-reporting, or applies for tax abatement or deduction unlawfully

- The greater of the following:
  - A. Tax payable for unreported (or under-reported) revenue x 40% (60% for unlawful conducts in international transactions)
  - B. Revenue x 0.14%

## [ 2 ] | Penalty tax for late or incorrect payment

• Where the tax payable is not paid within the due date or is underpaid, penalty tax shall be imposed as follows for the excess tax refund (①+②):

① Amount underpaid, unpaid or excess refund (including amount equivalent to interest) x Period\* X 2.2/10,000

\* From the day after the due date for payment (refunded date) to the payment date (Period from the date of notice of payment until the due date for payment under the notice of tax payment)

② Unpaid tax after the due date for payment under the notice x 3%

## [ 3 ] | Penalty tax for late payment of withholding tax

• Where the withholding agent does not pay or underpays the tax amount collected or to be collected, the following tax amount is imposed as penalty tax.

$$\text{Penalty tax for late payment of withholding tax} = (\text{unpaid or underpaid tax} \times 3\%) + (\text{unpaid or underpaid tax} \times 0.022\% \times \text{unpaid days})$$

\* Ceiling: 50% of the unpaid or underpaid tax amount



## 4. Tax audit

### (1) | Selection of taxpayers subject to tax audit

- Persons subject to tax audit are selected based on the following criteria:

#### 1) Tax audits based on periodic selection

- A. Where the Commissioner of the National Tax Service has analyzed the sincerity of the tax returns filed by a taxpayer and recognizes that he/she is suspected of insincere filing
- B. Where there is a need to verify the appropriateness of a taxpayer who has not received a tax audit for the same tax item for the recent four taxable periods or more
- C. A random sampling of taxpayers

#### 2) Other tax audits

- A. Where a taxpayer does not fulfill his/her obligations to cooperate with taxation as provided under tax laws
- B. Where the reported transactions are suspected to be false
- C. Where detailed information has been received regarding a taxpayer's tax evasion
- D. Where the tax authorities have clear information that a taxpayer's tax returns include omissions or errors
- E. Where a taxpayer has provided bribes or arranged bribery to a tax official in connection with his/her duties

## **( 2 ) | Deferment of tax audit**

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- A taxpayer may apply for deferment of tax audit when he/she is unable to undergo tax audit due to any of the following causes:
  - 1) Where a taxpayer is suffering serious business difficulties due to fire or other calamities
  - 2) Where a tax audit is determined to be unfeasible due to a disease or long-term business travel, etc. of the taxpayer or his/ her tax agent
  - 3) Where the taxpayer's books or supporting documents are under seizure by law enforcement agencies
  - 4) Where there are other causes similar to the above

## **( 3 ) | Tax audit period**

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- The tax audit period shall be set at the minimum, but the period may be extended where any of the following causes occurs. In such cases, the extension should be approved by the tax office head, and for the second extension and onwards, the period can be extended within 20 days after an approval is obtained.
    - 1) Where a taxpayer has clearly attempted to avoid the tax audit
    - 2) Where a taxpayer's transaction counterparts need to be investigated, or field investigation of the transaction counterparts or banking transactions is required
    - 3) Where the taxpayer is suspected of tax evasion, or a tax offense investigation under the Act on the Procedure for the Punishment of Tax Offenses has started during tax audit
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- 4) Where the tax audit is discontinued due to force majeure or labor dispute
- 5) Where the taxpayer protection officer or responsible officer believes that additional fact finding is required in connection with the suspected tax evasion
- 6) When a party being investigated requests extension of the tax audit period to clarify the suspected tax evasion, and the taxpayer protection officer accepts the request

## 5. Interpretation of tax law

- The tax law provisions may be interpreted in various ways. When the taxpayer experiences difficulties in applying the tax laws as there are no existing cases of tax law interpretation, he/she may request the National Tax Service for an official interpretation of the tax law provisions.

### (1) | Written inquiry

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- Where a taxpayer submits a written inquiry on general interpretation of tax laws to the Commissioner of the National Tax Service, an answer is provided in writing.



## ( 2 ) | Advance reply

- Where a taxpayer makes an inquiry about his/her tax issues to the Commission of the National Tax Service in advance (i.e., before the due date for statutory filing), an answer is provided in return.

### How to request an interpretation of tax laws

Classification	Written inquiry	Advance reply on tax law interpretation
<b>Applicant</b>	The taxpayer or delegated agent	The taxpayer or entrusted tax agent
<b>Due date for application</b>	No limit	Before the statutory due date for filing
<b>Questions</b>	General issues concerning tax law interpretation	Specific transactions of the taxpayer (transactions that actually take place)
<b>How to inquire</b>	The written inquiry can be submitted by mail, fax, online (Home Tax), or in person	The written inquiry can be submitted by mail, online (Home Tax) or in person (fax is not accepted)
	Mail address (zip code: 30128) National Tax Service (Naseongdong), (National Tax Service Building, Sejong No.2 Government Complex) 8-14 Guksecheong-ro, Sejong Special Autonomous City Attention : Tax law interpretation desk (enclosed)	
<b>Effects</b>	Although not binding externally, the reply may provide the actual basis for applying the tax law provisions (expression of general opinion)	The reply to the inquiry becomes legally binding (protection of reliance principle applied)

### Inquires that are returned or not accepted

Classification	Written inquiry	Advance reply on tax law interpretation
Unaccepted inquiries	1. Inquiries not related to tax laws applicable to the inquirer	1. Inquiries not related to tax laws applicable to the inquirer
	2. Inquiries for checking facts not related to tax law interpretation	2. Inquiries for checking facts not related to tax law interpretation
	3. Inquiries intended for tax evasion or avoidance	3. Inquiries intended for tax evasion or avoidance
	4. Inquiries in which facts were distorted or important information was intentionally omitted	4. Inquiries based on assumed facts
	5. Inquiries where the relevant transactions, etc. violate laws, etc.	5. Inquiries where the relevant transactions, etc. violate laws, etc.
Returned inquiries	1. Unqualified inquiries	1. Unqualified inquiries
	2. Inquires that were not amended as requested	2. Inquires that were not amended as requested
	3. Inquires for matters undergoing a tax appeal or pre-assessment review	3. Where the due date for inquiry has passed
	4. Inquiries on matters for which an application for advance tax ruling was made	4. Inquiries that are comprehensive or unclear and interpretation is not possible
	5. Inquires on notice of taxation, notification of tax audit results and tax notices	5. Where an advance notice of tax audit is received or tax is decided or corrected after an application is received

## 6. Tax appeal and administrative suits

- In the case that a taxpayer objects to the tax authority's imposition of national tax, there is a procedure for determining whether the tax authority's tax imposition was lawful under tax laws.

### ( 1 ) | Pre-assessment review

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- Where a company received a written notice of audit results or other advance notice of taxation, the company can request a judgment on whether the content of the notification is legal (pre-assessment review) to the head of a tax office, the head of a regional National Tax Service office or the Commissioner of the National Tax Service within 30 days of the date of its receipt.

Where a request for pre-assessment review is made, the decision or correction of tax base and tax amount for the relevant request should be deferred.

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#### 1) Causes for disqualification

- In any of the following cases, the regulations on pre-assessment review shall not apply.
    - A. Where any causes for a collection prior to the due date for payment or cause for occasional levying under tax laws exists
    - B. Where an accusation is lodged or a disposition of notice is placed due to violation of the Procedure for the Punishment of Tax Offenses Act
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- C. Where the period is not more than three months from the date of the notice of audit results and the advance notice of taxation to the expiration date of limitation period for assessment of national tax
- D. Where the commencement of a mutual agreement procedure is requested by a tax treaty counterpart country
- E. Where a tax audit is started based on the decision to re-audit against the taxpayer's tax appeal or request for pre-assessment review

## 2) Decision and notification

- The tax office head, etc. should make a decision within 30 days of receiving a request, and notify the taxpayer.

## ( 2 ) | Objection

- Before filing a request for examination or judgment, a taxpayer may raise an objection against a disposition within 90 days of the day on which the taxpayer became aware of the disposition (or the day of receiving a notice of disposition) to the relevant tax office head or the head of the relevant regional National Tax Service office head. The head of the tax office or regional National Tax Service office shall make a decision within 30(60) days of the date of receiving the objection after going through the Review Committee for National Tax Appeal's deliberation, and the taxpayer can file a request for examination or judgment within 90 days of receiving the objection application decision.

## **( 3 ) | Request for examination or judgment**

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- Where a taxpayer suffered infringement of rights or interest by receiving an unlawful or unjust disposition such as imposition of tax pursuant to the tax laws, he/she can request an examination or judgment within 80 days of the day he/she became aware of the disposition (or day of receiving notification of disposition).

Where an examination or judgment finds that the taxpayer's opinion is lawful, the tax authority will cancel the taxation. If the tax authority's taxation is considered lawful, the taxpayer can file an administrative lawsuit.

To file an administrative lawsuit, a taxpayer should go through one of the following: request for Tax Tribunal's judgment, request for National Tax Service's examination, and request for the Board of Audit and Inspection's review. This is called the transposition system of administrative decision before the litigation.

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### **1) Request for the Tax Tribunal's judgment**

- Established under the Prime Minister, the Tax Tribunal judges whether the relevant tax case is lawful through the meetings of its President and members.

The Tax Tribunal handles most cases as it was established to adjudicate on tax appeals.

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### **2) Request for the National Tax Service's review**

- The taxpayer may file an appeal to the National Tax Service, which judges whether the relevant taxation case is lawful or not through meetings of its Review Committee for National Tax Appeal.
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### 3) Request for Board of Audit and Inspection's review

- The taxpayer may also appeal to the Board of Audit and Inspection. The Audit Committee of the Board of Audit and Inspection judges whether the relevant taxation case is lawful or not.

## ( 4 ) | Administrative litigation

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- The Korean tax litigation system offers a three-tier system: 1st instance of administrative court, 2nd instance of higher court, and 3rd instance of the Supreme Court. To file an administrative lawsuit to the court, the taxpayer should first undergo review by either the National Tax Service or the Board of Audit and Inspection without fail.



## 7. Consulting on national tax

- The National Tax Service operates a consulting center for national tax-related matters.

### (1) | Telephone

- Inquiries can be made by phone (82-126 with no area code), and an English-speaking line for foreigners (82-1588-0560) is also operated.

#### Major extension numbers

<b>1</b> <b>HomeTax</b>	1 ➔ Cash receipt
	2 ➔ E-tax invoice and security card
	3 ➔ Filing and payment
	5 ➔ Simplified year-end tax settlement
	6 ➔ Application for registration of business and modification thereof
	7 ➔ Issuance of certificates and other tax documents
	<b>2</b> <b>Tax laws</b>
2 ➔ VAT	
3 ➔ Year-end tax settlement, withholding tax	
4 ➔ Global income tax	
5 ➔ Earned income tax credit, child tax credit	
6 ➔ Corporate tax, international taxation	
7 ➔ Inheritance tax, gift tax	
8 ➔ Individual consumption tax, liquor tax, stamp tax, Framework Act on National Tax, National Tax Collection Act	
9 ➔ Recommendations, complaints, comments on tax administration	
0 ➔ Other tax issues	

## ( 2 ) | Online

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- The HomeTax website provides online consulting ([www.hometax.go.kr](http://www.hometax.go.kr), Korean only) and FAQs.

**This book is a summary of the domestic tax laws and tax treaties related to foreign investment (as of Dec. 2023). Therefore, when applying the contents in this book for business purposes, it is advised to check the original texts of the relevant tax law, legal interpretations, etc. beforehand.**



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