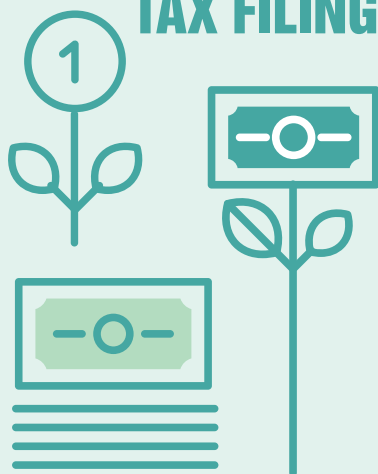




TAX FILING



2021 Taxation in Korea

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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

- ① Corporate tax: Tax levied on corporate income
- ② Income tax: Tax levied on an individual's income
- ③ Value-added tax (VAT): Tax levied on the supply of goods or services and import of goods
- ④ Securities transaction tax: Tax levied at a certain percentage of the stock transfer price
- ⑤ Comprehensive real estate tax: Tax imposed when the total amount of housing and land exceeds a certain amount

◆ (2) Local tax

- ① Registration and license tax: Tax imposed on corporate establishment and capital
- ② Acquisition tax: Tax levied on the acquisition of certain assets such as real estate
- ③ Property tax: Tax levied on the owner of property such as real estate



Taxes for foreign-invested companies



1. Corporate tax

◆ (1) Overview

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.	Non-reflux income	Liquidation income
Domestic corporation	For-profit corporation	All domestic and foreign income	○	○	○
	Non-profit corporation	Domestic and foreign business income	○	×	×
Foreign corporation	For-profit corporation	Domestic-source income	○	×	×
	Non-profit corporation	Income from for-profit business among domestic-source income	○	×	×

2) Types of corporate tax

① 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.

② Corporate tax on capital gains on land, etc.

When transferring housing (including attached land) or land for non-business purpose as prescribed by law, tax calculated by multiplying the capital gains (the transfer amount minus the book value) by 20% should be additionally paid.

③ Corporate tax on non-reflux income

If a corporation whose equity capital exceeds KRW 50 billion (excluding SMEs) as of the end of each business year does not spend a certain amount of its income from the relevant business year on investment, wages, or contribution to funds for mutual cooperation between large corporations and SMEs, tax calculated by multiplying the non-reflux income with 20% should be additionally paid.

④ 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

The corporate tax rate is a progressive tax rate ranging from 10 to 25%, and it is calculated by multiplying the tax base by the tax rate.

Tax base	Tax rate	Progressive deduction
KRW 200 million or less	10%	-
More than KRW 200 million	20%	KRW 20 million
More than KRW 20 billion	22%	KRW 420 million
More than KRW 300 billion	25%	KRW 9.42 billion

5) Due date for filing

A company must prepare a return of corporate tax base and tax amount and file and pay 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) Required documents

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

- ① Statement of financial position and comprehensive income statement of individual domestic corporations prepared in accordance with corporate accounting standards
- ② Statement of disposition of retained earnings (disposition of deficit) prepared in accordance with corporate accounting standards
- ③ Statement of tax adjustment
- ④ Other attached documents, cash flow statement, financial statement in functional currency, and financial statement in KRW
- ⑤ Statement of the financial position of the merged corporation, etc., statements of assets and liabilities inherited by merger or division

◆ (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
Inclusion in 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., inclusion of deemed interest in gross revenue) for taxation or social policy purposes.

1) Inclusion in gross revenue & exclusion from deductible expense

The major items that are included gross revenue or excluded from deductible expense are as follows:

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 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 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.

** (Total wage & salary income amount for one year leading to the date of retirement ÷ 10) × 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 (①+②+③)

Ⓐ Basic ceiling

KRW 12 million (small and medium-sized businesses KRW 36 million)

Ⓑ Ceiling based on revenue

Revenue	Application rate
KRW 10 billion or less	Revenue x 0.3%
More than KRW 10 billion and not more than KRW 50 billion	Revenue x 0.2%
Over 50 KRW billion	Revenue x 0.03%

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

Ⓒ Ceiling on cultural entertainment expenses = lesser of (Ⓐ, Ⓑ)

Ⓐ Expenditure on cultural entertainment expenses

** Domestic culture-related expenses such as spending on books and performances.*

Ⓑ 20% of the general entertainment expenses (Ⓐ+Ⓑ) 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

Trade receivables held by a company are appropriated as loan loss reserves, it is recognized as deductible expense. However, the amount of loan loss reserves set in excess of the ceiling for loan loss reserves,* the amount 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 percentage of the value of assets unrelated to business among the interest paid on the debt 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

If a company holds the shares of another company and receives dividends from that company, a certain amount (30 to 100%) is recognized as deductible expense depending on the stakes held.

C. 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.

D. The amount appropriated for covering loss carried forward

If a company receives exemption of debt or acquires assets gratuitously, gains from debt exemption or assets contributed are included in gross revenue. However, if the gains are used to cover loss carried forward, it shall not be included in gross revenue.



◆ (3) Major deductions and reduction/exemptions

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

If a company has income incurred overseas (foreign source income), the corporate tax paid to foreign tax authorities is deducted within a certain limit or included in necessary expense. 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

Taxes paid to a foreign tax authority by a domestic company for income incurred overseas. A typical example is the tax withheld when dividend is paid from an overseas subsidiary.

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 25% of the company's stake for at least six months as of the determination date of dividends) that paid dividends to the domestic company is recognized as tax indirectly paid overseas.

Indirect foreign payment tax	=	Corporate tax paid by overseas subsidiary	×	$\frac{\text{Dividend income}}{\text{Overseas subsidiary's income from the relevant business year} - \text{Corporate tax paid by the overseas subsidiary for the relevant business year}}$
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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.

(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 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 deductions and reduction/exemption under the Restriction of Special Taxation Act

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, 2021, 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 does not belong to a conglomerate subject to restrictions on mutual investment or prohibition of provision of guarantee for affiliate's debt.
 2) The company is not a company in which a corporation with total assets of KRW 500 billion or more is the largest shareholder owning 30% of the 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 the manufacturing business, etc.

** 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 business establishment

** 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 2021.

** 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) 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) Tax reduction rate

Business	Basic reduction rate and reduction period		Additional reduction rate
	Overpopulation control zones in the Seoul metropolitan area	Other areas	
Small and medium start-up business	-	50%	[(Number of full-time workers in the relevant taxable year – Number of full-time workers in the previous taxable year) ÷ Number of full-time workers in the previous taxable year] x 50% (25%)
Small and medium youth startup business	50%	100%	
Companies with revenue of KRW 48 million or less			
Small and medium venture startup business	50%		
Small and medium businesses with new energy technology			
Businesses operating a new growth service business	75% (3 years), 50% (2 years)		

* *Overconcentration control zones in the Seoul metropolitan area: All areas of Seoul, Incheon, and some areas of Gyeonggi-do (refer to attached Table 1 of the Enforcement Decree of the Seoul Metropolitan Area Readjustment Planning Act)*

B. Integrated tax credit for investment

(1) Outline

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

(2) Eligibility for tax credit

All tangible assets for business use are eligible for tax credit, but land, structures such as buildings, and vehicles, vessels and aircraft are eligible for tax credit in certain businesses.

(3) Tax credit amount

The tax credit amount is calculated by multiplying the investment amount by the tax credit rate.

(4) Tax credit rate

Classification	General investment			Investment in new growth industry technology commercialization facility		
	SMEs	Companies of middle standing	General companies	SMEs	Companies of middle standing	General companies
Basic tax credit rate	10%	3%	1%	12%	5%	3%
Additional tax credit rate	[Investment in the current year - Average investment in the previous three years] x Additional tax credit rate (3% for all companies) <i>*Additional tax credit ceiling: 200% of the basic tax credit amount</i>					

C. Special tax credit for small and medium enterprises (SMEs)

(1) Eligibility

For SMEs operating a business subject to tax credit such as a manufacturing business, the following amount of tax shall be reduced up to Dec. 31, 2022.

(2) Tax credit rate

Size	Location of place of business	Tax credit rate	
		Businesses subject to tax credit	Wholesale, etc.
Small businesses	Seoul metropolitan area	20%	10%
	Other areas	30%	
Medium businesses	Seoul metropolitan area	- (10% for knowledge-based businesses)	-
	Other areas	15%	5%
Compliant SMEs	The tax credit rate is multiplied by 1.1.		

** Where the headquarters or main office of a company is in the Seoul metropolitan area, all places of business shall be deemed to be located in the Seoul metropolitan area and the relevant credit rate shall apply.*

(3) Tax credit amount = Lesser of (①,②)

- ① Corporate tax for income incurred from the relevant place of business x Tax credit rate
- ② Tax credit ceiling
 - ⓐ Where the number of full-time employees in the relevant taxable year has reduced from the previous year: KRW 100 million - (Number of decreased full-time employees x KRW 5 million)
 - ⓑ Others: KRW 100 million

D. Tax credit for R&D and human resources development expense**(1) Eligibility**

A certain amount of tax credit applies to a company's R&D expenses and human resources development expenses for corporate support.

(2) R&D and personnel development expenses subject to tax credit

- ① R&D expenses for new growth industry technology and source technology
- ② General research expenses and human resources development expenses

(3) Tax credit amount: ① + ②

- ① R&D expenses for new growth industry technology and source technology
R&D expenses for new growth industry technology and source technology for the relevant taxable year x The following tax credit rate

Expense	Company	Tax credit rate
R&D expenses for new growth industry technology and source technology	SMEs	30% + The lesser of [(The relevant R&D expenses ÷ Revenue) x 3, 10%]
	Companies of middle standing listed on KOSDAQ	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 General R&D and human resources development expenses: The larger of (a), (b)

(a) (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 been generated 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.*



- ⑥ 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 reshoring local companies

(1) Purpose

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

(2) 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 metropolitan area) by Dec. 31, 2021 as follows:

① 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 the Seoul metropolitan area.
- ② The company should open a business or establish a new place of business outside the Seoul metropolitan area within one year of the date of relocating or closing its overseas place of business.

② Partial reshoring

Where a Korean scales down or maintains the business it has operated for two years or longer overseas and relocates to Korea and does not have a place of business in Korea.

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.

(3) 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

(4) Aftercare

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 business is not commenced after relocating or reshoring a place of business back to Korea

F. Tax credit for a company that raised wage & salary income

(1) About

If a domestic company qualifies as a company that raised wage & salary income, a certain amount is deducted from corporate tax until Dec. 31, 2022.

(2) Company that raised wage & salary income

- ① The average increase rate of full-time employees' wage for the three immediately preceding taxable years shall be larger than the wage increase rate for the relevant taxable year.
- ② The number of full-time employees of the relevant taxable year shall be equal to or more than the number of full-time employees in the immediately preceding taxable year.

Persons not qualified as 'full-time employee'

- ① Executives
- ② Employees with wage & salary income of KRW 70 million or more
- ③ The largest shareholder and employees who are his/her relatives
- ④ Persons whose wage & salary income tax withholding cannot be verified
- ⑤ Employees whose employment contract is less than one year
- ⑥ Short-term employees

(3) Tax credit amount

Portion of wages increased beyond the average wages for three immediately preceding years x 5% (10% for companies of middle standing and 20% for SMEs)

G. Tax credit for companies that increased employment

(1) About

Where, during the period until the taxable year to which Dec. 31, 2021 belongs, the number of full-time employees of the taxable year has increased from the immediately preceding taxable year, a certain amount shall be deducted from corporate tax for the relevant taxable period and the taxable period to which belongs the first anniversary (second anniversary for SMEs and companies of middle standing) therefrom.

(2) Tax credit amount

Classification	General companies	Companies of middle standing	SMEs	
			Within the Seoul metropolitan area	Outside the Seoul metropolitan area
Increase in the number of regular youth employees and disabled employees	KRW 4 mil.	KRW 8 mil.	KRW 11 mil.	KRW 12 mil.
Increase in other full-time employees	0	KRW 4.5 mil.	KRW 7 mil.	KRW 7.7 mil.

(3) Repayment of tax credit

Where the number of employees decreased within two years of the end of the taxable period for which tax credit was received, the tax credit amount should be repaid.

H. Tax credit for companies employing career-interrupted women

(1) About

Where an SME or a company of middle standing signs an employment contract of one year or longer with a career-interrupted woman until Dec. 31 2022, tax credit shall apply to part of the labor expenses.



(2) Career-interrupted women

- ① A woman who has worked for a company or a company in the same business for one year or longer and retired due to marriage, pregnancy, childbirth, child care, and child education.
- ② A total of three years or longer but less than 15 years have passed from the date of retirement.
- ③ A woman who is not a special related person with the largest shareholder.

(3) Tax credit amount

The total labor expenses paid from the day of employment to the month to which belongs the second anniversary of such day x 30% (15% for companies of middle standing)

I. Tax credit 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 area and commences business by Dec. 31, 2022, corporate tax shall be reduced or exempted.

(2) Requirements

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

- 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 credit amount

The taxable year in which income first incurred for the first time from the relevant factory since the factory relocation date to the taxable year which ends within six years from the first day of the following taxable year: 100% of the corporate tax

The taxable year which ends within the following three years: 50% of the corporate tax

(4) Tax credit ceiling

Accumulated investment amount x 50% + Number of full-time employees x KRW 15 million

(5) Repayment of tax credit

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.

- 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 product that is identical to the product manufactured outside an overconcentration control zone in the Seoul metropolitan area during the tax reduction/exemption period is manufactured inside an overconcentration control zone or the headquarters is established within the zone



◆ (4) Taxation under the Adjustment of International Taxes Act

1) Transfer pricing

A. About

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 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 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.

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.

2) Thin capitalization rule

A. About

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. Applicability

The thin capitalization rule applies to the amount borrowed from overseas controlling shareholders and the amount borrowed from a third person based on an overseas controlling shareholders' payment guarantee (including cases where payment is guaranteed by providing collateral, etc.) among a domestic company (including the domestic place of business of foreign companies)'s debt.

C. Amount excluded from deductible expense

Where the amount of borrowing exceeds two times (six times in the case of financial businesses) the amount that the overseas controlling shareholder invested, the interest and discount on the amount in excess shall not be included in deductible expense.

3) 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.

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.

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 a domestic company or resident: The domestic controlling company that prepares the highest consolidated financial statement of a multinational corporate group whose sales according to the consolidated financial statement of the immediately preceding year exceed KRW 1 trillion.
- ② Where the ultimate parent company is a foreign company or a non-resident: A domestic related company of a multinational corporate group whose sales according to the consolidated financial statement of the immediately preceding year exceeds the amount equivalent to 750 million euros, and satisfies one of the following:
 - ㉠ The company is not obligated to submit a country-by-country report pursuant to the laws of the country in which the ultimate parent company is located.



- ⑥ The country in which the ultimate parent company is located does not exchange country-by-country reports with Korea.

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 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.

4) 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.

① Persons obligated to file a report

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

- He/she is a resident or domestic company (including branches and liaison offices) and is not exempt from reporting as of the last day of the year subject to reporting.

- He/she owns an overseas financial account opened at an overseas financial company.
- 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. A 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

② 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*



③ Penalty for violation of the obligation to report

Where information on overseas financial accounts was not reported within the due date or under-reported, penalty up to 20% of the unreported or under-reported amount shall be imposed as fine.

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: KRW 650 million + 20% of the amount over KRW 5 billion



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

◆ (2) Zero tax rate

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) 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.

① Export of goods

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

② Overseas supply of services

Services that a domestic company provides overseas

③ Supply of overseas navigation service by ships or aircraft

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.

◆ (3) Tax exemption

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.

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.

① Unprocessed foodstuff (e.g., rice, salt, hot pepper), tap water, coal briquettes, public city bus, national housing-sized house

② Medical and health service



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

③ Education service

Schools, private teaching institutes registered or reported to the competent authorities

④ Books, newspapers, magazines, broadcastings

⑤ Supply of land

⑥ Personal service

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

(4) Tax invoice

- ◆ 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 300 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.

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

Taxes 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

A. 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.

B. 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)

C. 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.

A. 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.

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

** 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.
- 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

C. 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.

D. 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.

b. Housing fund deduction

The sum of ① and ② is deducted. (applicable to payments made on or after Jan. 1, 2021)

- 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 3 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 3 mil. to KRW 18 mil. applies for interest paid for long-term housing mortgage loan.



E. Credit card deduction

(1) 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 descendents 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.

(2) 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.

(3) 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.

F. 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.

[Taxpayer by type of corporation]

Income deduction		Deduction items	Deduction ceiling		
Insurance premium	National health insurance, employment insurance, long-term care insurance	Insurance premium borne by yourself	Total amount		
Housing fund	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.)	KRW 3 mil. per year [① + ②]		
	② Amount of principle repaid for housing rent loan	40% of the principle 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			
	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	KRW 3 mil.-18 mil. per year [① + ② + ③]		
Contribution to an investment fund, etc.	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		
Credit card expenses, etc.	Credit card, cash receipt, debit card, pre-paid card expenses	15% of the expenditure amount (including 10% of used-car purchase amount) in excess of 25% of the gross wage & salary (15% for cash receipt, debit card, pre-paid card expenses; 30% for books, performance tickets, museum and gallery tickets; 40% for amount spent in traditional markets and public transportation fare)	<ul style="list-style-type: none">• Gross wage & salary of KRW 70 mil. or less: Lesser of KRW 3 mil. and 20% of gross wage & salary• KRW 70 mil.-KRW 120 mil.: KRW 2.5 mil.• Over KRW 120 mil.: KRW 2 mil. +<ul style="list-style-type: none">• Amount spent in traditional markets: KRW 1 mil.• Public transportation fare: KRW 1 mil.• Books, performance tickets, museum and gallery tickets: Additional KRW 1 mil. (up to KRW 6 mil.)		
Deposits made in a mutual aid fund for small enterprises and small entrepreneurs	Mutual-aid installment	Deposits made in a mutual aid fund for small enterprises and small entrepreneurs	<ul style="list-style-type: none">• Wage & salary income<ul style="list-style-type: none">• Up to KRW 40 mil.: KRW 5 mil.• KRW 40 mil.-100 mil.: KRW 3 mil.• Over KRW 100 mil.: KRW 2 mil.		

◆ (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 12 mil.	6%	-
Over KRW 12 mil. and not over KRW 46 mil.	15%	KRW 1,080,000
Over KRW 46 mil. and not over KRW 88 mil.	24%	KRW 5,220,000
Over KRW 88 mil. and not over KRW 150 mil.	35%	KRW 14,900,000
Over KRW 150 mil. and not over KRW 300 mil.	38%	KRW 19,400,000
Over KRW 300 mil. and not over KRW 500 mil.	40%	KRW 25,400,000
Over KRW 500 mil.	42%	KRW 35,400,000
Over KRW 1 bil.	45%	KRW 65,400,000

◆ (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 ceiling

Gross wage & salary	Tax credit card ceiling
Up to KRW 33 mil.	KRW 740,000
Over KRW 33 mil and not over KRW 70 mil.	$\text{KRW 740,000} - [(\text{Gross wage \& salary} - \text{KRW 33 mil.}) \times 0.008]$ <i>* If the above amount is less than KRW 660,000, KRW 660,000 shall apply.</i>
Over KRW 70 mil.	$\text{KRW 660,000} - [(\text{Gross wage \& salary} - \text{KRW 70 mil.}) \times 1/2]$ <i>* If the above amount is less than KRW 500,000, KRW 500,000 shall apply.</i>

2) Child tax credit

① General child tax credit

For the children aged seven and up (including adoptees and foster children) of a resident with global income who are subject to basic deduction (including children under seven 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

② 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.

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 7 mil. per year. (KRW 4 mil. for pension savings account, KRW 3 mil. for persons with total wage & salary of KRW 120 mil. or more or global income exceeding KRW 100 mil.)

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

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.

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

Among the statutory donations, contributions to an employee stock ownership association, designated donations and political fund donations, a 15% tax credit (30% for the amount over KRW 20 million) shall apply for the amount over KRW 100,000. For political fund donations, a tax credit rate of 100/110 shall apply for up to 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	
Insurance premium	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%	
Medical expenses	a. 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) Expenses paid for cosmetic surgery or plastic surgery and expenses for the purchase of medicinal products for the promotion of health shall be excluded.	The amount in excess of 3% of the total wage & salary income is deductible. a. No limit b. Up to KRW 7 mil. per year	15% (Fertility treatment expenses: 20%)	
	b. Other dependents				
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	Donations to political parties	Adjusted wage & salary income	Up to KRW 100,000	100 / 110
	② Statutory donation	Contributions for national defense and military appreciation	Adjusted wage & salary income	Over KRW 100,000	15%, 25%
	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%	②+③+④ : 15% (30%)	
	④ Designated donation	Non-religious organizations	Adjusted wage & salary income × 30%		
		Religious organizations registered with the competent authorities	Adjusted wage & salary income × 10%		

◆ (5) Special taxation for foreigners

A. Special taxation for foreigners (flat tax rate)

(1) Eligibility

Foreigners who first started providing service in Korea on or before Dec. 31, 2021 and foreigners working for a regional headquarters are eligible for special taxation (flat tax rate).

(2) Application of special taxation (flat tax rate)

For income tax on wage & salary income paid from the first day of providing service in Korea until the taxable period that ends within five years from the aforementioned date, progressive tax rate shall not apply and the flat tax rate of 19% can apply instead.

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.

B. Tax reduction/exemption for foreign engineers

(1) 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 Persons who work as a researcher at an R&D facility of a foreign-invested company meeting the following conditions:

1. The company has five or more full-time researchers either with a bachelor's degree in the field of science and engineering and research experience of three years or longer or a master's degree or higher in the same field.
2. The company has an independent research facility.
3. The company invested KRW 100 million or more in facilities for research and development.
4. A foreigner owns at least 30% of the total outstanding stocks with voting rights or total investment.

(2) 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, 2021) to the month to which belongs five years elapse from such day, income tax shall be reduced by 50%.

Among foreign engineers, those who work for a specialized leading company, etc. pursuant to Article 16 of the Act on Special Measures to Strengthen the Competitiveness of Parts, Materials and Equipment Industries shall receive a 70% reduction of income tax for wage & salary income incurred from the first day of providing service in Korea (limited to on or before Dec. 31, 2022) to the month to which three years elapse from such day belongs. For two years thereafter, 50% of the income tax shall be reduced.



2. Global income tax

◆ (1) Types of income

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.

A. 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.

B. 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.

C. Wage & salary income

If a taxpayer only has wage & salary income, he/she shall not file global income tax. However, if there are other income besides wage & salary income, he/she should file global income tax by including wage & salary income to apply income tax pursuant to the progressive tax rate. In this case, pre-paid wage & salary income tax is deducted when filing global income.

D. 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.

Insurance settlement, compensation or compensation for damage received in relation to domestic real estate, other assets, or business operated in Korea

- Prize, award or reward paid in Korea or income corresponding thereto
- 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
- 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.
- The amount appropriated as other income pursuant to the Income Tax Act
- 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. KRW 20 million, global income tax should be filed.

Tax base	Tax rate	Progressive deduction
Up to KRW 12 mil.	6%	-
Over KRW 12 mil. - Not over KRW 46 mil.	15%	KRW 1,080,000
Over KRW 46 mil. - Not over KRW 88 mil.	24%	KRW 5,220,000
Over KRW 88 mil. - Not over KRW 150 mil.	35%	KRW 14,900,000
Over KRW 150 mil. - Not over KRW 300 mil.	38%	KRW 19,400,000
Over KRW 300 mil - Not over KRW 500 mil.	40%	KRW 25,400,000
Over KRW 500 mil.	42%	KRW 35,400,000
Over KRW 1 billion	45%	KRW 65,400,000

◆ (3) Due date for filing

The tax returns should be filed from May 1 to 30 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.



Taxes for 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

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.

A. 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.

B. 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.

C. 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

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.

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.

◆ (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	0.43%	0.08%	0.23%	0.1%
Special tax for rural development	-	0.15%	-	-
Total	0.43%	0.23%	0.23%	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.



Taxes on incorporation, and acquisition and maintenance of assets



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

Where a foreign-invested company received decision to grant tax reduction or exemption pursuant to the Foreign Investment Promotion Act, acquisition tax is exempted, and property tax is exempted for five years (three years) and reduced by 50% for two years thereafter.

◆ (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:

- ① 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)
- ② 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

- ① 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)*

- ② Division of a company that operated business for five years or longer as of the date of registration of the division
- ③ 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
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

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:

- ① Acquisition from the central or municipal government
- ② Acquisition by importation from overseas
- ③ Where the acquisition price is verified by a court ruling
- ④ Where the acquisition price is verified by the company's books

- ⑤ Acquisition through public sale or auction
- ⑥ Acquisition verified through a real estate transaction price verification system by submitting a real estate transaction report

4) Acquisition tax rate

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%
	Housing acquired through paid transaction		1~3%
	Ship		
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
- When business-purpose real estate is acquired by building or expanding a building for the headquarters or main office within overconcentration control zones
- 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

Excluding the following: 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

- 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
- 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

- Country house, golf club, luxury house, or high-end amusement facility

④ Heavy tax rate on housing

- When a household acquires a second housing (excluding two housings owned temporarily): 8%
- When a company or a household acquires three or more housing: 12%
- 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.

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.

A. 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).

B. Tax base

Category	Taxable asset	Standard market price	Tax base for property tax
Housing	House and attached land	Publicly announced housing price	Standard market price x fair market price ratio (60%)
Building	General buildings	Price determined by the municipal government head	Standard market price x fair market price ratio (60%)
Land	Global aggregate land, Separate aggregate land	Individual official land price x area (㎡)	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.*

C. Tax rate

Taxable asset	Tax base	Tax rate	Note
Housing	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	
Building	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%	
Vacant lot (global aggregate taxation)	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	
Business-purpose land (separate aggregate taxation)	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	
Other land (separate taxation)	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%	

D. 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 600 million (KRW 900 million 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*.

* Fair market value ratio: 85% (2019) ➔ 90% (2020) ➔ 95% (2021) ➔ 100% (2022)

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	2 or more housing	3 or more housing (2 houses in areas subject to adjustment)	Tax base	Tax rate	Tax base	Tax rate
Up to KRW 300 million or less	0.6%	1.2%	Up to KRW 1.5 billion or less	1%	KRW 20 billion or less	0.5%
KRW 300 to 600 million or less	0.8%	1.6%				
KRW 600 million to KRW 1.2 billion or less	1.2%	2.2%	Up to KRW 4.5 billion or less	2%	KRW 40 billion or less	0.6%
KRW 1.2 billion to KRW 5 billion or less	1.6%	3.6%				
KRW 5 - 9.4 billion or less	2.2%	5.0%	Over KRW 4.5 billion	3%	Over KRW 40 billion	0.7%
Over KRW 9.4 billion	3.0%	6.0%				

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

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
1-2 housings	150%	Not applicable
2 housings in an adjustment targeted area	300%	
3 or more housings		



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

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.

A. When to apply

The application for extension of due date should be made no later than three days before the due date. When inevitable, however, application can be made until the due date expires.

B. 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.

C. Causes for extension of due date

- Where the taxpayer experiences any natural disaster, earthquake, fire, war, similar calamities or theft



- Where the taxpayer or his/her family member is seriously ill or has died and he/she is in mourning
- 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
- Where books or documents are confiscated or seized by a law enforcement agency
- Where the taxpayer's tax agent experiences fire, war, similar calamities or theft
- Where the Commissioner of National Tax Service recognizes that tax cannot be properly paid due to closure of financial institutes, etc.
- Where the taxpayer suffers serious damages in business or faces a major crisis (limited to due date for payment)
- 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

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.

A. 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.

B. Cause for deferment of collection

- Where the taxpayer suffered serious financial loss due to disaster or theft



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

C. 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.

A. Causes for request for correction

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

B. 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.

C. 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.

- 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
- Where a decision is made to revert the ownership of income or other taxable items to a third party
- Where a mutual agreement pursuant to a tax treaty is altered from the original

- 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.
- 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
- 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
- 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

◆ (2) Revised return

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.

A. Causes for filing a revised return

- 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
- 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



- 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

B. 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.

C. 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:

- ① Tax payable for unreported revenue x 20%
- ② 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:

- ① Tax payable for unreported (or under-reported) revenue x 40%
(60% for unlawful conducts in international transactions)
- ② 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, the amount calculated by multiplying the underpaid or unpaid tax amount with 0.025% per day for the period from the day following the due date to the voluntary payment date shall be imposed as penalty tax.

◆ (3) Penalty tax for non-payment or underpayment 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.

Penalty tax for non-payment or underpayment = (unpaid or underpaid tax x 3%) + (underpaid or unpaid tax x 0.025% x unpaid days)

** Ceiling: 10% 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

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

The tax audit period shall be set at the minimum, but the period may be extended where any of the following causes occur. 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
- 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

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
Applicant	The taxpayer or delegated agent	The taxpayer or entrusted tax agent
Due date for application	No limit	Before the statutory due date for filing
Questions	General issues concerning tax law interpretation	Specific transactions of the taxpayer (transactions that actually take place)
How to inquire	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)
	<p>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)</p>	
Effects	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

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.

1) Causes for disqualification

In any of the following cases, the regulations on pre-assessment review shall not apply.

- Where any causes for a collection prior to the due date for payment or cause for occasional levying under tax laws exists
- 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
- 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

- Where the commencement of a mutual agreement procedure is requested by a tax treaty counterpart country
- 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 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

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.

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.

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.

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

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

◆ (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

<div>1</div> <div>HomeTax</div>	<div>▶</div> <ol style="list-style-type: none"> Cash receipt E-tax invoice and security card Filing and payment Simplified year-end tax settlement Application for registration of business and modification thereof Issuance of certificates and other tax documents
<div>2</div> <div>Tax laws</div>	<div>▶</div> <ol style="list-style-type: none"> Transfer income tax, securities transaction tax, comprehensive real estate tax VAT Year-end tax settlement, withholding tax Global income tax Earned income tax credit, child tax credit Corporate tax, international taxation Inheritance tax, gift tax Individual consumption tax, liquor tax, stamp tax, Framework Act on National Tax, National Tax Collection Act Recommendations, complaints, comments on tax administration Other tax issues

◆ (2) Online

The HomeTax website provides online consulting and FAQ
(www.nts.go.kr/english/main.do > Help Desk > Q&A, FAQ)



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