



## Global Rewards Update

# South Korea – New requirement for domestic companies to withhold income tax for foreign assignees

### Background

Currently, there is no income tax withholding requirement with respect to employment income for foreign assignees in Korea where the employment costs are not recharged to or borne directly by the Korean entity.

A new tax law commencing 1 July 2016 will require Korean entities involved in certain limited business areas to operate monthly income tax withholding in relation to employment income for foreign assignees in cases where a service fee has been paid by the Korean entity to the foreign company, even where the relevant employment costs are not directly borne by the Korean entity.

The Korean entity will be required to operate monthly income tax withholding at a rate of 17% (18.7% including a local income tax surcharge) when it pays the service fee to the foreign company.

Korean entities meeting the following conditions are subject to the new withholding income tax reporting/payment obligation:

1. Total service fee paid by the domestic company to the foreign company dispatching its employees to Korea exceeds KRW 3 billion per annum (approx. USD 2.5 million).
2. Previous year's revenue of the domestic company is KRW 150 billion or more (approx. USD 124 million), or

previous year's total assets equal KRW 500 billion or more (approx. USD 414 million).

3. The core business of the domestic company falls under one of the following categories:

- Air transport
- Construction
- Professional, scientific, or engineering service

### Impact

As the tax legislation was only recently introduced, there have not been any specific rulings or interpretations provided by the Korean tax authorities with regards to the application of this law to different employment income types yet.

However, it is likely that the new law will include an income tax withholding requirement on equity awards related to an individual's employment where the service fee paid by the Korean entity to the foreign company has been calculated with reference to the equity award. The amount subject to income tax withholding would likely be the portion of the equity income that was included in the service fee charge to the Korean entity.

Companies impacted by the new legislation may therefore wish to consider operating income tax withholding for employees working in Korea who are not on tax equalisation arrangements in order to meet this new obligation.

Where the service fee paid by the Korean entity to the foreign company has not included the equity award amount, it is unlikely that a withholding requirement will arise.

## Deloitte's view

Employers impacted by the new legislation should be prepared for the likelihood of a new income tax withholding requirement on equity awards for foreign assignees dispatched to Korea under a service agreement where the above conditions apply from 1 July 2016. As no official clarification has been provided by the tax authorities, Deloitte will provide further information as and when it becomes available.

## Contacts

For assistance with these issues, or any other issue related to the operation of your global equity plans, please contact your usual Deloitte adviser or email us at [globalshareplans@deloitte.co.uk](mailto:globalshareplans@deloitte.co.uk), and an adviser will contact you.

This Global Rewards Update information is also included in our bi-weekly GES newsletter, Global InSight, which you will receive directly if you are on the central distribution list.

If you are not on the central distribution list and received this communication by some other means, you can follow these few simple steps to be added to the central distribution list:

- Go to the [Deloitte Subscriptions Page](#) on Deloitte.com.
- Fill out your contact information.
- Make sure that, under Email Newsletters, "Global InSight" (which is under the Tax heading) is selected and click "Save Profile."

- Be sure to visit us at our website: [www.deloitte.com/tax](http://www.deloitte.com/tax).

[Back to top](#)



This communication is from Deloitte LLP, a limited liability partnership registered in England and Wales with registered number OC303675. Its registered office is 2, New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.

This communication contains information which is confidential and may also be privileged. It is for the exclusive use of the intended recipient(s). If you are not the intended recipient(s), please (1) notify [it.security.uk@deloitte.co.uk](mailto:it.security.uk@deloitte.co.uk) by forwarding this email and delete all copies from your system and (2) note that disclosure, distribution, copying or use of this communication is strictly prohibited. Email communications cannot be guaranteed to be secure or free from error or viruses.

To the extent permitted by law, Deloitte LLP does not accept any liability for use of or reliance on the contents of this email by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

Opinions, conclusions and other information in this email which have not been delivered by way of the business of Deloitte LLP are neither given nor endorsed by it.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 220,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015. For information, contact Deloitte Touche Tohmatsu Limited