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International Tax
Korea Highlights 2021

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Recent developments

For the latest tax developments relating to Korea, see Deloitte tax@hand.

Investment basics

Currency: South Korean Won (KRW)

Foreign exchange control: Controls exist, but have been liberalized gradually. Foreign loans in excess of a specified amount must be reported in advance to the Ministry of Strategy and Finance. Loans granted to foreign borrowers also must be reported.

Accounting principles/financial statements: Korean GAAP and IFRS. IFRS is mandatory for listed companies and financial institutions and optional for unlisted companies.

Principal business entities: These are the stock corporation, limited liability company, and branch of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	Progressive from 10% to 25% (11% to 27.5% including local tax)
Branch tax rate	Same as corporate income tax rate; branch tax of 2% to 15% also may be imposed if permitted under a tax treaty
Capital gains tax rate	Same as corporate income tax rate

Residence: A corporation is resident in Korea if its headquarters or place of effective management is in Korea.

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Korean-source income. Branches are taxed in the same way as subsidiaries.

Taxable income: Corporate income tax is imposed on a company's taxable income, which is its book net income after adjustments for differences between the accounting and tax rules. Subject to some exceptions, normal business expenses are deductible expenses for tax purposes.

Taxation of dividends: The dividends received deduction (DRD) is available for dividend income received by a Korean resident company from another Korean company. The DRD ratio ranges from 30% to 100% depending on whether the parent company is a qualified holding company under Korean law and the ownership percentage of the parent company. Dividends received from a foreign company are, in principle, subject to corporate income tax in Korea, but the recipient company may be eligible for an indirect foreign tax credit for foreign income tax paid by the foreign company in its country of residence.

Capital gains: Capital gains (or losses) generally are reflected in taxable income subject to corporate income tax. Korean-source capital gains derived by a nonresident are taxed at the lesser of 11% (including the local surtax) of the sales proceeds received or 22% (including the local surtax) of the gains realized.

Losses: Losses may be carried forward for up to 15 years for corporate income tax returns filed on or after 1 January 2021; previously the limit was 10 years. Domestic companies (other than small and medium-sized enterprises (SMEs) and companies implementing turnaround plans) and foreign companies may utilize their tax loss carryforwards to set off only 60% of the taxable income for a fiscal year. SMEs may carry losses back for one year.

Rate: The tax rate (excluding local tax) is 10% on the first KRW 200 million of taxable income, 20% on taxable income over KRW 200 million up to KRW 20 billion, 22% on taxable income over KRW 20 billion up to KRW 300 billion, and 25% on taxable income over KRW 300 billion.

Surtax: The local income tax rate is 1% on the first KRW 200 million of taxable income, 2% on taxable income over KRW 200 million up to KRW 20 billion, 2.2% on taxable income over KRW 20 billion up to KRW 300 billion, and 2.5% on taxable income over KRW 300 billion.

Alternative minimum tax: Corporate taxpayers are subject to a minimum tax that is imposed at a rate of 10% on taxable income up to KRW 10 billion, 12% on taxable income over KRW 10 billion up to KRW 100 billion, and 17% on taxable income over KRW 100 billion. The rate is 7% for SMEs.

Foreign tax relief: A Korean resident subject to tax in Korea and overseas is entitled to a foreign tax credit for foreign tax paid in respect of income earned overseas. The credit is limited to the amount of tax payable in Korea on the foreign-source income.

Participation exemption: There is no participation exemption but see “Taxation of dividends,” above.

Holding company regime: Holding companies are regulated under the Monopoly Regulation and Fair Trade Act, and qualifying holding companies under the law may be granted a higher DRD. See “Taxation of dividends,” above.

Incentives: Various types of tax credit and exemption are available, such as an investment tax credit, R&D tax credit, SME tax exemption, etc., provided the requirements in the Tax Incentive Limitation Law are met.

Other: Under a special COVID-19 relief measure, SMEs located in a designated disaster area may deduct up to 60% of their corporate income taxes arising in the tax year that includes 30 June 2020. This enhanced tax reduction is capped at KRW 200 million provided the number of full-time employees does not decrease compared to the prior year.

Compliance for corporations

Tax year: A company's tax year is its accounting period as specified in the articles of incorporation. This normally is a 12-month period. The tax year cannot exceed 12 months.

Consolidated returns: A consolidated return system is available for a parent company and its 100% directly or indirectly owned domestic subsidiaries.

Filing and payment: Korea operates a self-assessment system. If the business year is longer than six months, advance tax must be paid for the first six-month period of the business year, based on 50% of the previous year's tax liability or the actual financial performance for the six-month period. Filing and payment of advance tax must be made within two months after the first six-month period (however, filing and payment requirements are waived for SMEs if 50% of the previous year's tax liability was less than KRW 300,000). Companies must file a year-end income tax return within three months (four months for companies filing a consolidated tax return) after the end of a fiscal year and attach the balance sheet, income statement, statement of appropriation of retained earnings (or statement of disposition of deficit), and other relevant documents. A branch of a foreign corporation may be granted an extension of time to file its tax return in certain cases. Domestic companies subject to mandatory external audit may be granted a one-month extension for filing in certain cases.

Penalties: Penalties and interest may be imposed for late filing or failure to file a return and for the understatement of taxable income.

Rulings: The tax authorities may issue a private tax ruling in response to a taxpayer's inquiry as to the interpretation/application of the tax law. An advance ruling system also is in place.

Individual taxation

Rates		
Individual income tax rate	**Taxable income**	**Rate (not including local surtax)**
	Up to KRW 12 million	6%
	Over KRW 12 million up to KRW 46 million	15%
	Over KRW 46 million up to KRW 88 million	24%
	Over KRW 88 million up to KRW 150 million	35%
	Over KRW 150 million up to KRW 300 million	38%
	Over KRW 300 million up to KRW 500 million	40%
	Over KRW 500 million up to KRW 1 billion	42%
	Over KRW 1 billion	45%
Capital gains tax rate		Varies

Residence: An individual who has a domicile or place of residence in Korea for at least 183 days during the tax year generally is deemed to be resident in Korea. Individuals normally are considered resident upon arrival in Korea if their occupation generally would require them to reside in Korea for 183 days or more, or if their family accompanies them to Korea and the individuals have substantial assets (e.g., household property) in Korea.

Basis: Residents generally are subject to tax on worldwide income. However, with respect to foreign-source income, short-term resident foreigners whose total period in Korea does not exceed five out of the past 10 years are taxed only on foreign-source income paid in or remitted to Korea. Other nonresidents are taxed only on Korean-source income.

Taxable income: Taxable income comprises wages and salaries, dividends, interest income, rental income, business income, pension income, severance income, and other income.

Rates: Progressive rates of 6% up to 45% apply (6.6% up to 49.5%, including the 10% local surtax).

Capital gains: Capital gains are taxed separately, with the rate depending on the type of asset, holding period, etc.

Deductions and allowances: Various deductions, allowances, and credits are permitted, including an earned income deduction, credits for qualifying medical expenses, certain educational expenses, certain charitable donations, etc.

Foreign tax relief: A Korean resident subject to tax in Korea and overseas is entitled to a foreign tax credit for foreign tax paid in respect of income earned overseas. The credit is limited to the amount of tax payable in Korea on the foreign-source income.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: No provisions exist for married couples to file a joint return.

Filing and payment: Residents generally are required to file an individual income tax return and pay the tax due on such income before 31 May of the following year or before their permanent departure from Korea. A taxpayer who receives only salary or severance income may not be required to file a return, since employers are required to withhold income tax at source on such income on a monthly basis and finalize the employee's tax liability in February of the following calendar year.

Penalties: Penalties and interest may be imposed for late filing or failure to file a return and for the understatement of taxable income.

Rulings: The tax authorities may issue a private tax ruling in response to a taxpayer's inquiry as to the interpretation/application of the tax law. An advance ruling system also is in place.

Withholding tax

Rates (excluding 10% local surtax)				
Type of payment	**Residents**		**Nonresidents**	
	Company	**Individual**	**Company**	**Individual**
Dividends	0%	14%	20%	20%
Interest	14%/20%	14%/20%	14%/20%	14%/20%
Royalties	0%	Varies	20%	20%
Fees for technical services	0%	Varies	20%	20%

Dividends: No withholding tax is imposed on dividends paid to a domestic company. Dividends paid to a resident individual are subject to a 14% withholding tax (15.4% including the local surtax). Dividends paid to a nonresident company or individual are subject to a 20% withholding tax (22% including the local surtax). The rate for nonresidents may be reduced under a tax treaty, although withholding at the domestic rate rather than the treaty rate may be required for certain payments to jurisdictions regarded as tax havens.

Interest: Interest on a loan, other than a loan obtained from a financial institution, paid to a resident or nonresident company or individual is subject to a 20% withholding tax (22% including the local surtax). Interest on bonds and loans obtained from financial institutions is subject to a 14% withholding tax (15.4% including the local surtax). The rate for nonresidents may be reduced under a tax treaty, although withholding at the domestic rate rather than the treaty rate may be required for certain payments to jurisdictions regarded as tax havens.

Royalties: No withholding tax is imposed on royalties paid to a domestic company. The domestic individual income tax law does not specifically cover the treatment of income from royalties, so royalties paid to resident individuals are subject to withholding tax at various rates, depending on the nature of the income (business income or other income; for other income, the type of rights, e.g., a copyright, know-how, etc. also is relevant). Royalties paid to a nonresident company or individual are subject to a 20% withholding tax (22% including the local surtax). The rate for nonresidents may be reduced under a treaty, although withholding at the domestic rate rather than treaty rate may be required for certain payments to jurisdictions regarded as tax havens.

Fees for technical services: No withholding tax is imposed on fees for technical services paid to a domestic company. The domestic individual income tax law does not specifically cover the treatment of income from fees for technical services, so fees paid to resident individuals are subject to withholding tax at various rates depending on the nature of the income (business income, salary income, or other income). Services rendered by a nonresident company or individual in Korea generally are classified as personal services income and subject to a 20% withholding tax (22% including the local surtax). Technical service fees for any transfer of technical information or know-how may be classified as a royalty. In this case, the rate for nonresidents may be reduced under a treaty, although withholding at the domestic rate rather than the treaty rate may be required for certain payments to jurisdictions regarded as tax havens.

Branch remittance tax: In general, there is no branch remittance tax. However, a branch tax ranging from 2% to 15% of after-tax profits less deemed reinvested capital may be imposed if a tax treaty between Korea and the country in which the branch's head office is resident allows Korea to impose the branch tax.

Anti-avoidance rules

Transfer pricing: Transactions with overseas related parties must be made on arm's length terms. The following transfer pricing-related information must be disclosed when filing a corporate income tax return (within 60 days after the business year-end for returns filed on or after 1 January 2021): (i) a report on the selected transfer pricing method and the reason for its selection, (ii) a schedule of the taxpayer's international transactions with foreign related parties, and (iii) a summary income statement for foreign related parties.

Domestic companies and permanent establishments of a foreign company that have annual sales of more than KRW 100 billion and a transaction volume with foreign related parties of more than KRW 50 billion per year are required to submit additional transfer pricing documentation (i.e., a comprehensive report on cross-border transactions, including a master file and a local file), which provides organization/management information, cross-border transaction information, and various business/intangible asset/financial/tax information, etc.

In addition, Korean tax law requires country-by-country (CbC) reporting and the CbC report must be submitted within 12 months of the fiscal year-end.

Both unilateral and bilateral advance pricing agreements are available.

Interest deduction limitations: Where a foreign-invested company borrows from a foreign controlling shareholder (FCS) or a third party with a guarantee from the FCS, and the borrowing exceeds 200% (600% for financial companies) of the borrower's equity (or contributed capital if greater than equity), the interest expense on the debt exceeding 200% (600%) of the borrower's equity (or contributed capital) is not deductible.

Deductions of interest expense on borrowings from an FCS are limited to 30% of adjusted taxable income. When applying this rule alongside the above interest deduction limitation rule, a Korean company is required to apply the rule that results in the lower interest deduction.

Controlled foreign companies: Where a Korean resident owns 10% or more of the issued shares in a foreign company and the average effective income tax rate of the foreign company for the most recent three consecutive years is 15% or less, the Korean resident is deemed to have received a dividend equal to the foreign company's "deemed distributable retained earnings" multiplied by the Korean resident's shareholding ratio, even though there has been no actual distribution of such retained earnings to the Korean resident.

Hybrids: In the case of cross-border transactions involving hybrid financial instruments, an expense is deductible in Korea only if the corresponding income is taxed in the other jurisdiction.

Economic substance requirements: There are no economic substance requirements specified in the current tax law.

Disclosure requirements: See "Transfer pricing," above.

Exit tax: Exit tax applies to tax resident individuals permanently leaving Korea who (i) have been resident in Korea for at least five out of the previous 10 years, and (ii) are major shareholders of a Korean company. If exit tax applies, the individual is deemed to have disposed of the relevant shares and the deemed gain is subject to capital gains tax. The tax payment can be deferred for five years if a tax agent is appointed or collateral is provided. No exit tax applies for corporations.

General anti-avoidance rule: The tax authorities are empowered to make adjustments to the pricing of transactions between related parties to reflect the arm's length price.

Other: The substance-over-form principle applies to transactions between Korean and foreign entities. The principle is applied in the case of treaty shopping.

Value added tax

Rates	
Standard rate	10%
Reduced rate	0%

Taxable transactions: VAT is imposed on the supply of goods and provision of services. VAT applies to foreign suppliers that provide electronic services (e.g., games, audio or video files, software, etc. activated through mobile communication devices or computers) to persons (other than tax-registered businesses) in Korea using information communication networks. The scope of electronic services also includes cloud computing, advertising services, and other "agency services" provided to allow a person to use an asset located in Korea (e.g., a residential property).

Rates: The standard VAT rate is 10%. A zero rate applies to exports, services rendered outside Korea, etc.

Registration: All domestic businesses supplying taxable goods or services must register with the tax authorities for VAT purposes. Foreign suppliers that provide electronic services via information communication networks should access the National Tax Service (NTS) website and apply for simplified registration of the business with the NTS.

Filing and payment: Filing and payment generally are made on a quarterly basis, but monthly filing is permitted for early VAT refunds if the goods or services provided by the business are zero-rated for VAT purposes.

Other: Under special COVID-19 relief measures, small businesses may qualify for various VAT reductions, temporary VAT exemptions, etc.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security: Employers and employees must make social security contributions (i.e., national pension, medical insurance, unemployment insurance, and industrial injury compensation insurance) to the relevant social security authorities. The social security contribution rates vary depending upon number of employees and the industry.

Payroll tax: A company must withhold taxes on salary paid to its employees.

Capital duty: A capital registration tax of 0.48%, including the local surtax, is imposed when a company registers its incorporation or capital increase with the court registry. The capital registration tax rate for a company incorporated in the Seoul Metropolitan Area triples to 1.44%.

Real property tax: A company or individual that owns land, buildings, ships, and/or aircraft at a certain assessment date is subject to property tax on such assets. The tax rates range from 0.1% to 4% depending on the type of property. A company or individual that owns real estate, such as land or residential buildings, is subject to the comprehensive real estate tax in addition to the local property tax.

Transfer tax: Securities transaction tax is imposed on the transferor of shares at 0.45% (0.43% from 1 January 2021 through 31 December 2022) of the share transfer price. The rate is reduced to 0.1% or 0.25% (0.23% from 1 January 2021 through 31 December 2022), depending on the stock market, where listed shares are transferred.

Stamp duty: Stamp tax is imposed on agreements relating to the creation, transfer, or alteration of rights.

Other: A company acquiring real estate, motor vehicles, heavy equipment, and certain other items must pay acquisition tax, generally at 4.6%, including the local surtax.

Net wealth/net worth tax: There is no net wealth or net worth tax.

Inheritance/estate tax: Inheritance tax is imposed on the beneficiary at progressive rates up to 50%.

Tax treaties: Korea has tax treaties with more than 90 countries. The OECD multilateral instrument (MLI) entered into force for Korea on 1 September 2020. For further information on Korea's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: National Tax Service

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