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Deloitte Tax LLP
Global Employer Services

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GES NewsFlash

Korea – Annual Tax Law Revisions

February 18, 2011

Summary

Several tax law revisions effective for the 2011 tax year were approved by Korea's National Assembly in late December 2010. The following is a summary of tax law revisions relevant to Global Employer Services (GES).

Reporting of foreign financial accounts

The newly enacted regulation requires residents and domestic corporations holding foreign financial accounts, where the aggregate value of foreign financial accounts is in excess of 1 billion Korean Won at any time during the reportable calendar year, to report such foreign financial accounts to the National Tax Service. Beginning with foreign financial accounts held in calendar year 2010, reporting is required in June of the following year, i.e., reporting for foreign financial accounts held in 2010 is due in June 2011.

Penalties are capped at 10% of the value of unreported or underreported foreign financial accounts (5% for reporting due in 2011) according to the following schedule:

Unreported/under-reported amount	Penalty
Under 2 billion Won	Unreported/underreported amount x 3%
2 billion Won ~ 5 billion Won	60 million Won + unreported/underreported amount exceeding 2 billion Won x 6%
Over 5 billion Won	240 million Won + unreported/underreported amount exceeding 5 billion Won x 9%

Penalty amount may be adjusted upward or downward within a maximum range of 50%, taking into consideration violation frequency and other law violations.

Deloitte's view

Reporting of foreign financial accounts is not applicable to short-term resident aliens, i.e., resident foreigners residing in Korea for less than five years of the past 10 years at the end of the relevant tax year, and Korean nationals having permanent residence in another country who have resided in Korea for less than one year.

In this regard, long-term foreign tax residents would be obligated to comply with the new reporting requirement.

Monthly income tax withholding for foreigners

Korea has a tax incentive for foreigners where foreigners may elect to be taxed at a flat rate, currently 16.5% (including local income tax surcharge), on earned income. However, previously, as the flat tax rate is an election made after the tax year when filing the tax return, monthly income tax withholding was required at the regular progressive tax rates, even if the foreign taxpayers knew they would benefit from the flat tax rate on annual gross earned income.

Effective April 1, 2011, foreigners may request to apply the flat tax rate to monthly income tax withholding by submitting an application through the employer to the district tax office.

Deloitte's view

Companies should evaluate whether foreigners working in Korea will benefit from monthly income tax withholding at the flat tax rate.

Increase in exemption amount for multiple children

Previously, a taxpayer reporting two dependent children was allowed an additional exemption amount of 500,000 Won, and for each child over two children, 1 million Won additional exemption amount was allowed.

Effective January 1, 2011, additional exemption amount for a taxpayer reporting two dependent children is 1 million Won, and for each child over two children, 2 million Won additional exemption amount is allowed.

People to contact

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