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Global Employer Services (GES)

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GES NewsFlash

Korea — Annual Tax Law Revisions

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Summary

Several tax law revisions effective for the 2013 tax year were approved by Korea's National Assembly on January 1, 2013. The following is a summary of major tax law revisions relevant to global employer services.

Flat Tax Rate Individual Income Tax Incentive for Foreigners

Under the Tax Incentives Limitation Law, foreigners are allowed a flat tax rate election as an alternative to the regular progressive tax rates when calculating individual income tax liability on earned income. If elected, a flat rate of tax may be applied to gross earned income, with no deductions, income exclusions, or tax credits allowed, in lieu of the regular progressive individual income tax rates, which range from 6% to 38% (6.6% to 41.8% including local income tax surcharge).

Under the Tax Incentives Limitation Law, the flat tax rate individual income tax incentive for foreigners was due to expire on December 31, 2012.

Korea's National Assembly approved the tax revisions proposed by the Ministry of Strategy and Finance in August 2012 as follows:

1. Sunset for the flat tax rate individual income tax incentive for foreigners is extended to December 31, 2014, and
2. Applicable to income earned from January 1, 2013, the flat tax rate is increased from 16.5% to 18.7%, including local income tax surcharge.

Combined Reporting Base Threshold for Financial Income Reduced

In Korea, combined interest and dividend income is called "financial income" and is taxed differently from other types of income.

Previously, the first KRW40 million of financial income was taxed at 14% (15.4%, including local income tax surcharge) and any financial income exceeding the KRW40 million reporting base threshold was subject to tax at the regular progressive tax rates.

As the payer of financial income is required to withhold the tax before the payment is made, previously, if at the end of the tax year the taxpayer had less than KRW40 million of financial income, there was no reporting requirement, since the tax had already been withheld. However, if financial income exceeded KRW40 million at the end of the tax year, then the taxpayer was required to file an annual income tax return to report the excess financial income.

Effective for financial income earned from January 1, 2013, the reporting base threshold for financial income is reduced from KRW40 million to KRW20 million.

Changes to Reporting Foreign Financial Accounts

Tax residents and domestic corporations that hold foreign financial accounts, where the aggregate value of foreign financial accounts is in excess of KRW1 billion at any time during the reportable calendar year, are required to report foreign financial account information. Previously, the types of foreign financial accounts subject to reporting were limited to banking-related accounts and securities transaction–related accounts. Also, previously, the calculation basis for the foreign financial accounts reporting requirement was the sum of the daily balance of each financial account.

Under the revised tax regulations, the scope of reportable foreign financial accounts is expanded to include accounts related to bonds, derivatives, and aggregated investment securities transactions (expanded to all financial asset–related accounts). The expanded scope of foreign financial accounts is applicable to foreign financial accounts held from 2013.

Additionally, the calculation basis for foreign financial accounts reporting is modified to be the sum of the month-end balance of each financial account. The modified calculation basis for foreign financial accounts reporting is applicable to foreign financial accounts held from 2012.

Also under the revised tax regulations, a list will be made public of violators who fail to report foreign financial accounts or who underreport foreign financial accounts by more than KRW5 billion (applicable to reportable amounts from 2013), and violators will be subject to criminal penalties (applicable to reportable amounts from 2014).

Statute of Limitations Extended for National Taxes

Prior to the current tax law revisions, in general, the statute of limitations for national taxes was 5 years. Under the revised tax law, for national taxes filed or notified from January 1, 2013, statute of limitations for national taxes greater than KRW500 million will be extended from 5 years to 10 years.

People to Contact

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