

Korean Tax Brief

Update on Current Issues and Trends



2019 Tax Amendment Proposal

1. Overview

On July 25 2019, the Ministry of Economy and Finance held a meeting of the Tax Policy Development Review Committee and finalized 2019 tax amendment proposal. The 2019 tax amendment proposal will be submitted to the National Assembly on September 3, 2019 after the cabinet council meeting. If approved by the National Assembly, most of the proposed amendments will take into effect from January 1, 2020.

2. Major tax amendments

The 2019 tax amendment proposal includes various changes in tax laws aiming to recover economic vitality, support innovative growth, enhance economic and social tolerance and equality, and promote tax system rationalization and tax collection period expansion. The major tax amendments are as follows:

❖ Corporate Income Tax Law

(1) Reduce Burden of Capitalization for Small Repair Costs (*Enforcement Decree of the Individual Income Tax Law §67, Enforcement Decree of the Corporate Income Tax Law §31*)

Current	Amendment
<ul style="list-style-type: none"> □ Tax treatment of repair costs ○ Capital expenditure*: Capitalization and subsequent depreciation <ul style="list-style-type: none"> * Repair costs incurred to extend useful life or increase value of asset - (Exception) Immediate expense recognition <ul style="list-style-type: none"> ▪ Repair costs less than KRW 3 million ▪ Repair costs less than 5% of asset value ▪ Repair costs incurred in less than a three-year cycle ○ Revenue Expenditure: Immediate expense recognition 	<ul style="list-style-type: none"> □ Expand scope of immediate expense recognition ○ (Same) ▪ KRW 3 million → KRW 6 million ○ (Same)

<Reasons for Amendment> Increase threshold for small repair costs considering inflation, etc.

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

(2) Reduce Burden of Maintaining Operation Records for Business Use Passenger Vehicles (*Enforcement Decree of the Individual Income Tax Law §78, Enforcement Decree of the Corporate Income Tax Law §50-2 ⑦*)

Current	Amendment
<ul style="list-style-type: none"> □ Treatment of costs* related to business use passenger vehicles <ul style="list-style-type: none"> * Depreciation, lease payments, gas, tax, insurance, repair costs, toll fees, etc. ○ KRW 10 million or less: Full amount shall be deductible without maintaining operation records ○ More than KRW 10 million: Only the portion related to business use shall be deductible when operation records are maintained 	<ul style="list-style-type: none"> □ Increase threshold for deduction when operation records are not maintained ○ KRW 10 million → KRW 15 million

<Reasons for Amendment> Reduce tax compliance burden of maintaining operation records

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

(3) Additional Exception to Nondeductible Costs Related to Business Use Passenger Vehicles
(Corporate Income Tax Law §27-2 ①)

Current	Amendment
<p><input type="checkbox"/> Special provision* concerning nondeductible costs related to business use passenger vehicles</p> <p>* Special provision prescribed to limit depreciation expense (lease costs) to KRW 8 million per year, to maintain operation records, and to mandate having insurance policy exclusively for employees, etc. in order to prevent personal use of business use passenger vehicle.</p> <p>○ (Subject to provision) Passenger vehicles subject to individual consumption tax</p> <p>○ (Exceptions) - Passenger vehicles used for transportation business or automobile sales business, etc., which are specified in the Presidential Decree*</p> <p>* (Enforcement Decree) Passenger vehicles directly used to earn business profits in transportation business, automobile sales business, automobile rental business, or driving school business, etc.</p> <p style="text-align: center;"><Addition></p>	<p><input type="checkbox"/> Additional exception to special provision</p> <p style="text-align: center;">(Same)</p> <p>- Passenger vehicles used for research and development which are prescribed by the Presidential Decree</p> <p>* (Proposed Enforcement Decree) Self-driving vehicles approved by the Ministry of Land, Infrastructure and Transport under Article 27(1) of Motor Vehicle Management Act</p>

<Reasons for amendment> Reduce tax compliance burden with respect to passenger vehicles used for research and development, with remote possibility of being used personally
<Effective Date> Effective for a tax year commencing on or after January 1, 2020

(4) Revise Method of Deducting Donation Carryover (*Corporate Income Tax Law §24, Enforcement Decree of the Individual Income Tax Law §79*)

Current	Amendment
<p>□ Order of donation deduction (①→②)</p> <p>① Donation incurred in relevant business year (tax year) is deducted first</p> <p>② Donation carried over from previous tax years is deducted* within the limitation * Non-deductible amount is carried forward for 10 years</p>	<p>□ Change the order of donation deduction</p> <p>① Donation carried over is deducted first</p> <p>② Donation incurred in relevant business year (tax year) is deducted within the limitation</p>

<Reasons for Amendment> Improve method of deducting donation to promote donation activities

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

(5) Improve Taxation of Domestic Source Income Paid for Use of Patents not Registered in Korea

① Change taxation of domestic source royalty income paid for use of patents not registered in Korea (*Individual Income Tax Law §119, Corporate Income Tax Law §93*)

Current	Amendment
<p>□ Domestic source royalty income</p> <p>○ (Subject to taxation) Consideration for domestic use, payment, or transfer of the following rights, assets, or information:</p> <ul style="list-style-type: none"> - Copyrights, patents, etc. of academic or artistic work, and other similar assets or rights; - Information or know-how related to industrial, commercial, or scientific knowledge and experience; <p style="text-align: center;"><Addition></p> <ul style="list-style-type: none"> - (Exception for determination of source) If rights (patents, etc.) registered overseas are used for manufacturing or sales in Korea, it shall be regarded as domestic use. 	<p>□ Change taxation of consideration paid for use of patents not registered in Korea</p> <p style="text-align: center;">(Same)</p> <ul style="list-style-type: none"> - ‘Other similar properties or rights’ included in the definition of royalties in tax treaties adopting the place of usage rule <ul style="list-style-type: none"> · Manufacturing method, technology, information, etc. included in the patents not registered in Korea shall be used for manufacturing or production in Korea <p style="text-align: center;"><Deletion></p>

<Reasons for Amendment> Secure the taxation right on consideration paid for use of patents not registered in Korea

<Effective Date> Effective for relevant income paid on or after January 1, 2020

② Include Compensation Paid for Infringement of Foreign Patents in Definition of Domestic Source Other Income (*Individual Income Tax Law §119, §156①, Corporate Income Tax Law §93, §98①*)

Current	Amendment
<p><input type="checkbox"/> Domestic source other income*</p> <p>* Any of the following income that is not classified as one of the other categories of domestic source income as defined in the tax law:</p> <p>① Insurance proceeds, indemnification, or any other compensation for damages paid in connection with real property or other assets and business conducted in Korea</p> <p>② Penalties or compensation for damages paid in Korea</p> <p>③ Others (Omitted)</p> <p style="text-align: center;"><Addition></p> <p><input type="checkbox"/> Withholding tax rate</p> <p>○ Domestic source other income: 20%</p> <p style="text-align: center;"><New Enactment></p>	<p><input type="checkbox"/> Include compensation paid for damages caused by infringement of foreign patents, etc. in the definition of other income</p> <p>○ (Same)</p> <p>④ All income paid in Korea for damages caused by infringement of patents, etc. registered overseas (not registered in Korea) and owned by the resident of the other Contracting State for a tax treaty adopting the place of usage rule*</p> <p>* Compensation paid for damages, indemnity, restitution, lost profits, etc.</p> <p>- Manufacturing method, technology, information, etc. included in the relevant patents shall be used for manufacturing or production in Korea</p> <p><input type="checkbox"/> Create an exception for withholding tax rate</p> <p>○ (Same)</p> <p>- (Exception) Other income above ④): 15%*</p> <p>* Reduced tax rate on royalties in tax treaty</p>

<Reasons for Amendment> Secure the taxation right on compensation paid for infringement of patents registered overseas
<Effective Date> Effective for relevant income paid on or after January 1, 2020

(6) Clarify Scope of Taxation for Domestic Source Capital Gains from Real Property (*Individual Income Tax Law §119, Corporate Income Tax Law §93*)

Current	Amendment
<p>□ Domestic source capital gains from disposal of real property, etc.</p> <p>○ Assets subject to taxation in Korea</p> <ul style="list-style-type: none"> - Land, building, real property related rights and goodwill, rights to use such facilities, etc. - Real property shares* <p style="text-align: center;"><New Enactment></p> <p>* Real property heavy company shares: Unlisted shares of a company whose real property comprises 50% or more of its total assets.</p>	<p>□ Clarify definition of real property in the Korea-U.S. Tax Treaty</p> <p>(Same)</p> <p>. Include ‘real property shares’ in the definition of ‘real property’ in the Korea-U.S. Tax Treaty</p> <p>*Korea and the U.S. agreed in the 1999 Mutual Agreement that capital gains from ‘real property shares’ in the tax treaty shall be sourced from the country where the real property is located.</p>

<Reasons for Amendment> Clarify interpretation and application of the taxation right on ‘real property shares’ in the Korea-U.S. Tax Treaty

❖ **Individual Income Tax Law**

(1) Aggregate Gains and Losses from Domestic Shares and Foreign Shares (*Individual Income Tax Law §94*)

Current	Amendment
<ul style="list-style-type: none"> □ Separate computation of capital gains or losses from domestic shares and those from foreign shares ○ Gains or losses from domestic shares* are only allowed to be combined with gains or losses from other domestic shares <ul style="list-style-type: none"> - ①Shares transferred by the largest shareholder of listed corporation, ②Unlisted shares ○ Gains or losses from foreign shares* are only allowed to be combined with gains or losses from other foreign shares □ Deduction for capital gains ○ Domestic shares: KRW 2.5 million ○ Foreign shares: KRW 2.5 million 	<ul style="list-style-type: none"> □ Aggregate gains and losses from domestic shares and foreign shares ○ Gains or loss from domestic shares can be combined with gains or losses from foreign shares □ Apply KRW 2.5 million deduction to capital gains from domestic and foreign shares in aggregate ○ Domestic and foreign shares: KRW 2.5 million

<Reason for Amendment> Allow to combine gain and losses from domestic and foreign shares in order to achieve net gain taxation

<Effective Date> Effective for share transfers occurring on or after January 1, 2020

(2) Reduce Tax Compliance Burden of Submitting Payment Statement

① Extend Due Date for Submission of Payment Statement (*Individual Income Tax Law §164 ①, §164-3 ①*)

Current	Amendment
<ul style="list-style-type: none"> <input type="checkbox"/> Due date for submission of payment statement for daily wage <ul style="list-style-type: none"> ○ By 10th day of the following month from the end of the relevant quarter <ul style="list-style-type: none"> * (1Q) April 10, (2Q) July 10 (3Q) October 10, (4Q) January 10 <input type="checkbox"/> Due date for submission of interim payment statement for earned income <ul style="list-style-type: none"> ○ By 10th day of the following month from the end of the relevant half year <ul style="list-style-type: none"> * (First half) July 10, (Second half) January 10 	<ul style="list-style-type: none"> <input type="checkbox"/> Extend due date for submission <ul style="list-style-type: none"> ○ By 15th day of the following month from the end of the relevant quarter <ul style="list-style-type: none"> * (1Q) April 15, (2Q) July 15 (3Q) October 15, (4Q) January 15 <input type="checkbox"/> Extend due date for submission <ul style="list-style-type: none"> ○ By 15th day of the following month from the end of the relevant half year <ul style="list-style-type: none"> * (First half) July 15, (Second half) January 15

<Reasons for Amendment> Reduce the burden to submit the payment statement

<Effective date> Effective for the payment statement submitted on or after January 1, 2020

② Simplify Range of Income Subject to Reporting Requirement for Interim Payment Statement (*Basic Rule of Individual Income Tax Law §100*)

Current	Amendment
<ul style="list-style-type: none"> <input type="checkbox"/> Income subject to reporting requirement for interim payment statement <ul style="list-style-type: none"> ○ Income earned for half-year employment 	<ul style="list-style-type: none"> <input type="checkbox"/> Simplify range of income subject to reporting requirement for interim payment statement <ul style="list-style-type: none"> ○ Income paid during half-year period

<Reasons for Amendment> Reduce tax compliance burden for filing the interim payment statement

<Effective Date> Effective for payment statement submitted on or after January 1, 2020

(3) Adjust Limit for Retirement Income for Directors Dispatched Abroad (*Enforcement Decree of Individual Income Tax Law §42-2*)

Current	Amendment
<p>□ Scope of gross salary when calculating limit for retirement income for directors</p> <p>○ (Scope) ^①Wage and salary and ^②earned income, such as bonus in accordance with resolution in shareholders' meeting, which are subject to tax in Korea</p> <p style="text-align: center;"><Addition></p>	<p>□ Adjust scope of gross salary when calculating limit for retirement income for directors dispatched abroad</p> <p>○ (Same)</p> <p>○ Income earned abroad that is not taxed in Korea</p> <p>- However, it is limited to the amount corresponding to the amount to be received when working in Korea</p>

<Reasons for amendment> Improve equality in taxation between directors dispatched abroad and directors employed in Korea

<Effective date> Effective for the retirement income received on or after the date of Enforcement Decree

(4) Establish Limit for Employment Income Deduction (*Individual Income Tax Law §47*)

Current	Amendment																				
<p>□ Employment income deduction</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Gross salary</th> <th style="text-align: center;">Deduction rate</th> </tr> </thead> <tbody> <tr> <td>KRW 5 million or less</td> <td style="text-align: center;">70%</td> </tr> <tr> <td>Over KRW 5 million, but not exceeding 15 million</td> <td style="text-align: center;">40%</td> </tr> <tr> <td>Over KRW 15 million, but not exceeding 45 million</td> <td style="text-align: center;">15%</td> </tr> <tr> <td>Over KRW 45 million, but not exceeding KRW 100 million</td> <td style="text-align: center;">5%</td> </tr> <tr> <td>Over KRW 100 million</td> <td style="text-align: center;">2%</td> </tr> </tbody> </table> <p style="text-align: center;"><Addition></p>	Gross salary	Deduction rate	KRW 5 million or less	70%	Over KRW 5 million, but not exceeding 15 million	40%	Over KRW 15 million, but not exceeding 45 million	15%	Over KRW 45 million, but not exceeding KRW 100 million	5%	Over KRW 100 million	2%	<p>□ Establish the limit for employment income deduction</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Gross salary</th> <th style="text-align: center;">Deduction rate</th> </tr> </thead> <tbody> <tr> <td>KRW 5 million or less</td> <td rowspan="5" style="text-align: center; vertical-align: middle;">(Same as Current)</td> </tr> <tr> <td>Over KRW 5 million, but not exceeding 15 million</td> </tr> <tr> <td>Over KRW 15 million, but not exceeding 45 million</td> </tr> <tr> <td>Over KRW 45 million, but not exceeding KRW 100 million</td> </tr> <tr> <td>Over KRW 100 million</td> </tr> </tbody> </table> <p>○ Maximum limit for employment income deduction: KRW 20 million</p>	Gross salary	Deduction rate	KRW 5 million or less	(Same as Current)	Over KRW 5 million, but not exceeding 15 million	Over KRW 15 million, but not exceeding 45 million	Over KRW 45 million, but not exceeding KRW 100 million	Over KRW 100 million
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<Reasons for Amendment> Rationalize employment income deduction regime

<Effective Date> Effective for the income incurred on or after January 1, 2020

(5) Reduce Maximum Limit for Directors' Retirement Income (*Individual Income Tax Law §20-3*)

Current	Amendment
<p><input type="checkbox"/> Maximum limit for directors' retirement income</p> <p>○ For directors' retirement income which is corresponding to the employment period on or after 2012, certain portion exceeding the tax limit shall be deemed and taxed as salary, not as retirement</p> <p>- If the amount in ① exceeds the amount in ②, the excess amount shall be taxed as salary income</p> <p>① Retirement income subject to maximum limit : Retirement income corresponding to the employment period on or after 2012</p> <p>Retirement income corresponding to employment period on or after 2012 = Total retirement income - retirement income as if he/she is retired as of December 31, 2011</p> <p>② Maximum limit for directors' retirement income</p> <p>Average salary during the latest 3 years before retirement × 1/10 × the number of years on or after 2012 × Multiplier</p> <p>- Multiplier: Triple</p>	<p><input type="checkbox"/> Reduce the multiplier</p> <p>(Same)</p> <p>- Multiplier: Double</p>

<Reasons for Amendment> Reduce maximum deductible limit of retirement income for directors

<Effective Date> Effective for retirement income received on or after January 1, 2020

❖ Value-Added Tax Law (hereafter “VAT”)

(1) Expand Applicable Period for Bad Debt Deduction (Enforcement of Value Added Tax Act §87②)

Current	Amendment
<ul style="list-style-type: none"> □ Scope of bad debt deduction ○ (Reason for bad debt deduction) Bad debt can be deductible when statute of limitations for account receivables or other receivables, etc. has expired ○ (Output VAT for bad debts) Bad debt amount × 10/110 can be deducted from output VAT. ○ (Applicable period) Bad debt amount needs to be fixed and determined within 5 years from the supply date of goods or services 	<ul style="list-style-type: none"> □ Expand applicable period for bad debt deduction ○ (Same) ○ Within 5 years → Within 10 years

<Reasons for Amendment> Reduce tax burden for taxpayer by expanding applicable period for bad debt deduction

<Effective Date> Effective for bad debt determined on or after the date of Enforcement Decree

(2) Reduce penalty related VAT

① Reduce Penalty for Taxpayer Having Multiple Business Places (Value-Added Tax Law §60②)

Current	Amendment
<ul style="list-style-type: none"> □ Penalty for non-issuance of VAT invoice ○ Failure to issue the VAT invoice by a final VAT return due date : 2% of supply amount ○ For any of the following cases: 1% of supply amount - In the case where a taxpayer obligated to issue electronic VAT invoice issues non-electronic VAT invoice. <p style="text-align: center;"><Addition></p> <p>※ Currently, penalty for issuance of VAT invoice by a different business place is 2% of supply amount.</p>	<ul style="list-style-type: none"> □ Reduce penalty burden (Same) - In case where a taxpayer having multiple business places issues VAT invoice in the name of different business place, not in the name of business place where goods or services are actually supplied

<Reasons for Amendment> Reduce penalty burden for a taxpayer

<Effective Date> Effective for goods or service supplied on or after January 1, 2020.

② **Reduce Duplicated Penalty** (*Value-added Tax Law §60 ⑨*)

Current	Amendment
<p>□ Prevent duplicated penalty</p> <ul style="list-style-type: none"> ○ When penalty for failure to issue VAT invoice (2%), or penalty for late issuance of VAT invoice (1%) is imposed; - Duplicated penalty for non-transmission (0.5%) or late-transmission (0.3%) of electronic VAT invoice shall not be imposed. <p style="text-align: center;">< Addition ></p>	<p>□ Add regulation to reduce duplicated penalty</p> <p style="text-align: center;">(Same)</p> <ul style="list-style-type: none"> ○ When penalty for issuance of VAT invoice/for receipt of VAT invoice for overstated supply amount (2%) is imposed; - Duplicated penalty for incorrect invoice* (1%) shall not be imposed <p>* 1% for incorrect information for any of the requisite information in the VAT invoice, such as business registration number, supply amount and tax, issuance date, etc.</p>

<Reasons for Amendment> Reduce duplicated penalty imposed on a single violation
<Effective Date> Effective for goods or services supplied on or after January 1, 2020

(3) Clarify Scope of Non-deductible Input VAT (*Value-added Tax Law §39 ①*)

Current	Amendment
<p><input type="checkbox"/> Non-deductible input VAT</p> <ul style="list-style-type: none"> ○ Input VAT shall not be deductible when a list of total VAT invoices by customer is not submitted ○ When business registration number of a customer or supply amount in a list of total VAT invoices by customer is different from the actual amount, input VAT corresponding to such difference shall not be deductible ○ Relevant input VAT shall not be deductible when VAT invoice is not issued ○ Relevant input tax shall not be deductible when all or any of requisite information* on a tax invoice are incorrect <p>* Supplier and purchaser, business registration number, the supply amount, issuance date</p> <p style="text-align: center;"><New enactment ></p>	<p><input type="checkbox"/> Clarify scope of non-deductible input VAT</p> <ul style="list-style-type: none"> ○ (Same) <p style="text-align: center;">- In case where supply amount in the VAT invoice is different from the actual amount, a portion corresponding to such difference shall not be deductible</p>

<Reasons for Amendment> Reduce tax burden and resolve the dispute between taxpayers and tax authorities

<Effective Date> Effective for goods or services supplied on or after January 1, 2020

❖ Tax Incentive Limitation Law

(1) Increase Tax Credit Rate for Investment in Facilities for Improving Productivity (Tax Incentive Limitation Law §25)

Current			Amendment			
<input type="checkbox"/> Tax credit rate for investment in facilities for improving productivity			<input type="checkbox"/> Temporary increase in tax credit rate for a year (January 1, 2020 ~ December 31, 2020)			
Large enterprises	Middle enterprises	Small and medium enterprises	Period	Large	Middle	Small and medium
1%	3%	7%	For one year after effective date	2%	5%	10%
			After one year period above	1%	3%	7%

<Reasons for Amendment> Increase investment by increasing tax credit rate

<Effective Date> Effective for investment made on or after January 1, 2020

(2) Clarify Tax Credit Amount for Increased employment and Follow-Up Requirements (Tax Incentive Limitation Law §29-7①.②)

Current	Amendment																	
<p><input type="checkbox"/> Tax credits for increased employment</p> <p><input type="checkbox"/> (Tax credit amount) When the number of employees is increased from that in the prior year, the company can claim the following tax credit amount per employee;</p> <p style="text-align: center;">(Unit: in 10 thousand KRW)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="text-align: center;">Item</th> <th colspan="2" style="text-align: center;">Small and medium</th> <th rowspan="2" style="text-align: center;">Middle</th> <th rowspan="2" style="text-align: center;">Large</th> </tr> <tr> <th style="text-align: center;">Metropolitan</th> <th style="text-align: center;">Rural</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Regular youth*</td> <td style="text-align: center;">1,100</td> <td style="text-align: center;">1,200</td> <td style="text-align: center;">800</td> <td style="text-align: center;">400</td> </tr> <tr> <td style="text-align: center;">Regular other than youth</td> <td style="text-align: center;">700</td> <td style="text-align: center;">770</td> <td style="text-align: center;">450</td> <td style="text-align: center;">-</td> </tr> </tbody> </table> <p>* Ages between 15 to 29</p> <p><input type="checkbox"/> (Tax credit period) Large company: 2 years Small and medium/middle company: 3 years</p> <p><input type="checkbox"/> (Follow-up requirement) If the number of regular youth employees and the number of all regular employees during the following 2 year period from the year when the tax credit is claimed decreases from those in the prior year when the tax credit is claimed, the tax credit claimed shall be forfeited and additional tax credit* cannot be claimed.</p> <p>* Tax credit which can be claimed in the following 2 year period from the year when the number of employment is increased.</p> <p><input type="checkbox"/> (Applicable period until) December 31, 2021</p>	Item	Small and medium		Middle	Large	Metropolitan	Rural	Regular youth*	1,100	1,200	800	400	Regular other than youth	700	770	450	-	<p><input type="checkbox"/> Clarify tax credit amount and change the follow-up requirements</p> <p><input type="checkbox"/> Clarify the limit for respective tax credit (youth employee/employee other than youth) to the increased number of total regular employees</p> <p><input type="checkbox"/> (Same)</p> <p><input type="checkbox"/> Change the base year to compare the number of employees: the number of employees in the prior year when the tax credit is claimed → the number of employees in the fiscal year when the tax credit is claimed</p> <p><input type="checkbox"/> (Same)</p>
Item		Small and medium				Middle	Large											
	Metropolitan	Rural																
Regular youth*	1,100	1,200	800	400														
Regular other than youth	700	770	450	-														

<Reasons for Amendment> Rationalize the tax credit regime for increased employment

<Effective Date> (Follow-up requirement) Effective for tax credits filed on or after January 1, 2020

(3) Amend Tax Deferral Regime for Contribution In Kind Upon Establishment of Holding Company/Conversion into Holding Company (*Tax Incentive Limitation Law §38-2*)

Current	Amendment
<ul style="list-style-type: none"> <input type="checkbox"/> Tax deferral for contribution in kind of shares, etc., upon establishment of a holding company/conversion into a holding company ○ Capital gains tax to arise from contribution in kind can be deferred - Tax imposition on capital gains can be deferred until the shares in the holding company received as consideration for contribution in kind are actually disposed of. ○ (Applicable period until) December 31, 2021 	<ul style="list-style-type: none"> <input type="checkbox"/> Tax payment in 3 year-installments after 4 year tax deferral period ○ Corporate income tax/capital gains tax from contribution in kind shall be paid in 3 year installments after 4 year tax deferral period ○ January 1, 2022 ~ December 31, 2024

<Reasons for Amendment> Amend tax deferral regime for contribution in kind of shares, etc. by shareholders

<Effective Date> Effective for contribution in kind of shares made on or after January 1, 2022

(Current tax provision will apply to the contribution in kind made prior to December 31, 2021.)

(4) Increase Tax Exempt Limit of Gains from Exercising Stock Options (*Tax Incentive Limitation Law §16-2*)

Current	Amendment
<ul style="list-style-type: none"> <input type="checkbox"/> Certain portion of gains from exercise of stock options by a director or an employee in venture company is exempt from tax ○ Gains from exercising stock options granted by a venture company (market price-exercise price) ○ (Tax exempt limit) KRW 20 million per annum ○ (Application period until) December 31, 2020 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase the limit for tax exempt amount ○ (Same) ○ KRW 20 million per annum → KRW 30 million ○ (Same)

<Reasons for Amendment> Support a venture company to attract outstanding personnel

<Effective Date> Effective for stock options granted on or after January 1, 2020

❖ **International Tax Coordination Law**

(1) Rationalize International Tax Policy

① Increase Penalties Related to Submission of International Transaction Data (*International Tax Coordination law §12*)

Current	Amendment
<ul style="list-style-type: none"> □ Penalties related to submission of international transaction data ○ (Reasons for imposition) Failure to submit international transaction data* or submit incorrect data <li style="padding-left: 20px;">* Statement of international transactions, consolidated report on international transaction information, etc. ○ (Limit) Less than KRW 100 million ○ (Number of imposition) 1 time 	<ul style="list-style-type: none"> □ Increase upper limit of penalties and the number of imposition ○ (Same) ○ Less than KRW 100 million → Less than KRW 300 million ○ 1 time + Impose repeatedly for every 30 days until data submission and supplementation

<Reasons for Amendment> Reinforce obligation to submit international transaction data

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

② Create Estimated Basis for Transfer Pricing Taxation When International Transaction Data Is Not Submitted (*International Tax Coordination Law §11* ㉞ *Newly Enacted*)

Current	Amendment
<p><New Enactment></p>	<ul style="list-style-type: none"> □ Allow imposition of tax on estimated profits when international transaction data is not submitted ○ (Condition) Taxpayer's failure to submit local/master file and international transaction data prescribed by the Presidential Decree and requested by the tax authority ○ (Method) Reasonably estimate arm's length price based on the data obtained from comparable companies which are engaged in similar businesses

<Reasons for Amendment> Reinforce obligation to submit international transaction data and reduce burden of proof for the tax authority

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

③ Rationalize Burden of Proof for Diverted Transaction (*International Tax Coordination Law §2-2*) ④ ⑤ Newly Enacted)

Current	Amendment
<p>□ Substance-over-form principle in the international transactions</p> <p>① When a nominal owner of the income is different from real beneficial owner, the tax treaty shall apply based on the real beneficial owner</p> <p>② Tax treaty shall apply based on the substance of a transaction, regardless of form of the transaction</p> <p>③ In case where a diverted transaction is conducted for a taxpayer to unfairly receive benefits from tax treaty or International Tax Coordination Law, applicable tax treaty or tax law shall apply by disregarding such diverted transaction based on the economic substance</p> <p style="text-align: center;"><New Enactment></p>	<p>□ Reduce burden of proof for the tax authority</p> <p>○ (Same)</p> <p>- In case where the domestic tax liability decreases below the threshold prescribed by the Presidential Decree (i.e., 50%) through a diverted transaction, the substance-over-form principle shall apply assuming that such transaction was intended to wrongfully benefit from the tax treaty and International Tax Coordination Law, unless the taxpayer proves that there is an appropriate business reason for the transaction without tax avoidance purposes</p> <p>▪ (Exception) If transaction amount or decrease in tax liability does not exceed the threshold prescribed by the Presidential Decree</p>

<Reasons for Amendment> Enhance effectiveness of taxation by clarifying burden of proof for suspicious international transaction with tax avoidance purpose

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

(2) Refine Duplicate Data Submission in relation to International Transaction (*International Tax Coordination Law §11 ①, Enforcement Decree of International Tax Coordination Law §7 ①*)

Current	Amendment
<p>□ Data submission in relation to international transaction (When filing individual income tax /corporate income tax return)</p> <p>① Statement of international transaction</p> <p>- (Subject) All companies conducting international transaction are required to file</p> <p>② Report on the method of computing transfer price</p> <p>- (Reporting obligation is exempt) If the following (i) or (ii) below is satisfied</p> <p>(i) Total transaction amount of goods is KRW 5 billion or less and total service transaction amount is KRW 1 billion or less</p> <p>(ii) Transaction amount of goods for a respective foreign related party is KRW 1 billion or less and service transaction amount for a respective related party is KRW 200 million or less</p> <p>③ Local and master file</p> <p>- (Subject) Companies whose international transaction amount exceeds KRW 50 billion & Sales amount exceeds KRW 100 billion are subject to filing requirement</p>	<p>□ Refine duplicate data submission</p> <p>○ The companies which submit local and master file (③) are exempted from submission of ① and ②</p> <p>○ (Same)</p>

<Reasons for Amendment> Reduce tax compliance burden by eliminating similar and duplicate data submission requirement related to international transaction

<Effective Date> Effective for a tax year commencing on or after January 1, 2020

❖ **Basic Law for National Tax**

(1) Reduce Taxpayer’s Burden when Filing Tax Return after the Deadline

① **Allows Taxpayer to File Amended Tax Return Who Filed Tax Return after Due Date** (*Basic Law for National Tax §45, §45-2*)

Current	Amendment
<ul style="list-style-type: none"> □ Eligible taxpayer allowed to file amended tax return to report the tax reduction or to the tax increase ○ Any person who has submitted tax returns within statutory due date <p style="text-align: center;"><Addition></p>	<ul style="list-style-type: none"> □ Expand scope of eligible taxpayer who is allowed to file amended tax returns ○ (Same) ○ Any person who has submitted tax returns after statutory due date

<Reasons for Amendment> Provide self-correction opportunity to a taxpayer who has submitted tax return after statutory due date

<Effective Date> Effective for amended tax returns filed on or after January 1, 2020

② **Adjust Exemption Rate for Non-Filing Penalty upon Filing Tax Return After Due Date** (*Basic Law of National Tax §48 ②*)

Current	Amendment
<ul style="list-style-type: none"> □ Certain portion of non-filing penalty is exempt when tax return is filed after due date ○ After the statutory due date of the return <ul style="list-style-type: none"> - Within 1 month: 50% of non-filing penalty is exempt - Within 1 ~ 6 months: 20% of non-filing penalty is exempt 	<ul style="list-style-type: none"> □ Adjust exemption rate for non-filing penalty when tax return is filed after due date ○ (Same) <ul style="list-style-type: none"> - Within 1 ~ 3 months: 30% of non-filing penalty is exempt - Within 3 ~ 6 months: 20% of non-filing penalty is exempt

<Reasons for Amendment> Induce immediate self-correction of taxpayer

<Effective Date> Effective for tax return filed on or after January 1, 2020

❖ **Securities Transaction Tax Law**

(1) Decrease Securities Transaction Tax Rate on Unlisted Shares, etc. (*Securities Transaction Tax Law §8①*)

Current	Amendment
<ul style="list-style-type: none"> □ Securities transaction tax rate on unlisted shares and over-the-counter transactions of listed shares ○ 0.5% ※ Tax rate reduction on over the counter transactions of listed shares has been enforced from June 3, 2019 based on the revision of its Enforcement Decree 	<ul style="list-style-type: none"> □ Decrease securities transaction tax rate ○ 0.5% → 0.45%

<Reasons for Amendment> Reduce transaction cost for investors

<Effective Date> Effective for shares transferred on or after April 1, 2020

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