

Korean Tax Brief

Update on Current Issues and Trends

2021 Tax Law Amendment

I. Timeline of Tax Amendments

- The Korean Tax Law Amendment for 2020 was approved by National Assembly in December 2020.
- As follow-up procedure of the Tax Law Amendment, the Korean government announced the Enforcement Decree of the Tax Law in January 2021 which will be finalized and enacted in February after Cabinet Council Meeting and other related procedures.
- Samjong KPMG will hold the “Webinar for Tax Law Amendment” on February 17, 2021.

II. Major Tax Amendments

1. Introduce New Integrated Investment Tax Credit Scheme: Rebuild Investment Tax Credit Scheme (New enactment of Tax Incentive Limitation Law §24 and repeal of Tax Incentive Limitation Law §5·25·25-4·25-5·25-7)

- (Current) Tax credits are available for 10 qualified categories of investments; investments in 9 specified categories of facilities(*) and investments in business-purpose fixed assets acquired by small and medium-sized enterprises (“SMEs”)

(*) ① R&D facilities, ② Energy saving facilities, ③ Environmental protection facilities, ④ Facilities for promoting employee’s welfare, ⑤ Safety facilities, ⑥ Productivity enhancement facilities, ⑦ Quality control facilities for medical and medicine supplies, ⑧ New growth-engine technology commercialization facilities, ⑨ 5G wireless communication facilities
- (Current) Encourage investments in specific categories of facilities stipulated in the tax law → (Amendment) Redesign investment tax credit scheme in a way that respects each business’ investment decisions: (Current) List qualified investments (positive list) →

(Amendment) Expand criteria for qualified investments to the investment in all types of business-purpose fixed assets, except for non-qualified investments listed in the tax law, such as investments in land, building, vehicle, etc. (negative list)

- Considering types of businesses, certain exceptions are provided for non-qualified investments (investments in land, buildings, vehicles, etc. used in certain businesses are recognized as qualified investments) : (i) (Construction business) heavy equipment such as forklift, etc., (ii) (Wholesale, retail, and logistics businesses) distribution facilities such as warehouse, (iii) (Transportation business) vehicles, delivery equipment, and vessel, (iv) (Tourist accommodation business) buildings and related facilities
- On top of basic investment tax credits, additional tax credits are provided for increases in investments
 - ✓ (Basic investment tax credit) amount of qualified investments made during the current year × basic credit rate (Large-sized enterprise 1%/ Middle-sized enterprise 3%/ SME 10%)
 - ✓ Basic credit rate for investments in new growth-engine technology(*) commercialization facilities (Large-sized enterprise 3%/ Middle-sized enterprise 5%/ SME 12%)
() List of 223 types of technology in 12 different categories of new industries;*
① future vehicle, ② intelligent information, ③ next-generation SW and security, ④ content, ⑤ next-generation electronic information devices, ⑥ next-generation broadcasting, ⑦ bio-health, ⑧ new energy industry-environment, ⑨ composite materials, ⑩ robots, ⑪ aviation-aerospace, ⑫ high-tech material parts
 - ✓ (Additional investment tax credit) [amount of qualified investments made during the current year – average of investments made during the immediately preceding three years] × additional credit rate (3%)] (Limit of additional investment tax credit: 200% of basic investment tax credit)

<Reasons for Amendment> To support business investments

<Effective Date> Effective for individual income tax return or corporate income tax return filed on or after January 1, 2021. However, a taxpayer can elect to choose either the existing investment tax credit method or the new investment tax credit method for investments made during 2020 and 2021. → A taxpayer can choose either the current method or the newly introduced method, but it is not allowed to make such choice on an asset-by-asset basis.

2. Ease Investment Tax Credit Requirements for New Growth-Engine Technology Commercialization Facilities (Tax Incentive Limitation Law §25-5, Enforcement Decree of the Tax Incentive Limitation Law §22-9)

- (Current) Should satisfy all of the following requirements to claim tax credits;
 - ① Facilities should be used for purposes of commercializing new growth-engine and core technology
 - ② Total R&D expenditure should be more than 2% of sales revenue
 - ③ R&D expenditure for new growth-engine and core technology should be more than 10% of total R&D expenditure
 - ④ Number of full-time employees should be maintained
- (Amendment) Repeal of requirements ②~④

<Reasons for Amendment> To encourage investments in new growth-engine technology commercialization facilities

<Effective Date> Effective for individual income tax return or corporate income tax return filed on or after January 1, 2021.

3. Include SME's Outsourcing Cost for Patent Study and Analysis in Qualified Expenditures for R&D Tax Credits (Enforcement Decree of the Tax Incentive Limitation Law Attachment 6)

Current	Amendment
<p>□ Qualified expenditures for R&D tax credits</p> <ul style="list-style-type: none"> ▪ (Outsourcing expenditure for R&D · joint R&D expenditure) - Outsourcing expenditure for R&D in science technology and industrial design, etc. <p style="text-align: center;"><New Enactment></p>	<p>□ Expand scope of qualified expenditures for R&D tax credits</p> <ul style="list-style-type: none"> ▪ (Outsourcing expenditure for R&D · joint R&D expenditure) - (Same) - SME's cost to outsource patent study and analysis to institutions designated for examination of industrial property rights under the Invention Promotion Act.

<Reasons for Amendment> To support efficient R&D activities and creation of patents

<Effective Date> Effective for a tax year commencing on or after January 1, 2021

4. Extend Tax Credit Carryforward Period (*Tax Incentive Limitation Law §144①*)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credit carryforward (5~10 years) <ul style="list-style-type: none"> ▪ (Subject) Unused tax credits due to no tax due or application of alternative minimum tax ▪ (Carryforward period) 5 years <ul style="list-style-type: none"> - SME within 5 years from incorporation <ul style="list-style-type: none"> · SME investment tax credit: 7 years · R&D tax credit: 10 years - R&D tax credit for new-growth engine and core technology: 10 years 	<ul style="list-style-type: none"> □ Extend carryforward period for all types of tax credits under the Tax Incentive Limitation Law to 10 years <ul style="list-style-type: none"> ▪ (Same) <div style="text-align: center; margin-top: 10px;"> } 10 years </div>

<Reasons for Amendment> To improve effectiveness of tax credits

<Effective Date> Effective for unexpired tax credit carryforwards on individual income tax return or corporate income tax return filed on or after January 1, 2021.

5. Extend Foreign Tax Credit Carryforward Period and Allow Deduction for Unused Foreign Tax Credits (*Corporate Income Tax Law §57, Individual Income Tax Law §57*)

Current	Amendment
<ul style="list-style-type: none"> □ Application of foreign tax credit <ul style="list-style-type: none"> ▪ Foreign tax credit deduction limitation $\text{Computed tax} \times \frac{\text{Foreign source income}}{\text{Tax base}}$ <ul style="list-style-type: none"> - Carryforward period for tax credits in excess of limitation: 5 years <p style="text-align: center;"><New Enactment></p> 	<ul style="list-style-type: none"> □ Extend foreign tax credit carryforward period and allow deduction for unused foreign tax credits <ul style="list-style-type: none"> ▪ (Same) <ul style="list-style-type: none"> - Carryforward period: 5 years → 10 years - Foreign tax credits unused during the carryforward period will be deducted in the year following the expiration

<Reasons for Amendment> To improve effort to eliminate double taxation

<Effective Date> Effective for unexpired foreign tax credit carryforwards on individual income tax return or corporate income tax return filed on or after January 1, 2021.

6. Extend Net Operating Loss (“NOL”) Carryforward Period (*Corporate Income Tax Law §13, §76-13, Individual Income Tax Law §45*)

Current	Amendment
<ul style="list-style-type: none"> □ NOL carryforward <ul style="list-style-type: none"> ▪ (NOL carryforward period) 10 years ▪ (Limitations on utilization of NOL) <ul style="list-style-type: none"> - General corporation: 60% of taxable income - SME, companies undergoing rehabilitation plan, etc.: 100% of taxable income 	<ul style="list-style-type: none"> □ Extend NOL carryforward period <ul style="list-style-type: none"> ▪ (NOL carryforward period) 10 years → 15 years ▪ (Same)

<Reasons for Amendment> To support companies affected by COVID-19 and relieve tax burdens of businesses

<Effective Date> Effective for NOL reported on or after January 1, 2021

7. Extend Applicable Period of Tax Credits for Increasing Wages (*Tax Incentive Limitation Law §29-4*)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credits for increasing wages <ul style="list-style-type: none"> ▪ (Requirement) The rate of current year increase in the wages of full-time employees > the average rate of increase in the wages of full-time employees for the three immediately preceding tax years(*) <i>(*) In case of SME, tax credits will be also available when the SME's rate of current year increase in the wages of full-time employees is greater than the average rate of increase in the wages of all SMEs</i> ▪ (Tax credit) 20% of wage increase in excess of the average rate of increase in wages for the three immediately preceding tax years (Middle-sized enterprise: 10%, Large-sized enterprise: 5%) ▪ (Applicable period) Until December 31, 2020 	<ul style="list-style-type: none"> □ Extend applicable period by two years <li style="text-align: center; padding: 20px 0;">(Same) ▪ (Applicable period) Until December 31, 2022

<Reasons for Amendment> To support increase in employee wages

8. Extend Applicable Period of Tax Credits for Middle-Sized Enterprises and SMEs Re-employing Career-Interrupted Women (Tax Incentive Limitation Law §29-3 ①)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credits for Middle-sized enterprises and SMEs re-employing career-interrupted women <ul style="list-style-type: none"> ▪ (Requirements for career-interrupted women) <ul style="list-style-type: none"> (i) worked for the enterprise or another enterprise in the same industry for at least one year, (ii) resigned due to marriage, pregnancy, childbirth, childcare, etc. (iii) hired by the enterprise within 3 ~ 15 years from the resignation ▪ (Tax credit) 30% of wages for two years after re-employment (Middle-sized enterprise: 15%) ▪ (Applicable period) Until December 31, 2020 	<ul style="list-style-type: none"> □ Extend applicable period by two years <div style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 10px; margin: 10px 0;">(Same)</div> <ul style="list-style-type: none"> ▪ (Applicable period) Until December 31, 2022

<Reasons for Amendment> To encourage re-employment of career-interrupted women

9. Extend Applicable Period of Tax Credits for Middle-Sized Enterprises and SMEs Converting Temporary Employees to Full-Time Employees and Rationalize Post-Management Requirement (Tax Incentive Limitation Law §30-2 ①)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credits for Middle-sized enterprises and SMEs converting temporary employees to full-time employees <ul style="list-style-type: none"> ▪ (Requirement) Convert temporary employees as of June 30, 2019 to full-time employees between January 1, 2020 and December 31, 2020 ▪ (Tax credit) Number of employees converted to full-time employees × KRW 10 million (Middle-sized enterprise: KRW 7 million) ▪ (Post-management requirement) If an enterprise terminates an employee converted to full-time 	<ul style="list-style-type: none"> □ Extend applicable period by one year and rationalize follow-up requirements <ul style="list-style-type: none"> ▪ (Requirement) Convert temporary employees as of June 30, 2020 to full-time employees between January 1, 2021 and December 31, 2021 ▪ (Same) ▪ Reduce amount to be paid-back

Current	Amendment
<p>employee within two years from the conversion, the enterprise should pay back the tax credit with interest</p> <ul style="list-style-type: none"> ▪ (Applicable period) Until December 31, 2020 	<p>「Tax credit + Interest」→「Tax credit」</p> <ul style="list-style-type: none"> ▪ (Applicable period) Until December 31, 2021

<Reasons for Amendment> To support converting temporary employees to full-time employees
 <Effective Date> Effective for post-management requirement violated on or after January 1, 2021

10. Extend Applicable Period of Tax Credits for Middle-Sized Enterprises and SMEs for Wages Paid to Employees Returning from Childcare Leave and Rationalize Post-Management Requirement (Tax Incentive Limitation Law §29-3 ②)

Current	Amendment
<p><input type="checkbox"/> Tax credits for Middle-sized enterprises and SMEs for wages paid to employees returning from childcare leave</p> <ul style="list-style-type: none"> ▪ (Requirement) An employee should return from at least 6 months of childcare leave ▪ (Tax credit) 10% of wages for one year from return (Middle-sized enterprise: 5%) ▪ (Post-management requirement) If an enterprise terminates an employee returning from childcare leave within one year from the date of return, the enterprise should pay back the tax credit received with interest ▪ (Applicable period) Until December 31, 2020 	<p><input type="checkbox"/> Extend applicable period by two years and rationalize post-management requirement</p> <ul style="list-style-type: none"> ▪ (Same) ▪ 30% of wages for one year from return (Middle-sized enterprise: 15%) ▪ Reduce amount to be paid back 「Tax credit + Interest」→ 「Tax credit」 ▪ (Applicable period) Until December 31, 2022

<Reasons for Amendment> To encourage employees in Middle-sized enterprises and SMEs to use childcare leave
 <Effective Date> Effective for post-management requirement violated on or after January 1, 2021

11. Increase Tax Credits for Enterprises Hiring Seniors (Tax Incentive Limitation Law §29-7)

Current					Amendment																	
<input type="checkbox"/> Tax credits for enterprises increasing jobs <ul style="list-style-type: none"> ▪ (Requirement) Number of full-time employees exceeds number of full-time employees in the immediately preceding year ▪ (Annual tax credit per employee) Preferential tax credits for hiring youth, the disabled, and veterans as full-time employees 					<input type="checkbox"/> Increase tax credits for enterprises hiring seniors <ul style="list-style-type: none"> ▪ (Same) ▪ Preferential tax credits are allowed for hiring seniors (aged at least 60 years) as well. The increase in tax credit per senior employee is estimated to be KRW 3.5~4.3 million 																	
<table border="1"> <thead> <tr> <th rowspan="2">Types of employee</th> <th colspan="2">SME</th> <th rowspan="2">Middle-sized</th> <th rowspan="2">Large-sized</th> </tr> <tr> <th>Metropolitan area</th> <th>Non-metropolitan area</th> </tr> </thead> <tbody> <tr> <td>Youth, the disabled, veterans</td> <td>1,100</td> <td>1,200</td> <td>800</td> <td>400</td> </tr> <tr> <td>Other full-time employees</td> <td>700</td> <td>770</td> <td>450</td> <td>-</td> </tr> </tbody> </table>					Types of employee	SME		Middle-sized	Large-sized	Metropolitan area	Non-metropolitan area	Youth, the disabled, veterans	1,100	1,200	800	400	Other full-time employees	700	770	450	-	
Types of employee	SME		Middle-sized	Large-sized																		
	Metropolitan area	Non-metropolitan area																				
Youth, the disabled, veterans	1,100	1,200	800	400																		
Other full-time employees	700	770	450	-																		
<ul style="list-style-type: none"> ▪ (Credit period) Large-sized enterprise: 2 years, Middle-sized enterprise/SME: 3 years ▪ (Applicable period) Until December 31, 2021 					<ul style="list-style-type: none"> ▪ (Same) ▪ (Same) 																	

<Reasons for Amendment> To support hiring seniors

<Effective Date> Effective for a tax year commencing on or after January 1, 2021

12. Tax Incentives Rescinded due to Lapse of Applicable Period

- Tax credit for logistics expenses paid to 3rd party
- Reduction of individual consumption tax for replacement of old car
- Reduction of individual consumption tax for passenger automobile
- Etc.

13. Rebuild Taxation System for Facilitation of Investment and Mutually Beneficial Cooperation and Extend Applicable Period (Tax Incentive Limitation Law §100-32, Enforcement Decree of the Tax Incentive Limitation Law §100-32)

Current	Amendment
<p>□ Taxation system for Facilitation of Investment and Mutually Beneficial Cooperation</p> <ul style="list-style-type: none"> ▪ (Taxation method) Choose between A (“investment inclusion method”) and B (“investment exclusion method”) <ul style="list-style-type: none"> A: [current year taxable income × 65% - (investments + increase in wages + mutually beneficial cooperation)] × 20% B: [current year taxable income × 15% - (increase in wages + amount disbursed for mutually beneficial cooperation)] × 20% Note: weight : (investment) 1 (wages) 2~3 (mutually beneficial cooperation) 3 ▪ (Subject to circulation) <ul style="list-style-type: none"> - (Investments) Investments on business facilities, etc. - (Increase in wages) Increase in wages of full-time employees earning less than KRW 70 million per year - (Mutually beneficial cooperation) amount contributed to funds raised for mutually beneficial cooperation between large enterprises and SMEs, etc. ▪ (Carryforward period of over-circulated earnings (*)) 1 year <i>(*) over-circulated earnings will be carried forward to the following tax year and deducted from uncirculated earnings.</i> ▪ (Applicable Period) Until December 31, 2020 	<p>□ Rebuild taxation system and extend applicable period</p> <ul style="list-style-type: none"> ▪ Adjust taxable income % for method A (investment inclusion method) <ul style="list-style-type: none"> A: [current year taxable income × <u>70%</u> - (investments + increase in wages + mutually beneficial cooperation)] × 20% B: (Same) ▪ Expand scope of increase in wages <ul style="list-style-type: none"> - (Investment) Same - (Increase in wages) Increase in wages of full-time employees earning less than KRW 80 million per year - (Mutually beneficial cooperation) Same ▪ (Extend carryforward period of over-circulated earnings) 1 year → 2 years ▪ (Applicable Period) Until December 31, 2022

<Reasons for Amendment> To rationalize tax system by incentivizing investments and increasing wage limitation

<Effective Date> (i) (Taxable income percentage • increase in wage limitation) Effective from a business year commencing on or after January 1, 2021. (ii) (Carryforward of over-circulated earnings) Effective for over-circulated earnings reported on or after January 1, 2021.

14. Increase Threshold for Small Advertisement Expense Not Treated as Entertainment Expense (*Enforcement Decree of the Corporate Income Tax Law §19, Enforcement Decree of the Individual Income Tax Law §55*)

Current	Amendment
<input type="checkbox"/> Tax treatment of purchase cost of items donated for advertisement purposes <ul style="list-style-type: none"> ▪ (Unspecified individuals) Advertisement expense, fully deductible ▪ (Specified individuals) Purchase cost of KRW 30,000 or less per year should be treated as advertisement expense, and any excess should be treated as entertainment expense ▪ When calculating amount donated, purchase cost of KRW 10,000 or less per item is excluded 	<input type="checkbox"/> Increase threshold for advertisement expense not treated as entertainment expense <ul style="list-style-type: none"> ▪ (Unspecified individuals) Same ▪ (Specified individuals) KRW 30,000 per year → KRW 50,000 ▪ KRW 10,000 or less per item → KRW 30,000 or less per item

<Reasons for Amendment> To reflect inflation and support revitalization of economy

<Effective Date> Effective for an expense incurred on or after January 1, 2021

15. Increase Threshold for Entertainment Expense Not Requiring Supporting Evidence (*Enforcement Decree of the Corporate Income Tax Law §41, Enforcement Decree of the Individual Income Tax Return §83*)

Current	Amendment
<input type="checkbox"/> Threshold for entertainment expense not requiring supporting evidence (*) (*) <i>Credit card receipt, cash receipt, tax invoice, etc.</i> <ul style="list-style-type: none"> ▪ (Celebration or condolence) KRW 200,000 ▪ (Others) KRW 10,000 	<input type="checkbox"/> Increase limitation for entertainment expense not requiring supporting evidence <ul style="list-style-type: none"> ▪ (Same) ▪ (Others) <u>KRW 30,000</u>

<Reasons for Amendment> To reflect inflation and support revitalization of economy

<Effective Date> Effective for an expense incurred on or after January 1, 2021

16. Expand Scope of Celebration or Condolence Related Goods Not Deemed Supplied
(Enforcement Decree of the Value Added Tax Law §19-2)

Current	Amendment
<p><input type="checkbox"/> When a business provides the following goods to employees for purpose of cost reimbursement or fringe benefits, such goods should not be deemed supplied for value-added tax (“VAT”) purposes:</p> <ul style="list-style-type: none"> ▪ Work clothes · Safety helmet · Work shoes ▪ Goods provided for exercise or cultural activities ▪ Goods provided for celebration or condolence (*) and costing KRW 100,000 or less per year per person <i>(*) Lunar New Year, Korean Thanksgiving, corporate anniversary, birthday, etc.</i> 	<p><input type="checkbox"/> Expand scope of celebration or condolence related goods not deemed supplied</p> <p>(Same)</p> <ul style="list-style-type: none"> ▪ For goods costing KRW 100,000 or less per year per person, categorized celebration or condolence into ①and②, <ul style="list-style-type: none"> ① Goods provided for celebration or condolence (e.g., marriage, 60th birthday, etc.) ② Goods provided for traditional holidays ·anniversaries, etc. (*) <i>(*) Lunar New Year, Korean Thanksgiving, corporate anniversary, birthday, etc.</i> ▪ Amount in excess of KRW 100,000 should be deemed as supply of goods

<Reasons for Amendment> To support corporate spending on fringe benefits to its employees and encourage corporate consumptions

<Effective Date> Effective for a taxable period to which the effective date of the relevant Enforcement Decree belongs

17. Rebuild Income Tax Reduction System for Foreign Engineers (*Enforcement Decree of the Tax Incentive Limitation Law §16*)

Current	Amendment
<p>□ Income tax reduction system for foreign engineers</p> <ul style="list-style-type: none"> ▪ (Subject) Foreign engineer-researcher <ul style="list-style-type: none"> - A person providing technology in Korea under an engineering technology(*) license agreement for which contract amount is \$300,000 or more (*) <i>Machinery, vessel, aircraft, aerospace, telecommunication, chemistry, etc.</i> - A person meeting both ❶ and ❷: <ul style="list-style-type: none"> ❶ (Qualification requirement) Researcher ❷ (Work place requirement) R&D facility of a foreign-invested company(*) (*) <i>percentage of shareholding by foreign capital is 30% or more</i> ▪ (Income tax reduction) <ul style="list-style-type: none"> (i) (General) 50% of income tax reduction for the first 5 years, or (ii) (Special case) 70% of income tax reduction for the first 3 years and 50% reduction for the following 2 years if employed by a leading manufacturing company specialized in materials · parts· equipment ▪ (Applicable period) <ul style="list-style-type: none"> (i) (General) Until December 31, 2021 (ii) (Special case) Until December 31, 2022 	<p>□ Rebuild system: enhance qualification requirement but expand scope of workplace requirement</p> <ul style="list-style-type: none"> ▪ (Subject) Foreign engineer-researcher <ul style="list-style-type: none"> - (Same) - A person meeting both ❶ and ❷: <ul style="list-style-type: none"> ❶ (Enhance qualification requirement) Researcher who has a bachelor’s degree or higher in engineering and has worked for a foreign science technology research institutes for at least 5 years (at least 2 years for a Ph D degree holder) ❷ (Expand workplace requirement) Research institute or R&D department of a Korean company, a research institute funded by Korean government, etc. <p>(Same)</p> <p>(Same)</p>

<Reasons for Amendment> To encourage recruitment of foreign talents

<Effective Date> Effective for employment contract signed on or after January 1, 2021

18. Increase Individual Income Tax Rate (Individual Income Tax Law §55 ①)

Current		Amendment	
□ Individual income tax base and rate		□ Individual Income tax base and rate	
Tax base (KRW)	Rate (%)	Tax base (KRW)	Rate (%)
12 million or less	6	12 million or less	6
12~ 46 million	15	12~ 46 million	15
46 ~ 88 million	24	46 ~ 88 million	24
88 ~ 150 million	35	88 ~ 150 million	35
150 ~ 300 million	38	150 ~ 300 million	38
300 ~ 500 million	40	300 ~ 500 million	40
Over 500 million	42	500 million ~ 1 billion	42
		Over 1 billion	45

<Reasons for Amendment> To enhance fairness of tax system and income redistribution function

<Effective Date> Effective for income generated on or after January 1, 2021

19. Impose tax on non-resident or foreign corporation's income derived from virtual assets (Corporate Income Tax Law §92 • §93 • §98, Individual Income Tax Law §119 • §126 • §156)

Current	Amendment
<New Enactment>	<input type="checkbox"/> (Subject to taxation) non-resident or foreign corporation's income derived from transfer or lease of virtual assets (e.g., bitcoins, etc.) <ul style="list-style-type: none"> ▪ Include income derived from withdrawal of virtual assets that have been held and managed by virtual asset company(*) <p>(*) virtual asset company under Article 2(1)(n) under 「the Act on Reporting and Using Specified Financial Transaction Information」</p> <input type="checkbox"/> (Classification of income) Other income <input type="checkbox"/> (Taxation method) Withholding <ul style="list-style-type: none"> ▪ (Withholding tax agent) A person who pays virtual asset income

	<ul style="list-style-type: none"> - For transfer, lease, or withdrawal of virtual asset via virtual asset company: virtual asset company ▪ (Withholding tax amount) Min [Transfer price × 10%, Capital gain (i.e., transfer price – acquisition cost, etc.) × 20%] ▪ (Timing of withholding) When income is paid <ul style="list-style-type: none"> - Include when withdrawing virtual asset that has been held and managed by virtual asset company ▪ (Tax payment) withholding tax should be paid by the 10th of the month following the month in which virtual asset or money (i.e., consideration for transfer or lease) is withdrawn <p>A tax resident of a jurisdiction with which Korea has an income tax treaty can apply for tax exemption, if applicable, under the relevant tax treaty (Application for Non-Taxation • Tax Exemption should be filed by the due date of tax payment)</p>
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<Reasons for Amendment> To enhance fairness of taxation of income

<Effective Date> Effective for income derived from transfer, lease, or withdrawal of virtual asset on or after January 1, 2021

20. Require Virtual Asset Company to Submit Taxation Data (*Individual Income Tax Law §164-4*)

Current	Amendment
<New Enactment>	<input type="checkbox"/> Require virtual asset company to submit taxation data <ul style="list-style-type: none"> ▪ Required data: Information on members, transaction dates, etc. ▪ Submission cycle: Quarterly/annual submission

<Reasons for Amendment> To secure effectiveness of taxation on virtual assets

<Effective Date> Effective for data to be submitted on or after January 1, 2022

21. Include Virtual Asset Account in Overseas Financial Account subject to Report (*International Tax Coordination Law §34②③, Enforcement Decree of the International Tax Coordination Law §49*)

Current	Amendment
<input type="checkbox"/> Foreign financial account subject to report	<input type="checkbox"/> Expand foreign financial account subject to report

<ul style="list-style-type: none"> ▪ Bank account, securities account, derivatives account, etc. <p>□ Foreign financial company dealing with foreign financial account</p> <ul style="list-style-type: none"> ▪ A finance company located in a foreign jurisdiction and providing finance, insurance, pension services, or any other related services 	<ul style="list-style-type: none"> ▪ (Same) ▪ (Addition) any account open for trading virtual asset under the Act on Reporting and Using Specified Financial Transaction Information or any other similar assets <p>□ Add to foreign financial company</p> <ul style="list-style-type: none"> ▪ (Same) <p>(Addition) Virtual asset company under the Act on Reporting and Using Specified Financial Transaction Information or any other similar company</p>
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<Reasons for Amendment> To secure taxation data related to overseas virtual assets of residents

<Effective Date> Effective for reporting obligation arising on or after January 1, 2022

22. Revise Limitation Calculation for Deduction of Donation (Corporate Income Tax Law §24, Tax Incentive Limitation Law §88-4)

Current	Amendment						
<p>□ Scope of donation and calculation of deduction limitation</p> <p>① Definition of donation: Expense incurred without business purpose</p> <p>② Calculation of deduction limitation</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Item</th> <th style="text-align: center;">Tax limit</th> </tr> </thead> <tbody> <tr> <td>1. Statutory donation</td> <td>(Taxable income – NOL) × 50%</td> </tr> <tr> <td>2. Designated donation</td> <td>(Taxable income – NOL – Statutory donation) × 10%</td> </tr> </tbody> </table>	Item	Tax limit	1. Statutory donation	(Taxable income – NOL) × 50%	2. Designated donation	(Taxable income – NOL – Statutory donation) × 10%	<p>□ Adjust scope of NOL for calculation of deduction limitation</p> <p>① (Same)</p> <p>② 50% limitation donation</p> <ul style="list-style-type: none"> - Applicable to current statutory donation - Calculation of deduction limitation <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> <p>[Taxable income – NOL (limited to 60% of taxable income)] × 50%</p> </div>
Item	Tax limit						
1. Statutory donation	(Taxable income – NOL) × 50%						
2. Designated donation	(Taxable income – NOL – Statutory donation) × 10%						

<p>③ Scope of statutory donation</p> <ul style="list-style-type: none"> - Donation to government, local government, etc. <p>④ Scope of designated donation</p> <ul style="list-style-type: none"> - Donation for social welfare, culture, education, religion 	<p>③ 10% limitation donation</p> <ul style="list-style-type: none"> - Applicable to current designated donation - Calculation of deduction limitation <div style="border: 1px solid black; padding: 5px; margin: 5px 0;"> <p>[Taxable income – NOL (limited to 60% of taxable income) – deduction for 50% limitation donation] × 10%</p> </div>
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<Reasons for Amendment> To encourage donations

<Effective Date> Effective for a tax year commencing on or after January 1, 2021

23. Impose Limitations on Utilization of Excess Donation Carryforwards from Merger • Split-off (*Corporate Income Tax Law §45 • 46-4, Enforcement Decree of the Corporate Income Tax Law §81 • 83*)

Current	Amendment
<p><New Enactment></p> <p>In case of qualified merger or spin-off, tax adjustments should be carried over to surviving company or spin-off new company</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Deduction limitation for excess donation (donation in excess of deduction limitation) of the surviving company or the spin-off surviving company as of the merger date or the spin-off date <ul style="list-style-type: none"> ▪ Deduction limitation should be calculated based on the taxable income generated from the legacy business <input type="checkbox"/> Deduction limitation for excess donation carried over from the merged company or the spin-off parent company <ul style="list-style-type: none"> ▪ Deduction limitation should be calculated based on the taxable income generated from the transferred business ▪ Excess donation can be carried forward to the following 10 years

<Reasons for Amendment> To impose reasonable deduction limitation for excess donation incurred prior to merger or spin-off

<Effective Date> Effective for merger or spin-off taking place on or after January 1, 2021

24. Reduce Number of Taxpayers Required to Prepare and Retain List of Documents
Supporting Expenditures (Enforcement Decree of the Corporate Income Tax Law §158)

Current	Amendment
<input type="checkbox"/> Taxpayers required to prepare and retain list of documents supporting expenditures <ul style="list-style-type: none"> ▪ If total revenue for previous business year is KRW 2 billion or more 	<input type="checkbox"/> Reduce number of taxpayers required to prepare and retain list of documents supporting expenditures <ul style="list-style-type: none"> ▪ KRW 2 billion → KRW 3 billion

<Reasons for Amendment> To reduce burden of tax compliance for small corporations

<Effective Date> Effective for a business year commencing on or after January 1, 2021

25. Add Items to be Included in Tax Audit Result Notification
(Enforcement Decree of the National Tax Basic Law §63-13)

Current	Amendment
<input type="checkbox"/> Items to be include in tax audit result notification <ul style="list-style-type: none"> ▪ Types of taxes and years audited ▪ Reasons for correction of tax base and tax amount <New Enactment> ▪ Instruction for filing amended tax return ▪ Instruction for filing Review of Adequacy of Tax Imposition <New Enactment> 	<input type="checkbox"/> Add items to be included in tax audit result notification <ul style="list-style-type: none"> ▪ (Same) ▪ Relevant tax laws and provisions as well as specific facts and circumstances that provide basis for tax assessment (Same) ▪ Types and amounts of penalties and their calculations

<Reasons for Amendment> To protect taxpayer’s rights to know and defend

<Effective Date> Effective for a tax audit commencing after the relevant Enforcement Decree becomes effective

26. Clarify Place of Supply for Electronic Services
(Value Added Tax Law §20)

Current	Amendment
<input type="checkbox"/> Place of supply for services	<input type="checkbox"/> Clarify place of supply for electronic services

<ul style="list-style-type: none"> ▪ Place where services are provided ▪ Place where goods, such as facilities, rights, etc., are used ▪ When a non-resident or foreign corporation is engaged in international transportation services, the place of passenger boarding or cargo loading <p style="text-align: center;"><New Enactment></p>	<p style="text-align: center;">(Same)</p> <ul style="list-style-type: none"> ▪ In case of electronic services, the place of business or the address of the person receiving such services
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<Reasons for Amendment> To ease tax compliance by clarifying place of supply for electronic services

<Effective Date> Effective for service received on or after January 1, 2021

27. Clarify Determination of Related Party to Whom Advance Issued is Not Allowed as Bad Debt Deduction (Corporate Income Tax Law §19-2, Enforcement Decree of the Corporate Income Tax Law §19-2)

Current	Amendment
<ul style="list-style-type: none"> □ Receivables for which bad debt deductions are not allowed <ul style="list-style-type: none"> ▪ Claim for reimbursement arising from guarantee transaction ▪ Advance issued to a related party without business purpose 	<ul style="list-style-type: none"> □ Clarify determination of related party to whom advance issued is not allowed as bad debt deduction <ul style="list-style-type: none"> ▪ (Same) ▪ Advance issued to a related party, at the time of issuance, without business purpose

<Reasons for Amendment> To clarify the timing of determination of related party

28. Extend Applicable Period for Deduction of Cultural Entertainment Expense (Tax Incentive Limitation Law §136)

Current	Amendment
<ul style="list-style-type: none"> □ Deduction of cultural entertainment expense <ul style="list-style-type: none"> ▪ (Additional limitation) 20% of limitation of general entertainment expense ▪ (Applicable period) Until December 31, 2020 	<ul style="list-style-type: none"> □ Extend applicable period by 2 years <ul style="list-style-type: none"> ▪ (Same) ▪ (Applicable period) Until December 31, 2022

<Reasons for Amendment> To promote healthy entertainment culture and support consumption

29. Add Persons Required to Submit Payment Statement for Payment of Domestic Source Income to Foreign Corporation or Non-Resident (*Corporate Income Tax Law §120-2, Individual Income Tax Law §164-2*)

Current	Amendment
<p><input type="checkbox"/> Submission of payment statement for payment of domestic source income</p> <ul style="list-style-type: none"> ▪ (Persons required to submit) A person who pays domestic source income to foreign corporation or non-resident <div style="text-align: center;"><New Enactment></div> ▪ (Place to submit) Head of tax office having jurisdiction over person to submit ▪ (Submission date) By the end of February of the year following the year in which the payment is made 	<p><input type="checkbox"/> Add persons required to submit payment statement</p> <ul style="list-style-type: none"> ▪ (Same) - When transferring outstanding shares in connection with listing a corporation, the corporation being listed should submit a payment statement <div style="border: 1px solid black; width: 20px; height: 20px; margin: 10px auto;"></div> <p>(Same)</p>

<Reasons for Amendment> To simplify tax compliance process

<Effective Date> Effective for a payment made on or after January 1, 2021

30. Subject Foreign Corporation to Non-Compliance Penalty for Not Submitting Payment Statement (*Corporate Income Tax Law §75-7*)

Current	Amendment
<p><input type="checkbox"/> Subject to penalty for not submitting payment statement</p> <ul style="list-style-type: none"> ▪ Domestic corporation required to submit payment statement 	<p><input type="checkbox"/> Expand subject to penalty</p> <ul style="list-style-type: none"> ▪ Persons required to submit payment statement - (Domestic and <u>foreign corporation</u>) - Foreign corporation: Foreign corporation paying domestic source income, such as domestic place of business of foreign corporation, etc.

<Reasons for Amendment> To secure taxation data for tax authorities

<Effective Date> Effective for a payment statement required to be submitted on or after January 1, 2021

31. Expand Definition of Foreign Related Party (*International Tax Coordination Law §2 ①8*)

Current	Amendment
<p>□ Definition of related party</p> <p>① A party to a transaction who directly or indirectly owns 50% or more of voting shares of the other party to the transaction</p> <p>② A third party who directly or indirectly owns 50% or more of voting shares of both parties to a transaction</p> <p style="text-align: center;"><New Enactment></p> <p>③ Parties to a transaction have common interest (shareholding, sales of goods or services, loaning or borrowing, etc.), and one of the parties to the transaction practically determines business policy of the other party</p> <p>④ Parties to a transaction have common interest (shareholding, sales of goods or services, loaning or borrowing, etc.), and a third party practically determines business policies of both parties to a transaction</p>	<p>□ Family affiliation is taken into consideration for calculation of third-party ownership</p> <p>(Same)</p> <p>- Shares directly or indirectly owned by relatives(*) of third party should be included in third party ownership calculation. (*) Article 2(20) of 『National Tax Basic Law』</p> <p>(Same)</p>

<Reasons for Amendment> To prevent tax avoidance

<Effective Date> Effective for a business year commencing on or after January 1, 2021

32. Expand Scope of Passive Income for Controlled Foreign Corporation (“CFC”) Regime
(International Tax Coordination Law §17-3 ②)

- CFC Regime: Tax regime that deems dividends for earnings reserved in subsidiaries located in low tax jurisdictions and imposes tax on such deemed dividends

Current	Amendment
<p><input type="checkbox"/> Scope of passive income for purposes of special provision for passive income</p> <ul style="list-style-type: none"> ▪ Special provision for passive income: If a foreign corporation actively doing business has 5% or more of its revenue from passive income, CFC regime only applies to passive income <ul style="list-style-type: none"> ① Possession of stock or bonds ② Supply of intellectual property rights ③ Rental of vessel, aircraft, or equipment ④ Investment in investment trusts/funds <p style="text-align: center;"><New Enactment></p>	<p><input type="checkbox"/> Expand scope of passive income</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;">(Same)</div> <ul style="list-style-type: none"> ▪ Gains generated from sales of assets in ① ~ ④ are included in passive income ▪ Gains generated from sales of vessel, aircraft, or equipment for business use are excluded from passive income

<Reasons for Amendment> To enhance taxation on earnings reserved in CFCs

<Effective Date> Effective for a tax year commencing on or after January 1, 2021

33. Extend Due Date for Submission of International Transaction Related Data *(International Tax Coordination Law §11, Enforcement Decree of the International Tax Coordination Law §12)*

Current	Amendment
<p><input type="checkbox"/> Master/local file submission can substitute a statement of international transactions to be filed with corporate income tax return</p> <ul style="list-style-type: none"> ※ Separate exemption certificate is required when filing corporate income tax return <p><input type="checkbox"/> Due date for submission and reporting</p>	<p><input type="checkbox"/> A taxpayer required to submit master/local file does not have to submit statement of international transactions</p> <ul style="list-style-type: none"> ※ Separate exemption certificate is not required <p><input type="checkbox"/> Extension of filing due date</p>

Current	Amendment
<ul style="list-style-type: none"> ▪ Statement of international transactions + Condensed income statement ⇒ <u>When individual income tax return or corporate income tax return is filed</u> ▪ Report of foreign real estate and foreign direct investment ⇒ <u>When income tax return or corporate income tax is filed</u> ▪ Report of overseas financial account ⇒ <u>By the end of June every year</u> ▪ Masterfile submission ⇒ <u>Within 12 months from the end of the business year</u> ▪ Annual report for advance pricing agreement ⇒ <u>Within 6 months from the end of tax filing due date</u> 	<ul style="list-style-type: none"> ▪ Within 6 months from the end of the tax year ▪ (Same) ▪ Within 12 months from the end of the business year

<Reasons for Amendment> To ease administrative burdens for taxpayers

<Effective Date> Effective for documents to be submitted on or after January 1, 2021

34. Adjust Date from which Interest Accrual Starts for Tax Refund Issued from Refund Request (*Enforcement Decree of the National Tax Basic Law §43-3 ①5*)

Current	Amendment
<ul style="list-style-type: none"> □ Date from which interest accrual starts for tax refund <ul style="list-style-type: none"> ▪ In case of refund issued for error in payment, double payment, payment before reporting, or cancellation of assessment: Interest accrues from tax payment date ▪ In case of refund issued for reporting, correction, or determination of tax base: Interest accrues after 30 days from reporting ▪ In case of refund issued for refund request: Interest accrues from the date of refund request 	<ul style="list-style-type: none"> □ Interest accrual will start from payment date even in the case of refund request (Same) <Deletion>

<Reasons for Amendment> To protect taxpayer’s rights

<Effective Date> Effective for a refund issued after the relevant Enforcement Decree becomes effective

35. Extension of Retroactive Application Period for Advance Pricing Agreement (“APA”)
(International Tax Coordination Law §6 ③)

- APA: Tax system in which the tax authority approves in advance transfer pricing method for international transactions between taxpayer and its foreign related party

Current	Amendment
<input type="checkbox"/> Retroactive application period for APA <ul style="list-style-type: none"> ▪ Bilateral APA (*) <ul style="list-style-type: none"> - 5 years immediately preceding the period subject to approval (*) <i>Mutual agreement on transfer pricing method with the other contracting state’s tax authorities</i> ▪ Unilateral APA (**) <ul style="list-style-type: none"> - 3 years immediately preceding the period subject to approval (**) <i>Pre-approval of transfer pricing method by the National Tax Service alone</i> 	<input type="checkbox"/> Extension of retroactive application period <ul style="list-style-type: none"> - 5 years → 7 years - 3 years → 5 years

<Reasons for Amendment> To improve taxpayer’s rights

<Effective Date> Effective for an APA submitted on or after January 1, 2021

36. Improve Mutual Agreement Procedure (“MAP”) and Extend Due Date *(International Tax Coordination Law §22 ②1, §23 ④)*

- Under the current tax law, if a final court decision is rendered, a MAP cannot be initiated, or a MAP in progress is automatically terminated.
- According to the amendment, even if a final court decision is rendered, to the extent the tax authorities of the other contracting state need to make a corresponding tax adjustment of the related party in that country, a MAP can be initiated, or a MAP in progress is not automatically terminated.

Current	Amendment
<p>□ Initiation of MAP(*) (*) A MAP may be initiated when tax adjustments between contracting parties are necessary</p> <ul style="list-style-type: none"> ▪ MAP may not be initiated in the following circumstances: <ul style="list-style-type: none"> ① <u>A final court decision is rendered</u> ② Disqualification of applicant ③ Application submitted for purpose of tax avoidance ④ 3 years have lapsed since tax was levied <p>□ Termination of MAP</p> <ul style="list-style-type: none"> ▪ In case a final court decision is rendered: Date of final court decision ▪ When an applicant withdraws application: Date of withdrawal 	<p>□ Expand the tax authorities' obligations to initiate a MAP</p> <ul style="list-style-type: none"> ▪ Despite final court decision, if a corresponding tax adjustment(*) from the other contracting party is necessary, the tax authorities should initiate a MAP (*) In response to tax adjustment made by the tax authorities of a contracting state, the tax authorities of the other contracting state may need to adjust the liabilities of the related party in that country ① <u>A final court decision is rendered (except when a corresponding tax adjustment from the other contracting state is necessary)</u> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 10px 0;"></div> <p>②~④ (Same)</p> <p>□ In case when a corresponding tax adjustment should be made by the other contracting state, a MAP is not automatically terminated</p> <ul style="list-style-type: none"> ▪ In case a final court decision is rendered (except when a corresponding tax adjustment from the other contracting state is necessary): Date of final court decision ▪ (Same)

<Reasons for Amendment> To enhance taxpayer's remedy for tax disputes

<Effective Date> Effective for a MAP initiated or a MAP for which final court decision is rendered on or after January 1, 2021

37. Prevent Conflicts between Court Decision and MAP (*International Tax Coordination Law §27*)

- Under the current tax law, even if a mutual agreement is reached through a MAP, a tax appeal for the relevant issue can be separately progressed.
- According to the amendment, in order for a mutual agreement to be reached, the taxpayer who has applied for the MAP should accept the mutual agreement and withdraw any tax appeal for the relevant issue.

Current	Amendment
<New Enactment>	<input type="checkbox"/> Requirements for implementation of mutual agreement with the other contracting state (Should satisfy both ❶ and ❷) <ul style="list-style-type: none"> ❶ Consent from taxpayer who has applied for MAP ❷ Taxpayer's withdrawal of tax appeal when the tax appeal and MAP are concurrently taking place

<Reasons for Amendment> To enhance implementation of mutual agreement

<Effective Date> Effective for an agreement to be implemented on or after January 1, 2021

38. Establish Basis for Arbitration for MAP (*International Tax Coordination Law §22⑥*)

- Under the amendment, a taxpayer can apply for arbitration by an arbitration committee if the matter is not resolved after initiation of MAP and during the period specified in the treaty.
- However, in order to enforce the amendment, revision of tax treaty is necessary.

Current	Amendment
<New Enactment>	<input type="checkbox"/> Establish basis for arbitration(*) <p>(*) <i>Independent dispute resolution by an arbitration committee consisting of two persons each selected by the relevant competent authorities and a third-party person (total of 3 people)</i></p> <ul style="list-style-type: none"> ▪ (Initiation requirement) Taxpayer can apply for arbitration if the matter is not resolved after initiation of MAP and during the period specified in the tax treaty ▪ (Implementation requirement) The relevant tax treaty should be revised to provide subject and timing of application, scope of taxation, composition of arbitration committee, decision making process, and effect of decision from arbitration, etc. ▪ (Delegation of specific procedures) Application process for arbitration, appointment of arbitrator, costs, etc. are delegated to the Enforcement Decree

<Reasons for Amendment> To establish basis for implementation of arbitration under the tax treaty

39. Add Companies for Exceptional 100% Utilization of NOL (Enforcement Decree of the Corporate Income Tax Law §10)

Current	Amendment
<p>□ Limitations on utilization of NOL</p> <ul style="list-style-type: none"> ▪ (Principle) 60% of taxable income ▪ (Exceptions) 100% of taxable income <ul style="list-style-type: none"> - Companies undergoing rehabilitation plan according to the agreement with financial institutions ▪ Companies undergoing business reorganization plan, etc. 	<p>□ Add applicable company for 100% NOL utilization</p> <ul style="list-style-type: none"> ▪ (Same) ▪ (Exceptions) Add applicable corporation <ul style="list-style-type: none"> - Company undergoing rehabilitation plan according to the agreement with financial institutions or public institutions(*) which conduct financial service and restructuring service. Undergoing business reorganization plan, etc.: 100% of taxable income <p>(*) The list of public institutions is stipulated in the Enforcement Decree of the Corporate Income Tax Law.</p> <ul style="list-style-type: none"> ▪ (Same)

<Reasons for Amendment> To provide tax equality for corporations that are in process of restructuring

<Effective Date> Applicable from taxpayer reporting tax base after the effective date of the Enforcement Decree

40. Expand Reasons for Bad Debt Write-offs of Foreign Receivable (Enforcement Decree of Corporate Income Tax Law §19-2)

Current	Amendment
<p>□ Receivables for which bad debt write-offs are allowed:</p> <ul style="list-style-type: none"> ▪ Account receivables, trade receivables, promissory note, check, etc., whose statute of limitations has passed under the relevant laws <p style="text-align: center;">< New Enactment ></p>	<p>□ Add acceptable reasons for which bad debt write-off deductions are allowed:</p> <ul style="list-style-type: none"> ▪ (Same) ▪ Foreign receivables derived from the export of goods or provision of services in overseas for which the Korea Trade Insurance Corporation

	<p>confirms that the receivables are not recoverable</p> <ul style="list-style-type: none"> ▪ (*) specific reasons are prescribed in the enforcement rules
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<Reasons for Amendment> To relieve tax burden in related to bad debt deduction for overseas receivable

<Effective Date> Effective for the receivables that are confirmed after the effective date of the Enforcement Decree

41. Reduce Penalty for Non-Filing of Payment Statement of Employment Income (*Corporate Income Tax Law §75-7*)

Current	Amendment
<p>□ Penalty for non-filing of payment statement of employment income</p> <ul style="list-style-type: none"> ▪ Penalty is imposed for non-filing and incorrect filing of statement ▪ (Amount) Payment amount × 0.5% * 50% of penalty is reduced when the statement is filed within 3 months from the statutory deadline. 	<p>□ Penalty rate is reduced by 50%</p> <ul style="list-style-type: none"> ▪ (same) ▪ (Amount) Payment amount × 0.25% * (Same)

<Reasons for Amendment> To relieve corporate's tax burden in connection with submission of payment statement of employment income

<Effective Date> Effective for report made on or after January 1, 2021

42. Establish Basis for Allocation of Assets and Liabilities by Industry under Thin-Capitalization Rule (*Enforcement Decree of the International Tax Coordination Law §50*)

Current	Amendment
<p>□ Amount of loan per business types when applying thin-cap rule</p> <p>* If debts obtained from foreign controlling shareholder exceeds certain portion of foreign controlling shareholder's equity, interest expense incurred on the excess portion of such debts is not tax deductible and deemed as dividend</p> <ul style="list-style-type: none"> ▪ Financial business: 6 times Other business: 3 times 	<p>□ Establish basis for allocation of loan and equity whose purpose is not clear</p> <ul style="list-style-type: none"> ▪ (Same)

<p><New Enactment></p>	<ul style="list-style-type: none"> ▪ Common foreign related party loan whose financing purpose is not clear should be allocated to respective business based on operating profit(*) <p>(*) when there is no operating profit earned, revenue or deduction amount can be used for allocation basis.</p>
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<Reasons for Amendment> To improve rationalization of thin-capitalization rule

<Effective Date> Applicable from the effective date of Enforcement Decree

43. Minimize Documentation Requirements of Application Period for Advance Pricing Agreement (“APA”) (Bill for Enforcement Decree of the International Tax Coordination Law §26 ①, 32 ①)

Current	Amendment
<input type="checkbox"/> Number of copies of APA and Annual Report* to be submitted * Required to submit the following document every year (within 12 months of fiscal year end) <ul style="list-style-type: none"> ▪ 2 copies of APA ▪ 4 copies of Annual Report 	<p><Deleted></p>

<Reasons for Amendment> To improve reporting convenience

<Effective Date> Effective for APA and annual report to be submitted after the effective date of the Enforcement Decree

44. Unify the Period of Amended Filing and Reassessment Claim of APA (Bill for Enforcement Decree of the International Tax Coordination Law §31 ①)

Current	Amendment
<input type="checkbox"/> Period of amended filing and reassessment claim <ul style="list-style-type: none"> ▪ Bilateral APA: within 3 months from the date of receipt of notification that the mutual agreement is completed ▪ Other APA: within 3 months from the receipt of APA notification 	<input type="checkbox"/> Period of amended filing and reassessment claim <ul style="list-style-type: none"> ▪ All type of APA: within 3 months from the date of receipt of APA notification

<Background> To protect taxpayer’s rights and interests

<Effective Date> Effective for APA notification received after the effective date of the Enforcement Decree

45. Establish Additional Deduction for Increased Use of Credit Card in 2021 (Tax Incentive Limitation Law §126-2)

Current	Amendment																		
<p>□ Deduction for usage of credit card, etc. for individual income tax purpose</p> <ul style="list-style-type: none"> ▪ Usage of credit card exceeding 25% of total income ▪ Different deduction rates are applied for method of payment <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="background-color: #e0e0e0;">Item</th> <th style="background-color: #e0e0e0;">Deduction Rate</th> </tr> </thead> <tbody> <tr> <td>1. Credit Card</td> <td>15%</td> </tr> <tr> <td>2. Cash receipt, Debit Card</td> <td>30%</td> </tr> <tr> <td>3. Cultural expense (Book/Concert/Art Museum, etc.)*</td> <td>30%</td> </tr> <tr> <td>4. Public Transportation /Traditional Market</td> <td>40%</td> </tr> </tbody> </table> <p>*Only applicable for individual whose total income is KRW 70 million or less</p> <p style="text-align: center;"><New Enactment></p> <ul style="list-style-type: none"> ▪ Maximum deduction amount depending the income <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="background-color: #e0e0e0;">Income basis</th> <th style="background-color: #e0e0e0;">Deduction amount</th> </tr> </thead> <tbody> <tr> <td>Under KRW 70 million</td> <td>3 million</td> </tr> <tr> <td>KRW 70 million ~ KRW 120 million</td> <td>2.5 million</td> </tr> <tr> <td>Exceeds KRW 120 million</td> <td>2 million</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ▪ Additional deduction: KRW 1 million per item 	Item	Deduction Rate	1. Credit Card	15%	2. Cash receipt, Debit Card	30%	3. Cultural expense (Book/Concert/Art Museum, etc.)*	30%	4. Public Transportation /Traditional Market	40%	Income basis	Deduction amount	Under KRW 70 million	3 million	KRW 70 million ~ KRW 120 million	2.5 million	Exceeds KRW 120 million	2 million	<p>□ Establish new deduction for increased usage of credit card</p> <div style="border: 1px solid black; height: 100px; width: 100%;"></div> <p style="text-align: center;">(Same)</p> <ul style="list-style-type: none"> - Expenses* in 2021 that are increased by 5% compared to 2020's expenses: 10% <p>* Sum of item 1~ 4</p> <ul style="list-style-type: none"> ▪ (Same) <ul style="list-style-type: none"> - Additional deduction of KRW 1 million will also be provided for increased usage of credit card
Item	Deduction Rate																		
1. Credit Card	15%																		
2. Cash receipt, Debit Card	30%																		
3. Cultural expense (Book/Concert/Art Museum, etc.)*	30%																		
4. Public Transportation /Traditional Market	40%																		
Income basis	Deduction amount																		
Under KRW 70 million	3 million																		
KRW 70 million ~ KRW 120 million	2.5 million																		
Exceeds KRW 120 million	2 million																		

<p>*Book/Concert/Art museum/traditional market/public transport, etc.</p> <ul style="list-style-type: none"> ▪ Expired 2022.12.31 	<ul style="list-style-type: none"> ▪ (same)
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<Reasons for Amendment> To support consumption activity

<Effective Date> Effective from the year end settlement for 2021 individual income

46. Increase Tax Credit Rate for Rental Reduction (*Tax Incentive Limitation Law §96-3*)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credit rate for rental reduction <ul style="list-style-type: none"> ▪ 50% of reduced rental fee 	<ul style="list-style-type: none"> □ Increase the tax credit rate <ul style="list-style-type: none"> ▪ 50% → 70% ▪ However, if the total income* calculated based on the rental fee before reduction exceeds KRW 100 million, the current 50% tax credit rate will apply. <i>*Specific calculation methods are prescribed in the Enforcement Decree.</i>

<Reasons for Amendment> To provide tax incentives for lessors who reduce rental fees to support small business operators suffering from COVID-19 situation

<Effective Date> Effective from rental reduction taking place on or after January 1, 2021.

47. Temporary Amendment on Tax Credit for Increase in Employment (*Tax Incentive Limitation Law §29-7*)

Current	Amendment
<ul style="list-style-type: none"> □ Tax credit for increase in employment <ul style="list-style-type: none"> ▪ (Credit amount) Annual tax credit of KRW 4 million ~ KRW 12 million per person if the number of regular employees is increased, when compared to the number of employees in previous year 	<ul style="list-style-type: none"> □ In case of the decrease in the number of full-time employees in 2020, the post management requirement does not exceptionally apply and the tax credit can be continuously claimed <ul style="list-style-type: none"> ▪ (Same)

	SMEs		Middle sized Enterprises	Large-sized enterprise
	Metropolitan area	Rural		
Youths, disabled person, and person aged 60 or older	KRW 11mil.	KRW 12mil.	KRW 8 mil.	KRW 4 mil.
Other full-time employees	KRW 7mil.	KRW 7.7 mil.	450	-

<ul style="list-style-type: none"> ▪ (Exemption period): 2 years for Large-sized enterprise and 3 years for SMEs and Middle-sized enterprises ▪ (Post management) If the number of full-time employees decreases within two years from the year when the tax credit is claimed <ul style="list-style-type: none"> - 1) Tax credit amount corresponding to the decreased number of employees + 2) Tax credit cannot be claimed from the year when the number of full-time employee decreases. <p style="text-align: center;">< New Enactment ></p>	<ul style="list-style-type: none"> ▪ (Same) ▪ (Same) ▪ Even if the number of full-time employees is decreased in 2020 when compared to the number in the year of tax credit claimed, tax credit can be continuously claimed * *1) <i>Exemption for forfeit of tax credit corresponding to the decreased number of tax credit + 2) Continuous claim of tax credit for remaining period</i>
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<Reasons for Amendment> To support the effort to overcome the employment crisis caused by COVID-19

<Effective Date> Effective from the tax filing reported after the effective date of the tax law amendment

48. Shorten Reporting Period for Payment Statement (*Individual Income Tax Law §164, §164-3*)

Current	Amendment
<p>□ Reporting period for payment statement *</p> <p><i>* Documents submitted to Tax Office by an income payer (withholding agent) stating the payment details (personal information, amount, etc.)</i></p> <ul style="list-style-type: none"> ▪ Payment statement for daily wage income: every quarter <ul style="list-style-type: none"> - (Principle) The end of following month from the last month of the quarter when the payment is made; - (Exception) The end of following month from the last month of the quarter when the company is dissolved <p>□ Simplified payment statement for business income* subject to withholding tax: every half-year</p> <p><i>*Personal services provided independently without physical facilities or employee (ex. Insurance recruiters, home-visiting instructors and salesperson)</i></p> <ul style="list-style-type: none"> - (Principle) The end of the following month from the last month of the half-year when the payment is made; - (Exception) The end of following month from the last month of the quarter which the company is dissolved 	<p>□ Shorten the reporting period for payment statement</p> <ul style="list-style-type: none"> ▪ Payment statement for daily wage income: every month <ul style="list-style-type: none"> - (Principle) The end of following month from the last month of the quarter when the payment is made - (Exception): The end of following month when the company is dissolved <p>□ Simplified payment statement for business income subject to withholding tax*: every month</p> <ul style="list-style-type: none"> - (Principle) The end of the following month when the payment is made; - (Exception): The end of the following month when the company is dissolved

<Reasons for Amendment> To establish infrastructure for accurate income information to improve the effectiveness of the national employment insurance roadmap

<Effective Date> Applicable from income generated on or after '21.7.1.

49. Revise the Penalty for Incorrect Filing of Payment Statement, etc. (Individual Income Tax Law §81-11, Corporate Income Tax Law §75-7)

Current	Amendment																
<p>□ Penalty rate for incorrect filing of payment statement for daily wages</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center;">Penalty Rate</th> </tr> </thead> <tbody> <tr> <td>Failure to file by filing due date</td> <td style="text-align: center;">1%</td> </tr> <tr> <td>Late filing within three months after the filing due date</td> <td style="text-align: center;">0.5%</td> </tr> <tr> <td>Uncertain for payment</td> <td style="text-align: center;">1%</td> </tr> </tbody> </table> <p><i>*0.25% (0.125% for late filing) of penalty will apply to failure to file the simplified payment statement for business income subject to withholding tax</i></p> <p style="text-align: center;"><New Enactment></p>		Penalty Rate	Failure to file by filing due date	1%	Late filing within three months after the filing due date	0.5%	Uncertain for payment	1%	<p>□ Reduce in penalty rate for incorrect filing of payment statement for daily wages</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: center;">Penalty Rate</th> </tr> </thead> <tbody> <tr> <td>Failure to file by filing due date</td> <td style="text-align: center;">1%</td> </tr> <tr> <td>Late filing within one month after the filing due date</td> <td style="text-align: center;">0.5%</td> </tr> <tr> <td>Uncertain for payment</td> <td style="text-align: center;">1%</td> </tr> </tbody> </table> <p><i>*Late filing period of simplified payment statement for business income subject to withholding tax is reduced from three month to 1 month</i></p> <p>□ Exemption for penalty for failure to submit monthly payment statement</p> <p><i>*Payment statement for daily wage and business income subject to withholding</i></p> <ul style="list-style-type: none"> ▪ One-year exemption of penalty if small sized business entity files payment statement within the current due date (for income paid in '21.7~'22.6) <ul style="list-style-type: none"> <i>*The number of full-time employees in previous year is 20 or less and the withholding tax is paid every half year.</i> ▪ Penalty will be exempt if the amount of uncertain payment * is below certain portion <p><i>* In case where it is impossible to verify the actual payment made due to incorrect personal information, payment amount, etc.</i></p> <p><i>**Specific portions are prescribed in the Enforcement Decree.</i></p>		Penalty Rate	Failure to file by filing due date	1%	Late filing within one month after the filing due date	0.5%	Uncertain for payment	1%
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Uncertain for payment	1%																

<Reasons for Amendment> Reduce the penalty for monthly reporting of payment statement
 <Effective Date> Applicable from payment statement to be submitted on or after July 1, 2021

50. Shorten Reporting Period for Tax Data (Individual Income Tax Law §173)

Current	Amendment
<p>□ Tax data submission</p> <ul style="list-style-type: none"> ▪ (Person to submit) A person who provides business place to service provider or mediate services to a service provider <i>*Designated driver service, parcel delivery service, golf game assistant etc.</i> ▪ (Data to be submitted) Tax data of service provider* <i>*personal information, service period and consideration for the service</i> ▪ (Reporting period) Every year The end of February of the following year when the relevant income is generated 	<p>□ Shorten the reporting period of tax data</p> <ul style="list-style-type: none"> ▪ (Same) ▪ (Same) ▪ (Filing period) Every quarter The end of the month following the last month of the quarter when the income is generated

<Reasons for Amendment> To establish infrastructure for accurate income information to improve the effectiveness of the national employment insurance roadmap

<Effective Date> Applicable from the income generated on or after '21.7.1.

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