



GMS Flash Alert

2021-088 | March 17, 2021



South Korea - Modifications to Income Tax Rates, Tax Exemptions, and More

South Korea's National Assembly approved the 2020 Tax Law Amendment ("the Amendment") early this year. The Amendment was announced by the government on 17 February 2021.

In this *GMS Flash Alert*, we provide a summary of the key features of the revised law that could impact international executives and their multinational employers, including changes to marginal income tax rates and a range of tax-exempted welfare benefits.

WHY THIS MATTERS

Employers may need to make necessary payroll adjustments and update hypothetical taxes for tax-equalized assignees due to the modification in the income tax rates (which we discuss further below). Moreover, employers would need to take into account changes to the range of tax-exempted welfare benefits and limitation on the flat-tax rate application when devising budgets and assignment/secondment plans for their employees as, all told, they may give rise to increases of taxable income and corresponding income taxes in Korea.

New Top Marginal Income Tax Rates

Effective from 1 January 2021, the new top marginal income tax rate of 45 percent (49.5 percent including local income tax) will be applied to taxpayers with an income tax base in excess of KRW 1 billion.

The second top income tax rate of 42 percent (46.2 percent including local income tax) will be applied to tax bases in excess of KRW 500 million and up to KRW 1 billion. This step is intended to improve income redistribution in the country by imposing higher taxation on those with higher incomes.

Until 2020, the highest marginal income tax rate was 42 percent (46.2 percent including local income tax) which was applicable to tax bases in excess of KRW 500 million. The second highest marginal income tax rate was 40 percent (44 percent including local income tax) which was applicable to tax bases in excess of KRW 300 million and up to KRW 500 million.¹ (For prior coverage of changes to the rates, see [GMS Flash Alert 2018-044](#), March 1, 2018.)

KPMG NOTE

Of interest to high-income earning international assignees, a foreign worker who starts to work in South Korea before 31 December 2021, can elect to have the flat-tax rate of 20.9 percent (inclusive of local income tax) applied for five consecutive tax years, including the first year he/she starts to work in the country.

For any amount incurred before January 1, 2022, for foreign workers who are subject to the flat-tax rate application, the previous provisions shall be followed despite the Amendment.

Change to Range of Tax-Exempted Welfare Benefits and Issues Related to Housing Support and Corresponding Korean Income Taxes

Until 2020, housing support and group insurance premiums of up to KRW 700,000 per year were *tax-exempted* in South Korea when paid and supported by employers as long as certain conditions were fully met. However, the Amendment now defines such housing support and group insurance premiums as “welfare benefits,” and they shall be considered as *non-taxable* in South Korea effective as of January 2021.²

KPMG NOTE

It may have no impact on employees whose Korean tax filings are reported with the progressive tax rate applied, as such welfare benefits should not be included in taxable income. However, it may represent a significant drawback to foreign employees who elect to apply the flat-tax rate on their tax filings in Korea since previously *tax-exempted* housing support and group insurance premiums were excluded from their taxable income; though the benefits that are now converted into *non-taxable* shall be included in their taxable income. It is important to take note that there is a fine difference between *tax-exempt* and *non-taxable*. The non-taxable welfare benefits to be provided from 1 January 2022, could result in a heavy burden of South Korean taxes, especially due to relatively expensive housing support.

KRW 1 = USD 0.00088 | KRW 1 = EUR 0.00074 | KRW 1 = GBP 0.000637 | KRW 1 = AUD 0.00115 (Source: XE.com)

FOOTNOTES:

- 1 Korean Income Tax Law Amended by Act. No. 17757, 29 December 2020.
- 2 Korean Income Tax Presidential Decree Amended by Decree No. 31442, 17 February 2021.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in South Korea:



So-Hyeon Jung

Partner/GMS

Tel. + 82 (2) 2112 7657

sohyeonjung@kr.kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in South Korea.

© 2021 KPMG Samjong Accounting Corp., the Korea member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

www.kpmg.com

kpmg.com/socialmedia



© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in the U.S.A. NDPPS 530159

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

Flash Alert is a GMS publication of KPMG LLP’s Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to <http://www.kpmg.com>.