Samjong KPMG Tax Newsletter

Highlights for 2026 Korean Tax Reform Proposal

On August 3, 2026, Korea's Ministry of Economy and Finance announced the "2026 Tax Reform Proposal." The Proposal is under a legislative notice period from August 4 to August 20, 2026, and is expected to be submitted to the National Assembly for approval by September 3, 2026.

The details of the Proposal may be subject to changes during the legislative process, including review by the National Assembly which is expected to be finalized by the end of the year.

This newsletter provides a high-level summary of the key items included in the Proposal.

I. Tax Incentive Limitation Law ("TILL")

Introduction of a New Domestic Production Tax Credit

Under the Tax Reform Proposal, a new "Domestic Production Tax Credit" will be introduced starting in 2027 to strengthen the domestic production base for national strategic industries, including semiconductors, secondary batteries, and solar/wind power.

The government has described this as a concept similar to the U.S. Advanced Manufacturing Production Credit ("AMPC"). Unlike the existing Integrated Investment Tax Credit, which is based on the amount invested, the key feature of the Domestic Production Tax Credit is that it provides tax credits linked to actual production output that is domestically manufactured and sold in the domestic market.

(1) Overview:
The credit reduces corporate (or individual) income tax based on the production performance of designated national strategic industry items that are manufactured and supplied domestically. Simple assembly or mere sale does not qualify — both a domestic production requirement and a domestic sales requirement must be satisfied.

(2) Eligible Items:
Eligible items are national strategic industry items that satisfy criteria of importance, growth

potential, and necessity. Currently, this includes solar power, wind power, secondary batteries, semiconductors, key materials, and AI robot components; the specific scope of eligible items will be defined by Presidential Decree.

(3) Domestic Production Requirements:

① Core production process performed in Korea: The core manufacturing process — not mere packaging or assembly — must be carried out domestically, and domestically incurred costs must represent a minimum proportion of total production cost (specific criteria to be set by Presidential Decree).

② Restriction on overlapping tax credits: If the Integrated Investment Tax Credit has already been claimed for tangible assets used directly in production, the Domestic Production Tax Credit cannot be claimed for the same assets. Taxpayers much choose between the two tax credits.

(4) Domestic Sales Requirements:

① Goods must be supplied within Korea.

② Goods must be sold in the tax year of production or the following tax year.

③ Where supplied to a related party, supporting documentation demonstrating a bona fide arm's-length business purpose must be submitted.

④ Sales of used goods are excluded.

(5) Tax Credit amount:

① Credit amount: Base credit amount × Regional preference factor × Phase-down factor

② Base credit amount: to be set by Presidential Decree, considering production cost and sale price.

③ Regional preference factor: additional preference applied by region as shown below. Products manufactured within the Overconcentration Control Zone within the Seoul Metropolitan Area are excluded from the credit.

Region	Factor
Seoul Metropolitan Area	1.0
Seoul Metropolitan Preferential Zone	1.1
Non-Metropolitan Metropolitan Cities, etc.	1.3
Other Non-Metropolitan Preferential Areas	1.5

(6) Phase-down:

The credit amount is reduced in stages as the program approaches its sunset.

Year	Applicable rate
2034	75%
2035	50%
2036	25%

(7) **Credit Cap:**
The credit is capped at the lesser of (i) 50% of qualified production costs for the relevant tax year, or (ii) 50% of the cumulative qualified production asset investment amount, less the cumulative Domestic Production Tax Credit already claimed.

(8) **Restriction on Overlapping Tax Incentives and Minimum Tax:** This credit cannot be claimed together with other tax reductions/credits such as the start-up small and medium-sized enterprise ("SME") tax exemption, the special SME tax exemption, or the Integrated Investment Tax Credit, and is subject to the minimum tax rule.

(9) **Carryforward and minimum tax:**
The Domestic Production Tax Credit may be carried forward for 10 years and is subject to the minimum tax.

(10) **Special Rule for Existing Integrated Investment Tax Credit Recipients:**
Companies that have claimed the Integrated Investment Tax Credit by the end of 2026 may, subject to certain requirements, revoke the previously claimed credit and elect to apply the Domestic Production Tax Credit instead. In such cases, the previously claimed tax credit and the applicable interest amount must be repaid; however, underreporting penalties and late payment penalties will be waived.

[Effective Date] Apply to production and sales in tax years beginning on or after January 1, 2027.
[Sunset Date] December 31, 2029.

Increase in the Flat Tax Rate for Foreign Employees and Extension of the Sunset Date

Under the Tax Reform Proposal, the flat tax rate for foreign employees will be increased, and the sunset date will be extended.

Under the current TILL, a foreign employee may elect a flat 19% tax rate on employment income (instead of the general progressive rates of 6–45%) for 20 years from the date employment in Korea began. However, if the flat rate is elected, various exemptions, income deductions, and tax credits are unavailable.

The Proposal raises the flat rate from 19% to 21%, while extending the sunset date — originally set to expire on December 31, 2026 — by three years, to December 31, 2029.

Foreign employees will continue to be able to choose whichever taxation method (flat rate or progressive rates) is more favorable; however, those electing the flat rate can expect a somewhat higher tax burden than before.

[Effective Date] Apply to employment income earned on or after January 1, 2027.
[Sunset Date] Extended to December 31, 2029.

Introduction of Technology/Facility-Specific Sunset Dates for New-Growth/Source Technology and National Strategic Technology Tax Support

Under the Tax Reform Proposal, a technology- and facility-specific approach to determining sunset dates will be introduced to enhance the effectiveness of tax incentives for new-growth/source technologies and national strategic technologies.

Under the current TILL, common sunset dates apply on a category-by-category basis. For example, the R&D tax credit is available through the end of 2029 for new growth/source technologies and through the end of 2031 for semiconductor technologies designated as national strategic technologies. Likewise, the Integrated Investment Tax Credit applies the same approach to commercialization facilities for national strategic technologies.

The Proposal would replace the current category-based approach with one under which the applicable sunset date is determined based on the date on which the relevant technology or facility is designated as a national strategic technology or a new-growth/source technology.

For example, for the R&D tax credit related to semiconductors, the sunset dates for national strategic technology and new-growth/source technology are differentiated as follows:

- Technologies designated before 2017: expire end of 2027
- Technologies designated 2018–2020: expire end of 2028
- Technologies designated in 2021: expire end of 2029
- Technologies designated in 2022: expire end of 2030
- Technologies designated in 2023 or later: expire end of 2031
-

For the Integrated Investment Tax Credit, the proposal introduces a separate sunset date (the end of 2029) for new-growth commercialization facilities. In addition, the applicable sunset date would be determined based on the designation year of each facility.

[Effective Date] Specific sunset dates by technology and facility will be finalized through future amendments to the Enforcement Decree and Enforcement Rules.

Rationalization of the Integrated Employment Tax Credit and Termination of the Additional Credit for Parental Leave Returnees

Under the Tax Reform Proposal, the scope of the Integrated Employment Tax Credit will be adjusted, and the additional credit for employees returning from parental leave will be terminated.

The current Integrated Employment Tax Credit allows companies with an increase in regular employees to receive a tax credit of up to KRW 20 million per employee, varying by company size, employee type, and business location. Higher credit amounts apply for hiring preferred categories of employees, such as young workers, persons with disabilities, workers aged 60 or older, and career-interrupted workers.

The Proposal excludes large corporations from the scope of the Integrated Employment Tax Credit, thereby shifting tax support toward mid-sized companies and SMEs. As a result, large corporations first applying for the credit for tax years beginning in 2027 or later will no longer be eligible.

In addition, the current additional credit — available to SMEs and mid-size companies that hire parental-leave returnees while maintaining or increasing their regular employee headcount compared to the prior year — will be abolished.

The current additional credit amounts are as follows:

- SMEs: KRW 13 million per returnee
- Mid-size companies: KRW 9 million per returnee

The government has stated that it plans to consider a new form of employment-support tax measure linked to a "Happy Workplace Certification" system.

[Effective Date] Apply where the first credit year for the Integrated Employment Tax Credit begins on or after January 1, 2027.

Overhaul and Extension of the Income Tax Reduction for Foreign Engineers

Under the current tax law, foreign engineers and researchers meeting certain requirements may receive a 50% reduction of individual income (employment income) tax for 10 years. Eligible individuals include technology providers under engineering technology introduction contracts, highly qualified overseas talent under the Advanced Industry Talent Innovation Law, and researchers holding certain academic qualifications and research experience.

Under the Proposal, the eligibility requirements for general research personnel will be tightened: the current minimum qualification of a bachelor's degree or higher in a science, engineering, or medical field will be raised to a doctoral degree. However, holders of a doctoral degree will qualify with as little as 2 years of research experience at an overseas university or research institution.

Separately, the sunset date of the program — originally scheduled to expire on December 31, 2026 — has been extended by three years, to December 31, 2029.

[Effective Date] Applies to employment contracts concluded on or after April 1, 2027.
[Sunset Date] Extended to December 31, 2029.

II. Corporate Income Tax Law (“CITL”)

Differentiated Depreciation Deduction Limits for Eco-Friendly Business-Use Passenger Vehicles

Under the tax reform proposal, to encourage companies' transition to eco-friendly vehicles and support carbon-neutrality policy, the deductible limit for depreciation expense and disposal loss on business-use passenger vehicles will be differentiated between eco-friendly and conventional vehicles.

Under the current CITL, the deductible limit for depreciation expense and disposal loss on a business-use passenger vehicle is KRW 8 million per year per vehicle (KRW 4 million per year for small corporations subject to the tax return verification requirement).

The Proposal differentiates the deductible limit by vehicle type as follows, in order to expand tax support for eco-friendly vehicles:

Category	Current	Proposal
EV / Hydrogen Vehicle	KRW 8 million / year	KRW 10 million / year
Other Business-Use Vehicles	KRW 8 million / year	KRW 7 million / year

[Effective Date] Applies to business-use passenger vehicles newly acquired or leased on or after January 1, 2027.

Reduction of the Withholding Tax Rate on Personal Service Business Income

Under the Tax Reform Proposal, to ease the cash-flow burden on freelancers and platform workers and other providers of personal services, the withholding tax rate applicable to personal service business income will be reduced from the current 3% to 2%.

Under the current tax law, businesses paying consideration for personal services — such as writing, lecturing, consulting, and delivery — must withhold 3% of the amount paid. The Proposal reduces the withholding rate from 3% to 2% for general personal service business income, excluding income subject to year-end settlement.

[Effective Date] Apply to income paid on or after January 1, 2027.

Comprehensive Overhaul of the Tax Treatment of Treasury Stock Transactions

Under the Tax Reform Proposal, in line with the amendment of the Commercial Law relating to treasury stock, the tax treatment of the acquisition and disposal of treasury stock will be comprehensively overhauled. To tax treasury stock transactions in a manner consistent with their nature as capital transactions, the Proposal includes the following:

- New deemed-dividend taxation on acquisition: where a company acquires treasury stock, the amount paid to the shareholder in excess of the acquisition cost of shares is taxed as a deemed dividend. Ordinary market trades executed through the Korea Exchange or an ATS are excluded.

- Double-taxation adjustment for deemed dividends: deemed dividends arising from treasury stock acquisitions are eligible for the individual shareholder dividend gross-up, in the same manner as a capital reduction; however, they are excluded from the corporate shareholder's dividends-received deduction.

- Clarification of the income attribution date for deemed dividends: the income attribution date for a deemed dividend arising from a treasury stock acquisition is, in principle, clarified as the date the acquisition consideration is actually paid.

- Clarification that treasury stock disposal gains/losses are capital transactions: gains from the disposal of treasury stock are not included in taxable income, and losses are not tax-deductible, applying the same tax treatment as other capital transactions.

- Clarification of anti-avoidance rules: The Proposal explicitly provides that transfers of economic benefits between related parties through disproportionate acquisitions or disposals of treasury stocks will be subject to the anti-avoidance rules under the CITL and the gift tax law.

[Effective Date] Apply to the acquisition or disposal of treasury stock (and any resulting deemed dividend) occurring on or after January 1, 2027; treasury stock acquired on or before December 31, 2026 remains subject to the prior rules.

Relaxation of the Qualifying Documentation Requirement for Business Promotion Expenses (formerly, Entertainment Expenses)

Under the current CITL, business promotion expenses generally must be supported by qualifying documentation — such as a credit card sales slip, cash receipt, or tax invoice — to be deductible. As an exception, business promotion expenses below a certain amount may be deducted even without qualifying documentation.

The Proposal raises these exception thresholds as follows:

- Congratulatory/condolence money: KRW 200,000 → KRW 300,000 per event
- Expenses other than congratulatory/condolence money: KRW 30,000 → KRW 50,000 per event

[Effective Date] Applies from the tax year that includes the effective date of the amended Enforcement Decrees of the Individual Income Tax Law and the CITL.

III. Value-added Tax Law

Clarification of VAT Reverse-Charge Rules for Service Transactions with Foreign Corporations

To provide greater clarity on VAT payment procedures for service transactions with foreign corporations, the criteria for determining whether a transaction is related to a Korean place of business will be supplemented.

Under the current VATL, the reverse-charge mechanism — under which the Korean service recipient pays the VAT — can apply not only where a foreign corporation has no place of business in Korea, but also where it has a Korean place of business that is unrelated to the relevant service supply. In practice, however, determining whether a given transaction is related to the Korean place of business has caused confusion.

The Proposal clarifies that, where a foreign corporation's Korean place of business issues a tax invoice for a given transaction, that transaction is deemed to be related to the Korean place of business.

As a result, transactions for which the Korean place of business has issued a tax invoice will be treated as directly supplied by that place of business and subject to ordinary VAT filing and payment procedures, reducing uncertainty for the recipient as to whether it has a reverse-charge obligation.

[Effective Date] Apply to services supplied in the tax period that includes the effective date of the amended Enforcement Decree.

IV. International Tax Coordination Law (“ITCL”)

Domestic Adoption of the OECD Global Minimum Tax (Pillar Two) Side-by-Side Package

Under the Tax Reform Proposal, reflecting the administrative guidance issued by the OECD on the Global Minimum Tax (Pillar Two), Korea will adopt the Side-by-Side Package into domestic law to ease the compliance burden associated with the global minimum tax and to improve consistency of the rule.

1. **New Side-by-Side System Exemption:**
   Where the Ultimate Parent Entity (“UPE”) is located in a jurisdiction with an OECD-recognized Qualified Side-by-Side System, the Income Inclusion Rule (“IIR”) and Undertaxed Profits Rule (“UTPR”) top-up tax for the relevant MNE group will be deemed to be zero. A Qualified Side-by-Side jurisdiction is one that satisfies all of the following:
   - Has a Qualified Domestic Minimum Top-up Tax (“QDMTT”)
   - Has a qualified IIR
   - Provides a foreign tax credit for QDMTT

2. **New UPE Exemption:**
   Where the UPE is located in a jurisdiction that operates a qualified domestic tax regime with a nominal tax rate of at least 20% and an effective tax rate of at least 15%, the UTPR top-up tax is deemed to be zero for constituent entities located in that jurisdiction.

3. **New Substance-Based Exemption:**
   A new rule will be introduced so that tax benefits (*) provided based on genuine economic activity — such as R&D, capital investment, and manufacturing activity — do not result in a disadvantage when calculating the global minimum tax.

(*) Such tax benefits include R&D tax credits, capital investment tax credits, production-linked tax credits, and additional depreciation or excess deduction regimes.
Where the requirements are met, the tax reduced by such incentives is treated as if it had not been reduced for purposes of calculating the top-up tax.

4. **Enhancement of Top-Up Tax Exemption Rules:**
   Currently, a simplified calculation is available to exempt top-up tax for de-minimis jurisdictions and jurisdictions with an effective tax rate of 15% or higher. The Proposal excludes, from this exemption, the current-year top-up tax adjustment and the current-year domestic top-up tax adjustment arising from recalculations relating to prior fiscal years.

5. **New Simplified Effective Tax Rate ("ETR") Exemption:**
   Where no global minimum tax or QDMTT liability arose in a jurisdiction during fiscal years beginning within the preceding 24 months, a simplified calculation method may be used instead of the full GloBE computation. The top-up tax is deemed to be zero if either of the following is satisfied:
   - Simplified ETR $\geq$ 15%
   - Simplified income $\leq$ 0

6. Supplemented Transitional Relief for 52/53-Week Fiscal Year Companies
The transitional relief period applicable to companies operating on a 52- or 53-week fiscal year has been extended, as follows:
- Current: fiscal years ending on or before December 30, 2026
- Amended: fiscal years ending on or before January 3, 2027

[Effective Date] Apply to GloBE Information Returns and top-up tax allocation filings for periods on or after January 1, 2027.

Rationalization of the Controlled Foreign Company ("CFC") Determination Criteria

Under the Proposal, in line with the introduction of the OECD Global Minimum Tax regime, the effective-tax-rate criterion used to determine CFC status will be amended.

Under the current regime, CFC rules apply where a foreign corporation's effective tax rate is 17.5% or below — i.e., 70% of Korea's marginal CIT rate of 25%. The Proposal lowers this effective tax rate threshold to below 15%. As a result, fewer foreign corporations are expected to fall within the scope of the CFC rules.

[Effective Date] Apply to fiscal years beginning on or after January 1, 2027.

Clarification of the Scope for Penalties on Failure to Submit International Transaction Documentation

Under the current ITCL, a penalty applies where a taxpayer fails to submit international-transaction-related documentation — such as the Master File, Local File, or Country-by-Country Report ("CbCR") — by the applicable deadline or submits false information.

The Proposal provides that a penalty may also apply even where documentation has been submitted, if it contains material omissions or errors. As a result, the scope of transactions subject to penalty may expand compared to the current ITCL.

[Effective Date] Apply following the amendment of the ITCL and its Enforcement Decree.

V. National Tax Basic Law ("NTBL")

Expanded Penalty Reduction for Prompt Voluntary Late Filing

Under the Tax Reform Proposal, to encourage voluntary filing by taxpayers and ease their burden, the penalty reduction available for filings made after the statutory deadline will be expanded.

Under the current NTBL, a reduction of up to 50% of the failure-to-file penalty applies to late filings made after the statutory deadline. The Proposal introduces a new 75% reduction for filings made promptly — within one week after the statutory deadline:

- Within 1 week: 75% reduction (new)
- More than 1 week, up to 1 month: 50% reduction
- More than 1 month, up to 3 months: 30% reduction
- More than 3 months, up to 6 months: 20% reduction

[Effective Date] Apply to late filings made on or after January 1, 2027.

Expanded Late-Payment Penalty Reduction for Delayed Pre-Assessment Review Decisions

The pre-assessment review process allows a taxpayer to raise an objection to a proposed assessment before it is formally issued. Under the current NTBL, if the tax authority fails to decide and notify the taxpayer within the statutory processing period (30 days after the request is filed), 50% of the late-payment penalty attributable to the delay period is reduced.

To strengthen taxpayer protection, the Proposal raises this reduction rate from 50% to 75%. In other words, where a decision or notification is delayed beyond the 30-day period following a pre-assessment review request, the taxpayer will be entitled to a 75% reduction of the late-payment penalty attributable to the delay period.

[Effective Date] Apply to pre-assessment review requests filed on or after January 1, 2027.

Rationalization of the Statute-of-Limitations Extension for Carried-Forward Foreign Tax Credits

Under the Tax Reform Proposal, the special statute of limitations rule will be extended to carried-forward foreign tax credits to facilitate the post-filing review of foreign tax credit claims.

Under the current NTBL, where a taxpayer utilizes a carried-forward tax loss or tax credit, the tax authorities may re-examine the appropriateness of the tax benefit within one year from the statutory filing deadline for the tax period in which the carryforward was utilized. This special statute of limitations rule currently applies to carried-forward tax losses under the IITL and CITL, and carried-forward tax credits under the TILL, but does not extend to carried-forward foreign tax credits.

The Proposal extends the scope of this special statute of limitations rule to include carried-forward foreign tax credits.

[Effective date] The amendment will apply to foreign taxes paid or accrued in tax years beginning on or after 1 January 2027.

VI. Individual Income Tax Law ("IITL")

Expansion of the Scope of Individuals Eligible for the Basic Personal Deduction

Under the current IITL, a taxpayer may claim a basic personal deduction of KRW 1.5 million for each qualifying spouse or dependent whose annual income does not exceed KRW 1 million. Where the spouse or dependent earns only employment income, the deduction is available if the individual's annual gross employment income does not exceed KRW 5 million.
Under the Tax Reform Proposal, the income thresholds for qualifying spouses and dependents will be increased, thereby expanding the scope of individuals eligible for the basic personal deduction.

Current	Proposal
• Annual income KRW 1 million or less • Annual income KRW 5 million or less where the individual earns only employment income	• Annual income KRW 1 million or less • Annual income KRW 7.5 million or less where the individual earns only employment income

[Effective Date] Apply to taxable years beginning on or after January 1, 2027.

Key Contacts

International Tax Team		
Oh, Sang Bum	sangbumoh@kr.kpmg.com	02-2112-0721
Kim, Dong Hoon	dkim@kr.kpmg.com	02-2112-0938
Cho, Sang Hyun	sanghyuncho@kr.kpmg.com	02-2112-7687
Suh, Yu Jin	yujinsuh@kr.kpmg.com	02-2112-0930
Song, Hyung Woo	hyungwoosong@kr.kpmg.com	02-2112-0275
Kang, Sung Won	kang22@kr.kpmg.com	02-2112-6771
Min, Woo Kee	wmin@kr.kpmg.com	02-2112-6886
Lee, Chang Hoon	changhoonlee@kr.kpmg.com	02-2112-6815
Ryu, Su Seok	suseokryu@kr.kpmg.com	02-2112-6787
Park, Seong Kyun	seongkyunpark@kr.kpmg.com	02-2112-0455
Jung, Hye-Won	hjung2@kr.kpmg.com	02-2112-7572
Cho, Young Seo	youngseocho@kr.kpmg.com	02-2112-3063