

Key Points of the 2024 Amendments to the Korean Tax Law



Flat Tax Rate for Foreign Workers

For individual income, the general principle is a progressive tax rate ranging from 6% to 45%, with an additional 10% for local income tax. For foreign employees and executives, those who commence their employment in Korea before December 31, 2026, a flat rate of 19% will apply to their earned income for the next 20 years, starting from their first date of employment in Korea. The specific starting date of employment was initially the last day of 2023, but it is now extended to 2026. The flat tax rate applies to wages and salaries to be paid on or after January 1, 2024.

Obligation to Submit a Statement of Stock-based Compensation

In the event that employees or executives working for a Korean branch office or subsidiary either exercise stock options or receive stock-based compensations granted by the parent company overseas, the Korean branch office or subsidiary is required to report details of the stock-based compensation by March 10 in the following year from the fiscal year in which the transaction occurs. This reporting obligation applies to stock-based compensations exercised or received on or after January 1, 2024.

Withholding of Domestic Source Income Received through Omnibus Account

Omnibus account is an account in the name of a foreign securities/investment company used to collectively place orders and settle stock transactions for various foreign investors. When a foreign corporation or non-resident individual receives Korean source income through the omnibus account, the income is withheld by the payer of the income at the tax rates applicable to foreign corporation or non-resident individual. If foreign corporation or non-resident individual intends to claim tax exemption or a limited tax rate on the income under an applicable tax treaty, they may file a request for a refund on the withheld tax. The withholding against the omnibus account applies to the income received on or after January 1, 2024.

Increase in the Scope of Taxpayers Required to Submit International Transaction Statement

Domestic corporations or domestic places of business of foreign corporations with revenues exceeding KRW 100 billion and cross-border related party transactions exceeding KRW 50 billion for the relevant taxable year were not required to submit transfer pricing-related forms such as the Statement of International Transactions and Declaration of Transfer Pricing Method Selection because they are obligated to submit a master file and a local file. Nevertheless, from the taxable period beginning on or after January 1, 2024, such exemption is no longer available and they are also obliged to submit the relevant forms. This amendment aims to enhance the management of international tax resources.

Adjustment of the Effective Date of Global Minimum Tax Rule

In October 2021, Pillar Two introduced certain Global anti-Base Erosion Rules (“GloBE rules”) in which in-scope multinational enterprises are required to pay corporate tax at least at an effective tax rate of 15% in the jurisdiction in which they operate, and if such effective tax rate is less than 15%, the shortfall is taxed (i.e., Top-Up Tax) under Income Inclusion Rule (“IIR”) or Undertaxed Payments Rule (“UTPR”). In December 2022, Korea enacted new Global Minimum Tax rules reflecting the GloBE rules. Under the IIR, the ultimate parent entity is primarily liable for the Top-Up Tax of all low-taxed constituent entities. The IIR is effective on or after January 1, 2024. The UTPR is applied in case where the ultimate parent entity and other parent entities are located in countries that have not adopted the IIR. Under the UTPR, the amount of the Top-Up Tax not subject to the IIR is allocated to the other constituent entities of the multinational enterprise. The effective date of the UTPR has been postponed from January 1, 2024 to January 1, 2025.

Expansion in the Scope of Partnership Tax Regime

Before the amendment, partners of a partnership which has received special tax benefits under the applicable tax law were not allowed to apply for the partnership tax regime. However, with the amendment in place, partners in the form of an investment limited partnership or a private collective investment vehicle intended for institutional investors may now apply for the partnership tax regime. The amendment applies to the taxable period including December 31, 2023, and to all subsequent taxable periods.

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