



Korean regulatory updates

Q4 2021

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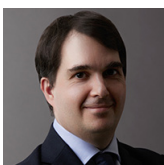
Executive summary

Editorial

The annual revision of tax laws has been approved by The National Assembly at the end of 2021. There was no significant difference compared to the original proposal and detailed in our Regulatory Update for Q3 2021. As a reminder, the tax reform for 2021 includes several items that are significant for foreign-invested companies: reporting requirements for liaison office, extension by 2 years of the “flat” rate scheme for foreign workers, and clarifications around transfer pricing method during this Covid-19 situation.

Other topics covered by our letter are more of a technical nature on payroll matters, such as the revised social insurances rates.

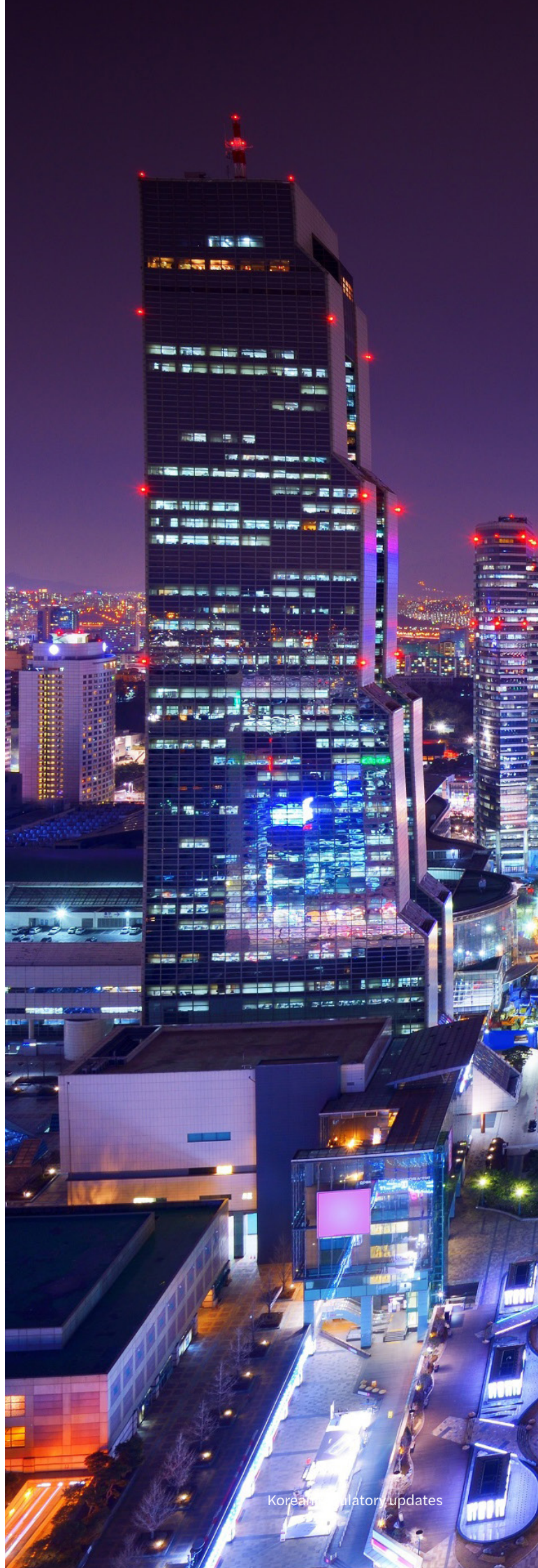
We hope you enjoy reading this regulatory update.



Julien Herveau
Partner, Mazars in Korea



Seung-Ha Park
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Tax updates

Corporate & individual income tax

Annual amended tax laws

- Revised tax laws have been approved by The National Assembly on November 30, 2021. There was no significant difference compared to the original proposal that was submitted by the government on September 2, 2021. Please refer to our Regulatory Update for Q3, 2021 for more information.

Recent rulings and precedents

Corporate Tax [JaeBeopIn-374, 2021.08.19, SemeonBeopRyungBeopIn-107, 2021.08.19]

The loss carried forward from the merged corporation, which is deducted when calculating 'unappropriated earnings', is the loss incurred in the business year that started within 10 years before the start date of the relevant business year of the merged corporation and is the amount that had not been deducted when calculating tax base for subsequent business years.

Reminder on amended tax law related to 2021 year-end settlement of individual income tax.

As the process for year-end tax settlement has started in this January 2022, please note the following:

1) Additional credit card deduction for increased usage compared to the previous year

- If the amount of credit card usage in 2021 increases by more than 5% compared to 2020, 10% of the increased amount and an additional deduction limit of 1 million won may be applied.

2) Temporary expansion of donation tax deduction

- As a reminder, companies subject to compulsory external audit in 2021.
- The tax deduction rate for donations for 2021 will be increased by 5% point from the original 15% (30% in excess of 10 million won) to 20% (35% in excess of 10 million won).



HR & payroll

Insurance rate and minimum wage

1. Social insurances: change of 2022 rates

- The health insurance rate for 2022 will increase by 1.90%, from 6.86% to 6.99%. And long-term care insurance rate will also rise by 6.51%, from 11.52% to 12.27% in 2022. This increase is applicable from January 1, 2022
- The insurance rate for 2022 will increase by 12.5% from 1.6% to 1.8%, from July 1, 2022.

Insurance rate change	As-is		To-be	
	Premium burdened on employer	Premium burdened on employee	Premium burdened on employer	Premium burdened on employee
Health insurance	Monthly average wage X 3.43% X 1.1152	Monthly average wage X 3.43% X 1.1152	Monthly average wage X 3.495% X 1.1227	Monthly average wage X 3.495% X 1.1227
Employment Insurance	Wage X (0.8% + premium by business size)	Wage X 0.8%	Wage X (0.9% + premium by business size)	Wage X 0.9%

2. Minimum wage for 2022

- As previously announced on August 5, 2021, the minimum wage for 2022 is KRW 9,160 per hour, i.e., an increase by 5.05%.
- If converted into monthly wage, it would be KRW 1,914,440 for 40 hours of regular work per week, based on 209 hours per month including paid weekly holidays. The same minimum wage is applied to all workplaces regardless of industry type.



Pregnant workers and labor standards

3. Implementation of ‘Childcare Leave System for Pregnant Workers’ and ‘Change of Attendance and Quitting time System’

The ‘Childcare Leave System’ and the ‘Change of Attendance and Quitting time System’ for pregnant workers has been implemented from November 19 to protect them.

1) Childcare Leave System for Pregnant Workers

- With the revision of “Equal Employment Opportunity and Work-family Balance Assistance Act”, pregnant workers can take childcare leave, from November 19. In the past, childcare leave could only be used by workers with children under the age of 8 or under the second grade of elementary school, so there was a limit for pregnant workers to using childcare leave when they needed it to protect their health.
- Workers who want to use childcare leave during pregnancy must apply to the employer 30 days before the scheduled start date of the leave. An employee may use childcare leave over several occasions, limited to twice, but childcare leave during pregnancy is not included in the number of occasions of childcare leave so that the pregnant workers can be free to use it for their health.
- For childcare leave used during pregnancy, childcare leave benefits in accordance with the “Employment Insurance Act” will be paid through the Employment Insurance Fund. In order to reduce the burden on employers who grant childcare leave, the incentive for employment security during the period of childbirth and childcare is also supported.

2) Change of Attendance and Quitting time System for Pregnant Workers

- With the revision of the “Labor Standards Act”, pregnant workers can change their attendance time while maintaining the prescribed working hours per day. Workers who want to change the attendance and quitting time must submit the application to the employer 3 days prior to the

scheduled start date of change in working hours, attaching a medical certificate from a doctor to confirm the pregnancy. Employers must allow pregnant workers to change their attendance time unless there is a special reason. This is applicable from November 19, 2021.

- As a reminder, female workers who are within 12 weeks or after 36 weeks of pregnancy can apply for reduced working hours system by 2 hours a day.

4. Amendments to the Enforcement Decree of the Labor Standards Act (Enforcement Date: November 19, 2021)

- The amendment to the “Enforcement Decree of the Labor Standards Act” was reviewed and passed at the Cabinet meeting on November 16, 2021 and enforced from November 19, 2021.
- With the revision of “Labor Standards Act”, the employer must issue a payslip stating the items prescribed by Presidential Decree, such as wage components, calculation method, and deduction details, when paying wages to workers. And it can be delivered in writing or as an electronic document in accordance with the “Electronic Document Act”.
- In order to reduce the burden of employers regarding the issuance of wage statements, a ‘Payslip creation’ program is provided free of charge through the website of the Ministry of Employment and Labor (<https://moel.go.kr/wageCalMain.do>)
- Employers can choose between the ‘individual creation’ method, which allows to create a payslip manually for one worker, and the ‘batch creation’ method, which allows to create payslips for multiple workers at once.

HR & payroll

Labour updates

5. Normalization of entrance for foreign workers:

- The government decided to normalize the entry of foreign workers under E-9 visa, on the premise of pre- and post-entry quarantine measures, such as vaccinations, at the meeting of COVID-19 central disaster and safety countermeasures headquarters on November 5, 2021.
- According to each country's quarantine risk level, the entry for all 16 sending countries is allowed in principle. In case of the countries with high quarantine risk¹⁾, Visa issuance is resumed 14 days after vaccination (WHO-approved vaccine) in the sending country, and entry is permitted only if the PCR test result at a hospital designated by the diplomatic mission abroad is negative within 72 hours before boarding.
- In case of the other countries²⁾, the entry is allowed if the PCR test result is negative regardless of whether vaccinated, but the vaccination must be completed in Korea after entering the country.

Countries with high quarantine risk ¹⁾ (5 Countries)	Other Countries ²⁾ (11 Countries)
Myanmar, Philippines, Pakistan, Uzbekistan, Kyrgyzstan As of November 5, 2021	Cambodia, Vietnam, Thailand, East Timor, Laos, China, Nepal, Sri Lanka, Mongolia, Bangladesh, Indonesia As of November 5, 2021

- The upper limit of the number of people entering the country, which was limited to 100 people per day and 600 people per week, will also be abolished for the prompt entry of about 50,000 foreign workers waiting to enter the country.
- All foreign workers, regardless of whether vaccinated, must undergo a 10-day quarantine period at a facility operated and managed by the government after entering the country.
- The Ministry of Employment and Labor is planning to have a consultation with 16 sending countries so that the entry of foreign workers can be normalized as soon as possible, and domestically, to encourage workplaces' vaccination by exempting quarantine inspections upon completion of vaccination and giving priority when assigning new immigrant foreign workers, etc., in order to prevent the spread of COVID-19.



Audit updates

External audit

Audit contract

- As a reminder, companies subject to compulsory external audit in 2022 have to sign their audit contract by 14 February 2022 (in case of year-end closing as of 31 December 2021). The contract has to be submitted to the Financial Supervisory Service within 14 days after the signature of the contract. However, there is an exception for first-time audits whereby the audit contract has to be signed by 30 April 2022.
- For large non-listed stock companies (i.e., with a total assets of KRW 100 billion or more at the end of the previous business year), the appointment

should be done through an Auditors Appointment Committee. Most of large-size entities have appointed their auditors for a 3-years period in February 2019, for the period 2019-2021. Therefore, in their case, the committee should be convened by February 14, 2022, with regards to the appointment for the period 2022-2024. Please refer to our regulatory updates for Q2 2021 for more information on the members of this committee and the recent changes for its composition.

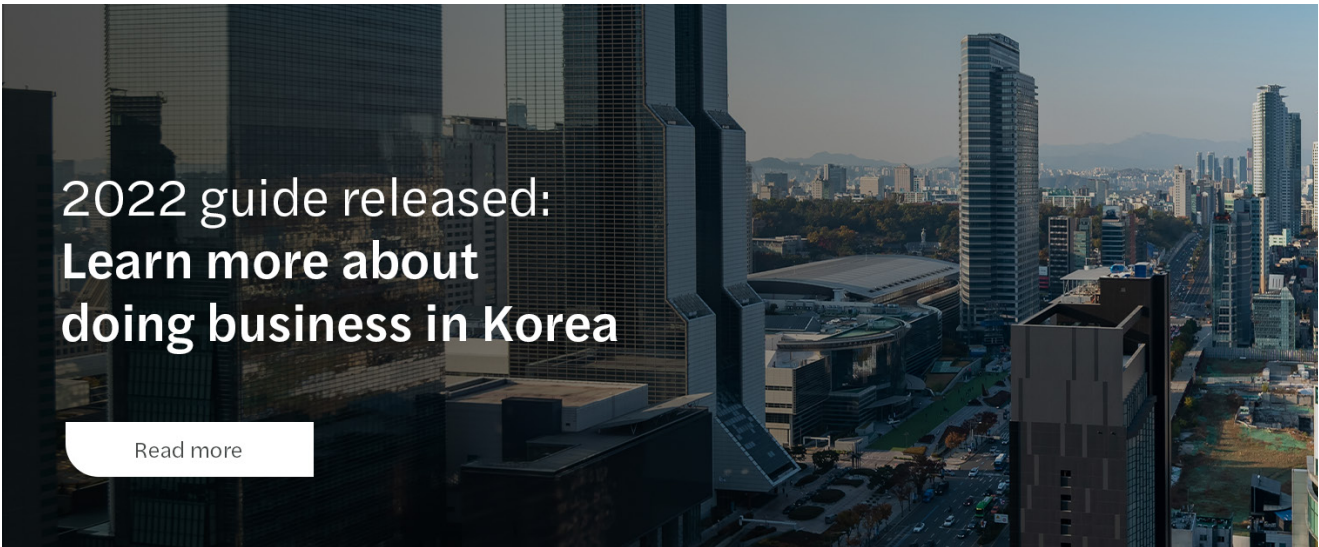
As a reminder, an external audit is required in Korea in the following cases:

1. For a stock company (Chusik Hoesa) meeting any of the following three criteria:

- Stock-listed company (Stock market, KOSDAQ, KONEX) or company to be listed
- Company with at least KRW50 billion in total assets or sales at the end of the latest business year
- Company that does not satisfy three or more of the following four requirements at the end of the last business year:
 - a. Total assets less than KRW12 billion
 - b. Total liabilities less than KRW7 billion
 - c. Total sales less than KRW10 billion
 - d. Fewer than 100 employees

2. For a limited company (Yuhan Hoesa) meeting any of the following two criteria:

- i. Company with at least KRW50 billion in total assets or sales at the end of the last business year.
- ii. Company that does not satisfy three or more of the following five requirements at the end of the last business year:
 - a. Total assets less than KRW12 billion
 - b. Total liabilities less than KRW7 billion
 - c. Total sales less than KRW10 billion
 - d. Fewer than 100 employees
 - e. Fewer than 50 unit holders



2022 guide released:
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Key figures

Tax rate & social insurance

Individual tax rate

Aggregate income taxation standard	Tax rate (from 2019 ¹)
Below KRW 12 million	6.6%
KRW 12 million ~ below KRW 46 million	16.5%
KRW 46 million ~ below KRW 88 million	26.4%
KRW 88 million ~ below KRW 150 million	38.5%
KRW 150 million ~ below KRW 300 million	41.8%
KRW 300 million ~ below KRW 500 million	44%
KRW 500 million and below KRW 1 billion	46.2 %
Above KRW 1 billion	49.5%

Corporate tax rate

Taxable income	Applicable rate
Amount below KRW 200 million	11%
Amount exceeding KRW 200 million and below KRW 20 billion	22%
Amount exceeding KRW 20 billion and below KRW 300 billion	24.2%
Amount exceeding KRW 300 billion	27.5%

Social insurances in the Republic of Korea

Social insurance	Employer portion	Employee portion
Health insurance	Monthly average wage X 3.495% X 1.1227	Monthly average wage X 3.495% X 1.1227
National pension	Monthly average wage X 4.5%	Monthly average wage X 4.5%
Employment Insurance	Wage X (0.8% + premium by business size [0.25%~0.85%])	Wage X 0.8%
Industrial accident compensation insurance	Wage X premium by business type (0.7%~18.6%)	
Total	About 10% of wage	About 9% of wage

Premium rate introduced in this table may vary depending on the situation. Besides, upper limitation is set for some contributions.

1. including local income tax equal to 10% of the amount.

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