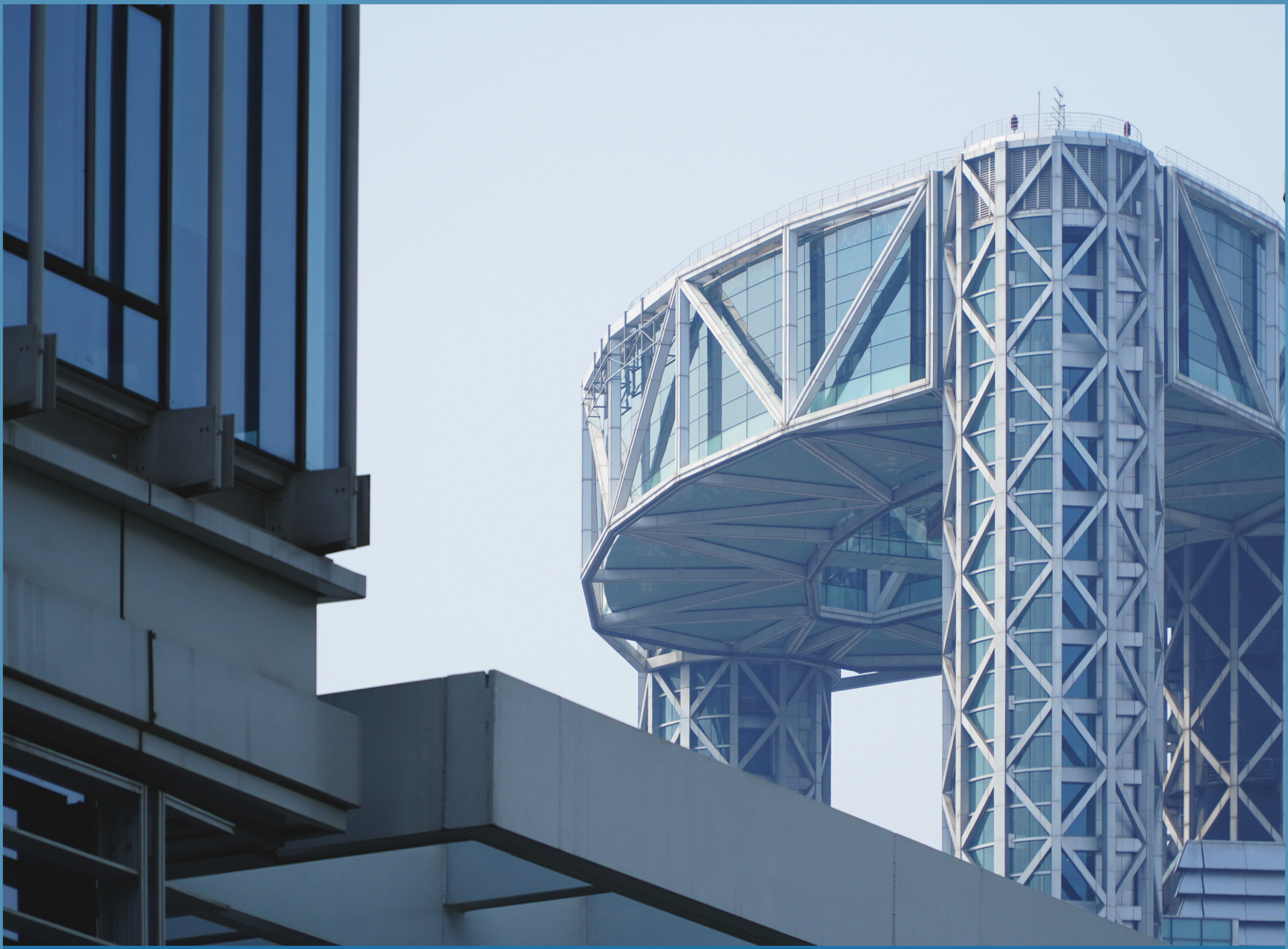


Korean insights & regulatory updates

Issue 6: October 2022

mazars

Content

Tax updates
Annual proposed amendments to tax laws

Adjustments on corporate income tax rates and brackets

According to the proposed bill, the maximum corporate income tax rate shall be changed from 25% to 22%. Small and medium enterprises (SMEs) with taxable income up to KRW 500 million are eligible for a special 10% tax rate.

This excludes the case where the controlling shareholder owns more than 50% of the total shares and the company is in real estate business (or more than 50% of the revenue consists of real estate business gains, interest, or dividends).

Tax base	Current*
Below 200 million	10%
From 200 million to 20 billion	20%
From 20 billion to 300 billion	22%
Above 300 billion	25%
Tax base	**Proposed***
Below 500 million	20% (10% for SMEs)
From 500 million to 20 billion	20%
Above 20 billion	22%

* Excluding local income tax.

If approved by the National Assembly, this amendment would take effect for business years starting on or after January 1, 2023.

Non-inclusion of dividends income from foreign subsidiaries

According to the proposed bill, dividends received by a domestic company from its foreign subsidiaries shall be excluded from taxable income. And qualifying conditions are as follows:

- Dividends should be received from foreign subsidiary with ownership of at least 10% of shares held for at least 6 months as of the dividend date.
- Dividends should include profits, distributions from retained earnings or deemed dividends.

If approved by the National Assembly, this amendment would take effect for dividends received on or after January 1, 2023.

Relaxation of requirements for foreign subsidiaries eligible for indirect foreign tax credits.

The scope of requirements for foreign subsidiaries to be eligible for an indirect foreign tax credit is relaxed from having to hold at least 25% of the shares for at least 6 months as of the dividend date to having to hold at least 10% of the shares for at least 6 months as of the dividend date.

If approved by the National Assembly, this amendment would take effect for dividends received on or after January 1, 2023.

Raise of limit on the utilization of net operating loss carried forward

According to the proposed bill, the utilization limit allowed for the deduction of net operating loss carried forward shall increase from the current 60% of taxable income to 80% of taxable income.

- For SMEs, the utilization limit is unchanged at 100% of taxable income.

If approved by the National Assembly, this amendment would take effect for business years starting on or after January 1, 2023.

Tax updates

Annual proposed amendment to tax laws

Introduction of the global minimum tax rule

The proposed bill introduces the adoption of the global minimum tax rule, which is aligned with Pillar Two of the Global Anti-Base Erosion Model Rules released by the OECD. The main content of the agenda is that, in the case of a global MNE group, if the effective tax rate is 15% or less in a certain jurisdiction, the shortfall may be taxed in other jurisdictions. Detailed of rules will be released later.

If approved by the National Assembly, this amendment would take effect for business years starting on or after January 1, 2024.

Expansion of exemptions from interim corporate income tax reporting obligations

Currently, domestic SMEs with an interim tax payment of under KRW 300 thousand are exempted from interim CIT reporting obligation. According to the proposed bill exemption, threshold is increased to KRW 500 thousand.

If approved by the National Assembly, this amendment would take effect for business years starting on or after January 1, 2023.

Establishment of obligation to submit the sum of tax invoices by the purchaser to foreign corporations' liaison offices

In addition to the status data that the foreign corporation liaison office must submit, the sum of tax invoices by the purchaser must also be submitted.

If approved by the National Assembly, this amendment would take effect from the supply of goods or services after January 1, 2023.

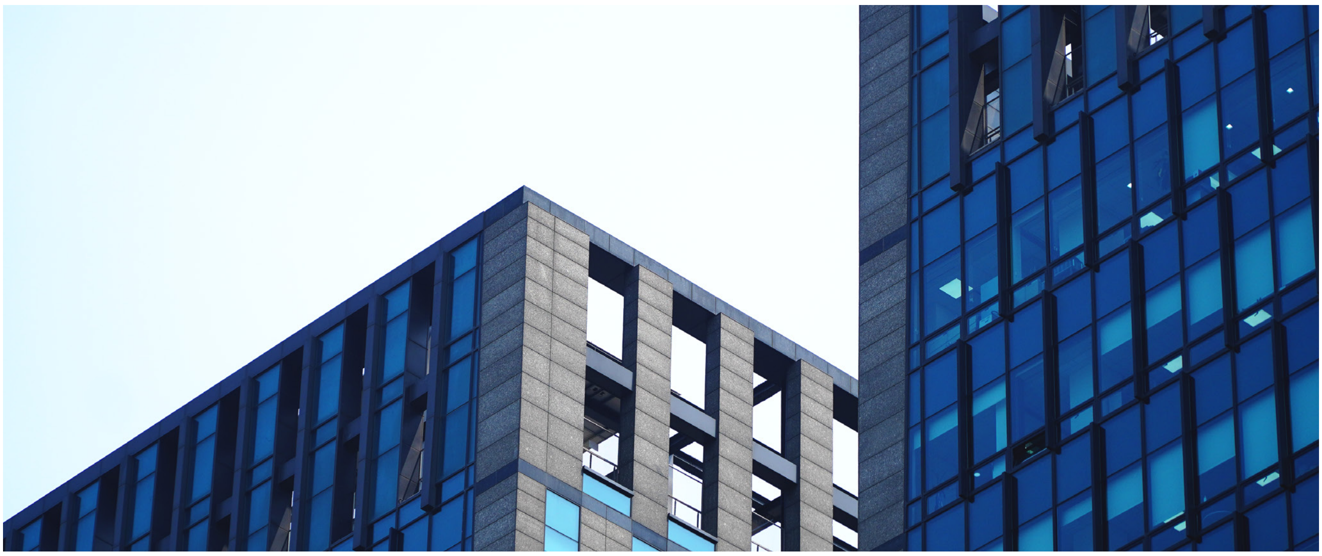
Expansion of exemption threshold for the submission of international transaction documents.

In addition to the current exemption thresholds, the below criteria have been added to the exemption scope.

- Statement of international transactions would be exempted in the following cases :
  - If the total amount of goods transaction is KRW 500 million or less;
  - total service transaction amount of KRW 100 million or less;
  - total intangible asset transaction amount to KRW 100 million or less.
- Summarized income statement of an overseas related party would be exempted in the following case:
  - If transactions of intangible assets with overseas related parties are KRW 200 million or less.
- Report on arm's length pricing method:

  If the total amount of intangible asset transactions is KRW1 billion or less or transactions of intangible assets with an overseas related party is KRW 200 million or less.

If approved by the National Assembly, this amendment would take effect for business years starting on or after January 1, 2023.



Annual proposed amendment to tax laws

Abolition of the application period for Flat tax rate for foreign workers (If approved by the National Assembly, applicable from 2023 income)

Flat tax rate	As-is	To-be
Special provisions on flat tax rate (19%) for Foreign Workers	Application for 5 years from the start date of work in Korea	Application period abolished

Income tax reduction for foreign engineers (If approved by the National Assembly, applicable from the fiscal year 2023)

Reduction period	As-is	To-be
Foreign engineers can choose between flat tax rate or income tax reduction by 50%	Income tax reduction for 5 years	Income tax reduction for 10 years

Income tax rate adjustment (If approved by the National Assembly, applicable from January 2023)

As-is*		To-be*	
Below KRW 12 million	6%	**Below KRW 14 million**	6%
KRW 12 million ~ below KRW 46 million	15%	**KRW 14 million ~ below KRW 50 million**	15%
KRW 46 million ~ below KRW 88 million	24%	**KRW 50 million ~ below KRW 88 million**	24%
KRW 88 million ~ below KRW 150 million	35%	KRW 88 million ~ below KRW 150 million	35%
KRW 150 million ~ below KRW 300 million	38%	KRW 150 million ~ below KRW 300 million	38%
KRW 300 million ~ below KRW 500 million	40%	KRW 300 million ~ below KRW 500 million	40%
KRW 500 million ~ below KRW 1 billion	42%	KRW 500 million ~ below KRW 1 billion	42%
Above KRW 1 billion	45%	Above KRW 1 billion	45%

* Excluding local income tax.

Tax updates
Annual proposed amendment to tax laws

Shortened submission cycle of simplified statements (If approved by the National Assembly, applicable to the income from January 2024)

Simplified statement submission	As-is	To-be
Earned income	Semi-annually	Monthly
Other income	Annually	Monthly

Reducing the burden of housing expenses (If approved by the National Assembly, applicable from 2022 year-end tax settlement)

Deduction	As-is	To-be
Tax credit for monthly rent	Max. 12%	Max. 15%
Deduction of repaid principal on housing lease loan	Up to KRW 3 million per year	Up to KRW 4 million won per year

Simplification of deduction of credit card spending, etc. (If approved by the National Assembly, applicable from January 2023)

<table>
<tr><th colspan="2">(Currency: KRW)</th><th colspan="3">As-is</th><th colspan="2">To-be</th></tr>
<tr><td colspan="2">Total</td><td>Below 70 million</td><td>70 million ~ Below 12 million</td><td>Above 120 million</td><td>Below 70 million</td><td>Above 70 million</td></tr>
<tr><td colspan="2">Deduction ceiling</td><td>3 million</td><td>2.5 million</td><td>2 million</td><td>3 million</td><td>2.5 million</td></tr>
<tr><td rowspan="3">Additional deduction ceiling</td><td>Traditional markets</td><td>1 million</td><td>1 million</td><td>1 million</td><td rowspan="3">3 million</td><td rowspan="2">2 million</td></tr>
<tr><td>Public transportation</td><td>1 million</td><td>1 million</td><td>1 million</td></tr>
<tr><td>Books, performances, and exhibitions</td><td>1 million</td><td>-</td><td>-</td><td>-</td></tr>
</table>

Annual proposed amendment to tax laws

Increase of the limit of non-taxable meal allowance (If approved by the National Assembly, applicable from January 2023)

As-is	To-be
Up to KRW 100 thousand per month	Up to KRW 200 thousand per month

Increase of retirement pension account tax credit (If approved by the National Assembly, applicable from January 2023)

As-is	To-be
KRW 7 million per year (Pension savings: up to KRW 4 milllion)	KRW 9 million per year (Pension savings: up to KRW 6 milllion)

Key accounting matters reviewed by KICPA for unlisted companies

KICPA (The Korean Institute of Certified Public Accountants) has announced its accounting issues that will be mainly inspected during the review of 2022 financial statements for unlisted companies.

KICPA plans to select target companies during 2023 and proceed with the financial statements review process for the 4 following areas:

1. Appropriateness of consolidation and equity method accounting.
2. Appropriateness of revenue recognition for long-term construction contracts (order-made production industry).
3. Appropriateness of accounting for financial asset loss provision (excluding securities).
4. Actual existence of cash and cash equivalents and presentation of cash flow statement.

Appropriateness of consolidation and equity method accounting

In accordance with the revision of the External Audit Act (Nov. 1, 2018), from fiscal year 2022 onwards, companies applying K-GAAP must prepare consolidated financial statements including all subsidiaries as well, and apply the equity method to individual financial statements.

In this situation, KICPA plans to select companies that do not prepare consolidated financial statements even though they hold large amounts of available-for-sale securities and equity-method investment stocks.

Therefore, when preparing the consolidated financial statements, the companies should be careful not to miss companies that were excluded from consolidated subsidiaries in the previous regulations. Companies required to prepare new consolidated financial statements or having an increased number of consolidated subsidiaries need thorough preparations such as establishing a consolidated accounting system. Acquisition method accounting is required in accordance with Chapter 12 Business Combinations of K-GAAP. In addition, the review indicators of impairment on investment stocks should be strengthened, and impairment tests should be prepared based on reasonable assumptions.

Appropriateness of revenue recognition for long-term construction contract (order-made production industry)

- In the case of long-term construction contracts to which the completion standard is applied, cases of overshaked sales due to the excessive completion rate may occur. In addition, if construction loss is expected by estimating construction revenue and construction cost cumulatively for each accounting period, the expected loss should be recognized as a provision for construction loss immediately.
- In the case of an increase in the total estimated cost of construction due to economic downturn and consequent delays and design changes in the construction plan, construction revenue may be overstated if this is not properly reflected in the calculation of the construction progress rate.
- Referring to the 2015 Financial Services Commission press release, 'Measures for Enhancing Accounting Transparency in order-made production industry',
  KICPA is requesting attention to the adequacy of revenue recognition according to progress measurement and additional disclosure requirements when applying the standard of completion.
- In the case of construction and shipbuilding, KICPA comprehensively analyzes the ratio of account receivables (construction receivables) and contract liabilities (construction advance received) to sales (construction revenue), the relationship between operating profit and operating cash flow, and related notes and disclosures. KICPA plans to select the subject of examination with comprehensive consideration.

Accounting updates

Key accounting matters reviewed by KICPA for unlisted companies

Appropriateness of accounting for financial asset loss provision (excluding securities)

Therefore, the company should establish a specific accounting policy for loan loss provisions for financial assets and identify the reasons for long-term unrecoverable receivables (closure of business and financial difficulties, elapsed receivable period, future forecast, etc.), the occurrence of an impairment event should be reviewed based on reasonable and objective standards.

KICPA plans to select companies to be reviewed in consideration of the ratio of provision for bad debts for account receivables compared to the average in the same industry, the ration of assets and account receivables and other receivables, and the existence of large loans.

Actual existence of cash and cash equivalents and presentation of cash flow statement

Therefore, KICPA plans to select the companies to be reviewed through the analysis of ratio of cash and cash equivalents comparing to total assets or revenue and the difference between operating cash flow and income in order to verify the existence of cash and cash equivalents and presentation of cash flow activities.

Designation system of external auditor

FSS (Financial Supervisory Service) is currently selecting companies subject to periodic auditor designation among stock-listed companies and some large unlisted companies as of September 1, 2022.

Any unlisted company with total assets size of KRW 100 billion or more as of the end of previous fiscal year is subject to periodic auditor designation if the controlling shareholder and related parties own 50% or more and the controlling shareholder or related party shareholder is the CEO of the company.

Even if a company designated in 2022 resolves the reasons for designation, such as the requirement for non-separation of ownership and management after designation, an auditor must be designated for 3 years. Therefore, the requirement for separation of ownership and management must be met before the date of selection for designation.

Process

Companies or auditors who wish to request the change in auditors appointment can make a request to the FSS within 2 weeks after the preliminary notice or within 1 week after main notice.

A company that has been arranged as an auditor must conclude an audit contract with the designated auditor within 2 weeks of receiving the notice of designation. However, if there are negotiations for remuneration or independence issues, the contract can be concluded flexibly.

- Unlike to general audit appointments, a company is not required to report the appointment details to the FSS, whereas the designated auditor is required to report the contract details to the FSS in the same way as in the case of general audit contact.

Designation system of external auditor

Updates on the designation system of external auditor (related to listed companies)

Companies are subject to auditor's designation by FSS have designated auditors for 2 or more consecutive years will be able to be assigned preferentially in the current year to auditors designated in the previous year.

Examples of designation period and designated auditor of listed companies for which additional reasons for designation occurred

Year	2021	2022	2023	2024	2025
Reason for designation	(A) reason α for designation by FSS (3 years)	(B) reason β for designation by FSS (3 years)			
As-is		Auditor A	Auditor B		
		Total designation period – 4 years			
To-be		Auditor A			Auditor C
		Total designation period – 4 years			

Key figures

Tax rates & social insurance rates

Individual tax rates

Aggregate income taxation standard	Tax rate*
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%

* including local income tax.

Corporate tax rates

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%

* including local income tax.

Social insurance rates

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 (0.9% + premium by business size [0.25%~0.85%])	Wage X 0.9%
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.

Contacts

Mazars in Korea

19th floor, The prime Tower,
11, Wonhyo-ro 90-gil, Yongsan-gu,
Seoul, Republic of Korea

Tel: (+82) 2 3438 2400
Fax: (+82) 2 546 2368
Email: contact@mazars.kr

Julien Herveau
Partner, international desk
julien.herveau@mazars.kr

Seung-Ha Park
CEO, tax
seung-ha.park@mazars.kr

Jung-Min Lee
Partner, audit and financial advisory
jung-min.lee@mazars.kr

Gyu-Taek Sim
Partner, audit and financial advisory
gyu-taek.sim@mazars.kr

www.mazars.kr

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The following Mazarians have contributed to this publication:

Julien Herveau, Seung-Ha Park, Jung-Min Lee, Gyu-Taek Sim, Young Huh, Dong-Won Park, Min-Kyu Sim, On-Yu Kim, Han-Eum Jeong