



Korean insights & regulatory updates

Issue 10: January 2024

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Our 'Korean insights & regulatory updates' is published by Mazars Sebit Accounting Firm (Mazars in Korea). The purpose of this newsletter is to keep readers informed of Korean regulatory developments. 'Korean insights & regulatory updates' may under no circumstances be associated, in whole or in part, with an opinion issued by Mazars or Mazars Sebit Accounting Firm. Despite the meticulous care taken in preparing this publication, Mazars and Mazars Sebit Accounting Firm may not be held liable for any errors or omissions it might contain.

Tax updates

Annual amendments to tax laws

On December 21, 2023, the National Assembly has passed its annual amendments to tax laws. Compared to the initial tax law proposal announced in July 2023 by the Ministry of Strategy and Finance, the main change is related to the reduction of the extension period of the applicability of the “flat rate”, from 2028 to 2026. Other amendments listed are similar to those announced in July 2023.

Tax updates

Corporate income tax

Amendments to the Dividend Received Deduction (“DRD”) system

Several relatively technical amendments to the DRD rules aimed at streamlining the taxation on capital transactions and therefore including more cases in the scope of the DRD. Moreover, entities operating in resource development would benefit from an ease in rules to apply DRD.

The amendments take effect for dividends received on or after January 1, 2024.

Mandatory reporting of overseas stock-based compensation information

Under this new obligation, domestic corporations or a place of business of a foreign corporation will be required to furnish comprehensive information regarding overseas stock-based compensation granted to employees and executives, including former ones, by foreign controlling shareholders.

The main outlines of this obligation are as follows, however, the details will be finalized in a future decree announcement:

A. Scope of foreign controlling shareholders

- If employees and executives are from a domestic corporation, overseas controlling shareholders refer to the foreign corporation having ownership directly or indirectly of 50% or more interest in the domestic corporation.
- If employees and executives are from a place of business of a foreign corporation, foreign corporation’s headquarters and branches, and other foreign corporations that directly or indirectly own 50% or more of the stocks of foreign corporations.

* Some of the foreign controlling shareholders according to Article 45 of the Adjustment Of International Taxes Act (AITA).

B. Definition of overseas stock-based compensation

- Stock options and similar items refer to the right to acquire or purchase stocks of a foreign corporation that is a foreign controlling shareholder at a pre-determined price.
- Following the stock-based compensation operating standard prepared in advance, the foreign corporation that is the controlling shareholder compensates in money equivalent to the stock or stock value of the foreign corporation.

C. Transaction details of stock-based compensation to be reported includes:

- Details of the grant/exercise/payment of stock-based compensation
- Income from exercise of stock options
- Personal information of executives and employees

D. Deadline to report

- Submissions are due on or before March 10th of the year following the year in which stock-based compensations are exercised or paid.

The new obligation is effective for the exercise or payment of compensation after January 1, 2024.

Tax updates

Adjustment of International Tax Act (AITA)

Introduction of Reporting Obligation for Offshore Trusts

New obligation has been introduced concerning the reporting of offshore trust details, and this requirement will apply to both residents and domestic corporations.

An offshore trust, established under foreign laws but possessing similar characteristics to a trust as defined in Article 2 of the Korean Trust Act, will be subject of this new obligation.

The core points of this obligation are outlined as follows:

- **Initial Reporting:** whenever a resident or domestic corporation creates or transfers property to an offshore trust, the trustor must report the necessary information per case.
- **Ongoing Reporting:** subsequent to the establishment of an offshore trust, if the trustor of a resident or domestic corporation effectively controls the trust property, annual information reporting becomes mandatory.

In this case, “controls” entail retaining rights such as terminating the trust, designating or changing beneficiaries, and inheriting remaining assets after termination.

The information that must be reported includes basic information related to the trust arrangement, encompassing details about the trustor, trustee, beneficiaries, and the valuation of trust assets.

The reporting deadline for this information is within six months after year-end. Failure to comply may result in penalties of up to 10% of the value of the trust property, with a maximum fine of KRW 100 million for non-compliance.

The valuation of trust property refers to either its market value or its acquisition value (if it is difficult to determine its market value).

- This amendment will be applied to reporting obligations for fiscal years commencing on or after January 1, 2025.
- This requirement to report offshore trust-related information is compulsory even for trusts established before December 31, 2024, and that will be operating during the fiscal year beginning on January 1, 2025.





Tax updates Adjustment of International Tax Act (AITA)

Expansion of submission obligations on forms pertaining to related-party disclosures

Forms pertaining to related-party disclosures (including statements of international transactions, summarized income statements of foreign related parties, and reports on arm's length pricing methods) that were previously included as annexes in local files will now need to be submitted as separate forms.

This amendment applies to fiscal years commencing on or after January 1, 2024.

Revised definition of Permanent Establishment

To align the concept of a “permanent establishment” for purposes of being a component corporation subject to the global minimum tax with the internationally agreed upon Global anti-Base Erosion Rules, the definition of a permanent establishment is “an establishment that is recognized as having a permanent establishment under an applicable and valid tax treaty and that is taxed on income attributable to that establishment by the country in which the establishment is located.



Tax updates: Other matters

Extension of special tax concession timeline for Foreign Workers

Whereas the personal income tax rate in Korea is progressive, foreign executive officer or employee can use, as an option, a flat rate for the taxation of their income received in return of his/her labor in Korea. Beyond a certain level of taxable income, it is more beneficial for an expatriate to use this flat rate compared to the standard progressive rate. This optional rate cannot however be used in case of providing labor to any related party prescribed by Presidential Decree (i.e., when they have a controlling influence on the related party) other than foreign-capital invested-corporations prescribed by Presidential Decree. This preferential rate is applicable to 20 years, from the date the person first provides labor in the Republic of Korea.

The amendment is extending this preferential rate scheme until December 31, 2026.

Personal income tax updates

There have also been many changes in the Income Tax Act that will impact the calculation of individual income tax.

These adjustments will mostly apply from January 1, 2024.

We will provide more details in our next newsletter.

HR & Payroll updates
Minimum salary increase

The minimum wage has been increased by 2.5% as of January 1, 2024, as announced by the Minimum Wage Commission.

HR & payroll updates


Minimum salary increase & Social securities update

Minimum wage increase in 2024

Minimum wage has been increased by 2.5% applicable from 2024.

Minimum wage	2023	2024
Hourly wage	KRW 9,620	KRW 9,860
Monthly (200 hours)	KRW 2,010,580	KRW 2,060,740
Increment vs. previous year	5.0%	2.5%





Audit & accounting updates Exposure draft on the ISSA 5000 and Financial Instruments with Characteristics of Equity

Exposure Draft on the International Standard on Sustainability Assurance 5000 (ISSA 5000), an ESG disclosure assurance standard, was published in August 2023. And the Exposure Draft of amendments to IAS 32, IFRS 7, and IFRS 1 on the classification of Financial Instruments with Characteristics of Equity (“FICE”) was published in November 2023.

Audit & accounting updates

Exposure Draft on ISSA 5000 for ESG disclosure

ISSA 5000 Exposure Draft (“ED”) aims to be a comprehensive sustainability assurance standard and to allow independent organizations other than accounting firms to perform assurance engagements if they meet ethics and quality management requirements and can apply both limited and reasonable assurance. It would be established as an assurance standard.

Overview

1. Nature of the comprehensive criteria

- ISSA 5000 ED is a standard suitable for the assurance of all principle-centered sustainability information and targets all reference standards, all information users, and all certifiers.
- It would cover both limited assurance engagements and reasonable assurance engagements, and ISAE (International Standard on Assurance Engagement) is not applied to sustainability assurance engagements as a stand-alone standard.

However, when providing a separate opinion on the greenhouse gas report, ISAE 3410 would be applied.

2. Requirement for ethics and quality control

- Engagements team members would be required to comply with the International Ethical Standards (IESBA Code) related to assurance engagements or at least equivalent laws or other professional requirements.
- Corporation or firm would have to apply International Standard for Quality Management 1 (ISQM 1) or at least equivalent laws or other professional requirements regarding the quality management system.

3. Work Scope

- The information subject to assurance may be part of the sustainability information reported by the company.
- In ISSA 5000 ED, ‘sustainability information’ refers only to information subject to assurance, so information reported but not subject to assurance falls under ‘other information’.
- The certifier would have to consider whether the scope of the assurance engagement is clear and perform this as part of the evaluation of whether the engagement satisfies the ‘reasonable purpose’.

Audit & accounting updates

Exposure Draft on ISSA 5000

for ESG disclosure

4. Reasonable assurance and limited assurance

Subject	Reasonable assurance	Limited assurance
Procedure for risk	Perform sufficient risk procedures to identify and evaluate the risks of material misstatement at the management assertion level.	Sufficient risk procedures are performed to identify disclosures that are likely to result in material misstatement, and no risk assessment is required.
Understanding of internal control	Determine whether control deficiencies have been identified after understanding control activities for all five components of internal control.	Consider whether control deficiencies have been identified after understanding control activities conditionally on some components of internal control.
Response to risk	The nature, timing, and scope of additional procedures respond to the risk of material misstatement assessed at the level of management assertions.	The nature, timing, and scope of additional procedures focus on disclosure items that may result in material misstatement.
Estimates and forward-looking information	Perform procedures such as testing the basic information of management's estimates or deriving estimates to evaluate forward-looking information.	Evaluate the appropriateness of the criteria requirements or calculation methods for estimates or forward-looking information.

5. Fraud

- The IAASB recognizes that internal control over sustainability information may be vulnerable to fraud (including 'greenwashing') as it has not yet matured, and requires response to fraud throughout the assurance process.
 - It would require to maintain professional skepticism throughout the work, including considering whether it presents a risk of fraud when there is doubt about the reliability of information to be used as evidence.
- #### 6. Compilation and evaluation of misstatements
- The importance of misstatement would be evaluated individually for each disclosure (indicator), and the tolerance level of information users may be different for each indicator (e.g. radioactive waste and general waste).
 - Non-quantifiable misstatements would be grouped and evaluated for materiality. Because of the common direction, tone, and trend of

the misstatements, the overall sustainability information may have been materially misrepresented.

7. Other Information

- ISSA 5000 ED, identical to the revised ISA 720, requires attention such as (a) examining other information, (b) considering whether there are material inconsistencies between the other information and the sustainability information or the certifier's knowledge, and (c) detecting material misstatements in the other information.
- If other information is obtained before the assurance report date, a separate 'Other Information' paragraph would be included in the assurance report and it must be stated whether any uncorrected material misstatements were found in 'Other Information'.

Audit & accounting updates

Exposure Draft on ISSA 5000 for ESG disclosure

8. Communication

- The certifier is responsible for determining whether significant matters have been discovered that should be communicated to management, those charged with governance, etc.
- Examples of communication: difficulties faced while performing engagements, such as fraud or violation of laws, insufficient internal control, management's convenience, uncorrected misstatement, management's refusal to provide data, etc.

9. Assurance Report

- The assurance report would be based on ISAE 3000 and ISAE 3419, but would reflect the order and contents of the audit report.
- In the case of limited assurance, there would be a statement in the 'Basis for Conclusions' paragraph that the procedures performed are narrower than a reasonable assurance task and that the level of assurance is significantly lower than a reasonable assurance task.



Audit & accounting updates

Exposure Draft of ISSA 5000 for ESG disclosure

Expectations and expected effects

1) ISSA 5000 is expected to improve the quality of ED sustainability assurance

- ISSA 5000 ED focuses on sustainability information and provides a wealth of guidelines to help with assurance practice, which will not only improve the quality of assurance but also increase the ease of application for certifiers.
- ISSA 5000 ED is receiving strong support from stakeholders such as IOSCO (International Organization of Securities Commission), and is expected to quickly replace existing assurance standards and become the most widely applied assurance standard.

2) In order to establish sustainability information assurance, ethical standards and quality management standards must also be established

- In order to maintain the assurance quality of sustainability information, it is essential for certifiers and assurance firms to comply with appropriate ethical standards and quality management standards.
- ISSA 5000 ED expresses the view that regulatory agencies and standard-setting organizations in each country are responsible for evaluating ethical standards and quality management standards or establishing appropriate standard requirements.
- In addition to reorganizing assurance standards, there is a need to evaluate and establish ethical standards and quality control standards applied by certified persons of various qualifications (e.g., non-certified public accountants), and establish mechanisms to ensure effective compliance with standards (e.g., disciplinary action, Supervision) also needs to be considered.

3) Collaboration with experts and between assurance firms will become more active

- Sustainability information covers a variety of fields and includes information outside the scope of a company's control, so the use of experts and collaboration between assurance agencies should be further activated to certify sustainability information.
- ISSA 5000 ED recognizes the use of the work of experts and other certifiers, and in particular, allows other certifiers to utilize it more broadly than when auditing financial information. However, the obligation to evaluate the qualifications and objectivity of experts, etc. remains the same.
- For collaboration to be activated, institutional support may be needed, such as not only maintaining competence and objectivity by each expert and assurance firm but also clarifying assurance qualification requirements and responsibilities of each individual and institution during collaboration.

4) Expectation of smooth establishment of ESG reporting and assurance system

- ISSA 5000 ED covers a variety of situations, such as assurance of some information or application of multiple criteria, so it can be highly useful in introducing a reporting and assurance system in a flexible manner, such as gradually expanding the scope of assurance.
- In addition, ISSA 5000 ED clearly provides guidelines for understanding and evaluating internal control, which can further promote improvement of internal control related to sustainability information creation.

Audit & accounting updates

Exposure Draft on Financial Instruments with Characteristics of Equity

The purpose of the FICE project is to clarify the principles of IAS 32, address practical application issues of IAS 32, and improve disclosure. It is scheduled to solicit comments until the first quarter of 2024.

These amendments chiefly aim to followings:

1. Clarify a number of principles relating to the classification of financial liabilities and equity instruments under IAS 32, in particular concerning:

- Whether or not applicable laws and regulations need to be taken into account in the contractual analysis of the financial instruments concerned;
- Analysis of the “fixed-for-fixed” criterion when classifying a derivative that is or may be settled in the issuer’s own equity instruments;
- Instruments involving an issuer’s obligation to repurchase its own equity instruments;
- Instruments with contingent settlement provisions;
- How to treat contractual obligations at the discretion of the entity’s shareholders;
- The circumstances in which reclassifications between financial liabilities and equity might occur during the lifetime of the financial instruments;

2. Improve IFRS 7 disclosures on:

- The nature and priority of claims against an entity arising from financial liabilities and equity instruments;

- The main contractual features of financial instruments, including those with both financial liability and equity characteristics;
- Compound instruments;
- The potential dilution of ordinary shares;
- Reclassifications of financial liabilities and equity instruments;
- Instruments containing obligations to repurchase an entity’s own equity instruments; and
- Financial liabilities containing contractual obligations to pay amounts based on an entity’s performance or changes in its net assets;

3. Require an entity (under new provisions in IAS 1) to present amounts attributable to ordinary shareholders separately from amounts attributable to other holders of the entity’s own equity instruments.

The comment period runs until 29 March 2024.

Key figures

Tax rates & social insurance rates

Individual tax rates

Aggregate income taxation standard	Tax rate*
Below KRW 14 million	6.6%
KRW 14 million ~ below KRW 50 million	16.5%
KRW 50 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	9.9%
Amount exceeding KRW 200 million and below KRW 20 billion	20.9%
Amount exceeding KRW 20 billion and below KRW 300 billion	23.1%
Amount exceeding KRW 300 billion	26.4%

* Including local income tax.

Social insurance rates

Social insurance	Employer portion	Employee portion
Health insurance and long-term care insurance	4.0%	4.0%
National pension	4.5%	4.5%
Employment Insurance	0.9% + (0.25%~0.85%)	0.9%
Industrial accident compensation insurance	0.7%~18.6%	
Total	About 10.35% ~ 28.85% of wage	About 9.4% of wage

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



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*Where permitted under applicable country laws

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