



Foreign Investment-related Tax Policy Trends (1H 2024)



April 2024

This document focuses on domestic tax policies and trends that can serve as reference for foreign investors. For inquiries, please contact the National Tax Service officer dispatched to the Foreign Investor Support Center of KOTRA (Tel.: +82-2-3497-1059).

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I. Tax administration in 2024 – Environment and direction

1. Environment for national tax administration

- **(Economic Outlook)** Although **economic recovery** centering on export is expected, domestic and international uncertainties exist.
- **(Livelihood of the people)** The trend of high consumer prices and high interest rates continues to **burden ordinary people**.
- **(Market Conditions)** **Effort to increase economic vitality** is required considering the weakening of corporate investment and management activities.
- **(Structural Change)** **Changes** in economic structure are **accelerated** due to population crisis, increase in national debt, etc.

2. Directions for national tax administration in 2024



II. Key Action Plans for 2024

Support people's livelihood

- ◇ Participate in the government-wide effort to stabilize people's livelihood and achieve a dynamic economy in order to provide administrative tax support to small business taxpayers and support corporate export and investment

1. Provide tax support to help the recovery of people's livelihood

A

Expand administrative tax support and reduce the burden of tax verification for small and medium business taxpayers

- **(Administrative Tax Support Package)** Ex officio extension of due date for payment by tax item, postponement of seizure and disposition, and other support are provided collectively to small and medium enterprises and small businesses.
 - Businesses subject to ex officio extension of the due date for payment of VAT (2 months) shall also be granted ex officio extension of the due date for payment of corporate tax and income tax (3 months), and seizure and disposition for temporary arrears shall be postponed for up to 1 year.
- ※ **Eligible businesses:** ^①VAT (Jan. 2024) **1.28 million** cases, ^②Corporate tax (Mar. 2024) **52,000** cases, ^③Income tax (May 2024) **667,000** cases

Businesses eligible for ex officio extension of due date for payment of value-added tax

- ▶ **(Construction and Manufacturing Industries)** Sole proprietors and corporations whose **sales dropped** (by at least 30%) due to high interest rate and real estate market stagnation
- ▶ **(Food, Retail, and Hospitality Industries)** Sole proprietors experiencing aggravated difficulties due to sluggish domestic demand
- **(Early Payment of Refund)** VAT and corporate tax refunds shall be paid as quickly as possible for small businesses, export companies, etc. (reduced by up to 20 days compared to statutory due date)
 - ※ **Eligible businesses** (Declared): ^①VAT (Jan. 2024) **230,000** cases, ^②Corporate tax (Mar. 2024) **17,000** cases

Eligibility for Early Refund Payment

- ▶ **(VAT)** Small and medium enterprises with sales of **KRW 150 billion or less** (continuing business for at least 3 years), small-scale sole proprietors with sales of **KRW 1 billion or less**, etc.
- ▶ **(Corporate tax)** **Exporting small and medium enterprises** (export percentage of 50% or more, etc.), businesses subject to ex officio extension of payment due date, etc.
- **(Easing of Tax Verification)** Additional businesses subject to exemption of tax verification* such as regular audit and verification of declarations will be selected focusing on companies that contributed to job creation, export and investment.

* (Eligibility) Companies that created jobs, small and medium exporters, companies that expanded investment, innovative startups, social enterprises, etc.

- **Ease** the qualification for exemption of verification to include **companies expanding local investment** in order to revitalize the local economy*

*(Before) Investment expansion by 10–20% or more year-on-year → (After) Investment expansion by **5–15%** or more year-on-year

B

Provide comprehensive **welfare service** to contribute to the stabilization of people's livelihood

- **(Subsidy Payment)** Changes in child subsidy* and other subsidy payment programs shall be reflected to the subsidy application and screening system to be fully prepared for the increase in subsidy recipients (increase in 790,000 households expected)

* (Income Base) KRW 40 million → **KRW 70 million** or less, (Max. Amount Paid)

KRW 800,000 → **KRW 1 million**

- To prevent blind spots in subsidy payment, **information customized** to the vulnerable class such as **new college graduates, the elderly, and the homeless** shall be provided and the **call-back service** will be introduced in the subsidy support center.

* If immediate consultation is difficult due to long queue, leave a reservation number and the consultant

Customized Information for the Vulnerable Class

- **(New college graduates)** Job search websites such as alba.co.kr and Job Korea, military boot camp (Ministry of National Defense), university bulletin boards (Ministry of Education)
- **(The elderly)** Senior club members, senior job program participants, senior citizens living in public rental apartment housing, etc.
- **(The homeless)** Collection and use of data on homeless-related welfare facility status
will call back within the day

- **(Convenient Tax Refund)** The **convenience** of tax refund filing service* for **personal service income earners**, such as delivery drivers, replacement drivers, caregivers for the sick, etc. shall be enhanced.

* The applicant can file for tax refund for multiple attributable years with a single click without having to file for each attributable year.

- **(Contribution to Consumer Price Stabilization)** The **issue of reverse tax discrimination** for domestic products against their imported counterparts shall be mitigated and consumer prices shall be lowered by efficiently operating the **standard sales ratio system**.*

* Subjected Items: (2023) Passenger cars, furnitures, fur, Soju, etc. → **(2024) Camping cars, fermented liquor such as rice wine and fruit wine**

- **Standard Sales Ratio:** Compared to domestic products, sales profit, distribution cost, etc. are not reflected to the taxable amount (tax base) for imported products. In this regard, the tax base of domestic products is deducted by a set ratio.

- **(Income Data Sharing)** Additional data shall be provided* so that the real-time income identification system can be used in various welfare policies including the national project of establishing income-based employment insurance.

*Ministry of Education (establishment of social crisis management system), Ministry of Health and Welfare (integrated information for rehabilitation support project, simplification of insurance administration), etc.

- **(Support for Student Loan Repayment)** The repayment deferral system shall be actively promoted using methods that are easily accessible to young adults, such as through video or mobile notice, and reduction of late fee shall be negotiated with the Ministry of Education

*(Before) 1.2% per month upon expiration of the due date for payment → (After) 0.5% per month

2. Expand administrative tax support to boost the Korean economy

A Support export and investment companies for dynamic economic growth

- **(Expansion of Eligibility for Support)** To strengthen global technological competitiveness, parts and materials and equipment companies and other businesses in the root industry shall be added to companies eligible for administrative tax support for future growth*

*(Fund Liquidity Support) Extension of due date for payment, early refund payment, preferential handling of claim for correction, etc. (KRW 7.2 trillion in 2023)

(Management Support) Preferential handling of advance review for R&D tax credit, exclusion from verification of declarations, etc.

Expansion of Companies Eligible for Administrative Tax Support for Future Growth

Eligibility (115,000 companies)		Companies Added in 2024 (12,000 companies)
<ul style="list-style-type: none"> ▸ SMEs with Innovative growth and exporting SMEs ▸ SMEs with new technology or in new industries 	+	<ul style="list-style-type: none"> ▸ Parts and Materials and Equipment Companies: Producing raw materials, intermediate goods, production facilities, etc. ▸ Businesses in the Root Industry: Companies equipped with process technology, robots, sensors, etc.

- **(Strategic Tax Diplomacy)** Swiftly address* export/investment hurdles for Korean companies and taxation difficulties of overseas Koreans by strengthening high-level cooperation through the hosting of the SGATAR annual meeting, etc.

* In particular, preferentially promote mutual agreement between tax authorities for future strategic industries such as semiconductor and battery

- **SGATAR (Study Group on Asia-Pacific Tax Administration and Research):** A meeting of National Tax Service Commissioners to discuss taxation cooperation and tax administration operation plans in the Asia - Pacific region, 53rd annual meeting to be hosted by Korea in Oct. 2024

- **(Preparation for the Global Minimum Tax System)** Establish a new international taxation response team to support the **resolution of taxation-related uncertainties** of Korean enterprises according to the **enforcement of the system** (Jan. 1, 2024)

■ **Global Minimum Tax System:** In case of taxation at an effective tax rate lower than the minimum tax rate (15%) in the country where the overseas subsidiary is located, **additional taxation right** is given to the **country where the parent company is located** → Implemented in 50 countries including **Korea, UK, France, Japan** as of 2024

- **(K-SUUL Export Support)** Export channels shall be diversified through cooperation with **KOTRA** and **overseas distribution chains** so that small and medium-scale liquor companies can directly target overseas consumers.

*(2023) Export network of large-scale liquor companies such as HITEJINRO and Lotte used → (2024) **Direct sales in local stores** abroad promoted

- **Abolish old and unreasonable regulations** that limit the global competitiveness of Korean liquor products such as **restriction of additives to Makgeolli**, easing of criteria for warehouse area, and mandatory attachment of liquor transport sticker.

B Provide high-quality consulting service to resolve corporate tax risks

- **(Business Succession Consulting)** Quality improvement shall be pursued such as **establishing a management system** and **strengthening follow-up management**, in order to establish consulting service as a premium service providing substantial help to businesses.

▶ **(System)** Develop a data-processing system screen to check eligibility, consultation status, consultation details, progress, etc.

▶ **(Follow-up Management)** Provide information on the revision details such as follow-up management period shortening and non-fulfillment of exemption requirements such as CEO inauguration

- **(Prior Review for R&D Tax Credit)** The eligibility for preferential treatment* shall be widened and simple reviews such as for government-funded projects shall be assigned to **regional offices** for swift review processing.

*(Before) Eligibility for tax support for future growth → (After) Added: **Venture business certification, new growth and source technology** review

- **(Corporate Tax Credit and Reduction/Exemption Consulting)** To facilitate the consulting system, major consulting cases over the past one year of implementation shall be shared and the entire operation process (application → review → result notification) shall be systemized.

3. **Immediately resolve** taxpayer issues through direct communication

- **(Tax Consulting on the Go)** The tax issues of **small business taxpayers shall be identified and resolved at the right time** by visiting sites where **taxation-related assistance** is needed, such as startup support centers and small business organizations

Problem Solving in 2023 (Excellence Award for Active Administration)

As the claim for ownership transfer registration was seized due to **tax delinquency** of the **apartment sales agent** (consignor), the apartment purchasers **could not complete transfer registration**. Through analysis of the amended tax law* and persuasion of the real estate investment trust company (consignee), however, the arrears were collected and the **seizure was released**; thus contributing to the citizens' **residential stability**.

*Comprehensive Real Estate Holding Tax Act Article 7-2 (Amended in Dec. 2020): In case it is difficult to secure a bond with the consigner's property, the consignee is liable to pay the consigner's tax

- **(Communication to Enhance Public Livelihood and the Economy)** The **government will listen to taxpayers' difficulties and suggestions, and prepare improvement plans** through various communication channels such as **visits to business and industrial sites and meetings with economic organizations**.
- ※ **Field Visits by the National tax Service Commissioner in 2023:** Gongju Sanseong Market, Namdong Industrial Complex, Korea Federation of Small and Medium Business, etc. (16 visits)

Improvement Highlights in 2023

Category	Suggestion	Improvement Status
Public Livelihood Support Communication Group	▸ Clarified the eligibility for special tax reduction/exemption for small and medium enterprises (Seocho Tax Office)	Legislative amendment completed
Visit to Industrial Sites	▸ Amended regulations on the company vehicle use logbook and rationalized depreciation cost (Sihwa Industrial Complex)	Legislative amendment suggested
Meeting with Economic Organizations	▸ Implemented non-taxation on venture fund investment capital gains for domestic corporations (Korea Federation of Small and Medium Businesses)	Legislative amendment suggested

- ※ For more details on the **National Tax Administration Operation Plan for the First Half of 2024**, please refer to the National Tax Service website (www.nts.go.kr)
> Press Report (Feb. 13, 2024).

III. Major changes in tax administration in 2024

A Implementation of global minimum tax system

- A global minimum tax system agreed upon under the G20 Inclusive Framework* (IF) of the Organization for Economic Cooperation and Development (OECD) for the purpose of creating a fair competition environment by preventing tax competition among countries was implemented.

* Inclusive Framework: A conference body discussing preventive measures for base erosion and profit shifting (BEPS) by multinational enterprises (currently, 145 countries participating)

- **(Application)** In case of taxation by less than 15% of the effective tax rate in a specific country, a multinational enterprise whose sales as specified in the consolidated financial statements amount to EUR 750 million (approx. KRW 1 trillion) or more has an obligation to make additional tax payment for the difference.
- Revision is applied to the fiscal year beginning on or after Jan. 1, 2024.

B Introduction of tax reduction/exemption for startups in the opportunity and development zone

- An income tax/corporate tax reduction/exemption scheme for startups in the opportunity and development zone was introduced and implemented to activate local investment and ease investment centralization in the capital region.

- **(Eligibility)** Companies opening in the opportunity and development zone (including companies setting up new business establishments)
- **(Reduction Rate)** Corporate income tax/income tax reduction by 100% for 5 years from the taxation year of income generation + 50% for the subsequent 2 years
- **(Reduction Limit)** 50% of cumulative investment amount + number of full-time workers × KRW 15 million (KRW 20 million for youth/service industries)
- Revision is applied to startups or businesses established on or after Jan. 1, 2024

C Extension of income tax reduction/exemption period for foreign engineers and expansion of eligibility

- To attract foreign engineers to Korea, the income tax reduction/exemption period was extended and the eligibility has been widened.

- **(Reduction Rate)** 50% for 10 years
- **(End of period)** Dec. 31, 2023 → Dec. 31, 2028 (5-year extension)
- **(Eligibility)** Professors hired by schools in promising clusters* added
 - * Innopolis, KMEDI Hub
- Revision is applied starting from the taxable year starting on or after Jan. 1, 2024

D Expansion of eligibility for the consolidated tax payment system

- Expansion of the eligibility for consolidated tax payment to promote the consolidated tax payment system

- **(Scope)** The scope of consolidated subsidiaries to which the consolidated tax payment system can be applied is expanded from the subsidiaries under complete control by parent companies to subsidiaries under 90% control or more
- **(Date of Enforcement)** Jan. 1, 2024

E Adjustment of gross-up rate according to the reduction of the minimum corporate tax rate

- Gross-up rate is adjusted for the adjustment of double taxation on dividend income

- **(Adjustment Rate)** Gross-up rate was adjusted from 11% to 10% in line with the lowered corporate tax rate in 2023
- Revision is applied starting with income payments made on or after Jan. 1, 2024

F The same tax support provided to venture investment associations is also provided to private venture fund of funds

- For investments by a private venture fund of funds, the same tax support given to a venture investment association shall be provided.

- For shares of startups and venture businesses acquired through private venture fund of funds investment, the benefits of non-taxation of capital gains and 10% income deduction for investment are applied.
- Non-taxation of capital gains is applied starting with stock transfer or income payment on or after Jan. 1, 2024
- Income deduction is applied starting with tax base report or year-end tax settlement filed on or after Jan. 1, 2024

G

Introduction of the tax credit scheme for investment in overseas resource development

- The tax credit scheme for overseas resource development investment was introduced and implemented to strengthen resource security and promote the recovery of overseas resource development industry ecosystem.

- ▶ **(Eligibility)**

- Investment in mining right/mining concession acquisition
- Investment in foreign corporation for mining right/mining concession acquisition
- Foreign direct investment in foreign subsidiary by a domestic entity

- ▶ **(Exemption Rate)** 3% of investment amount

- ▶ Revision are applied starting with investments made on or after Jan. 1, 2024

H

Strengthened support for the repatriation of off-shore enterprises

- Strengthened tax support to promote the repatriation of Korean off-shore enterprises

- ▶ **(Expansion of Tax Credit)** Expansion of the income tax/corporate tax reduction rate and period (7 → 10 years)*

- * (Current) Reduction by 100% for 5 years + 50% for 2 years → (Revision) Reduction by 100% for 7 years + 50% for 3 years

- ▶ **(Easing of Business Type Requirement)** Ease the business type requirement for tax support to promote the reshoring of Korean off-shore enterprises accompanied by business restructuring

- * (Current) Same as the subcategories of the Korean Standard Industrial Classification

- * (Revision) Business types whose similarity is verified by a specialized committee recognized according to the Act on Assistance to Korean Off-shore Enterprises

- ▶ Revision is applied to startups or business establishments or expansions in Korea on or after Jan. 1, 2024

※ For more details on the **Major Changes in Tax Administration in 2024**, please refer to the Ministry of Economy and Finance website (www.moef.go.kr) < Policies Changing from the First Half of 2024 by the Ministry. If you plan to apply the relevant statute, please check whether the amendment has been finalized, modified, etc.

작 성 자

- 종합상담실 국세청 파견관 한송이
- 종합상담실 영문 에디터 이지민

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전화		02-1600-7119(대표)
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