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South Korea's Tax Reform for 2023 : Summary of Key Changes

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I. Introduction

Following the Ministry of Economy and Finance's (MOEF) release of the proposed bill last year on July 21 to amend to the tax laws and enforcement decrees, the National Assembly passed the 2023 proposed bill in 23 December 2022. We have provided a summary below of the changes that may affect foreign businesses and investors in Korea. [For your information, we have included a link for the Korean version of those amendments.]

▣ Summary

Category	Changes
Corporate income tax rate	Reduces by 1% for each tax bracket to 9% - 24%
Consolidated tax return	Reduces the shareholding requirement from 100% to 90%
Flat income tax rate for foreign workers	Allows 19% flat rate to be elected for 20 years instead of 5 years
Loss carryforward rate	Increases loss carryforward ceiling from 60% to 80% (100% for SMEs)
Income exclusion for dividend	Simplifies income exclusion rules for dividends from domestic companies and adopts a similar system for dividends from overseas companies
Employment tax credit	Simplifies the existing 5 types of tax credits to 2 types together with adjusted amounts
Securities transaction tax	Postpones the schedule for reducing the securities transaction tax during 2023 and 2024
Tax on digital assets	Postpones the 20% tax on income from selling or lending digital assets by 2 years from 2023 to 2025

II. Key Changes

1. Lower corporate income tax rate[1]

Starting for the fiscal year from 1 January 2023, the tax rate for each of the 4 brackets (which remain the same as before) is cut by 1% to promote investment and job creation by businesses.

Tax bracket	Before	After
KRW 200 million or under	10%	9%
Over KRW 200 million and up to KRW 20 billion	20%	19%
Over KRW 20 billion and up to KRW 300 billion	22%	21%
Over KRW 300 billion	25%	24%

2. Wider consolidated tax return[2]

Starting for the fiscal year from 1 January 2024, a parent company may consolidate its subsidiaries in Korea in its tax return if the parent directly and indirectly holds 90% of the issued and outstanding shares (excluding treasury shares). Here, indirectly holding must be through Korean subsidiaries and meet the 90% holding requirement for such intermediary subsidiaries. Before the amendment, the shareholding requirement was 100%.

3. Longer flat income tax rate for foreign workers[3]

Starting for the fiscal year from 1 January 2023, a foreign worker may elect to apply the flat 19% rate (20.9% including local income tax) on his/her personal income tax for 20 years from the date he/she first started working in Korea. Previously, it was limited to 5 years. Those who used up all 5 years previously can also take advantage of the flat rate up to the 20-year limit.

4. Higher loss carryforward[4]

Starting for the fiscal year from 1 January 2023, loss carryforward is increased to 80% of the net loss in a given fiscal year. Previously, the ceiling was set at 60%. For small and medium sized enterprises, it remains the same at 100%.

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[1] Article 55 of the Corporate Income Tax Act of Republic of Korea
[2] Article 2 and Article 76-8 of the Corporate Income Tax Act of Republic of Korea
[3] Article 2 and Article 76-8 of the Corporate Income Tax Act of Republic of Korea
[4] Article 13 of the Corporate Income Tax Act of Republic of Korea

5. Income exclusion for dividends from subsidiaries[5]

Starting for the fiscal year from 1 January 2023, any dividends received by a company from another domestic company may be excluded from its taxable income according to the rates provided in the following table, which greatly simplifies previous rules where distinctions were made based on company types. For the fiscal year 2023, the taxpayer may elect to use the previous rules.

Recipient's shareholding in distributor	Exclusion rate
50% or higher	100%
20% or higher and under 50%	80%
Under 20%	30%

In addition, any dividends received by a company from another foreign company may be excluded from its taxable income instead of getting a foreign tax credit if it meets certain criteria. It has a minimum shareholding requirement, generally 10%, and exceptions.

6. Simplified and more generous employment tax credit system[6]

Starting for the fiscal year from 1 January 2023, the 5 existing employment tax credits (new hire, social insurance, conversion to regular employment, career-interrupted women, and parental leave returners) are to consolidate into 2 employment tax credits—base tax credit for new regular hire (between KRW 4 million – 1,550 million per worker) and additional tax credit for regular employment conversion and parental leave returners (between KRW 9 million – 1,300 million per worker). Foreign workers are excluded. For a new regular hire, a higher tax credit is given for hiring the young (between 15 and 35 years old), the old (60 years old or older), the disabled and career-interrupted women. For the fiscal years 2023 and 2024, the taxpayer may elect to use the previous rules for the new hire and social insurance instead of the new rules.

7. Delayed securities transaction tax reduction[7]

The timeline of the securities transaction tax reduction has been adjusted as follows:

Category	2023		2024		2025 (onwards)	
	Before	After	Before	After	Before	After
KOSPI	0%	0.05%	0%	0.03%	0%	0%
KOSDAQ	0.15%	0.20%	0.15%	0.18%	0.15%	0.15%

[5] Article 18-2, Article 18-3 of the Corporate Income Tax Act of Republic of Korea
[6] Article 29-8 of the Restriction of Special Taxation Act of Republic of Korea
[7] Article 8 of the Securities Transaction Tax Act of Republic of Korea

8. Delayed imposition of tax on digital assets[8]

The imposition of 20% tax on income from transferring or lending digital assets (which is considered "other income") has been postponed by 2 years and is scheduled to begin on 1 January 2025.

[8] Article 21 of the Individual Income Tax Act, etc. of Republic of Korea

For Questions or Comments

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