



GMS Flash Alert

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South Korea - Changes in Flat Tax Rules and Top Income Tax Rate

Effective from January 1, 2017, revised rules are applicable to the flat tax rate election available to foreigners working in South Korea, which involve an extension of the sunset clause and an adjustment of the flat tax rate.¹ Also, the highest marginal income tax rate is amended and will apply to income in excess of KRW 500 million.

WHY THIS MATTERS

International assignment tax costs and budgets for companies with mobile employees and foreign workers in South Korea will be affected by the changes in the tax rates. International assignment cost projections and budgeting for assignments to South Korea and for assignees outside South Korea still subject to Korean taxation should take into account the changes described in this newsletter. With the changes to the top marginal tax rate, employers will need to make the necessary payroll adjustments and update hypothetical tax calculations for tax equalized assignees.

Extension of Sunset Clause and Adjustment of Tax Rate

The sunset clause of the flat tax rate application as of December 31, 2016, is being extended, but the flat tax rate is raised from 17 percent to 19 percent (i.e., 18.7 percent to 20.9 percent including local income tax).

Under the new changes, foreign workers (except for foreign workers who have a "special relationship"² with the employing entity) initially starting work in South Korea before December 31, 2018, can elect to have the 19-percent flat tax rate (20.9 percent including local income tax) apply for five consecutive tax years from the initial commencement of employment/assignment in Korea on the income earned while working in South Korea.

Foreign workers who started working in South Korea before January 1, 2014, and who are not subject to the five-year limitation according to the pertinent by-laws can elect to have the flat tax rate apply through December 31, 2018.

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New Highest Marginal Income Tax Rate

Effective from January 1, 2017, the new top marginal income tax rate of 40 percent (44 percent including local income tax) will be applied to incomes in excess of KRW 500 million. Previously, the highest marginal income tax rate was 38 percent (41.8 percent including local income tax) which was applicable to incomes in excess of KRW 150 million.

KPMG NOTE

- A foreign worker who starts to work in South Korea before December 31, 2018, can elect to have the flat tax rate applied for five consecutive tax years, including the first year he/she starts to work in the country. For example, if a foreign worker starts to work on any day in 2017, he/she can elect to have the flat tax rate apply through December 31, 2021.
- Foreign workers who had been “continuously” working as at January 1, 2014, were not subject to the five-year limitation. Under the new rule, they will be able to elect to have the flat tax rate until December 31, 2018, and no longer. Those who started work on or after January 1, 2014, can now benefit from five consecutive years of flat tax.
- The flat tax rate is only applicable to Korean-sourced employment income earned by foreign workers in South Korea.
- The tax costs for foreign employees with high levels of earnings who are not eligible for the flat tax rate election could be affected by the changes in the top marginal income tax rate.

FOOTNOTES:

1 Special Tax Treatment Control Law §18-2②.

2 The definition of “special relationship” is set forth in the relevant Enforcement Decree released in January 2014 to limit the scope of eligible foreign workers for flat tax rate election purposes. A foreign worker will be viewed as having a “special relationship” with the employing entity in the following cases:

- In the case of a corporation, the corporation is directly or indirectly owned by the foreign worker (i.e., when the stock ownership ratio is 30 percent or higher); or,
- In the case of an individual business, the business is run by an individual who is a family member or a relative of the foreign worker.

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KRW 1 = EUR 0.000798

KRW 1 = USD 0.000845

KRW 1 = AUD 0.00114

Contact us

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The information contained in this newsletter was submitted by the KPMG International member firm in South Korea.

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