



# Mobility: Tax alert

August 2022

## South Korea

### 2022 tax reform proposals – Significant changes announced

#### Executive summary

On 21 July 2022, Korea's Ministry of Economy and Finance announced the 2022 tax reform proposals (the 2022 Proposals).

The proposals outlined several significant potential changes, including the following:

- The five-year application period limitation for special taxation of foreign workers would be terminated from 1 January 2023.
- Introduction of the financial investment income tax would be deferred from its current expected start date of 1 January 2023 to 1 January 2025.
- Introduction of the tax on virtual assets will be deferred from its current expected start date of 1 January 2023 to 1 January 2025.

It is still unclear whether these proposals will become law, but these should still be closely monitored by taxpayers to ensure they are adequately prepared in the event they are legislated.

#### Termination of the application period limitation for special taxation for foreign workers

The 2022 Proposals repeal the five-year application period limitation for special tax on wage income generated on or after 1 January 2023. This means that a foreign worker who starts working in Korea before 31 December 2023 would be able to elect the 20.9% flat tax rate permanently from tax year 2023, regardless of how many years passed from the work start date in Korea.

Under the current rules, a foreign worker who starts to work in Korea before 31 December 2023 can choose between the progressive rates ranging from 6.6% to 49.5% (including local income tax) after deductions and credits, or the 20.9% flat tax rate (including local income tax) applied on their employment income sourced in Korea for five consecutive tax years from the date the person first starts to work in Korea, without any deductions nor credits.

#### Deferral of financial investment income introduction

The 2022 Proposals include a deferral to the introduction of financial investment income taxation category until 1 January 2025.

Under the current Income tax law, a new tax would be levied on financial investment income, being income arising from the transfer of financial investment instruments such as securities, bonds, investment contracts and derivatives, effective from 1 January 2023.

In the event the proposals do not become law, this tax will apply with effect from 1 January 2023. Should this occur, the following major changes would take effect:

- Capital gains arising from foreign stock transactions will be re-classified as financial investment income (it is currently classified as capital gain income).
- Capital gains arising from domestic listed stock transactions through stock markets will be subject to income tax as financial investment income (it is currently exempted from income tax).

- Capital gains arising from the redemption of collective investment vehicles will be re-classified as financial investment income (it is currently taxed as dividend income).
- Financial investment loss will be carried forward up to 5 years (currently there is no capital losses carried forward).

#### Deferral of taxation on virtual assets

The 2022 Proposals provide the deferral of taxation on virtual assets from 1 January 2023 to 1 January 2025.

Under the current law, gains derived from the disposal of virtual assets or income earned by renting virtual assets (virtual assets income) will be categorized as "other income" and subject to income tax from 1 January 2023. Currently, capital gains or rental income derived from virtual assets are not subject to income tax. In the event these proposals do not become law, the following would take effect from 1 January 2023:

- For Korean tax residents, virtual assets income will be separately taxed at 22% after basic deduction of KRW 250 million.
- For Korean tax non-residents, virtual assets income will be subject to withholding tax at the lesser of 11% of the transfer price or 22% of the net capital gains.

#### Next steps

As the opposition party holds the majority of seats in the National Assembly, it is possible that the 2022 Proposals will be subject to change during the legislative procedures, as compared to previous years when the ruling party held the majority seats in the National Assembly. Taxpayers should ensure they closely monitor the proposals.

Should you have any queries or seek further discussion, please do not hesitate to contact your EY advisor or one of the contacts detailed below.

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