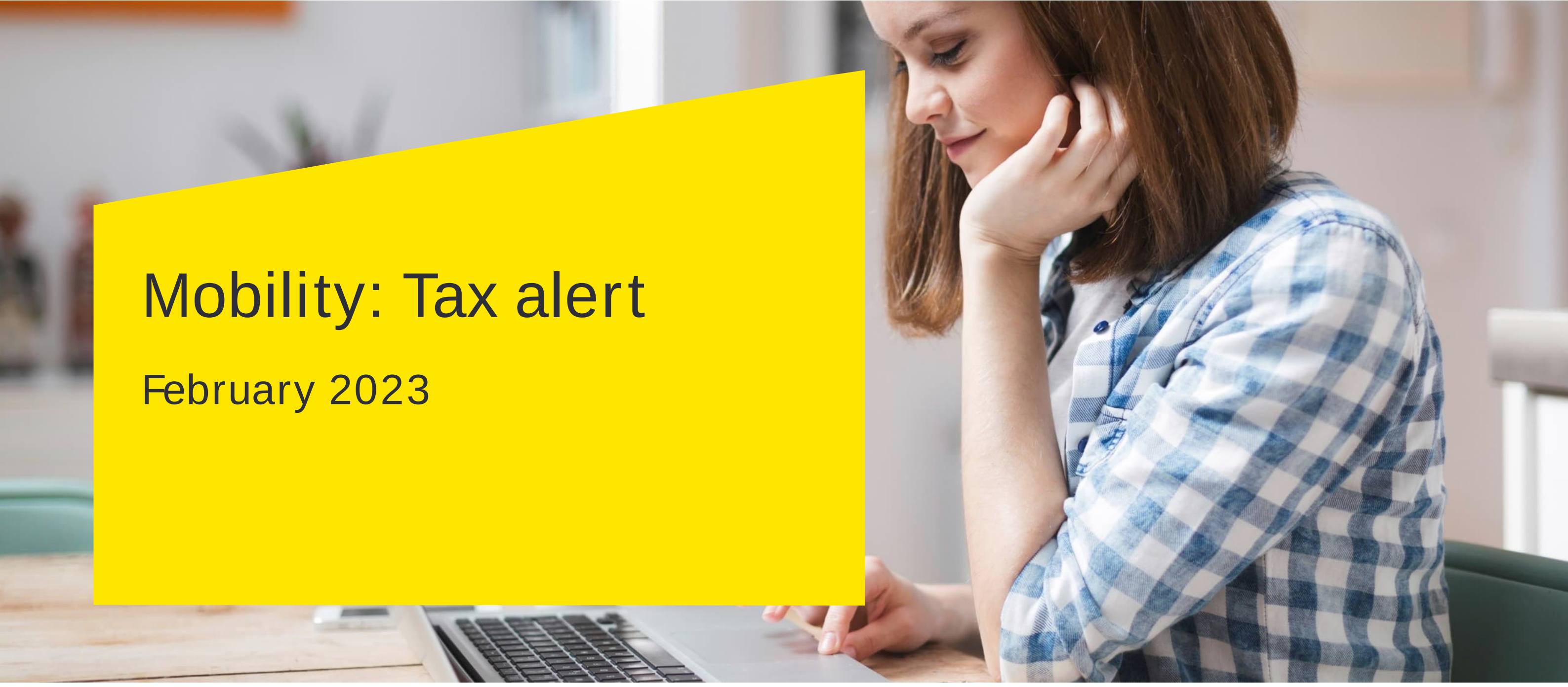

# Mobility: Tax alert

February 2023

# South Korea

## National Assembly passes significant 2022 tax reform bills

Executive summary

On 23 December 2022, Korea's National Assembly passed the 2022 tax reform bills from the government with some amendments.

The finalized 2022 tax reform bills outlined several significant changes, including the following:

- The five-year application period limitation for special taxation of foreign workers will be extended to 20 years from 1 January 2023.
- Introduction of the financial investment income tax will be deferred from its expected start date of 1 January 2023 to 1 January 2025.
- Introduction of the tax on virtual assets will be deferred from its expected start date of 1 January 2023 to 1 January 2025.

The final bills legislated contained several changes from the original tax reform proposals announced on 21 July 2022.

20-year extension of the application period limitation for special taxation for foreign workers

The 2022 tax reform bills extend the five-year application period limitation to a twenty-year period limitation for special tax on wage income generated on or after 1 January 2023. This means that a foreign worker who commenced working 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 20 consecutive tax years from the date the person first starts to work in Korea, without any deductions nor credits.

Under the previous rules until 31 December 2022, a foreign worker who commenced working in Korea before 31 December 2023 could elect the 20.9% flat tax rate for up to 5 consecutive tax years from the date the person first started to work in Korea.

These changes differ from the original 2022 government proposals in that the original proposals would have allowed a foreign worker that commenced work in Korea before 31 December 2023 to elect the 20.9% flat tax rate permanently. However, this ended up being capped at 20 years as part of the legislative process.

Deferral of financial investment income introduction

The 2022 tax reform bills include a deferral to the introduction of financial investment income taxation category until 1 January 2025. This means 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 2025.

From 1 January 2025, 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 will be subject to income tax as financial investment income (it is currently exempted from income tax if the seller is not a 'major shareholder').
- 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).

Building a better working world

- Financial investment loss will be carried forward up to 5 years (currently there is no capital losses carried forward).

Currently a 'major shareholder' subject to domestic listed stock capital gain taxation means a shareholder who constructively holds specific listed company stock that value exceeds KRW 1 billion or whose percentage of share ownership exceeds 1 % if it is listed in KOSPI, 2% if listed on KOSDAQ, or 4% if listed on KONEX.

The original 2022 government announcement had proposed to further ease taxation on the domestic listed stock transaction acquired through the stock market from 1 January 2023, but this measure was removed as part of the legislative process.

### Deferral of taxation on virtual assets

The 2022 tax reform bills provide for the deferral of taxation on virtual assets from 1 January 2023 to 1 January 2025.

This means gains derived from the disposal of virtual assets or income earned by renting virtual assets will be categorized as "other income" and subject to income tax from 1 January 2025.

From 1 January 2025, the following major changes would take effect:

- 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

Current and future foreign workers in Korea and their employers may need to re-evaluate foreign workers' tax cost in Korea and elect the flat tax rate from the 2023 tax year.

Taxpayers who will be affected by financial investment income introduction and taxation on virtual assets should closely monitor developments, including whether there are further amendments.

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.

Jee Young Chung
Tel: +82 2 3787 4004
Email: jee-young.chung@kr.ey.com

Geon Haeng Lee
Tel: +82 2 3787 4006
Email: geon-haeng.lee@kr.ey.com

Soo-Hyun Heo
Tel: +82 2 3787 4684
Email: Soo-Hyun.Heo@kr.ey.com



EYG no. 000841-23Gbl

2101-3682263
ED None