

Tax Reform for 2025 – DMTT

On July 31, 2025, the Ministry of Economy and Finance of Korea (MOEF) announced the Tax Reform Proposal for 2025. This proposal includes legislation for the introduction of a **Domestic Minimum Top-up Tax** (DMTT) regime in connection with the Global Minimum Tax (GloBE Rules). The draft legislation is scheduled to undergo a public consultation period from August 1 to August 14 and is expected to be submitted to the National Assembly before September 3. It should be noted that the contents of the proposal represent draft amendments to Korean tax laws announced by the Korean government and may be subject to change during the remaining legislative process, including deliberation by the National Assembly. The key legislative provisions related to DMTT are summarized below.

Introduction of the DMTT

Background

In an effort to secure taxing rights over low-taxed constituent entities located in Korea under the existing Global Minimum Tax regime, the Korean government announced that it will implement a DMTT starting from 2026 in the current tax reform proposal

The newly introduced DMTT regime in Korea will apply in priority to the existing Income Inclusion Rule (IIR) and Under-Taxed Profit Rule (UTPR) that are already in effect.

Scope

The DMTT may apply to a multinational enterprise (MNE) group that (i) has consolidated revenues of at least EUR 750 million in two or more of the four preceding fiscal years, and (ii) has low-taxed constituent entities located in Korea.

Accordingly, the DMTT applies to the following groups:

1. Korean constituent entities (CEs) of foreign-headed MNE groups (i.e., foreign-invested companies in Korea), and
2. Domestic MNE groups where the Ultimate Parent Entity (UPE) is located in Korea. In such cases, the UPE and other Korean CEs are subject to the DMTT.

This regime is scheduled to apply to fiscal years beginning on or after January 1, 2026.

Contents of the Draft Legislation

The recently announced draft legislation on the Domestic Minimum Top-up Tax (DMTT) constitutes an amendment to the International Tax Coordination Law (ITCL), which currently provides the framework for IIR and UTPR under the Global Minimum Tax regime. The key provisions of the draft are summarized below. Details not covered in this proposed ITCL amendment are expected to be further clarified in the upcoming Enforcement Decree and Enforcement Regulation to be issued by the government.

Overview

If the effective tax rate (ETR) of a Korean CE of an MNE group falls below the Global Minimum Tax rate of 15%, a Domestic Minimum Top-up Tax (DMTT) must be calculated and paid. The calculated top-up tax amount is allocated to, and imposed on, each Korean CE. In a case of an MNE group headquartered in Korea, the DMTT amount is determined based on the combined financials of all Korean CEs, including the UPE.

Calculation and Allocation of the Domestic Minimum Top-up Tax

$$\text{DMTT} = [\text{Minimum tax rate}(15\%) - \text{ETR of domestic constituent entities}] \times \text{Excess profit}^* + \text{Additional Current Top-up Tax}$$

* The amount remaining after excluding the substance-based income exclusion (from Net GloBE Income, based on a specified percentage of a constituent entity's payroll and net carrying value of eligible tangible assets)

[The Allocation Method of the DMTT]: Select either ❶ or ❷

❶ Statutory Allocation: Allocation based on relative contribution* to the DMTT

* Allocated in proportion to each constituent entity's income for the fiscal year, as prescribed by Enforcement Decree to be released

❷ Designated Allocation: Allocation based on mutual agreement among domestic constituent entities

Safe harbour

- Transitional CbCR Safe harbour: If the existing transitional safe harbour based on Country-by-Country Reporting (CbCR) applies to Korea, the same exemption will also apply for purposes of the DMTT.
- Permanent Safe harbour: The relevant rule has not been adopted yet. Detailed provisions are expected to follow after the OECD establishes the final framework for permanent safe harbour.

Filing and Payment of the DMTT

- A constituent entity that is obligated to file the DMTT (including allocated top-up amounts) must submit a tax return to the competent district tax office within 15 months following the end of the relevant fiscal year (18 months for the first year of application).
- The current amendment to the ITCL does not include any advance filing requirements, such as the entity registration or designation of filing entity, which are required under some other

DMTT regimes (e.g., Vietnam, the United Kingdom).

Effective date

- The DMTT regime will apply to fiscal years beginning **on or after January 1, 2026**.

Legislative Policy Direction and Expected Future Developments

Overview

DMTT regimes implemented by each jurisdiction will take priority over IIR and the UTPR if they are formally recognized as a Qualified Domestic Minimum Top-up Tax (QDMTT) through the peer review process agreed upon under the OECD Inclusive Framework. The Korean MOEF has set its legislative direction with the clear objective of ensuring that Korea's DMTT regime qualifies as a QDMTT. To this end, Korea intends to faithfully adhere to the OECD's administrative guidance in its domestic legislation. The OECD guidance distinguishes between:

- Mandatory provisions, which must be satisfied for QDMTT recognition, and
- Discretionary provisions, under which jurisdictions may depart from the GloBE Rules within certain limits.

The Korean government has indicated that its DMTT legislation will not diverge from the OECD GloBE Rules even in areas where discretion is permitted (i.e., Discretionary provisions), further reinforcing its intention to align fully with the global standards. In line with this policy direction, the following provisions are expected to be included in Korea's forthcoming Enforcement Decree and Enforcement Regulation

Mandatory variations

- **Taxable Ownership Interest:** Under the OECD GloBE Rules (specifically, the IIR), top-up tax is imposed only in proportion to the ownership interest held by the MNE group in a low-taxed constituent entity. However, under the QDMTT regime, the full amount of top-up tax arising from domestic constituent entities is subject to taxation, regardless of the MNE group's ownership percentage.
- **Prohibition on Cross-border tax Allocation:** Under the OECD GloBE Rules, covered taxes imposed on the income of a foreign subsidiary under a local CFC regime may be allocated to the jurisdiction of that subsidiary. In contrast, such allocation is not permitted under the QDMTT regime. (On the other hand, Korean withholding tax imposed on dividends paid by a domestic constituent entity to a foreign constituent entity will be recognized as covered taxes of Korean CE for QDMTT purposes in Korea.)

Optional variations

- **Accounting Standards:** It is expected that the financial accounting standard used for purposes of the Consolidated Financial Statements of the UPE will be required for DMTT computation purposes, except where it is not reasonably practicable to use such accounts (in accordance with Article 3.1.2 and 3.1.3 of the Model Rules). While the OECD Model Rules allow jurisdictions, when enacting DMTT legislation, the discretion to permit the use of local GAAP for this purpose, it is expected that Korea will not exercise this discretion.
- **Applicable Currency:** Although the top-up tax may be calculated in the local currency of the jurisdiction, the Korean regime follows the OECD GloBE Rules by requiring that the top-up tax be calculated in the UPE's functional currency, with only the amount payable under the

DMTT converted into Korean won (KRW) for payment purposes.

- In-Scope Entities: Entities such as joint ventures, minority-owned constituent entities, investment entities, stateless entities, and securitization entities may be excluded from the scope of DMTT under the OECD guidance. However, Korea intends to follow the GloBE Rules by including all such entities within the scope of the DMTT regime.
- Top-up tax calculation methodology that results in a higher top up tax: While jurisdictions may adopt method of the top-up tax calculation that may derive higher top up tax amount—e.g., by denying the substance-based income exclusion or by narrowing the consolidation unit—Korea does not intend to adopt such variations and will maintain full alignment with the OECD GloBE methodology.

(*) The above expected provisions should be continuously monitored for future developments.

Observations

The DMTT regime applies to MNE groups that have low-taxed constituent entities located in Korea, regardless of the location of the UPE. Accordingly, the DMTT applies not only to Korean constituent entities with foreign UPE, but also to all Korean constituent entities with Korean UPE, including the Korean UPE itself.

In particular, where Korean constituent entities applying **K-IFRS** are subject to the DMTT regime, it is important to **assess the impact of the regime on financial disclosures starting from the Q1 2026 reporting period**. Additionally, those entities must ensure timely compliance with DMTT filing and payment obligations.

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