Korea Tax Updates / Upcoming Tax Developments to Monitor

Korea May Extend the Statute of Limitations When Multinational Companies Refuse to Submit Tax Audit Documents

The Korean National Tax Service (NTS) has prioritized combating offshore tax evasion and strengthening its international tax enforcement capabilities. The NTS believes the current enforcement methods are insufficient because some multinational companies continue to:

- refuse to submit basic accounting records and supporting documents;
- claim that the requested information is held by their overseas headquarters; and
- later produce only favorable evidence during administrative appeals or litigation

To address this issue, the NTS has proposed amending the tax law to **extend the statute of limitations for tax assessments** where taxpayers intentionally delay the submission of information for tax avoidance purposes.

The proposal has been submitted to the Ministry of Economy and Finance and may be included in the upcoming annual tax reform package.

The Korean Government is Undertaking a Comprehensive Review to Eliminate Unnecessary Tax Incentives

- Tax incentives for EVs and hybrid vehicles may be reduced or replaced with direct subsidies.
- The 19% flat tax regime for foreign employees may be increased to improve tax equity with domestic employees.
- The government intends to redirect fiscal resources saved from reducing existing tax expenditures toward economic security initiatives, including strengthening domestic manufacturing and supply chains. A key new measure under consideration is a **Domestic Production Promotion Tax Regime.**

Details of these measures are expected to be announced as part of the July 2026 tax reform package.

Adjustment of upper and lower monthly wage base for National Pension contributions

Please be informed that the cap amount of National Pension contributions has been adjusted, effective as of July 1, 2026.

The National Pension contributions are calculated based on the monthly wage, and the wage bracket has been revised. The wage bracket for National Pension contribution is adjusted on a yearly basis by reflecting an average wage of the past three years for the entire National Pension participants (the actual amount of monthly wage should be reported with National Pension Service on a regular basis). The upper and lower limit of monthly wage base are adjusted as follows:

(Unit: KRW)

	2025.7.1~2026.6.30 (Before)		2026.7.1~2027.6.30 (After)	
	Monthly Wage Base	Monthly National Pension*	Monthly Wage	Monthly National Pension*
Upper limit	6,370,000	286,650	**6,590,000**	**313,020**
Lower limit	400,000	18,000	**410,000**	**19,470**

* Effective January 1, 2026, the National Pension contribution rate for each employer and employee increased from 4.5% to 4.75% of the monthly wage base.

As of July 1, 2026, an employee who earned the monthly wage of KRW 410,000 or less, his monthly wage base will be KRW 410,000 for the purpose of calculation of National Pension contributions. If an employee who earned the monthly wage of KRW 6,590,000 or more, his monthly wage base will be KRW 6,590,000 for National Pension contributions.

Recent Tax Rulings

Non-Taxable Treatment of Discount Benefits Provided to Officers and Employees

Two recent authoritative interpretations from the NTS address the scope of the non-taxable treatment introduced for discount benefits received by officers and employees.

Ruling 1: Employee Product Allowances and In-Kind Product Grants

(Seomyun-2025-Wonchun-5065, June 8, 2026)

Key Takeaways

- The taxpayer, a beverage import and distribution company, operated two employee welfare programs: a “product grant program” under which employees received internal points (redeemable only for the company's own products, with unused points forfeited at year-end) and a “product purchase allowance program” under which employees were reimbursed up to KRW 600,000 per year for purchases of the company's products made at outside retailers.
- The NTS confirmed that the economic benefit employees and officers (limited to the employee personally) receive from acquiring the company's products at less than fair market value under either program is, in principle, subject to employment income taxation under Article 20(1) of the Income Tax Act.
- However, the combined amount calculated as the greater of (i) 20% of the fair-market-value of the goods/services purchased at a discount, or (ii) KRW 2.4 million per year, qualifies for non-taxable treatment under Article 12(3) of the Income Tax Act and Article 17-5 of its Enforcement Decree — provided the underlying statutory conditions (personal consumption use, non-resale restriction period, and a uniform company-wide benefit standard) are satisfied.
- This is a useful confirmation that point-based in-kind benefit programs and cash reimbursement-style purchase allowance programs are treated consistently for purposes of the non-taxable cap, so long as both programs satisfy the statutory eligibility conditions.

Ruling 2: Discounted Medical Treatment Fees at a University Hospital

(Seomyun -2026-Wonchun-0018, June 8, 2026)

Key Takeaways

- A national university hospital's discount on medical treatment fees for employees and their families is, in principle, taxable employment income, except for a limited non-taxable amount.
- The applicable “fair market value” for medical services under Article 38(4) of the Enforcement Decree of the Income Tax Act, by reference to Article 52(2) of the Corporate Income Tax Act, is the total amount borne by the patient (i.e., co-payment plus non-covered expenses), not the total treatment cost including the National Health Insurance Service's portion.

- Only the discount benefit received by the employee personally (not by family members) qualifies for the non-taxable treatment under Article 12(3) of the Income Tax Act and Article 17-5 of its Enforcement Decree.
- The non-taxable cap equals the greater of (i) 20% of the fair market value of goods/services purchased at a discount, or (ii) KRW 2.4 million per year.
- Discounts on medical fees for an employee's family members (spouse, lineal ascendants/descendants, etc.) are fully taxable as employment income, with no non-taxable portion.
- Amounts treated as non-taxable under this rule are excluded from the medical expense tax credit base under Article 59-4(2) of the Income Tax Act.

These rulings clarify the practical application of the 2025 amendment that newly recognizes a portion of employee discount benefits as non-taxable income, replacing the prior treatment under which the entire discount amount was taxed as employment income. Companies operating employee welfare programs involving discounted goods or services—including in-kind product grants, purchase allowance reimbursements, and discounted in-house medical services—should review whether their programs satisfy the two statutory conditions for non-taxable treatment: (i) the goods/services are for the employee's own personal consumption and are non-resalable for a prescribed period, and (ii) a uniform benefit standard applies to all officers and employees. Benefits extended to family members remain fully taxable in all cases, and companies should ensure correct withholding and year-end settlement treatment going forward.

Recent Court Decisions

1. Software Licensing Income — Income Characterization and Beneficial Ownership (Supreme Court 2026Du30008, April 30, 2026, affirming Seoul High Court 2023Nu34523)

Key Takeaways

- The Supreme Court affirmed the Seoul High Court's ruling that a Korean software distributor's payments to its Irish regional licensing affiliate constituted royalty income, but that the Irish entity (rather than the U.S. ultimate IP owner) was both the beneficial owner and the substantive recipient of that income.
- Software distribution payments may be characterized as royalty (rather than business/sales) income where the licensee is granted reproduction, modification (localization/customization), public performance, and sub-licensing rights — even absent direct access to source code — because such rights replicate elements of the exclusive rights ordinarily reserved to a copyright holder.
- Indicators supporting royalty characterization included: the licensing agreement's express framing of payments as “sub-license fees”; the taxpayer's own historical withholding tax filings and auditor disclosures characterizing the payments as royalties; and consistent treatment of materially identical payments as royalty income by affiliated distributors in other jurisdictions.
- On beneficial ownership, the regional licensing affiliate was found not to be a mere conduit. Although it remitted a substantial share of receipts to an upstream IP-holding

affiliate, no contractual or legal obligation required it to pass on the funds dollar-for-dollar, it retained and used the funds (including for substantial operating expenses, working capital, and risk-bearing activities), and it had genuine personnel, office infrastructure, and decision-making authority (including a regional operating branch with several hundred employees).

- The decision illustrates that a sizeable employee base, retained earnings, independent governance (e.g., board resolutions), and bearing of commercial risk (credit, inventory, foreign exchange) are central to rebutting a “conduit company” challenge — distinguishing the case from prior rulings finding non-beneficial-owner status where the intermediate entity was a mere pass-through with negligible substance.

This decision — reaching the opposite conclusion from an earlier ruling involving the same multinational group's predecessor licensing structure (Seoul Administrative Court 2017Guhab55275 and related cases) — underscores that beneficial ownership determinations are highly fact-specific and substance-driven. Multinational groups using regional licensing or distribution hubs should ensure that the relevant entity maintains demonstrable personnel, decision-making authority, and risk-bearing functions, and should carefully document the basis for any inter-affiliate royalty pass-through arrangements to avoid conduit characterization.

2. Retroactive Application of the Amended Flat Tax Rate Special Rule for Foreign Employees (Supreme Court 2026Du30395, June 11, 2026, affirming Seoul High Court 2025Nu7793)

Key Takeaways

- The Supreme Court affirmed the Seoul High Court's ruling that that the December 31, 2022 amendment to Article 18-2(2) of the Restriction of Special Taxation Act — which removed the prior time limitation on the flat tax rate special regime for foreign employees — applies only to taxable periods beginning on or after its statutory effective date of January 1, 2023, and cannot be applied retroactively to earned income for taxable years prior to that date.
- The taxpayer, a foreign national, sought a refund by retroactively applying the amended (unlimited-duration) flat tax rate special treatment to 2019 earned income, arguing that the transitional provision (Article 10 of the amendment's addenda), which refers broadly to a “20-year” period from the date of first providing services in Korea, was intended to extend the special treatment's temporal scope retroactively.
- The court rejected this argument, holding that the 20-year reference in the transitional provision is properly construed as describing the period of service in Korea (i.e., eligibility duration), not as broadening the taxable periods to which the substantive rate benefit applies — distinguishing eligibility duration from temporal scope of application.
- The court reasoned that the legislative purpose of the amendment — facilitating the inflow of skilled foreign workers by removing the prior sunset limitation — would not be served by retroactively extending tax benefits to income from services already rendered in past years, since the effect of a tax benefit operates prospectively.
- The court noted that even where the Ministry of Economy and Finance's legislative proposal described the amendment as enabling foreign employees to “permanently” benefit from the special tax treatment going forward, this did not establish legislative intent to apply the amended rate retroactively to closed prior tax years.

- Because the transitional provision did not depart in substance from the format of prior addenda provisions (merely restating the sunset date in open-ended form consistent with the substantive amendment), the court found no basis to read it as also expanding the temporal (taxable period) scope of the special treatment.

This decision confirms that the 2023 liberalization of the foreign employee flat tax rate special regime operates prospectively only, and reinforces a narrow, plain-meaning approach to interpreting transitional provisions in tax legislation — courts will not infer retroactive application from ambiguous addenda language absent clear legislative intent, even where doing so might appear consistent with the policy rationale behind an amendment. Foreign nationals and their employers should take care to apply the correct version of the flat tax rate rules based on the taxable year in question and should not assume that subsequent liberalizing amendments automatically extend to reopen or refund tax already assessed for earlier, closed taxable periods.

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