

Invest Korea

June 2021


James Kim

Chairman & CEO
American Chamber of
Commerce in Korea
(AMCHAM Korea)

A portrait of James Kim, Chairman & CEO of AMCHAM Korea. He is a middle-aged man with dark hair, wearing a dark pinstriped suit jacket, a light blue shirt, and a patterned tie. He is sitting at a wooden table with his hands clasped in front of him. He is smiling slightly and looking directly at the camera. A gold watch is visible on his left wrist.

**Cultivating Solid Partnerships
for Sustainable Growth**

Solid Economic Fundamentals of Korea
Content Innovation Accelerated by COVID-19 and K-Contents Preparing for the Post-Coronavirus Era
Cheongju Urban Hi-Tech Cultural Industrial Complex, A Hub of Education and Cultural Contents Industries


 Three light-colored wooden blocks are arranged in a row, spelling out the word 'TAX' in large, dark brown, serif capital letters. The blocks are resting on a blurred background of a tax form, likely a US Form 1040, with a black pen lying diagonally across the top left. The form contains various fields and text, including '1040', 'Department of the Treasury', 'Internal Revenue Service', and 'Filing Status'.

Overview of the Tax System in Korea

Taxes are similar globally in that they are the main source of revenue for the government, however, there are countless differences among countries since the tax system is tailored towards the characteristics and needs specific to their country, down to states or cities. Thus, in this issue, the main purpose is to explain the general tax environment of Korea in a simplified manner, to give you the basics on what you need to know in order to understand how the tax system works in Korea.

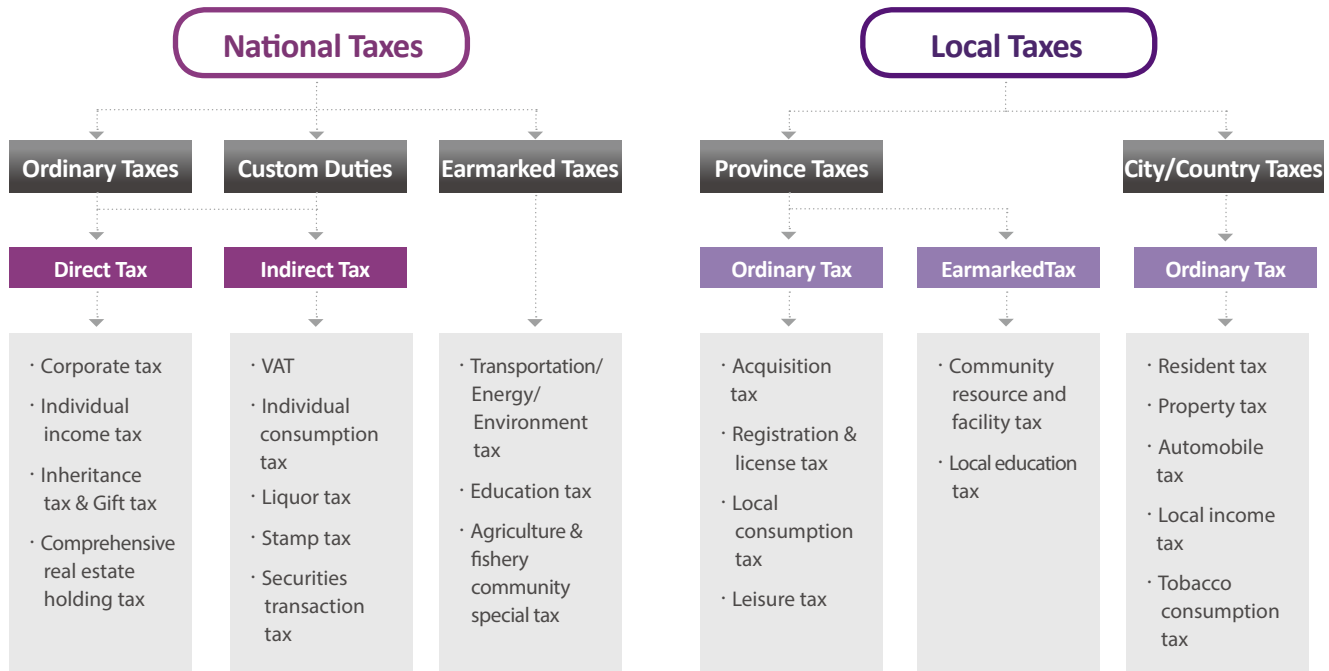
In Korea, taxes comprise of national and local taxes:¹ national taxes consist of three groups: (1) ordinary taxes; (2) custom duties; and (3) earmarked taxes. Within ordinary taxes, there are two broad categories (a) direct taxes, which includes corporate tax, individual income tax, comprehensive real properties tax and inheritance and gift tax; and (b) indirect taxes, which includes value-added tax (“VAT”), individual consumption tax, liquor tax, stamp tax and securities transaction tax. Earmarked taxes comprise of transportation, energy and environment tax, education tax, and agriculture and fishery community special tax.

Direct taxes apply when the income is directly taxed and the taxpayer pays directly to the government. For instance, in terms of corporate taxes, the company needs to pay tax on the income earned by the company to the

government. For individual income tax, the individual needs to pay tax on the income earned by the individual to the government. In contrast, indirect taxes are taxes on transactions rather than directly on the income. For instance, liquor tax or VAT are paid to the tax authorities by entities in the supply chain, but the actual tax liabilities are passed on to final consumers as part of purchase prices of goods or services. Within the same category of indirect tax, individual consumption tax is imposed on specific goods such as alcohol, automobiles or cigarettes. Ultimately, indirect taxes are born by the end consumers rather than the entity or the person who receives the income.

Local taxes consists of (1) province taxes and (2) city/county taxes in Korea. Province taxes consist of ordinary taxes such as acquisition tax, local consumption tax, local income tax, and registration and license tax. The city/county taxes include resident tax, property tax, automobile tax, local income tax and tobacco consumption tax. Two major taxes that our readers may be familiar with are local income tax, which functions as a surtax in respect of the corporate tax or individual income tax; and acquisition tax, as the name suggests, is paid by persons who are acquiring items such as real estate, motor vehicles, heavy equipment, golf memberships, etc.

¹ Please note that this is not an exhaustive list of all the taxes.



The following table summarizes the different types of taxes in Korea.

In terms of the relevant government authorities concerned, first there is the Tax and Customs Office in the Ministry of Strategy and Finance, which directs national tax policies and legislates tax laws. Then, there is the National Tax Services established under the Ministry of Strategy and Finance and concentrates on enforcement of taxes policies.

Korea operates a self-assessment system for both corporations and individuals, meaning there is no process for the tax administration to formally determine the taxable income and tax liability. Corporations are required to file corporate income tax returns to the relevant tax office within 3 months from the end of the fiscal year. Individuals who have salary income only are not required to file individual tax returns. Rather, the employers will perform a year-end settlement procedure in which individuals' income and taxes are calculated by the employers on behalf of the individuals. Any refunds or credits are also settled through employers. Individuals who are self-employed or have passive income exceeding a certain threshold are required to file a comprehensive income tax return during May of year after the taxable year. The statute of limitations, which is essentially the time in which the tax authority may take

actions against a taxpayer or taxpayers can take actions against the tax authorities for refunds or credits is 5 years.

The tax system itself in Korea may not be drastically different from the tax systems of other countries. However, when getting into the specific items or substantive matter of the tax laws, there are major differences that exist that at times make taxes unapproachable. Hopefully, after reading this article, you have a slightly better understanding of how taxes are organized in Korea.



By Dr. Sun Young (Sunny) Kim
Senior Foreign Attorney, Shin & Kim LLC
syokim@shinkim.com

** The opinions expressed in this article are the author's own and do not reflect the views of KOTRA*