



2025 Korean Tax Reform: Key Changes for Foreign Investors and Multinational Corporations

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The Korean government has unveiled comprehensive tax reforms for 2025 that will significantly impact foreign-invested enterprises and their parent companies. The reform package, which aims to generate an additional KRW 35.6 trillion in revenue by 2030, represents a fundamental shift toward strengthening the national tax base while enhancing compliance requirements for international businesses.

These proposed amendments to the tax law are expected to be submitted to the National Assembly in September 2025 and the details of the proposed tax reform may be subject to change during the legislative process. The final reform package is expected to come into effect at the end of 2025.

1. Enhancements to the Integrated Employment Tax Credit

The integrated employment tax credit system is being restructured to better incentivize long-term workforce development and retention, particularly benefiting foreign investors expanding their Korean operations.

Progressive Credit Structure

The reformed system introduces a graduated benefit model where tax credits increase incrementally over a three-year period for small and medium-sized enterprises (SMEs) and mid-sized companies (two years for large companies) when employment levels are maintained. This departure from the current flat-rate structure creates stronger incentives for sustained employment growth rather than short-term hiring.

Category	Current					Proposed			
	SME					SME			
	Metropolitan Area	Non-Metropolitan Area	Mid-Sized	Large	Metropolitan Area	Non-Metropolitan Area	Mid-Sized	Large	
Youth	1 st year	1,450	1,550	800	400	700	1,000	500	300

(15-34 years), disabled, seniors above 60	2 nd year					1,600	1,900	900	500
	3 rd year					1,700	2,000	900	
Others	1 st year	850	950	450		400	700	300	
	2 nd year					900	1,200	500	
	3 rd year					1,000	1,300	500	

Actual Employment Period Criterion

A significant operational change shifts the qualification standard from employment contract period to actual working periods. Under the new framework, employees qualify for credit purposes only after completing one full year of actual service, eliminating potential manipulation through contract structuring.

Minimum Growth Thresholds for Larger Enterprises

Mid-sized companies must now demonstrate minimum annual employment increases of five full-time positions, while large companies face a ten-employee threshold. Tax credits apply exclusively to new hires exceeding these baseline requirements, concentrating benefits on substantial workforce expansion.

Enhanced Post-Employment Flexibility

The reform eliminates the previous “all-or-nothing” clawback mechanism. If workforce reductions occur during the credit period, companies lose benefits only for the reduced portion while retaining credits for maintained employment levels. This provides greater operational flexibility during business cycles.

Extended Duration

The integrated employment tax credit program receives a three-year extension through December 31, 2028, providing certainty for foreign investors’ medium-term expansion planning.

The proposed changes will apply to tax credits that are claimed from the tax year beginning on or after January 1, 2026.

2. Restoration of Corporate Tax Rate to Pre-2022 Levels

A comprehensive increase in corporate income tax rates across all brackets is being implemented, marking a clear

departure from the previous administration's tax reduction policies.

Uniform Rate Adjustments

All corporate tax brackets will increase by one percentage point: the lowest bracket rises from 9% to 10%, while the top rate increases from 24% to 25%. This restoration to 2022 levels affects companies regardless of size, with particular impact on large multinational operations.

Tax Base (KRW)	Marginal Tax Rates	
	Current	Proposed
Up to 200 million	9%	10%
Over 200 million to 20 billion	19%	20%
Over 20 billion to 300 billion	21%	22%
Over 300 billion	24%	25%

Revenue Generation and Economic Context

The government projects this measure will generate approximately KRW 4.3 trillion in additional annual revenue. This comes as Korea faces its third consecutive year of tax revenue shortfalls, with corporate tax collections dropping from KRW 103.5 trillion in 2022 to KRW 62.5 trillion in 2024.

3. Increase in Securities Transaction Tax Rates

Securities transaction tax rates are being restored to 2023 levels following the abolition of the financial investment tax. This measure is expected to directly affect foreign portfolio investments in the Korean market.

Market-Specific Rate Adjustments

KOSPI transactions will see rates increase from effectively 0% to 0.05%, while KOSDAQ rates rise from 0.15% to 0.20%. When combined with the rural development tax of 0.15% imposed on KOSPI transactions, both major markets will carry a uniform 0.20% transaction tax rate.

Investment Impact Analysis

According to the Ministry of Economy and Finance, approximately 70% of securities transaction tax burden falls on individual investors, but the measure will also affect institutional foreign investors. The reform is projected to generate KRW 12 trillion in additional revenue over five years.

Market Liquidity Concerns

Industry analysts warn that increased transaction costs may reduce trading volumes and market liquidity, potentially countering the administration's stated goal of achieving a rise in the KOSPI index to 5,000 points.

4. Capital Gains Tax Scope Expansion for Majority Shareholders

The threshold for majority shareholder classification is significantly lowered, expanding the universe of investors subject to capital gains taxation.

Threshold Reduction Impact

The investment amount threshold decreases from KRW 5 billion to KRW 1 billion, while maintaining existing ownership percentage thresholds (1% for KOSPI, 2% for KOSDAQ, 4% for KONEX).

Tax Rate Structure

Majority shareholders face capital gains tax rates of 20% on gains of up to KRW 300 million and 25% on amounts exceeding this threshold. The tax applies regardless of holding period, creating potential year-end selling pressure.

Public Opposition and Market Concerns

A National Assembly petition opposing this change has garnered over 125,000 signatures, reflecting widespread concern about potential market disruption. Critics argue the threshold fails to account for inflation and Seoul's average apartment prices exceeding KRW 1.4 billion.

5. Domestic Minimum Top-up Tax Implementation

Domestic minimum top-up tax (DMTT) is being introduced as part of Korea's Pillar Two implementation, ensuring Korean taxation rights over low-taxed domestic entities.

Minimum Tax Rate Framework

The DMTT applies to Korean constituent entities with effective tax rates below 15%, calculated using the Global Anti-Base Erosion (GloBE) rules methodology. This prevents other jurisdictions from collecting top-up taxes on Korean-source income through Income Inclusion Rules (IIR) or Undertaxed Payments Rules (UTPR).

Allocation Methodology Options

Korean entities may choose between statutory allocation (based on proportional net GloBE income) or designated allocation (based on inter-entity agreements). The flexibility allows multinational groups to optimize their Korean tax burden distribution.

Filing and Payment Procedures

DMTT returns must be filed within 15 months of fiscal year-end (18 months for initial implementation), with payment due by the same deadline. Amounts exceeding KRW 20 million may be paid in installments over one month.

Safe Harbor and Exclusion Provisions

De minimis exclusions apply where average GloBE revenue remains below EUR 10 million and income below EUR 1 million. Transitional safe harbors operate through December 2026, with permanent safe harbors potentially continuing thereafter.

6. Transfer Pricing Documentation Requirements Enhancement

Additional evidentiary requirements apply to transfer pricing adjustments sought through amended tax returns.

Double Taxation Evidence Requirement

Taxpayers seeking refunds based on arm's length price adjustments must now provide documentation demonstrating corresponding tax increases in counterparty jurisdictions. This may include amended returns or additional tax payments in the other country.

Administrative Processing Changes

Tax authority review periods for such claims extend from two months to six months, reflecting the additional documentation requirements.

7. Expansion of the Scope of Anti-Circumvention Duties

Current Framework

Imports are deemed to constitute circumvention subject to anti-dumping duties where goods undergo only minor modifications in the country of export before being shipped to Korea. Under this current framework, anti-dumping measures would generally be unavailable in cases where circumvention is affected via a third country rather than the original country of export.

Alignment with Other Jurisdictions

The scope of circumvention will be expanded to include cases in which minor modifications are undertaken (whether in the country of supply, third country or bonded warehouse in Korea) and cases in which goods are assembled or finished in a third country before being imported into Korea.

This amendment aligns Korea's anti-circumvention measures with practices in major jurisdictions, including the United States, European Union, and Australia, all of which currently apply anti-dumping duties to third-country circumvention.

8. Foreign Corporation Liaison Office Compliance

New penalty provisions target foreign corporations' liaison office reporting obligations, addressing historically low compliance rates. The reports must detail office operations, employee information, funding sources, and transaction data by February 10 of the following year.

Introduction of Penalties

Foreign corporations face penalties up to KRW 10 million for failing to submit required liaison office status reports or submitting false information. This represents the first monetary penalty for such violations.

Current Compliance Challenges

Data shows only 45.2% of foreign liaison offices comply with annual reporting requirements.

Enhanced Enforcement Rationale

The measure aims to prevent improper use of liaison offices for business activities beyond their permitted scope of market research and communication functions.

9. Revision to the Method of Virtual Asset Valuation

Amended Valuation Methodology

Under the current framework, the first-in, first-out (FIFO) method is applied to valuations of virtual assets. The amendment introduces a change in the valuation methodology to adopt the total average method.

Revision Rationale

This revision is intended to promote consistency and fairness in the valuation of virtual asset transactions for corporate tax purposes. The new method will apply to transactions conducted on or after January 1, 2027.

10. Inclusion of Investment Trusts in the List of Entities Eligible for Issuance of Certificates of Residence

Current Framework

Under the current law, certificates of residence may be issued to residents and domestic corporations for certain purposes such as obtaining tax exemptions, reductions, or preferential tax rates under applicable tax treaties, and for demonstrating Korean residency status for tax purposes.

Expansion of Eligible Entities

The amendment expands the scope of eligible entities to include investment trusts whose beneficial owner is a resident or comprised solely of Korean entities. This includes investment trusts under the Financial Investment Services and Capital Markets Act, as well as other tax transparent entities such as Hapja Johap and Ikmyeong Johap.

Rationale

The revision is intended to improve taxpayer convenience. The new eligibility rules will apply to applications for the issuance of certificates of residence submitted on or after January 1, 2026.

11. Improvement of the Target Tax Allocation Method in Calculating the Global Minimum Tax

Target Tax Allocation under Current Rules

The amendment revises the method for allocating target taxes when calculating the global minimum tax. Under the current provisions, target taxes may be allocated to other component entities within a multinational enterprise (MNE) group, taking into account the allocation of income related to such taxes. “Component entities” include constituent companies and permanent establishments of the MNE group.

Expansion of Scope of Component Entities

The revised provisions expand the scope of allocation to include not only other component entities but also certain companies specified by Presidential Decree that are not component entities but meet prescribed requirements. Similarly, the scope of distributable target taxes is broadened. In addition to taxes related to the income of permanent establishments and dividend income received from other component entities, the revised rules will also cover taxes related to dividend income received from companies designated by Presidential Decree.

Alignment with the OECD Guidance

This amendment reflects the OECD Global Minimum Tax Administrative Guidance and aims to align Korea's tax allocation framework with international standards. The revised provisions will apply to taxpayers filing a global minimum tax information return on or after 1 January 2026.

12. Clarification of the Scope of Korean Source Dividend Income of Foreign Corporations

Current Scope

Under the current provisions, Korean source dividend income includes amounts deemed as dividends under the Adjustment of International Taxes Act, such as interest paid on borrowings from foreign controlling shareholders of Korean corporations to the extent such borrowings exceed twice the amount of capital contributed by those shareholders.

Inclusion of Dividends from OTCs

The amendment expressly adds to this scope amounts equivalent to dividends arising from over-the-counter (OTC) derivative transactions. This clarification is intended to strengthen the taxation framework and prevent tax avoidance through the use of OTC derivatives.

13. Tax Treaty Benefit Application Process Strengthening

Additional procedural requirements are being implemented for foreign entities claiming reduced withholding tax rates under tax treaties.

New Submission Requirements

Withholding agents must now submit treaty benefit applications and supporting documentation directly to Korean tax authorities by February 28 of the year following payment. Previously, submission occurred only upon request by the tax authorities.

Documentation Standards

Applications must include beneficial ownership information and, where applicable, overseas investment vehicle reports demonstrating eligibility for treaty benefits. The five-year document retention requirement remains unchanged.

Anti-Avoidance Objectives

These enhanced procedures aim to ensure only genuine beneficial owners receive treaty benefits and prevent treaty shopping arrangements.

14. Transfer Pricing Anti-Avoidance Measures

The scope of deemed gift taxation for foreign corporations is expanding to capture undervalued asset transfers.

Low-Consideration Transaction Coverage

Transactions where consideration falls 30% or more below fair market value will be treated as gifts for tax purposes. This expands beyond purely gratuitous transfers to include commercially structured but underpriced deals.

Impact on Cross-Border Transaction

The measure particularly affects intra-group asset transfers and restructuring transactions involving foreign entities with Korean operations or assets.

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