

You Lee Jung  
DR & AJU, Seoul  
yljung@draju.com

## **Recent tax developments: Republic of Korea**

### **Recent tax law changes for 2025**

The tax law proposals issued by the Ministry of Economy and Finance were passed by the Korean National Assembly on 10 December 2024. The main changes to the tax law, including those relating to the global minimum tax rule, tax residency and limits on interest deductions are addressed below. The changes took effect from on 1 January 2025, unless otherwise stated.

### **Adjustment of the International Taxes Act**

#### *New global anti-base erosion rules*

At the end of December 2022, Korea introduced global anti-base erosion (GloBE) rules. These include an income inclusion rule (IIR) and a supplementary rule for undertaxed profits (referred to as the UTPR). Under domestic tax law, the IIR is effective for fiscal years beginning on or after 1 January 2024, and the UTPR is effective for fiscal years starting on or after 1 January 2025. These rules apply to all constituent entities of a qualified multinational enterprise (MNE) group with annual consolidated revenues of €750m or more in at least two of the four fiscal years immediately preceding the tested fiscal year.

The 2025 tax reform introduces and clarifies the GloBE rules under Korea's current Adjustment of International Taxes Act (AITA), reflecting the administrative guidelines and commentary for the OECD's Pillar Two GloBE Rules. The rules came into effect on 1 January 2025.

Korea has adopted safe harbour rules which are generally aligned with the guidance recommended by the OECD. Under the country-by-country reporting (CbCR) safe harbour rules, a domestic constituent entity filing a return may elect to treat the top-up tax of a relevant jurisdiction as zero if it passes one of the prescribed CbCR safe harbour tests during the transitional period, which covers fiscal years beginning before 31 December 2026 and ending before 30 June 2028. The amended domestic tax law also introduced a new provision for transitional UTPR safe harbour rules. These rules allow the jurisdiction in which the ultimate parent entity is located, at the discretion of the filing constituent entity, to reduce the UTPR top-up tax to zero if the statutory corporate tax rate in that jurisdiction is at least 20 per cent. The reduction can be applied during a transition period covering fiscal years that begin before 31 December 2025 and end before 30 December 2026.

Tax returns and payments are due 15 months after the end date of the tested fiscal year. However, for the first year, this deadline is extended to 18 months from the end date of the tested fiscal year. Failure to submit the GloBE information report, or submission of a false report, triggers a penalty of up to KRW100m (approximately US\$72,500), which shall not apply during the transition period if certain requirements are met.

For compliance, MNEs must submit a GloBE information return, with the first submission due in June 2026 for the 2024 fiscal year. This return requires detailed information including

taxpayer identification, ownership structures, jurisdictional effective tax rates (ETRs), covered taxes and top-up tax liabilities. The rules accept various accounting standards, including those from 18 different jurisdictions such as Japan, China and Singapore, providing some flexibility for MNEs operating across different accounting regimes.

#### *Expansion in the application of 30 per cent of EBITDA interest limitation rule*

Previously, interest expenses paid by both financial and general holding companies on amounts borrowed from foreign related parties were fully deductible (OECD BEPS Action 4).

However, under the 2025 tax revision, interest payments by general holding companies (those not engaged in the financial or insurance business) will no longer be exempted from the interest limitation rule.

#### **Expansion of automatic information exchange to include crypto assets**

As an anti-tax avoidance measure, under the Tax Law Amendments, the automatic financial information exchange system will be extended to include data on crypto assets (and other virtual assets). These Amendments represent the domestic implementation of the OECD's Crypto-Asset Reporting Framework (CARF). The requirement for the exchange and submission of crypto asset information will apply from 1 January 2027. Due diligence procedures will apply from 1 January 2026.

At the 17th OECD Global Forum, a Korean delegation officially signed the Multilateral Competent Authority Agreement on Automatic Exchange of Information pursuant to the Crypto-Asset Reporting Framework (CARF MCAA).

The CARF MCAA is an agreement among relevant authorities based on the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which Korea signed in 2010 and which came into effect in 2012. It specifies detailed provisions for the automatic exchange of information on crypto assets among countries.

#### **Corporate Tax Act**

##### *Introduction of new rules for foreign investors with respect to domestic exemptions on government bonds*

The 2025 tax reform simplifies the withholding tax procedure. Foreign individuals or corporate investors investing in government bonds and monetary stabilisation through either private or public overseas investment vehicles (OIVs) may apply for the domestic withholding tax exemption by submitting an exemption application along with the OIV's resident tax certificate as a deemed beneficial owner.

#### **Income Tax Act**

##### *Deferral of taxation on virtual assets*

Under the current Korean tax law, gains derived from the disposal of virtual assets by foreign individuals or foreign corporations are categorised as 'other income' and are subject to a withholding tax at the lesser of 11 per cent of the transfer price or 22 per cent of the net capital gains. The application of this tax rule for virtual assets will be postponed from 1 January 2025 to 1 January 2027.

In July 2024, the Ministry of Economy and Finance proposed delaying the implementation of virtual asset taxation by an additional two years, until January 2027. The ministry cited the underdeveloped tax system as the reason for the delay, acknowledging the necessity of taxation but highlighting the current gap in the taxation infrastructure.

#### *Revision of the definition of Korean tax residency for individuals*

Under the revised enforcement decree of the Income Tax Act, effective from tax year beginning on or after 1 January 2026, the Korean tax residency requirement for individuals will include not only those who reside in Korea for 183 days or more during a calendar year (as is currently the case), but also those who have resided in Korea continuously for 183 consecutive days or more over two calendar years.

#### **VAT Act**

Domestic platform operators acting as sales, settlement agents or intermediaries in the supply of goods or services are required to submit relevant transaction details to the Korean tax authorities. This requirement will be expanded to include non-resident or foreign platform operators engaged in similar business activities. Platform operators include online marketplace operators, payment gateway providers and others as prescribed by law. The amendment will apply to sales or settlement agency services provided on or after 1 July 2025.

#### **Inheritance and Gift Tax Act**

The Korean government is planning to overhaul inheritance tax codes to make them more equitable and encourage the transfer of wealth to younger generations. The proposed tax revision aims to shift towards a recipient-based inheritance tax system.

Under the new codes, taxes will be imposed on the amount of inheritance received by each recipient, rather than on the total wealth of the donor. This will split liabilities among beneficiaries, with separate tax deductions applicable for each.

Korea is one of only four member countries of the OECD currently imposing an estate tax, while most others levy inheritance tax.