Executive summary
On 13 February 2018, the Korean Ministry of Strategy and Finance released amendments to the Individual Income Tax Law (IITL), the Law for Coordination of International Tax Affairs (LCITA) and associated enforcement decrees.

Some the key amendments announced include:

- The withholding tax rate on payments made to foreign entity employers that dispatch employees to user Korean entities has increased to 19%. The scope of entities impacted by the withholding requirement has also expanded to include ship/floating structure building industry and the financial industry, as well as a revised total annual payment threshold of KRW 2b (US$1.84m), down from KRW 3b (US$2.76m).

- Foreign financial accounts reporting requirement has tightened, with a reduction in the reporting threshold amount from KRW 1b (US$920,000) to KRW 500m (US$460,000).

- The obligation to submit documents on overseas corporations/subsidiaries, real estates, etc. has been removed for foreigners who are non-permanent residents. The administrative fines imposed for failure to comply with this obligation have increased to a maximum of KRW 50m (US$46,000), and changed to impose penalties for each instance of non-compliance for both residents and domestic entities.

Withholding tax on income of dispatched employees of hiring foreign entities
Further to the tax withholding reform in 2015, user Korean entities are required to act as the income tax withholding agent when paying compensation to a hiring foreign entity for services rendered in Korea by foreign employees under a dispatch agreement (e.g. service fees).

- The withholding tax rate will increase from 17% to 19% on the amount of compensation paid to hiring foreign entities.

- Effective for payments made on or after July 1, 2018, the changes expand the scope of user Korean entities who are required to act as withholding agents on compensation paid to hiring foreign entities in two key ways:
  - The threshold on the annual sum amount of compensation paid by user Korean entities reduced to KRW 2b.
  - Businesses liable to the withholding now include those engaged in ship/ floating structure building industry and financial industry. These are in addition to the previously announced requirements for air transportation, construction, or specialized, scientific or technical service businesses.
The year-end true-up settlement process remains unchanged.

**Reporting of foreign financial accounts**
Korean residents and entities are obligated to report foreign financial accounts that exceed the stated threshold by the end of June of the year following the respective year. The amendments have reduced this threshold to KRW 500m.

The amendment will apply to foreign financial accounts owned during financial years from 2018 and applicable for foreign financial accounts reporting to be filed in 2019 and thereafter.

**Obligation to submit documents about overseas corporations/subsidiaries, real estate etc.**
Residents and domestic entities who make a direct investment on overseas corporations/subsidiaries or acquire real estate in a foreign country are obligated to submit a statement of overseas corporations or statement of investment in overseas real estate. Failure to submit this statement or submitting false statements can result in administrative fines.

- The definition of a resident has been refined to exclude foreigners who are non-permanent residents. A non-permanent resident is a foreign-national who is a tax resident in Korea who has resided in Korea for an aggregate 5 years or less in during the preceding 10 years as of the end of a tax year.

- The maximum administrative fine for non-compliance has increased to KRW 50m.

- The imposition of administrative fines has changed from KRW 3m per resident and KRW 5m per entity to KRW 3m and KRW 5m, respectively, per instances of non-compliance.

The above amendments, effective for reporting due on or after 1 January, 2018 (i.e., along with 2017 tax return) are intended to relieve tax reporting requirements on foreignnationals to encourage their residence in Korea and to apply effective enforcement mechanism to achieve higher level of compliance.

**Next steps**
These amendments widen the scope of income subject to withholding tax and expand tax revenue sources from residents and domestic entities. As the effective dates and applicable periods vary, we recommend affected taxpayers carefully consider the effective dates, and take steps to ensure timely compliance.

Should you have any queries, please do not hesitate to contact your EY advisor or one of the contacts detailed below.

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