

International Assignment Services Taxation of International Assignees

Republic of Korea



Country: Republic of Korea

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Additional Country Folios can be located at the following website: www.pwc.com/ias/folios

Introduction: International assignees working in the Republic of Korea

Each country has a set of unique tax laws and Korea is no exception. International assignees who come to work in Korea will encounter tax compliance and tax law issues that they have not been exposed to in their home country. The Korean tax system is complex, though through professional advice and planning, the international assignees can achieve an understanding of the tax laws and minimize their tax liabilities in Korea.

This folio is intended to help international assignees with their understanding of income tax issues before they arrive in Korea and afterwards.

The folio is not intended to be a comprehensive guide but an overview to Korean income taxes. Professional advice should be sought before you make any tax-related decision.

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Step 1: Understanding basic principles

The scope of taxation in the Republic of Korea

1 The taxes imposed on an expatriate include an income tax and local resident surtax.

A foreign expatriate is subject to Korean taxation on worldwide income with limitation of reporting foreign source income under certain conditions if regarded as a resident of Korea. A non-resident expatriate is subject to Korean taxation on Korean source income only.

The tax year

2 Generally, individual income tax will be assessed for one year from 1 January to 31 December. If a resident should move out of the country, relocating the domicile or residence, the individual income tax shall be imposed for the period from 1 January to the date of departure from the country.

Method of calculating tax

3 The amount of tax on each category of individual income shall be calculated by applying the prescribed tax rates to the respective tax base. The tax base is determined by subtracting the amount of necessary expenses and exemptions from the total of gross receipts. The amount of tax payable shall be computed by subtracting the available tax credits from the tax amount so calculated (referred to as 'calculated tax', i.e., the tax amount before credit).

Husband and wife

4 For income tax purposes, the income of each spouse is calculated and taxed separately. Generally, a separate tax return is prepared for each spouse who has income. If a member of a household has passive income, the main income earner of the household shall submit a single return with all of the passive income household members signing the return.

Determination of residence

5 The first prerequisite for taxation is the determination of residency status. Under the Individual Income Tax Law, individuals are classified as either residents or non-residents. A resident is defined as 'an individual having a domicile or residence in Korea for one year or longer'. A non-resident is "an individual other than a resident".

6 A resident is required to pay tax on his or her worldwide income, while a non-resident pays tax only on the income derived from sources within Korea. In this sense, a resident is defined as an 'unlimited taxpayer', and a non-resident as a 'limited taxpayer'. In other words, the scope of an individual's income tax obligation depends on the residency classification. Should a foreigner be classified as both a resident of Korea and a resident of the home country, the tax rights of each country are in direct competition with the other. In that case, the primary country of residence is selected in accordance with the provisions regarding determination of residency under the tax treaty between the two countries.

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Step 2: Understanding the Korean tax system

Structure of Korean tax system

7 The current Korean tax system is comprised of both national taxes and local taxes. National taxes are collected by the government and can be divided into internal taxes and customs duties. Local taxes are collected by the local autonomous bodies and are divided into province taxes and city and county taxes.

8 The Korean tax system may also be divided between direct and indirect taxes. Indirect taxes are the main form of tax in the present tax system. The primary indirect tax is the Value-Added Tax (VAT). Indirect taxes are supplemented by direct taxes such as the individual and corporate income taxes.

Taxation of residents

Resident

9 Any individuals having a domicile or residence within Korea for a year or more, individuals having an occupation that would generally require them to reside in Korea for a year or more, or individuals whose families accompany them to Korea and who retain substantial assets in Korea. On the other hand, even when a person has a job overseas and stayed there for more than a year, but he/she has his/her general living relationship including his/her family and property in Korea, he/she shall be regarded as a resident of Korea. Generally, residency is determined on a "facts and circumstances" test, evaluated on an individual basis. A resident is subject to income tax on all incomes derived from sources both within and outside Korea. Effective from 2009 tax year, foreign residents who have stayed in Korea for longer than five (5) years during the last ten (10) year period are taxed on their world-wide income. However, foreign residents who have stayed in Korea for five (5) years or shorter during the last ten (10) year period are taxed on Korea-source income and foreign source income as well only if the foreign source income is paid by a Korean entity or transferred to Korea.

Types of income

10 A resident's income is divided into three types: global, retirement income, and capital gains. Each of these types of income is taxed separately. There are certain elements of income on which the government has waived its taxing rights, whether or not an application for exemption is filed by an individual. There are other items of income for which a taxpayer can submit an application for tax exemption. Global income can be further divided into seven separate categories: namely interest, dividends, rental income, business, wage and salary, pension income and other income.

Employment income

11 Employment income (wage and salary income) includes salary, remuneration, annual stipend, wages, bonuses, allowances and any other amount of a similar nature received in return for service.

Classification of employment income

12 Although the legal terminology used for the classification of employment income has been deleted in the latest tax laws effective from 2010, employment income is classified either as Class A or Class B income. The Korean tax consequences differ depending on the employment (salary) income classification.

13 Class A salary income is all employment income except Class B salary income. Class A employment income refer to the income received from a domestic (Korean) corporation or a Korean branch office of a foreign corporation for services rendered in Korea and the costs are recognized as deductible corporate expenses of the Korean entity. Such income is subject to payroll withholding taxes by the employer on a monthly basis.

14 Class B salary income is employment income which is received or accrued in foreign currency from sources outside Korea, and is not deducted by an entity in Korea as corporate expense in Korea. The employer is not required to withhold tax on Class B income. Instead, the employee should file tax returns voluntarily to declare Class B employment income. Alternatively, a tax reduction is available for Class B income recipients by joining a taxpayers' association. Individuals joining a taxpayers' association pay taxes monthly and receive a benefit of a 10% reduction in tax.

15 If employment income received or accrued in foreign currency from sources outside Korea is treated as deductible corporate expense of an entity in Korea of a foreign corporation (e.g., a branch office), it will be treated as Class A employment income, and will be subject to withholding tax. A Class A salary income recipient cannot join the taxpayer's association and the 10% tax reduction is not available.

The exempt employment income

16 A foreign engineer prescribed by the Presidential Decree shall be entitled to the 50% exemption from income tax on earned income derived from the offer of his/her services to a national within Korea until the month where to belongs the date on which two years have passed since the first date on which the foreign engineer concerned offered his/her services in Korea.

17 Wages and salaries received by a foreigner furnishing services under a certain high-technology inducement agreement as prescribed by Foreign Investment Promotion Law (FIPL) are tax-exempt. The exemption will only apply for 50%, however, to income accruing within two years from the starting date of employment in Korea and where the individual income tax or corporate income tax on the payment for the service is exempt under the same law.

18 Wages and salaries received by a qualified expatriate technician or engineer employed by a Korean firm in qualified industries such as manufacturing, mining, computer software development, etc., are exempt for 50% from individual income tax for two years from the starting date of employment in Korea.

19 Wages and salaries received by an expatriate technician or engineer who performs services under a Technical Service Agreement approved under the Engineering Service Promotion Law are exempt for 50% from individual income tax for two years from the date the expatriate's service commenced in Korea.

Wages received by a foreign technician with a Bachelor's degree or higher who works at a special research institution, as defined by the law are exempt for 50% from individual income tax for two years from the date the expatriate's service commenced in Korea.

Adjustments to employment income

20 In calculating taxable income, the taxpayer is allowed a basic exemption equal to W1,500,000/year for each qualified dependent including the taxpayer.

21 In the case of a non-resident expatriate, however, exemptions will not be allowed for spouse or children.

22 Additional deductions are allowed for:

- Qualified insurance premiums up to W1,000,000;
- Qualified medical expenses up to W7,000,000;

- Qualified education expenses of taxpayer (excluding graduate school) and dependents;
- Contributions to government agencies, national defense, and disaster relief funds; and certain qualified charitable contributions.

23 An earned income deduction: The following amount shall be deducted from the amount of gross income in the current year to work out the adjusted gross income for salary or wage earners.

Amount of Gross Income	Deduction Amount
Up to W5 million	80%
W5,000,001 million ~ W15 million	W4 million + 50% of the excess over W5 million
W15,000,001 million ~ W30 million	W9 million + 15% of the excess over W15 million
W30,000,001 million ~ W45 million	W11.25 million + 10% of the excess over W30 million
Over W45 million	W12.75 million + 5% of the excess over W45 million

Non-taxable items of employment income

24 The following elements of employment income are nontaxable:

- Housing and related costs paid by an employer directly to a landlord on behalf of an expatriate employee provided that the lease contract is entered into by an employer. However, utility costs paid by an employer are taxable to the employee.
- Reimbursement of business expenses, including social membership costs and entertainment expenses incurred by an employee for business purposes.
- Cost of an automobile and driver and related maintenance and insurance expenses provided by an employer, provided the automobile is registered in the name of the employer and the driver is on the employer's payroll register.
- Reimbursement of operating costs for a personal automobile used for business purposes, up to W200,000 per month provided that company car is not furnished.
- Relocation and moving expense reimbursements.
- Reasonable amounts of employer-reimbursed home-leave travel expenses for expatriate employee himself.
- Pay of up to W1 million per month receivable as overseas employment service in case of outbound assignees.
- Meal allowance up to W100,000 per month.
- Reasonable amount of per diem paid for a short period of assignment which may be treated as a business travel is non-taxable. However, the per diem paid for a long period of assignment is taxable.

Tax rates

25 The amount of income tax on global income or retirement income shall be calculated by applying the basic tax rates to the respective tax base. A resident surtax is assessed as a fixed 10% resident surtax on the income tax. The basic tax rates and the tax rates on capital gains are listed in Appendix A.

Interest income

26 Interest income includes the following items:

- Interest and discount amounts accruing from bonds or securities issued by the state or local autonomous bodies;
- Interest and discount amounts accruing from debentures or securities issued by a domestic corporation or by a foreign corporation (including a branch or a business office in Korea);
- Interest and discount amounts on saving deposits received in Korea;
- Profit accruing from the credit fraternity or credit installment as prescribed by the Mutual Savings Banks Act;
- Interest on deposits received abroad;
- Marginal profits of sales under repurchase condition of bonds or securities as prescribed by the Presidential Decree;
- Marginal profits of any insurance of nature of savings as prescribed by the Presidential Decree;
- Excessive refund of any workplace mutual association as prescribed by the Presidential Decree;
- Profits accruing from a non-business loan.

Dividend income

27 Dividend income includes the following items:

- Dividends or shares of any profits or surplus received from a domestic corporation and dividends of the interest during construction as prescribed in Article 463 of the Commercial Act;
- Dividends or shares received from an organization considered as corporation;
- De facto dividends;
- Amounts disposed as dividend under the Corporate Tax Act;
- Profit from investment trusts received in domestic and overseas as prescribed by the Presidential Decree;
- Dividends or shares of any profits or surplus received from a foreign corporation, and dividends of the interest during construction as prescribed by the laws of such foreign country, and dividends of the similar nature;
- Amount regarded as allotted under the provisions of Article 17 of the Adjustment of International Taxes Act;
- Amount corresponding to the ratio profit distribution of joint contribution businessman in accordance with Paragraph 1 of the Article 43 among the income derived from joint ownership as prescribed in Article 43;
- Incomes similar to those under subparagraphs 1 through 6 and 6-2 such bear a nature of profit distribution.

Rental income

28 Rental income shall be the income accruing from the lease of the following assets:

- Property or the rights to property;
- Registered or recorded vessels, aircraft, automobiles and heavy equipment;
- Factory facilities or mining facilities; and
- Mining rights.

29 The taxable amount of rental income shall be that remaining after deducting the necessary expenses from the gross receipts for the respective year. This is a method of calculating the taxable amount differently from dividend and interest income, which is taxed on gross receipts.

Income other than global income

30 Interest, dividends, property income, business income, wage and salary, pension income and other income are described as global income for which a combined amount of tax base is calculated and a global tax rate is applied. There are, however, similar types of income that are not appropriate to be classified as global income, such as retirement income and capital gains. Since these forms of income do not generally accrue annually and have their own characteristics, it has been determined that tax should be assessed according to principles or methods different from global income.

Capital gains

31 Income accruing from the transfer of land, buildings, stocks or rights thereon and other assets in the local or foreign country specifically enumerated in the Income Tax Law shall be taxed separately from global income. In the case of transfer of assets in a foreign country, residents who have stayed in Korea longer than 5 years at the time of the transfer are liable to tax on the income. This separation was created to stabilize the price of real estate and for other tax purposes. Capital gains may be classified into the following three categories:

- Income accruing from a transfer of land or buildings;
- Income accruing from a transfer of rights to real estate such as surface rights, leasehold, or a right to acquire real estate; and
- Income accruing from a transfer of assets as prescribed by Presidential Decree other than those enumerated above, such as stocks, leasehold on stores and goodwill.

32 The formula for computing the amount of capital gain subject to tax is:

- $\text{Gain on transfer} = \text{selling price} - \text{necessary expenses}$;
- $\text{Tax base of capital gain} = \text{Gain on transfer} - \text{special deduction for long-term possession} - \text{basic deduction}$.

33 "Necessary expenses" include acquisition costs, costs of installation or improvements, selling costs and other capital expenditures.

Retirement income

34 A resident is entitled to claim a deduction for retirement income since it has been accumulated for years of service rendered by the taxpayer. A special deduction of 45% of the total amount of retirement income is provided.

For the remaining amount, an additional deduction shall be granted in the nature of recognition of necessary expenses incurred by the retirement income earner. The retirement income deduction amounts determined on the basis of the number of years of service are listed in Appendix B.

Tax credits

Foreign tax credit

35 The amount of the tax paid or to be paid by Korean resident in a foreign country on income earned from sources within that country (including tax levied at the local government level) that is similar to the Korean individual income tax shall be credited against the amount of individual income tax payable in Korea on the resident's worldwide income during the taxable year in which the foreign tax accrued.

Credit for casualty losses

36 Where a business income earner has lost assets equivalent to 20% or more of the total value of his business assets due to disasters occurring during the year in question, an amount calculated according to the ratio of the loss shall be deducted from the income tax.

Credit for dividend income

37 Where a resident's global income includes dividend income received from a certain qualified local corporation and not subject to separate taxation, an amount equivalent to 12/100 (or a certain rate stipulated by law) of the actually received amount of the dividend income (arising on or after 1 January 2009) shall be added to the actually received amount of dividend income.

Credit for wage and salary income

38 Where a resident has earned employment (salary) income, credit is allowed as follows within the limit of W500,000/year:

- Up to W500,000 of the calculated global income tax: 55/100;
- Over W500,000 of the calculated global income tax: W275,000 + 30% of the tax amount over W500, 000.

Tax return

Class A Salary income due date

39 If an expatriate receives Class A salary income during the year, taxes are withheld and paid each month during the year and a year-end settlement of the tax liability for the calendar year must be performed by March 10th of the year following the tax year. This year-end Class A tax settlement is prepared and filed by the employer. Generally, filing an annual global tax return is not required if the expatriate has only Class A salary income for which a year-end Class A tax settlement was done by the employer.

Class B Salary income

40 If an expatriate receives Class B salary income during the year, taxes may either be paid monthly through a taxpayers' association or by filing an annual global tax return during the month of May of the year following the tax year.

41 The above tax payment method also applies to an expatriate who has both Class A and Class B salary income.

42 Taxpayers who leave Korea permanently must file a final tax return (if applicable) prior to their departure based upon a tax year commencing 1 January and ending on the departure date.

43 Where a taxpayer has an additional amount of tax payable after filing a global tax return by the tax due date, he shall file an amended return before the tax authority assesses the additional amount of tax and notifies the taxpayer of it. Where a taxpayer has an amount of tax refundable after filing a global tax return by the tax due date, he may file a request for the rectification within three years after the due date for filing the original tax return.

Penalty tax

44 Penalty tax on failure in filing shall be 20% of the calculated tax amount on the under-reported (or not reported) amount of tax base. Penalty tax on failure in payment shall be an amount calculated by applying an interest rate designated in the presidential decree (3/10,000 per day) to the under-paid (or not paid) amount of tax.

Place of filing and payment

45 The annual global tax return is filed with the District Tax Office whose jurisdiction covers the expatriate's place of residence in Korea. Any outstanding tax balance can be paid at most local banks in Korea.

Forms to be filed

46 The annual global tax return is filed on Form 40-Final Return on Income Tax Base and Voluntary Payment of Taxes.

Taxation of non-residents

Non-resident

47 A non-resident is an individual who is not deemed to be a resident. A non-resident is subject to income tax only on income derived from sources within Korea. When a non-resident who does not have a domestic place of business has Korea-source income to report through an annual tax return, most of the provisions concerning the tax base and tax amount of residents shall apply to him/her. However, in calculating tax base and tax amount, a non-resident is not entitled to personal deduction (except for oneself) and special deduction.

Korean source income

48 Non-residents of Korea will be taxed on Korean source income including following items: Interest income; dividend income; rental income; capital gains accruing from the transfer of property located in Korea; lease income from vessels, aircraft, etc.; capital gains accruing from the transfer of marketable securities; personal service income; business income; wage and salary income; retirement income; royalty income; other income.

Taxation

49 There are two methods of taxing a non-resident's income from sources in Korea. The first method is where the non-resident is required to report and pay the tax on the total of Korean source income by means of filing an income tax return. The second method is the separate taxation method wherein the tax on the Korean source income is withheld at the source. A non-resident having a permanent establishment (PE) in Korea or a non-resident with rental income is required to report and pay Korean income tax by means of filing an income tax return.

50 The kinds of income that are to be covered in the return include interest, dividends, rental income, lease income from vessels, aircraft, etc., business income, personal service income, wages and salary income, royalty income, gains on the transfer of marketable securities, and other income. The types of income that are subject to separate taxation, but are to be taxed in the same manner as for residents (by means of filing a return), are retirement

income, capital gains on the transfer of assets. In calculating the tax base and tax amount, non-residents are entitled to take only the basic exemption.

51 The expenses that are included in the "necessary expenses" for the purpose of calculating a non-resident's income tax base shall be limited to those that are reasonably connected with the income from Korean sources. Expenses not reasonably connected with Korean source income are not included in the necessary expenses. However, expenses that were incurred by the offshore head office or other foreign branches and are reasonably matched with Korean source income may be included in the necessary expenses.

52 Non-residents subject to the separate taxation method are those who do not have a PE in Korea. With respect to such non-residents, the tax shall be assessed separately for each type of Korean source income (to be withheld at the source), except for retirement income and capital gains.

Tax withholding

53 If a recipient of Korean source income is a non-resident individual without a PE effectively connected with such income, the non-resident shall be subject to withholding tax. A reduced tax rate shall be applied to a non-resident individual residing in a country with which Korea has entered into a tax treaty if the treaty so provides (see Appendix C). Withholding rates are as follows:

- Interest: 14%
- Dividends: 14%
- Business income: 3%
- Class A wage/salary: basic withholding rates prescribed by the law
- Royalty income: 20%
- Capital gains: 20%
- Other income: 20%

Note: 10% of the above tax rates may be additionally imposed as resident surtax.

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Step 3: What to do before you arrive in the Republic of Korea

Work permit

54 Under the Korean Exit and Entry Control Act, a foreigner who will reside in Korea must enter Korea using an entry visa which allows for an appropriate period of stay (theoretically not less than 91 days but normally six months or longer). If a visa is granted for a period of 90 days or less, it cannot normally be extended beyond such period while the foreigner is in Korea. As a result, such a visa holder cannot become a resident of Korea. In this regard, under the Immigration Regulations, if a visa having a period of stay of 90 days or less is granted by a Korean Consulate outside Korea, the Consulate normally notifies the visa applicant that 'no extension will be allowed after entering Korea'.

55 In some cases, a foreigner who is a citizen of a country with which Korea has entered into a visa abolishment agreement (e.g., British) may enter Korea without a visa by obtaining a Visa Abolishment Stamp at the Korean port of entry. However, if a foreigner has entered Korea by using a Visa Abolishment Stamp, such a foreigner, in principle, cannot: (i) obtain any visa status, (ii) obtain any extension of his period of stay in Korea or (iii) become a resident of Korea.

56 The appropriate visa status is determined on the basis of the activities to be engaged in by the foreigner.

57 The first alternative is a Technology Inducement Contract (TIC), which has been reported to the relevant ministry under the Foreign Investment Promotion Law (FIPL). Under this arrangement, employees of the foreign licensor would enter Korea for work under the TIC. Second, the expatriates may be dispatched to Korea for work at a foreign entity's branch office in Korea. Third, expatriates may be hired by the Korean company (foreign invested company or joint venture under the FIPL). The following types of visa status appear to be most suitable for the expatriates who will enter Korea. A foreigner holding any of these types of visa status may stay in Korea for a period of up to four years.

58 E-4 visa status (Technician) would apply to the first alternative under the TIC: A foreigner who is invited by a public or private organization in order to render a specific technical service (including a foreigner who provides a technical service pursuant to agreements with the Korean government, government invested corporation or major industrial company, such as a national defense industrial company; a foreigner who is sent to Korea pursuant to an authorization of a relevant government authority regarding a technical inducement; and a foreigner who provides technical services which cannot be procured domestically).

59 D-7 visa status (Commerce) would apply to the second alternative: A foreigner who is a resident expatriate of a foreign company or a foreigner who intends to engage in a trade or profit-making business (including a foreigner who cannot provide evidence that he qualifies for the E-4 or D-8 visa status although he provides technical service for the Korean office of a foreign company).

60 D-8 visa status (Investment) would apply to the third alternative: A foreigner who is invited by a foreign invested company including a joint venture in order to render a specific service as an employee of the company.

61 F-3 visa status is for dependants of the expatriate, i.e., an expatriate's spouse and children (unmarried children under age 20).

62 Korean visas should be obtained from a Korean consulate or embassy ('Korean Consulate') in any foreign country with which the Republic of Korea has diplomatic relations. The required documents vary depending upon the applicable visa status. The Korean Consulate concerned may also require additional documents and these documents may be different at each Korean Consulate.

Employment contract

63 Employment terms and conditions should be carefully arranged so as the various tax benefits as shown in Paragraph 24 can be obtained in the most efficient way. It should also be noted that, in the case where an employment satisfies certain conditions (e.g., the employment is effective solely for an assignment to Korea for a certain period of time), the standard employment terms and conditions as provided in the local Labor Standard Law take priority over those as prescribed in the employment agreement which are less advantageous to the employee than the standard employment terms and conditions.

Importing personal possessions

64 A verbal customs declaration is possible if no valuables are being brought into Korea. However, if valuables are being carried into Korea or if the declaration is for unaccompanied baggage, a written declaration form must be presented to Korean customs officials upon arrival at the port of entry.

65 Korean customs officials have been granted a great amount of discretion in enforcing customs law. In general, customs duty is more likely to be imposed if multiple pieces of the same item are carried into Korea.

66 Instead of imposing duties, customs officials may be willing to enter the items in the visitor's passport. If the passport is marked in this manner, the person will be required to take the items with him or place them in a bonded area each time he leaves the country.

67 If imported goods are deemed by a Korean customs official to be for resale in Korea, the importation will not be permitted. Importation of certain items, prohibited under any special statute (such as firearms or other weapons), will not be permitted even if they are household goods.

68 The importation of commercial quantities of nearly all types of agricultural products (particularly packaged products) is subject to quarantine approval as a part of the customs clearance process. Strict rules regarding plant importation forbid the importation of a very wide range of fresh fruits and vegetables. The importation of processed food products requires the approval of the Ministry of Health and Social Affairs.

69 Reliefs from customs duty for several listed household goods can be obtained when a foreigner is moving his (or her) normal residence to Korea. A normal residence is defined as one in which a person resides for a period of two years or longer for customs duty purpose.

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Step 4: What to do when you arrive in the Republic of Korea

Registration

70 Once an individual enters Korea on a long-term entry visa (91 days or longer), he (or she) must apply for a residence certificate within 90 days of his arrival. The application for a residence certificate must be made at the relevant District Immigration Office. Holders of a residence certificate who intend to leave and return to Korea must also obtain a re-entry permit from the District Immigration Office. The residence certificate number issued by the relevant District Immigration Office is used as an expatriate's identification number for the tax purpose during his stay in Korea, and should be accurately recorded on his tax documents.

71 Applications to extend an entry visa must be made before it expires. An extension application should be submitted to the District Immigration Office. Remaining in Korea after the expiration of a visa may result in the imposition of a substantial fine and difficulties in obtaining another entry visa in the future. If a person is deemed by the Korean government to have performed unlawful acts or engaged in improper behavior, he may also be prohibited from entering Korea. Immunization against communicable diseases is required only for individuals coming from infected areas.

Housing

72 Housing suitable for foreigners is generally available in Korea, particularly in Seoul (where most foreigners live) and Pusan. However, housing costs are high by most standards. Rent for an unfurnished three bedroom apartment can range from US\$2,500 to US\$7,000 per month (but varies depending on which city you reside). Lessors may require that the rent for the entire lease term be payable in advance or that a large key money deposit (a type of refundable security deposit) be made. Rents for houses range from US\$3,500 to US\$10,000 per month (but varies depending on which city you reside). House rents are also typically payable in advance. Adequate collateral security should be obtained by a foreign lessee before entering a lease calling for advance rent or Key money.

73 Utilities usage charges are generally the responsibility of the lessee and, because of the extremes in Korea's climate, will be approximately 25% of the rental amount. Except for the specific cases as prescribed by the Alien Land Act (e.g., the property intended to be acquired is located within a defense facilities protection area, etc.), international assignees may acquire residential property.

74 In Seoul and Pusan there are excellent primary schools in which English, French and German are the languages of instruction. There are two major English language schools in Korea: the Seoul Foreign School and the Seoul International School.

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Step 5: What to do at the end of the year

Tax return

75 Generally, a resident with global income, retirement income and capital gains is required to file a return on the relevant tax base for the tax year. The return is required to be submitted even if there is taxable income but no tax base or a deficit in the particular year.

76 An individual income tax return is to be filed and the income tax paid during the period from 1 May to 31 May of the year following the tax year concerned except for the certain specified cases. If a taxpayer fails to fulfill these obligations, a penalty tax shall be imposed.

77 A taxpayer who receives only Class A salary income and/or retirement income is generally not required to file an annual tax return. The employer is required to withhold income taxes at source on a monthly basis, finalize the employee's tax liability at the year end through so called 'year-end income tax settlement' procedure, and issue a final tax settlement certificate at the end of the tax year.

78 Class A wage and salary earners who receive other income, such as interest, dividends, property or Class B salary income, which are not subject to periodic income tax withholding, must file a tax return on their composite income. For certain types of interest and dividends that are subject to tax withholding at source, the amount withheld is considered to be the final tax and the income may be excluded from total taxable income.

Year-end settlement

79 In December or in the month an employee retires from service, a tax withholding agent (an employer) is required to make a year-end settlement or an interim year-end settlement for wages and salary paid. The agent must calculate the global tax amount on the tax base remaining after subtracting the income deductions available to the employee. After the tax is computed, any applicable tax credits may be applied up to the limit. The balance remaining after this process is completed must then be withheld or refunded as the final year-end settlement.

80 If a tax withholding agent performs a year-end settlement for an individual who has not submitted a report on income deductions, then the personal exemption generally available may not be taken.

81 For an individual receiving wages from two or more places, other than a daily-hired worker, the principal place of employment will perform the year-end settlement. The secondary place of employment will, however, calculate the global income tax by applying the basic tax rates to the wage and salary paid at the secondary place of employment and will withhold accordingly. At the end of the year, the secondary place of employment will withhold the balance remaining after deducting the tax previously paid from the calculated global income tax.

82 For an individual who is newly hired in the middle of the year, the year-end settlement will be performed by the new employer. The year-end settlement will be based on the amount of salary received from both the previous employer and the new employer, and on the report on income deductions submitted by the new employee.

Report on income deductions

83 A Class A salary income earner who intends to claim an insurance premium deduction, medical expense deduction, education expense deduction, spousal exemption, dependant exemption, handicapped person exemption or the special deduction for contributions must submit a report on income deductions.

84 The report is to be submitted to the tax withholding agent at the individual's principal place of employment. The details of the applicable deductions must be listed. The report must be submitted each year before the individual receives the wages and salary for December. An individual who is newly hired during the year, however, must submit the report before receiving the first payment of wages at the new place of employment.

85 The tax withholding agent for the principal place of employment receiving the report on income deductions must in turn submit a report to the government describing the deductions and notify the tax withholding agents at any secondary places of employment.

86 The provisions regarding the report on income deductions for a wage and salary earner shall not apply to a daily-hired worker.

87 A person either employed or retired in the middle of a year shall attach a certified copy of his or her resident registration to the return.

Report on place of service

88 A person other than a daily-hired worker, who receives wage and salary income from two or more employers shall determine the principal and secondary places of employment. The person shall submit a report of the selection to the tax withholding agent at the principal place of employment prior to receiving any wage and salary income. The tax withholding agent receiving the report shall relay the details to the government on the reported matters and notify the tax withholding agent at the subordinate place(s) of service.

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Step 6: What to do when you leave the Republic of Korea

Tax returns

89 An expatriate who receives only Class A salary income and/or retirement income is not required to file a tax return prior to leaving Korea but to submit the documents necessary for the year-end settlement to his or her employer. However, an expatriate who receives other income than Class A salary income shall file a tax return prior to leaving Korea for the period from 1 January to the date of departure from Korea.

Transfer of funds abroad

90 A person is able to transfer fund to abroad up to USD 10,000 without any restriction.

Transferring personal possessions abroad

91 An export document has to be filed when an expatriate leaves Korea. Duties are not payable in general.

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Step 7: Other matters requiring consideration

Exchange control

92 Foreign exchange control in Korea originated with the enactment of the Foreign Exchange Control Law in 1961. The purpose of this law was to control the outflow of foreign exchange properly, use incoming foreign exchange in the process of economic development, and to cope with a chronic foreign exchange shortage effectively.

93 Foreign exchange control, through this law, mainly consists of fulfillment of transactions based on official exchange rates, obligation of concentration of foreign exchange, restriction on foreign payment and restriction on capital transactions.

94 Generally speaking, residents of Korea are allowed to possess foreign exchange except for the cases set forth in the law.

95 The name of this law has been changed to the Foreign Exchange Transaction Regulation, and it has been revised several times. Even now it controls transactions with foreign countries and foreign payment/receipt, with the objectives of international balance equilibrium, stabilization of currency and the effective operation of foreign currency funds.

96 In the past, restrictions on foreign payment were emphasized, and foreign receipt, in principle, was freely allowed. However, the method of foreign exchange control has been changed in a way to emphasize equilibrium of international balance and to prevent increase in domestic currency as a result of incoming foreign exchange.

Social security taxes

97 An employer and an employee of a workplace with even one employee, i.e., a workplace subject to the Labour Standard Law, shall each contribute an amount equivalent to 4.5% of the employee's monthly standard salary to the National Pension Fund every month. An expatriate employee is neither exempt from the contribution nor eligible to receive a refund of the contribution paid unless his/her home country has entered into a social security tax exemption agreement with Korea. Currently, countries which have totalization agreements with Korea include Canada, USA, Germany, Hungary, France, Australia, Czech Republic, Ireland and Belgium. Countries which have contribution only agreements with Korea include Iran, UK, China, Netherlands, Japan, Italy, Uzbekistan, and Mongolia.

Gift and inheritance tax

98 The Inheritance Tax Law covers both gift tax and inheritance tax. Inheritance tax is imposed on the transfer of property without consideration as a result of death or if an individual is missing. Gift tax is imposed as a result of giving property with a donative intent and without receiving any consideration.

99 Gift tax is considered a supplement to inheritance tax. Thus gift tax is not imposed when inheritance tax has been imposed. If gift tax has already been imposed and inheritance tax is to be imposed on property including the gift property, the gift tax previously imposed is deducted from the inheritance tax.

Tax Preference Control Law (TPCL)

100 To achieve certain tax policies through a system of tax incentives, TPCL grants direct tax incentives such as tax credits, exclusion, deductions and exemptions. Indirect tax incentives are also included in TPCL in the form of tax deferrals such as contributions to various reserves or special depreciation deductions.

Value-Added Tax (VAT)

101 All corporations and individuals that supply goods or services, regardless of whether for profit or not, are subject to 10% VAT. VAT is levied on supplies of goods and services, and on the import of goods into the country.

102 Certain basic commodities such as farm products, health services, government transactions and other specified transactions are exempt from VAT. Exported goods are zero-rated, i.e., no VAT is applied on the final sale.

103 VAT is actually borne by the final consumers, because the taxpayer pays VAT on its purchases (input tax) but charges VAT on its sales (output tax). The tax to be paid to the authorities is the difference between the taxpayer's output tax and input tax for a tax period.

Special Excise Tax (SET)

104 The SET is assessed on certain goods and activities as enumerated in the SET Law. The SET only applies to those individuals, entities and businesses described in the Law; all other goods and services are not subject to the SET.

105 In principle, the SET applies to a person who manufactures and distributes taxable goods; a person who sells taxable goods, except for the customer who may occasionally sell a taxable good; a person who moves imported goods out of a bonded area; operators of such taxable places as a race course, Turkish bath, golf course, casino, etc.; operators of taxable entertainment establishments such as a cabaret, night club, saloon, etc.

Securities Transaction Tax (STT)

106 The STT is imposed at the point of sale or transfer of the stock or ownership interest.

107 For stocks transferred on the Korea Stock Exchange that are settled on the basis of book-entry by the Korea Securities Settlement Corporation (KSSC), the KSSC is the taxpayer. A securities company is the taxpayer if the stocks or ownership interests are transferred through the securities company. For stocks and interests transferred differently from the previously mentioned two methods, the alienator of the securities is the taxpayer. Where a non-resident individual or corporation having no permanent establishment (PE) in Korea transfers stocks not through a securities company, the transferee shall be the taxpayer.

108 The STT is imposed on the transfer of stock of a corporation established under the Commercial Code or any special Act, or the transfer of an interest in a partnership, limited partnership or limited liability company established under the Commercial Code. The STT is also imposed on the transfer of deemed stocks. Deemed stocks are identified as stocks before insurance, rights to a subscription of stock, preemptive rights and subscription certificate to a corporation established under a special law.

109 The base for the STT is the total value of securities at the time of transfer. If the transfer price is unknown or improperly lower than fair market value, the appraised value shall be the tax base. The appraised value for listed stocks is the closing market price quoted on the Korea Stock Exchange, minus daily settled range of the market price one day before the date the stocks were transferred. For all other stocks, the appraised value shall be calculated according to the Inheritance Tax Law.

110 In general, the tax rate imposed on the transfer of stocks of listed corporations through the Korea Stock Exchange is 1.5/1000 (0.15%), and the rate imposed on the transfer through a stockbroker on the off-board market is 3/1000 (0.3%). The tax rate imposed on others is 5/1000 (0.5%). When the transfer value is equal to or less than par value, the tax rate is zero. The tax rate is also zero for new or outstanding publicly offered stocks under the Securities Transaction Act, when the transfer price is equal to or less than the publicly offered or issued price.

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Appendix A: Rates of tax

Basic tax rates

(Thousand Won)

Taxable income over	Not over	Tax on lower amount	Percentage (%) on excess
0	12,000	0	6.0%
12,000	46,000	720	15.0%
46,000	88,000	5,820	24.0%
88,000	And above	15,900	35.0%

Tax rates on capital gains

(Thousand Won)

- Land, buildings or real estate rights owned for two years or more:

Taxable income over	Not over	Tax on lower amount	Percentage (%) on excess
0	12,000	0	6.0%
12,000	46,000	720	15.0%
46,000	88,000	5,820	24.0%
88,000	And above	15,900	35.0%

- Land, buildings or real estate rights owned for less than 1 year: 50%;
- Land, buildings or real estate rights owned for over 1 year less than 2 years: 40%;
- Unregistered transfer of assets: 70%;
- Capital gains accruing from transfer of unlisted stocks: 20% (10% in the case of small and medium-sized enterprises) of the tax base. (0% for capital gains from transfer of listed stock).

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Appendix B: Retirement income deduction

Retirement income deduction

(Thousand Won)

Number of years of service	Deduction amount
Up to 5 years	W300 x number of service years
5 years - 10 years	W1,500 + W500 x (number of service years - 5 years)
10 years - 20 years	W4,000 + W800 x (number of service years - 10 years))
Over 20 years	W12,000 + W1,200 x(number of service years - 20 years)

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Appendix C: Tax withholding rates under the tax treaties

Withholding rates on outward remittances

Country	Dividends (%)	Interest (%)	Royalties (%)	Country	Dividends (%)	Interest (%)	Royalties (%)
Australia	15	15	15	Malta	5/15	10	0
Austria	5/15	10	2/10	Mexico	0/15	5/10/15	10
Bangladesh	10/15	10	10	Morocco	5/10	10	5/10
Belgium	15	10	10	Mongolia	5	5	10
Brazil	10	10/15	10/25	The Netherland	10/15	10/15	10/15
Bulgaria	5/10	10	5	New Zealand	15	10	10
Canada	5/15	10	10	Norway	15	15	10/15
China, P.R.	5/10	10	10	Pakistan	10/12.5	12.5	10
Czech Republic	5/10	10	10	Papua New Guinea	15	10	10
Denmark	15	15	10/15	Philippines	10/25	10/15	10/15
Egypt	10/15	10/15	15	Poland	5/10	10	10
Fiji	10/15	10	10	Romania	7/10	10	7/10
Finland	10/15	10	10	Portugal	10/15	15	10
France	10/15	10	10	Russian Federation	5/10	0	5
Germany	5/15	10	2/10	Singapore	10/15	10	15
Greece	5/15	8	10	South Africa, Rep. of	5/15	10	10
Hungary	5/10	0	0	Spain	10/15	10	10
India	15/20	10/15	15	Sri Lanka	10/15	10	10
Indonesia	10/15	10	15	Sweden	10/15	10/15	10/15
Ireland, Rep. of	10/15	0	0	Switzerland	10/15	10	10
Israel	5/10/15	7.5/10	2/5	Thailand	10	10/15	5/10/15
Italy	10/15	10	10	Tunisia	15	12	15
Japan	5/15	10	10	Turkey	15/20	10/15	10
Kazakhstan	5/15	10	2/10	United Kingdom	5/15	10	2/10

Kuwait	10	10	15	United States	10/15	12	10/15
Luxembourg	10/15	10	10/15	Uzbekistan	5/15	5	2/5
Malaysia	10/15	15	10/15	Vietnam	10	10	5/15

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Appendix D: Republic of Korea contacts and offices

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Taegu Branch Office

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