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Korean Tax Update
Samil Commentary

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01 Tax news

MOFE Announces the 2026 Tax Expenditure Plan

On March 31, 2026, the government approved the Tax Expenditure Plan for 2026, which streamlines non-essential tax expenditures while introducing targeted tax measures to support domestic production and investment. The Ministry of Finance and Economy (MOFE) plans to reflect these initiatives in its 2026 tax reform proposals following inter-ministerial consultations. The plan sets out the government's policy direction for 2026 tax expenditures and identifies the incentive programs subject to preliminary feasibility assessments and in-depth evaluations.

1. Streamlining Tax Expenditure Management to Support Economic Growth

Four tax measures to help restore potential growth

- Designating national strategic technologies and new growth/source technologies as eligible for tax incentives so that R&D and investment are directed toward priority areas, thereby fostering future strategic industries and strengthening the overall economy.
- Introducing tax incentives to promote domestic production of critical items where establishing a domestic production base is necessary to enhance economic security and stabilize supply chains.
- Establishing the National Growth Fund and productive investment ISA to channel capital into productive sectors such as advanced technology industries and long-term domestic equity investment.
- Promoting decarbonization by rationalizing fossil fuel-related tax expenditures and expanding incentives for companies located in RE100 industrial complexes (equipped with renewable energy infrastructure to help tenant companies achieve 100% renewable electricity use).

Supporting balanced growth and addressing economic polarization

- Supporting locally driven growth by providing regionally differentiated incentives for corporate R&D and investment, as well as for enhanced earned income support for SME employees.
- Improving the earned income tax credit for low and middle-income households and strengthening targeted tax and financial support for SMEs, venture startups, and investment.
- Encouraging asset formation among young people by exempting interest income from Youth Future Savings Accounts from taxation.

Addressing risks in the foreign exchange, capital, and real estate markets

- Supporting risk management in the foreign exchange and financial markets, including measures aimed at easing volatility in those markets.
- Seeking to stimulate housing demand in depopulating areas and reduce

inventories of unsold newly built homes in local regions.

2. A Comprehensive Overhaul of Tax Expenditures to Support Stable Fiscal Management

Abolishing non-essential tax expenditures through a comprehensive review of the tax expenditure system by:

- Establishing reform priorities, including abolishing ineffective or low-impact programs, converting selected tax expenditure schemes into direct fiscal spending, redesigning programs to improve effectiveness, and granting permanent support where policy justification is strong.
- Eliminating tax expenditures that no longer have policy relevance or that have been maintained for a long time without a clear rationale.

Redesigning programs to reflect changes in the policy environment by:

- Adjusting tax expenditure programs to address evolving economic and policy conditions, including intensified concentration in the Seoul metropolitan area, technological innovation, and international tax developments such as the global minimum tax.
- Promoting conversion into direct fiscal spending for tax expenditures where fiscal spending is more effective for income redistribution and where efficiency gains are needed by consolidating similar or overlapping tax expenditure programs.

Actively using performance evaluation system by:

- Conducting in-depth performance reviews of tax expenditure schemes before deciding whether to extend sunset provisions for tax expenditure schemes whose continued necessity is recognized
- Applying stricter standards to exemptions for preliminary feasibility assessments of tax expenditures in order to prevent the unnecessary creation of new nonessential programs.

3. Measures to Rationalize Tax Expenditure Schemes

Improving the sunset system to prevent repeated extensions by:

- Eliminating, in principle, one-time sunset extensions unless continued support is clearly justified, and require redesign where continuation is considered necessary rather than allowing automatic extensions.
- Strengthening oversight by conducting regular in-depth reviews, at least once every five years, of tax expenditure schemes without sunset clauses.

Reinforcing total control of tax incentives by:

- Requiring revenue-offsetting measures not only for new tax incentive proposals but also for requests to extend existing incentives.
- Introducing a ministry-level consolidated table of tax revenue offset measures to identify, by ministry, the aggregate amount of reduced tax revenue and fiscal expansion, and allowing new tax reductions only within the ceiling of fiscal expansion amounts.
- Introducing a total expenditure control system for advanced technologies covered under national strategic technologies and new growth/source technologies, including a review of whether to narrow existing support targets through

reevaluation of currently supported technologies.

Enhancing the objectivity and efficiency of the tax expenditure reporting system by:

- Introducing a tax expenditure statement to strengthen parliamentary review and oversight of the operation of tax expenditure schemes.
- Rationalizing the scope of tax expenditures subject to management so that oversight can focus on schemes requiring control.

Tax Measures Subject to Preliminary Feasibility Assessment and In-Depth Evaluation in 2026

Preliminary Feasibility Assessment

- A preliminary feasibility assessment will apply to one proposed measure: a tax credit based on the volume of goods produced domestically with respect to items prescribed under the Special Tax Treatment Control Law (STTCL) and the Presidential Decree.

In-depth Evaluation

Among 31 tax measures subject to in-depth evaluation, a few selected examples of significant measures are:

- Preferential tax treatment that allows foreign workers to elect a flat 19% income tax rate on employment income for taxable periods ending within 20 years from the start of employment (selectively together with a 50% reduction in income tax on employment income earned by qualifying foreign engineers for up to 10 years).
- A 70% reduction in payroll tax for three years, or five years for youth employees, following employment with an SME, with the reduction increasing to 90% for youth employees.
- A 15% to 45% reduction in capital gains tax on the transfer of land and other properties used for public interest projects, provided the property was acquired at least two years prior to the notice of project approval (selectively together with a 40% tax reduction or deferral for gains arising from transfers of land to public interest project operators where compensation is paid in land).
- Zero-rated VAT for urban railway construction services supplied to urban railway operators.
- An exemption from individual consumption tax for hybrid vehicles purchased by December 31, 2026, capped at KRW 700,000 per vehicle.
- An exemption from individual consumption tax for electric vehicles purchased by December 31, 2026, capped at KRW 3 million per vehicle, and for hydrogen fuel cell vehicles purchased by the same date, capped at KRW 4 million per vehicle.
- Refunds of fuel taxes, including individual consumption tax, on fuels used by light vehicles.
- An exemption from indirect taxes for petroleum fuels directly supplied by the Korea Shipping Association for passenger ships operating on domestic coastal routes.
- An exemption from stamp tax for bank loan documents prepared for a start-up SME within two years of commencement of business.
- A 15% tax credit for medical or education expenses and a 10% tax credit for monthly rent paid by qualifying compliant business operators.
- Separate taxation of dividend income at 9%, subject to an investment cap of KRW 50 million, for investments held for at least three years in publicly offered real estate funds and REITs.

- An exemption from securities transaction tax to support restructuring through share exchanges between financial institutions and financial holding companies, share transfers involving management-participating private equity funds directly investing in financially distressed companies for corporate stabilization purposes, and share exchanges conducted under a business reorganization plan.
- An exemption from securities transaction tax on share transfers conducted for arbitrage by the Postal Service Agency and pension funds.

NTS Announces Tax Audit Reform Measures, including a Tax Audit Timing Election Regime

The National Tax Service (NTS) has announced tax audit reform measures, including a new regime that allows taxpayers selected for regular tax audits to choose, within prescribed guidelines, when the audit will commence (the “tax audit timing election regime”). The measures also provide for the advance disclosure of 10 key audit focus areas so that taxpayers may conduct self-checks before an audit. Details of the tax audit timing selection regime and the categories of the 10 key audit focus areas, both of which are fully implemented beginning in April 2026, are set out below.

Tax Audit Timing Election Regime

Under the new regime, taxpayers selected for regular tax audits may choose the month in which the audit will commence within a designated three-month window beginning in April. After receiving notice, a taxpayer may indicate two preferred months for the commencement of the audit, ranking them as its first and second choices, within that three-month period. Under current practice, a formal advance audit notice will still be issued at least 20 days before the actual audit start date, and so the process will proceed as follows: the tax office issues a timing-election notice to a taxpayer selected for a regular tax audit; the taxpayer selects and submits its preferred months for the commencement of the audit; the tax office confirms and notifies the final selection of the audit start month; a formal advance audit notice is issued at least 20 days before the scheduled start date; and the audit commences on the scheduled date.

10 Key Audit Focus Areas

The NTS has reviewed recent tax audit results and identified 10 recurring categories of audit issues. For each category, the NTS will publish key review points, actual audit assessment cases, and Q&A materials on its website and provide them to taxpayers as guidance at the start of a tax audit.

Corporate Income Tax and Individual Income Tax (7 Areas)

Personal use of corporate or business credit cards: This includes cases where a corporate or business credit card is used for non-business purposes, such as personal shopping or household purchases, including medical equipment, cosmetics, or artwork. It also includes spending on leisure or entertainment unrelated to the business, personal medical expenses at plastic surgery, dermatology, dental, or oriental medicine clinics, and private travel, lodging, golf, overseas spending, or purchases made far from the place of

business without a clear business purpose.

Unreported sales through personal accounts: This includes cases where sales revenue is omitted because payments are received through personal bank accounts, including those of the business owner, company representative, relatives, or employees. It also includes overseas sales proceeds deposited into the representative's foreign accounts and online or platform-based sales settled through personal accounts without being reported as revenue.

Unjustified write-off of receivables: This includes cases where accounts receivable are written off without a valid business reason, such as forgiving collectible receivables to maintain business relationships. It also covers arbitrary write-offs of receivables owed by related parties and reductions of confirmed sales amounts through discounts granted without any prior agreement or established policy.

Fictitious payroll expenses claimed for persons not actually employed: This includes cases where labor costs are recorded for individuals who do not actually work for the business, including related parties such as spouses, children, or close relatives. It also includes payroll recorded for fictitious employees and continued personnel payments after an employee has retired.

Improper research and development (R&D) tax credits: This includes cases where tax credits are claimed for research personnel engaged in routine work, such as quality inspections or minor improvements, rather than qualifying research activities. It also covers credits claimed for employees who concurrently perform unrelated duties, such as general administrative work, and for research staff whose overseas travel is unrelated to research and development.

Failure to recognize deemed interest on advances to a company representative: This includes cases where company funds are used for personal purposes by the representative or others without interest being charged, resulting in unrecognized deemed interest income. It also includes loans to related parties that are interest-free or bear interest at below arm's length rates.

Immediate expensing of costs that should be capitalized: This includes cases where expenditures that should be capitalized are instead recorded as current-year expenses, such as large-scale remodeling costs treated as repair expenses. It also covers IT system or ERP implementation costs and other capital expenditures that extend an asset's useful life or increase its value but are improperly expensed immediately.

Value Added Tax (3 Areas)

Issuance or receipt of VAT invoices that are inconsistent with the facts: This includes cases where VAT invoices are issued or received without any actual supply of goods or services. It also includes false VAT invoices containing incorrect information, such as supply prices, supply dates, or counterparties to which the goods or services are supplied, which do not accurately reflect the underlying transactions.

Misclassification of VAT-taxable and VAT-exempt transactions: This includes cases where VAT-taxable sales are incorrectly reported as VAT-exempt, or all sales are treated

as VAT-exempt even though only some transactions qualify. It also includes errors in input-VAT apportionment by businesses engaged in both VAT-taxable and VAT-exempt activities, improper input VAT deductions related to VAT-exempt activities, and misclassification of auxiliary transactions as VAT-exempt even though the main transactions are VAT-taxable.

Failure to report VAT on deemed supplies of goods: This includes cases where VAT is not reported on supplies used for personal purposes, including private use of business goods such as vehicles, electronic devices, or real estate. It also covers the free provision of business goods to transaction counterparties, employees, or related parties, as well as the personal use of self-constructed or self-manufactured goods.

KCS Unveils 2030 Future Growth and Innovation Strategy for Customs Administration

The Korea Customs Service (KCS) has announced its 2030 Future Growth and Innovation Strategy for Customs Administration, setting out three main goals: securing customs and border protection, enabling fair trade and economic security, and supporting shared growth and a dynamic economy. To achieve these goals, the KCS plans a broad reorganization of its customs administration framework around five key pillars.

AI Integration Across Customs Administration

A central feature of the strategy is the integration of artificial intelligence across the customs administration system. Through a dual-track approach combining internal AI development and external AI solutions, the KCS plans to expand AI use across customs functions over time. In addition, the KCS will pursue innovation driven by Agent Experience (AX) by integrating AI throughout customs administration, strengthening the data, equipment, and workforce infrastructure for AI use, shifting from on-site operations toward AI-centered processes, and comprehensively overhauling the customs administration system with an AI-based architecture.

Strengthening Border Protection

The strategy also seeks to redesign border protection by applying an integrated screening model across the customs border. In this regard, the KCS seeks to establish an integrated risk management system involving multiple government departments and agencies, rebuild surveillance structures using advanced detection equipment as a secondary screening layer, and introduce advanced smart border systems with 3D visualization and augmented-reality-based monitoring. In addition, the KCS plans to launch a Virtual Customs framework and strengthen inter-agency collaboration, thereby enhancing customs clearance and controls.

Trade Management and Revenue Normalization

Under its trade management agenda, the key initiatives include a comprehensive reshuffle of the customs verification system, full inspections of export and import related violations to build a structured customs audit framework, and preemptive asset seizure

and reinforced sanctions against high-value and habitual tax delinquents. The strategy also calls for domestic and overseas governance to address infringements involving Korean brands, support region-based industrial growth, and build an automated monitoring framework to detect circumvention of anti-dumping duties.

Reinforced Trade Crime Investigations

The KCS also intends to strengthen its response to trade crime by advancing its investigative systems and transforming customs investigations into a specialized enforcement function capable of addressing serious and emerging offenses, including drug trafficking and virtual asset-related crimes. Among other measures, this pillar will focus on operating risk analysis systems for illicit virtual asset transactions, reinforcing digital forensics and financial tracking capabilities, and expanding enforcement networks based on international cooperation.

Expanded Support for Corporate Customs Risk Management

The strategy emphasizes stronger support for companies in managing customs clearance risks in advance. Planned measures include: i) providing integrated electronic transaction platform services; ii) establishing a unified traveler declaration system; iii) building an AI-based personalized customs consultation system; iv) developing a mobile application to help consumers check the safety and customs eligibility of imported goods; and v) providing support services for determining country of origin and HS code classification.

Government Announces Supplementary Measures as Grace Period for Higher Capital Gains Tax Rate Nears Expiration

The government has confirmed that the grace period for the higher capital gains tax rates applicable to multiple homeowners in regulated areas will end as scheduled on May 9, 2026. To address delays arising from land transaction permit reviews, however, it will introduce supplementary measures intended to reduce inconvenience for affected sellers. Under the plan, the higher capital gains tax rate will not apply where a sale contract is executed by May 9, 2026 or where an application for a land transaction permit is submitted by that date. The MOFE and the Ministry of Land, Infrastructure and Transport are seeking public comments on the proposed amendments to the Presidential Decrees of the Individual Income Tax Law and the Real Estate Transaction Reporting Act from April 10 through April 17, 2026. The government aims to promulgate and bring the amendments into effect within April 2026.

02 Changes in tax laws

Amended Enforcement Rules of the Corporate Income Tax Law

The Presidential Decree of the Corporate Income Tax Law has been amended to extend the exemption period for additional corporate income tax on gains from the sale of newly constructed unsold housing located outside the Seoul metropolitan area by corporate restructuring real estate investment companies. In line with this amendment, the amended Enforcement Rules set out the detailed eligibility requirements for the housing and procedures for verifying whether the requirements are met. The amendments also clarify the apportionment of deemed bonuses among representative directors where, as a result of an estimated tax assessment or reassessment of corporate income tax on the company, the difference between net income after tax and taxable income is treated as a deemed bonus to the representative director and the company's representative director changes during the fiscal year. In such cases, any amount treated as a bonus to the representative director must be apportioned between the former and the current representative directors according to their respective periods of service during that year. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Individual Income Tax Law

The Presidential Decree of Individual Income Tax Law has been amended to reflect recent legislative changes aiming at: i) including foreign shares within the scope of assets subject to exit tax, while clarifying the categories of foreign shares held by covered emigrants; ii) treating profits from investment management accounts (IMA) as dividend income; and iii) ending the temporary relief from higher capital gains tax rates for multiple homeowners as of May 9, 2026, while allowing transitional relief where the sale agreement is executed by that date and the relevant housing is transferred within four or six months thereafter. In response, the amended Enforcement Rules revise the relevant forms to reflect the inclusion of foreign shares in the exit tax regime. They also clarify that dividend income attributable to each IMA investor is calculated by multiplying the dividend income per account by the number of accounts held at the time of profit distribution, after deducting applicable fees and commissions under the Financial Investment Services and Capital Markets Act. In addition, required documents, such as copies of land transaction permits, are prescribed to verify eligibility for exemption from higher capital gains tax rates for multiple homeowners. The amendments further provide that, for applications seeking special treatment for qualified rental housing by one house per household, which relaxes the two-year residency requirement for capital gains tax exemption, eligibility is determined based on the date of the most recent lease agreement rather than the actual period of residence. The relevant application forms have been updated accordingly. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Value Added Tax Law

Recent amendments to the Presidential Decree of the VAT Law expand the scope of businesses eligible for special treatment on the timing of tax invoice issuance for ancillary electricity supply costs. The expanded scope includes renewable energy electricity storage and sales operators, electricity suppliers in transmission-constrained areas, and distributed energy service providers. It also adds media content creation businesses to the list of industries required to submit cash sales statements along with their preliminary or final VAT returns. To implement these changes, the amended Enforcement Rules include the relevant electricity supply-related costs within ancillary costs, add a dedicated section for media content creation businesses to the cash sales statement form, and introduce a new field in the business registration application to indicate whether the applicant is an investment association and, if so, to provide relevant details. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Special Tax Treatment Control Law

Recent amendments to the Presidential Decree of the Special Tax Treatment Control Law permit cartoon business entities under the Cartoons Promotion Act to claim tax credits for webtoon contents production costs including labor expenses, and also allow school foundations to defer taxation on gains from the disposal of securities where other securities are acquired within one year of the disposal. Reflecting these changes, the amended Enforcement Rules: i) clarify the scope of business entities and expenditures eligible for the webtoon contents production tax credit; and ii) exclude collective investment securities offered by private equity funds or foreign collective investment vehicles from the scope of collective investment securities qualifying for tax deferral on gains derived by school foundations. In addition, the amended Enforcement Rules expand the scope of facilities eligible for the integrated investment tax credit. Specifically, newly eligible facilities include smart safety monitoring systems as safety facilities, facilities used to develop and manufacture veterinary drug candidate products as new growth and source technology commercialization facilities, and facilities used to develop, design and manufacture parts and materials for transport and propulsion systems of environmentally friendly advanced vessels as national strategic technologies. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Basic National Tax Law

Following amendments to the underlying law and Presidential Decree, the situations in which taxpayers may request a government-appointed tax representative in national tax appeal proceedings have been expanded to include cases where a grievance petition is filed with the tax authorities. The amended Enforcement Rules update the relevant application forms accordingly. To enhance taxpayer convenience and address operational shortcomings, the amendments add guidance to the relevant forms stating that entities treated as corporations and seeking approval of such request should not use names that could be mistaken for those of individuals. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Law for Coordination of International Tax Affairs

The amended Enforcement Rules reflect recent changes to the Law for the Coordination of International Tax Affairs, including the introduction of a domestic minimum top-up tax (DMTT) designed to secure Korea's taxing rights over low-taxed domestic constituent entities in line with the OECD/G20 Inclusive Framework's Administrative Guidance. The amendments set out detailed rules delegated by statute, including the specific methods for calculating the DMTT, such as the computation of adjusted covered taxes, and reporting forms required for filing the relevant return. In addition, the amended rules specify the documents to be submitted when filing an amended tax return for a refund claim based on the arm's-length price. Furthermore, the amended rules relax the criteria for designating regions excluded from the rule under which a controlled foreign corporation's undistributed earnings are deemed as dividends to the relevant domestic company, and refine Korea's Pillar Two global minimum tax framework in line with the OECD Administrative Guidance. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Inheritance and Gift Tax Law

The amended Enforcement Rules clarify, among others, the reporting requirements in the Gifted Property and Valuation Statement. Specifically, where the value of gifted property to be added to the gift tax base is reported, the revised form makes clear that such value should be stated net of any secured debt associated with the gifted property that is assumed by the recipient. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Comprehensive Real Estate Holding Tax Law

The Presidential Decree has been amended to extend, for one additional year through December 31, 2026, the temporary exclusion of unsold housing acquired by corporate restructuring real estate investment trusts (CR REITs) from the aggregated value of houses for comprehensive real estate holding tax purposes, and to clarify that eligible properties are limited to newly constructed unsold housing located in non-metropolitan areas. In addition, the amendments exclude from the housing count used for determining applicable tax rates certain lower-value homes acquired in designated population-declining or population-decline watch areas on or after January 1, 2026. In line with these changes, the amended Enforcement Rules update the relevant forms, including the filing form for excluding unsold housing owned by CR REITs from aggregation and the application form for excluding qualifying housing from the housing count for purposes of determining the applicable tax rates. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Individual Consumption Tax Law

Following amendments to the Presidential Decree requiring additional supporting documentation when claiming a deduction or refund of individual consumption tax on cigarettes that are disposed of without being delivered to a manufacturing facility or similar location, the Enforcement Rules have been revised accordingly. The amended rules specify that the required documentation consists of a tax deduction or refund certificate under Article 31 of the Enforcement Rules of the Local Tax Act and a cigarette disposal confirmation under Article 31-2 thereof. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Securities Transaction Tax Law

Following the abolition of the scheduled financial investment income tax (FIIT) regime, the Presidential Decree of the Securities Transaction Tax Law has been amended to restore the securities transaction tax rates that had previously been reduced in anticipation of the FIIT implementation. Accordingly, the amended Enforcement Rules revise the securities transaction tax return form to reflect the reinstated rates. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the National Tax Collection Law

In line with amendments to the National Tax Collection Law and the Presidential Decree, which allow district tax offices to delegate the disposal of virtual assets to the Korea Asset Management Corporation, the amended Enforcement Rules introduce the necessary forms, including a delegation request for the sale of virtual assets. The amended Enforcement Rules also update tax collection–related forms to reflect the revised method for calculating late-payment penalties from the designated payment due date on a monthly basis, rather than the previous daily basis. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Customs Act

As amendments to the Customs Act take effect on April 1, 2026, allowing tariff exemptions for medicines used to treat rare and incurable diseases and for overseas resources secured through overseas resource development, the Enforcement Rules have been revised to define the scope of tariff-exempt medicines and those overseas resources. The amended rules also clarify the grounds for rejecting applications for an advance ruling or for review of advance ruling on tariff classification of goods before an export or import declaration is filed. In addition, they provide for tariff exemptions for certain goods at bonded stores that have not been taken out of Korea, provided those goods fall outside of the rule requiring retrieval of bonded-store goods. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Act on Special Cases of the Customs Act for the Implementation of Free Trade Agreements

The amended Enforcement Rules reflect updates under Korea's free trade agreements by adding authorized institutions that may issue certificates of origin for goods originating in Australia under the Korea–Australia Free Trade Agreement. The amendments also limit advance-ruling fees on origin determination to cases requiring physical or chemical analysis of component materials, thereby easing taxpayer burden. In addition, the amended rules seek to align the product classification numbers used in origin determination under the ASEAN–Korea Trade in Goods Agreement and the Korea–Vietnam Free Trade Agreement with the HS 2022 standards. (Amended and proclaimed on March 20, 2026)

Amended Enforcement Rules of the Act on Special Cases Concerning the Refund of Customs Duties Levied on Raw Materials for Export

The amended Enforcement Rules adjust the interest rate applicable to voluntarily reported excess refunds of customs duties, etc. in light of prevailing interest rates. Although taxpayers that voluntarily report excess refunds within three months of receiving the refund are allowed to pay interest at a reduced rate, the previous rate was considered too low to reflect current market conditions. Accordingly, based on the average interest rate on one-year bank time deposits, the applicable annual rate has been raised from 1.2% to 3.1%. (Amended and proclaimed on March 20, 2026)

Amended Presidential Decree of the Transport, Energy and Environment Tax Act

The Presidential Decree has been amended to ease the public's fuel cost burden by extending the temporary flexible tax rate reductions on gasoline, diesel, and similar substitute fuels from April 30, 2026, to May 31, 2026. Reflecting recent fuel price changes, the amendment further expands the reductions by lowering the flexible tax rate on gasoline and similar fuels from KRW 492 per liter to KRW 450 per liter, and on diesel and similar fuels from KRW 337.5 per liter to KRW 281 per liter. (Amended and proclaimed on April 1, 2026)

Amended Presidential Decree of the Customs Act

The Presidential Decree has been amended to ensure the timely domestic supply of goods subject to tariff-rate quotas, which are placed under special government management to meet essential demand in Korea. In response to cases where designated suppliers intentionally delayed supply, the amendment introduces stricter compliance requirements for companies recommended for tariff-rate quota eligibility, including a mandatory deadline for releasing goods from bonded areas. If a recommended supplier fails to meet these conditions and the recommendation is revoked, the supplier will no longer be eligible for application of the quota tariff. In addition, intensively managed items will be subject to an import declaration delay

surcharge where an import declaration is not filed within 30 days of entry into a bonded area. The amendment also clarifies that, where a foreign country withdraws or modifies tariff concessions on specific goods, the government will implement countermeasures in accordance with existing retaliatory tariff procedures. (Amended and proclaimed on April 3, 2026)

Amended Rules for the Application of a Tariff-rate Quota under Article 71 of the Customs Act

Under Article 71(1) of the Customs Act, the government may apply tariff rate quotas—reduced tariff rates on limited import volumes—when necessary to stabilize domestic prices, ensure a smooth supply of goods, or strengthen industrial competitiveness. In line with this provision, the rules for the application of tariff rate quotas have been amended to support the restructuring of the petrochemical industry. Under the amendment, companies with approved business restructuring plans may apply the quota tariff for crude oil used to produce naphtha, with the scope expanded to cover naphtha derived by products. The quota tariff applies where such by products are generated from naphtha in internal petrochemical processes and are reused in refining processes or sold for non-petrochemical purposes after the merger registration date. (Amended and proclaimed on April 3, 2026)

03 Rulings update

Applicability of the Tax Deferral Special Treatment to Venture Company Stock Options Where Procedural Requirements Were Not Fulfilled

Where an employee or officer of a domestic company exercises stock options and acquires the company shares at a predetermined exercise price, the resulting gain (i.e., the difference between the fair market value of the shares and the exercise price at the time of exercise) is generally treated as employment income subject to individual income tax in the year of exercise, even if the shares are retained rather than sold. Also, that amount may generally be treated as a deductible expense by the company. To help venture businesses attract and retain talented personnel, Article 16-4 of the Special Tax Treatment Control Law ('STTCL") provides a special tax deferral regime under which employees and officers of qualifying venture businesses may elect to defer taxation on gains arising from the exercise of qualifying stock options granted by those venture businesses. Under this regime, the gain is not taxed as employment income at the time of exercise, but instead is taxed later as a capital gain when the shares acquired through the exercise of the stock options are transferred (the "Tax Deferral Special Treatment"). In such cases, the venture business is required to treat the related stock option exercise expense as non-deductible.

To qualify for the Tax Deferral Special Treatment, an employee or officer of the venture business must, no later than the day immediately preceding the stock option exercise date, submit to the venture business an application for the special treatment together with proof that a dedicated stock option account has been opened. In addition, the venture business must deposit the shares issued upon the exercise of the stock options into the designated stock option account and submit a statement of shares issued upon stock option exercise and a statement of eligible beneficiaries of the special treatment to the tax office with jurisdiction over withholding tax matters by the 10th day of the month following the month in which the exercise date falls according to Article 14-4(2) and (3) of the Presidential Decree of the STTCL (the "Relevant Provision"). The key issue in this case was whether the Tax Deferral Special Treatment could still be applied through a tax refund claim where the employee or officer of a venture company failed to submit the application for the special treatment to the venture company by the day immediately preceding the stock option exercise date. *(Daebeop2025Du35079, 2026.3.12)*

In this case, the Supreme Court held that, under the Relevant Provisions of the STTCL, the establishment of a dedicated stock option account—through which shares acquired upon exercise are clearly segregated from ordinary share transactions—constitutes an essential requirement for the application of the Tax Deferral Special Treatment. The Court further noted that the tax treatment of the venture company's stock option

exercise expenses (i.e., whether such expenses are deductible) differs depending on whether the employee or officer elects the Tax Deferral Special Treatment. Accordingly, allowing the ex post application of the Tax Deferral Special Treatment for employees or officers of venture companies who failed to comply with the procedural requirements set forth in the relevant provisions would result in the disallowance of deductions for the relevant stock option exercise expenses, thereby adversely affecting the venture company's financial position and undermining the legislative intent of promoting venture businesses underlying the Tax Deferral Special Treatment. On that basis, the Supreme Court concluded that where an employee or officer of a venture company fails to complete the required procedures within the prescribed deadline in accordance with the relevant provisions, the Tax Deferral Special Treatment cannot be applied through a tax refund claim.

Observation: This Supreme Court decision indicates that the requirements under the relevant provisions—namely, that employees or officers of venture companies must open a dedicated stock option account no later than the day immediately preceding the stock option exercise date and submit to the venture company an application for the special treatment together with proof that the account has been opened—constitute essential conditions for the application of the Tax Deferral Special Treatment. Accordingly, these procedural requirements should not be regarded as mere formalities or simple cooperative obligations, and non-compliance should not give rise to the erroneous assumption that the special tax treatment may be applied retrospectively. That said, attention should also be paid to a prior decision in which the Tax Deferral Special Treatment was allowed where the employee or officer had submitted the application for the special treatment to the venture company by the day immediately preceding the stock option exercise date, thereby clearly expressing an intention to elect the Tax Deferral Special Treatment, but the venture company failed to submit the statement of shares issued upon stock option exercise or other required filings *(Joshim2024Jeon3816, 2025.7.15).*

Applicability of NOL Carrybacks for SMEs under the Consolidated Tax Filing Regime

Under the Corporate Income Tax Law ("CITL"), the provisions governing income tax for each taxable year apply *mutatis mutandis* to the assessment, reassessment, collection, and refund of corporate income tax on the income for each consolidated taxable year of corporations subject to the consolidated tax filing regime. However, Article 72 of the CITL, which governs tax refunds arising from the carryback of net operating losses ("NOL carryback") available to small and medium sized enterprises ("SMEs"), is not included among the provisions expressly incorporated by reference under Article 76-20 of the CITL (the "Relevant Provision"). Accordingly, the key issue in this case was whether an SME under the consolidated tax filing regime may claim a refund of corporate income tax by applying the NOL carryback rules, even though those rules are not expressly incorporated by reference under the Relevant Provision. *(Joshim2025Seo4214, 2026.3.5)*

The Tax Tribunal held that, since the Relevant Provision does not incorporate the NOL carryback rules, a corporation subject to the consolidated tax filing regime cannot, as a matter of statutory interpretation, invoke the NOL carryback regime. The Tribunal further noted that the summary of the amended tax laws published by the Ministry of Economy and Finance in 2008 explicitly states that, while the provisions governing corporate income tax for each taxable year apply *mutatis mutandis* to each consolidated taxable year, the application of the NOL carryback regime is excluded. Taking these considerations into account, the Tribunal concluded that corporations subject to the consolidated tax filing regime are not eligible for NOL carryback treatment.

Observations: This decision is consistent with prior authoritative interpretations, which have taken the position that resident corporations subject to the consolidated tax filing regime are not entitled to apply the NOL carryback provisions, as such provisions are not incorporated by reference under the Relevant Provision *(Seomyun-2019-Beopin-3964, 2020.04.13)*. Accordingly, corporations subject to the consolidated tax filing regime should not claim tax refunds through the NOL carryback claims; instead, any net operating losses should be carried forward and deducted in computing the corporate income tax base for subsequent taxable years. It is also worth noting that whether a taxpayer qualifies as an SME eligible for NOL carryback treatment is determined based on the taxable year in which the loss arises, rather than the immediately preceding taxable year in which income was generated *(Seomyun 2017 Beopin 1732, 2017.11.30)*. In this regard, the Tax Tribunal has also indicated that the NOL carryback regime may be available where an SME filed and paid corporate income tax under the consolidated tax filing regime through the immediately preceding taxable year in which income was generated, but switches to the separate tax filing regime in the current taxable year in which the loss arises *(Joshim2021Seo0620, 2021.10.25).*

The content is for general information intended to facilitate understanding of recent court cases and authoritative interpretations. It cannot be used as a substitute for specific advice and you should consult with a tax specialist for specific case.

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