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Korean Tax Update
Samil Commentary

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01 Tax news

NTS Announces Its National Tax Administration Plan for 2026

The National Tax Service (NTS) announced the 2026 National Tax Administration Plan at its mid-year nationwide meeting of regional tax office heads. Key elements of the plan are summarized below.

1. Securing Stable Tax Revenues to Support Government Operations

- **Ensuring stable revenue collection.** For 2026, the NTS's revenue budget is set at KRW 381.7 trillion, an increase of KRW 19.1 trillion from the supplementary budget of KRW 362.6 trillion for 2025. To achieve this target, the NTS will strengthen efforts to secure tax revenues by supporting compliant filing practices and enhancing the verification of tax filings and the collection of delinquent taxes.

- **Enhancing taxpayer convenience to encourage voluntary compliance.** To this end, the NTS will focus on: i) expanding customized filing guidance and provide separate, detailed explanations on deductions and tax credits to help taxpayers fully claim available benefits; ii) improving taxpayer services through enhanced functions for tax inquiries, payments, and refund applications via the national digital notification platform; and iii) strengthening guidance for taxpayers to self-identify and correct filing errors on the NTS Hometax website.

- **Strengthening litigation capabilities to protect taxing authority.** The NTS will introduce open competition for the appointment of external attorneys in high-value and strategically significant tax litigation cases, with a substantial increase in the fee cap from KRW 50 million under the current private contracting to KRW 1 billion under open competition. It will also expand the use of civil litigation by lowering the delinquent tax threshold for initiating actions such as fraudulent transfer revocation suits from KRW 50 million to KRW 30 million, thereby improving the NTS's ability to respond to malicious asset concealment.

2. Comprehensive Package of Tax Administration Measures

- **Support for micro enterprises and SMEs.** The NTS will extend tax payment deadlines for micro enterprises and expand the scope of simplified VAT taxation. It will also establish a new tax support center to help SMEs and micro enterprises to address their tax-related difficulties.

- **Tailored and business-friendly support.** To this end, the NTS will implement a range of measures to meet business needs. These include: i) extending corporate income tax payment deadlines by three months (two months for interim payments) for exporting companies affected by high tariff rates and for companies in the petrochemical, steel and construction sectors, to boost export competitiveness; ii) establishing an exclusive service center to support and advise emerging industries such as AI and biotech; iii) for regular tax audits, allowing taxpayers to select their preferred start month within a three-month window, with audits commencing in the selected period; iv) introducing pre-disclosure of key audit focus items, such as recurring filing errors identified in past tax audits, to taxpayers in advance, and providing explanations on those items at the start of the audit; and v) expanding and extending the suspension of planned tax audits for small businesses contributing to price stabilization; granting a one-year extension of tax-audit suspensions that are due to expire for export-oriented SMEs meeting certain requirements (such as where exports account for 30% or more of gross sales, or total KRW5 billion or more), and expanding the scope of startups eligible for tax audit deferral to include those which have been in operation for fewer than 10 years (up from five years currently).

- **Steps to reduce taxpayer inconvenience.** A dedicated taxpayer-communication unit will be established at district tax offices to collect complaints and feedback from self-employed and small business owners.

- **Support for global expansion of strategic or culture industries.** To this end, the NTS will promote bilateral exchanges with major trading partners to support key industries, including semiconductors, secondary batteries, and automobiles. It will also prioritize mutual agreement procedures for leading K-culture companies entering overseas markets, and offer international tax seminars to share transfer pricing issues and to support compliance with the global minimum tax filing requirements.

3. Measures to Promote Fair Taxation

- **Tax delinquency management.** The NTS will establish a new unit dedicated for managing, assessing, and collecting national tax delinquencies using tailored tax-collection approaches. The focus will be placed on detecting and scrutinizing intentional delinquencies.

- **Support for delinquent taxpayers facing financial difficulties.** The NTS may waive tax liabilities for delinquent taxpayers who meet specified criteria. This relief will apply to low-income or bankrupt individual taxpayers with up to KRW 50 million in individual income tax and VAT arrears incurred before January 1, 2025, if so determined by the new unit's review. The NTS will also expand special collection relief for small business owners who restart their businesses, including waiving late payment penalties and easing payment requirements. Eligibility will be expanded to include non-standard workers, and the arrears threshold for individual income tax and VAT will increase from KRW 50 million to KRW 80 million.

- **Collection of hidden assets held by offshore tax evaders.** The NTS will strengthen efforts to detect hidden assets and tighten management of seized property by proceeding with public auctions unless there is a valid reason to delay. In order to manage and secure tax claims, it will also investigate fictitious collateral, mortgages, or securities.

- **Direction for 2026 tax audit management.** The NTS will keep the overall number of tax audits roughly in line with previous years and will adjust their scale depending on economic conditions, staffing, and audit needs. In recent years, tax audits have totaled around 14,000 cases per year. The NTS will also concentrate audit efforts on serious and sophisticated tax evasion to ensure fair enforcement.

- **Targeting tax evasions through abusive practices.** Efforts will focus on four main categories of abusive conduct: i) tunnelling by controlling shareholders or stock price manipulation that harms the stock market trading or minority investors; ii) artificially inflating prices in key consumer sectors or other unlawful practices that affect the public; iii) undeclared income earned by YouTubers and other online-platform creators; and iv) tax avoidance in real estate transactions, such as gifting high-value apartments to reduce capital gains tax, and disguised or below-market transactions among related parties.

- **Comprehensive measures to discourage offshore tax evasion.** The NTS will take a firm approach to deter profit shifting abroad by multinational companies. It will also strengthen cooperation with other countries to track and recover hidden overseas assets. In addition, the NTS will seek to sign more MOUs to enhance cooperation in tax collection and introduce additional sanctions for multinational companies that refuse to submit required documents. This includes proposing tax law amendments to extend the statue of limitations for tax assessment in cases of submission delays intended for tax avoidance.

- **Reinforced management of transparency of public-interest corporations.** A new system will be introduced to detect revisions made to financial statements of such corporations. It will also strengthen examinations of public interest corporations, focusing on cases involving improper use of public funds or misuse of donated assets that violate their obligations.

- **Sanctions against assisting tax evaders.** The NTS will strengthen penalties for tax agents who facilitate tax evasion and will introduce new supervisory rules for tax service platforms. It also plans to require unregistered payment gateways to submit merchant sales data and will work with the Financial Supervisory Service to secure relevant listings.

4. Innovative Developments in Tax Administration

- **AI-driven tax administration.** The NTS will define a comprehensive roadmap to advance AI powered tax administration, focusing on improved taxpayer services, fairer taxation, and greater operational efficiency. To protect personal data, the NTS will establish internal GPU (graphics processing unit) servers and adopt generative AI models. Pilot projects include developing a generative AI chatbot, AI based phone consultations, and an upgraded AI search service on the Hometax platform to enhance taxpayer support.

- **Information security framework.** The NTS will establish guidelines to eliminate security risks in AI systems, define access limits for sensitive data, and define rules to prevent algorithmic bias. It will also strengthen safeguards against internal data leakage by advancing tax information security systems and enforcing stricter controls over employee access rights.

- **Infrastructure to cope with virtual asset tax evasion.** The NTS will create a central unit to coordinate digital asset–related tasks currently dispersed across multiple departments. It will also develop an integrated analysis system for virtual asset data and introduce advanced programs to enhance transaction tracking capabilities. To strengthen offshore information collection, the NTS will secure budget and human resources for implementing the CARF (crypto asset reporting framework) and develop the systems required for international information exchange.

- **Integrated revenue collection system.** The NTS will launch a task force to build an integrated system for collecting revenues other than national taxes, replacing the existing fragmented approach and improving efficiency while preventing revenue loss. The NTS will also review delinquent cases through a dedicated team and will support new legislation for a unified collection framework.

- **Preparation for new system implementation.** The NTS will prepare its IT systems to support the first global minimum tax filings scheduled in June 2026 to ensure accurate reporting and processing. It will also upgrade its systems for the taxation of virtual asset income, which will take effect on January 1, 2027.

Ministry of Economy and Finance Seeks to Amend Tax Law to Support Reshoring Investment Accounts and the National Growth Fund

The Ministry of Economy and Finance (MOEF) has announced measures to boost Korea's capital markets and stabilize the foreign exchange market under its "2026 Economic Growth Strategy." As a follow up, the MOEF will seek amendments to the Special Tax Treatment Control Law (STTCL) and the Special Tax for Rural Development Law. The amendments would provide tax incentives to encourage the return of overseas stock investment funds to the domestic market and offer income deductions for contributions to the National Growth Fund. The proposal will be reviewed in a temporary session of the National Assembly this February, and its key elements are as follows.

New Special Capital Gains Tax Treatment to Encourage the Return of Overseas Stock Investment Funds to the Domestic Market

The government has proposed to introduce a temporary tax incentive for investments made through a reshoring investment account (RIA), designed to encourage investors to sell foreign stocks and reinvest in the domestic stock market.

- **Eligibility and key conditions.** To qualify, investors must sell foreign shares through an RIA and keep the proceeds invested in the account for one year. Only foreign shares held as of December 23, 2025 may be transferred into the account and sold, with sales proceeds capped at KRW 50 million per person. The proceeds must be invested in Korean listed stocks or Korea equity funds for a one-year period. Cash generated during trading may be held in the account, and profits from domestic-stock investments exceeding the invested principal may be withdrawn at any time.

- **Tax benefits.** A different rate of deduction will apply to capital gains from foreign-stock sales: 100% for sales by March 31, 2026; 80% for sales by June 30, 2026; and 50% for sales by December 31, 2026. Regarding foreign stock purchases made during 2026, an adjusted deduction ratio will be calculated in the following formula: Adjustment ratio: 1 − (Net purchases of foreign stocks outside the RIA / Amount of foreign stock sales in the RIA)

  The proposed temporary tax incentive will apply to sales of foreign shares made through the RIA between January 1 and December 31, 2026.

Temporary Increase in the DRD Rate for Dividends Received from Foreign Subsidiaries

Under the current dividend received deduction (DRD) rules, 95% of the dividends received by a domestic company from a qualifying foreign subsidiary is deductible, provided the domestic company owns at least 10% of the voting stocks or interests in the foreign company and holds them for at least six months as of the dividend record date. The proposed amendment would temporarily raise the DRD rate to 100% with respect to dividends received on or after January 1, 2026.

New Tax Incentive for National Growth Collective Investment Savings Plan

The government has proposed a new tax incentive for a National Growth Collective Investment Savings Plan to facilitate the growth of advanced strategic industries as well as the domestic capital market. The proposed tax incentive will be granted to individual residents investing in qualifying public collective investment vehicles. These funds must meet a threshold of compulsory investment in designated strategic high-tech industries and companies, which will be specified in the Presidential Decree of the STTCL. It will not apply to individuals who have been subject to the aggregation of income from financial instrument investment for income tax purposes at any time during the preceding three tax years from the account subscription date. The proposed amendment offers tiered income deductions and applies a separate 9% tax on dividend income for up to five years.

Investment Amount	Deduction Amount
Up to KRW 30 million	40% of the investment amount
ROver KRW 30 million and up to KRW 50 million	KRW 12 million plus 20% of the amount exceeding KRW 30 million
Over KRW 50 million and up to KRW 70 million	KRW 16 million plus 10% of the amount exceeding KRW 50 million
Over KRW 70 million	KRW 18 million

Investors should note that the deducted or preferentially taxed amount may be subject to recapture if the investments are disposed of within three years from the investment date. The incentive would be available for investments made between January 1, 2026 and December 31, 2030.

New Tax Incentive for BDC Collective Investment Vehicles

The government has proposed a new tax incentive to encourage investment in business development company (BDC) collective investment vehicles, which pool investor capital to support venture businesses. To qualify for this proposed incentive, resident individual investors must invest through a designated BDC investment account. This preferential treatment will not be available to individuals who have been subject to the aggregation of financial investment income for income tax purposes at any time during the three tax years preceding the account subscription date. Under the proposal, dividend income derived from qualifying BDC investments would be subject to separate taxation at a rate of 9%, with a maximum eligible investment amount of KRW 200 million. The incentive would apply to dividends received through December 31, 2028.

New Capital Gains Tax Incentive for Currency Hedged Investments

This new tax incentive has been proposed to encourage individual investors to utilize currency hedging derivatives as a tool for managing foreign exchange risk and enhancing market stability. The proposal introduces two key benefits for qualified investors: i) 5% deduction of the amount invested in eligible currency hedging derivatives (capped at KRW 5 million) from the capital gains realized on foreign stock sales in 2026, and ii) non-taxation for capital gains arising directly from the qualifying hedging products. The incentive would apply to investments in currency hedging derivatives made by December 31, 2026 and to foreign stock sales completed by the same date.

Corporate Research Institute Act Takes Effect with Enhanced Certification Framework

A new standalone law governing corporate-affiliated research and development (R&D) centers—the Act on Support for R&D of Corporate-affiliated Research Institutes (the “Corporate Research Institute Act” or the “Act”)—and its Presidential Decree and Enforcement Rules took effect on February 1, 2026. The new Act separates and reorganizes the former system for corporate-affiliated research institutes and R&D-dedicated departments (“corporate R&D centers”) previously operated under the Framework Act on the Promotion of Basic Research and Technology Development Support. Under the new legal framework, companies that establish certified corporate R&D centers shall be eligible for tax incentives, including R&D tax credits and reduction in acquisition and property taxes for real estate used by certified research institutes. Key elements of the Corporate Research Institute Act are summarized below.

- **Flexibility in R&D space, staffing and operations.** The Act provides for enhanced flexibility in terms of requirements for space, location and staffing. As a general rule, a separate/independent space must be secured; however, if installing a fixed wall is impracticable, a space partitioned with movable walls that can be separated and relocated will also be recognized as a research space. Previously, only one auxiliary location was permitted; now, if the requirements are met, two or more auxiliary locations may be established and operated.

Master's degree students participating in national R&D projects may be recognized as full time research staff if they meet the relevant criteria.

- **Extension of the remedial period and permission for concurrent duties.** Previously, if a company that received an order to remedy deficiencies for failing to meet certification criteria does not complete the remedy within one month, its certification was revoked. Under the Act, at the company's request, the remedial period may be extended by up to two months. The Act also permits research administration staff at corporate R&D centers to hold concurrent duties, providing organizations with greater staffing flexibility.

- **Revocation of certification via on-site inspections**. Under the Act, a corporate R&D center that is subject to ex officio revocation may not replace that disposition with voluntary cancellation, thereby ensuring the rigor of the certification revocation process. The Act also provides a legal basis for the Minister of Science and ICT to conduct on-site inspections to verify ongoing compliance with the certification criteria and to confirm any changes that are subject to reporting obligations. Without just cause, refusing, obstructing, or evading such inspections constitutes grounds for certification revocation.

- **Clarified standards for administrative fines against fraudulent acts.** Fines are determined based on the severity and frequency of violations (with a three-year guidance period), with specific provisions for mitigation. Specifically, fraudulent acquisition of certification or submission of false documents can result in fines of up to KRW 5 million, and refusal, obstruction or evasion of on-site inspections without just cause is subject to fines of up to KRW 3 million, while impersonating a certified corporate R&D center carries fines of up to KRW 2 million.

A New Overseas Trust Asset Reporting Regime Takes Effect This June

A new overseas trust asset reporting regime, introduced by the amendment to the Law for the Coordination of International Tax Affairs enacted at the end of 2023, applies to persons whose filing obligation arises for fiscal years or tax periods beginning on or after January 1, 2025. Accordingly, the first filings will be due in 2026. In line with this rollout, the NTS has issued guidelines for the regime. Its key features are summarized below.

- **The reporting obligation** applies to residents or domestic corporations ("trustors") that, under foreign laws, establish an arrangement similar to a trust as defined in Article 2 of the Trust Act (including cases where assets are transferred into an overseas trust). Where a trustor exercises substantive control over the trust assets and meets prescribed conditions, the trustor must submit an overseas trust statement for each fiscal year or tax period. In other cases, the statement must be submitted for the fiscal year or tax period that includes the date on which the overseas trust is established (including transfers of assets into the trust). Where multiple trustors are

required to submit a statement for the same trust, each trustor must submit; however, once it is confirmed that some trustors have filed, the remaining trustors' filing obligation is waived.

- **The required statements** include: (i) an overseas trust statement including personal information on trustors, status of overseas trust holdings, and details of each trust (such as name, type, location of trust, etc.); (ii) if applicable, a statement on parties related to overseas trusts (such as co-trustors, co-beneficiaries, or co-trustees), including the type of related persons and respective ownership ratio; (iii) an overseas trust assets and valuation statement; and (iv) a foreign financial account statement if overseas trust assets include a foreign financial account. Note that if an overseas trust statement is submitted together with foreign financial account information, the obligation to file a separate foreign financial account statement is exempted.)

- **Reporting due date.** Residents who held an overseas trust at any time in 2025 must file an overseas trust statement by June 30, 2026. Domestic corporations must file within six months after the end of the month in which their fiscal year ends, if they held a foreign trust at any time in the previous fiscal year.

- **Explanation for the source of funds.** If a resident or domestic corporation established an overseas trust (including by transferring assets) within 10 years prior to the date of a request for explanation and fails to submit the overseas trust statement within the prescribed deadline, or submits false information, the tax authorities may request an explanation regarding the source of funds for the acquisition amount of the foreign trust assets. If requested, the taxpayer must submit a prescribed statement of the source of funds within 90 days.

- **Administrative fines.** If a person obligated to file fails to submit the statement by the prescribed deadline or submits false information, an administrative fine of up to 10% of the foreign trust's asset value may be imposed, capped at KRW 100 million. Fines may be waived if submission by the due date was impossible or unnecessary for unavoidable reasons. If a person fails to explain, or provides a false explanation, regarding the source of funds, an administrative fine equal to 20% of that amount may be imposed.

02 Changes in tax laws

Amended Special Tax for Rural Development Law

The special tax for rural development is imposed as a surtax on certain taxes, including the individual consumption tax, securities transaction tax, acquisition tax, and comprehensive real estate holding tax. Considering its nature as a surtax, the Special Tax for Rural Development Law has been amended to explicitly provide that payment of the surtax may also be deferred when the underlying tax is granted a payment deferral under the applicable tax law. This amendment is intended to eliminate ambiguity in tax administration. In addition, following the introduction of a special non taxation provision for the Youth Future Savings Program under the amended Special Tax Treatment Control Law, the amended Special Tax for Rural Development Law includes the Youth Future Savings Program in the list of items not subject to the special tax. (Amended and proclaimed on January 27, 2026)

Amended Basic Local Tax Law

The amended Basic Local Tax Law introduces four notable changes aimed at preventing tax avoidance and enhancing the effectiveness of local tax enforcement and data utilization. They include: 1) clarifying the timing when the local resource and facility tax liability arises for waste generation; 2) specifying that, where heirs receive insurance proceeds upon the decedent's death, all or a portion of those proceeds may be deemed inherited property for purposes of assuming the decedent's outstanding local tax obligations, even if the heirs do not formally renounce the inheritance; 3) adjusting the advance notice period for planned tax audits; and 4) requiring the establishment of a local tax statistics center within the Ministry of the Interior and Safety which will be responsible for developing and operating a local tax statistics information system, enabling more effective utilization of local tax data. (Amended and proclaimed on February 5, 2026)

Amended Local Tax Collection Law

The amended Local Tax Collection Law introduces three key changes aimed at strengthening taxpayer rights and safeguarding the basic living conditions of delinquent taxpayers by expanding the scope of property that is excluded from seizure. These include: 1) reclassifying certain essential agriculture items from “conditionally non-seizable” property to “non-seizable” property, ensuring that such items are now fully exempt from seizure regardless of whether the delinquent taxpayer offers alternative assets sufficient to satisfy the tax arrears; 2) including additional daily necessities in the protected category such as assistive devices required for daily living, such as eyeglasses and hearing aids, as well as fire safety and evacuation facilities necessary for disaster prevention or public safety; and 3) clarifying the legislative intent underlying the non-seizability of deposits held in so called “livelihood accounts” under the Civil Execution Act. (Amended and proclaimed on February 5, 2026)

Amended Presidential Decree of the Basic Local Tax Law

The Basic Local Tax Law, which was amended and promulgated on February 5, 2026, requires recipients of local tax assessment information to implement measures to prevent information leakage and imposes administrative fines for unauthorized disclosure or misuse. Following the amendment, the Presidential Decree has been amended to specify the measures that recipients must implement to ensure the protection of local tax assessment information. It further sets out detailed criteria for the imposition of administrative fines in cases of breach of confidentiality. In addition, the amended Decree clarifies the starting point of the time limit for tax assessment in situations where previously granted tax benefits must be recaptured due to the subsequent application of higher local tax rates. (Amended and proclaimed on February 5, 2026)

Amended Presidential Decree of the Local Tax Collection Law

The Local Tax Collection Law, as amended and promulgated on February 5, 2026 strengthens taxpayer protections by reclassifying certain assets, including essential tools and equipment necessary for agriculture, from “conditionally non-seizable property” to “non-seizable property. In line with this amendment, the Presidential Decree has been amended to update the statutory cross references concerning small value financial property necessary for a delinquent taxpayer’s minimum living needs that is designated as non-seizable. (Amended and proclaimed on February 5, 2026)

Amended Enforcement Rules of the Basic Local Tax Law

Following the amendment to the Presidential Decree of the Basic Local Tax Law, which expands the scope of local tax data submissions to include tax data on individuals who died as a result of special disasters for purposes of implementing local tax relief measures, the Enforcement Rules have also been amended to introduce a new standardized reporting form for deaths caused by disasters associated with the declaration of special disaster zones. In addition, the Enforcement Rules supplement existing forms used in pre assessment review requests, objections and local tax appeals to enable verification of a representative's qualifications in appeal proceedings and mandate the inclusion of a case number in written statements to improve administrative efficiency in local tax appeal processes. (Amended and proclaimed on February 5, 2026)

Amended Enforcement Rule of the Local Tax Collection Law

The amended Enforcement Rules of the Local Tax Collection Act reflect recent amendments to the National Basic Tax Law, which changed the method for calculating late payment penalties from a daily basis to a monthly basis to enhance taxpayer convenience. In line with this change, the amended Enforcement Rules update the relevant written forms used in local tax collection procedures, such as local tax payment notices, demand notices, payment notices issued to secondary taxpayers, and delinquency notices. These revised forms specify the method for calculating late payment penalties applicable to the special tax for rural development, where such penalties arise in connection with underlying local taxes such as acquisition tax or leisure tax. (Amended and proclaimed on February 5, 2026)

03 Rulings update

Supreme Court Decision on Determining the Gift Date Under the Deemed Gift Rule for Profits from Transactions with a Controlled Corporation

Under the Inheritance and Gift Tax Law ("IGTL"), where a controlled corporation receives profits through a transaction with a related party of its individual controlling shareholder, such as by acquiring property from the related party at a price substantially below fair market value, those profits, in proportion to the controlling shareholder's ownership ratio, are treated as a deemed gift to the controlling shareholder and are subject to gift tax as of the "transaction date," which is the "gift date" (Article 45-5(1),(3) of IGTL). Although the IGTL delegates the determination of the gift date to its Presidential Decree, the Decree does not contain an explicit provision for determining the gift date. The issue in this case is whether, for purposes of determining whether a property transaction between a controlled corporation and a related party constitutes an acquisition of property below fair market value, the "gift date" is the date the transaction contract is executed (the "contract execution date") or the date the final payment of the purchase price is made (the "settlement date").

The Supreme Court recently held that it is reasonable to treat the gift date as the settlement date for purposes of applying the deemed gift rule for profits from a transaction with a controlled corporation under Article 45-5 of the IGTL. The Court's reasoning is based primarily on the following grounds: (i) the IGTL provides that the acquisition date of gifted property is generally the date on which the property is delivered or actually used (Article 32 of the IGTL); therefore, it is reasonable to regard the gift date as the date on which the profits deemed as a gift are effectively transferred or attributed; (ii) another deemed gift rule with the same legislative intent, which addresses disguised gift transactions through a transfer of property or profits at prices substantially below or above fair market value, expressly defines the gift date (i.e., the acquisition or transfer date) as the settlement date for the relevant property (Article 35(1) of the IGTL, Article 26(5) of its Presidential Decree); and (iii) gift tax on deemed profits is computed net of any corporate income tax borne by the controlled corporation on the transaction under the Corporate Income Tax Law ("CITL"), which also provides that gains or losses from the transfer of real estate are attributed to the fiscal year in which the settlement date occurs (Article 40(1) of the CITL, Article 68(1)(3) of its Presidential Decree). *(Daebeop2025du34823, 2026. 1. 5.)*

Observation: The Supreme Court ruling clarifies that the reference date for determining whether a controlled corporation has acquired or transferred property at a price above or below fair market value is the settlement date not the contract execution date on which the purchase price is fixed and finalized. Accordingly, when reviewing transfers of property such as real estate involving controlled corporations, care should

be taken to assess the applicability of the deemed gift rules for controlled corporations by reference to the settlement date. However, unlike the IGTL, in applying the denial of unfair transaction rule under the CITL, the contract execution date – the time of the transaction where the transaction price is fixed – serves as the reference date for determining the applicability of that rule, which should be noted by way of comparison.

Whether Employees on Reduced Working Hours for Childcare Would be Classified as Part-Time Workers for the Purpose of Applying the Integrated Employment Tax Credit

Under Article 29-8 of the Special Tax Treatment Control Law ("STTCL"), companies that increase their number of full-time employees may claim the integrated employment tax credit. For this purpose, full-time employees are defined as the Korean resident employees employed under the Labor Standards Act ("LSA"). However, employees who are part-time workers under Article 2(1)(9) of the LSA whose working hours are less than 60 hours per month are excluded from the full-time headcount. The issue in this case is whether employees who have applied for reduced working hours for childcare to raise a child aged 12 or younger, or up to the sixth grade of elementary school under 19-2(1) of the Equal Employment Act ("EEA") should be treated as part-time workers when counting full-time employees for the purpose of calculating integrated employment tax credit.

In a recent advanced tax ruling, the NTS clarified that employees on reduced working hours for childcare fall within the scope of part-time workers. The term "part-time workers" under the LSA refers to employees whose prescribed weekly working hours are shorter than those of comparable employees engaged in the same type of work at the same workplace, and under the EEA, employees on childcare reduced working hours work between 15 and 35 hours per week. On that basis, the NTS appears to interpret that employees on childcare reduced working hours whose weekly hours are shorter than those of comparable workers at the same workplace are, in principle, classified as part-time workers. *(Advance Ruling-2025-Beobgyusodeuk-0773, 2025. 11. 19.)*

Observation: Based on this NTS ruling, when calculating the number of full-time employees for the integrated employment tax credit, employees on childcare reduced working hours are, in principle, treated as part-time workers and thus excluded from the full-time headcount. However, under the relevant provisions of the STTCL, even part-time workers with prescribed working hours of at least 60 hours per month are counted as 0.5 of the full-time employees. Accordingly, employers with employees on childcare reduced working hours should determine, on a month-by-month basis, whether those employees meet the 60-hours-per-month threshold to decide whether to exclude them entirely as part-time workers or include them as 0.5 of the full-time employees.

Whether an Unrecovered VAT on the Deposit After Contract Termination is Eligible for a Bad Debt VAT Credit

Under the Value Added Tax Law ("VATL"), where a supplier issues a 10% VAT invoice for a supply of goods or services to collect the supply price and 10% VAT thereon, and all or part of the related receivables (including VAT) later become uncollectible from the recipient due to reasons such as its bankruptcy or compulsory execution, the supplier may claim a bad debt VAT credit at 10/110 of the bad debt amount in the VAT return for the quarterly VAT period that includes the date on which the bad debt is finally determined (Article 45(1) of the VATL). In this case, under a service contract, a construction company paid a deposit (including 10% VAT) per the VAT invoice issued by the supplier before the services were supplied. Following subsequent termination of the contract, the company received a revised VAT invoice reversing the deposit (including 10% VAT), but it was unable to recover the deposit (including 10% VAT) previously paid to the supplier. The question is whether the company may claim a bad debt VAT credit for the unrecovered 10% VAT on the deposit following termination.

In an advanced tax ruling, the NTS ruled that where a company pays a deposit (including VAT) under a service contract and, following termination, cannot recover the deposit already paid (including VAT), the unrecovered VAT on the company's side due to contract termination does not fall within the scope of the bad debt VAT credit. The NTS' reasoning appears to include that: (i) the VAT is imposed on the supply of goods or services, and the bad debt VAT credit is intended to relieve suppliers who are unable to collect receivables arising from their supplies; (ii) however, the unrecovered VAT on the deposit in question arises from a purchase-side transaction resulting from contract termination, without a supply of goods or services. *(Advance Ruling-2025-Beobgyubuga-1099, 2026. 1. 5.)*

Observation: In light of this NTS ruling, it is necessary to note that a bad debt VAT credit is not available for the input VAT that a purchaser is unable to recover from the supplier in the absence of a supply of goods or services even if the purchase had not previously deducted the related input VAT in its VAT return, as distinct from output VAT that a supplier fails to collect from persons to which goods or services were supplied.

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