



삼일회계법인

# Korean Tax Update Samil Commentary

July 15, 2025



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# 01

## Tax News

### Significant Changes in Tax and Customs Policies in the Second Half of 2025

The Ministry of Economy and Finance (MOEF) has released a comprehensive booklet titled "Significant Changes in the Second Half of 2025," which outlines the latest policy and legislative developments affecting tax and customs matters. Below is a summary of the key tax- and customs-related measures introduced for the latter half of 2025.

#### **New Provision for Including Profits from Investments in Fractional Investment Products in Taxable Dividend Income**

The government has clarified the tax treatment of profits derived from investments in newly emerging fractional investment products. These products involve dividing rights to assets such as artworks and copyrights, which are then issued as investment contract securities or trust beneficiary certificates, enabling multiple investors to participate and trade. Profits realized from these investments—including those arising from redemption, sale, termination, or dissolution—will be classified as dividend income for tax purposes. This new classification will apply to income received on or after July 1, 2025.

#### **Income Deduction for Credit Card Payments for Swimming Pool and Fitness Center Fees**

To alleviate the financial burden of sports facility fees for low- and middle-income earners, a 30% income deduction will be available for credit card payments made towards public sports facility usage fees, specifically for swimming pools and fitness centers. The deduction is limited to usage fees, while ancillary costs such as membership fees are excluded. In cases where it is not possible to distinguish between usage fees and other costs, the deduction will be applied to 50% of the total payment. This benefit is available to residents whose total annual salary income does not exceed KRW 70 million, with a maximum deduction cap of KRW 3 million under the additional deduction category. The new deduction applies to payments made on or after July 1, 2025.

#### **Change in Sales Revenue Thresholds for Qualifying Small and Medium Enterprises (SMEs)**

To better reflect inflation and increased production costs, and to prevent SMEs from losing their status solely due to sales growth, the sales revenue thresholds for SME qualification will be raised. For qualifying SMEs, the current five-tier thresholds, which range from KRW 40 billion to KRW 150 billion, will be expanded to seven tiers, ranging from KRW 40 billion to KRW 180 billion. Sixteen out of 44 industries will benefit from these higher thresholds. For qualifying small businesses, the thresholds will shift from five tiers (KRW 1 billion to KRW 12 billion) to nine tiers (KRW 1.5 billion to KRW 14 billion), with twelve out of 43 industries benefiting from the increase. These revised thresholds will take effect at the end of December 2025.

## **Introduction of Special Treatment for Payment of VAT by Purchasers of Duty-Free Shop Customer Services**

To combat VAT evasion and enhance transaction transparency, a special VAT payment regime will be introduced for purchasers of duty-free shop customer services. These services include activities aimed at attracting tourists to duty-free shops or providing related conveniences. The special treatment will be available to both duty-free shops and travel agencies.

Under this regime, 1) duty-free shops and travel agencies must open dedicated accounts at designated financial institutions for such services; 2) purchasers are required to deposit both the supply price and VAT into these accounts; 3) the financial institutions will then transfer the supply price to the seller and provide a real-time refund of input VAT, up to the amount of output VAT; and 4) upon filing the VAT return, any remaining balance will be remitted to the tax authorities. This special treatment will apply to transactions conducted on or after July 1, 2025.

## **Application for Non-Disclosure of Tariff Classification**

In line with efforts to reduce uncertainty in tariff classification and foster a stable trade environment, the process for advance rulings on tariff classification has been enhanced. Currently, traders may request advance rulings from the Korea Customs Service regarding the tariff classification of specific goods. Effective June 1, 2025, applicants may also request non-disclosure of the tariff classification for reasons such as trade secrets, by submitting a written request and supporting documentation along with their application.

## **AI Chatbot Consultation and Online Video Consultation for Customs Information**

To support domestic SMEs in navigating global trade risks and challenges arising from recent changes in US customs duties, new digital consultation services have been introduced. The AI chatbot provides information on export item tariff rates, country of origin determination, and procedures for issuing certificates of origin. Additionally, online video consultations are available by application, connecting users with customs service professionals for in-depth guidance on origin certification and related matters. These services have been available since June 2025.

## **Amended Protocol to Korea-Kyrgyzstan Income and Capital Tax Treaty Enters into Force in July**

The protocol amending the agreement between Korea and Kyrgyzstan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital, which was signed on December 3, 2024, entered into force on July 5, 2025, following the completion of domestic procedures, including parliamentary ratification, in both countries. This amendment was pursued as part of active participation in international cooperation led by the OECD and G20 to prevent base erosion and profit shifting (BEPS) and offshore tax evasion. The key features of the amended protocol are as follows:

- **Limitation on Benefits (LOB) Clause:** To prevent treaty abuse, benefits under this tax treaty will not be granted if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit.
- **Enhanced Exchange of Information:** The amended protocol strengthens the obligation for both contracting states to exchange information. If information is requested by one contracting state in accordance with this article, the other contracting state shall use its information gathering measures to obtain the requested information, even though that other contracting state may not need such information for its own tax purposes.
- **Expanded Mutual Agreement Procedure (MAP):** The amendment allows taxpayers to present the case to the competent authority of either contracting state and to seek resolution of disputes regarding tax matters not in accordance with the treaty. Before the amendment, the taxpayer was allowed to present the case only to the competent authority of the contracting state of which he or she is a resident.

## Korea Customs Service Implements Bulk Submission of Import Customs Data

Effective July 1, the Korea Customs Service has implemented a revised "Customs Valuation Operation Notice," introducing a new system for the bulk electronic submission of customs data related to import declarations. This initiative is designed to reduce repetitive administrative tasks for companies and to enhance the accuracy and timeliness of customs declarations by enabling earlier identification of errors. Initially, access to the bulk submission system will be granted to companies engaged in transactions in eight designated sectors. These companies will be required to upload customs data at least once per sector annually. Following a two-month pilot period, the system will apply to all relevant import declarations submitted on or after September 1, 2025. The main features of the new system are outlined below.

	Details
<b>Exemption from Customs Data Submission</b>	<ul style="list-style-type: none"> <li>• Companies participating in the Customs Service Taxpayer Cooperation Program, such as: <ul style="list-style-type: none"> <li>– AEO (Authorized Economic Operator): Certified for export-import safety management.</li> <li>– ACVA (Advance Customs Valuation Arrangement): Pre-arranged valuation methods for imported goods, typically in related-party transactions.</li> </ul> </li> <li>• Companies whose customs duty payments totaled less than KRW 500 million in the previous year. To verify customs duty payments: <i>Log in to UNI-PASS → Data Search → Company Records → Import/Export Duty Refunds</i></li> <li>• Note: The requirement to declare customs value remains unchanged; only the submission of supporting data is omitted for exempt companies.</li> </ul>
<b>Submission Requirement for First Imports Only</b>	<ul style="list-style-type: none"> <li>• For repeated imports from the same seller under the same terms and conditions, customs data submission is required only for the first import declaration each year. For subsequent imports, reference to the initial import declaration number and submitted documents is sufficient.</li> <li>• Even if different items are imported, if they are substantiated by the same customs data (such as contracts, schedules, etc.), they are treated as imports under the same conditions.</li> </ul>

<b>Scope of Customs Data Submission</b>	<ul style="list-style-type: none"><li>• Submission is limited to eight specific categories of information that require verification: 1. Royalties/ 2. Production Support/ 3. Fees and Brokerage Commissions/4.Freight, Insurance, and Other Transportation-related Costs/5.Container and Packaging Costs/ 6. Post-importation Proceeds/7. Indirect Payments/8.Related Party Transactions</li><li>• At least one data file per sector must be submitted. If none of the eight categories apply, a statement explaining the reasons for non-submission must be provided.</li></ul>
<b>Late Submission Procedures</b>	<ul style="list-style-type: none"><li>• If customs data cannot be prepared by the due date, a statement explaining the delay must be submitted at the time of customs declaration. The required customs data must then be submitted within 30 days following customs clearance.</li></ul>

# 02

## Changes in Tax Laws

### **Amended Presidential Decree of the Special Tax Treatment Control Law**

Under the recent amendments to the Special Tax Treatment Control Law (STTCL), the existing integrated investment tax credit, previously available for facilities related to the commercialization of national strategic and new growth technologies, is extended to include research and development (R&D) facilities for these technologies. Additionally, the amendments introduce a new tax credit specifically for operating costs associated with e-sports events. The amended Presidential Decree of the STTCL provides detailed definitions regarding what constitutes eligible R&D facilities and specifies the types of operating costs for e-sports events that qualify for the tax credit. (Amended and proclaimed on June 30, 2025)

### **Amended Presidential Decree of the Individual Income Tax Law**

The amendment to the Presidential Decree of the Individual Income Tax Law (IITL) focuses on rationalizing the tax treatment of gains on insurance settlements. Where a portion of the insurance proceeds from a risk-based insurance contract is reduced and the reduced amount is paid out in the form of an annuity, this will be treated as a change to a savings-type insurance contract for tax purposes. However, in the case of monthly installment risk-based insurance contracts with insurance proceeds of KRW 900 million or less, where the policyholder receives payments after the age of 55 upon completion of premium payments, the initial payment date of the original risk-based insurance contract will be considered as the initial payment date of the changed savings-type insurance contract for the purpose of determining the non-taxation requirements for such insurance contracts. In addition, the amendment includes, among the types of non-monetary trust beneficiary certificates subject to taxation on dividend income, beneficiary certificates issued under the Asset-Backed Securitization Act by a trustee under the Financial Investment Services and Capital Markets Act who has received a single asset in trust, in order to improve and supplement certain shortcomings identified in the operation of the current tax system. (Amended and proclaimed on June 30, 2025)

### **Amended Presidential Decree of the Individual Consumption Tax Law**

The amendment to the Individual Consumption Tax Law introduces temporary measures to alleviate the public's financial burden and stimulate economic activity. The reduced individual consumption tax rate on butane (a petroleum gas) is extended by two months, lasting until August 31, 2025. Similarly, the reduced tax rate on natural gas used for power generation is extended by six months, until December 31, 2025. Additionally, the temporary reduction in the individual consumption tax rate on automobiles—from 5% to 3.5%—is extended by six months, also until December 31, 2025. This measure is intended to boost domestic demand, particularly in the automotive sector. (Amended and proclaimed on May 27, 2025)

## **Amended Presidential Decree of the Transportation, Energy, and Environment Tax Law**

To further ease the public's fuel cost burden, the temporary reduction in transportation, energy, and environment tax rates for gasoline, diesel, and similar alternative fuels has been extended to August 31, 2025, which is an additional two-month extension from June 30, 2025. (Amended and proclaimed on June 30, 2025)

## **Amended Presidential Decree of the Act on Special Cases of the Customs Act for the Implementation of FTA**

The amended Presidential Decree aims to clearly distinguish between imported goods originating from the Philippines that are granted preferential tariff rates under the Free Trade Agreement between Korea and the Philippines and those that are not. (Amended and proclaimed on June 30, 2025)

## **Amended Rules for the Application of a Tariff-rate Quota under Article 71 of the Customs Law**

Under Article 71 (1) of the Customs Law, if it is necessary to promote imports for the purpose of ensuring a smooth supply of goods or strengthening the competitiveness of industries, or to stabilize domestic prices of goods whose import prices have surged, tariff rates lower than the basic rate may be applied to certain quantities of goods under the quota system. To stabilize living expenses, the amended rules apply a 0% tariff rate to frozen mackerel from July 1, 2025 to December 31, 2025. Additionally, the tariff quota period for six items, including crude oil for liquefied petroleum gas production, will be extended from June 30, 2025 to December 31, 2025; and the quota quantity for processed egg products subject to a 0% tariff quota from May 1, 2025 to December 31, 2025, will be expanded to 10,000 tons. (Amended and proclaimed on June 30, 2025)

## **Amended Enforcement Rules of the STTCL**

The amended Presidential Decree the STTCL, effective June 30, 2025, broadens the scope of the investment tax credit to include not only facilities for the commercialization of national strategic and new growth technologies, but also R&D facilities dedicated to these technologies. To ensure proper administration, the amended Enforcement Rules of the STTCL require that the time spent using R&D facilities for qualifying activities be measured and recorded for three tax years following the completion of the investment, with records retained for five years after this period. Additionally, the amended Enforcement Rules clarify that certain e-sports operation expenditures are eligible for tax credits. These include travel expenses for players and operational staff, local accommodation and meal costs, rental fees for lodging and vehicles, and allowances for referees. (Amended and proclaimed on June 30, 2025)



## **Amended Enforcement Rules of the IITL**

Following the amendments to the Presidential Decree of the IITL that rationalize the requirements for non-taxation of gains on insurance settlements from savings-type insurance, its Enforcement Rules have been updated. Specifically, when a risk-based insurance contract is partially reduced and the reduced amount is paid out in the form of an annuity, the rules clarify how to calculate the sum of insurance premiums to determine eligibility for non-taxation. The amendment also streamlines the instructions for completing donation receipts and addresses deficiencies in the current forms. (Amended and proclaimed on June 30, 2025)

## **Amended Enforcement Rules of the Corporate Income Tax Law**

In accordance with the STTCL amendments that allows domestic corporations to deduct a portion of qualifying operating expenses incurred for e-sports events from their corporate income tax payable until December 31, 2026, the relevant forms will be updated to reflect these special tax provisions. Additionally, improvements and supplements will be made to address certain deficiencies in the current tax forms, such as reorganizing the section for attaching supporting documents to the corporate income tax return forms for liquidation income. (Amended and proclaimed on July 4, 2025)

## **Amended Enforcement Rules of the Inheritance Tax and Gift Tax Law**

The amended Inheritance Tax and Gift Tax Law (IGTL) and its Presidential Decree require investment associations that acquire, hold, or trade various financial instruments (such as stocks, bonds, collective investment securities, or facility usage rights) to submit a detailed statement to the tax office. In line with the amendment, this statement must include information on holdings and transactions, personal details of members, and equity interests. A new form has been introduced to facilitate this reporting. (Amended and proclaimed on July 4, 2025)

## **Amended Enforcement Rules of the VAT Law**

To combat tax avoidance, the VAT Law and its Presidential Decree have been amended to empower the head of the relevant tax office to impose VAT on taxpayers carrying on business on an occasional basis. Under the amended Enforcement Rules, a dedicated column has been added in the VAT return form for such occasionally assessed tax amounts. Additionally, the instructions for completing the VAT return form for deemed input VAT deduction have been updated. (Amended and proclaimed on July 4, 2025)

# 03

## Rulings Update

### Whether a Proportional Capital Reduction for Consideration would Constitute a Subsequent Event Subject to Recapture of the Family Business Succession Deduction

Under Article 18-2 (1) of the Korean Inheritance and Gift Tax Law (“IGTL”), where a qualifying family business that has been continuously operated by a Korean resident for ten years or more is inherited following the death of the Korean resident, a deduction for qualifying family business succession shall be available from the taxable value of the inherited family business in computing the inheritance tax imposed on the heirs, provided certain conditions are met. This deduction is intended to support the continuity of family businesses by reducing the tax burden on heirs. However, the IGTL provides that the deduction for family business succession is recaptured if certain prescribed subsequent events occur. One of such event triggering recapture is where the shares in the family business inherited by an heir decrease within five years from the commencement of inheritance according to Article 18-2 (5)(3) of the IGTL, unless there are justifiable reasons for exemption from recapture as prescribed in the IGTL. The prescribed justifiable reasons include, among others, a decrease in the heir's equity due to a proportional capital reduction of shares in the family business ‘without consideration,’ as stipulated in Article 15(8)(3)(f) of the Presidential Decree of the IGTL, newly created and effective from February 12, 2019 (‘provision at issue’). The issue in this case is whether a reduction in the heir's equity due to a proportional capital reduction of shares in the family business ‘for consideration’ also fall under the justifiable reasons not subject to recapture under provision at issue.

A recent decision by the Tax Tribunal has clarified the treatment on proportional capital reductions in this context (*Joshim2023seo10708,2025.5.21*), stating that in general, a decrease in the heir's equity in the inherited family business triggers recapture. As an exception, however, proportional capital reductions without consideration, which are typically undertaken to resolve the business's difficulties under unavoidable circumstances, such as substantial accounting losses exceeding contributed capital amounts, do not involve a return of capital to shareholders, and therefore fall under the justifiable causes not subject to recapture under the provision at issue. In contrast, proportional capital reductions for consideration reduce both the scale of the family business and the amount of paid-in capital, which runs counter to the legislative intent of the family business succession deduction to support the continuation of the small and medium-sized family businesses, and are not listed as ‘justifiable reasons’ exempted from recapture in the IGTL. Accordingly, the Tax Tribunal ruled that, in line with the existing authoritative interpretation issued by the MOEF (*Property Tax Division-1575, 2022.12.23*), a proportional capital reduction for consideration falls under a subsequent event triggering the recapture of the deduction for family business succession.

**Observation:** It is important to note that this interpretation marks a departure from earlier positions. Prior to the introduction of the provision at issue, the Tax Tribunal had ruled that proportional capital reductions for consideration did not constitute a decrease in equity that would trigger recapture (*Joshim2017Bu5161, March 26, 2018*). The recent decision, however, distinguishes between proportional capital reductions without consideration (exempted from recapture) and proportional capital reductions for consideration (subject to recapture). Heirs who have applied the family business succession deduction should be aware that if their equity decreases due to a proportional capital reduction for consideration within five years of inheritance, the inheritance tax deduction may be recaptured. This principle also extends to the special tax treatment for gift tax

on family business succession under Article 30-6 of the STTCL. Here, a decrease in ownership interest in gifted shares without justifiable reason within five years of the gift is also grounds for recapture. Although the law does not explicitly specify proportional capital reductions without consideration as an exception to recapture in the context of gift tax, the authoritative interpretation aligns with the rules for family business succession deduction, treating proportional capital reductions for consideration as a subsequent event for recapture. (*Seomyeon-2023-Inheritance and Gift-0073, 2023.7.6, etc.*)

## Whether Special Tax Treatment Would Apply to Stock Options Granted Before, but Exercised After, the Loss of Qualifying Venture Firm Status Due to a Merger

Article 16-2 of the Korean Special Tax Treatment Control Law (“STTCL”) provides various tax benefits to qualifying executives and employees who exercise stock options granted by a qualifying venture firm. Specifically, gains from the exercise of such stock options are exempt from individual income tax up to KRW 200 million per year. In addition, if the exercise gains exceed this exemption threshold, the excess gains may be paid in installments over five years, as stipulated in Article 16-3 of the STTCL. Furthermore, under Article 16-4 of the STTCL, qualifying executives and employees of a qualifying venture firm may apply for a deferral of income tax on shares acquired upon exercise, so that the tax is imposed as capital gains tax later when the acquired shares are eventually disposed of, rather than as income tax at the time of exercise. A key issue arises when the granting firm, which was initially regarded as a qualifying venture firm at the time the stock options were granted, subsequently loses its qualifying venture firm status, such as through a merger, before the stock options are exercised. The question is whether the tax benefits described above under the STTCL would remain available to the stock option holders in this case.

A recent authoritative interpretation has clarified that eligibility for these tax benefits is determined based on the status of the granting firm at the time the stock options were granted, not at the time of exercise. (*Seomyeon-2024-woncheon-2706, 2025.2.24*) This means that if the stock options were granted while the company qualified as a qualifying venture firm, its qualifying executives and employees may still enjoy the full range of tax benefits under the STTCL, even if the company no longer qualifies a qualifying venture firm when the options are exercised.

**Observation:** It is important to note that when the STTCL was amended at the end of 2022, the law explicitly provided that the deferral of income tax until capital gains tax arises at the disposal of the shares would continue to be available even if the granting firm lost its qualifying venture firm status before the stock options were exercised. However, the amendment did not expressly address whether the exemption from income tax on exercise gains and the installment payment of tax for excess gains would also continue to apply in such cases. This omission led to some uncertainty and dispute as to whether only the tax benefit from the deferral of income tax until capital gains tax arises would remain available, while the other benefits would not. The recent authoritative interpretation resolves this ambiguity by confirming that all relevant tax benefits, including the exemption from income tax on exercise gains, the installment payment option, and the tax deferral until capital gains arises, should be determined based on the company’s status at the time the stock options were granted. Therefore, the loss of qualifying venture firm status after the grant but before exercise would not disqualify the stock option holders from these benefits. In this regard, care should be taken not to omit the application of these tax benefits for stock options granted by a qualifying venture firm simply because the firm lost the qualifying venture firm status at the time of exercise.

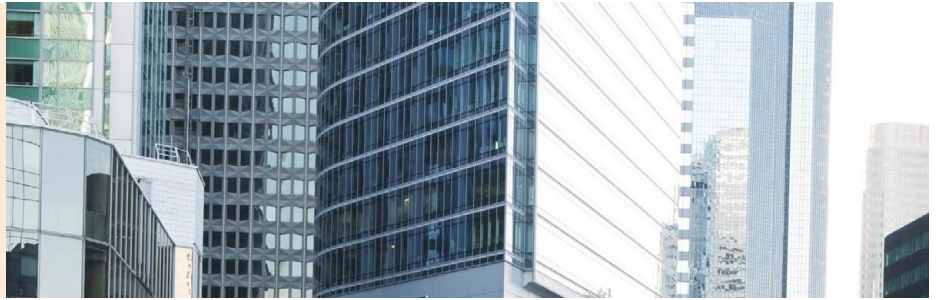
## Classification of Land Used as a Temporary Parking Lot within a Site with a Building Construction Permit for Property Tax Purposes

Under Article 106(1) of the Local Tax Law (LTL), land for property tax purposes is classified into three categories: general aggregate taxation, special aggregate taxation, and separate taxation. Special aggregate taxation is generally applied for land attached to factory buildings and similar structures, including buildings under construction, provided that a building permit has been obtained, a construction plan has been notified, and actual construction (such as excavation or foundation work) has commenced ('buildings under construction' as defined in Articles 101(1) and 103(1)(3) of the Presidential Decree of the LTL; hereinafter, the provisions at issue). For land, the property tax rates applicable under special aggregate taxation are lower than those under general aggregate taxation. This case concerns land that is being used as a temporary parking lot after the demolition of an existing parking lot, where no actual construction work has commenced. The issue in this case is whether such use may be regarded as land attached to a building under construction for property tax purposes based on separate aggregate taxation.

A recent authoritative interpretation (*Property Tax Policy Division-1445, 2025. 5. 15.*) confirms that, as a general rule, land is subject to general aggregate taxation for property tax purposes. This classification usually results in a higher property tax liability than special aggregate taxation. The LTL provides certain exceptions to this general rule, taking into account factors such as economic activities, appropriate land holding scale, and strategic needs, as provided in Case 2010heonba405 (2012.4.24). The relevant provisions are designed to allow land to be exceptionally classified under separate aggregate taxation in order to promote the prompt use of land and the commencement of building construction. In this context, land that is used as a parking lot without the commencement of actual construction work is regarded as being used for preparatory activities rather than for the construction of a new building. As such, it is considered to be used for a different purpose and does not meet the requirements for special aggregate taxation. Consequently, the land in question remains subject to general aggregate taxation.

**Observation:** This authoritative interpretation clarifies that land used as a temporary parking lot following the demolition of an existing building for the purpose of new construction should be classified as subject to general aggregate taxation, rather than special aggregate taxation, generally resulting in a higher property tax liability. The LTL specifically provides that land attached to a building that has been demolished or destroyed within a period not exceeding six months may be classified as subject to special aggregate taxation (Article 106(1)(2)(c) of the LTL and Article 103-2(1) of its Presidential Decree). However, if the land is used as a parking lot during this period, it is considered to be used for a different purpose, rather than as temporarily vacant land due to demolition or destruction in the course of construction. As a result, such use would disqualify the land from being classified under special aggregate taxation, and it would instead be treated as subject to general aggregate taxation. This distinction is important, as it may lead to an increased property tax burden. It is essential to be aware of this interpretation (*Real Estate Taxation Division-515.2024.2.5.*), when considering the tax implications of using land as a parking lot after demolition and prior to the commencement of new construction.

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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# 삼일회계법인

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