삼일회계법인

Korean Tax Update Samil Commentary

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01 Tax news

Government Announces Key Tax Measures under Its Economic Growth Strategy for the Second Half of 2026

The government unveiled its economic growth strategy for the second half of 2026 at a Cabinet meeting held on July 14, 2026. The tax-related measures focus on strengthening domestic production, supporting strategic industries, promoting regional growth, and enhancing investment incentives. Key proposals are summarized below.

Three-pillar regional tax incentive package. To strengthen regional growth, the government plans to introduce a three-pillar regional tax incentive package targeting businesses, employees, and start-ups. The proposed measures include: i) enhanced tax incentives for R&D, investment, and employment activities undertaken in non-metropolitan regions, including the application of regional weighting factors to increase existing tax credit benefits; ii) expanded income tax relief for employees of regional SMEs and tax exemptions for certain employer-paid relocation allowances provided to employees relocating from the Seoul metropolitan area to non-metropolitan regions; and iii) broader tax incentives for start-ups established in regional areas.

Tax credit for domestic production. The government plans to introduce a domestic production tax credit to support products considered strategically important from an economic security and green transition perspective. Under the proposed regime, corporate income tax and individual income tax credits would be granted based on domestic production and sales volumes. In addition, the government is considering additional support measures for companies that are unable to fully benefit from tax incentives during the early stages of production. It will also continue providing domestic production subsidies for high-risk economic security products with limited cost competitiveness.

Expansion of investment tax credits for national strategic technologies. As part of efforts to strengthen Korea’s semiconductor innovation ecosystem, the government plans to expand the scope of investment tax credits available for national strategic technologies to include power semiconductors and other advanced technology sectors. The measure is intended to promote investment in strategic industries and enhance the competitiveness of Korea’s high-tech manufacturing base.

Inclusion of next-generation energy technologies in national strategic technologies. To support the transition to a low-carbon industrial structure, the government will designate next-generation energy technologies, such as small modular reactors (SMRs), as national strategic technologies eligible for enhanced R&D and investment tax credits. Specific technologies and facilities to be included will be determined following expert review and are expected to be reflected in amendments to the relevant Presidential Decree around January 2027.

Key Tax and Administrative Changes Taking Effect in the Second Half of 2026

The government has released its annual update outlining major regulatory and policy changes scheduled to take effect in the second half of 2026. The announced measures include initiatives aimed at improving taxpayer convenience, enhancing administrative efficiency, supporting investment and economic activity, and expanding tax incentives for businesses and individuals. Key tax-related changes are summarized below.

1. Tax Administration and Taxpayer Services

Regular Tax Audit Timing Election Regime. The National Tax Service (NTS) has fully implemented the Regular Tax Audit Timing Election Regime, allowing eligible taxpayers to choose the start month of their regular audits within a designated three-month period. Under the previous system, the timing of regular tax audits was determined and notified by the tax authorities, often requiring businesses to respond to audits during periods critical to their operations and creating additional compliance burdens. Effective from April 2, 2026, the regime is expected to improve the predictability of tax audits and provide businesses with greater flexibility in managing audit-related obligations.

AI-powered Hometax chatbot. To enhance taxpayer services, the NTS has begun rolling out an AI-powered Hometax (Korea's online tax administration portal) chatbot, upgrading its existing chatbot into a generative AI system capable of providing more interactive assistance. The service supports tax filing inquiries and tax incentive applications, enabling taxpayers to access professional tax guidance around the clock without visiting a tax office. The chatbot was initially launched on May 1, 2026, to provide assistance services for annual individual income tax return filing and applications for the earned income and child tax credits, and the service was subsequently expanded to include value-added tax on July 1, 2026.

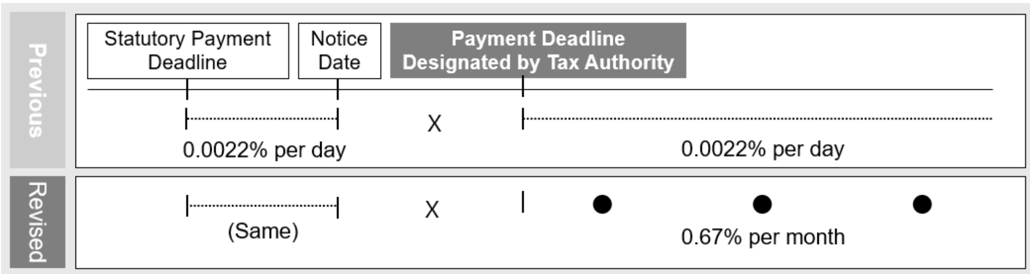
National tax and non-tax revenue delinquency management division. To establish a more targeted approach to managing tax delinquencies, the government has created and expanded dedicated collection management units for national taxes and other government receivables. The new framework is designed to provide tailored support for financially distressed taxpayers while enabling the NTS to focus its collection efforts on high-value and habitual delinquents. The national tax delinquency management unit was launched on March 5, 2026, and the unit for non-tax government receivables was established on July 1, 2026.

Tax advisory services for returning overseas Koreans. To support the return of overseas Koreans who have lived abroad for at least 10 years, customized tax advisory services have been introduced. Through individualized consultations, eligible individuals may receive guidance on tax matters related to their return to Korea, including tax residency status and other key tax considerations. The service has been available since July 1, 2026.

2. Tax Compliance and Procedural Simplification

Revised calculation method for late payment penalties. The calculation method for late payment penalties has been revised to improve taxpayer convenience. Under the revised rules, late payment penalties accruing after the payment due date designated by the tax authorities are calculated on a monthly basis rather than a daily basis until the tax is paid. This change is expected to reduce the administrative burden associated with calculating penalty amounts. The revised method has applied since July 1, 2026.

[Comparison of the Previous and Revised Methods for Calculating Late Payment Penalties]



Self-issuance of customs duty refund certificates. Eligible exporters may now issue customs duty refund certificates directly through the Korea Customs Service's electronic system upon designation by the head of a customs office. The measure is intended to streamline certificate issuance, reduce the administrative burden on customs authorities, and simplify customs duty refund procedures for exporters. It has been in effect since July 1, 2026.

Improved criteria for areas excluded from the simplified VAT regime.
In response to changes in commercial districts that were not adequately reflected under the existing regional criteria, the government has updated areas excluded from the simplified VAT regime following a review of pedestrian traffic, commercial scale, and actual business conditions. The measure is expected to allow more small businesses to benefit from the simplified VAT regime, reducing both their tax burden and compliance obligations. The revised criteria have been in effect since July 1, 2026.

3. Investment and Business Support Measures

Expansion of Saemangeum Investment Promotion Zone. The Saemangeum Investment Promotion Zone has been expanded to include newly reclaimed areas available for business investment and operations. Companies that start a business or establish a new place of business in the zone may qualify for tax incentives, including a 100% reduction in corporate income tax or individual income tax for three years and a 50% reduction for the subsequent two years, subject to investment and employment requirements. Depending on the business type, eligible companies must invest between KRW 500 million and KRW 2 billion and employ at least 10 to 30 regular workers. The expansion is intended to attract additional investment to the Saemangeum National

Industrial Complex and became effective on April 15, 2026.

Expanded cargo eligibility for private bonded warehouses. The requirements for storage in private bonded warehouses have been relaxed to improve operational flexibility for ship supply companies. Under the revised rules, repair parts that are directly imported and owned by shipping companies, but entrusted to ship supply companies for loading, may be stored in the companies' private bonded warehouses despite not qualifying as self-owned cargo. The measure, effective from July 1, 2026, is expected to enhance operational efficiency and support the growth of the ship supply industry.

4. Tax Incentives and Relief Measures

Introduction of a cap on the special input VAT deduction for used car purchases. The special input VAT deduction regime for used car purchases has been revised to introduce a new deduction cap and allow unused deductions to be carried forward. These changes are intended to rationalize the regime and prevent excessive input VAT deductions. The revised rules apply to taxable periods beginning on or after July 1, 2026.

Foreign tax credits for indirect investment income from pension accounts. The scope of the indirect investment foreign tax credit has been expanded to cover income withdrawn from pension accounts, including pension income, retirement income, interest income, and other income. As a result, foreign tax credits may be claimed on qualifying indirect investment income withdrawn from pension accounts, helping to mitigate double taxation. The measure applies to indirect investment income accrued in pension accounts on or after January 1, 2025 and withdrawn from such accounts on or after July 1, 2026.

Exclusion of solar power generation facilities from resident tax on business establishments. To eliminate uncertainty regarding the resident tax treatment of solar power generation facilities and support the expansion of renewable energy, solar energy facilities have been excluded from the scope of business establishment facilities subject to resident tax. The measure is expected to improve consistency in local tax administration and reduce the financial burden on solar power operators. The change has applied since July 1, 2026.

Expanded contribution limits for the Yellow Umbrella Mutual Aid Program. The Yellow Umbrella Mutual Aid Program is a government-backed mutual aid scheme designed to support small business owners and microbusiness operators. Contribution limits under the program have been expanded to provide greater flexibility for participants. The limit has been increased from KRW 3 million per quarter to KRW 18 million per year, allowing participants to make contributions based on their individual financial circumstances. The measure is expected to strengthen asset accumulation opportunities and enhance the social safety net for small business owners and microbusiness operators. The revised limit applies to contributions made on or after July 1, 2026.

Ministry of Land, Infrastructure and Transport Selects Five Investment Promotion Zones for 2026

The Ministry of Land, Infrastructure and Transport has designated five locations—Cheongju, Muju, Jindo, Boeun, and Inje—as Investment Promotion Zones to foster regional growth hubs and attract private investment. Businesses operating within these zones will be eligible for various incentives, including tax and charge reductions and relaxed development regulations, such as greater permitted building coverage ratios and floor area ratios. Especially, in designated growth promotion areas, up to KRW 10 billion in government funding will also be provided for infrastructure development. Project operators may qualify for a 50% reduction in corporate income tax or individual income tax for three years, while resident companies may qualify for a 100% reduction for the same period. Additional incentives include reductions in acquisition tax and property tax of up to 50% under local ordinances. The key features of each selected project are summarized below.

Cheongju, Chungbuk Province - Water thermal energy-based industrial complex for data centers

The project aims to develop an AI convergence complex powered by water thermal energy. The development will include data centers, industrial and support facilities, and residential areas. With a total investment of KRW 352.5 billion, the project will receive KRW 500 million each from the central and local governments, while the remaining KRW 351.5 billion will be funded from other sources.

Muju, Jeonbuk Province - Aerospace R&D and prototype production facilities

The project is intended to transform eastern Jeonbuk Province into a hub for the advanced aerospace industry. It includes the development of an aerospace industrial complex, together with supporting infrastructure such as access roads and tunnels. With a total investment of KRW 348.8 billion, the project will receive KRW 10 billion in central government funding, KRW 35.4 billion from local governments, and KRW 303.4 billion from private investors.

Jindo, Jeonam Province - Regional seaweed production cluster

A specialized seaweed industry cluster will be developed to support exports of Korean seaweed products and strengthen the competitiveness of the sector. The project includes the development and expansion of supporting infrastructure, such as water supply systems for processing facilities. Total project costs are estimated at KRW 101.1 billion, of which KRW 12.6 billion and KRW 6.5 billion will be provided by the central and local governments, respectively, with the balance funded through private investment.

Boeun, Chungbuk Province - Tourism facilities linked to Mt. Gubyeong

The project is designed to establish a stay-oriented tourism hub by leveraging Boeun County's flagship tourism asset, Mt. Gubyeong. It includes the expansion of infrastructure and the development of tourist attractions, lodging facilities, and experiential tourism amenities. Total project costs are estimated at KRW 81.2 billion, including KRW 19.9 billion in central government funding, KRW 10.7 billion from local governments, and KRW 50.6 billion from private investment.

Inje, Gangweon Province - Defense and military procurement industry hub
The project will establish a specialized industrial hub supporting the defense and military procurement sectors. Planned facilities include industrial, residential, support, and public infrastructure. Funding for the project totals KRW 50.0 billion, comprising KRW 5.0 billion from the central government and KRW 45.0 billion from local governments.

NTS Extends VAT Payment Deadline by Two Months for Businesses Affected by High Exchange Rates and Other Eligible Taxpayers

The NTS has granted an automatic two-month extension of the VAT payment deadline to September 28, 2026, for businesses adversely affected by high exchange rates and certain other eligible taxpayers. The extension applies to VAT liabilities arising from preliminary and final VAT filings for the first half of 2026. The four categories of eligible taxpayers are summarized below.

Businesses affected by high exchange rates. This category includes (i) individual business owners with sales of at least KRW 500 million and an export ratio of 50% or more in FY2025, and (ii) small and medium-sized enterprises (SMEs), including mid-scale companies, whose exports accounted for at least 50% of total sales in FY2025.

Young entrepreneurs in the early stages of business. The category covers young entrepreneurs who commenced business in or after 2024, whose representative was born between 1991 and 2006, and whose FY2025 sales did not exceed KRW 1 billion, excluding businesses engaged in real estate leasing.

Small businesses experiencing significant sales declines. Eligible businesses are small business operators with FY2025 sales of KRW 1 billion or less whose sales for the second half of FY2025 declined by at least 50% year over year. Businesses engaged in real estate leasing are excluded.

Simplified VAT taxpayers. Eligible taxpayers under this category include all simplified VAT taxpayers subject to preliminary VAT returns or preliminary VAT assessments, excluding those engaged in real estate leasing businesses.

02 Changes in tax laws

Amended Enforcement Rules of the Corporate Income Tax Law

The Special Tax Treatment Control Law has been amended to introduce several measures aimed at promoting investment and supporting strategic industries and small businesses. Under the amendment, SMEs may deduct depreciation expenses for machinery, equipment and other prescribed business assets necessary for the establishment and operation of prescribed smart factories, regardless of whether such expenses are recorded at closing of their books. In addition, taxation on gains arising from in-kind contributions of land or buildings to project real estate investment trusts (REITs) may be deferred until the disposal of the shares received in exchange, while the Korea Development Bank may deduct contributions made to the Advanced Strategic Industry Fund. The amendment also introduces a special exception to the non-deductibility rules for business execution expenses paid with Onnuri gift certificates, a government-sponsored voucher program, to encourage support for small businesses and microbusiness operators. The Enforcement Rules of the Corporate Income Tax Law have been revised to update the relevant forms and documentation required to implement these changes. (Amended and promulgated on July 1, 2026)

Amended Presidential Decree of the Individual Consumption Act

The Presidential Decree of the Individual Consumption Act has been amended to extend, by one month, the temporary reduction in the flexible tax rate applicable to butane, from June 30, 2026 to July 31, 2026, in order to ease fuel cost burdens on consumers. Furthermore, in response to the recent surge in natural gas prices, the flexible tax rate on natural gas used for power generation has been reduced from KRW 12 per kilogram to KRW 10.2 per kilogram for the period from July 1, 2026 through December 31, 2026. (Amended and promulgated on June 30, 2026)

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

Article 71(1) of the Customs Act authorizes the government to apply tariff-rate quotas, under which reduced tariff rates are imposed on limited import volumes, where necessary to stabilize domestic prices, ensure the smooth supply of goods, or strengthen industrial competitiveness. Under the latest amendment, a temporary 0% tariff-rate quota applies to natural gas, crude oil used in the production of liquefied petroleum gas (LPG), and LPG from July 1, 2026 through December 31, 2026, in order to mitigate the domestic impact of rising global energy prices and other external factors. In addition, the tariff-rate quota period for 10 items, including processed egg products, has been extended through December 31, 2026, while tariff-rate quotas have been newly applied to nine items, including grapefruit concentrate. The tariff-rate quota period for three items, including bananas, has also been extended through August 15, 2026 to help stabilize consumer prices. (Amended and promulgated on June 30, 2026)

Enforcement Rules of the Local Tax Law

The Presidential Decree of the Local Tax Law (LTL) has been amended to exclude the horizontal projection area of solar energy facilities when calculating the total floor area of business establishment facilities for resident tax purposes. Reflecting this amendment, the Enforcement Rules of the LTL have been revised to update the resident tax return forms for business establishments. (Amended and promulgated on June 15, 2026)

03 Rulings update

Whether an Underreporting Penalty Applies Where Acquisition Tax Payable Is Underreported Due to an Erroneous Claim of a Tax Reduction or Exemption

Under the Local Tax Act ("LTA"), a person acquiring property subject to acquisition tax is required to file and pay, by the statutory filing due date, the computed acquisition tax amount calculated by applying the applicable tax rate to the acquisition tax base (Article 20(1) of the LTA). Where a taxpayer fails to properly fulfill such filing and payment obligations, penalties, including an underreporting penalty and a late-payment penalty, may be imposed (Article 21(1)(1) of the LTA). In addition, Article 54(1) of the Framework Act on Local Taxes ("FALT") provides that where a taxpayer underreports the tax payable, an underreporting penalty equal to 10% of the underreported tax payable shall be imposed. The issue in this case was whether an underreporting penalty should be imposed where a taxpayer correctly reported the acquisition tax computed tax amount but, due to an erroneous application of a tax incentive provision, underreported the acquisition tax payable. Specifically, the question was whether such a taxpayer remains subject to an underreporting penalty under the FALT or whether the penalty should be excluded on the grounds that the taxpayer properly fulfilled its reporting obligation with respect to the computed tax amount under the LTA.

The lower court noted that the LTA defines the subject of the filing and payment obligation as the computed tax amount calculated by applying the tax rate to the acquisition tax base, whereas the FALT uses the underreported tax payable as the basis for calculating the underreporting penalty. Nevertheless, the court reasoned that the underreporting penalty is intended to sanction a taxpayer's failure to comply with filing obligations. Accordingly, where the taxpayer correctly reported the computed tax amount itself, no underreporting penalty could be imposed merely because the tax payable was understated as a result of an erroneous application of a tax incentive provision (Seoul High Court Decision 2025Nu4090, 2025.09.25). However, the Supreme Court held that, following the 2015 amendment to the FALT, the basis for calculating the underreporting penalty was changed from the underreported computed tax amount to the underreported tax payable. Accordingly, after the amendment, even where the computed tax amount is correctly reported, an underreporting penalty may be imposed if the taxpayer underreports the tax payable due to an incorrect application of a tax incentive provision. The Court therefore concluded that such circumstances fall within the scope of the underreporting penalty provisions (*Daebeop2025Du35293, 2026.04.09*).

Observation: Under the former FALT, the Supreme Court held that an underreporting penalty was imposed based on the underreported computed tax amount, and therefore no underreporting penalty could be imposed where the taxpayer correctly reported the computed tax amount even though the tax payable was understated (Daebeop2014Du12505, 2025.05.28). However, this decision confirms that, following the amendment to the FALT, the basis for calculating the underreporting penalty was changed from the computed tax amount to the tax payable, thereby aligning the local tax regime with the approach adopted under the Framework Act on National Taxes. As a result, the Court held that an underreporting penalty may be imposed whenever a taxpayer underreports the tax payable, regardless of whether the computed tax amount itself was correctly reported. Accordingly, where acquisition tax payable is understated due to an erroneous claim of a tax reduction, exemption, or other tax incentive, the taxpayer may be subject not only to a late-payment penalty but also to an underreporting penalty. The decision underscores the importance of carefully reviewing the applicability of tax incentive provisions before claiming any exemption or reduction. It is also worth noting that the Ministry of the Interior and Safety has taken the position where a taxpayer qualifies for a full exemption, such that no actual tax payable arises, a non-filing penalty will not be imposed even if the taxpayer fails to file a return. This administrative guidance may therefore be relevant when assessing penalty exposure in transactions that are fully exempt from acquisition tax.

Whether a Tax Incentive Remains Available to a Company in a Special R&D Zone That Has Not Been Re-designated as a High-Tech Enterprise as of the End of the Taxable Year

Under the Special Tax Treatment Control Act (“STTCL”), a company located in a Research and Development Special Zone (“R&D Special Zone”) that has been designated as a High-Technology Enterprise is entitled to a corporate income tax exemption of 100% for three years and 50% for the following two years with respect to income derived from qualified businesses, such as information and communications technology businesses, conducted at the eligible place of business (Article 12-2(1)(1) of the STTCL; hereinafter, the “Tax Incentive”). However, where the designation period of a High-Technology Enterprise expires, the Tax Incentive ceases to apply from the taxable year in which the relevant event occurs unless the enterprise has been re-designated as a High-Technology Enterprise as of the end of the taxable year that includes the expiration date (Article 12-2(2) of the STTCL and Article 11(2)(3) of the Presidential Decree of the STTCL). The issue in this case was whether the Tax Incentive remained available for a taxable year in which the two-year validity period of the High-Technology Enterprise designation expired, where the taxpayer filed an application for re-designation before the expiration date but received the new designation certificate only during the subsequent taxable year rather than before the end of the relevant taxable year.

The Tax Tribunal held that the requirements for both taxation and tax incentives should generally be determined as of the date on which the tax liability is established, which, in the case of corporate income tax, is the last day of the taxable year. Accordingly, it found that the Tax Incentive is available only where the taxpayer qualifies as a High-Technology Enterprise as of the end of the relevant taxable year. The Tribunal further noted that the Ministry of Science and ICT, the competent authority responsible for the designation of High-Technology Enterprises, has taken the position that once the validity period of a designation expires, the designation ceases to be effective automatically and any subsequent re-designation cannot be granted retroactively to the expiration date. Based on these considerations, the Tribunal concluded that the taxpayer could not apply the Tax Incentive for the taxable year at issue because it had not obtained a valid High-Technology Enterprise designation certificate as of the end of that taxable year (*Joshim2026Jeon1170, 2026.05.21*).

Observation: This decision demonstrates that eligibility for the Tax Incentive is determined strictly based on whether a valid High-Technology Enterprise designation exists as of the end of the taxable year. In the present case, the taxpayer had submitted its application for re-designation before the expiration of its original designation and the delay in obtaining the new designation was reportedly attributable to circumstances beyond the taxpayer's control. Nevertheless, the Tribunal held that the Tax Incentive could not be claimed because a valid designation certificate had not been issued by the taxable year-end. As a result, companies benefiting from the R&D Special Zone incentive regime should carefully monitor the expiration date of their High-Technology Enterprise designation and allow sufficient time for the administrative review process when seeking re-designation. In particular, where the designation is scheduled to expire shortly before the end of a taxable year, taxpayers should submit their re-designation applications well in advance to ensure that a valid designation certificate is obtained by the relevant year-end and that the Tax Incentive is preserved without interruption.

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