



삼일회계법인

# Korean Tax Update Samil Commentary

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## 01

## Tax News

## Government Outlines Plan to Revise the SME Criteria

The Ministry of SMEs and Startups has developed a plan to refine the sales revenue criteria for small and mid-sized enterprises (SMEs). This plan aims to support the corporate growth ladder and ensure that the criteria remain relevant amid changing economic conditions. To implement the proposed revision, a bill to amend the Presidential Decree of the Framework Act on SMEs will be announced in May, with implementation expected in September. The plan consists of three main steps, with key points outlined as follows:

The first step involves a review of the appropriateness of the current sales criteria. For mid-sized enterprises, the sales figures of the top 1% of companies within each industry are examined, while for small enterprises, the focus is on the top 30% within each industry. Adjustments to the sales thresholds will only be considered if these benchmarks are lower than the existing criteria. If the current sales criteria are higher than the sales of the top 1% of mid-sized enterprises or 30% of small enterprises, the existing standards will be maintained.

The second step evaluates the validity of adjusting sales criteria by industry. This involves analyzing changes in SME graduation rates that may result from inflation, in order to determine whether companies are losing their SME status due to price increases rather than genuine business growth. The plan also incorporates industry-specific feedback, allowing for upward adjustments to reflect unique factors affecting certain industry sectors.

The third step focuses on rational adjustment by taking into account industry-specific inflation rates and nominal growth rates, which reflect increases in sales. The plan aims to minimize the creation or modification of sales brackets to maintain consistency within the system and ensure ease of application.

## Sales Revenue Criteria for Mid-sized Co

Current (5 ranges)	Proposed (7 ranges)
-	KRW180 billion or less (New)
	KRW150 billion or less
KRW150 billion or less	KRW120 billion or less (New)
KRW100 billion or less	KRW100 billion or less
KRW80 billion or less	KRW80 billion or less
KRW60 billion or less	KRW60 billion or less
KRW40 billion or less	KRW40 billion or less

## Sales Revenue Criteria for Mid-sized Co

Current (5 ranges)	Proposed (9 ranges)
-	KRW14 billion or less (New)
	KRW12 billion or less
KRW12 billion or less	KRW10 billion or less (New)
	KRW8 billion or less
KRW8 billion or less	KRW6 billion or less (New)
	KRW5 billion or less
KRW5 billion or less	KRW4 billion or less (New)
	KRW3 billion or less
KRW3 billion or less	KRW1.5 billion or less (New)
KRW1 billion or less	-

**16 out of 44 Industries for an Upward Adjustment in Midsized Enterprise Criteria** (In KRW billions)

KSIC*	Industries subject to Upward Adjustment	Current	Proposed
C17	Manufacture of pulp, paper, and paper products	150	180
C24	Primary metal manufacturing		
C28	Electrical equipment manufacturing		
C10	Food manufacturing		
C20	Manufacture of chemical substances and chemical products (excluding pharmaceutical manufacturing)		
C22	Manufacture of rubber and plastic products	100	120
C25	Manufacture of fabricated metal products (excluding machinery and furniture manufacturing)		
C29	Other machinery and equipment manufacturing		
C30	Manufacture of motor vehicles and trailers		
C31	Other transportation equipment manufacturing		
F	Construction	80	100
G	Wholesale and Retail Trade		
C33	Other product manufacturing		
H	Transportation and warehousing		
J	Information and communication		
N	Business facility management, business support, and rental and leasing activities (except real estate)	60	80

\*KSIC: Korean Standard Industrial Classification

**12 out of 43 Industries for an Upward Adjustment in Small Enterprise Criteria** (In KRW billions)

KSIC	Industries subject to Upward Adjustment	Current	Proposed
C19	Manufacture of coke, briquettes, and refined petroleum products	12	14
C24	Primary metal manufacturing		
H	Transportation and warehousing	8	10
K	Finance and insurance activities		
G	Wholesale and Retail Trade	5	6
E	Water supply, sewerage, waste management, and remediation activities (excluding water supply)		
L	Real estate activities	3	4
C34	Repair of industrial machinery and equipment		
I	Accommodation and food service activities	1	1.5
P	Education services		
Q	Health and social welfare services		
S	Repair and other personal services		

## Draft Amendment to the Local Tax Law Includes Separate Property Taxation for Enterprise Cities in Depopulating Regions

The Ministry of Interior and Safety introduced a bill on April 15 to partially amend the Presidential Decree of the Local Tax Law. The amendments are designed to stabilize housing costs for low-income earners and support businesses operating in specific local regions. Below are the key proposed changes:

### Expanded Scope of Land for Separate Taxation

Land used for industrial purposes in enterprise cities within depopulated regions will benefit from separate property taxation for five years from 2025 to 2029.

- A low flat rate of 0.2% will apply, and the comprehensive real estate holding tax will be exempted. This aims to alleviate the tax burden and applies to *Haenam*, *Yeongam* and *Taeon* Enterprise Cities, as specified in Article 2(2) of the Special Law on the Development of Enterprise Cities.
- This proposal is based on the feasibility assessment of separate taxation conducted by the Korea Local Tax Research Institute in 2024.
- After five years of separate taxation, the decision on whether to extend these tax benefits will be made based on an analysis of the effectiveness upon expiration.

### Clarification of Property Tax Exemption Criteria

The criteria for property tax exemption will be clarified to specify that buildings or housing for which demolition compensation contracts have been signed with administrative authorities will be eligible for property tax exemption.

### Fair Market Value (FMV) Rates for Single House Owners

To reduce the property tax burden for single-house owners, the special FMV rates listed below will be extended for an additional year. As a result, the 2025 property tax will be calculated using the same rates as those applied in 2023 and 2024:

- 43% of the assessed value for houses valued at up to KRW 300 million (based on officially announced prices),
- 44% for houses valued at over KRW 300 million and up to KRW 600 million,
- 45% for houses valued at over KRW 600 million.

For multiple-house owners and corporations, the FMV rate will remain at 60% of the assessed value.

## NTS Reports a Surge in Real Estate Valuations for Inheritance and Gift Tax Purposes

Since 2020, the National Tax Service (NTS) has undertaken a project to appraise the value of small buildings for inheritance and gift tax purposes. These small buildings typically include small to mid-sized structures, such as shops and offices, which do not have publicly available individual standard market prices. Over the four years from 2020 to 2023, the NTS assessed 896 small buildings that had initially been reported at standard market prices, ultimately determining a total assessed value of KRW 9.7 trillion—a substantial 75% increase compared to the originally declared value of KRW 4.5 trillion.

This year, the scope of the project has been expanded to include high-priced apartments and residential houses. In the first quarter of this year, 75 properties, including small buildings and luxury residences, were appraised, resulting in a total assessed value of KRW 534.7 billion, which is 87.8% higher than the declared value of KRW 284.7 billion.

Furthermore, following the NTS announcement to broaden the appraisal scope, more taxpayers have voluntarily assessed their inherited and gifted properties. As a result, in the first quarter of this year, the proportion of declarations based on appraisal value for high-value real estate (with a standard market price of KRW 2 billion or more) reached 60.6% of the total declarations, representing a 12% increase compared to 48.6% in 2024.

### NTS Appraisals of Real Estate in the First Quarter of 2025

	Number of Cases	Declared Value (①)	Appraised Value (②)	Increase rate*)
Small buildings	41	KRW186.1 Bil.	KRW333.9 Bil.	79.4%
Residences	34	KRW98.6 Bil.	KRW200.8 Bil.	103.7%
Total	75	KRW284.7 Bil.	KRW534.7 Bil.	87.8%

\*Increase rate = (② appraised value – ① declared value) divided by ① declared value

# 02

## Changes in Tax Laws

### Amended Presidential Decree of the Inheritance and Gift Tax Law

#### Background of Amendment and Key Points

Recent amendments to the Inheritance and Gift Tax Law (IGTL) have broadened the range of transactions subject to the deemed gift of profits, particularly those involving specific corporations. The expanded scope now includes transactions in which a corporation benefits from capital actions, such as disproportionate capital reductions. The amendments also introduce new reporting requirements for investment associations that hold or trade stocks and related rights. These associations are now required to provide both the personal information of their members and detailed information regarding their holdings and transactions to the competent tax office. The amended Presidential Decree of the IGTL provides further guidance on these changes. It clarifies that transactions in which a corporation gains profits through mergers at unfair ratios—such as valuing shares above or below market prices or canceling shares of certain shareholders at non-market prices—are now considered transactions subject to the deemed gift of profits. Additionally, investment associations must submit a detailed statement to the tax office within three months after the end of the fiscal year in which the rights are held or the relevant transaction date falls. This statement must include information on holdings and transactions, members' personal data, and specifics about investment shares. (Amended and proclaimed on May 7, 2025)

### Amended Presidential Decree of the Local Tax Law

#### Background of Amendment and Key Points

The recent amendments to the Presidential Decree of the Local Tax Law have changed specific exceptions to the elevated tax rates on the acquisition of residential properties through value transactions. Previously, this exception applied to houses with a standard market value of KRW 100 million or less, regardless of their location. The amendment now distinguishes between metropolitan and non-metropolitan areas. For properties located in metropolitan areas, the exception threshold remains at KRW 100 million. However, for properties outside designated metropolitan areas, the threshold has been raised to KRW 200 million in order to stimulate regional economies. Additionally, the amended Presidential Decree introduces changes to the calculation of corporate local income tax for consolidated entities that utilize loss carryforwards. For consolidated entities receiving loss carryforwards from other entities within the group, the corporate local income tax should be calculated based on the taxable income and applicable rates before applying the loss carryforwards. For the consolidated entity transferring the loss carryforwards, the calculated corporate local income tax amount should be determined by multiplying the difference in taxable income amounts before and after the transfer by the proportion of the loss carryforward transferred. (Amended and proclaimed on April 29, 2025)

## **Amended Enforcement Rules of the Local Tax Law**

### **Background of Amendment and Key Points**

The latest amendment to the Special Tax Treatment Control Law introduces a new benefit for residents who are basic pension recipients under the Basic Pension Law and who belong to single-home or no-home households at the time of a real estate transfer. If the proceeds from property transfer are deposited into a pension account, 10% of the deposited amount can be deducted from the calculated capital gains tax on the transfer. The Enforcement Rules of the Local Tax Law now specify that this deduction should be reported on the return for the tax base and payment of individual local income tax related to such capital gains. Furthermore, the Local Tax Law has been revised to streamline the corporate local income tax brackets for corporations primarily engaged in real estate leasing. Previously, these brackets were divided into "up to KRW 200 million" and "over KRW 200 million and up to KRW 20 billion." These have been consolidated into a single bracket of "up to KRW 20 billion," now subject to a unified tax rate of 1.9%. The amended Enforcement Rules enable taxpayers to indicate on the tax filing form whether a corporation is primarily engaged in real estate leasing when reporting the corporate local income tax base and payment. (Proclaimed and implemented on April 30, 2025)

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

### **Background of Amendment and Key Points**

To alleviate the public's burden from fuel costs, the temporary reduction in the individual consumption tax rate on butane, a type of petroleum gas, has been extended from April 30 to June 30, 2025. Due to the recent decline in fuel prices, the reduction amount has been adjusted to KRW 234 per kilogram. (Proclaimed and implemented on April 30, 2025)

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

### **Background of Amendment and Key Points**

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 by two months, expiring on June 30, 2025. In light of the recent downward trend in fuel prices, the reduced tax rate has been set at KRW 476 per liter for gasoline and similar alternative fuels, and KRW 319 per liter for diesel and its alternatives. (Proclaimed and implemented on April 30, 2025)



# 03

## Rulings Update

### Timing for claiming the integrated investment tax credit on down payments made prior to import approval for machinery and equipment

According to Article 24(1) of the Special Tax Treatment Control Law (STTCL), the integrated investment tax credit is to be claimed in the "tax year in which the investment is made." The phrase "tax year in which the investment is made" refers to the tax year that includes the period from the commencement date of the investment, as specified in Articles 21(12) and 23(14) of the Presidential Decree of the STTCL, up to the date the investment is completed—that is, the date the invested facility is actually put to use for its intended business purpose, as clarified in the administrative guidance for tax law interpretation (Basic Ruling of the STTCL 24-0...2). A recent authoritative interpretation examines whether, when importing machinery and equipment that requires import approval, the timing for claiming the integrated investment tax credit for the down payment made before the tax year in which the import approval date falls should be the tax year in which the down payment is made (2024), or the tax year in which the import approval is obtained (2025).

The National Tax Service (NTS) has issued a tax ruling (*Advance Ruling-2025-Beobgyubeobin-0008, dated January 31, 2025*), stating that for down payments made before import approval, the integrated investment tax credit should be claimed not in the tax year when the down payment is made (2024), but in the tax year when the import approval is received (2025). This ruling appears to be based on the literal interpretation of Article 23(14)(1)-(3) and Article 21(12) of the Presidential Decree of the STTCL, which specify the commencement date of an investment as one of the following: 1) the date the taxpayer sends the first order sheet under a manufacturing contract; 2) the date a contract deposit is paid under a sales and purchase agreement; or 3) the date import approval is obtained for facilities that require prior approval, regardless of the dates specified in 1) and 2). Therefore, it is interpreted, based on the wording of these provisions, that the tax year in which the down payment is made before obtaining import approval is a tax year prior to the commencement of the investment, and thus, it cannot be regarded that the time to claim the integrated investment tax credit has arrived.

**Observation:** Companies importing business assets that require import approval should carefully determine the appropriate tax year in which integrated investment tax credits should be claimed. Down payments made in a tax year prior to obtaining import approval should not automatically qualify for the integrated investment tax credit. Instead, the investment tax credit for such down payments should be applied in the tax year when import approval is obtained.

## Whether shares held by a corporation should be regarded as non-business assets when applying the special gift tax treatment and inheritance tax deduction for family business succession

Article 30-6 of the STTCL and Article 18-2 of the Inheritance and Gift Tax Law (IGTL) provide for special tax treatment and deductions related to the succession of family businesses. Specifically, under Article 27-6(10) of the Presidential Decree of the STTCL and Article 15(5)(2)(e) of the Presidential Decree of the IGTL, “shares held without direct relation to the business activities of a corporation” are treated as non-business assets, which are ineligible for the special gift tax treatment and inheritance tax deduction for family business succession. The key issue in the latest authoritative interpretation is whether all the shares held by a corporation should be regarded as non-business assets, or whether the determination of non-business assets should be based on whether the shares are directly related to the corporation's business activities.

In previous authoritative interpretations (*e.g.*, *Property Tax Division of the MOEF-312, 2015.4.16*, and *Seomyeonbeobgyu-842, 2014.8.11*), shares held by a corporation in a subsidiary engaged in the same business were considered non-business assets, even if those shares were directly related to the corporation's own business activities. However, the latest authoritative interpretation (*Property Tax Division of the MOEF-191, 2025.3.10*) states that in applying Article 18-2 of the IGTL and Article 15(5)(2)(e) of its Presidential Decree, the determination of “shares held without direct relation to the business activities of a corporation”, which are treated as non-business assets, should be made by considering whether the concerned shares are directly related to the corporation's business activities. This represents a change from the previous position which regarded all shares held by a corporation as non-business assets, as reflected in the NTS Tax Law Interpretation Revision on April 18, 2025.

**Observation:** This recent interpretation suggests that narrowly defining business activities undermines the legislative intent of the family business succession deduction, which is intended to facilitate the smooth succession of family business within small and medium-sized enterprises (SMEs). Such a restrictive definition also impedes SMEs' efforts to grow through overseas expansion and business diversification. Therefore, the interpretation asserts that whether the shares are held without direct relation to business activities should be determined solely based on their relevance to those business activities. This position is consistent with previous decisions of the Supreme Court and the Tax Tribunal (*Daebeop 2018Du39713, 2018.7.13*; *Joshim2018Seo4162, 2020.6.19*; *Gamshim2019-270, 2020.3.9, etc.*). Where a corporation holds shares in subsidiaries established for business diversification or overseas expansion, or shares in new companies established through spin-offs, the applicability of the special gift tax treatment or deductions for family business succession should be determined based on the direct relevance of those shares to the corporation's business activities, taking into account the recent authoritative interpretation and the court rulings.

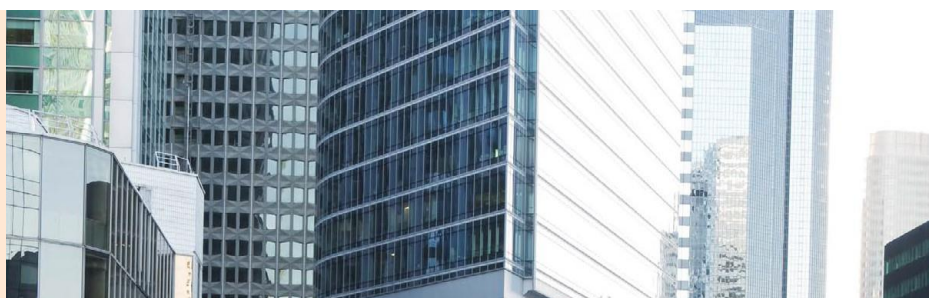
## Whether input VAT on the purchase of vehicles for tire testing is deductible from output VAT

The Value-Added Tax (VAT) Law stipulates that input VAT incurred from the purchase, lease, or maintenance of vehicles is generally not deductible from output VAT unless the vehicles are directly used in specific categories of industries such as transportation, vehicle sales, or other similar businesses as prescribed by the Presidential Decree, pursuant to Article 39(1)(5) of the VAT Law and Articles 78 and 19 of the Presidential Decree of the VAT Law. A recent authoritative interpretation considered whether a business engaged in professional, scientific, and technical services could deduct input VAT on passenger vehicles purchased exclusively for tire quality testing.

The interpretation clarified that, even when such vehicles are used exclusively for business-related tire testing, the input VAT incurred is not deductible from output VAT. This is because the business does not fall within the prescribed categories of industries—such as transportation or automobile sales—that are eligible for this deduction. Simply using the vehicle for business purpose does not satisfy the requirements for input VAT deduction under the VAT Law.

**Observation:** The underlying policy rationale for this restriction is to limit input VAT deductions to vehicles that meet the stricter standard of being used for “business purposes”, rather than simply being “for commercial use”. This approach is intended to address concerns that vehicles registered under a business name may be used for personal or mixed purposes. Tax authorities also face practical challenges in verifying whether a vehicle is used solely for business, given limited administrative resources. This policy has been upheld in various legal interpretations and court decisions, including the Constitutional Court Decision (2014HunBa467, 2015.12.13). For instance, input VAT deductions have been disallowed in cases where vehicles were purchased or leased by businesses engaged in automobile parts manufacturing for research and development (*Gijoon-2017-Beobryeonghaeseokbuga-0140.2017.6.14*), by businesses manufacturing vehicle navigation systems for product testing (*Value Added Taxation Division-1277,2010.9.29*), or by imported car sales businesses for test drive events (*Seomyeon-2019-Beobryeonghaeseokbuga-0010*). Unless the business operates in the specific categories of industries eligible for input VAT deductions, such as transportation or automobile sales, it should be noted that the input VAT incurred for the purchase, lease or maintenance of vehicles by the business would be non-deductible, even if the vehicles are used exclusively for business purposes.

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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