



삼일회계법인

Korean Tax Update Samil Commentary

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Table of contents

01	Tax news	03
	• Government Finalizes 2026 Tax Reform Bill • MOIS Announces the Government’s 2026 Local Tax Reform Proposals • National Tax Service Announces Key Initiatives of the Tax Administration Plan for the Second Half of 2026	
02	Changes in tax laws	9
	• Amended Basic National Tax Law • Amended Customs Act • Amended Presidential Decree of the Individual Consumption Tax Act • Amended Presidential Decree of the Transportation, Energy and Environment Tax Act • Amended Enforcement Rules of the Customs Act	
03	Rulings update	10
	• VAT Treatment of Employee Discounts Included in Taxable Income for Corporate Income Tax Purposes	

01

Tax news

Government Finalizes 2026 Tax Reform Bill

The government has finalized its 2026 tax reform bill which was announced by the Ministry of Finance and Economy (MOFE) on August 3, and subsequently modified in the Cabinet meeting on August 27, 2026. The finalized bill, which proposes amendments to 11 tax laws, was submitted to the National Assembly earlier this month for consideration during the regular session. Key modifications to the 2026 tax reform proposals are outlined below.

Retention of the Current Individual Savings Account Regime

The government initially proposed significant changes to the Individual Savings Account (ISA) regime under the Special Tax Treatment Control Law (STTCL), including i) a five-year limit on the total contract period, ii) annual and lifetime contribution limits of KRW 20 million and KRW 100 million, respectively, without allowing the carryforward of unused annual contribution limits, and iii) a sunset date of December 31, 2029. Under the current regime, however, there is no limit on the contract period or sunset date, and unused annual contribution limits may be carried forward. To continue supporting individual wealth accumulation, the revised proposal retains the current ISA regime and does not adopt the restrictions initially proposed.

Expansion of Support for Productive Investment ISAs

The proposed amendment to the STTCL introduced a new Productive Finance ISA designed to encourage long-term investment and support the development of Korea's capital markets. Under the initial proposal, the Productive Finance ISA would have been subject to several restrictions, including a maximum contract period, a sunset date, and a prohibition on carrying forward unused annual contribution limits. However, the revised proposal no longer includes these restrictions. As a result, there will be no limit on the contract period or sunset date. While the contribution limits and tax benefits remain unchanged, unused annual contribution limits may be carried forward in the same manner as under the current general ISA regime. In addition, the revised proposal removes the restriction on concurrent participation in both a Youth ISA and a Youth Future Savings Account. These changes are intended to further support individual wealth accumulation and promote long-term participation in Korea's capital markets.

Adjustment to the Reinvestment Period for Local Relocation and Special Zone Tax Incentives

The proposed amendment to the STTCL introduced a tax incentive reinvestment requirement for businesses benefiting from local relocation and special zone tax incentives. Under the proposal, companies are required to reinvest an amount equal to 30% of the tax benefits received (excluding special rural development tax) in the local area through investment, research and development, employment, or cooperation with local businesses.

The revised proposal adjusts the reinvestment period used to determine compliance with the reinvestment requirement. Under the revised rule, the reinvestment period begins in the fiscal year in which the taxpayer commences i) relocation to a local area, ii) entry into a designated special zone, iii) a start-up or establishment of a business site, or iv) investment in business-use tangible assets, through the final fiscal year of the tax reduction period. This change is intended to ensure that qualifying investment activities prior to local relocation, special zone entry, or business establishment are also taken into account in determining compliance with the reinvestment requirement.

Refinement of Eligibility for the Reduced Withholding Tax Rate on Personal Service Income

The proposed amendment to the Individual Income Tax Law (IITL) reduced the withholding tax rate on certain personal service income from 3% to 2%. Under the original proposal, insurance salespersons, door-to-door salespersons, and beverage delivery salespersons that are subject to year-end tax settlement as simplified bookkeeping taxpayers would continue to be subject to the current 3% withholding tax rate. The revised proposal would expand the scope of this exception by maintaining the 3% withholding tax rate for these occupations regardless of whether they qualify as simplified bookkeeping taxpayers. The change is intended to rationalize the scope of the exception in consideration of tax compliance costs.

MOIS Announces the Government's 2026 Local Tax Reform Proposals

On August 26, the Ministry of the Interior and Safety (MOIS) announced the government's local tax reform proposals for 2026. The proposals emphasize supporting local communities and household economic stability, promoting region-led balanced growth, establishing a rational tax system, and creating a trusted taxpayer environment. The estimated fiscal impact of the reform is approximately KRW 54.7 billion, reflecting increases from adjustments to long-standing recurring tax reductions and decreases due to expanded tax incentives aimed at supporting housing supply and residential stability. The government will seek public comments on the reform proposals, which will then be finalized at a Cabinet meeting and submitted to the regular session of the National Assembly in October. Below is a summary of the key points of the 2026 local tax reform proposals.

Tax Law	Key Proposed Changes
Basic Local Tax Law	• Clarify that the liability for late payment penalties arise on the day following the statutory payment due date. • Expand the grounds for suspension of the statute of limitations on local tax collection to include installment payment periods under the Special Local Tax Treatment Control Law. • Increase administrative fines for taxpayers that refuse or otherwise evade local tax audits from a maximum of KRW 5 million to KRW 50 million. • Introduce an enforcement fine on taxpayers for the failure to submit requested information and documents without a reasonable cause during a local tax audit.
Local Tax Collection Law	• Establish a legal basis for appointing field investigators and introduce confidentiality obligations. • Allow local government heads to directly dispose of seized gold bullion and foreign currencies without a public auction process.
Local Tax Law	• Clarify that the post-management recapture rules do not apply to acquisition tax benefits granted for deemed tax-qualified mergers. • Replace the current filing-based system for resident tax by business place, which permits optional advance assessment notices, with an assessment-based system that permits optional self-filing. • Increase the additional local corporate income tax (LCIT) rate on gains from transfers of non-business-use land from 1% to 2%. • Align the foreign tax credit rule for indirect investments with those applicable to direct investments for LCIT purposes within a consolidated tax group. • Expand the scope of property tax relief reviews to include land subject to separately aggregated taxation, in addition to land for separate taxation. • Require corporations to report changes in the use of corporate-owned land that affect eligibility for separate or separately aggregated property tax treatment, and impose a 10% increase in the tax base for non-compliance.
Local Special Tax Treatment Control Law	• Clarify circumstances in which local tax reductions granted under local ordinances may not be available, including cases that conflict with national real estate policies, etc. • Introduce an acquisition tax reduction for major renovations converting non-residential buildings into residential facilities, such as officetels and dormitories, through December 31, 2027. • Increase acquisition tax reductions for zero-energy buildings from 20%, 18%, and 15% for Grades 1–3, 4, and 5, respectively, to 30% for Grades 1–2 and 50% for Grades 3–5. • Extend by three years, through 2029, acquisition tax and property tax reductions available to start-up SMEs and start-up venture enterprises. • Redesign local tax incentives for environmentally friendly vessels by replacing acquisition tax rate reductions of 1%–2% with acquisition tax reductions of 50%–100% of the tax liability, and extend the sunset date by three years through 2029. • Expand local tax incentives for reshoring companies by extending benefits to partial reshoring arrangements and relaxing the requirement that the domestic business operate in the same industry as the overseas business. • Expand local tax incentives for businesses investing in Opportunity Development Zones by extending eligible properties beyond factories to industrial-use buildings, etc., and extend the sunset date by three years through 2029.

National Tax Service Announces Key Initiatives of the Tax Administration Plan for the Second Half of 2026

At the nationwide meeting of tax office heads held on August 12, the National Tax Service (NTS) unveiled the “National Tax Administration Plan for the second half of 2026”, which outlines key initiatives including the integrated collection of delinquent non-tax revenues and the administration of tax audits during the second half of the year. The key highlights are as follows:

1. Strengthening the Fiscal Foundation

Building a mid- and long-term fiscal foundation. As of June 2026, tax revenue collected by the NTS amounted to KRW 218.6 trillion, representing 53.7% of the FY2026 revenue budget and an increase of KRW 32.8 trillion from the same period of the previous year. To strengthen the long-term fiscal foundation, the NTS plans to expand support for voluntary tax compliance, enhance tax base management, operate a dedicated delinquent tax management task force, and implement integrated collection of non-tax revenues during the second half of 2026.

Improving taxpayer services and strengthening tax base management. The NTS will enhance taxpayer convenience by expanding its pre-filled and simplified tax return services, including coverage of additional taxable assets such as pre-sale rights and the development of automated income tax filing support. At the same time, the NTS plans to strengthen tax base management by focusing on high-risk areas, including unreported overseas trusts.

2. Preparing for the Future of Tax Administration

Becoming an integrated public revenue collection authority. The NTS plans to support legislation that would centralize the collection of delinquent non-tax revenues and improve collection efficiency through the use of tax information. In addition, it will establish a delinquent taxpayer database by collecting delinquency information from other government agencies. The NTS also plans to develop an integrated management system that enables real-time sharing of delinquency information across government agencies and links such information to the NTS tax administration system.

A major shift toward AI-powered tax administration. The NTS plans to accelerate AI adoption across tax administration. Core infrastructure will be established in the second half of 2026, followed by a full-scale rollout in 2027 and broader implementation across tax administration by 2028. As part of this initiative, the NTS will enhance taxpayer services through AI-powered solutions, including AI-based Hometax search and telephone consultation services. The NTS also plans to develop an AI-driven tax evasion detection system that combines historical audit cases and institutional knowledge with advanced big data analytics and AI algorithms.

3. Innovating Delinquent Tax Collection Management

In order to promote fair tax administration, the NTS will operate a dedicated delinquent tax collection task force to review outstanding tax and non-tax receivables totaling approximately KRW 130 trillion. Based on telephone outreach and field visits, delinquent taxpayers will be classified into three categories and subject to tailored collection measures. The NTS also began reviewing delinquent traffic fine cases in July 2026 and plans to expand the initiative to delinquent non-tax revenues administered by other government agencies.

4. Combating Anti-Social Tax Evasion and Delinquency

As part of this initiative, the NTS will pursue a five-pronged approach including tax audits focused on key risk areas, offshore tax enforcement, the operation of a dedicated task force linking delinquent tax investigations and non-regular tax audits, and the strengthening of anti-tax evasion infrastructure, as outlined below.

A focused approach in tax audits. The NTS will concentrate tax audit resources on high-risk tax avoidance and evasion schemes. Key focus areas include real estate transactions structured to avoid higher taxes, unfair stock market practices used to conceal gains, the private use of corporate assets such as luxury residences and supercars, and unlawful business activities that exploit ordinary citizens.

Strengthening offshore tax enforcement. The NTS will strengthen efforts to trace and recover offshore assets concealed by delinquent taxpayers through expanded information exchange and cooperation with high-risk jurisdictions.

Establishing a dedicated task force linking delinquent tax investigations and tax audits. The NTS will establish a dedicated task force within its non-regular tax audit divisions to address both tax evasion and sophisticated asset concealment by high-value delinquent taxpayers. The task force will take an integrated approach by conducting i) criminal investigations into attempts to evade tax collection by major delinquent taxpayers and ii) non-regular tax audits involving suspected offshore tax evasion and other tax avoidance schemes. The initiative is intended to strengthen coordination between delinquent tax collection and tax audits and enhance enforcement against high-value delinquent taxpayers.

Reinforcing enforcement against high-value tax delinquents. Under this initiative, the NTS will enhance analysis of new asset-concealment schemes, expand joint enforcement activities with local governments and the Korea Customs Service, and actively utilize civil litigation and public auctions.

Advancing anti-tax evasion infrastructure. To support this initiative, the NTS will expand incentives for reporting tax evasion and hidden assets and enhance technology-driven enforcement tools, including virtual asset transaction-tracing programs and AI-based forensic systems. Under the 2026 tax reform proposals, the minimum amount of recovered tax required for a reward will be reduced from KRW 50 million to KRW 30 million, while reward rates will increase from 5%-20% to 10%-30%.

5. Delivering Fair and Taxpayer-Friendly Tax Administration

Supporting taxpayers affected by high exchange rates and inflation, etc. The NTS will provide tax administrative relief for taxpayers experiencing financial difficulties arising from high exchange rates, elevated energy costs, and inflation. Support measures include extensions of tax payment deadlines, expedited tax refunds, and extended tax audit deferrals for small business owners.

A life-cycle approach for supporting youth. The NTS plans to support youth economic independence through targeted tax administration measures. The initiative is designed to provide support throughout the youth life cycle, covering employment, entrepreneurship, and financial recovery. Under this initiative, the NTS will expand job opportunities for unemployed young people and launch a “Start-up Tax Care” program that provides tax incentive consulting and filing assistance for young entrepreneurs. The NTS will also simplify procedures for deferring student loan repayments for unemployed youth and ease the tax payment burden of young people who have closed their businesses.

Assistance for businesses relocating to local areas. The NTS will provide tax administrative incentives for SMEs relocating to local areas through dedicated tax consultation services and prioritized assistance on available tax incentives. In addition, the tax audit deferral period for local businesses will be extended up to three years.

Strengthening global competitiveness of Korean businesses. This initiative consists of three key components. First, the NTS will strengthen tax administration partnerships with major trading partners, including Japan, Vietnam, and India, as well as emerging economies such as Mexico and Kazakhstan. Second, it will intensify efforts to resolve double taxation issues affecting national strategic industries, including semiconductors and energy, through measures such as tax treaty negotiations and taxpayer support for Korean businesses operating overseas. Third, the NTS plans to implement a “Global Expansion Strategy Day” program to provide Korean businesses with integrated guidance on overseas investment strategies and tax matters.

02

Changes in tax laws

Amended Basic National Tax Law

The Basic National Tax Law has been amended to establish a basis for taxpayers to request a postponement of a tax audit where a business has incurred significant losses or is facing a risk of insolvency or bankruptcy. The change is intended to provide tax administrative relief to businesses experiencing financial distress. (Amended and promulgated on August 11, 2026)

Amended Customs Act

Recent amendments to the Customs Act strengthen penalties for unlawful conduct involving Authorized Economic Operators (AEOs). An AEO whose certification has been revoked due to fraud or other improper conduct will not be eligible for recertification for two years from the date of revocation. (Amended and promulgated on August 11, 2026)

Amended Presidential Decree of the Individual Consumption Tax Act

The amended Presidential Decree of the Individual Consumption Tax Act extends the temporary reduction in the flexible individual consumption tax rates applicable to butane by two months from July 31, 2026 to September 30, 2026, in order to alleviate consumers' fuel cost burden. (Amended and promulgated on July 30, 2026)

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

The Presidential Decree of the Transportation, Energy and Environment Tax Act has been amended to extend the temporary reduction in the flexible tax rates applicable to gasoline, diesel, and similar alternative fuels by two months, from July 31, 2026 to September 30, 2026. The amendment is intended to ease consumers' fuel cost burden. (Amended and promulgated on July 30, 2026)

Amended Enforcement Rules of the Customs Act

The amended Enforcement Rules of the Customs Act updates the list of industrial technology R&D equipment eligible for customs duty reductions under the Customs Act to promote business investment and research and development activities. Newly eligible items include ultra-precision hydrostatic lathes, extruders, and specimen manufacturing equipment, while certain items previously eligible for the incentive, such as wafers, hydraulic presses, and injection molding machines, are removed. As a result, customs duty reductions apply to a total of 22 qualifying items. (Amended and promulgated on July 31, 2026)

03

Rulings update

VAT Treatment of Employee Discounts Included in Taxable Income for Corporate Income Tax Purposes

Under the Corporate Income Tax Law ("CITL"), where a domestic corporation sells or provides goods or services produced or supplied by the corporation to its employees at a price below the fair market value ("FMV"), the difference between the sales price and the FMV should be included in the corporation's taxable income (Article 11(1) of the Presidential Decree of the CITL, as amended on February 28, 2025). The issue in this tax ruling is whether an employee discount that is included in taxable income under the CITL should also be included in the VAT tax base as part of the consideration for the supply, or whether it should instead be treated as a sales discount and excluded from the VAT tax base.

Under the Value Added Tax Law ("the VATL"), a sales discount that satisfies certain conditions is excluded from the supply price and is therefore not subject to VAT. Specifically, for VAT purposes, a sales discount generally refers to an amount that is directly deducted from the ordinary selling price based on the terms and conditions of the supply, such as the quality or quantity of the goods or services supplied, delivery conditions, or payment terms (Article 29(5)(1) of the VATL). In this tax ruling, the Ministry of Finance and Economy ("MOFE") stated that where a domestic corporation provides goods or services to its employees at a price below the FMV pursuant to a standard policy applicable to all employees, the discounted amount constitutes a sales discount rather than additional consideration for the supply and, therefore, is excluded from the VAT tax base. (MOFE VAT Division-405, 2026.05.26)

This position is consistent with earlier tax rulings issued before the 2025 revision to the CITL that expressly require employee discounts to be included in taxable income (MOFE Corporate Income Tax Division-787, October 2, 2014; Seomyeon-2019-VAT-2304, March 13, 2020, et al.). Those earlier rulings did not deny that employee discounts may qualify as a sales discount for VAT purposes. Accordingly, the present ruling may be understood to mean that where employee discounts are granted pursuant to a pre-established arrangement and operate as a reduction of the ordinary selling price of the goods or services, such discounts constitute a sales discount for VAT purposes. As a result, they are excluded from the VAT tax base, notwithstanding the CITL provision requiring the discount amount to be included in taxable income.

Observation: Where a corporation or an individual business operator provides goods or services to employees at a price below the FMV, it should be noted that, although the discount amount must be included in taxable income or gross receipts for corporate income tax or individual income tax purposes, the same amount would nevertheless be

excluded from the VAT tax base for VAT purposes. Taxpayers should note, however, that where discounts are provided on a discretionary basis rather than pursuant to generally applicable standards, the discount may not qualify as a sales discount for VAT purposes. In such cases, the FMV of the goods or services, without deduction of the discount, may be treated as the supply price and subject to VAT based on that FMV.



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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