



GES NewsFlash

Korea – Proposed Tax Regulation Changes Finally Approved by National Assembly

January 26, 2010

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Summary

The proposed 2010 tax regulation changes were finally approved by Korea's National Assembly on December 31, 2009

The following is a brief description of the approved tax regulation changes affecting international assignees posted to Korea

Special taxation treatment for foreign employees

As proposed, the sunset provision in Article 18-2 of the Korean Tax Incentives Limitations Law ("TILL") and Article 16-2 of the Presidential Decree of the same Law regarding the 30% Overseas Assignment Allowance Exclusion was not extended, and the 30% Overseas Assignment Allowance Exclusion is no longer available as of January 1, 2010.

As previously announced, the flat income tax rate election sunset provision was extended to December 31, 2012. The flat income tax rate, i.e., 16.5% including local inhabitant tax surcharge, is an election which is made at the end of the tax year when filing the year-end tax settlement for salary income and/or annual global income tax return.

Deloitte's View

As the flat income tax rate is a year-end election, monthly income tax withholding, which is required if employment costs are ultimately borne by a Korean entity, should be operated based upon the regular progressive global income tax rates. Previously, the 30% Overseas Assignment Allowance Exclusion was factored into the monthly income tax withholding calculation. Without the 30% exclusion, monthly income tax withholding is likely to increase significantly, especially for high income earners who have benefitted from the

flat tax rate in previous tax years.

Companies should reevaluate projected cash flow for the increased monthly Korean income tax withholding for assignees posted to Korea for tax years 2010 and later.

Phaseout of earned income tax exemption for qualified foreign technicians/engineers

The following changes have been finally approved by Korea's National Assembly regarding phaseout of the earned income tax exemption for wages received from a domestic Korean entity by a qualified foreign technician/engineer providing services in Korea to the domestic Korean entity.

If a qualified foreign technician/engineer started employment in Korea prior to January 1, 2010, the earned income tax exemption will remain 100% for the application period, which may not exceed five (5) years.

For qualified foreign technicians/engineers starting employment in Korea from January 1, 2010 through December 31, 2011, the earned income tax exemption shall be reduced from 100% to 50%. Such an exemption from Korean income tax for qualified foreign technician/engineer shall be limited to two (2) years.

For foreign technicians/engineers starting employment in Korea January 1, 2012 and later, the qualified foreign technician/engineer tax exemption shall no longer be available.

Deloitte's View

Companies having employees eligible for the qualified foreign technician/engineer tax exemption should evaluate the impact of the tax exemption phaseout.

Income tax rate reduction previously approved to be postponed for two years

On December 28, 2008, Korea's National Assembly approved a global income tax rate reduction which included a two percent reduction in the lowest tax bracket effective January 1, 2009, a one percent reduction in the middle income tax brackets each year for 2009 and 2010, and a two percent reduction in the highest tax bracket to be effective January 1, 2010.

In early December 2009, due to pressure from opposition political parties, the National Assembly Fiscal Planning Committee proposed to amend the income tax reduction approved December 28, 2008. The proposed amendment would freeze

the tax rate for the highest global income tax bracket at its current level for the next two years.

The proposed amendment was approved by the National Assembly on December 31, 2009 and the income tax rate for the highest global income tax bracket for taxable income over 88,000,000 Korean Won will remain at its current level of 35% through December 31, 2011.

Additionally, there is a local inhabitant tax surcharge of 10% of the national global income tax liability. Therefore, the incremental tax rate for taxable income over 88,000,000 Korean Won would remain at the current 38.5%.

The revised progressive global income tax rates including the local inhabitant tax surcharge ("Combined Tax Rates") are presented in the following table:

Annual Taxable Income	Combined Tax Rates		
	2008	2009	2010
Less than KRW 12 Million	8.8%	6.6%	6.6%
KRW 12 – 46 Million	18.7%	17.6%	16.5%
KRW 46 – 88 Million	28.6%	27.5%	26.4%
Over KRW 88 Million	38.5%	38.5%	38.5%

Deloitte's View

Companies should reevaluate projected Korean income tax costs for assignees posted to Korea to include the amended tax rate.

People to Contact

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