Yulchon Legal Update

September 2025

2025 Tax Law Amendment Proposal - International Tax

On July 31, 2025, the Korean Ministry of Economy and Finance released the 2025 Tax Law Amendment Proposal, which includes reversing tax cuts implemented under the Yoon Suk Yeol administration by increasing the corporate tax rates and securities corporate income tax rates, and introducing a qualified domestic minimum top-up tax ("**QDMTT**") under the Korean Global Anti-Base Erosion ("**GloBE**") rules. The proposed amendments are subject to approval by the National Assembly (Korean Parliament) and, if approved, will mostly become effective from January 1, 2026.

The new administration under President Lee Jae Myung made it clear in the 2025 Tax Law Amendment Proposal that it would work to reduce the fiscal deficit left by the previous government while laying a foundation for economic growth through targeted tax incentives for national strategic technologies.

We have summarized the key proposed changes which relate to international tax or may have an impact on multinational enterprises ("**MNEs**") with investments or operations in Korea. We will monitor the developments of the legislative process and provide additional updates if there are any significant changes to the proposed amendments.

1. Corporate income tax rates reverting to 2022 rates (Corporate Income Tax Act ("CITA") §55(1))

The 2025 Tax Law Amendment Proposal includes a 1% increase in corporate income tax rates across all brackets, effectively restoring them to the rates that applied in 2022.

[Table 1: Corporate income tax rates by year] (*)

Tax base	2022	2023-2025	Proposed amendment
Up to KRW 200 million	10%	9%	**10%**
KRW 200 million - 20 billion	20%	19%	**20%**
KRW 20 billion - 300 billion	22%	21%	**22%**
Over KRW 300 billion	25%	24%	**25%**

(*) A local income surtax - equal to 10% of the corporate income tax - is imposed separately.

The increased corporate income tax rates will apply to fiscal years beginning on or after January 1, 2026.

2. Securities transaction tax rates reverting to 2023 rates (Securities Transaction Tax Act Enforcement Decree §5)

The securities transaction tax rates, which had been gradually reduced each year from 0.30% in 2019 to 0.15% in 2025 (including the special tax for rural development), will be restored to 0.20%, the rate in effect in 2023. This proposed amendment follows the repeal of the financial investment income tax, which was the basis for the earlier securities transaction tax rate reductions.

[Table 2: Securities transaction tax rates by year]

	2019	2020	2021	2022	2023	2024	2025	Proposed amendment
KOSPI	0.15%	0.10%	0.08%	0.08%	0.05%	0.03%	0%	**0.05%**
Special tax for rural development	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	**0.15%**
KOSDAQ	0.30%	0.25%	0.23%	0.23%	0.20%	0.18%	0.15%	**0.20%**

The increased securities transaction tax rates will apply to share transfers executed on or after the effective date of the Enforcement Decree.

3. Introduction of QDMTT under the Korean GloBE rules (Law for Coordination of International Tax Affairs ("LCITA") §73-2 newly introduced)

Following the OECD's Pillar Two model rules for domestic implementation of the 15% global minimum tax, Korea is introducing a domestic minimum top-up tax ("**DMTT**").

The DMTT applies first, at the level of source jurisdiction, in respect of any low-taxed profits arising in that jurisdiction; the income inclusion rule ("**IIR**") and the under-taxed profits rule ("**UTPR**") only apply in respect of any remaining low-taxed profits (after the DMTT). Accordingly, if the effective tax rate of a Korean constituent entity of an MNE group falls below 15%, the low-taxed excess profits of that Korean constituent entity will be brought into tax in Korea under the DMTT, before those excess profits can be taxed in the jurisdiction of the ultimate parent entity under the IIR or in the jurisdictions of other constituent entities within the same MNE group under the UTPR.

The OECD and Korean GloBE rules apply to MNE groups that have revenues equal to or in excess of the EUR 750 million in two of the past four years. The Korean DMTT applies to constituent entities located in Korea that are members of MNE groups subject to the Korean GloBE rules. Unlike the IIR, the DMTT also

applies to Korean constituent entities of an MNE group whose ultimate parent entity is located in Korea (including the ultimate parent entity itself). To secure Korea's taxing rights over certain special entities, an exceptional rule will also be introduced to treat stateless constituent entities (e.g., transparent entities established or registered in Korea) as if they were located in Korea, requiring them to separately calculate a DMTT liability.

The newly introduced DMTT will be structured to meet the requirements of a QDMTT (qualified domestic minimum top-up tax) under the OECD's Commentary to the Pillar Two GloBE rules. This means that a DMTT paid in Korea will be fully creditable when MNE groups determine their top-up tax liability under the GloBE rules in other jurisdictions.

Korea already has a minimum tax regime (17% for large corporations) under the Act on Restriction of Special Taxation (often referred to as the Tax Preferential Control Act ("**TPCA**")). Further, in 2019, corporate tax reductions and exemptions for foreign-invested companies were abolished. As a result, the Korean DMTT is expected to apply only to a limited number of companies; specifically, those not subject to the TPCA minimum tax but benefiting from significant tax incentives, such as the tax credit for relocation to non-metropolitan / regional areas.

The Korean DMTT will apply to fiscal years beginning on or after January 1, 2026.

4. Expansion of the scope of assets subject to exit tax (Personal Income Tax Act ("PITA") §118-9 – §118-18)

Under the PITA, if a controlling shareholder of a Korean company (as defined in PITA Enforcement Decree §167-8(1)) permanently relocates to a foreign country, the shareholder is deemed to have sold his or her shares on the date of departure and is taxed on the capital gain arising from such deemed disposal. The purpose of such "exit tax" is to prevent residents from avoiding capital gains tax on shares by changing their tax residency. Accordingly, exit tax only applies when a resident becomes a non-resident for tax purposes.

In light of growing overseas investments by Korean residents, the 2025 Tax Law Amendment Proposal adds foreign shares to the scope of assets subject to exit tax. Notably, unlike Korean shares, exit tax on foreign shares will apply regardless of whether the shareholder is a controlling shareholder or not. This approach is consistent with the fact that, unlike Korean shares, foreign shares are subject to capital gains taxation in Korea regardless of whether the shareholder selling the shares is a controlling shareholder or not.

The exit tax on foreign shares will apply to residents permanently leaving Korea on or after January 1, 2027. This amendment is likely to impact the timing of emigration for Korean residents with substantial foreign shareholdings.

5. Additional documentation requirement for transfer pricing-related tax refund claims (LCITA §6(2))

Under the Korean transfer pricing regime, transactions between related parties must be conducted at arm's length. If a related party transaction is not conducted at arm's length, the tax authority can adjust the taxable income and impose additional tax (LCITA §7), and the taxpayer can request a correction of the tax return and a tax refund (LCITA §6), based on the arm's length price.

Currently, the LCITA does not require a corresponding adjustment or additional tax payment in the counterparty jurisdiction as a precondition for tax refund applications. Taxpayers have argued that, in a self-assessment tax system, a request for correction of a tax return and a tax refund should be allowed if taxpayers can reasonably demonstrate that the transaction prices originally reported were incorrect. In practice, however, the tax authority has often treated a corresponding adjustment in the counterparty jurisdiction (or the repatriation of the adjusted income amount) as a *de facto* prerequisite for approving tax refund requests based on transfer pricing adjustments.

The 2025 Tax Law Amendment Proposal formally introduces an additional documentation requirement for transfer pricing-related tax refund claims. Going forward, taxpayers seeking a tax refund based on a transfer pricing adjustment must submit documentation demonstrating that double taxation has arisen as a result of a corresponding adjustment in the counterparty jurisdiction.

The additional documentation requirement will apply to tax refund claims filed on or after January 1, 2026.

6. Expansion of "Korean-sourced dividend income" to include dividend-equivalent payments received through over-the-counter ("OTC") transactions (CITA §93)

Korean securities firms commonly enter into total return swap ("**TRS**") contracts with foreign investors, through which the investors obtain economic exposure to Korean shares without directly purchasing and holding them. Under these TRS contacts, Korean securities firms make payments to foreign investors in amounts equal to the dividends received on the underlying Korean shares, typically on the same day the dividend is paid to the securities firm. However, because these payments take the legal form of TRS proceeds (i.e., swap payments) rather than dividends, they are not subject to Korean withholding tax, unlike dividends. Consequently, there has been ongoing debate over whether such dividend-equivalent payments made under TRS contracts should be deemed to be Korean-sourced dividend income under the substance-over-form principle.

However, tax considerations are not the only reason foreign investors enter into TRS contracts with Korean securities firms. TRS also provides several commercial advantages, such as enabling investors

to gain economic exposure to a larger volume of Korean shares with the same amount of capital, and allowing them to hedge risks inherent in derivatives without directly purchasing the underlying shares. In light of this economic rationale, the Korean Tax Tribunal concluded that, in TRS arrangements, foreign investors cannot be viewed as exercising control over the underlying Korean shares and that dividend-equivalent payments made to foreign investors do not constitute Korean-sourced dividend income under the substance-over-form principle (*Joshim* 2021*Seo*2050, April 18, 2024).

The 2025 Tax Law Amendment Proposal effectively overturns the Tax Tribunal rulings rendered in 2024 by broadening the scope of Korean-sourced dividend income for foreign corporations in Article 93 of the CITA to include "income received through OTC derivative transactions". As a result, going forward, dividend-equivalent payments made by Korean securities firms to foreign investors under TRS contracts will be treated as the investors' Korean-sourced dividend income and be subject to dividend withholding tax in Korea.

The proposed amendment should only apply to TRS payments made by Korean entities (i.e., "onshore" payments), and not to TRS payments made by foreign entities (i.e., "offshore" payments), because Article 93 of the CITA only captures 'amounts paid by Korean entities'. In other words, where a foreign securities firm passes on to a foreign investor an amount equivalent to a dividend received from a Korean company under a TRS, that payment should fall outside the scope of the amendment and should not be regarded as Korean-sourced dividend income.

This amendment will apply to payments made on or after January 1, 2026.

7. New administrative penalty for Korean liaison offices of foreign corporations that fail to comply with annual information reporting requirements (CITA §125)

In 2022, an annual information reporting requirement was introduced for Korean liaison offices of foreign corporations (CITA § 94-2). Each year, a Korean liaison office is required to submit specified information regarding the liaison office itself, the foreign headquarters and its Korean subsidiaries, and details of the counterparties to its Korean transactions. However, since no enforcement measures were in place for failure to comply with this annual reporting obligation, many liaison offices have not so far submitted the required information to the Korean tax authority.

The 2025 Tax Law Amendment Proposal introduces an administrative penalty up to KRW 10,000,000 for Korean liaison offices of foreign corporations that fail to the required information or submit false information (specific penalty amounts will be prescribed by Presidential Decree).

The proposed penalty will apply from January 1, 2026.

8. Withholding agents' obligation to submit reduced treaty rate applications to the tax authority (PITA §156-6, PITA Enforcement Decree §207-8(8), CITA §98-6, CITA Enforcement Decree §138-7(8))

Currently, non-resident taxpayers seeking to apply a reduced withholding tax rate under an applicable tax treaty (between Korea and their country of residence) are required to provide an "Application for Reduced Treaty Rate on Korean-Sourced Income" and an "Overseas Investment Vehicle Report" (if applicable), together with specified attachment(s), to the relevant withholding agent (i.e., the income payor in Korea). Upon receipt of the application form(s) and attachment(s), the Korean withholding agent is only required to keep them on file for 5 years and does not have an obligation to submit them to the tax authority.

Going forward, withholding agents will be required to annually submit to the tax authority the application forms ("Application for Reduced Treaty Rate on Korean-Sourced Income" and, if applicable, "Overseas Investment Vehicle Report") and any attachments received from non-resident individuals and corporations seeking to apply reduced treaty rates. The submission deadline is the last day of February of the year following the year in which the non-resident taxpayer receives the relevant Korean-sourced income.

The proposed amendment will apply to applications filed on or after January 1, 2026.

9. New tax deferral for capital gains from in-kind contribution of foreign subsidiary shares to a foreign company (TPCA §38-3, TPCA Enforcement Decree §35-5)

Under the 2025 Tax Law Amendment Proposal, where a Korean company (the "**contributing company**") contributes shares of a foreign subsidiary (the "**contributed asset**") to a foreign company (the "**recipient company**"), the capital gain arising from such in-kind contribution may be deferred for 4 years and be subsequently taxed over a 3-year period. In order to qualify for the proposed tax deferral, the following conditions must be satisfied.

[Table 3: Requirements for deferring tax on capital gains from in-kind contribution of foreign subsidiary shares to a foreign company]

	Requirements
1	The "contributing company" must be a Korean company that has continuously been in business for at least 5 years.
2	The "contributed asset" must be shares of a foreign subsidiary in which the contributing company holds an equity interest of 20% or more.
3	The "recipient company" must be a foreign company that satisfies both of the following conditions: (a) at least 80% of its equity interest is held by the contributing company; and (b) it continues, until the end of the relevant fiscal year, to carry on the business conducted (before the in-kind contribution) by the foreign subsidiary whose shares it receives as the contributed asset.

If, after benefiting from the tax deferral, (i) the contributing company disposes of the shares of the recipient company, (ii) the recipient company disposes of the contributed shares, or (iii) the contributing company, the recipient company, or the foreign subsidiary (whose shares were contributed) discontinues its business or is liquidated, the contributing company must recognize the deferred capital gain as taxable income in the year in which such event occurs.

The special tax deferral will apply to in-kind contributions made on or after January 1, 2026, and will be available until December 31, 2028.

10. Inclusion of artificial intelligence ("AI") technologies in the scope of national strategic technologies eligible for tax credits (TPCA Enforcement Decree, Annex 7-2 and Annex 6-2)

As of March 14, 2025, the TPCA was amended to include AI-related technologies in the scope of national strategic technologies eligible for tax credits. Accordingly, both "AI-related technologies designated as national strategic technologies" and "facilities for the commercialization of such designated AI-related technologies" were specifically added to the list of technologies and facility investments eligible for tax credits.

[Table 4: AI-related technologies designated as national strategic technologies]

Technology	Details
Generative AI technology	Development of AI foundation models that generate text, images, etc.
Agent AI technology	Application of AI for autonomous actions and operation of industrial processes through integration with machinery and equipment
Advanced learning and reasoning technology	Enhancement of AI performance using learning algorithms (e.g., meta-learning, reinforcement learning)
Low-power / high-efficiency AI computing technology	Lightweighting and optimization to enable efficient operation even on small-scale devices
Human-centered AI technology	Supporting human understanding of AI decision-making processes and outcomes

[Table 5: Facilities for the commercialization of AI-related technologies designated as national strategic technologies]

Commercialization facility	Details
Data centers	Data centers supporting qualified AI services (services relating to AI technologies designated as national strategic technologies)

The proposed amendment will apply to investments made on or after January 1, 2025.

Related Areas

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