

Taxation of expatriate employees in Korea

Expatriates taking up employment in Korea will be subject to the comprehensive tax rules and employment visa requirements. Grant Thornton's Expatriate Tax team can help expatriates and their employers in dealing with Korean tax and employment visa matters.

In particular Grant Thornton can assist expatriates and their employers in identifying Korean tax planning opportunities and provide compliance services regarding Korean tax filing requirements.

Pre-arrival procedures

Expatriates who require a work visa must apply for this before taking up employment in Korea. It is therefore important that the expatriate's employment contract and benefit package is structured in a tax-efficient manner before the contract is submitted to the Korean Immigration Department.

Employment visas

Under the requirements of the Immigration Authorities, expatriates taking up employment in Korea must apply for an employment visa before commencing employment.

If the expatriate's spouse and dependent family relocate to Korea, they will require dependent visas. It should be noted that spouses entering Korea on dependent visas are not normally allowed to take up employment in Korea and must apply for a separate employment visa if they wish to work in Korea.

Tax year

The Korean fiscal year runs from 1 January to 31 December.

Charge to tax

In general, resident individuals are taxed on their worldwide income. On the other hand, non-resident individuals are taxed only on Korean source income, which includes salary for work during their stay in Korea as an employee, regardless of where the payment is made.

Effective from January 1, 2009, however, resident individuals who have stayed in Korea for 5 years or shorter during the last 10 year period are taxed on Korea source income and foreign source income only if the foreign source income is paid by a Korean entity or transferred to Korea.

Residence

A resident is any individual who has his or her domicile in Korea, or has a place of residence for one year or more in Korea.

Income from employment

Income from employment is subject to Income Tax.

Source of employment

Income from employment ordinarily has its source in the place in which the services are performed.

Taxable compensation

The definition of income for Income Tax purposes includes wages, salaries, bonuses, gratuities, benefits in kind and allowances if these are received as a reward for services.

Wages and salaries income is divided into Class A salary income and Class B salary income depending on the source and payment method. For Class A salary income, the employer is required to withhold and pay income tax on a monthly basis and this should be settled in the year-end tax settlement, on a yearly basis. For Class B salary income, the taxpayer is required to file his own individual tax return on an annual basis, or alternatively, he or she may join a licensed Class B Taxpayers Association which withholds and pays income taxes on a monthly basis. Those who join an association are eligible for a 10% tax reduction.

Benefits in kind

Most allowances for services are taxable. Non-taxable fringe benefits include the following:

- house rental, if the rental agreement is made between the employer and the landlord
- automobile, if owned or leased by the employer for business purpose
- meal cost of less than 100,000 Won per month.

Expatriate concessions

In accordance with the Special Tax Treatment Control Law, a foreign employee can select one of the following two incentives:

- a flat tax rate of 15% with no tax exemption, deduction, and credit
- graduated tax rate after applying 30% deduction of salary income.

Wages received by qualifying foreign engineers and technicians in accordance with the Special Tax Treatment Control Law are non-taxable for five years.

Relief for working outside Korea

For a resident in Korea, up to 1,000,000 Won (1,500,000 Won for overseas fishing ship sailor) of monthly receivables for services provided overseas is not taxable. For a non-resident in Korea, non-Korean source income is not taxable in Korea.

Deductions against compensation

A salary income earner is eligible to deductions on wage & salary income as follows:

Wage & salary (W)	Rate (%)	Cumulative deduction
up to 5,000,000	80	4,000,000
5,000,001 - 15,000,000	50	9,000,000
15,000,001 - 30,000,000	15	11,250,000
30,000,001 - 45,000,000	10	12,750,000
over 45,000,000	5	-

Basic Deduction: Residents are entitled to annually deduct an amount equivalent to 1 million Won multiplied by the number of persons in the taxpayer's family.

Additional Deduction: When a person who qualifies for basic deductions (self, his/her spouse, dependents) falls under specified situations for e.g. handicapped persons, 1 million Won or 2 million may be deducted respectively.

Additional allowance for children: Residents who have two children as dependents deduct 0.5 million Won and additionally deduct an amount equivalent to 1million Won multiplied by the number of children over 2 children (*i.e.*, 0.5m for 2 children, 1.5m for 3 children, and 2.5m for 4).

Special deduction: Wage and salary income earners may deduct qualifying expenses such as insurance premiums, medical expenses, domestically incurred educational expenses, donations and others from taxable income.

Tax credit for salary & wage income: The following amounts shall be credited against global income tax charged on wage and salary income. Where the amount of credit exceeds 500,000 Won, the credit is limited to 500,000 Won.

Total tax (KRW) Amount of tax credit

Up to 500,000 55% of total tax
Above 500,000 ₩275,000 +30% of amount over 500,000

Income tax rates for 2009

Taxable income (KRW)	Rate (%)	Cumulative tax (KRW)
	6	720,000
12,000,001 – 46,000,000	16	6,616,000
46,000,001 – 88,000,000	25	16,660,000
Over 88,000,000	35	-

A resident surtax (10% of the income tax amount) will be added to the above individual income tax.

Tax returns and compliance

There are two filing deadlines: 10 March for salary and wage income earners (employer's responsibility) and 31 May for individuals earning global income. Taxes are due by the respective dates mentioned above.

Social security taxes

This covers contributions towards Employment Insurance, National Health Insurance, National Pension and Industrial Accident Compensation Insurance. For foreign employees, contribution towards the Employment Insurance and the National Pension is dependent on the type of visa the foreign employee holds and, his nationality. The National Health Insurance and the Industrial Accident Compensation Insurance for foreign employees are compulsory.

Investment income

Tax liabilities on investment income and dividends are finalised by the manner of withholding tax, unless a combined income of dividend and interest for a year exceeds 40 million won, in which case it is subjected to the aggregate income taxation.

Capital gains

Gains arising from the disposal of capital assets are taxable but are taxed separately from the aggregate income at a different tax rate. Certain capital gains resulting from certain transfers prescribed by Individual Tax Law, such as the transfer of farmland, are exempt from tax.

Local taxes

Resident surtax is imposed on the income of individuals in Korea.

Property taxes

A yearly tax ranging from 0.07% to 4% percent (and surtaxes) is charged on the statutory value of houses, buildings, land, vessels and aircrafts.

Estate and gift taxes

Where an inheritee or a donee is a resident in Korea at the time of death or donation, the estate or the gift tax would be imposed on all property whether located inside or outside Korea. Where an inheritee or donee is a non-resident, the estate or gift tax would be imposed on his/her property in Korea.

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