Korea:
Changes made to flat rate income tax regime for foreign employees

In December 2016, the Korean National Assembly approved changes to the income tax law that included revisions to the flat income tax rate regime for foreign employees working in Korea. The changes to the regime limit the period in which a foreign employee can qualify for the flat tax rate. Additional information is now available on how the limitation will be applied, and on an increase in the flat income tax rate. The changes are effective as from 1 January 2017.

Under the Tax Incentives Limitation Law, foreigners are allowed to elect a flat income tax rate as an alternative to the regular, progressive individual income tax rates (ranging from 6% to 40% (6.6.% to 44%, including a local income tax surcharge)) when calculating the individual income tax liability on earned income. If a flat tax rate is elected, it is applied as a withholding tax to all gross income earned in Korea, with no deductions, income exclusions or tax credits allowed.

In connection with numerous tax law revisions designed to achieve fair and equal taxation, the Ministry of Strategy and Finance approved increasing the flat income tax rate to 20.9% (including a local income tax surcharge of 1.9%) from 18.7%, to reduce the taxation disparity between Korean nationals and foreign taxpayers.

The application of the flat income tax rate election is limited to a maximum of five years from the start date of Korean employment for foreign employees arriving in Korea for the first time on any day between 1 January 2014 and 31 December 2018. For example, if a foreign employee started work in Korea on 1 March 2016, that employee is eligible to elect the flat income tax rate through the end of tax year 2020.

For cases in which a foreign employee began working in Korea before 1 January 2014, the flat income tax rate election will be allowed until the end of 2018, even if five years have elapsed from the date the employee began working in Korea.

Foreign employees starting work in Korea after 1 January 2019 are not eligible for the flat income tax rate, unless they work for “qualified regional headquarters” of foreign companies.

Companies should take into account their foreign employees’ eligibility period to qualify for the flat income tax rate, since this could have a significant impact on the overall tax costs for the deployment. Companies also should ensure that the relevant income tax is withheld.

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