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KEY TRENDS IN THE RECENT REFORM OF KOREA'S TAX AUDIT SYSTEM

On April 2, 2026, in connection with the 60th anniversary of its establishment, the National Tax Service ("NTS") officially designated 2026 as the "Inaugural Year of a Great Transformation" in tax audits and announced a plan to fundamentally reform the manner in which tax audits are conducted.

This announcement forms part of a broader and ongoing series of institutional reforms. Beginning in the second half of 2025, the NTS has introduced significant changes across the tax audit framework, including the minimization of on-site resident tax audits, the deferment of periodic tax audits for foreign-invested companies, the full-scale introduction of the audit timing selection system for periodic tax audits, and the prior disclosure of key tax audit focus areas to enhance transparency. These measures share a common objective: creating a more taxpayer-friendly tax audit environment while at the same time concentrating investigative resources and strengthening enforcement capabilities against malicious and sophisticated tax evasion.

The annual number of tax audits is expected to remain at approximately 14,000 in 2026, consistent with recent years. The number of audits stood at 13,973 in 2023, 13,980 in 2024, and 14,000 in 2025. At the same time, the NTS has indicated that it intends to operate the system flexibly, taking into account domestic and international economic conditions, staffing levels, and the specific need for tax audits. Against this backdrop, the principal reform trends and their practical implications are discussed below.

I. AUDIT TIMING SELECTION SYSTEM FOR PERIODIC TAX AUDITS

1. Overview

Beginning in April 2026, taxpayers selected for periodic tax audits will receive notice from the NTS regarding the Audit Timing Selection System, under which they may select their preferred month for the audit within a three-month window. Taxpayers may designate both a first and a second preference. Separately, a formal advance notice will be issued at least 20 days before the actual commencement of the tax audit.

2. Practical Implications

The introduction of the Audit Timing Selection System allows taxpayers to coordinate the timing of a tax audit so as to avoid particularly sensitive business periods, such as year-end closing or annual general meetings of shareholders. This marks a meaningful departure from the previous system, under which taxpayers were generally required to respond immediately to an audit schedule unilaterally determined by the NTS.

More fundamentally, because the new system institutionally guarantees taxpayers a certain preparation period before the commencement of a tax audit, the manner of responding to tax audits is likely to shift from ex post explanation to advance preparation.

As a result, proactive tax risk management will become even more important, including reviewing related-party transactions, confirming eligibility for tax credits, and verifying supporting documentation for qualified expenditures.

Accordingly, both corporations and individual business owners may wish to consider conducting a pre-tax audit in order to identify potential issues and likely audit focus areas in advance. At the same time, it should be noted that a pre-tax audit report, by its nature, may identify key issues or contentious matters and therefore may create a risk of being used as evidence in a subsequent tax audit. In light of this risk, it will be important to consider ways to protect such materials from compelled disclosure, including through the use of attorney-client privilege. Under these circumstances, taxpayers may wish to consider engaging a law firm, or pursuing a collaborative advisory arrangement between a law firm and an accounting or tax firm, in order to put those protections in place.

II. MINIMIZATION OF ON-SITE RESIDENT AUDITS

1. Overview

From 2025 onward, the long-standing practice of on-site resident tax audits, which had continued for approximately 60 years, has formally been repositioned as an exceptional measure. This change reflects the current environment in which the widespread use of electronic records, including ERP systems, and advances in tax administration capabilities have made it possible for the NTS to conduct sufficiently thorough investigations without requiring investigators to remain physically present at a company's premises.

Going forward, on-site audits are expected to be conducted only in limited circumstances, specifically where a taxpayer prefers an on-site audit due to concerns regarding the leakage of trade secrets or the burden of repeated visits to tax offices, or in exceptional cases such as where the taxpayer fails, or delays, in submitting requested materials. In contrast, "office audits" conducted within NTS facilities are expected to become the standard format for periodic tax audits.

2. Practical Implications

On its face, the reduction of on-site audits may be viewed as a favorable development because it alleviates the psychological pressure and business disruption associated with the prolonged physical presence of an audit team. However, this shift also strongly suggests that the NTS's data analytics and investigative capabilities have reached a significantly more advanced level.

Sophisticated analytical frameworks now enable the NTS to identify tax evasion patterns through the use of long-accumulated data and a wide range of external tax information. As a result, the appropriateness of transactions, the business relevance of corporate expenditures, and the consistency between supporting documentation and actual transaction details can now be examined with greater precision and breadth than in the past.

In practical terms, issues that could previously be addressed through informal oral explanations during an on-site audit may increasingly need to be substantiated through

systematically organized documents and data. Far from reducing the compliance burden, this may in some cases increase the burden on taxpayers. The timely and accurate submission of requested information is therefore likely to become an even more critical factor in effective tax risk management.

This development is especially significant in light of the newly introduced enforcement fine regime for non-compliance with document requests. For tax audits commencing on or after September 15, 2025, the amended Framework Act on National Taxes (Article 85-7) permits the imposition of enforcement fines where taxpayers fail to comply with tax audit requests for materials. The imposition period runs from the day following the compliance deadline until the day immediately preceding the taxpayer's full submission of the requested materials. However, even if the deadline for performance has passed, a non-compliance penalty will not be charged if you submit the required books and records within 30 days after the original deadline (Article 67-4, Paragraph 1, Enforcement Decree of the Framework Act on National Taxes).

Following deliberation by the Enforcement Fine Deliberation Committee, enforcement fines may be imposed repeatedly and without a statutory upper limit. The amount is determined by applying a specified rate to the taxpayer's average daily revenue, calculated on the basis of the preceding three fiscal years, and accrues daily from the day after the compliance deadline until the taxpayer fully complies or until the audit is terminated.

- The daily enforcement fine is calculated as follows:
- For average daily revenue of KRW 1.5 billion or less: average daily revenue \times 1/500
- For average daily revenue exceeding KRW 1.5 billion but not exceeding KRW 3 billion: KRW 3 million + (average daily revenue exceeding KRW 1.5 billion \times 1/750)
- For average daily revenue exceeding KRW 3 billion: KRW 5 million + (average daily revenue exceeding KRW 3 billion \times 1/1,000)

In order to challenge the imposition of such an enforcement fine, the taxpayer must generally do so through administrative litigation. This means that the taxpayer must first pay the fine and contest it afterward, which differs from the treatment of ordinary administrative fines, for which payment may generally be withheld until a final and conclusive court decision is rendered.

III. PRIOR DISCLOSURE OF KEY VERIFICATION ITEMS

1. Overview

In April 2026, the NTS, for the first time in its history, selected and publicly disclosed 10 key tax audit focus areas, namely core categories of tax issues that have repeatedly resulted in tax assessments during recent audits. These categories were identified through an analysis of recent tax audit results. The NTS has also made available detailed reference materials, including cautions by category, actual cases of taxation, and Q&A materials, through its website and the Tax Audit Guidebook.

The 10 disclosed tax audit focus areas are as follows:

- Personal use of corporate or business credit cards
- Omission of sales reporting through personal accounts of representatives or others
- Arbitrary waiver of receivables or similar claims without justifiable reason
- Recording fictitious labor costs for non-existent employees
- Improper tax credits for R&D and human resource development
- Omission of deemed interest calculations with respect to temporary payments or similar items
- Treatment of capitalizable expenditures as current-period expenses
- Issuance or receipt of tax invoices that do not correspond to actual transactions
- Errors in distinguishing between VAT-taxable and VAT-exempt transactions
- Omission of VAT reporting on personal supply and similar items

2. Practical Implications

The prior disclosure of these tax audit focus areas is a positive development in that it gives taxpayers an opportunity to engage in self-diagnosis. At the same time, the importance of this reform should not be understated. Because the NTS has now expressly identified these recurring issues as formal focus areas for verification, audits in these areas are likely to become more systematic and more intensive.

Taxpayers should therefore consider formalizing internal review procedures with respect to these focus areas before filing and should ensure that relevant supporting evidence, business records, and explanatory materials are systematically organized and retained.

IV. DEFERMENT OF PERIODIC TAX AUDITS FOR FOREIGN-INVESTED COMPANIES EXPANDING DOMESTIC INVESTMENT

1. Overview

Since December 2025, the NTS has offered a deferment of periodic tax audits for up to two years for foreign-invested companies that are expanding their domestic investment in Korea. Eligible companies are those established by foreign investors under the Enforcement Decree of the Foreign Investment Promotion Act and that plan to increase investment by 10% or more, in the case of SMEs, or by 20% or more, in the case of middle-market enterprises, compared with the previous year. If an eligible foreign-invested company applies for such deferment after receiving an advance notice of a tax audit, the periodic tax audit may be postponed for up to two years. One notable feature of this measure is that the scope of eligibility has been expanded from SMEs to include middle-market enterprises as well.

2. Practical Implications

Because the deferment of periodic tax audits for foreign-invested companies effectively operates as a tax administration incentive linked to expanded investment in Korea, foreign-invested companies with plans to increase their domestic investment should actively consider whether they may benefit from this regime. Since the deferment may be granted even after a taxpayer has already received an advance notice of a tax audit, it will be important for taxpayers to maintain the relevant factual records, eligibility criteria, and supporting evidence on an ongoing basis so that they can promptly determine whether they satisfy the investment expansion requirements at the relevant time.

V. THREE-PART PACKAGE FOR DEFERMENT OF PERIODIC TAX AUDITS TO ENCOURAGE BUSINESS GROWTH

In addition to the above measures, the NTS has also introduced or expanded several tax audit deferment programs as part of a broader policy package intended to encourage business growth.

1. New Audit Deferment for Small Businesses Contributing to Price Stability

A new tax relief measure has been introduced for small business owners who contribute to price stability in the context of high exchange rates and inflation. This system applies to Affordable Price Businesses, which are selected following full review by the relevant government agencies, including the Ministry of the Interior and Safety. The purpose of this measure is to alleviate the tax burden on small business owners who contribute to stabilizing people's livelihoods. As a result, entities covered by the Affordable Price Business program are expected to face a reduced risk of tax audits.

2. Extension of Audit Deferment for Export-Oriented SMEs

Tax relief for SMEs with export competitiveness continues amid the restructuring of the global trade environment. The application period for the Audit Deferment for Qualified Export-Driven SMEs has been extended by one year. This measure applies to SMEs whose exports account for more than 30% of total sales or whose export performance exceeds KRW 5 billion. This may be understood as a policy measure intended to reduce the management burden on export-oriented businesses and preserve export vitality amid continuing volatility in the external economic environment.

3. Expansion of the Scope of Startups Eligible for Tax Audit Deferment

The "Start-up Audit Deferment" regime, which had previously been limited to startups within five years of commencement of business, will be expanded to include companies within ten years of commencement. This expansion is intended to reduce the burden of tax audits during the early stages of business growth, thereby allowing startups to establish a more stable foundation for growth and reflecting an ongoing policy commitment to supporting the startup ecosystem.

VI. CONCLUSION

Taken together, these developments indicate that the NTS is seeking to reshape the tax audit system in two parallel respects. On the one hand, the NTS appears to be attempting to reduce certain practical burdens on compliant taxpayers by improving transparency, providing greater flexibility in audit scheduling, and expanding selected deferment measures. On the other hand, these reforms also reflect the emergence of a more sophisticated, data-driven, and targeted audit model, under which taxpayers may face more rigorous scrutiny supported by stronger analytical tools and more robust procedural mechanisms for requesting information.

Accordingly, taxpayers should not view these reforms merely as a relaxation of the audit environment. Rather, they underscore the increasing importance of advance preparedness, systematic internal review, document management, and careful control of tax risk areas that are likely to attract attention in future tax audits.

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