August 11, 2026

2026 PROPOSED TAX AMENDMENTS RELATED TO INTERNATIONAL TAXATION

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On August 3, 2026, Korea's Ministry of Finance and Economy(MOFE) announced this year's tax law amendment proposal. As a follow-up measure, the Korean government announced a legislative notice for 11 related tax law amendment bills, and plans to submit the final amendments to the regular National Assembly session in early September after deliberation by the State Council. In this newsletter, we explain selected items from the amendment proposal that may be of interest to foreign investors.

I. INCORPORATION OF "SIDE-BY-SIDE PACKAGE" INTO KOREAN TAX LAW

On January 5, 2026, the OECD Inclusive Framework (OECD IF) approved and announced the "Side-by-Side Package," a package of measures relating to the Global Minimum Tax(GMT). This Package concretizes the agreement reached on June 28, 2025, between the United States and other G7 countries' finance ministers, and its key elements include the establishment of a Side-by-Side(SbS) System, greater alignment with the United States' similar regime. This Package also includes preferential treatment for substance-based tax benefits, and the various safe harbours for the purpose of simplifying Global Minimum Tax calculations. In this tax reform package, the Korean government has incorporated the key provisions of this Package into the Law for Coordination of International Tax Affairs (LCITA).

1. Introduction of Side-by-Side(SbS) Safe Harbour (Article 80(5) of the LCITA)

If the Ultimate Parent Entity(UPE) of an MNE Group is located in a jurisdiction with a Qualified SbS regime, the Top-up Tax arising under the Income Inclusion Rule (IIR) or the Undertaxed Profits Rule (UTPR) in respect of that group's Constituent Entities shall be deemed to be zero. The requirements for a Qualified SbS Regime are: (1) an eligible domestic tax system; (2) an eligible worldwide tax system; (3) a foreign tax credit for Qualified Domestic Minimum Top-up Taxes (QDMTTs) on the same terms as any other creditable Covered Tax; and (4) enactment of the eligible domestic and worldwide tax systems prior to 1 January 2026 (or a later date under the Inclusive Framework's assessment procedure).

According to the OECD IF's Side-by-Side Package, the requirements for qualifying as "① an eligible domestic tax system" are: (i) a statutory nominal corporate income tax (CIT) rate of at least 20%, after taking into account preferential adjustments and sub-national corporate income taxes; (ii) a QDMTT or a corporate alternative minimum tax based on financial statement income at a nominal rate of at least 15%, applicable to a substantial portion of the aggregate income of in-scope MNE Groups' operations in the jurisdiction; and (iii) no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax on the overall profits of their domestic operations below 15%.

Furthermore, the requirements for qualifying as "② an eligible worldwide tax system" are: (i) comprehensive tax regime applicable to all resident corporations on foreign income, covering the active and passive income of foreign branches and controlled foreign companies whether or not distributed; (ii) substantial mechanisms which operate unilaterally to address BEPS risks; and (iii) no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax on the overall profits of their foreign operations below 15%.

This provision applies to a GloBE Information Return (GIR) filed, or a Top-up Tax allocation reported, on or after January 1, 2027. For a jurisdiction that enacted its eligible domestic tax system and eligible worldwide tax system prior to January 1, 2026 and that the OECD IF has determined to have a Qualified SbS Regime (as listed on the Central Record), the safe harbour applies to Fiscal Years commencing on or after January 1, 2026. For a jurisdiction determined by the OECD IF to have a Qualified SbS Regime after that date, the safe harbour applies from the later Fiscal Year listed for it on the Central Record.

Once Korea legislates a Side-by-Side Safe Harbour, U.S. multinational enterprises operating in Korea would not be subject to the application of the Income Inclusion Rule (IIR) or the Undertaxed Profits Rule (UTPR) by the Korean tax authorities.

2. Introduction of the UPE Safe Harbour (Article 80(6) of the LCITA)

If the jurisdiction where the Ultimate Parent Entity is located has the "eligible domestic tax system" described above (i.e., (i) a statutory nominal corporate income tax rate of 20% or higher, (ii) a QDMTT or a corporate alternative minimum tax based on financial statement income at a nominal rate of 15% or higher, and (iii) no material risk of an effective rate of tax below 15% on the overall profits of domestic operations), the Top-up Tax under the UTPR for Constituent Entities located in that jurisdiction shall be deemed to be zero.

This provision applies to GloBE Information Returns filed, or Top-up Tax allocations reported, on or after January 1, 2027, for Fiscal Years commencing on or after January 1, 2026.

3. Introduction of the Substance-based Tax Incentive (SBTI) Safe Harbour (new Article 80(7) of the LCITA; new Article 138-4 of the LCITA Enforcement Decree)

The reduction in Covered Taxes resulting from "Qualified Tax Incentives (QTIs)" is deemed not to have reduced the Adjusted Covered Taxes for the purposes of calculating the Top-up Tax and the QDMTT. Here, a "Qualified Tax Incentive" means a generally available Tax Incentive to the extent that its amount is calculated based on expenditures incurred, or on the amount of tangible property produced in the jurisdiction. For example, this includes tax credits granted based on a certain percentage of a company's expenditures—such as research and development expenses or the cost of acquiring tangible assets— or the volume of tangible property produced in the jurisdiction (e.g., manufacturing output, the production of electricity, and processing activities such as extraction and refining).

In this case, the "amount of a QTI used in the Fiscal Year" is calculated by category as follows.

Category	Amount of QTI Used in the Fiscal Year
Tax Credit	Reduction in the Covered Tax liability due to utilisation of the tax credit
Enhanced allowance or super deduction	Enhanced allowance or super deduction claimed × statutory tax rate
Exemption of income	Income attributable to eligible expenditure that is exempt × statutory tax rate
Preferential tax rate	Income attributable to eligible expenditure × (statutory tax rate – preferential tax rate)

Meanwhile, a Substance Cap applies to Qualified Tax Incentives. The Substance Cap is 5.5% multiplied by the greater of the Eligible Payroll Costs of Eligible Employees performing activities in the jurisdiction or the depreciation and depletion recorded in respect of Eligible Tangible Assets located in the jurisdiction. However, if the MNE Group makes a Five-Year Election for the jurisdiction, the Substance Cap is 1% of the carrying value of Eligible Tangible Assets located in the jurisdiction (excluding land and other non-depreciable assets).

These provisions apply to GloBE Information Returns filed, or Top-up Tax and QDMTT allocations reported, on or after January 1, 2027, and apply to Fiscal Years commencing on or after January 1, 2026.

4. Introduction of the Simplified ETR Safe Harbour (new Article 138-3 of the LCITA Enforcement Decree) and refinement of the scope of the safe harbours (Article 80(4) of the LCITA)

To reduce the compliance burden of the full GloBE computations, a permanent safe harbour based on a Simplified Effective Tax Rate (Simplified ETR), computed from the financial accounting data used to prepare the Consolidated Financial Statements (CFS), will be introduced. Under this system if an MNE Group had no Top-up Tax or QDMTT liability for a Tested Jurisdiction in every Fiscal Year beginning within 24 months before the first day of the Fiscal Year, "Simplified Income" may be used instead of "GloBE Income," and "Simplified Taxes" may be used instead of "Adjusted Covered Taxes," when calculating the effective tax rate for that Tested Jurisdiction. Where the Simplified ETR so calculated is at least the Minimum Rate of 15%, or where the Tested Jurisdiction has a Simplified Loss, the Top-up Tax is deemed to be zero.

However, to the extent the Top-up Tax or QDMTT includes an amount arising from the recalculation of the effective tax rate for a prior Fiscal Year (i.e., Additional Current Top-up Tax), that portion is not deemed to be zero.

This provision applies to GloBE Information Returns filed, or Top-up Tax allocations reported, on or after January 1, 2027, and applies to Fiscal Years commencing on or after December 31, 2026.

5. Amendment to the period of the Transitional UTPR Safe Harbour (Article 138(6) of the LCITA Enforcement Decree)

The "Transitional UTPR Safe Harbour" is provided for in Article 80(3) of the LCITA. Accordingly, notwithstanding Article 70(1) of the LCITA (computation of Top-up Tax for the jurisdiction in which a Constituent Entity is located), where the jurisdiction in which the Ultimate Parent Entity is located has a statutory nominal tax rate of 20% or higher, the Filing Constituent Entity may elect to treat the UTPR Top-up Tax for Low-Taxed Constituent Entities located in that jurisdiction as zero, for Fiscal Years beginning on or before December 31, 2025 and ending on or before December 31, 2026.

The government plans to amend the Fiscal Years to which the above provision applies to those beginning on or before December 31, 2025 and ending on or before January 3, 2027. This is intended to ensure that companies that adopt a fiscal year consisting of 52 or 53 weeks, rather than a calendar year, can also benefit from this provision.

6. Implications

Multinational enterprises subject to the Global Minimum Tax must re-examine the revised safe harbour requirements for each jurisdiction in which their Constituent Entities are located. It is important to note that, due to changes in the various safe harbor requirements, the items and amounts reported on future GloBE Information Returns may differ from those on the 2026 return. Furthermore, it is important to note that the newly established Substance-based Tax Incentive(SBTI) Safe Harbour could significantly improve the effective tax rates for companies that receive expenditure-based or production-based tax credits, such as R&D and capital investment tax credits, in Korea or abroad.

II. EXPRESS INCLUSION OF THE QUALIFIED DOMESTIC MINIMUM TOP-UP TAX (QDMTT) IN THE SCOPE OF THE FOREIGN TAX CREDIT (ARTICLE 94(1) OF THE ENFORCEMENT DECREE OF THE CORPORATE INCOME TAX LAW)

1. Proposal

Under the current Article 94(1) of the Enforcement Decree of the Corporate Income Tax Law(CITL), the foreign corporate taxes eligible for the foreign tax credit are limited to: ❶ taxes levied based on the corporation's income, etc., as the taxable base; ❷ surcharges on taxes levied based on the corporation's income, etc., as the taxable base;

and ❸ taxes assessed on revenue amounts or comparable bases in lieu of income, which are treated as equivalent to taxes assessed on income.

Under this amendment, the Qualified Domestic Minimum Top-up Tax (QDMTT) is added to the scope of the foreign tax credit. A QDMTT is a domestic minimum top-up tax imposed by a jurisdiction on the excess profits of the Constituent Entities located in that jurisdiction where their jurisdictional effective tax rate falls below the Minimum Rate of 15%. The amended provisions apply to assessments and adjustments made on or after the effective date of the amended Enforcement Decree of the CITL.

2. Implications

By including QDMTT in the scope of the foreign tax credit, double taxation in Korea is prevented when overseas Constituent Entities pay QDMTT in the jurisdictions in which they are located. Furthermore, this amendment is directly linked to one of the eligibility requirements for a Qualified SbS Regime under the Side-by-Side Package — namely, that the jurisdiction provide a foreign tax credit for QDMTTs on the same terms as any other creditable Covered Tax — and is expected to support a determination by the Inclusive Framework that Korea has a Qualified SbS Regime.

This institutional improvement is significant in that it reflects the acceptance of legislative amendment requests that Korean multinational corporations operating overseas have consistently made to the government over the past several years, thereby greatly reducing uncertainty regarding these companies' overseas investments.

III. INTRODUCTION OF THE DOMESTIC PRODUCTION TAX CREDIT (ARTICLE 29 OF THE SPECIAL TAX TREATMENT CONTROL LAW: STTCL)

1. Overview of the New Credit System

To date, South Korea has introduced expenditure-based tax credit systems, such as the R&D tax credits, as its principal tax incentives, but has not adopted a production-based tax credit of the kind found in the U.S. Inflation Reduction Act (IRA). However, this proposed tax law amendment includes a plan to introduce a production-based tax credit under Article 29 of the STTCL, as follows.

(1) Eligible Products

Products must be strategically important, commercially promising despite current profitability constraints, and supported by a policy need to strengthen Korea's production base. Under these criteria (i) solar power generation, (ii) wind power generation, (iii) secondary batteries, (iv) semiconductors, (v) critical materials, and (vi) AI robot components were selected as qualifying products. Finished EVs are excluded, while secondary batteries and other qualifying supply-chain products may be eligible for support.

(2) Core Eligibility Conditions

① Domestic Production Requirements

A Korean taxpayer must satisfy both of the following requirements:

- **Domestic activity:** Core processes must take place in Korea, and domestic eligible-cost spending must meet a prescribed threshold.
- **No asset-level overlap:** Assets directly used for qualifying production generally must not have received the Integrated Investment Tax Credit(IITC).

② **Domestic Sale Requirements**

The sale must:

- Have a place of supply in Korea, subject to export exceptions specified by decree;
- Occur in the production year or the following fiscal year;
- For a related-party buyer, be supported by prescribed documentation demonstrating a business purpose; and
- Involve new, not used, goods.

(3) Credit Calculation Methodology

The Domestic Production Tax Credit(DPTC) is production-based rather than expenditure-based, and is not a general percentage-of-cost credit:

Credit = Base Credit Amount × Regional Multiplier × Step-Down Factor

① **Base Credit Amount**

The base amount reflects the qualifying production volume, costs, and sales prices. Product-level unit amounts will be prescribed by Presidential Decree.

② **Regional Multipliers**

The base amount is adjusted based on the production location:

Tier	Region	Multiplier
1	Seoul Metropolitan Area (Capital Region)	1.0
2	Non-capital metropolitan cities and equivalents; designated preferred locations within the Capital Region	1.1
3	Other non-capital areas; designated preferred locations in non-capital metropolitan cities	1.3
4	Other designated preferred non-capital locations	1.5

③ **Step-Down in the Final Three Years**

The full credit applies through 2033, then is phased down before it expires:

Period	Credit as a Percentage of the Full Amount	Notes
FY 2027 – FY 2033	100%	Full credit available
FY 2034 (Year 8)	75%	Step-down begins
FY 2035 (Year 9)	50%	
FY 2036 (Year 10)	25%	Final year; sunset on December 31, 2036

(4) Credit Caps

The annual credit is the lesser of:

- 50% of eligible production costs for the fiscal year; and
- 50% of cumulative qualifying tangible-asset investment, less prior DPTC claims.

(5) Non-Duplication, Carryforward and Minimum Tax

- The STTLC's general non-duplication rules apply.
- Unused DPTC may be carried forward for 10 years.
- The Korean alternative minimum tax under STTCL applies and may limit current utilization. That domestic limitation is distinct from the 15% Minimum Rate under the GloBE Rules.

(6) Overconcentration Control Zone Exclusion

Production carried out within the Overconcentration Control Zone of the Seoul Metropolitan Area is entirely excluded from the DPTC. This mirrors the existing exclusion applied to the Integrated Investment Tax Credit and supports the government's policy of balanced regional development.

2. Implications

The proposed DPTC represents a landmark expansion of Korea's tax incentive toolkit, shifting from a purely investment-based model to one that also rewards sustained domestic production. For qualifying MNE Groups, the credit offers meaningful and long-term tax benefits—but with significant compliance complexity.

The priority action items are provided below:

- Eligibility assessment: Identify which Korean operations produce (or could produce) goods in the six eligible fields; confirm that production occurs outside the Overconcentration Control Zone.
- IITC impact analysis: For assets already receiving the IITC, model the economic trade-off of canceling the IITC under the proposed special mechanism and switching to the DPTC.

- Transfer pricing alignment: Review related-party sales documentation to ensure readiness for the bona fide business-purpose substantiation requirement.
- Site selection review: Incorporate regional multipliers and the Overconcentration Control Zone exclusion into current and future investment location decisions.
- Data infrastructure: Establish systems for tracking production costs, volume, and sales that are capable of meeting long-term retention and government reporting requirements.
- GloBE modelling: To the extent the DPTC meets the definition of a "Qualified Tax Incentive (QTI)" under the Side-by-Side Package, an MNE Group may elect the Substance-based Tax Incentive (SBTI) Safe Harbour and treat the DPTC as an addition to its Adjusted Covered Taxes, up to the Substance Cap, so that the credit does not depress the GloBE effective tax rate and give rise to Top-up Tax → This can be a significant advantage for foreign investors in managing exposure under the GloBE Rules.
- Legislative and regulatory monitoring: Track the National Assembly's legislative process (expected in late 2026) and the drafting of the Presidential Decree (expected in February 2027) to determine the final enacted terms.

IV. CHANGES TO TAX INCENTIVE PROGRAMS FOR FOREIGN INVESTORS AND WORKERS

1. Increase in the Flat Tax Rate for Foreign Workers (Article 18-2 of the STTCL)

Under the current Article 18-2 of the STTCL, foreign workers may opt to be taxed at a flat rate of 19% instead of the comprehensive income tax rates (6–45%) for a period of 20 years starting from the date they first begin working in Korea. In this case, tax-exempt income, tax reductions, income deductions, and tax credits do not apply. The amendment raises the flat tax rate from the current 19% to 21% to ensure tax equity with Korean nationals and extends the sunset date of the regime to December 31, 2029.

Consequently, the tax burden on expatriates dispatched to Korea by multinational corporations will increase slightly; therefore, it may be necessary to recalculate dispatch costs and review the design of compensation packages accordingly.

2. Reform of the Income Tax Reduction for Foreign Engineers (Article 18 of the STTCL, Article 16 of the Enforcement Decree of the STTCL)

Under the current Article 18 of the STTCL and Article 16 of the Enforcement Decree of the STTCL, foreign engineers and researchers are eligible for a 50% reduction in income tax for a period of 10 years. Under the amendment, to rationalize eligibility requirements, the current requirement of "a bachelor's degree or higher in natural sciences, engineering, or medicine" will be changed to "a doctoral degree in natural sciences, engineering, or medicine." Furthermore, the criteria for eligible institutions will be limited to cases where the company falls under any of the following categories, replacing the current requirement that the employer maintain "an in-house research institute or a dedicated research and development department":

(i) Eligibility for a tax credit on research and human resources development expenses relating to national strategic technologies or new growth source technologies

(ii) Possession of national strategic technologies pursuant to the "Act on the Promotion of National Strategic Technologies"

(iii) Possession of national high-tech strategic technologies under the "National Advanced Strategic Industries Act"

(iv) Possession of national core technologies pursuant to the "Industrial Technology Protection Act"

The amended regulations apply to individuals entering into employment contracts on or after April 1, 2027.

This amendment reduces blanket tax incentives for foreign workers to promote tax equity with Korean nationals, while also signaling a clear policy shift toward selectively focusing tax benefits on "highly skilled foreign professionals at doctoral level in national advanced and strategic technology fields." Consequently, multinational corporations and domestic companies hiring foreign talent will need to reassess their HR and financial strategies.

V. OTHER MEASURES

1. Income Deduction for Project Finance Vehicles(PFVs) Made Permanent (Article 104-31 of the STTCL)

A Korean PFV can achieve a result broadly comparable to single-tier taxation if it:

1. is properly established and maintained as a qualifying special-purpose project company;
2. meets the governance, outsourcing, capitalization, and project requirements;
3. distributes at least 90% of its distributable profits;
4. files the prescribed application for an income deduction; and
5. does not fall under any statutory exclusion.

In principle, the qualifying dividend amount is deductible from the PFV's taxable income. The regime therefore operates economically like a dividends-paid deduction: income distributed to investors may be excluded from the PFV-level corporate income tax base, although the PFV itself is not treated as fully tax-transparent.

Accordingly, the deduction is not merely a deduction for an ordinary operating expense. It is a special mechanism intended to mitigate entity-level taxation of a qualifying project vehicle that distributes substantially all of its profits to its investors.

Article 104-31 of the STTLC currently provides for this special deduction with respect to fiscal years ending on or before December 31, 2028.

The amendment removes the time limit, so the special deduction described above will be available on a permanent basis.

2. Addition of Products Eligible for Financial Transactions via Foreign Omnibus Accounts (Article 08-8 of the CITL)

Under Article 98-8 of the CITL, newly introduced by the amendment to the CITL on December 31, 2023, when a payer of income distributes Korean-source income through a foreign omnibus account, withholding tax must be collected from the holder of the foreign omnibus account; however, at the stage of income distribution, non-taxation, exemption, or a limited tax rate under a tax treaty may not be applied at that stage (Article 98-8(1) of the CITL). Here, a foreign omnibus account refers to an account opened in the name of a foreign securities firm or asset management company at a domestic securities firm or similar institution for the purpose of consolidating orders and settlements for stock trading. This system was introduced because the proportion of large-scale global investors (passive funds) tracking global indices is steadily increasing, creating a need for global securities firms to process orders from a large number of clients in a consolidated manner.

Due to the nature of foreign omnibus accounts, it is difficult to identify the information of the ultimate investor (beneficial owner) at the time of income distribution. Accordingly, this provision adopts a structure whereby withholding tax is first withheld at the rate specified in domestic tax law (Article 98(1) of the CITL. Subsequently, where the beneficial owner — a foreign corporation or an overseas investment vehicle — seeks non-taxation, exemption, or a limited tax rate under a tax treaty, either the beneficial owner or the payer of the income may file a request for tax refunds with the head of the tax office having jurisdiction over the place of tax payment, within five years from the end of the month in which the withholding took place (Article 98-8(2) and (3) of the CITL).

Although the financial products tradable through foreign omnibus accounts are currently limited to stocks, this tax law amendment expands the scope of eligible products to include ETFs (Exchange-Traded Funds) and ETNs(Exchange-Traded Notes). Details regarding tradable products will be prescribed in the Enforcement Decrees of the CITL. The amended provisions will apply to income paid on or after January 1, 2027.

3. Exclusion from the Taxable Value of Gift for Contributions to the Korea-U.S. Strategic Investment Fund (Article 35(5) of the Enforcement Decree of the Inheritance and Gift Tax Law)

According to the amendment, the Korea-U.S. Strategic Investment Fund established under the "Korea-U.S. Strategic Investment Act" will be added to the list of organizations contributions to which are excluded from the taxable value of gifts. This measure is intended to provide tax incentives to support strategic investments between Korea and the U.S. in cutting-edge industries such as semiconductors, rechargeable batteries, and AI.

The amended provisions will apply to returns filed on or after the effective date of the Enforcement Decree of the Inheritance and Gift Tax Law; the relevant provisions of the Enforcement Decree are scheduled to be amended in 2026.

4. Refinement of Value-Added Tax Rules for Service Transactions with Foreign Corporations (Article 95 of the Enforcement Decree of the Value Added Tax Law (VATL)

Article 95 of the current Enforcement Decree of the VATL stipulates that when a foreign business operator supplies services, etc., in Korea, the recipient (a VAT-exempt business operator) must account for the value-added tax on the supplier's behalf under the reverse charge mechanism. It defines the scope of application as: ① non-residents and foreign corporations without a domestic place of business and ② non-residents and foreign corporations with a domestic place of business that supply services, etc., unrelated to that domestic place of business.

The amendment retains the scope of application as described above but adds a new proviso stipulating that if a domestic place of business issues a tax invoice, the transaction is deemed to be related to that domestic place of business. The reason for the amendment is to improve taxpayer convenience, and it will apply to services supplied during the tax period in which the Enforcement Decree takes effect.

Under the current regulations, the application of the reverse charge mechanism hinges on a factual determination of whether the services supplied are "connected" to the domestic place of business. Such determination requires a holistic evaluation of various factors, including the identity of the contracting parties, the place of performance of the services, and the extent to which the domestic place of business is involved from a functional and personnel perspective. As a result, differences in interpretation may arise between taxpayers and the tax authorities

If the amendment is enacted, when a domestic place of business issues a tax invoice, the transaction will be deemed to be connected to that domestic place of business; consequently, rather than relying on the reverse charge by the recipient, the domestic place of business will report and pay the output VAT as part of its own VAT return. Conversely, for transactions where no tax invoice is issued, the reverse charge may apply as before, depending on the determination of the connection; consequently, tax treatment may vary by transaction type even within the same foreign corporation.

In other words, the determination of connection is simplified from a comprehensive assessment of the facts to a check on whether a document was issued, and as a result, it becomes clear whether the reverse charge rules or the general VAT rules apply. In practice, foreign corporations with a domestic place of business will effectively determine whether their transactions will be treated as transactions connected to that establishment based on whether they issue a tax invoice. Therefore, issuing a tax invoice goes beyond a mere act of documentation and takes on the nature of a procedural choice that determines the method of taxation; in this respect, it can be said that taxpayer convenience is enhanced.

5. Material Errors and Omissions Added to Administrative Fine Provisions (Article 87 of the LCITA)

Under the current Article 87(1) of the LCITA, an administrative fine of up to KRW 100 million is imposed on any person subject to the obligation to submit documentation regarding international transactions who fails to submit the documentation by the deadline or submits false documentation. The amendment explicitly adds "submission of documentation containing material omissions or errors" to the grounds for imposing such penalties.

Consequently, when submitting documentation on transactions with foreign related parties and transfer pricing reports in the future, it will be even more critical to conduct procedures to verify the consistency and completeness of the data in advance, rather than merely submitting the documents.

6. Shortening of the Application Period for the Special Provision on VAT Refunds for Accommodation Services Provided to Foreign Tourists (Article 107-2 of the STTCL)

Article 107-2 of the STTCL is a special provision that allows foreign tourists to receive a value-added tax (VAT) refund on accommodation services provided in Korea for stays of 30 days or less. This system is a tax incentive designed to stimulate domestic tourism demand among foreign tourists and support the lodging industry. Together with the VAT refund for goods purchased by foreign tourists (Article 107) and the VAT refund for cosmetic and plastic surgery services (Article 107-3) under the same Act, it forms the framework for special tax refund provisions for foreign tourists.

Under current regulations, this special provision is valid until December 31, 2028. The proposed amendment to the tax law states that the application period will be shortened to June 30, 2027, citing the need to streamline tax expenditures as the reason. Given the recent surge in the number of tourists visiting Korea, the Korean government appears to have determined that there is no longer a need to allow VAT refunds for foreign tourists' accommodation services for an extended period.

VI. CLOSING

This newsletter has been prepared by senior tax professionals at BKL's "Korea International Tax & Investment Center" drawing on press releases issued by the MOFE regarding the proposed tax law amendments, as well as materials published by the OECD IF on the GloBE Safe Harbour Package. Should you have any questions about the analysis above or wish to seek our assistance, please do not hesitate to contact us.

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For any inquiry or questions regarding the content of this newsletter, please contact us.

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