

**Embargo:**

**Release Date:** July 25, 2024

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2024 TAX REVISION BILL

## 2024 TAX REVISION BILL TO BOOST DYNAMIC ECONOMIC GROWTH AND SUPPORT PEOPLE'S LIVELIHOODS STABILITY

### 2024 Tax Revision Framework

The government has drawn up the 2024 tax revision bill, focusing on the following directions.

- Gain economic dynamism by **promoting investment, employment, regional development and stimulating the capital market.**
- Restore people's livelihoods stability by **easing financial burdens of marriage, childbirth, child-rearing and supporting low- and middle- income households and small businesses.**
- Build a rational tax scheme by **alleviating tax burdens and enhance tax system efficiency.**
- Establish a taxpayer-friendly environment by **improving taxpayers' convenience and protecting their rights and interests.**

The 2024 tax revision aims to boost economic dynamism and support people's livelihoods stability. To this end, the four key strategies are to be carried out as follows.

### 1. Boost Economic Dynamism

#### 1-1. Promote Investment, employment, and regional development

- 1) Extend the applicable period for R&D tax credits and integrated investment tax credits for national strategic technologies by 3 years until December 31, 2027.
- 2) Raise the tax deduction rate for the increased amount of the integrated investment tax credits.
  - National strategic technologies: 4% → 10%
  - General and new growth/fundamental technologies: 3% → 10%
- 3) Adjust the size criteria for middle-market enterprises to be three times that of small and medium sized enterprises (SMEs) in sales.
- 4) Extend the grace period for receiving tax benefits available to SMEs from 3 years to 5 years.
- 5) Introduce the gradual reduction structure of tax credit rates for national strategic technologies, new growth/fundamental technologies R&D and integrated investment tax credits.
- 6) Expand the scope of R&D tax credit eligibility.
- 7) Shorten the depreciation period for R&D machinery and equipment from 5 years to 3 years.

- 8) Reform integrated investment tax credits for employment
- 9) Relax the eligibility requirements for tax credits on overseas resource development investments.
- 10) Extend the applicable period for tax reduction for reshoring companies by 3 years until December 31, 2027.
- 11) Introduce special provisions on taxation for housing in areas with declining populations and unsold houses after completion.

## 1-2. Enhance corporate competitiveness

- 1) Improve the business succession and inheritance system.
  - Broaden the eligibility for family business inheritance tax deductions and increase the deduction limits for outstanding <sup>①</sup>Corporate Value-up businesses\*, <sup>②</sup>Scale-up businesses, and <sup>③</sup>businesses that are newly established or relocated in the opportunity and development zones (ODZ).

*(Eligibility)* SMEs and middle-market enterprises with annual sales below 500 billion won → All SMEs and middle-market enterprises.

*(Deduction limit)* the tax deduction limit will be doubled for outstanding <sup>①</sup>Corporate Value-up and <sup>②</sup>Scale-up companies.

<sup>③</sup>Start-ups and relocating businesses in ODZ will be eligible for unlimited family business inheritance tax deductions.

*\* Companies that publically announce a 'Corporate Value Enhancement Plan' and have a shareholder return ratio relative to net income over a five-year period (2025-2029) that is at least 120% of the industry average.*

- 2) Abolish the 20% premium taxation on shares held by largest shareholders.
- 3) Extend the applicable period for a special provision concerning corporate tax base on shipping companies by 5 years until December 31, 2029.
- 4) Introduce a special provision concerning individual consumption tax refund on liquefied petroleum gas (LPG) butane used in hydrogen production.
- 5) Introduce a special provision on taxation for the acquisition of multiple voting shares by venture companies.
- 6) Extend the applicable period for a special provision on taxation for the profits from the exercise of stock options granted by venture companies by 3 years until December 31, 2027.
- 7) Rationalize the requirements for eligible spin-off related to treasury stock.

## 1-3. Stimulate the capital market

- 1) Launch a tax scheme to promote shareholder returns (temporary for three years).
  - **Corporate tax credit**: Introduce a corporate tax credit for listed companies that have increased shareholder returns.

*(Requirements)* KOSPI and KOSDAQ-listed companies that voluntarily disclose their value-up plans and have increased shareholder returns through dividends and share buybacks.

*(Deductible amount)* The amount of increase in shareholder returns exceeding 5% of the average amount of the previous 3 years.

*(Deductible rate):* 5% (deductible limit: 1% of the total shareholder return amount for the current year)

*(Applicable period):* Shareholder returns for the business years January 1, 2025 – December 31, 2027

- **Separate taxation on dividend Income:** For listed companies that have increased shareholder returns, a portion of cash dividends received by individual shareholders will be subject to separate taxation.

- 2) Abolish the financial investment income tax and maintain the current capital gains tax system.
- 3) Increase taxation support for individual savings accounts (ISAs).
  - Expand the annual savings limit from 20 million won to 40 million won.
  - Expand the tax-exempt limit from 2 million won to 5 million won.
  - Launch a new type of ISAs for domestic investment.
- 4) Set up tax classification regulations for investment profits from fractional investment products.
  - Considering the characteristics of fractional investment products, profits from these products will be taxed as dividend income, similar to the current taxation of funds.
- 5) Rationalize the scope of distributable earnings for real estate investment companies.
- 6) Extend the applicable period for separate taxation of interest income from government bonds for individual investors by 3 years until December 31, 2027.
- 7) Rationalize the method for calculating profits from funds (collective investment organizations).
  - The calculation of fund profits will include trading or valuation gains from domestic-listed foreign stock ETFs and ETNs.

## **2. Restore People's Livelihoods Stability**

### **2-1. Support for marriage, childbirth and child-rearing**

- 1) Provide a tax credit of up to 1 million won to the newly-married upon registration of marriage (500 thousand won for each).
- 2) Expand the eligibility of tax support for housing subscription savings accounts.
- 3) Extend the applicable period of levying capital gains tax and comprehensive real estate holding tax based on a single property standard from 5 to 10 years in case that a married couple with each possessing a property has become a two-property household upon marriage.
- 4) Fully exempt corporate childbirth support payments from taxation.
- 5) Increase the child tax credit amount for children and grandchildren aged 8 to 20.

*(Deductible amount):* 15/20/30 → 25/30/40 (first/second/third child, ten thousand won)

### **2-2. Ease financial burden on low- and middle-income households**

- 1) Expand the application of income tax deductions for swimming pool and fitness center facility fees paid with credit cards.
- 2) Raise the tax deduction limit for hometown donations under the Hometown Love Donation Scheme.

- 3) Increase the income threshold for earned income tax credit (EITC) eligibility for dual-income households (38 million won → 44 million won per year).
- 4) Relax the conditions for tax exemption clawback on Youth Leap Accounts<sup>1</sup> in case of early withdrawal.
- 5) Improve the tax credit scheme related to performance-based bonuses for SMEs sharing performance results.
  - Extend the applicable period for corporate tax deductions and income tax reductions by 3 years while reducing corporate tax deduction rate from 15% to 10%.
- 6) Extend the applicable period for the reduction of income tax amount on performance compensation funds for core personnel by 3 years, along with a relaxation of the eligibility requirements.
- 7) Expand the scope of career-interrupted individuals who are subject to tax support upon employment.
- 8) Extend the applicable period for individual consumption tax reductions on eco-friendly vehicles by 2 years and adjust the tax reduction limit on hybrid cars (1 million won → 700 thousand won).
- 9) Extend the applicable period for a special provision concerning the transfer income tax for public rental housing by 2 years until December 31, 2026.
- 10) Extend the applicable period for a special provision on taxation for the land transfers to public housing construction developers by 3 years until December 31, 2027.
- 11) Exclude land lease housing units from the calculation of comprehensive real estate tax.

### **2-3. Support small business owners and SMEs**

- 1) Strengthen tax support for the Yellow Umbrella<sup>2</sup> by raising the upper limit of income tax deduction amount.
- 2) Extend the applicable period for tax deductions for landlords who reduce commercial rent.
- 3) Introduce a special provision concerning the installment taxation on income from the disposal of construction machinery.
- 4) Expand the agricultural equipment eligible for value-added tax (VAT) refunds.
- 5) Extend the applicable period for a special provision concerning the collection of overdue taxes from small business owners.
- 6) Expand liquor tax reductions for traditional alcoholic beverages.
- 7) Improve regulations related to alcoholic beverages.

## **3. Build a Rational Tax Scheme**

### **3-1. Alleviate tax burdens and enhance tax system efficiency**

- 1) Alleviate the burden of inheritance and gift taxes.
  - Reduce the highest rates for inheritance and gift taxes to 40% and expand the lower tax brackets.
  - Increase the inheritance tax exemption amount for children from 50 million won per person to 500 million won.

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<sup>1</sup> An exclusive saving product for young people aged 19-34 who meet the income requirements, which aims to provide support for mid-to long-term asset building.

<sup>2</sup> A public savings program operated by the Korea Federation of SMEs, designed to ensure the livelihood of small business owners.

- 2) Postpone the implementation of taxation on virtual assets by 2 years until 2027.
- 3) Rebuild the method for determining the acquisition value of virtual assets.
- 4) Calculate interim corporate tax prepayments for publicly disclosed corporate groups based on the corporate tax rates set during the repayment period of the given business year.
- 5) Adjust the tax brackets and minimum corporate tax rate for small corporations subject to faithful reporting verification.
- 6) Establish tax-exemption criteria for earnings from employee discounts.
  - Discounts on company's products and services provided to employees will be tax-exempt up to 20% of the market value or 2.4 million won per year.
- 7) Rationalize post-management for tax deductions on medical/education/monthly rent for faithful taxpayers.
- 8) Rationalize the criteria for excluding excessive interest payments from deductible expenses.
- 9) Extend the validity period for the Traffic, Energy, and Environment Tax Act by 3 years until December 31, 2027.

### **3-2. Rebuild tax exemption and tax reduction systems**

- 1) Adjust the VAT deduction rate for credit card usage.
  - Reduce the tax deduction rate for businesses with sales exceeding 500 million won from 1.3% to 0.65%.
- 2) Reduce the electronic filing tax deduction.
  - Abolish the electronic filing tax deduction for individual income tax, corporate tax, and VAT.
  - Lower the upper limit of electronic filing tax deduction amount for tax agents and tax advisory firms.
- 3) Extend the applicable period for tax deductions on tax associations by 3 years and adjust the deduction rate.
- 4) Rationalize the tax reduction system for start-ups.
  - Extend the tax reduction applicable period by 3 years until December 31, 2027, with a rise in the reduction rate when employment increases.
  - Reduce the tax reduction rate for metropolitan areas outside of the over-concentration control zones.
  - Terminate the preferential tax reduction rate for new growth service industries to improve fairness among sectors.
- 5) Rebuild the taxation system for supporting corporate relocation.
  - The tax reduction for relocation will only apply to factories moving out of the metropolitan over-concentration control zones.
- 6) Rationalize the scope of SMEs.
  - Exclude real estate leasing corporations from the scope of SMEs and middle-market enterprises, and also exclude "small corporations subject to faithful reporting verification" from the scope of SMEs.
- 7) Exclude rental assets of leasing businesses from the target of integrated investment tax deductions.
- 8) Lower the limit of reward amount for reporting refusals or failures to issue cash receipts from 500 thousand won to 250,000 won per purchase.
- 9) Terminate 7 tax incentives that either achieve their policy objectives or have low utilization rates, among the 29 tax incentives expiring at the end of 2024.

### **3-3. Improve tax transparency**

- 1) Introduce a special provision allowing duty-free stores to directly pay the VAT on commission fees for attracting customers<sup>3</sup>.
- 2) Extend the applicable period for tax deductions related to the issuance of electronic tax invoices or electronic invoices by 3 years until December 31, 2027.
- 3) Set up a new system for verifying faithful customs declarations and the monthly final declaration.
- 4) Establish grounds for imposing VAT on tax evasion business at anytime.
- 5) Increase tax penalties for rigging businesses under another person's name.
- 6) Apply a uniform withholding tax rate of 20% to the business income of foreign professional athletes, irrespective of the contract duration.
- 7) Expand the scope of assets eligible for deferral of transfer income tax to include shares received as gifts within 1 year prior to the transfer date.
- 8) Expand the scope of residents to include individuals who have resided for 183 days or more continuously from the previous year (currently, 183 days of the current year).
- 9) Strengthen the obligation to submit tax-related documentation for virtual assets.
  - Add virtual asset transaction details to the tax reporting requirements submitted to the Commissioner of Customs.
- 10) Establish grounds for implementing the automatic information exchange system for cryptocurrency assets.
- 11) Add 4 industries to the list of sectors required to issue cash receipts.
- 12) Impose traffic, energy, and environment taxes on individuals or entities that sell fuel without proper documentation.
- 13) Rationalize the scope of tax liability succession for death insurance proceeds.
- 14) Expand the scope of contributors who bear secondary tax liabilities.
- 15) Extend the period for imposing taxes to 7-year on undeclared customs imports.
- 16) Raise the tax penalty rate for non-compliance with customs reporting requirements in cases of fraudulent activities from 40% to 60%.

## **4. Establish a Taxpayer-Friendly Environment**

### **4-1. Improve taxpayers' convenience**

- 1) Promote the issuance of electronic donation receipts.
- 2) Improve the customs clearance system for overseas direct purchases.
- 3) Provide withholding tax exemption for foreign private equity funds (in addition to the current public equity funds) for their interest income.
- 4) Raise the threshold for unclaimed tax refund amounts that automatically offset against the national tax for the given taxpayer to be paid (100 thousand won → 200 thousand won).
- 5) Improve the preliminary examination system for FTA customs regulations.
- 6) Expand the scope of applicants eligible for post-application of conventional tariff agreements.

### **4-2. Protect taxpayers' rights and interests**

- 1) Rationalize the reporting requirements for overseas financial accounts.
  - Expand the scope of taxpayers who are subject to the exemption from the reporting

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<sup>3</sup> Commissions received by travel agencies from duty-free stores as compensation for attracting tourists.

obligations for overseas financial accounts and lower the upper limit of fines for the breach of reporting obligations.

- 2) Allow claims for reassessment of tax deduction amounts.
- 3) Establish a special provision concerning the period of tax imposition exclusion for carry-forward tax credits.
- 4) Extend the advance notice period for tax audits (15 days → 20 days advance notice).
- 5) Expand the eligibility for a special provision concerning taxpayers in special disaster areas, including extended payment deadlines and deferred payment notices.