Korean insights & regulatory updates

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2026 pre-announcement of key accounting matters for financial statement review

The FSS and the KICPA have announced the key accounting matters for the review of 2026 financial statements. This article highlights the focus areas and key practical considerations for companies, which include: accounting for overseas revenue, appropriateness of inventory valuation loss recognition, accounting for investment property, recognition and measurement of provisions and disclosure of contingent liabilities, revenue recognition for long-term construction contracts, and equity method accounting.

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The government has revised the research fund management guidelines for national R&D projects by removing the pre-approval requirement for meeting expenses and introducing a research innovation fund.

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Recent tax reform and key rulings

Supreme Court: Beneficial ownership

The Korean Supreme Court dismissed the taxpayer's appeal in a case involving dividend payments made by a Korean subsidiary to a UK intermediate holding company. The key issue was whether the UK company qualified as the beneficial owner of the dividends and was therefore eligible for the reduced withholding tax rate under the Korea-UK tax treaty. The Korean tax authorities denied the application of the Korea-UK tax treaty on the basis that the UK company did not have sufficient rights to use and enjoy the dividend income and was under a contractual or practical obligation to transfer the income to an upper-tier group company, including a US entity.

The case is notable because it indicates that the existence of personnel, office facilities or certain business activities at an intermediate holding company may not, by itself, be sufficient to establish beneficial ownership. The overall facts and circumstances, including onward remittance of dividend proceeds, internal group documents, tax-driven restructuring motives and the degree of independent decision-making authority, may be relevant in determining whether the recipient is merely a conduit (Supreme Court, Mar 12, 2026; Case No. 2025Du35524).

- **Practical takeaways:** Withholding agents should maintain treaty application forms, beneficial ownership supporting documents and evidence of commercial rationale, cash flow and governance arrangements.

NTS advance ruling: Fair market value of unlisted share where multiple comparable transactions exist

The NTS recently provided guidance on determining the fair market value of unlisted shares for corporate income tax purposes where multiple comparable transaction prices exist. The ruling states that the fair market value should not be determined mechanically by reference to one transaction price. Instead, the relevant transaction price should be selected by considering all surrounding circumstances, including transaction size, background, terms and conditions, relationship between the parties and whether the transaction best reflects the objective value of the shares.

This guidance is relevant for M&A transactions, intra-group share transfer, employee equity arrangements and other transactions involving unlisted shares. It confirms that the most recent transaction price or a single comparable transaction price may not necessarily represent fair market value if the transaction was affected by special circumstances or lacks sufficient comparability.

- **Practical takeaways:** Where related-party transaction or arm's length price risks exist, contemporaneous documentation, including an external valuation report and internal approval materials, should be prepared.

HR & payroll updates

Key updates to National Pension and parental leave in 2026, and minimum wage in 2027

From July 2026, the National Pension contribution base limits will be adjusted, and a new short-term childcare leave scheme will take effect in August. In addition, the 2027 minimum wage has been set at KRW 10,700 per hour, effective 1 January 2027.

Key updates to National Pension and parental leave in 2026

Adjustment in National Pension base salary (Effective from July 2026)

The upper and lower limits of the national pension standard monthly income are adjusted every July by linking the annual average of the average monthly income of all business and local subscribers to the rate of change. Upper/lower limit of National Pension base salary will change as below table.

- Enforcement Decree of the National Pension Act, Article 4 (Method of calculation of average monthly income), Article 5 (Standard monthly income and application period)

NP base salary	July 2025 - June 2026	Jul 2026 - Jun 2027
Lower limit (Insurance premiums)	KRW 400,000 (KRW 18,000)	KRW 410,000 (KRW 19,000)
Upper limit (Insurance premiums)	KRW 6,370,000 (KRW 302,570)	KRW 6,590,000 (KRW 313,020)

Establishment of short-term parental leave (Effective 20 August 2026)

A new parental leave system has been established for the care of children aged eight or younger, or in the second grade of elementary school or lower, allowing for weekly leave limited to once a year. Accordingly, it is now mandatory to permit the use of parental leave in one- or two- week increments, limited to once a year, in the event of specific circumstances such as the closure or school vacation of the childcare or educational institution. It is stipulated that such weekly parental leave is excluded from the calculation of the number of times general parental leave can be split; if an employer fails to allow such weekly leave without justifiable grounds, penalties may be imposed in accordance with relevant laws.

Also, employees are eligible to receive parental leave benefits when using short-term parental leave.

Category	To be
Eligibility criteria	• Eligible reasons: School vacations, temporary closure of schools or childcare facilities, child illness, and other qualifying circumstances • Leave duration: 1 week or 2 weeks only (partial-week usage is not permitted) • Frequency: Available once per year • Impact on parental leave entitlement: The leave period counts toward the employee’s overall parental leave entitlement • Government subsidy: Previously, only available for parental leave of 30 days or more, but now, for ‘short-term parental leave,’ benefits are available for 7 days or more.

HR & payroll updates

Key updates to minimum wage in 2027

Minimum wage in 2027

The minimum wage for 2027 has been set, in this July, at KRW 10,700 per hour, a 3.7% increase from 2026. When converted to a monthly salary including weekly holiday allowances, this amounts to KRW 2,236,300 (based on 209 working hours per month).

In accordance with the Minimum Wage Act, the Minimum Wage Commission must submit the approved minimum wage proposal for next year to the Ministry of Employment and Labor, and the Minister must finalize and announce it by August 5. Once finally announced, it will take effect on January 1, 2027.

Minimum wage	2026	2027
Hourly	KRW 10,320	KRW 10,700
Monthly	KRW 2,156,880	KRW 2,236,300

Audit & accounting updates

2026 Pre-announcement of key accounting matters for financial statement review

The FSS and the KICPA have announced the key accounting matters for the review of 2026 financial statements. This article highlights the focus areas and key practical considerations for companies.

FSS announces key accounting matters for focused review of FY2026 financial statements

The Financial Supervisory Service (FSS) annually identifies and announces key accounting matters for focused reviews to ensure that listed companies and accounting corporations exercise appropriate professional care in preparing financial statements and conducting external audits.

For the FY2026 financial statements, four key accounting matters have been identified: (1) accounting for overseas revenue and accounts receivable, (2) appropriateness of inventory valuation loss recognition, (3) accounting for investment property, and (4) recognition and measurement of provisions and disclosure of contingent liabilities. These matters will be subject to focused review in 2027.

This selection is meaningful in that it reflects the impact of recent economic environment changes - such as increased geopolitical risks, heightened market volatility, and growing uncertainty in business conditions - on financial reporting.

Accounting for overseas revenue and accounts receivable

Due to global supply chain instability, strengthened import/export regulations, and increased foreign exchange volatility, the complexity and risks associated with accounting for overseas revenue have increased. Accordingly, the FSS is focusing on potential misstatement in revenue recognition and insufficient recognition of impairment losses on accounts receivable arising from overseas transactions.

Considerations

- Overseas revenue involves complex transaction structures, and the timing of revenue recognition may vary depending on contractual conditions; therefore, revenue should be recognised when control of goods or services is transferred.
- Since the timing of shipment or delivery under Incoterms (e.g., FOB, CIF) may not coincide with the satisfaction of performance obligations, companies should determine revenue recognition based on the substance of the contract.
- External environmental factors such as geopolitical risks, foreign exchange fluctuations, and trade restrictions must be reflected in the measurement of loss allowances.
- When dealing with complex structures such as overseas subsidiaries and cross-border transactions, ensuring consistency in accounting policies and internal controls at the group level is important.

Selection of review targets

- Key target industries include export-oriented sectors such as manufacturing (pharmaceuticals, electronic components, machinery and equipment), ICT, and professional, scientific and technical services.
- Target companies will be selected after considering the scale and significance of overseas revenue and the extent of cross-border transactions.

Implications

- Companies with significant overseas revenue need to pre-emptively review their revenue recognition policies and internal controls for each type of delivery condition.
- It is necessary to establish ECL methodologies that incorporate forward-looking information, macroeconomic variables, and country-specific risks.
- Ensuring consistency of accounting policies and data across the group, including overseas subsidiaries, is critical.

Audit updates

FSS announces key accounting matters for focused review of FY2026 financial statements

Appropriateness of inventory valuation loss recognition

Inventory is directly affected by changes in the economic environment, including raw material prices and demand conditions. As a result, management judgement in estimating net realizable value (NRV) has a significant impact on financial statements.

Considerations

- When NRV is lower than cost, the difference should be recognised as a valuation loss in profit or loss.
- The lower of cost and NRV principle should, in principle, be applied on an item-by-item basis, and broad aggregation of dissimilar items is not appropriate.
- NRV should be estimated objectively and reliably based on information available at the reporting date.
- The purpose of holding inventory (e.g., firm sales contracts or production plans) may affect the valuation approach.
- Declines in market prices, decreases in demand, and technological obsolescence are key factors that must be reflected in inventory valuation.

Selection of review targets

- Primary target industries include manufacturing and wholesale/retail sectors with significant inventory balances.
- Selection will consider the size of inventory, the extent of valuation loss recognition, and trends and changes in such amounts.

Implications

- Companies should establish reasonable estimation processes for inventory valuation that reflect market conditions and sales realizability, rather than relying solely on mechanical policies.
- Regular reviews of overall inventory quality, not limited to long-term slow-moving items, are required.
- It is important to assess the existence of onerous contracts and ensure consistency between inventory valuation and provision recognition.

Accounting for investment property

Investment property is an area that requires significant judgement in classification, measurement, and disclosure, and has historically been prone to recurring matters. In this focused review, classification accuracy and completeness of disclosure are expected to be key areas of attention.

Considerations

- Investment property must be clearly distinguished from owner-occupied property based on whether it is held for rental income or capital appreciation.
- After initial recognition, companies must consistently apply either the fair value model or the cost model.
- Under the fair value model, changes in fair value should be recognised in profit or loss.
- Key information such as fair value, movements in carrying amounts, and valuation methods must be adequately disclosed in the notes.
- For mixed-use property, classification should be based on the substance and relative extent of use.

Selection of review targets

- All industries are subject to review, and target companies will be selected considering the scale of investment property and property, plant and equipment.
- The appropriateness of accounting treatment and disclosure related to investment property will be a key consideration.

Implications

- Companies should analyse the actual use and rental proportion of properties to ensure appropriate classification.
- It is advisable to periodically review valuation processes and consider the use of external valuation experts.
- Since insufficient disclosures are frequently subject to regulatory findings, companies should strengthen their disclosure review processes.
- Auditors should perform a comprehensive assessment of classification, valuation, and disclosure.

FSS announces key accounting matters for focused review of FY2026 financial statements

Recognition and measurement of provisions and disclosure of contingent liabilities

Provisions and contingent liabilities are areas that involve significant management judgement and estimation, and their impact on financial statements has increased considering growing uncertainty.

Considerations

- Provisions should be recognised only when all of the following conditions are met: the existence of a present obligation, a probable outflow of economic resources, and a reliable estimate of the amount.
- Provisions should be measured at the best estimate of the expenditure required to settle the obligation.
- Risks, uncertainties, and future events should be reflected, and measurement on a present value basis is required when the time value of money is material.
- Contingent liabilities should be disclosed when there is a possible outflow of economic resources, even if recognition criteria are not met.
- Both provisions and contingent liabilities should be continuously reassessed at the end of each reporting date.

Selection of review targets

- All industries are subject to review, and target companies will be selected based on the size and volatility of provisions and the adequacy of related disclosures.

Implications

- Companies should establish processes to identify potential obligations, such as litigation, guarantees, and contractual commitments, and systematically maintain related documentation.
- Assumptions used in measuring provisions should be clearly supported and documented, and the use of external expert opinions is recommended.
- Disclosure processes should be aligned with Enterprise Risk Management (ERM) frameworks to ensure completeness.

KICPA announces key accounting matters for focused review of FY2026 financial statements (unlisted companies)

The Korean Institute of Certified Public Accountants (KICPA) annually announces key accounting matters for focused reviews as part of its pre-emptive supervisory approach over unlisted companies.

For the FY2026 financial statements, four key accounting matters have been identified: (1) revenue recognition for long-term construction contracts, (2) equity method accounting, (3) recognition and measurement of provisions and disclosure of contingent liabilities, and (4) related party disclosure.

These matters will be subject to focused review in 2027.

This announcement reflects recent inspection findings and evolving economic conditions, with the aim of enhancing the reliability and transparency of financial reporting by unlisted companies.

Revenue recognition for long-term construction contracts

Long-term construction contracts involve significant management judgement, particularly in estimating the stage of completion, and therefore remain a key area of focus in ensuring appropriate revenue recognition.

Considerations

- Companies should assess whether performance obligations are satisfied over time and determine the appropriateness of applying the percentage-of-completion method.
- Progress toward completion should be measured based on reliable information and reassessed at each reporting date.
- When the outcome cannot be measured reliably, revenue should be recognised only to the extent of costs incurred.
- Expected losses should be recognised immediately as loss provisions.

Background and selection criteria

- This matter was selected due to recurring cases of revenue overstatement arising from inappropriate application of the percentage-of-completion method and overestimation of progress.
- Review targets will primarily include companies in construction and shipping industries, considering key indicators such as contract assets, contract liabilities, and operating cash flow relationships.

Implications

- Companies should establish and clearly document methodologies for measuring the stage of completion, including the underlying assumptions and estimation techniques.
- Processes should be implemented to ensure timely updates of total expected costs and contract estimates.
- Sufficient supporting documentation should be maintained to substantiate judgements related to revenue recognition, including cost accumulation and progress measurement.

KICPA announces key accounting matters for focused review of FY2026 financial statements (unlisted companies)

Equity method accounting

Equity-method accounting continues to be an area where errors frequently arise, particularly in determining significant influence and applying appropriate accounting treatments.

Considerations

- The existence of significant influence should be assessed not only based on shareholding percentage but also considering contractual arrangements and governance structures.
- Unrealised gains and losses from intra-group transactions should be eliminated, and consistent accounting policies should be applied.
- If an investee is itself a parent company, the investor should apply the equity method using the investee's consolidated financial statements.

Background and selection criteria

- The matter has been selected due to frequent misapplications of equity method accounting, including incorrect scope determination and improper adjustments.
- Review targets will focus on entities with significant equity-accounted investments, holding companies, and groups preparing consolidated financial statements.

Implications

- Companies should establish clear internal guidelines for assessing the applicability of the equity method, reflecting ownership structure and contractual terms.
- Procedures should be established to obtain and validate financial information from investees on a timely basis.
- Controls should be implemented to identify and eliminate unrealised gains and losses arising from related transactions.

Recognition and measurement of provisions and disclosure of contingent liabilities

Provisions and contingent liabilities involve significant judgement and estimation uncertainty and are subject to heightened scrutiny due to risks of understatement and incomplete disclosure.

Considerations

- Provisions should be recognised when a present obligation exists, an outflow of resources is probable, and the amount can be reliably estimated.
- Provisions should be measured at the best estimate, reflecting risks, uncertainties, and where appropriate, the time value of money.
- Contingent liabilities should be disclosed even if recognition criteria are not met.

Background and selection criteria

- This matter was selected due to recurring cases of under-recognition of provisions and omission of contingent liability disclosures.
- Target companies will be selected based on the magnitude and volatility of provisions, as well as exposure to guarantees and contractual obligations.

Implications

- Companies should establish internal processes to identify potential obligations, including litigation, guarantees, and contractual commitments.
- Key assumptions used in measuring provisions should be reviewed for reasonableness and consistently applied.
- Completeness of disclosure should be enhanced by standardised disclosure checklists and review procedures.

Audit updates

KICPA announces key accounting matters for focused review of FY2026 financial statements (unlisted companies)

Related party disclosures

Related party transactions remain a high-risk area for financial misstatement, particularly with respect to completeness and transparency of disclosures.

Considerations

- Related parties should be identified based on the substance of relationships, not merely legal form.
- Companies should disclose transaction amounts, outstanding balances, and the nature of relationships in sufficient detail.
- Contractual arrangements should be carefully assessed for their accounting implications and disclosure requirements.

Background selection criteria

- The matter has been selected due to ongoing risks of incomplete or misleading related party disclosures.
- Target companies will be selected considering the size and complexity of related party transactions and the presence of structured financial instruments.

Implications

- Companies should establish and maintain a comprehensive process to identify related parties, reflecting organizational structure and governance arrangements.
- Related party transactions should be systematically monitored and documented to ensure completeness and accuracy of disclosures.
- Accounting and disclosure implications of complex contractual terms (e.g., put option, guarantees) should be assessed in an integrated manner.

Government grants & R&D funding compliance updates

Amendments to the national R&D project research fund management guidelines

The government has revised the research fund management guidelines for national R&D projects by removing the pre-approval requirement for meeting expenses and introducing a research innovation fund.

Government grants & R&D funding compliance updates

Amendments to the national R&D project research fund management guidelines

Researchers involved in Korea's national R&D projects are likely familiar with the administrative burden associated with managing research funds. In particular, the mandatory internal pre-approval process for meeting expenses has long been recognised as one of the most cumbersome administrative requirements in research management.

To reduce administrative burdens and allow researchers to focus more on their research, the Korean government has revised the regulations on the use of research and development expenses for national R&D projects, effective May 2026. The amendments introduce several important changes, most notably the abolition of mandatory pre-approval for meeting expenses and the establishment of a new research innovation fund.

Abolition of mandatory pre-approval for meeting expenses and practical considerations

One of the most significant changes in the removal of the mandatory pre-approval requirement for meeting expenses under the research fund usage rules. This revision is expected to substantially reduce administrative burdens and enable greater flexibility in organising meetings necessary for research activities.

Previously, urgent technical discussions or research team meetings could be delayed while waiting for internal approval. The revised rules allow researchers to hold meetings more efficiently without being constrained by pre-approval procedures.

However, the elimination of pre-approval does not eliminate documentation requirements. During settlement or post-audit reviews, the following supporting records remain essentials:

- Purpose of the meeting
- Date, time, and location
- List of participants
- Summary of the meeting
- Relevance to the research project

In other words, while ex ante administrative control has been relaxed, ex post accountability remains unchanged. During research fund audits and settlement reviews, institutions must still be able to demonstrate that the meeting actually took place and that it was directly related to the research projects.

Introduction of the research innovation fund

Another key feature of the amendment is the introduction of the research innovation fund, a new budget category designed to provide researchers with greater flexibility and autonomy in managing research expenses.

Under the previous framework, detailed restrictions on individual budget categories often made it difficult to respond to changing research needs. The research innovation fund has been introduced to address these limitations by allowing more flexible use of research funds within defined boundaries.

The principal rules governing the research innovation fund include:

- The budget may be allocated up to 10% of the combined amount of research materials expenses and research activity expenses, subject to an average annual cap of KRW 50 million.
- The following expenditures are not permitted:
  - Research materials expenses exceeding KRW 3 million per transaction
  - Research activity expenses exceeding KRW 500,000 per transaction (External expert service fees are not permitted regardless of amount)
  - Personnel costs or expenses that are deemed equivalent to personnel costs
  - Expenses incurred outside Korea
- Any increase in the research innovation fund requires prior approval
- Supporting documents are not required if the purpose of expenditure and transaction details are properly entered into the integrated research fund management system.
- Meal expenses may now be charged even for meetings attended solely by researchers participating in the relevant R&D project.

Amendments to the national R&D project research fund management guidelines

What research institutions should prepare

Although the revised rules simplify administrative procedures, they do not eliminate the need for effective internal controls. Research institutions should therefore review and update their internal policies and procedures, including:

- Revising internal procedures for managing meeting expenses
- Strengthening documentation and record-keeping practices
- Establishing internal guidelines for the use of the research innovation fund
- Providing training to researchers and research administers
- Updating institutional research fund management policies to reflect the revised regulations

In particular, institutions should verify that their internal policies are fully aligned with the amended national regulations governing research fund management.

Key takeaways for researchers and administrators

The essence of the amendment is streaming procedures, not reducing accountability. Researchers and research administrators should keep the following points in mind:

- Mandatory pre-approval for meeting expenses has been abolished.
- Evidence supporting the meeting and its participants must still be maintained.
- The research innovation fund provides greater flexibility in the use of research funds.
- Institutions must continue to demonstrate that expenditures are directly related to the relevant research project during settlement and audit processes.
- Proper documentation remains critical for post-audit compliance.

Conclusion

The abolition of mandatory pre-approval for meeting expenses and the introduction of the research innovation fund represent a broader policy shift from an administratively controlled research funding system toward one that places greater trust in researchers while maintaining accountability through post-review mechanisms.

These changes provide researchers with increased flexibility in conducting research. At the same time, they do not lessen the responsibility to demonstrate that research funds have been used appropriately and in accordance with the objectives of the project.

Ultimately, effective research fund management is no longer defined by navigating complex approval procedures, but by ensuring that expenditures serve legitimate research purposes and are supported by clear and reliable documentation.

Key figures

Tax rates & social insurances rates

Aggregate income taxation standard	Tax rate*
Below KRW 14 million	6.6%
KRW 14 million ~ below KRW 50 million	16.5%
KRW 50 million ~ below KRW 88 million	26.4%
KRW 88 million ~ below KRW 150 million	38.5%
KRW 150 million ~ below KRW 300 million	41.8%
KRW 300 million ~ below KRW 500 million	44%
KRW 500 million ~ below KRW 1 billion	46.2%
Above KRW 1 billion	49.5%

*Including local income tax

Taxable income	Applicable rate*
Amount below KRW 200 million	11%
Amount exceeding KRW 200 million ~ below KRW 20 billion	22%
Amount exceeding KRW 20 billion ~ below KRW 300 billion	24.2%
Amount exceeding KRW 300 billion	27.5%

*Including local income tax

Social insurance	Employer portion	Employee portion
Health insurance and long-term care insurance	4.1%	4.1%
National pension	4.75%	4.75%
Employment insurance	0.9% + (0.25% ~ 0.85%)	0.9%
Industrial accident compensation insurance	0.7% ~ 18.6%	-
Total	**About 10.6% ~ 28.6% of wage**	**About 9.75% of wage**

Premium rate introduced in this table may vary depending on the situation. Besides, upper limitation is set for some contributions.

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