Tax newsletter

2026 tax reform proposal

forvis mazars

Tax newsletter

Amendments related to corporate tax

The Ministry of Economy and Finance announced the 2026 tax reform proposal on 3 August 2026.

The proposal focuses heavily on driving business investment and strengthening industrial competitiveness. Key measures for corporates include expanded tax credits for strategic technology R&D and domestic production. There are also new technical amendments to better integrate the Pillar 2 framework in domestic law.

The proposal is expected to go through the legislative notice process and cabinet meeting procedures in August, and to be submitted to the National Assembly by 3 September.

After deliberation by the Tax Subcommittee and passage in the plenary session, it is envisaged to be finalized in December. Accordingly, the key contents of the proposal are subject to change depending on the legislative process.

The key contents of the 2026 tax reform proposal are as follows.

Introduction of the new tax credit for domestic production

To support domestic production of vulnerable yet strategically important items, a new tax credit for domestic production has been established.

- Eligible items: Solar power, wind power, secondary batteries, semiconductors, key materials, and artificial intelligence (AI) robot parts
- Requirements: A domestic company must directly produce and sell eligible items in Korea. The core process must be performed domestically, and the proportion of domestic expenditure in eligible production costs must exceed a certain ratio.
- Effective date: Applies to production and sales in tax years beginning on or after 1 January 2027.

Regional preferred treatment for R&D and investment tax credits

To promote balanced regional growth, preferential tax credit rates will be applied to R&D and integrated investment tax credits based on the location of the business site.

- Adjustment method: The base credit rate is multiplied by a regional coefficient.
  - Seoul & metropolitan area: 1.0
  - Non-metropolitan regional cities: 1.1
  - Other non-metropolitan areas: 1.3
  - Other non-metropolitan preferential areas: 1.5
- Effective date: Applies to R&D expenses or investments occurring on or after 1 January 2027.

Amendments related to corporate tax

Rationalization of the integrated employment tax credit

The eligibility for the integrated employment tax credit is being adjusted to focus on small and medium-sized enterprises.

- Key changes: Large corporation are now excluded from the standard credit and preferential credit categories. Additionally, the additional credit for employees returning from childcare leave will be terminated as of 31 December 2026, as a new support system is planned for 2027.
- Effective date: Applies to taxpayers who apply for the credit for the first time in tax years beginning on or after 1 January 2027.

Inclusion of qualified domestic minimum top-up tax (QDMTT) in foreign tax credit

Reflecting OECD Global Minimum Tax administrative guidance, the scope of foreign taxes eligible for credit is expanded.

- Amendment: Explicitly includes QDMTT paid in a foreign jurisdiction as an eligible foreign tax for credit.
- Effective date: Applies to tax determinations or reassessments made on or after the date of the presidential decree's enforcement.

Supplementation of VAT rules for service transactions with foreign corporation

The rules regarding the reverse charge (proxy payment) of VAT for service transactions with foreign corporations are clarified.

- Amendment: If a foreign corporation's domestic place of business issues a tax invoice for services, it is deemed to be "related to the domestic place of business" and therefore the proxy payment rule (where the domestic recipient pays the VAT) does not apply.
- Effective date: Applies to services supplied during the tax period that includes the date of enforcement.

Tax deferral on deemed dividends for foreign subsidiary demerger

To support the restructuring of overseas businesses, a tax deferral is introduced for domestic parent companies.

- Provision: When a foreign subsidiary undergoes a "qualified demerger" (e.g., a carve-out where shares are distributed to shareholders or spin-off), the domestic parent company receiving those shares can defer the taxation on the resulting deemed dividends.
- Condition: The foreign subsidiary, wholly owned by a domestic company, must have operated for at least 5 years and be located in a country with tax treaty with Korea, and provides exemptions or tax deferral to the domestic parent company.

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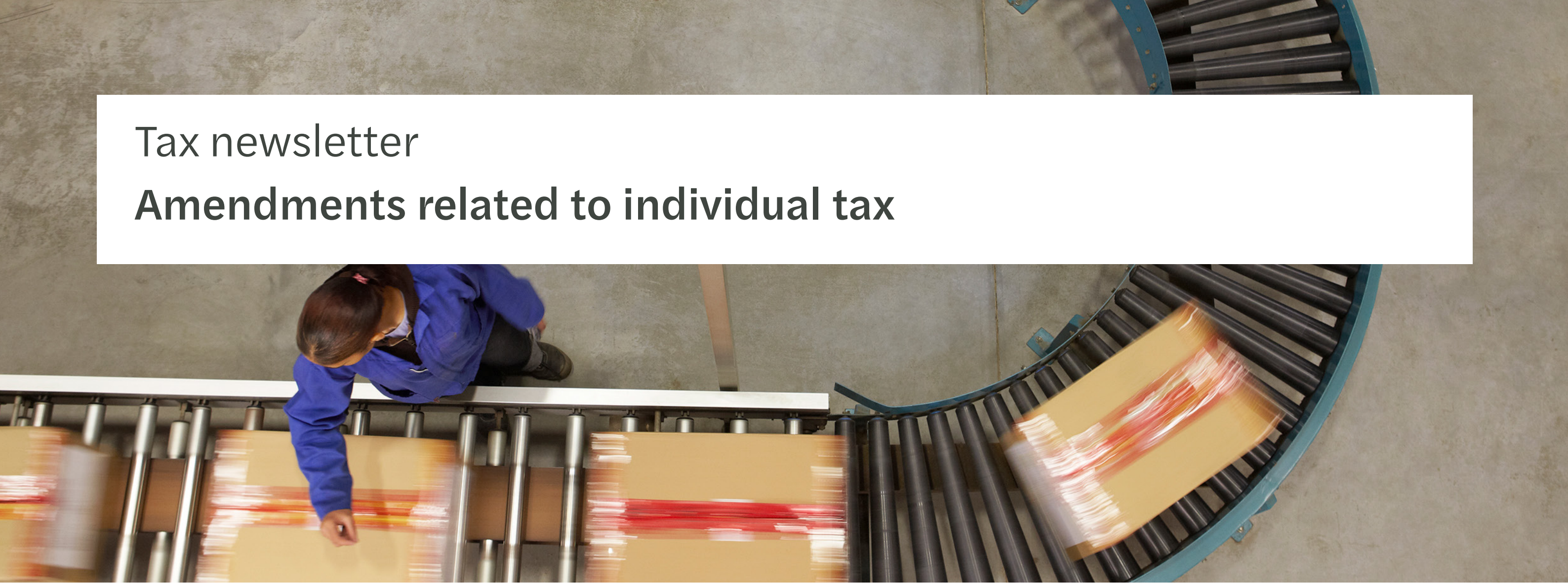
Amendments related to individual tax

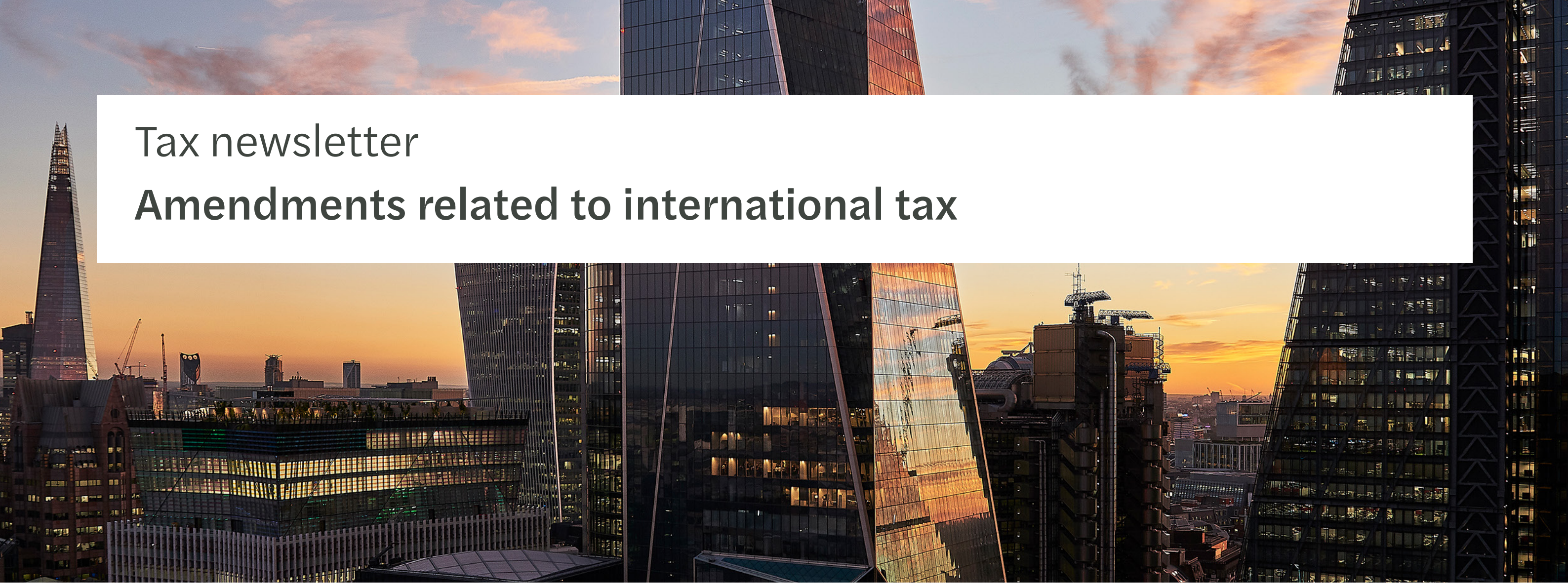


Increase in flat tax for foreign workers

To improve taxation equity, the single flat tax rate applied to foreign workers will be increased.

- Amendment: The flat income tax rate will increase from 19% to 21%.
- Application period: Available for 20 years from the date of working in Korea; the application should be done each year when the foreign worker elect this option.
- Effective date: Applies to income generated on or after 1 January 2027.

This exceptional regime would be extended until 31 December 2029.



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Amendments related to international tax

Rationalization of controlled foreign company (CFC) criteria

The criteria for determining a CFC will be adjusted to align with international standards, specifically the Global Minimum Tax.

- Threshold change: The effective tax rate threshold for determining a CFC will be lowered from 17.5% (70% of the maximum 25% corporate tax rate) to less than 15%.
- Effective date: Applies to fiscal years beginning on or after 1 January 2027.

Reflecting the Global Minimum Tax Amendments (Side-by-side package)

The proposal incorporates several new exemptions based on the OECD Global Minimum Tax administrative guidance.

- Side-by-side system exemption: If a group's ultimate parent is in a country with a qualifying "side-by-side" system, the top-up tax for its constituent entities is deemed zero. The side-by-side package is an OECD safe harbor framework that exempts compliant multinational groups from foreign top-up taxes by recognizing qualified national tax regimes as equivalent to the global minimum tax rules.
- Substance-based exemption: Tax benefits calculated based on actual expenditure (like R&D) or production are deemed not to have reduced the covered taxes when calculating the top-up tax.
- Simplified effective tax rate exemption: A new simplified method for calculating the effective tax rate is introduced to determine if top-up tax is zero for certain jurisdictions.

Clarification of fines for non-compliance with international transaction filing obligations

The scope of behaviour subject to fines regarding international transaction documentation is clarified.

- Amendment: Fines will now explicitly apply to cases where submitted data contains "material omissions or errors," in addition to the current criteria of non-submission or false submission.

Strengthening sanctions for violations of overseas financial account reporting

Sanctions for failing to report overseas financial accounts are being tightened to improve compliance.

- Public disclosure: The threshold for including an individual on the public list of violators will be lowered from an under-reported amount of over KRW 5 billion to over KRW 3 billion.
- Effective date: Applies to reports submitted on or after 1 January 2027.

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