



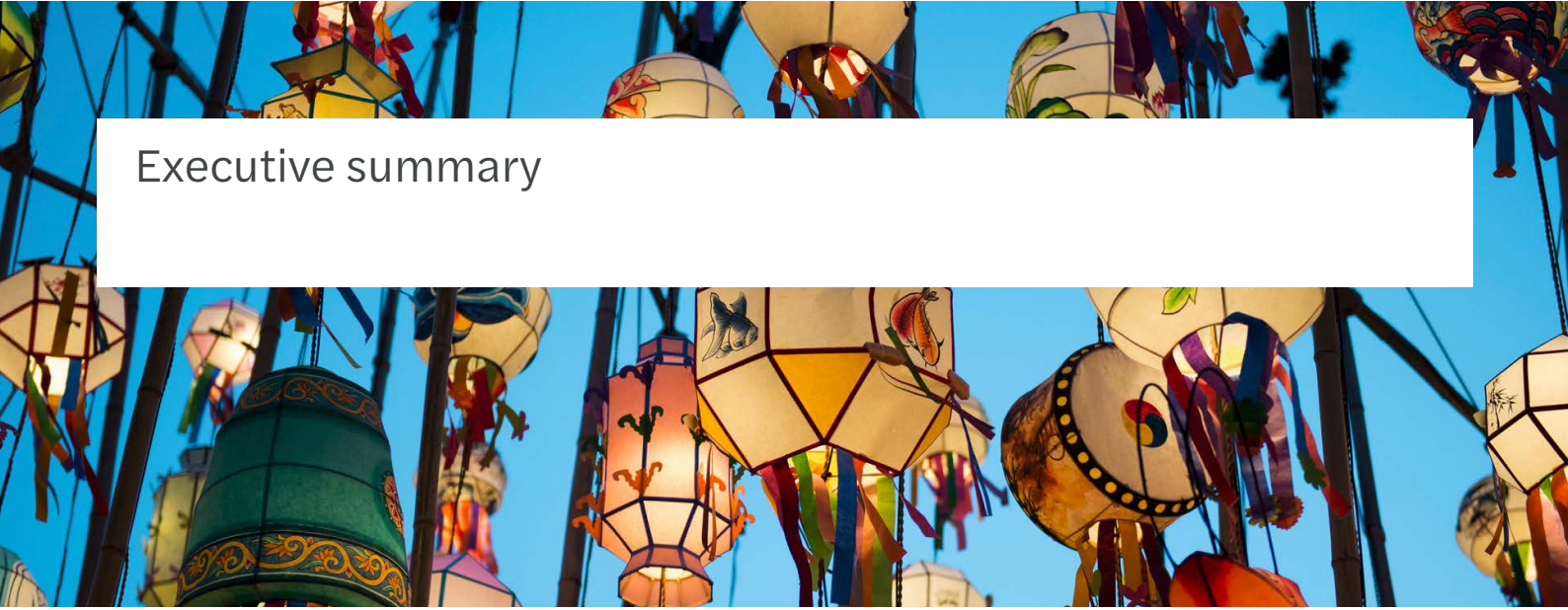
Korean insights & regulatory updates

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The issue highlights key changes under K-IFRS 1118, including the revised presentation of operating profit, new disclosure requirements for management-defined performance measures (MPMs), and changes to cash flow classification. Companies should assess the potential impact on financial reporting and prepare for its mandatory application from 2027.

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Blog

Recent blog articles

Recent blog articles cover a range of tax, accounting, and regulatory topics, including the fundamentals of transfer pricing and transfer pricing methods, vendor selection in national R&D projects, and inheritance tax relief for assets contributed to public interest entities.

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Tax updates

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Tax update

Recent tax case and key ruling

Seoul Administrative Court: Limits on splitting a single transaction

The Seoul Administrative Court ruled for the taxpayers in a case concerning whether the tax authority could re-characterise a direct share transfer from employees to Plaintiff B as two sequential transfers, first from the employee to Plaintiff A and then from Plaintiff A to Plaintiff B. The tax authority argued that the arrangement should be viewed as a multi-step transfer based on the parties' intentions and economic substance. The Court held, however, that Article 14(3) of the Framework Act on National Taxes permits circuitous or multi-step transactions to be consolidated into a single transaction, but does not clearly authorise the reverse approach of splitting a legally valid single transaction into multiple transactions.

The decision confirms that statutory limits apply when the substance-over-form principle is used to reconstruct a transaction. Where the contractual form is consistent with the actual flow of funds and legal rights, an additional intermediate transaction should not be deemed without a clear statutory basis. Nevertheless, the commercial purpose, decision-making process and other specific facts remain relevant. As this is a first-instance decision, further appellate review should be monitored. (Seoul Administrative Court, Feb 25, 2026; Case No. 2025Guhap53977)

NTS advance ruling: Youth deeming rule for employees hired in 2024

The National Tax Service (NTS) ruled that a Korean company first claiming the integrated employment tax credit for the 2026 taxable year may not apply the amended youth employee deeming rule to an employee whose employment contract was entered into in 2024. The employee was aged 34 or younger when hired in 2024 but exceeded the applicable age threshold after December 2025. The company asked whether the employee could continue to qualify based on the employee's age when the employment contract was signed.

The amended Enforcement Decree generally allows an employee who was aged 34 or younger when the employment contract was signed to remain a qualifying youth employee for a specified period after exceeding the age threshold. However, the transitional provisions distinguish employees by the date on which their employment contracts were entered into. The NTS therefore concluded that the amended rule does not apply to an employee hired in 2024, even where 2026 is the company's first credit year. (Advance Ruling Sajeon-2026-BeopGyuBeopIn-0729, Jul 30, 2026)

- **Practical takeaways:** Companies should review each employee's hiring year, age at the contract date, military service period and the applicable transitional provisions, and segment payroll and HR data by hiring year before calculating qualifying headcount.

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Accounting updates

FSS introduces illustrative pre-adoption disclosure examples for K-IFRS 1118 presentation and disclosure in financial statements

The Financial Supervisory Service (FSS) has introduced illustrative pre-adoption disclosure examples to help entities prepare for the implementation of K-IFRS 1118, presentation and disclosure in financial statements, ahead of its mandatory effective in 2027.

The illustrative example are intended to help financial statement users understand the expected effects of the new standard and to provide guidance on disclosures related to key changes, including the revised statement of profit or loss structure, management-defined performance measures (MPMs), and changes to the classification of cash flows.

There are no substantive accounting requirements introduced by the FSS beyond those contained in K-IFRS 1118 and IAS 8. However, the FSS has issued illustrative guidance encouraging more entity-specific disclosures about the expected impact of K-IFRS 1118. Accordingly, the FSS guidance should be viewed as supervisory guidance on the expected level of disclosure rather than as additional accounting requirements.

Overview of K-IFRS 1118

K-IFRS 1118 replaces the current K-IFRS 1001, presentation of financial statements, and was issues to enhance the comparability and transparency of information relating to financial performance.

Considerations

- K-IFRS 1118 is mandatorily effective for annual reporting periods beginning on or after 1 January 2027, with early adoption permitted.
- Entities are required to apply the standard retrospectively and restate comparative information in accordance with K-IFRS 1008.
- The pre-adoption disclosures apply not only to consolidated financial statements but also to separate or individual financial statements.
- Where the impact of adopting the standard is expected to be significant, entities should disclosure their implementation status and expected effects in the notes to the financial statements.

Key features

- Income and expenses are required to be classified into operating, investing, financing, income tax and discontinued operations categories, introducing a new operating profit structure.
- New disclosure requirements for MPMs have been introduced.
- The classification framework for interest- and dividend-related cash flows has been revised.
- Financial statement presentation and disclosure requirements have been comprehensively refined to enhance the comparability and usefulness of financial information.

Implications

- Entities should prepare qualitative and quantitative disclosures regarding the expected effects beginning with the comparative information presented in the 2026 financial statements.
- Auditors should strengthen their review of management's impact assessment process and the appropriateness of related disclosures.

Accounting updates

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Changes to the statement of profit or loss presentation

K-IFRS 1118 requires all income and expenses presented in the statement of profit or loss to be classified into five categories: operating, investing, financing, income tax, and discontinued operations.

Considerations

- Income and expenses that do not fall within the investing, financing, income tax, or discontinued operations categories are generally classified in the operating category.
- Operating profit is presented as a mandatory subtotal under the new structure.
- For certain entities, items previously presented within non-operating profit or loss may be included in operating profit.
- The classification of equity-accounted results, interest income, and dividend income may differ from current practice.

Expected impact

- The classification of items such as gains and losses on disposal of property, plant and equipment and reversals of impairment losses may change.
- Equity-accounted results will generally be classified within the investing category and may therefore be excluded from operating profit.
- Operating profit could change significantly even if profit for the period remains unchanged.

Line item	K-IFRS No.1001	Line item	K-IFRS No.1118	Change
Revenue	xx	Revenue	xx	-
Cost of sales	xx	Cost of sales	xx	-
Gross profit	xx	Gross profit	xx	xx
Selling and administrative expenses	xx	Selling and administrative expenses	xx	-
Share of profit or loss of associates and joint ventures accounted for using the equity method	xx	Gain on disposal of property, plant and equipment	xx	-
...	xx	Impairment loss on property, plant and equipment	xx	-
		Foreign exchange gain (operating)	xx	-
Operating profit	xx	Operating profit	xx	xx

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Line item	K-IFRS No.1001	Line item	K-IFRS No.1118	Change
Other income	xx	Share of loss of associates and joint ventures accounted for using the equity	xx	-
Interest expense	xx	Other investment gains and losses	xx	-
Foreign exchange gain	xx	Foreign exchange gains and losses (Investing)	xx	xx
Foreign exchange gain	xx	...	xx	-
Foreign exchange loss	xx	Profit before financing and income taxes	xx	-
...	xx	Interest expense on borrowing and lease liabilities	xx	-
		Interest expense on defined benefit obligations	xx	-
Operating profit		Foreign exchange loss (Financing)	xx xx	- -
Profit before income tax	xx	Profit before income tax	xx	-
Income tax expense	xx	Income tax expense	xx	-
Profit for the year	xx	Profit for the year	xx	-
Other comprehensive income	xx	Other comprehensive income	xx	-
Total comprehensive income	xx	Total comprehensive income	xx	-

Table 1. Illustrative changes to the statement of profit or loss presentation upon adoption of K-IFRS 1118

Accounting updates

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Furthermore, the introduction of aggregation and disaggregation principles will result in more granular presentation of line items in the statements of financial position. For example, financial assets currently presented as a single line item may be presented separately according to their measurement basis.

Line item	K-IFRS No.1001	Line item	K-IFRS No.1118 total assets
Total assets	xx	Total assets	xx
Cash and cash equivalents	xx	Cash and cash equivalents	xx
Financial assets	xx	Equity and debt instruments measured at fair value through profit or loss (FVTPL)	xx
		Debt instruments measured at amortized cost	xx
...	xx	...	xx
Total liabilities	xx	Total liabilities	xx
Trade payables	xx	Trade payables	xx
...	xx	...	xx
Total equity	xx	Total equity	xx

Table 2. Illustrative changes to the statement of financial position presentation upon adoption of K-IFRS 1118

Implications

- Entities should assess the impact on KPIs, performance evaluation frameworks and financial ratios used in borrowing arrangements.
- The reasons for changes in operating profit should be clearly communicated with investors.
- Auditors should focus on the appropriateness of category classifications and the reasonableness of management's judgements regarding primary business activities.

Accounting updates

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Introduction of management-defined performance measures (MPMs)

K-IFRS 1118 introduces new disclosure requirements for MPMs, which are specific performance measures used in public communications outside the financial statements.

Considerations

- Measures such as adjusted operating profit and adjusted EBITDA used by management to evaluate performance may qualify as MPMs.
- Entities are required to disclose why these measures are used and how they are calculated.
- A reconciliation to the most directly comparable IFRS-defined subtotal must be provided.
- The tax effects of reconciling items and their impact on non-controlling interests must also be disclosed.

Implications

- Entities should establish processes for identifying and managing reportable performance measures.
- Performance measures used in investor relations materials, annual reports, and press releases should be reviewed comprehensively.
- Auditors should evaluate the completeness of identified MPMs and the appropriateness of reconciliation.

Changes to cash flow classification

The issuance of K-IFRS 1118 also resulted in amendments to K-IFRS 1007, statement of cash flows including changes to the cash flow classification framework.

Considerations

- Under the indirect method, the starting point for determining operating cash flows changes from profit for the period to operating profit.
- Accounting policy choices regarding the classification of interest and dividend cash flows are eliminated.
- Interest received and dividends received are generally classified as investing cash flows.
- Interest paid is generally classified as financing cash flows.

Implications

- Cash flow-KPIs and analytical models may need to be revised.
- The impact may be particularly significant for financial institutions, REITs, and investment entities, making early impact assessments important.
- Auditors should perform sufficient audit procedures to assess the completeness and accuracy of cash flow reclassifications.

Line item	Former K-IFRS No. 1007 (A)	Revised K-IFRS No. 1007 (B)	Change (B-A)
Cash flows from operating activities	xx	xx	xx
Cash flows from investing activities	xx	xx	xx
Cash flows from financing activities	xx	xx	xx

Table 3. Illustrative changes in cash flow classification upon adoption of K-IFRS 1118

Accounting updates

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Importance of assessing primary business activities

K-IFRS 1118 provides that the classification of income and expenses may differ depending on whether investing in particular assets or providing financing to customers constitutes an entity's primary business activity.

Considerations

- Activities such as investment property operations and financing activities require an assessment of whether they constitute a primary business activity.
- Where such activities are determined to be primary business activities, certain investment or financing income and expenses may be classified within the operating category.
- Management's judgement in this area may have a significant impact on financial performance measures.

Implications

- Entities should systematically document the basis for their judgements.
- Auditors should consider the business model, revenue structure and management reporting framework in their evaluation.

Recent blog articles



Tax

Transfer pricing: key concepts and why it matters

The article introduces the basics of transfer pricing and key considerations companies should keep in mind when managing intercompany transactions.

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Business expense verification

Vendor selection in national R&D projects

The article examines key considerations and items to verify beforehand when selecting vendors or partners for national research and development (R&D) projects.

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Tax

Transfer pricing methods: CUP, RPM, CPM

The article explains the three transfer pricing methods, illustrate how they work, and outline key considerations for choosing the right one.

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Tax

Inheritance Tax relief for public interest gifts

The article explores the inheritance tax benefits available for contributions to public interest corporations and the key requirements that must be observed.

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Key figures

Tax rates & social insurances rates

Aggregate income taxation standard	Tax rate*	Taxable income	Applicable rate*
Below KRW 14 million	6.6%	Amount below KRW 200 million	11%
KRW 14 million ~ below KRW 50 million	16.5%	Amount exceeding KRW 200 million ~ below KRW 20 billion	22%
KRW 50 million ~ below KRW 88 million	26.4%	Amount exceeding KRW 20 billion ~ below KRW 300 billion	24.2%
KRW 88 million ~ below KRW 150 million	38.5%	Amount exceeding KRW 300 billion	27.5%
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

*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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