

# Personal Income Tax Exemption for Foreign Employee in Korea

July 24, 2015

## **1. Overview**

If a person is employed & serviced in local company within Korean territory as a foreigner and received the earned income, how to treat and apply under the tax exemption system of "Restriction of Special Taxation Act" (hereinafter "Special Act").

## **2. Review point**

- (1) Personal Income Tax reduction or exemption for foreign engineers < Special Act Article 18 >
- (2) Special Taxation for foreign workers < Special Act Article 18 – 2 >

## **3. Special Taxation for Foreign Engineers**

- (1) The object of and conditions

A foreign engineer shall be entitled to the exemption from **50% of income tax on earned income derived from the offer of his services to a national within Korea** until the month whereto belongs the date on **which two years have passed since the first date on which the foreign engineer concerned offered his services in Korea** (limited to a case where services are offered prior to December 31, 2018).

- (2) Definition of Foreign Engineer

- ① A person who provides technology in Korea under such engineering technology license agreements
- ② A person who serves as a researcher at a research and development institution of Foreign Investment Corporation which meet the standard requirements, e.g. the corporation is equipped with an independent research facility, etc.

- (3) Reduction Application and the documents for submission

- ① A written application for tax deduction or exemption to the head of tax office having jurisdiction over withholding taxes through a withholding agent not later than tenth of the following month of that in which the date on which labor is provided falls.
- ② The documents for submission
  - Written documents for the engineer's career
  - Written documents for the engineer's academic background
  - Contract for engineering technology license agreement
  - Employment agreement
  - Confirmation letter from Ministry of Education, Science and Technology

#### 4. Special Taxation for Foreign Workers

(1) The object of and conditions

With respect to income tax on earned income by an executive or employee which is a foreigner (excluding daily employed workers; hereinafter referred to as "foreign workers") which is **derived by the offer of their services in Korea until the taxable period in which the date of the fifth year lapse after the commencement date of the service (no later than December 31, 2016), an amount computed by multiplying the relevant income by 17/100 may be adopted as the amount of such income tax,** notwithstanding Article 55 (1) of the Income Tax Act.

(2) Matters that Require Attention

In this case, **provisions concerning income taxation, such as tax exemption (including the case as provided in paragraph (1)), deduction, reduction or exemption, and tax credit under the Income Tax Act as well as this Act shall not be applicable.** And this is **only applicable to those who do not have the nationality of the Republic of Korea** at the time of the application for the withholding.

(3) Reduction Application and the Documents for Submission

- ① A foreign worker, who intends to have this Act applied for monthly earned income, is required to submit an application for withholding applying single tax rate to the head of tax office having jurisdiction over withholding through a withholding agent not later than tenth of the following month of that in which the date on which labor is provided falls.
- ② A foreign worker, who intends to have this Act applied for a year-end settlement of earned income is required to submit an application for applying single tax rate to the withholding agent by due date for the year-end settlement of earned income tax amount.
- ③ A foreign worker, who intends to have this Act applied for a final return of global income, is required to submit an application for applying single tax rate to the head of tax office having jurisdiction over the place of tax payment by due date for the final return of global income tax base.

(Reference: No. 26, 외국인에 대한 조세감면검토 / 외국인투자기업업무사례 \ 신고&세무실무)