Corporate Income Tax

1. Definition

Corporate income taxes are taxes charged against profits earned by a corporation, not by an individual. In principle, an entity registered as a corporation is a corporation. Nonetheless, in some cases, even though it is not registered as a corporation, a corporate income tax law shall be applied. All the income earned in the business of a corporation is taxed, and the system requires the corporation to calculate taxable income and tax amounts of the fiscal year, and to file and make tax payments.

2. Responsibility to pay corporate income tax

Category of corporation	A corporate income tax on the profits of each fiscal year	Corporate income tax against the gains on transfer of property such as land	Corporate income tax on liquidation income
Domestic profit-making corporation	Domestic and overseas earned incomes for the fiscal year	Profit on transfer of property such as domestic land	Liquidation income at the time of dissolution (merge)
Domestic non-for-profit corporation	Profits earned in both domestic and overseas profit-making businesses	Profit on transfer of domestic property, such as land	Not applicable.
Foreign for-profit corporation	Domestic sourced income	Profit on transfer of domestic property, such as land	Not applicable
Foreign non-for-profit corporation	Profit earned in the domestic sourced profit-making business	Profit on transfer of domestic property, such as land	Not applicable

* For corporate income tax purposes, a domestic corporation is distinguished from a foreign corporation. A domestic corporation is a corporation with its headquarter or a main office located in the Republic of Korea, and a foreign corporation is a corporation with its headquarters or a main office located in a foreign country. Even a foreign corporation shall be liable to pay a corporate income tax if its business place is located in the Republic of Korea.

3. Fiscal Year

For a corporate income tax purposes, a fiscal year means an accounting period of the corporation. A fiscal year of a corporation is in general an accounting period defined in the articles of incorporation or regulations of the corporation. However, the period, as a rule, shall not exceed one year.

4. Tax Reconciliation

Tax Reconciliation is a process of adjusting the differences between the taxable income in the tax laws and the financial income prepared in accordance with the financial accounting standards, because corporation accounting and tax laws are different from each other in their purposes and functions.

The corporate income tax law requires the corporation to file financial statements according to the financial accounting standards, tax reconciliation statements, and any other necessary documents.

1) Additions

- **Taxable income**

There are some items that are not considered as an income in financial accounting, but considered as a taxable profit. These items are added to the financial income for the fiscal year (e.g. the deemed interest for provisional payments, under recognition of valuation gains, etc.)

- **Non-deductible expense**

It means the process of adding an item that is not considered an expense in taxation, while it is an expense in financial accounting for the fiscal year. Such items are fines, penalties, amounts exceeding the limits of donations and entertainment expenses.

2) Deductions

- **Deductible expense**

It means the process of deducting an item that is considered an expense in taxation, even though it is not an expense in financial accounting from the net profit for the fiscal year. For example, a provision for reserve for development of technology and for investment reserve fund.

- **Non-taxable income**

There are some items that are considered as an income in financial accounting, but are not considered as a profit in taxation. These items are excluded from the net profit in financial accounting for the fiscal year. For example, over recognition of valuation gains is one of these items.

5. Process of calculation for a corporate tax

A corporate income tax is calculated through the following process:

1) Tax income = net income + addition to profit (non-deductible expense) – deduction of expense (exclusion from profit)
2) Tax base = Tax income – tax loss carried forward - non-taxable income - allowances
3) Calculated tax amount = tax base X tax rate [*1]
4) Total tax liability = Calculated tax amount-tax exemption - tax credit + penalties + additional tax amount for an exempted amount
5) Remaining tax liability = Total tax liability-tax already paid (Interim prepaid tax amount, tax amount withheld, occasionally imposed tax amount)

[Tax rate}

Tax base	Tax Rates
Up to 200 million KRW	9%
Exceeding 200 million KRW - below 20 billion KRW	19% (18 million KRW + over 200 million KRW X 19%)
Exceeding 20 billion KRW – below 300 billion KRW	21% (3.78 billion KRW + over 20 billion KRW X 21%)
Exceeding 300 billion KRW	24% (62.58 billion KRW + over 300 billion KRW X 24%)

- As of December 31, 2022
- 10% surtax (local tax) will be added