South Korea

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

- The tax benefit for investments in facilities for productivity improvement is temporarily enhanced for investments made between 1 January 2020 and 31 December 2020 (for large companies) or 31 December 2021 (for medium-sized companies and SMEs).
- The tax benefit for investments in safe facilities is enhanced for investments made on or before 31 December 2021.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D tax credit for SMEs	A tax credit is available for SMEs meeting annual sales revenue and asset value thresholds and engaging in R&D activities	Greater of 50% of the current year R&D expenditure exceeding the average R&D expenditure for the previous year, or 25% of the current year R&D expenditure. Enhanced credits may apply	Labor costs, materials costs, rent for R&D equipment, commissions paid to the qualifying body, training costs, and other costs	R&D subsidized by the government is not eligible for the R&D tax credit
Investment tax credit for environmental conservation	A tax credit is available on investments in equipment used in environmental protection	3% of qualifying investment for large companies, 5% for medium-sized companies, and 10% for SMEs	Investment for air pollution prevention facilities, noise or vibration prevention facilities, water pollution prevention facilities, waste treatment facilities, waste quantity reduction facilities, etc.	Used machinery is not eligible for the credit
Employment tax credit for creation of employment	A tax credit is available for companies that increase the number of full-time employees or the number of young or handicapped employees	Depending on the size of the company, KRW 4 million–KRW 12 million multiplied by the increase in the number of young (under 29) or handicapped employees, and KRW 4.5 million-KRW 7.7 million multiplied by the increase in the number of full-time employees	Not applicable	Clarification is needed regarding how to measures the increase in the number of employees

Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
	Telecom, Media & Entertainment		Banking & Capital Markets
●	Technology		Insurance
	Consumer		Investment Management
	Consumer Products		Real Estate
	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
	Automotive	●	Health Care
	Transportation, Hospitality & Services	●	Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
●	Power & Utilities		Health & Social Care
	Mining & Metals		Defense, Security & Justice
	Oil, Gas, & Chemicals		Civil Government
	Industrial Products & Construction		International Donor Organizations
			Transport

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D) tax credit	● (permanent incentive)	● (no)	● (permanent incentive)	National: Arrears Local: Not applicable	Tax credit for qualifying enterprises on R&D expenditure. Enhanced credit may apply on expenditure for certain programs and an additional credit applies on qualifying IP purchases	Credit of 0%–30% of qualifying research expenses, 5% on qualifying IP purchases	Credit of 8%–50% of qualifying research expenses, 10% on qualifying IP purchases of SMEs, 5% on qualifying IP purchases of medium-sized enterprises
Enhanced R&D credit	(temporary incentive)	● (no)	● (not applicable)				
Patent box incentives	(temporary incentive)	● (no)	● (permanent incentive) ● (not applicable)	National: Arrears Local: Not Applicable	Tax exemption for SMEs that transfer or lease patent rights to a Korean party	Not applicable	Exemption of 50% of corporate income tax on capital gains from the transfer or 25% of the corporate income tax on rental income
Investment							
Capex: Tax credit for investing in facilities for research and testing	(temporary incentive)	● (no)	● (permanent incentive) ● (not applicable)	National: Arrears Local: Not applicable	Tax credit for enterprises investing in qualifying R&D equipment and facilities	1% of qualfying investments	3%–7% of qualifying investments
Capex: Tax credit for investing in facilities for productivity improvement	(temporary incentive)	● (no)	● (permanent incentive) ● (not applicable)	National: Arrears Local: Not Applicable	Tax credit for enterprises investing in qualifying facilities for productivity improvement	2% of qualfying investments	5%–10% of qualifying investments

Key: ● = PERMANENT INCENTIVE (|||) = TEMPORARY INCENTIVE (|||) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment (continued)							
Capex: Tax credit for investing in facilities for workers' welfare promotion	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises investing in qualifying facilities promoting the welfare of workers	3% of qualifying investments (10% for qualifying investments in workplace daycare centers)	5%–10% of qualifying investments
Capex: Tax credit for investing in safe facilities	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises investing in qualifying safe facilities	1% of qualifying investments	5%–10% of qualifying investments
Capex: Tax credit for investing in new growth engine technology	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises investing in facilities for the commercialization of new growth engine technology	5% of qualifying investments	7%–10% of qualifying investments
Employment: Tax credit for creation of employment	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises that increase the number of full-time employees or the number of young or handicapped employees	KRW 4 million, multiplied by the increase in the number of young or handicapped employees	KRW 11–12 million, multiplied by the increase in the number of young or handicapped employees, and KRW 7–7.7 million, multiplied by the increase in the number of full-time employees
Environmental sustainability							
Tax credit for investing in facilities for energy-saving	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises investing in qualifying energy saving facilities	1% of qualifying investments	3%–7% of qualifying investments
Tax credit for investing in facilities for environmental protection	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax credit for enterprises investing in qualifying enironmental protection facilities	3% of qualifying investments	5%–10% of qualifying investments
Other							
Tax incentive for foreign-invested companies	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE / NOT APPLICABLE	National: Arrears Local: Not applicable	Tax exemption for qualifying foreign-invested companies engaging in certain high-technology businesses	Acquisition and property tax exemption on capital injected	Acquisition and property tax exemption on capital injection

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

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Country background

The corporate tax rate in South Korea ranges from 11% to 27.5%.

South Korea offers a general tax credit for R&D expenditure and an additional credit for investment in R&D equipment.

Innovation incentives

Research & development (R&D)

Nature of incentives

The amount of the R&D incentive depends on whether the company that engages in the research is considered a small and medium-sized company (SME), a medium-sized company, or a large company:

- An SME has annual sales revenue ranging from KRW 40 billion to KRW 150 billion, depending on the business category, and assets valued under KRW 500 billion;[1]
- A medium-sized company is one that does not qualify as an SME, but whose average sales revenue for the previous three years is less than KRW 500 billion; and
- A large company is a company that is not considered an SME or a medium-sized company.

SMEs

A SME is entitled to a tax credit equal to the greater of (i) 50% of the current year R&D expenditure exceeding the average R&D expenditure for the previous four years; or (ii) 25% of the current year R&D expenditure.

An enhanced tax credit is computed based on the current R&D expenditure related to the New Growth Engine Industry or Original Source Technology program designated by the government authority. The enhanced tax credit rate is determined as follows:

- 30% + (R&D expenditure for the New Growth Engine Industry and Original Source Technology program/total sales x 3); and
- The total rate is capped at 40%.

A tax credit equal to 10% of the purchase price of certain intellectual property (IP) purchased on or before 31 December 2021 by an SME from a Korean party is available (capped at 10% of the corporate income tax amount).

A patent box also is available to SMEs. If an SME transfers or leases IP it developed to a Korean party, the SME is entitled to an exemption for 50% of the corporate income tax on capital gains arising from the transfer or 25% of the corporate income tax on rental income.

Medium-sized companies

Medium-sized companies are entitled to a tax credit that is the greater of (i) 40% of the current year R&D expenditure exceeding the average R&D expenditure for the previous year; or (ii) 8% of the current year R&D expenditure.

Large companies

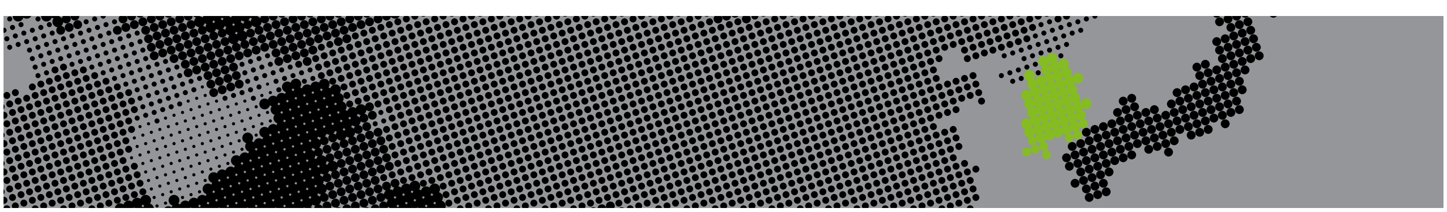
Large companies are entitled to a tax credit that is the greater of:

- 25% of the current year R&D expenditure exceeding the average R&D expenditure for the previous four years; or
- 50% of the R&D expense ratio (i.e., current R&D expense divided by sales revenue) of the current year R&D expenditure, capped at 2% of the current year R&D expenditure.

Enhanced R&D tax incentives

- *New Growth Engine Industry or Original Source Technology Programs*: An enhanced R&D tax credit for medium-sized and large companies is computed on qualified expenditure related to these programs under the following formula that determines the credit rate:

1. A company will not qualify as an SME if a large company (i.e., a company with assets over KRW 500 billion) owns more than 30% of the shares of the company; in other words, all associated companies are considered in determining whether a company qualifies as an SME by applying a 30% ownership rule.



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  – 20% (25% for medium-sized companies traded on KOSDAQ market) + (R&D expenditure for the New Growth Engine Industry and Original Source Technology program/total sales x 3); and
  – The total rate is capped at 30% (35% for medium-sized companies traded on KOSDAQ market).

- *Tax credit for IP purchased from SMEs:* If a large company purchases certain IP prescribed by the tax law from a Korean SME on or before 31 December 2021, the large company is entitled to claim a tax credit in an amount equal to 5% of the purchase price (capped at 10% of the corporate income tax amount).

This credit is computed on qualifying expenditure made on or before 31 December 2021. Unutilized R&D credits may be carried forward for five years.

Investment tax credit for R&D equipment

The investment tax credit for R&D equipment is 1% of the investment in equipment used in R&D for large companies, 3% for medium-sized companies, and 7% for SMEs.

Eligible expenses include the cost of machinery, facilities, tools, office machines, telecommunications instruments, testing machines, optical instruments, etc. used to carry out the R&D activities.

This credit is computed on qualifying expenditure made on or before 31 December 2021. Unused R&D credits may be carried forward to the following five years.

Eligible industries and qualifying costs

R&D activities include research conducted by the certified R&D department of the company and/or qualifying bodies (i.e., universities, colleges, research institutions) to develop technology for the company and for trademark designs, manpower training, and quality control.

Qualifying R&D costs include labor costs (salaries, wages, bonuses, etc.), materials costs (samples, parts, and raw materials used in the conduct of R&D), rent for R&D equipment, commissions paid to the qualifying body, training costs, and other costs (trademark development costs, design development costs, consulting fees, and quality guarantee costs). However, R&D subsidized by the government is not eligible for the R&D tax credit.

IP and jurisdictional restrictions

All R&D expenditure directly related to the R&D activities of the company may be claimed in the tax credit computation, regardless of where the R&D activities are carried out, except for research subcontracted to academic institutions, which must be located in South Korea. Any resulting IP does not have to be held by the South Korean company.

Other concerns

Companies may file an amended tax return to claim the credit up to five years from the date the original return was due.

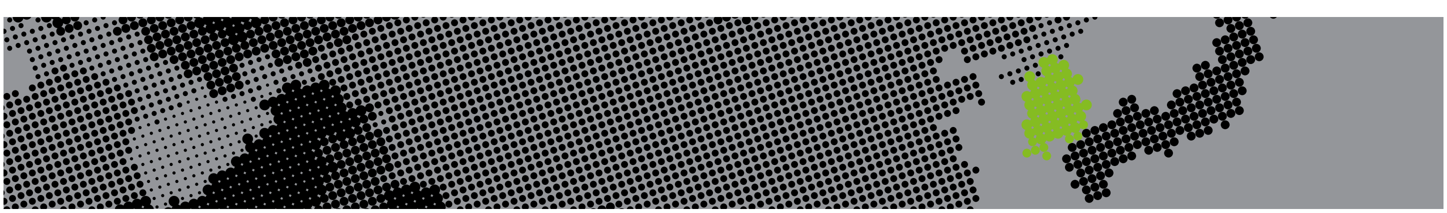
Investment incentives

Capex—Tax credit for investing in facilities for productivity improvement

Under the Tax Incentive Limitation Law (TILL), if a resident makes an investment to increase productivity (e.g., an automated facility, a high-tech facility, an ERP system, etc.) on or before 31 December 2021, investment tax credits in the following amounts may be applied to reduce the corporate income tax:

- Large companies: 1% of qualifying investments (2% for investments between 1 January 2020 and 31 December 2020);
- Medium-sized companies: 3% of qualifying investments (5% for investments between 1 January 2020 and 31 December 2021); and
- SMEs: 7% of qualifying investments (10% for investments between 1 January 2020 and 31 December 2021).

Unused investment tax credits may be carried forward to the following five years.



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Capex—Tax credit for investing in facilities for worker's welfare promotion

The TILL provides an investment tax credit (3% for large companies, 5% for medium-sized companies, and 10% for SMEs) for the acquisition (including new construction, reconstruction, extension, or purchase) of qualifying facilities to improve the welfare of workers (e.g., national housing to be leased to employees, dormitories, health training facilities, medical intuitions, and facilities for the disabled, elderly, pregnant women, etc.). The credit is 10% for investments in daycare centers. The credit is computed on qualifying investments made on or before 31 December 2021. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Capex—Tax credit for investing in safe facilities

The TILL provides an investment tax credit (1% for large companies, 5% for medium-sized companies, and 10% for SMEs) for the purchase of qualifying new facilities and equipment to improve safety (e.g., industrial accident prevention facilities, earthquake-proof facilities, etc.). This credit is computed on qualifying investments made on or before 31 December 2021. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Capex—Tax credit for investing in facilities for commercialization of new growth engine technology

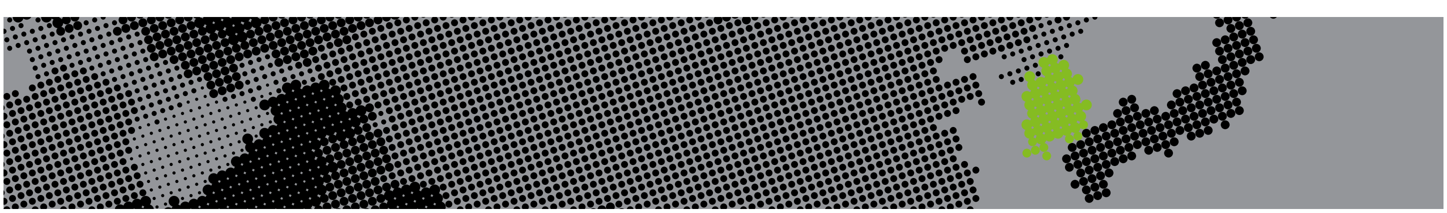
The TILL provides an investment tax credit (5% for large companies, 7% for medium-sized companies, and 10% for SMEs) for the purchase of qualified new facilities and equipment designed to promote the commercialization of new growth engine technology (e.g., facilities for the manufacturing of new drugs for which patents are obtained by a company based on clinical trials). The credit is computed on qualifying investments made on or before 31 December 2021. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Employment tax credit for creation of employment

A tax credit is available for the creation of full-time employees and for the creation of employment for young or handicapped persons. This employment tax credit does not require corporate investment, unlike the employment tax credit for investing in the workforce (that was available until 2017). The amount of the tax credit per employee is as follows:

Type	Full-time employees	Regular young employees, handicapped employees
SMEs	KRW 7 million per additional employee per year in metropolitan areas, KRW 7.7 million in other areas	KRW 11 million per additional employee per year in the metropolitan area, KRW 12 million in other areas
Medium-sized companies	KRW 4.5 million per additional employee per year	KRW 8 million per additional employee per year
Large companies	N/A	KRW 4 million per additional employee per year

A company may receive a benefit from the tax credit for three years if it maintains the employment (two years for large companies). The credit is available until 31 December 2021.



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Environmental sustainability incentives

Tax credit for investing in energy saving facilities

The TILL provides an investment tax credit (1% for large companies, 3% for medium-sized companies, and 7% for SMEs) for the purchase of qualifying new facilities and equipment to achieve energy savings. The credit is computed on qualifying investments made on or before 31 December 2021. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Tax credit for investing in facilities for environmental protection

The TILL provides an investment tax credit (3% for large companies, 5% for medium-sized companies, and 10% for SMEs) for the purchase of qualified new facilities and equipment for environmental protection, such as air pollution prevention facilities, waste water reprocessing facilities, soil pollution prevention facilities, etc. The credit is computed on qualifying investments made on or before 31 December 2021. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Other Incentives

Tax incentive for foreign-invested companies

Foreign-invested companies that engage in certain qualifying high-technology businesses can apply for a five-year exemption from acquisition tax and property tax. The exemption begins from the first year of profitable operations (and from the fifth year if there are no profits until that time). The full exemption is followed by a two-year 50% exemption in proportion to the foreign shareholding ratio. The tax exemption is based on the total tax base if certain requirements are met, e.g., if the income from the business using new growth engine technologies accounts for 80% or more of the total tax base. However, there is a limit for the tax exemption that varies depending on the types of tax holidays (e.g., 80% to 100% of capital injection amounts made by a foreign investor). The scope of businesses eligible for foreign investment tax incentives currently includes only new growth engine industries.