

Operational taxes newsalert



Update regarding proposal for revision to Korean CGT threshold

Introduction

This alert provides an update to the alert issued on 27 November (which can be found [here](#)) regarding the proposed changes to the application of the exemption to Korean Capital Gains Tax ('CGT') applicable to certain listed Korea stocks.

Background

Current situation

Under current rules, gains arising on the transfer of shares in Korean companies are exempt from Korean CGT where:

- The foreign shareholder (and its related parties) own less than 25% of the total outstanding shares issued by the Korean company during the year of the share transfer and the preceding 5 years; and
- The share transfer takes place on the stock exchange.

The capital gains tax rate is currently the lower of 22% of the capital gains or 11% of the sales proceeds.

Update on new proposal

On 8 January 2018, draft regulations were issued by the Korean Ministry of Strategy and Finance ("MOSF"). These draft regulations are in line with the proposal which was announced on 2 August 2017 and outlined in our previous alert which can be found [here](#). The aim of these draft regulations is to reduce the shareholding ownership threshold at which CGT will apply for non-resident investors on listed securities transactions from 25% to 5%. This change is proposed to take effect from 1 July 2018.

If these regulations are published as currently proposed, they may prove problematic for funds as there are related party and aggregation rules relating to calculation of the shareholding ownership percentage. This could result in funds exceeding the 5% threshold and therefore not being able to benefit from the CGT exemption (where they may have previously been able to access the exemption under the higher threshold).

The deadline for submitting comments to the MOSF in respect of these draft regulations is 29 January 2018. We understand that the Asia Securities Industry & Financial Markets Association (ASIFMA) plans to submit comments.

More information

Korean Ministry of Strategy and Finance

Please find a link to their press release [here](#).

Asia Securities Industry & Financial Markets Association

Please find a link to their press release [here](#).

Next steps

PwC will continue to closely monitor the situation and provide further updates as more information becomes available.



For more detailed information,
please do not hesitate to contact:

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