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NEWSLETTER

TAX Group

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New Administration's Tax Agenda: Implications for Foreign Investors

Following a closely contested election, President Lee Jae-myung has officially assumed office as South Korea's new head of state. As a former governor and long-standing advocate of progressive economic reform, President Lee has pledged a number of tax policy changes that may reshape the fiscal landscape for both domestic and foreign businesses operating in Korea. Below is a high-level summary of his key tax-related pledges and their potential implications for the international business community.

Key Tax Policy Pledges by the Newly-Elected President

1. Progressive Tax Reform & Redistribution

President Lee's administration is expected to pursue higher taxation on large corporations and high-net-worth individuals, with the stated aim of funding expanded social welfare initiatives.

Implication: Multinational corporations with significant Korean operations may wish to monitor any proposed increases in the corporate income tax rate or changes to dividend and capital gains taxation.

2. Legal Reforms to Promote Financial Market including Abolition of the Financial Investment Income Tax

President Lee has announced his ambition to raise the KOSPI index to 5,000. To support this objective, a dedicated task force – named the "KOSPI 5,000 Committee" – has been established within his election campaign team. A series of legislative reforms, including amendments to the Commercial Act and financial regulatory frameworks, are anticipated within his term in office. These measures are aimed at revitalizing the domestic stock market and encouraging greater foreign investment.

Additionally, President Lee has expressed support for abolishing the Financial Investment Income Tax, which was previously set to impose capital gains taxes on individuals earning more than KRW 50 million annually from financial investments in listed stock.

Implication: This move is likely to boost the domestic capital market and encourage foreign portfolio investments into Korean stock.

3. Expansion of tax incentives for strategic industries

The new government has proposed expanding tax incentives for strategic industries, including the semiconductor and battery sectors. This initiative could expand into other strategic industries. In addition to the existing integrated investment tax credit, a new tax regime will be introduced to promote the domestic production of targeted products. Furthermore, the government is considering a mechanism to partially refund tax credits in cash, which could be referred to as the Korean version of the IRA.

Implication: Foreign investors and partners considering investments in Korea or joint ventures with Korean companies should consider amendments to relevant laws and regulations, as these may impact investment strategies.

4. Scaling up AI: Investment and Incentive Expansion

The new government has identified the AI industry as a strategic priority and aims to position Korea among the world's top three AI powerhouses. To achieve this, it has proposed policy initiatives to drive large-scale public and private investment, including a national AI investment plan totaling KRW 100 trillion and the establishment of a national AI data cluster.

In line with the policy to foster AI as a strategic industry, the government is expected to expand support measures such as R&D funding, development of cloud-based AI platforms, promotion of AI adoption across industries, tax credits, and infrastructure provision.

Implication: Companies should take advantage of favorable conditions for AI-related R&D investment. Even if AI is not their core business, it is worth monitoring whether benefits may be available when AI is applied to key business functions such as production, services, or marketing.

5. Individual Income Tax Reform

To ease the tax burden on middle- and lower-income households, President Lee has proposed:

- A family coefficient system to adjust tax obligations based on family size
- Expanded credits for households with children and communication expenses

Implication: These changes could influence household consumption and demographic policy planning.

6. Inheritance and Gift Tax Reform

President Lee advocates a more equitable wealth transfer regime, including:

- Increased basic (KRW 800 million) and spousal (KRW 1 billion) deductions
- Recipient-based inheritance taxation
- Opposition to rate reductions (the top rate remains at 50%)

Implication: These changes to inheritance tax are not directly related to corporate activities. However, since Korea determines fair market value in intercompany transfers based on the valuation methods prescribed under the Inheritance and Gift Tax Act, it is important to closely examine the relevant changes to ensure compliance and manage potential tax risks.

What Comes Next?

Formal legislative proposals for tax reform are expected at the end of July 2025 by the Ministry of Economy and Finance.

Lee & Ko's Commentary

At Lee & Ko, we continue to monitor the evolving legislative environment with a multidisciplinary team spanning tax, public policy, and cross-border advisory. We are well-positioned to support:

- Legislative tracking and policy analysis
- Structuring of foreign investments in light of tax incentives
- Strategic representation in policy dialogues and regulatory consultations
- Providing support for compliance with amended tax laws and regulatory updates

Please contact us to discuss how these developments may impact your Korean operations, investment holdings, or your contemplated investment into Korea.

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