

**Korea's Written Comments on Intergovernmental Negotiating Committee
on the UN Framework Convention on international Tax Cooperation -
Workstream2**

**Protocol 1 - taxation of income derived from provision of cross-border services in an
increasingly digitalized and globalized economy**

July 21 2025

We extend our appreciation to the Secretariat and Co-leads for continued dedication to developing the protocol on the "taxation of income derived from provision of cross-border services in an increasingly digitalized and globalized economy", and submit our written comments on the Draft Issues Note as follows:

<Abstract>

1. Current nexus rules are not appropriate for some new business models, but development of new rules must be preceded by market analysis.
2. When developing new rules, the potential benefits and drawbacks of net basis and gross basis should be carefully evaluated.

1. New nexus rules for services

The transformation toward a global and digital economy has led to the emergence of new business models. We agree that the traditional concept of physical presence has become less appropriate for certain types of services. We welcome this meaningful process of recognizing the challenges of the current international tax system and developing more reasonable rules through multilateral discussions.

However, the development of new rules must be preceded by thorough analysis. While various types of services have been examined in the Workstream meetings, no

proposed nexus has proven universally applicable. And applying different nexus by service type raises challenges such as difficulty in classification of services and the need to determine nexus for each newly emerging type of service. Therefore, it is necessary to analyze which sectors have substantial market contribution or are predominantly remotely provided, and to assess their proportion. While forecasting remains difficult at this stage, such analysis may help develop a single nexus applicable to the broadest range of services or identify criteria for determining which nexus rule should apply to each type of service.

2. Manner of taxation

With respect to the manner of taxation, adjustments should be considered in light of the advantages and disadvantages of net basis and gross basis. The ability to deduct business expenses in calculating active business income is a fundamental principle of corporate taxation, enabling a reflection of the taxpayer's actual capacity. Although the administrative simplicity of gross basis taxation is notable, it may impose excessive burdens on loss-making entities and distort prices and tax incidence, potentially hindering cross-border trade and investment. Therefore, if gross basis taxation is adopted, appropriate tax rate and mechanisms such as credits or refund must be established to mitigate such effects.