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MSS extends the grace period for SMEs to five years to address the Peter Pan syndrome that SMEs suffer from

The Framework Act on Small and Medium Enterprises was revised so that SMEs can be eligible for government support for five years (currently three years) even after being recognized as mid-sized firms.

MSS plans to continue tax support for graduation deferral SMEs for five years through further amendments to the Special Taxation Act Enforcement Decree.

Sejong, February 23, 2024 – The Ministry of SMEs and Startups (Minister OH Youngju) announced that South Korea's Cabinet has officially passed the amendment to the Framework Act on Small and Medium Enterprises on February 13, extending the graduation grace period for SMEs to five years.

The revised bill was promulgated on February 20 and will come into force six months after promulgation. It will apply to new graduation deferral SMEs.

The graduation grace period is a mechanism designed to support small and medium-sized enterprises (SMEs) for a certain period of time (originally three years but now revised to five years), even if they exceed the criteria for being considered an SME, such as revenue growth. This is done to help companies maintain and grow their size. The graduation deferral can only be applied once to prevent abuse of the system.

MSS has been providing support to SMEs to make a successful transition into medium and large-sized enterprises, even after their initial growth, during the three-year grace period. As a result of this support, the number of companies graduating from SME status has increased since 2018.

* Number of companies of SMEs becoming medium-sized enterprises: (2018) 123 → (2019)

242 → (2020) 394) → (2021) 467

Some medium-sized enterprises are facing challenges due to the changed business environment, such as reduced tax support, which has prompted them to consider reverting to SMEs. On average, between 60 and 90 companies switch back to SMEs annually, typically within the first two years after becoming mid-sized enterprises. According to the 2021 medium-sized enterprise survey, 6.2% (341 companies) of all medium-sized enterprises are contemplating reverting to SMEs. Out of the 243 companies that are considering switching back to SMEs due to a decrease in revenue between 2019 and 2021, 135 companies (56%) are in their first or second year after becoming mid-sized enterprises.

MSS has advocated for the extension of the graduation grace period for small and medium-sized enterprises (SMEs) as a policy task. It aims to support the successful transition of SMEs, helping them settle as medium-sized enterprises.

The revised law will give a graduation grace period to companies that are currently classified as medium-sized enterprises under the Framework Act on Small and Medium Enterprises and enter their first or second year as mid-sized firms. During the additional two-year grace period, these companies will benefit from public procurement of SME products and take advantage of financial and human resources support policies for SMEs, which will help accelerate their growth.

Furthermore, in line with the economic policy direction for 2024, there are plans to provide continuous tax support during the grace period through collaboration among relevant ministries. This will involve making sequential amendments to regulations such as the Enforcement Decree of the Act on Restriction On Special Cases Concerning Taxation. Additionally, measures will be reviewed in order to address concerns related to the sharp decline in support policies and increased regulations after the growth of medium-sized enterprises.

PARK Jong-chan, Director-General for SME Policy, stated, "Every year, over 1,000 small and medium-sized enterprises (SMEs) are expected to become medium or large-sized companies due to their innovative capabilities and policy support. These businesses are estimated to generate around KRW 100 trillion in revenue and provide employment opportunities to over 160,000 individuals."

He added, "MSS will be dedicated to creating and executing policies to aid SMEs in their growth towards becoming medium- or large-sized enterprises." He expressed his hopeful expectations and a firm commitment to supporting SMEs in their endeavors to attain medium or large-sized enterprise status.