Doing Business in Korea

March, 2012
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I. Foreign Direct Investment

1. Foreign Direct Investment System

Foreign Direct Investment (FDI) refers to the net inflows of investment to build lasting economic relations with a Korean company and generally involves participation in management and transfer of technology. FDI differs from the investment in the form of asset management, in that it is designed to exercise material influence over management of a company. FDI also means an investment made to create wealth via the transfer of tangible or intangible assets, such as intellectual property rights and real estate; and where a foreigner purchases stocks or shares of a domestic company for the purpose of participating in the management.

1.1 Concept of Foreign Direct Investment

Foreign Direct Investment (FDI) refers to investment to acquire a lasting economic interest with a corporation of the Republic of Korea or a company run by a national of the Republic of Korea and includes the following forms of investment: acquiring stocks or shares of a Korean company, a foreign parent company providing long-term loans with a maturity of 5 years or longer to a foreign-invested company with its stake and foreigner’s contribution to non-profit organizations. It is regulated by the Foreign Investment Promotion Act and other related laws. FDI differs from portfolio investment, which is the purchase of stocks by foreigners with a view to realizing short-term financial returns.

1.2 Types of Foreign Direct Investment

FDI, as prescribed in the Foreign Investment Promotion Act, includes acquisition of shares or stocks of a Korean corporation or a company run by a national of the Republic of Korea, supply of a long-term loan to a foreign-invested corporation, a contribution to a non-profit organization, etc.

[1] Acquisition of Shares or Stocks of a Domestic Company

Acquisition of shares or stocks of a domestic company refers to a case where a foreigner purchases shares or stocks of a Korean corporation (including a Korean corporation in the process of being established) or a company run by a national of the Republic of Korea, for the purpose of establishing a continuous economic relationship with and participating in the management of the said Korean corporation or company.

Under the Foreign Investment Promotion Act, FDI should meet the following conditions.

- The amount of investment should be 100 million won or more.
- A foreigner should own 10 percent or more of either the total number of voting stocks, or the total equity investment (Foreign Investment Promotion Act Article 2 (2)).

If the number of relevant investors is 2 or more, each should meet the above conditions. The foreign investment ratio is measured when the investment is completed (Foreign Investment Promotion Act Article 2 (3)). The investment includes foreign investors’ ownership of shares after a foreign-invested company capitalizes its appropriated earnings.

However, when a foreign investor of a registered foreign-invested company makes an additional investment, there is no limitation in the amount and ratio (Article 2 (3) of the Enforcement Decree of the Foreign Investment Promotion Act, taken into effect on October 6, 2010).
While there are no exceptions in regard to the investment amount, exceptions may be allowed for the foreign investment ratio. Even if the foreign investment ratio is less than 10% with the amount of the foreign investment being 100 million won or more, the investment may be exceptionally qualified as FDI in one of the following cases:

- A contract for dispatching or appointing executive officers;
- A contract for delivery or purchase of raw materials or products for the period of one year or more;
- A contract for providing or introducing technology, or for joint research and development.

[2] Long-Term Loans

Loans with initial maturity of no less than 5 years are recognized as FDI when they are provided to a foreign-invested company (FIC) in Korea by:

a) An overseas parent company (OPC) of the FIC
b) An enterprise that contributed capital to the OPC
c) An individual foreign investor(s)
d) An enterprise that contributed capital to an individual foreign investor(s) (Article 2 (4) and (5) of the enforcement decree of the Foreign Investment Promotion Act)

An enterprise that contributed capital to the OPC refers to:

- A company which holds not less than 50 percent of the total number of issued stocks or the total contributed capital of the OPC
- A company that meets at least one of the following conditions when the OPC owns no less than 50 percent of the FIC’s issued stocks or contributed capital:
  - The OPC has holdings of no less than 10 percent of the total number of issued stocks or the total contributed capital of the OPC
  - The OPC has holdings of no less than 50 percent of the total number of issued stocks or the total contributed capital of the OPC
- A company with 50 percent or more of holdings in the OPC has holdings of no less than 50 percent in the total number of issued stocks or the contributed capital.

An enterprise that contributed capital to an individual foreign investor(s) refers to:

- A company of which no less than 50 percent of the total issued stocks or contributed capital is held by an individual foreign investor who owns no less than 50 percent of the FIC’s total issued stocks or contributed capital.

[3] Contribution to a Non-Profit Organization (NPO)

A contribution to a non-profit organization is recognized as a foreign investment when the NPO has independent research facilities in the field of science and technology, and meets one of the following conditions:

- The scale of regular employment of full-time research staff is five persons or more, consisting of persons with master’s degree or higher in the field of science and technology, or persons with a bachelor’s degree in the field of science and technology having not less than three years of research career; or,
- Research and development activities are conducted for a project which accompanies high technology pursuant to the Restriction of Special Taxation Act.

Other contributions to an NPO by a foreigner, the amount of which is not less than 50 million won, which falls under any of the following subparagraph, and which the Foreign Investment Committee recognizes as a foreign investment, are recognized as a foreign investment.

- Where the NPO has been established for the purpose of promoting science, art, medical services, or education etc. and continues to conduct business to develop professionals in the relevant fields and the business to expand international exchanges;
- Where the NPO is a regional office of an international organization which carries out international cooperation business between civilians or governments.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Foreigner</td>
<td>An individual of foreign nationality</td>
</tr>
<tr>
<td>Foreign-invested company (FIC)</td>
<td>A company in which a foreign investor has invested, or a non-profit organization to which a foreign investor has contributed</td>
</tr>
<tr>
<td>Operator of establishments built to improve the foreign-investment environment</td>
<td>Any person who operates establishments, including schools and medical institutions, etc. for foreigners, which are prescribed by the Foreign Investment Promotion Act, in order to improve the foreign-investment environment</td>
</tr>
<tr>
<td>Capital goods</td>
<td>Machinery, facilities, equipment, parts, accessories as industrial facilities, and livestock, breeds or seeds, trees, fish and shellfish which are necessary for the development of agriculture, forestry, and fisheries; Such raw materials and reserve supply as are deemed necessary by the competent Minister for the initial test of the facilities concerned; or, Fees for transportation and insurance required for the introduction thereof and other know-how or service necessary therefor.</td>
</tr>
<tr>
<td>Object of investment</td>
<td>Any object on which a foreign investor invests in order to possess, etc. under the Foreign Investment Promotion Act, and which falls under any of the following items:</td>
</tr>
<tr>
<td>- Foreign means of payment as prescribed by the Foreign Exchange Transaction Act or domestic means of payment by the exchange of the said foreign means of payment;</td>
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<tr>
<td>- Capital goods;</td>
<td></td>
</tr>
<tr>
<td>- Proceeds(dividends) from stocks, etc. acquired by the Foreign Investment Promotion Act;</td>
<td></td>
</tr>
<tr>
<td>- Industrial property rights, intellectual property rights (copyrights to be utilized in the industrial activities and the layout-design rights of semiconductor integrated circuits), other technologies corresponding thereto, and rights pertaining to the use of such rights or technologies;</td>
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</tr>
<tr>
<td>- Where a foreigner closes his/her own branch company or office in Korea, the residual property allotted to the said foreigner upon the liquidation of the said branch company, office, or corporation;</td>
<td></td>
</tr>
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<td>- The amount of redemption of loans supplied to a foreign-invested company or other loans from foreign countries;</td>
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<td>- Stocks of foreign corporations listed or registered on the foreign securities markets;</td>
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<tr>
<td>- Stocks owned by foreigners under the Foreign Investment Promotion Act or the Foreign Exchange Transactions Act;</td>
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<tr>
<td>- Domestic real estate owned by a foreigner; or,</td>
<td></td>
</tr>
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<td>- Proceeds from sales of stocks, etc. and real estate of a Korean corporation or a company run by a national of the Republic of Korea, held by a foreigner.</td>
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2. Foreign Investment Promotion Act

The Foreign Investment Promotion Act was enacted in Korea in 1998 for the purpose of courting foreign direct investment, after the 1997 Asian financial crisis swept the country. The Korean government also opened its market and liberalized foreign direct investment as part of the effort. Recently, the Foreign Investment Promotion Act was amended in order to improve the existing foreign investment system and promote foreign investment in the service sector. [Act No. 10232, promulgated on April 5, taken into force on Oct. 6]. Foreign investment zone, which refers to the zone designated exclusively for the purpose of leasing or transferring lands to foreign-invested companies, has been expanded to allow foreign-invested companies in the high value-added service industries to move into the zone. The amended Act also stipulates high value-added industries which are allowed to move into a foreign investment zone.

2.1 Understanding the Foreign Investment Promotion Act

The Foreign Investment Promotion Act is designed to facilitate foreign investment by supporting foreign investment and increasing investor convenience. The Foreign Investment Promotion Act serves as the basic law for foreign investment, and its subordinate statutes include Enforcement Decree of the Foreign Investment Promotion Act and Enforcement Rule of the Foreign Investment Promotion Act, which prescribe matters delegated by the Foreign Investment Promotion Act and matters necessary for the enforcement thereof, and Regulations on Foreign Investment and Technology Introduction.

2.2 Characteristics of the Foreign Investment Promotion Act

Unless provided otherwise in the Foreign Investment Promotion Act, matters concerning foreign exchange and foreign trade shall be governed by the Foreign Exchange Transaction Act. For foreign investment, taxes may be abated or exempted under conditions as prescribed by the Restriction of Special Taxation Act, Enforcement Decree of the Restriction of Special Taxation Act, Enforcement Rule of the Restriction of Special Taxation Act, and Regulations on Tax Abatement or Exemption on Foreign Investment. Since a foreign-invested company is a domestic corporation established under the domestic law, the company is governed by the same laws applied to purely domestic corporations even if the foreign-invested company has taken the procedures as prescribed by the Foreign Investment Promotion Act. Therefore, a foreign-invested company should obtain permission or authorization under the domestic law when it is required.

Basic Acts and Statutes
- Foreign Investment Promotion Act
- Enforcement Decree of the Foreign Investment Promotion Act
- Regulations on Foreign Investment and Technology Introduction (Notified by the Ministry of Knowledge Economy)
- Regulations on Tax Abatement or Exemption on Foreign Investment (Notified by the Ministry of Strategy and Finance)
- Restriction of Special Taxation Act (Chapter 5. Special Cases Concerning Taxation for Foreigners’ Investment, Etc.)
- Enforcement Decree of the Restriction of Special Taxation Act

3. Foreign Investment Promotion and Control

Foreign investors may face various difficulties, caused by political and economic situations of a country in which they operate, besides normal business risks. Given the risk factors, Korea has implemented regimes to protect foreign investors. Meanwhile, Regulations on Foreign Investment and Technology Introduction prescribe the restraints and restricted businesses.

3.1 Liberalization of Foreign Investment

Except as otherwise prescribed by the Acts of the Republic of Korea, a foreigner may conduct, without restraint, various activities of foreign investment in the Republic of Korea. Foreigners are restricted from foreign investment in the following cases: where it threatens the maintenance of national safety and public order; where it has harmful effects on public hygiene or the environmental preservation or is against Korean morals and customs; and where it violates the Acts and subordinate statutes of the Republic of Korea.

3.2 Protection of Foreign Investment

Protection of foreign direct investment has become stronger than that of indirect investment such as investment in securities and bonds, as prescribed by the Foreign Investment Promotion Act.

(1) Guarantee of Remittance to Foreign Countries

With respect to the proceeds that come from the stocks, etc. acquired by a foreign investor, proceeds from the sales of stocks, etc., the principal, interests, and service charges paid in accordance with the loan contract as prescribed by the Foreign Investment Promotion Act, and the compensation paid in accordance with a license agreement, their remittance to foreign countries shall be guaranteed in accordance with the details of the permission or report of the foreign investment contract or the license agreement at the time when the said remittance is made.

(2) Exceptions to the Safeguard Clause on Foreign Currency Transactions

The Minister of Strategy and Finance may temporarily suspend or restrict foreign exchange transactions, if such measures are deemed inevitable on account of the outbreak of natural calamities, war, conflicts of arms, grave and sudden changes in domestic and foreign economic conditions, or other situations equivalent thereto (Article 6 (1) – (3) of the Foreign Exchange Transactions Act). However, such measures shall not apply to foreign investment as provided for in the Foreign Investment Promotion Act (Article 6 (4) of the Foreign Exchange Transactions Act).
3.3 Restrictions and Prohibitions on Foreign Investment

Out of a total of 1,145 categories of business under the Korean Standard Industrial Classification (KSIC), foreign investment is not permitted in 60 categories of business including public administration, diplomacy, and national defense (unpermitted category of business), while foreign investment is partially permitted in 29 categories of business (restricted category of business), as prescribed by the Foreign Investment Promotion Act.

1. Unpermitted Category of Business

Categories of business in which foreign investment is not permitted have public features, hence difficulties in applying the Foreign Investment Promotion Act. The prohibition of foreign investment in the said categories is notified by Regulations on Foreign Investment and Technology Introduction and Consolidated Public Notice for Foreign Investment.

### Unpermitted Category of Business

- Postal services, central banking, individual, mutual aid organizations, pension funding, administration of financial markets, activities auxiliary to financial service activities, etc.
- Legislative, judiciary, administrative bodies, foreign embassies, extra-territorial organizations and bodies
- Education (pre-primary, primary, secondary, higher education, universities, graduate schools, schools for the handicapped, etc.)
- Artists, religious, business, professional, environmental advocacy, political, and labor organizations

2. Restricted Category of Business

Foreign investment is not permitted in restricted categories of business as well in principle. However, when there are standards for permission, foreign investment is partially permitted. The restriction of foreign investment is notified by Regulations on Foreign Investment and Technology Introduction and Consolidated Public Notice for Foreign Investment. No foreigner shall make an investment in any company concurrently running both a category of business in which foreign investment is not permitted and a category of business in which foreign investment is only partially permitted. And where intending to make an investment in any company running not less than two categories of business in which foreign investment is only partially permitted, a foreigner shall be prohibited from making an investment in the company in excess of the ratio of foreign investment in the category of business in which the ratio of permissible foreign investment is lowest.

### Restricted Category of Business

**Category of Business (KSIC)** | **Standards for Permission**
--- | ---
Growing of cereal crops and other crops for food (01110) | - Growing of rice and barley is prohibited
Farming of beef cattle (12110) | - Permitted where the foreign investment ratio is less than 50%
Inshore and coastal fishing (03110) | - Permitted where the foreign investment ratio is less than 50%
Manufacture of other basic inorganic chemicals (24219) | - Permitted with the exception of manufacture and distribution of nuclear fuel
Manufacture of other smelting, refining and alloys of non-ferrous metals (24219) | - Prohibited
Nuclear power generation (35110) | - Prohibited
Hydroelectric power generation (35110) | - The sum of power plant facilities purchased by foreigners from Korea Electric Power Corporation (KEPCO) must not surpass 30% of the total domestic power plant facilities
Fire power generation (35110) | - The foreign investment ratio must be less than 50%
Other power generation (35110) | - Voting stocks owned by foreign investors - Dominant stocks held by Korean nationals
Transmission and distribution of electric power (35120) | - Radioactive waste management business under Article 82 of the Electric Utility Act is prohibited
Disposal of radioactive waste (38240) | - Prohibited
Wholesale of meat (46130) | - Permitted where the foreign investment ratio is less than 50%
Coastal water passenger transport (50121) | - Permitted: Transport of passengers or freight between South and North Korea; Joint venture with a shipping company of the Republic of Korea; The foreign investment ratio is less than 50%
Coastal water freight transport (50122) | - Voting stocks owned by foreign investors - Dominant stocks held by Korean nationals
Scheduled air transport (51100) | - Permitted where the foreign investment ratio is less than 50%
Non-scheduled air transport (51200) | - Permitted where the foreign investment ratio is less than 50%
Publishing of newspapers (58121) | - Permitted where the foreign investment ratio is less than 30%
Publishing of magazines and periodicals (58122) | - Permitted where the foreign investment ratio is less than 50%
Radio broadcasting (60100) | - Program distribution refers to program providing business under the Broadcasting Act
Over-the-air broadcasting (60200) | - Prohibited
Program distribution (60221) | - Permitted where the foreign investment ratio is 49% or less (* General program channel and specialized news channel businesses are p. prohibited.)
Cable networks (60222) | - Permitted where the foreign investment ratio is 49% or less (* CATV relay broadcasting business is prohibited)
Broadcasting via satellite and other broadcasting (60229) | - Permitted where foreign investment ratio is 33% or less (* Internet multimedia broadcasting business is permitted where the foreign investment ratio is 49% or less)
Wireless telecommunications (61210) | - Permitted where the sum of shares limited to voting shares, including depositary receipt (DR) and other share equivalents and equity interests, held by a foreign government or a foreigner (including fictitious corporation of foreigners) is 49% or less of the total issued shares of the company. (Foreigners are not allowed to become a majority shareholder of KT. However, they may invest in KT where they own less than 5% of the total shares.)* Fictitious corporation of foreigners: a corporation whose largest shareholder is a foreign government or a foreigner (including a specially-related person as referred to in Article 9110 of the Financial Investment Services and Capital Markets Act), and not less than 15/100 of the gross number of whose issued stocks are owned by the said foreign government or foreigner.
Mobile communications (61220) | - Supplementary communications business is not restricted
Satellite communications (61230) | - News agency activities (63910) | - Permitted where the foreign investment ratio is less than 25%
Domestic commercial bank (64121) | - Permission is limited to commercial banks and local banks (* Specialized banks, and agricultural/forestry/livestock cooperatives are prohibited.)
II. FDI Procedures

1. Foreign Investment Procedure

Foreign investment procedures consist of foreign investment reports, remittance of investment funds, registration of incorporation & business, and registration of a foreign-invested company. The procedures applied to foreigners are basically the same as for Koreans with the exception of two additional steps: foreign investment report and registration of a foreign-invested company. Where a foreigner registers a privately-owned business, a ‘registration of incorporation’ is not required.

Foreign Investment Notification (Invest KOREA(KOTRA), foreign exchange bank)

Investment Capital Remittance (foreign exchange bank, carried through customs)

Incorporation Registration (court registry office)

Incorporation Notification & Business Registration (municipal tax office)

FDI Company Registration (first reported organization)

Paid-in capital Transfer to Corporate’s Account (foreign exchange bank)

- Foreign Investment Report

Foreign Investment Report Procedures by Investment Type

1.1 Foreign Investment Report

A foreign investor or an agent may report their investment at Invest KOREA (KOTRA), Korea Business Centers (KBC) of KOTRA, headquarters and branches of domestic foreign exchange banks, or domestic branches of delegated foreign banks.

- Reporting person: A foreign investor or an agent
- Delegated agency: Headquarters and branches of domestic banks, domestic branches of delegated foreign banks, Invest KOREA (KOTRA), or Korea Business Centers (KBC) of KOTRA.
- Processing period of foreign investment report: Immediately (The certificate of completion of report is issued without delay)

The system to issue the certificate of completion of foreign investment report without delay has been implemented since November 1998. There is a pre-report, made prior to the acquisition of stocks, and a post-report, made after the acquisition of stocks or the conclusion of a contract. The details are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Report Items</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Report</td>
<td>Foreign investment by acquisition of newly issued stocks, etc. or in the form of contribution, or by modification of reported details</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Foreign investment by acquisition of existing stocks, etc. or by modification of reported details (Defense industries should seek approval from the Ministry of Knowledge Economy)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Foreign investment in the form of long-term loans or by modification of details</td>
<td>-</td>
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</tbody>
</table>

Post-Report

- Acquisition of stocks, etc. by mergers, etc.
- Acquisition at the time of the recapitalization of reserves, revaluation reserves, etc. of a foreign-invested company
- Acquisition by mergers, company division, or an all-inclusive stock swap or transfer
- Acquisition by investing the proceeds (dividends) from acquired stocks
- Acquisition by purchase, inheritance, testamentary gift, or gift
- Acquisition by using convertible bonds, exchangeable bonds, stock depositary receipts, and such similar items as may be converted into, available for the acceptance of, or exchanged for stocks, etc.

A foreigner may report the acquisition within 30 days after such acquisition

- Transfer of shares, etc. to a third party
- Decrease in stocks, etc.
- Application for registration, registration of modification, or cancellation of registration of a foreign-invested company

A foreigner may report such fact within 30 days after the contract is concluded

A foreigner may report such fact within 30 days from when the period of peremptory notice to bondholders is terminated under Article 439 of the Commercial Act

A foreigner may report such fact within 30 days from the occurrence of the case

Required Documents:
- Two copies of the foreign investment report form per investment type (new stocks, existing stocks, long-term loans, etc.)
- Documents certifying a foreigner’s nationality
- A foreign corporation or group. Certificate of incorporation issued by the government or other authorized organizations of the foreign country, or proof that the said corporation or group is based in the said country
- Foreign individuals. Certificate of citizenship, passport, or other proof of a foreigner’s nationality, issued by the government or other authorized organizations of the foreign country
- In the case where a foreign investor holds the nationality of the Republic of Korea, the above documents can be replaced by a certificate of evidence of resident status issued by the government or other authorized organizations of the country where he/she stays, or certificate of overseas residence, etc. issued by embassies and legations abroad of the Republic of Korea

Additional documents required when necessary:
- Documents certifying object of investment
- Documents certifying share acquisition
- Letter of attorney (where an agent, a foreign investor, confers the right of representation, reports the investment and applies for permission)
1.2 Foreign Investment Report Procedures by Investment Type

(1) Report of foreign investment by acquiring newly issued stocks or in the form of a contribution
Where a foreigner intends to make an investment by means of purchasing stocks newly issued by a Korean corporation or a company run by a national of the Republic of Korea, the foreigner shall report such a fact in advance (pre-report).

**Acquisition of Newly Issued Stocks:**
- Where a foreigner establishes a new corporation independently, or jointly with a Korean national
- Where a foreigner participates in the recapitalization of a Korean company
- Where a foreigner (individual) operates a private business in Korea
- Where a foreigner makes a contribution to a non-profit corporation (acquisition of newly issued stocks in the form of a contribution)

**Required Documents:**
- Two copies of the report form of foreign investment by acquisition of newly issued stocks or in the form of a contribution (letter of attorney shall be included in the case where an agent reports the foreign investment)
- Documents certifying a foreign investor’s nationality
- Documents certifying the object of investment (necessary only in the event of the application of the relevant Article of the Foreign Investment Promotion Act)
- Documents certifying the monetary value of an intellectual property right, etc. *Note
- Documents certifying assets remaining after liquidation of a branch, representative office, or corporation
- Documents certifying the amount the applicant has repaid against a domestic or overseas loan
- Documents certifying stocks of a corporation listed in overseas securities markets
- Documents certifying stocks held by a foreigner under the Foreign Investment Promotion Act or the Foreign Exchange Transactions Act
- Documents certifying that the investor has duly reported all capital transactions involving the Korean real estate to be invested
- Documents certifying the amount received through the sale of stocks or real estate under the Foreign Investment Promotion Act or the Foreign Exchange Transactions Act
- Documents certifying the contribution to a non-profit corporation

Modification shall also be reported: Trade name or title and nationality of the foreign investor, foreign investment amount, foreign investment ratio (ratio of stocks held by a foreign investor to the total number stocks of the foreign-invested company), investment method, type of business intended for operation, etc.

* Note Technology evaluation agencies: Korea Institute for Advancement of Technology; Korea Technology Finance Corporation; Korea Environment Corporation (EMC); Korea Agency for Technology and Standards; Korea Institute of Science and Technology; Korea Institute of Science and Technology Information; and National IT Industry Promotion Agency

Where a foreigner provides capital goods as an asset contribution
A foreign investor is required to apply for the examination and confirmation of the specification of the imported capital goods prior to customs clearance, after reporting the foreign investment by acquisition of newly issued stocks, etc.

**Required documents:**
- Three copies of the application form for the examination and confirmation of the specification of the imported capital goods
- Three copies of the document certifying the monetary value, such as an offer sheet
- Application for the written confirmation of the completion of the investment in kind to a dispatched officer from the Korea Customs Service at Invest KOREA, after the completion of the import of capital goods

(2) Report of and Application for Permission for Foreign Investment by Acquisition of Existing Stocks
Where a foreigner intends to make an investment by the acquisition of stocks that have already been issued by a company run by a national of the Republic of Korea or a Korean corporation, he/she shall report the fact in advance (pre-report).

Where he/she acquires existing stocks, etc. issued by a stock-listed corporation under the Financial Investment Services and Capital Markets Act, he/she may report such a fact within 30 days after such acquisition.

* In cases where a foreigner, who has already acquired 9% of the stocks of a stock-listed corporation under the Financial Investment Services and Capital Markets Act, intends to additionally acquire 3.5% of the stocks of the said corporation (where a foreigner holds 10% or more of the stocks of a stock-listed corporation in total), the additionally acquired stocks of 3.5% is recognized as a foreign investment under the Foreign Investment Promotion Act. Therefore, the said foreigner shall report or apply for permission for foreign investment by acquisition of existing stocks, etc. In such cases, a foreigner may exceptionally report the foreign investment within 30 days after such acquisition.

**Application of existing stocks:**
- Where a foreign investor directly purchases unlisted stocks from a domestic shareholder
- Where a foreign investor acquires 10% or more of the stocks of a listed corporation

**Required Documents:**
- Two copies of the report form of foreign investment by acquisition of existing stocks, etc. (A letter of attorney shall be included in the case where an agent reports the foreign investment.)
- Documents certifying a foreign investor’s nationality
- Documents certifying the transfers’ relationship to each other (in the event that the stock is being transferred to more than two parties)
- Documents certifying the object of investment (necesssary only in the event of the application of the relevant Article of the Foreign Investment Promotion Act)
- Documents certifying assets remaining after the liquidation of a branch, representative office, or corporation
- Documents certifying the amount the applicant has repaid against a domestic or overseas loan
- Documents certifying stocks of a corporation listed in overseas securities markets
- Documents certifying stocks held by a foreigner under the Foreign Investment Promotion Act or the Foreign Exchange Transactions Act
- Documents certifying the amount received through the sale of stocks or real estate under the Foreign Investment Promotion Act or the Foreign Exchange Transactions Act

A foreign investor shall report or apply for permission for modification: Foreign investment amount, foreign investment ratio, transferee of stocks, etc.

(3) Report of Foreign Investment by Acquisition of Stocks, etc. by Mergers, etc.
The acquisition of existing stocks, etc. by mergers, etc. shall be reported within 30 days after such acquisition (post-report).

Where a foreigner intends to make an investment by acquiring the existing stocks, etc. of a defense industry company, he/she shall obtain in advance permission of the Minister of Knowledge Economy (application for permission). In cases where a foreign investor acquires 10% or more of the stocks of a listed corporation, he/she shall satisfy the conditions for investment in defense industry companies. In such cases, a foreigner may exceptionally report the foreign investment within 30 days after such acquisition.
Acquisition of stocks, etc. by mergers, etc.:
- Where a foreigner acquires stocks, etc., issued at the time of capitalization of reserves, revaluation reserves, or other reserves as prescribed by other Acts and subordinate statutes of the foreign-invested company.
- Where an overseas parent company of a foreign-invested company, a foreign investor, or an enterprise with a capital investment relationship with the overseas parent company or the investor intends to make a foreign investment in the form of long-term loans with maturity of not less than five years supplied to the foreign-invested company, the foreign investment shall be reported in advance (pre-report).

A borrower of a long-term loan from a foreign-invested company shall report the arrival of a long-term loan to a delegated authority with the attachment of documents certifying that the foreign investor has purchased or deposited foreign currency, in order for a long-term loan to be recognized as a foreign investment.

Required Documents:
- Two copies of the report form of the foreign investment in the form of long-term loans (A letter of attorney shall be included in the case where an agent reports the foreign investment.)
- Documents certifying a foreign investor’s nationality in cases of new acquisition
- Documents certifying the acquisition of stocks (certificate of incorporation, minutes of the board of directors, and minutes of general shareholders’ meeting, etc.)

(4) Report of Foreign Investment in the Form of Long-term Loans
Where an overseas parent company of a foreign-invested company, a foreign investor, or an enterprise with a capital investment relationship with the overseas parent company or the investor intends to make a foreign investment in the form of long-term loans with maturity of not less than five years supplied to the foreign-invested company, the foreign investment shall be reported in advance (pre-report).

A borrower of a long-term loan from a foreign-invested company shall report the arrival of a long-term loan to a delegated authority with the attachment of documents certifying that the foreign investor has purchased or deposited foreign currency, in order for a long-term loan to be recognized as a foreign investment.

Required Documents:
- Two copies of the report form of the foreign investment in the form of long-term loans (A letter of attorney shall be included in the case where an agent reports the foreign investment.)
- Copy of the loan contract
- Documents certifying the capital investment relationship, and documents certifying the lender’s nationality

A foreigner shall report modification: Amount of loans, conditions of loans (interest rate, repayment period, grace period, etc., etc. etc.)
[6] Investment Fund Remittance
In principle, investment funds shall be remitted through a foreign currency bank under the name of the foreign investor. Funds from domestic sources are not recognized as foreign investments. In the process of paying up for stocks, a bank issues a certificate of paid-up stocks [required in the case of the registration of incorporation] and a certificate of foreign currency purchase [required in the case of the registration of a foreign-invested company].

[7] Registration of Incorporation and Business
A foreigner shall obtain required documents to register incorporation and business from a jurisdictional court and tax office.

[8] Transfer of Paid-in Capital to Corporate Account
When the registration of incorporation and business is completed, a new company becomes a legally valid corporation. A bank requests the required documents and transfers paid-in capital to the account of the newly established corporation.

[9] Registration of a Foreign-Invested Company
A foreign investor [an agent] or a foreign-invested company shall register the foreign-invested company at delegated authorities within 30 days after the occurrence of any of the following cases:
- Where he/she/it has completed the payment for the object of investment [acquisition of newly issued stocks]
- Where he/she/it has acquired existing stocks [acquisition of existing stocks]
- Where he/she/it has acquired stocks by mergers, etc. [acquisition of newly issued stocks after a company division or using convertible bonds, etc.]
- Where he/she/it has completed a contribution to a non-profit corporation [acquisition of newly issued stocks in the form of contribution]

Required Documents:
- Registration form of a foreign-invested company
- Copy of the foreign exchange purchase certificate or foreign currency deposit certificate
- Shareholders’ list (corporate seal, certified copy of the original) or documents certifying that the payment of stocks is transferred

Additional documents required when necessary
- Documents certifying the object of investment
- Copy of documents certifying that the transfer of assets has been completed (where a foreign investor makes an investment in kind with capital goods)
- Copy of an investigation report by an inspector or a written statement by an appraiser, in accordance with the Commercial Act (where a foreign investor makes an investment in stocks or domestic real estate)
- Documents pertaining to acquisition of stocks
- Letter of attorney where an agent makes the report

2. Follow-up Management of Foreign Investment
Where a foreign investor or a foreign-invested company has completed payment of the object of investment or acquired existing stocks, etc., he/she/it shall take procedures to register a foreign-invested company to the president of KOTRA or the head of a foreign exchange bank as prescribed by the Acts and statutes of the Republic of Korea. After registration of a foreign invested company, reports and alteration registrations should be made in the case of changes in shareholdings or changes in company name. Also, the registration may be cancelled for certain reasons by the Ministry of Knowledge Economy.

2.1 Alteration Registration of the Foreign-Invested Company
A foreign investor [an agent] or a foreign-invested company shall file an alteration registration of the foreign-invested company at a delegated institution within 30 days from the occurrence of any of the following cases:
- Where he/she/it acquires stocks by mergers, free issue of new shares, etc.
- Where the trade name or title of a foreign-invested company or the nationality of a foreign investor changes
- Where shares or investment ratio of a foreign investor changes due to capital increase by a national of the Republic of Korea
- Where shares or investment ratio of a foreign investor changes due to capital reduction of a foreign investor
- Where he/she/it acquires stocks by mergers, free issue of new shares, etc.
- Where shares or investment ratio of a foreign investor changes due to capital increase by a national of the Republic of Korea
- Where shares or investment ratio of a foreign investor changes due to capital reduction of a foreign investor

Required Documents:
- Application form of a foreign-invested company registration (the existing registration certificate of a foreign-invested company shall be returned)
- Copy of the certificate of incorporation of a foreign-invested company [matters concerning cancellation shall be included]
- Copy of the foreign exchange purchase certificate or foreign currency deposit certificate
- Shareholder’s list (corporate seal, certified copy of the original) or documents certifying that payment of stocks is transferred

Additional documents required when necessary
- Documents certifying the object of investment
- Copy of documents certifying that the transfer of assets has been completed (where a foreign investor makes an investment in kind with capital goods)
- Letter of attorney where an agent makes the report
- Letter of attorney where an agent makes the report
- Other documents pertaining to the acquisition of stocks and documents certifying changes
- Letter of attorney where an agent makes the report
2.2 Report of Transfer of Stocks and Capital Reduction

A foreign investor (or an agent) shall make a report on a transfer of stocks, etc. within 30 days from the day when the relevant transfer contract is concluded; and capital reduction within 30 days from the day when the peremptory notice to creditors expires to a delegated agency. In cases where the foreign investor transfers stocks, etc. to a foreigner, the transferee is not required to report the acquisition of stocks. [The foreign investor shall attach the certificate of the nationality of the transferee, when he/she reports the transfer of stocks.]

**Required Documents:**
- Two copies of the report form of the transfer of stocks, shares, etc. or capital reduction
- Copy of documents certifying the transfer of stocks or capital reduction such as the transfer contract and a certified copy of capital reduction change registration
- Letter of attorney where an agent makes the report

2.3 Report of Disposal of Capital Goods

Where a foreign investor or a foreign-invested company intends to transfer or lend capital goods which he/she/it introduced into Korea with their customs duties, etc. exempted or use them for purposes other than those already reported after five years from the day of receipt of the import declaration, he/she/it shall report such facts in advance to a delegated agency.

**Required Documents:**
- Two copies of the report form of disposal of capital goods

2.4 A Foreign-Invested Company’s Additional Business Operation or Acquisition of Another Domestic Company’s Stocks

A foreign-invested company shall not operate an additional business beyond the allowed limit in business categories where foreign investment is restricted. However, such foreign investment is allowed where the foreign investment ratio is less than 10/100.

Though a foreign-invested company shall not acquire stocks of another domestic company that conducts business in which foreign investment is restricted, beyond the allowed limit, the acquisition is exceptionally allowed in the following cases:
- Where a company, the foreign investment ratio of which is less than 50/100, and the largest shareholder of which is not a foreigner, acquires stocks of a domestic company
- Where a foreign-invested company engaging in financial or insurance business, all or part of the business activities of which consist of the acquisition of stocks, etc. of other companies, acquire stocks, etc. of other companies under other Acts and subordinate statutes
- Where not more than 10/100 of the total number of the stocks issued by, or the total equity investment of, a domestic company is acquired

2.5 Cancellation of Foreign-Invested Company Registration

A foreign investor shall apply for cancellation of the registration of a foreign-invested company, where the foreign investor has transferred all of the stocks, etc. held by himself to a national of the Republic of Korea of a Korean corporation, or has ceased to hold any of the stocks, etc. previously held by himself due to capital reduction, etc. of the foreign-invested company concerned.

A foreign-invested company or a foreign investor may file an application for cancellation to a delegated agency, and shall return the registration certificate of the foreign-invested company to the delegated agency.

Where a foreign investor or any foreign-invested company falls under any of the subparagraphs, the Minister of Knowledge Economy may revoke the permission or cancel the registration thereof:
- Where a registered foreign-invested company has closed its business or has not conducted its business activities for two consecutive years or more
- Where a registered foreign-invested company or a foreign investor who was granted permission to acquire existing stocks, etc. of a company in the defense industry has not complied with a correction order of the Minister of Knowledge Economy or has not carried out other necessary measures
- Where there are reasons for the dissolution of a registered foreign-invested company
- Where a foreign investor has applied for the cancellation of registration under conditions as prescribed by the Presidential Decree
- Where he/she/it has transferred or lent the registration certificate of a foreign-invested company to another person
- Where he/she/it has effected the registration of a foreign-invested company in disguise of the payment of the object of investment

**Required Documents:**
- Two copies of the application form of the cancellation of the registration of a foreign invested company
- One copy of the documents certifying the cancellation of registration [certified copy of liquidation, certificate of business closure, etc.]
- The original copy of the registration certificate of a foreign-invested company
1. How Foreigners Advance into Korea

There are four types of foreigner advancement into Korea for the purpose of operating a business: The establishment of a local corporation or a private business by a foreign national or a foreign corporation; or the establishment of a local branch or a local office in Korea by a foreign corporation.

<table>
<thead>
<tr>
<th>Type</th>
<th>Act</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Local Corporation</td>
<td>Foreign Investment Promotion Act</td>
</tr>
<tr>
<td>2</td>
<td>Private Business</td>
<td>Recognized as a foreign investment</td>
</tr>
<tr>
<td>3</td>
<td>Branch</td>
<td>Foreign Exchange Transactions Act</td>
</tr>
<tr>
<td>4</td>
<td>Office</td>
<td>Categorized as a domestic branch of a foreign corporation</td>
</tr>
</tbody>
</table>

1.2 Comparison of a Foreign-Invested Company and a Domestic Branch

(1) A Foreign-Invested Company under the Foreign Investment Promotion Act

The establishment of a local corporation in Korea by a foreign national or a foreign corporation is regulated by the Foreign Investment Promotion Act and the Commercial Act. A foreigner must invest not less than 100 million won in the local corporation concerned to be recognized as foreign investment under the Foreign Investment Promotion Act.

A private business established by a foreigner with an investment of not less than 100 million won is also recognized as foreign investment under the Foreign Investment Promotion Act.

(2) Domestic Branch of a Non-resident (i.e., a foreign company, etc.) under the Foreign Exchange Transactions Act

A ‘branch’ operates a business that generates profits in Korea, and is not recognized as foreign direct investment.

An ‘office’ does not carry out business that generates profits in Korea, but instead undertakes a non-sales function such as market research, R&D, etc. An ‘office’ is granted a distinct number, equivalent to business registration, at a jurisdictional tax office in Korea without the need for registration, which is different from a ‘branch.’

2. Local Corporation Establishment

The procedure for the establishment of a local corporation by a foreign investor is similar to that pertaining to the establishment of a domestic corporation, except for the pre-reporting of foreign investment and the registration of a foreign-invested company.

2.1 The Procedure for Local Corporation Establishment

The procedure for establishing a local corporation consists of a foreign investment report, registration of a stock company or private business, and registration of a foreign-invested company, which are the same as the foreign investment procedures. The following includes the details of the company establishment and business registration procedures, which are essential when establishing a local corporation.
Doing Business In Korea

2.2 The Procedure for Stock Company Establishment

The partnership company, limited partnership company, stock company and limited liability company are recognized as companies under the Commercial Act. As most companies fall into the category of “stock company,” the procedure for establishing a stock company will be explained here.

(1) Types of Stock Company Establishment

There are two types of stock company establishment: 1) promotion of incorporation and 2) subscription incorporation. Promotion of incorporation means that promoters subscribe to all of the shares issued at the time of incorporation, while subscription incorporation means that promoters do not subscribe to all the shares issued at the time of incorporation and offer shares for subscription.

The procedures of stock company establishment vary depending on the type of establishment, as follows:

(2) Registration of Incorporation of Stock Company

The registration of incorporation of a stock company shall be effected within two weeks from the day on which the investigation of the process of establishment is completed in cases where the promoter has subscribed to all the shares issued at the time of incorporation, and within two weeks from the day on which the inaugural general meeting is closed in cases where the promoters have offered shares for subscription.

The composition of promoters and whether the trade name or title has been used by other companies shall be reviewed before the registration. A stock company requires one or more promoters. The promoter shall subscribe to shares in writing and may subsequently become a shareholder of the newly created company. Since no trade name which has been registered by another person shall be registered as a trade name for the same kind of business in the same Seoul Special Metropolitan City, Metropolitan City, and city-gun, the company name shall be checked in advance on the Supreme Court website (www.iros.go.kr).

Documents Required for Registration of Incorporation

1. Application for the registration of incorporation of a stock company
2. Articles of incorporation (To be notarized by a public notary - Notarization is exempted where the total capital of the newly incorporated stock company is less than one billion won.)
3. Documents certifying subscription to shares
4. Subscription form (in the case of subscription incorporation)
5. Written consent to matters concerning issuance of shares
6. Written consent to shorten the period for dispatch of the notice of convocation before the date of the inaugural general meeting
7. The minutes of the inaugural general meeting (To be notarized by a public notary. Notarization is exempted where the total capital of the newly incorporated stock company is less than one billion won.)
8. The minutes of the Board of Directors (To be notarized by a public notary. Notarization is exempted where the total capital of the newly incorporated stock company is less than one billion won.)
9. A certificate of paid-up stocks
10. An investigation report of a director, auditor, or the audit committee
11. Certificate of the delivery of pertinent property (in the case of investment in kind)
12. The public notary’s report on particulars of abnormal incorporation
13. A written statement by an appraiser
14. A certified copy of the report by an inspector
15. Report certificate of foreign investment
16. Certificate of incorporation acceptance
   a. A Korean national shall put his/her seal on the certificate, and attach a certificate of the seal and a certified copy of resident registration
   b. A foreign national shall attach a notarized original signature and certificate of the address and a copy of the passport
17. A certificate of the registration of a seal impression
18. Translation of documents (in cases where the required documents including the directors’ incorporation acceptance are written in a foreign language)
19. A certificate of paid registration tax (issued by a district office which has jurisdiction over the area where the headquarter is located)
20. Revenue stamp of the Supreme Court of Korea
21. The power of attorney (where an agent makes the report)
22. Corporate seal
23. Application form for a corporate seal card (after the registration of incorporation)

Documents required for a foreign investor

The documents to be submitted by a foreign investor differ, depending on whether the investor concerned is an individual or a corporation. A foreign investor of Japan or Taiwan shall submit the same documents as a national of the Republic of Korea and a Korean corporation.
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I. Foreign Direct Investment
II. FDI Procedures
III. Establishment of Corporation
IV. FDI Incentives

(3) Costs of Stock Company Establishment

Registration tax, local education tax, registration application fees, etc. are the costs involved in establishing a stock company.

<table>
<thead>
<tr>
<th>Item</th>
<th>Details</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration Tax</td>
<td>0.4% of the capital, 3 times when a stock company is established in a large city</td>
<td>1,200,000 won</td>
</tr>
<tr>
<td>Local Education Tax</td>
<td>20% of registration tax</td>
<td>240,000 won</td>
</tr>
<tr>
<td>Revenue Stamp of Supreme Court</td>
<td>Fee for registration application</td>
<td>30,000 won</td>
</tr>
<tr>
<td>Notarization Fee</td>
<td>Articles of association, etc. (exempted in cases of incorporation by promotion whose capital is KRW 1 billion or less)</td>
<td>Approx. 150,000 won</td>
</tr>
</tbody>
</table>

Total: Approx. 1,620,000 won

(4) Business Registration

Business registration may be carried out at a jurisdictional tax office of the company headquarters, or at Invest KOREA (KOTRA). It shall be done within 20 days of the commencement of business operation.

Required Documents

- Business registration form
- Articles of association [Specifications of the object of investment shall be attached in cases of investment in kind]
- A certified copy of corporate registration
- Specifications of shareholders etc.
- A certificate of permission for business (in cases where the business requires permission, authorization, report, etc.)
- A copy of rental contract (in cases where the workplace is rented)
- Others
  - Report form of the appointment of a tax agent (in cases where there are no directors and employees to handle matters related to domestic tax)
  - A copy of foreign exchange purchase certificate
  - A copy of certificate of foreign currency purchase
  - Application form of alien registration or a copy of passport (in cases where the representative is a non-resident)

In cases where a foreign investor makes an investment in kind to establish a corporation, a certificate of business registration is required to receive a value added tax refund when the object of investment in kind clears customs. Therefore, the business registration has to be completed prior to the import of the investment object.

Required documents in cases where business registration is conducted in advance (for investments in kind)

- Application form of business registration
- Certified copies of resident registration of all promoters
- Application form for business permission (in cases where the business requires authorization and permission)
- Business plan
- *A certified copy of corporation registration is not required when applying for business registration, while all other required documents shall be submitted after establishing the company.
3. Private Business Registration
Where a foreign investor registers a private business in Korea, he/she shall follow the existing foreign investment procedure, which is required for a local corporation. However, a private business is not required to register the establishment of corporation.

3.1 Procedure for Private Business Registration

(1) Report of Foreign Investment
A foreign investor (or an agent) shall report foreign investment at a foreign exchange bank or Invest KOREA (KOTRA). A delegated agency shall issue a certificate of completion of report without delay. A power of attorney containing notarization shall be submitted where an agent reports the foreign investment.

(2) Remittance of Investment Fund
Investment funds originating from domestic sources and the remittance of investment funds by a third party are not recognized as foreign investment. Funds may be remitted through a bank or brought in through customs. In the case of bank remittance, both the sender and the receiver shall be a foreign investor. In order to remit investment funds, a foreign currency purchase certificate and a foreign currency deposit certificate shall be issued by a bank, which shall be attached in the business registration and the registration of a foreign-invested company.

(3) Business Registration
A foreign investor (or an agent) shall register his/her business at the jurisdictional tax office of the workplace or at Invest KOREA (KOTRA) within 20 days of the commencement of business operations. Business registration shall be performed by the foreign investor him/herself in principle. However, when an agent registers the business, a notarized power of attorney is required.

Required Documents
- Application form of business registration
- A copy of certificate of business permission etc. (for businesses requiring permission, authorization, report, etc.)
- A copy of the rental contract (in cases where the workplace has been rented), or a certified copy of building registration
- Others
- Report form of the appointment of a tax agent (in cases where the owner of the business does not normally stay at the workplace, or stays abroad for more than 6 months, etc.)
- Contract of partnership for a joint business (notarization is required)
- A copy of the foreign investment report form
- A copy of the foreign currency purchase/deposit certificate
- The original certificate of alien registration (or passport) shall be presented and a copy of the certificate shall be submitted (in cases where the business owner is a non-resident).

(4) Registration of Foreign-Invested Company
A foreign investor shall register a foreign-invested company at a delegated agency within 30 days of completing the payment of the investment object.

Required Documents
- Application form of foreign-invested company registration
- Certificate of business registration
- Certificate of foreign currency purchase/deposit

4. Establishment of a Foreign Company’s Domestic Branch
The establishment of a local corporation and private business registration are recognized as a foreign investment under the Foreign Investment Promotion Act. However, the establishment of a domestic branch is not recognized as a foreign investment, and is regulated by the Foreign Exchange Transactions Act.

4.1 Types of a Foreign Company’s Domestic Branch
There are two types of domestic branches: a branch and a liaison office. A branch undertakes sales activities in Korea to generate profits; whereas a liaison office does not conduct sales activities to create profits, but instead carries out non-sales functions such as business contacts, market research, R&D, etc. Liaison offices can carry out quality control, market surveys, advertising, and other incidental and supportive roles. However, they are limited in the scope of their activities, since they are not allowed to sell products directly, or to stock inventory for sale on behalf of the headquarters.

4.2 Procedure for Establishing a Foreign Company’s Domestic Branch
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(1) Branch Establishment Report
In order for a foreign company to establish a domestic branch, a report shall be made to the head of a designated foreign exchange bank.

Required documents
- Report form of the establishment of a foreign company's domestic branch
- Articles of association (Notarization of the location of the headquarters is required)
- A certified copy of registration or operation permission of the headquarters
- Statement on business activities in Korea
- Power of attorney in cases where the establishment of a domestic branch is commissioned to another person (Notarization of the location of the headquarters is required)

Both a branch and an office shall make a report to the Minister of Strategy and Finance in any of the following cases:
- Financial businesses other than banking business, including fund loans, brokering and arranging overseas finance, cards, installment financing, etc.
- Businesses related to securities and insurances
- Businesses which are not permitted under the Foreign Investment Promotion Act or other laws

(2) Branch Establishment Registration
Under the Commercial Act, the establishment and registration of a business office is required in cases where a foreign company carries out business in Korea. Under the Foreign Exchange Transactions Act an office is not allowed to conduct sales activities but information exchange etc. Therefore, only branches can be registered as a business office.

For foreign companies to do business in Korea, they shall appoint representatives, establish business sites, and have one of their executives based in Korea. (Commercial Law Article 614)

The application form shall be attached with the following files (Commercial Registration Act article 112)
1. Statement that certifies the existence of the headquarters
2. Statement that verifies the qualifications of the representatives (e.g. appointment certificate or board of directors' resolution)
3. Articles of association or statement that certifies the character of a company
4. Application form for seal registration of representatives in the Korean office (arbitrary)

All the files shall be certified by consuls of the respective nations in Korea or by the competent offices.

The Supreme Court of Korea recognizes documents legalized by consuls in Korea. But in some cases, the court does not recognize documents legalized by competent offices in the respective countries, and requires the certification of consuls. However, it is just for enhancing the authenticity of documents, and is not a requirement. (It is true for the individual examination of registration civil servants.)

In cases where the mother country of a foreign company joins the Convention Abolishing the Requirement for Legalization for Foreign Public Documents or Apostille, the company can submit a legalized document of Apostille.

In cases where a mother country does not have a consular certification system (e.g. Japan), a foreign company can submit a public document without legalization or have the document legalized by Apostille. Submitting a legalised document avoids the inconvenience of authenticity examination.

(3) Branch Closure and Retrieval of Liquidated Funds
If a person, who was approved, etc. for the establishment of a business office pursuant to the provision, intends to discontinue the operation of his/her local branch office, or to close the office, dispose of the locally owned properties, and return the money to a foreign country, he/she should report this fact to the head of the his/her designated foreign exchange bank. In this case, it is provided that the retrieved funds shall be limited to the sum of the operating funds brought into the local branch office, earned surplus and other reserve fund (after deducting a deficit if any).

Documents required for retrieval of funds
- Application form: when an applicant is appointed, the application shall be filed in the name of the liquidator.
- A statement explaining the reason for the application
- CPA-audited liquidation report (including the balance sheet, profit and loss statement as of the closing date and liquidation ending date)
- Tax payment certificate (national tax and local tax)
- Statements on operating money brought into the country, earned surplus and reserve fund
- Bank balance certificate (should be consistent with the remittable amount shown in the liquidation report)
- A certified copy of the liquidation-closing register in the case of an operating branch
- The following documents shall be submitted if a certified copy of the liquidation-closing register is not available.
  - Business discontinuance certificate (issued by the competent tax office)
  - A document that proves the liquidator' power of attorney
  - A document that proves that the final public notice on receivables was issued (a copy of newspaper announcement)
  - Certificate of the clearance of overdue wages for Korean workers (issued by the competent Labor Office head)

The original copy of a foreign enterprise' report on closing its local branch...
IV. FDI Incentives

1. Tax Support

For foreign investment that meets a set of qualifications, corporate and income tax on business income, dividend income, payment for technology introduction, earned income, etc. and customs duties on capital goods are exempted or reduced in accordance with the Restriction of Special Taxation Act. Acquisition tax, registration tax, and property tax on properties acquired or held for the operation of the business are exempted or reduced under local government ordinances mandated by the Restriction of Special Taxation Act.

1.1 Tax Support for Foreign-Invested Companies

(1) Corporate Tax Reduction

Corporate tax cuts for foreign-invested companies apply to income generated from businesses, which are subject to tax exemption or reduction under the Restriction of Special Taxation Act, with the foreign investment ratio taken into account. However, in the case where a Korean national (corporation) directly or indirectly holds 10% or more of the voting shares of a foreign company or a foreign corporation that has invested in a business subject to tax exemption or reduction, the invested shares are not subject to tax abatement or exemption. That is, tax reduction or exemption shall not apply to round trip investment by a person residing in Korea.

The initial date of reckoning tax exemption or reduction is the date that comes first between the taxable year in which the first income was generated, or the taxable year five years after the beginning date of the business.

Date of Business Commencement
- Manufacturing: The date of commencing production
- Mining: The first date of commencing collection/mining of minerals
- Other businesses: The date of commencing business activities

In the case of capital increase, the date when capital increase is registered shall be considered the date of commencing business in applying the Restriction of Special Taxation Act. In regards to the stocks, etc. acquired by a foreign investor due to the capitalization of a reserve, a reserve for revaluation, or a reserve for tax reduction/exemption, the tax reduction or exemption shall be made during the remainder of their reduction or exemption period and the ratio of reduction or exemption for the relevant remaining period, in conformity with the examples of reduction or exemption for stocks, etc. which form a ground for such occurrences. If an application for tax reduction is made by increasing the capital within 5 years after making the paid-in capital reduction, the decision on abatement or exemption shall be made only for the foreign-invested ratio against the portion of net increase than before the capital reduction. If a paid-in capital decrease is made within seven years after the relevant capital increases, the portion of the increased capital is deemed to have decreased first. However, in the case where a purely domestic company receives an investment from a foreigner through a capital increase and becomes a foreign-invested company, the capital increase shall be considered new foreign investment, and not as a case of capital increase as described above.

In regards to mergers, if a foreign-invested company is merged with a domestic company (excluding any other foreign-invested company under the application of the reduction or exemption period) during the period of tax reduction or exemption, resulting in a decrease in foreign investment ratio in the merged corporation, the foreign investment ratio in the foreign-invested company prior to the merger shall be applied in computing the tax amount subject to reduction or exemption.

Where stocks are equally apportioned by capitalization of a reserve for revaluation or a reserve, which is ineligible for new reduction or exemption, there shall be no changes to the reduction or exemption rate and period for the business year of the capital increase, or the next business year.

**How to compute reduced or exempted tax amount**

<table>
<thead>
<tr>
<th>Category</th>
<th>Calculation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced or exempted tax amount</td>
<td>Reduced or exempted tax amount = [calculated tax amount] x base for subject to tax reduction or exemption/the whole tax base x the rate of tax reduction or exemption</td>
</tr>
</tbody>
</table>

**The rate of tax reduction or exemption in the next business year following the business year wherein capital increase [cash, dividends] subject to new tax reduction or exemption is executed**

<table>
<thead>
<tr>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investor’s capital prior to capital increase × reduction or exemption rate of the business year + Foreign investor’s capital among increased capital × 100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The rate of tax reduction or exemption (A + B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. 70% of the invested capital amount for industry-supporting service businesses, businesses requiring high technology, and businesses in individual-type foreign investment zones</td>
</tr>
<tr>
<td>B. [The smaller amount of the following]</td>
</tr>
</tbody>
</table>
| Number of employees × 10 million won / 20% of invested capital amount

In the event that a foreign-invested company engaged in a business not eligible for tax reduction/exemption increases its capital for a newly established section of a business eligible for tax reduction/exemption and assets, liabilities, and profits/loss that is separately handled in accounting, the amount of income eligible for tax reduction/exemption, the percentage of tax reduction, and the amount of tax reduced can be calculated separately by applying the foreign investment ratio only to the section of the business eligible for tax reduction/exemption.
Doing Business In Korea

Doing Business In Korea

the Jeju investment promotion district development project, etc.

free economic zones, foreign-invested companies that execute free economic zone development projects, executors of complex-type foreign investment zones, certain companies in free trade zones, foreign-invested companies in free economic zones, foreign-invested companies that execute free economic zone development projects, executors of the Jeju investment promotion district development project, etc.

Customs duties, special excise tax, and value-added tax shall be exempted for business operated by foreign-invested companies in complex-type foreign investment zones, certain companies in free trade zones, foreign-invested companies in free economic zones, foreign-invested companies that execute free economic zone development projects, executors of the Jeju investment promotion district development project, etc.

Application Institution: Entry point customs office

(2) Local Tax (acquisition/registration/property tax) Reduction or Exemption

In regards to properties acquired or held by a foreign-invested company to do business subject to tax reduction or exemption, acquisition tax, registration tax, and property tax are exempted by 100% or reduced by 50%, or are deducted from the tax base during the same reduction or exemption period of corporate tax.

As for acquisition tax, registration tax, and property tax on properties acquired after the commencement of business, a foreign-invested company shall, within five years from the date of the starting of business, be allowed an exemption from the total of an amount obtained by multiplying a computed amount of tax on the properties concerned by the ratio of foreigner’s investment (tax amount subject to reduction or exemption) and a tax amount equivalent to 50% of the tax amount subject to reduction, or the exemption shall be reduced within two years thereafter. Where there exists any tax amount already paid prior to a decision on reduction or exemption, the relevant tax amount shall not be refunded, even if a foreign-invested company has acquired properties subject to taxation after starting the business.

A foreign-invested company, who has acquired properties after a decision on tax reduction or exemption and prior to the date of the starting of business, may be allowed an exemption from the tax amount subject to reduction or exemption as in acquisition and registration taxes. As for property tax, the foreign-invested company may be allowed an exemption from the tax amount subject to reduction or exemption within five years from the date the properties were acquired, and a tax amount equivalent to 50% of the tax amount subject to reduction or exemption within two years thereafter.

Under ordinances, the local tax reduction or exemption period may be extended up to 15 years, or the reduction or exemption rate or deduction rate may be increased.

(3) Exemption of Customs Duties, etc.

Under the Restriction of Special Taxation Act, customs duties, etc. shall be exempted for the following capital goods that are used directly in the business subject to reduction or exemption of corporate tax or income tax, and are reported as foreign investment by acquisition of newly issued stocks, etc.

- Capital goods that a foreign-invested company brings in with a foreign or domestic means of payment it has obtained as equity investment from a foreign investor
- Capital goods that a foreign investor brings in as object of investment

Exemption of customs duties, etc. shall only be applied to capital goods whose import declaration under the Customs Act has been completed within 5 years from the date when the foreign investment report has been made. Where it is impossible to make the import declaration within the scope of three years due to a delay in approval for factory establishment or other causes, the exemption of customs duties shall be applied after the approval of the Minister of Strategy and Finance is obtained and within 1 year thereafter.

Customs duties, special excise tax, and value-added tax shall be exempted for industry-supporting service businesses vital to strengthening the international competitiveness of domestic industries, businesses accompanying high technologies, or businesses operated by foreign-invested companies in individual-type foreign investment zones under the Foreign Investment Promotion Act. Customs duties shall be exempted for businesses operated by foreign-invested companies in complex-type foreign investment zones, certain companies in free trade zones, foreign-invested companies in free economic zones, foreign-invested companies that execute free economic zone development projects, executors of the Jeju investment promotion district development project, etc.

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Required documents:
- Application form for customs duties exemption
- A copy of the confirmation certificate of the specification of the imported capital goods
- Documents certifying capital goods imported through investment in kind or cash
- Documents certifying that the business is subject to reduction or exemption of corporate tax, etc.
- Invoice, bill of lading (B/L) or air waybill (AWB), price declaration, packing list, certificate of origin, etc.

Special Taxation for Investment In Kind: Confirmation of In-Kind Investment Completion

Where a foreign investor makes an investment in kind, an inspector shall write an inspection report on the performance of the investment in kind and submit the report to the court as prescribed by the Commercial Act. As for investment in kind with capital goods, notwithstanding the provisions of the Commercial Act, the certificate of in-kind investment completion confirmation which confirms the performance of the investment in kind and the type, quantity, price, etc. of the object of investment, issued by the Commissioner of the Korea Customs Service, shall be considered as the inspector’s inspection report under the regulations of the Non-contentious Case Procedure Act.

Therefore, where a foreign investor intends to register capital at a jurisdictional court after he/she has imported capital goods acquired through investment in kind, he/she shall receive a confirmation of in-kind investment completion from an officer of the Korea Customs Service dispatched to Invest KOREA.

Required Documents:
- Two copies of the application form for in-kind investment completion confirmation
- Import declaration certificate

Customs Clearance Procedures for Capital Goods

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Related organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of foreign investment</td>
<td>Invest KOREA (KOTRA), a foreign currency bank</td>
</tr>
<tr>
<td>Two copies of the certificate of investment report</td>
<td></td>
</tr>
<tr>
<td>Confirmation of the specifications of imported capital goods</td>
<td>The foreign currency bank to which the foreign investment report is made, KOTRA</td>
</tr>
<tr>
<td>Three copies of the application form, documents certifying monetary values (offer sheet, contract, etc.)</td>
<td></td>
</tr>
<tr>
<td>Customs clearance</td>
<td>Certificate of business registration under the name of a foreign-invested company</td>
</tr>
<tr>
<td>Application form for exemption (customs), investment report form</td>
<td></td>
</tr>
<tr>
<td>Certificate of the decision on tax reduction or exemption, invoice, certificate of the country of origin, bill of lading (B/L)</td>
<td></td>
</tr>
<tr>
<td>Confirmation of in-kind investment completion</td>
<td>Application and confirmation: an officer of the Korea Customs Service dispatched to KOTRA</td>
</tr>
<tr>
<td>Application form for confirmation of in-kind investment completion</td>
<td></td>
</tr>
<tr>
<td>Import declaration certificate</td>
<td></td>
</tr>
<tr>
<td>Registration of company establishment</td>
<td>Registry office</td>
</tr>
<tr>
<td>Application form for registration</td>
<td></td>
</tr>
<tr>
<td>Certificate of in-kind investment completion confirmation</td>
<td></td>
</tr>
<tr>
<td>Registration of a foreign-invested company</td>
<td>The institution where the investment report was first made</td>
</tr>
<tr>
<td>Certified copy of corporation registration, certificate of in-kind investment completion confirmation</td>
<td></td>
</tr>
</tbody>
</table>
4) Tax Support for Dividends

Tax on dividends received by a foreign investor from a foreign-invested corporation operating a business subject to tax reduction or exemption shall be reduced or exempted in proportion to a percentage of the gross income of the foreign-invested company related to the income derived from its business eligible for tax reduction or exemption during the period of reduction or exemption. The initial date in reckoning the period of tax reduction of or exemption from dividends derived from capital increase through new investment in cash, investment in kind, or dividends is the same as the initial date in reckoning the period of corporate tax reduction or exemption. During the period for which corporate tax is exempted, the income tax on dividends is exempted, and during the period for which corporate tax is reduced by 50%, the income tax on dividends is reduced by 50%.

Meanwhile, in regards to dividends derived from stocks, etc. acquired by the capitalization of a reserve, a reserve for revaluation, or other reserves, the period and rate of reduction or exemption that are applied to the original stocks that are the source of the dividends are applied to the tax reduction or exemption on the dividends concerned. That is to say, 100% exemption for 5 years and 50% reduction for 2 years thereafter shall not be newly applied. Where a foreign investor acquires shares of a foreign-invested company from a national of the Republic of Korea or shares of a Korean corporation, the foreign investor shall not be allowed tax reduction or exemption, since it is recognized as acquisition of existing shares. However, where a foreigner or a foreign corporation acquires shares held by a foreigner or a foreign corporation, the initial period and rate of reduction or exemption shall be maintained.

* In computing the amount of withholding tax on income from dividends, the lowest amount shall be chosen after applying the rate of withholding tax under the Corporate Tax Act (22% with residence tax included), the rate of withholding tax calculated after applying the rate of reduction or exemption under the provisions on tax reduction or exemption for a foreign-invested company, and the limited tax rate by tax treaty. [Where dividends are paid from income accumulated over several business years, the initial income is deemed to be paid as the first dividend in order of time.]

1.2 Application for Tax Reduction or Exemption and Collection

(1) Application for Tax Reduction or Exemption

① Confirmation of Whether a Business is Subject to Tax Reduction or Exemption

A foreign investor or a foreign-invested company may request the Minister of Strategy and Finance to confirm whether an intended business is subject to tax reduction or exemption, before he/she/it reports foreign investment under the Foreign Investment Promotion Act. The Minister shall decide on the matter and notify the applicant accordingly within 20 days from the date that the application is made. A foreign investor or a foreign-invested company shall apply for tax reduction or exemption after foreign investment is reported, since the confirmation mentioned above is to simply verify whether the business concerned accompanies high technology, and the effect of the decision is invalid.

② Application for Tax Reduction or Exemption

A foreign-invested company shall apply for the tax reduction or exemption to the Minister of Strategy and Finance. The Minister shall, with respect to foreign investment in a free trade zone, delegate his authority to the authorized administrator concerned on the receipt of applications for tax reduction or exemption, for modification of details of reduction or exemption, and on the decision whether it is eligible for tax reduction or exemption, modification or details of reduction or exemption, or is being subject to reduction or exemption, and the notification thereof. In cases of new corporations, a foreign investor or a foreign-invested company shall make an application for tax reduction or exemption by no later than the closing date of the taxable year where to belongs the date of commencing the business of the relevant foreign-invested company.

Meanwhile, the decision on tax reduction or exemption for capital increase is made under the provisions on tax reduction or exemption for new investment of the Restrictions of Special Taxation Act [Articles 121-2, 121-3]. In the case where any foreign-invested company increases its capital within the scope of the reported investment amount that has been confirmed upon the decision on the tax reduction or exemption prior to the date on which three years lapse from the date on which the first notice concerning the decision on the tax reduction or exemption is served after the foreign investment registration, even if no application is filed for reducing or exempting the tax, the foreign-invested company shall be deemed eligible for the decision on the tax reduction or exemption for the portion of the increased capital. (This is applied to the initial capital increase since Jan. 1, 2006.) Where any foreign investor or foreign-invested company alters the business contents subject to a decision on tax reduction or exemption and intends to have any reduction or exemption applied to the modified business, he/she/it shall make an application for modification of contents of tax reduction or exemption no later than the date on which two years lapse from the date on which the causes for the relevant modification occur. (The content of the relevant decision on modification shall apply only to the remainder of the reduction or exemption period.) Where a foreign investor or foreign-invested company obtains a decision on reduction or exemption by applying for reduction or exemption after an expiry of the time limit for application of reduction or exemption, the relevant decision shall be applied only to the taxable year whereeto belongs the date of such application, and to the remainder of reduction or exemption period thereafter. In such cases, where there exists any tax amount already paid prior to a decision on reduction or exemption, the relevant tax amount shall not be refunded.

Application for Modification of Tax Reduction or Exemption

The modification of details of tax reduction or exemption refers to the modification of business contents subject to a decision on tax reduction or exemption. In cases where reported details of foreign investment such as the foreign investment amount are altered, the initial decision on tax reduction or exemption is valid in accordance with the application for the modification of foreign investment and the registration of a foreign-invested company under the Foreign Investment Promotion Act. Alteration of a corporate name or location is not subject to an alteration application. Therefore, such matters may be reported at a jurisdictional tax office or local government.

Required documents:
- Description of concerned technologies: Catalogues and other reference materials on products and services produced or provided with the technology
- Documents stating the scope of usage of products and services produced or provided with the technology
- Production methods and work schedule (only for manufacturing technology)
- The schedule shall include every step of the process, and the steps requiring high technology shall be marked
- Whether production is carried out in Korea shall be marked by individual process.
- Documents certifying economic effects or technological performance
- Comparison in performance, quality, or cost reduction between ‘products and services produced or provided with the technology’ and ‘products and services in the same or similar category’
- Documents certifying the technology concerned is high technology
- Certificates, test results, evaluations reports, etc. from foreign governments and other authorized institutions on the products and services produced or provided with the technology
- Documents on industrial property rights such as patents, etc. regarding the technology (or services)
- Documents on the development of the technology (or services) [R&D institution, developers, development costs and period, etc.]
- Investments in or contributions to a third country to utilize the technology, or a technology in the same category (or services)
- Other documents certifying the high degree of technology
- Copy of the foreign investment registration certificate
- Copy of the official document on the decision concerning tax reduction or exemption
- Copy of the official document on the decision concerning tax reduction or exemption, in the case where a company, which is the subject of tax reduction or exemption, applies for modification.
Decision and Notification of Tax Reduction or Exemption

The Minister of Strategy and Finance shall, upon receipt of an application for tax reduction or exemption or an application for the revision to the tax reduction or exemption, examine whether the relevant application meets the standards for tax reduction or exemption, and make a decision on whether to grant the reduction or exemption or whether to make any revision to the reduction or exemption within 20 days, and notify the applicant thereof. The Minister may, where deemed inevitable to require a long period for making a decision on whether to grant the abatement or exemption or whether to make any revision to the reduction or exemption, extend the said review period within 20 days. In such cases, he shall notify the applicant of the relevant causes and review period.

The Minister of Strategy and Finance shall, where he has made a decision on whether to grant the reduction or exemption or whether to make any revision to the reduction or exemption, notify the Commissioner of the National Tax Service, the Commissioner of the Korea Customs Service and the head of local government having jurisdiction over the relevant factory facilities of the fact thereof.

The Minister of Strategy and Finance shall, when he intends to determine a business as the one ineligible for reduction or exemption upon receiving an application, give a preliminary notice of such determination so notified within 20 days from the date on which the notice is delivered, with supporting materials attached thereto. The Ministry of Strategy and Finance shall make a decision on whether to grant the abatement or exemption or whether to make any revisions to the reduction or exemption within 20 days from the date on which the request is delivered, and shall notify the applicant of the result thereof.

Application Procedures for Tax Reduction or Exemption of Foreign-Invested Company

<table>
<thead>
<tr>
<th>Step</th>
<th>Application for confirmation of whether a business is eligible for tax reduction or exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ground law: Article 121-2 (7) of the Restriction of Special Taxation Act. The technology concerned shall be included in the list of business accompanying high technology and industry-supporting service business in the Annex 1 of the Regulations on Tax Reduction or Exemption for Foreign Direct Investment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step</th>
<th>Notification of foreign investment by the acquisition of new stocks, etc.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Step</th>
<th>Application for tax reduction or exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Ground law: Article 121-2 (6) of the Restriction of Special Taxation Act. International Economic Affairs Division of the Ministry of Strategy and Finance (82-2-2110-7626) Application period: 1. New investment: The end date of the taxation year whereunto belongs the date of commencing the business eligible for tax reduction or exemption 2. Capital increase: is considered the equivalent to new investment 3. Modification: Up to 2 years from the date on which the cause for modification occurs Required documents: 1. 3 copies of the report form for foreign investment by the acquisition of new stocks, etc. 2. 3 copies of the application form of tax reduction or exemption [Form # 80] 3. 3 copies of the documents certifying high technology</td>
</tr>
</tbody>
</table>

(2) Additional Collection of Abated or Exempted Tax Amounts

Tax reduction or exemption stipulated by the Restriction of Special Taxation Act is granted only when requirements for tax reduction or exemption are met for a certain period of time. In cases where such requirements are not met, abated or exempted tax amounts shall be additionally collected as follows:

<table>
<thead>
<tr>
<th>Cause for collection</th>
<th>Taxes</th>
<th>Range of collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where a registration is revoked or a business is closed down</td>
<td>Corporate tax, customs duties, local tax, etc.</td>
<td>Abated or exempted tax amount within 5 years (customs duties: 3 years) retroactively from the date of revocation or closure</td>
</tr>
<tr>
<td>Where the payment of investment object falls short of the standards for the tax reduction or exemption within 5 years after making a report on foreign investment</td>
<td>Corporate tax, etc.</td>
<td>Abated or exempted tax amount within 5 years retroactively from the date on which the standards are not satisfied (3 years in cases of tax reduction or exemption on employment)</td>
</tr>
<tr>
<td>Where a person, who has received a corrective order as he failed to implement the contents of the reports, fails to comply with it</td>
<td>Corporate tax, etc.</td>
<td>Abated or exempted tax amount within 5 years retroactively from the expiration of a corrective order period</td>
</tr>
<tr>
<td>Where a foreign investor transfers the stocks, etc. which he owns to a national or a corporation of the Republic of Korea</td>
<td>Corporate tax, etc.</td>
<td>Abated or exempted tax amount within 3 years retroactively from the first day of the taxable year + 1 (the number of months elapsed) × stock transfer ratio</td>
</tr>
<tr>
<td>Where the object of investment is used for purposes other than the reported ones or is disposed of</td>
<td>Corporate tax, customs duties, local tax, etc.</td>
<td>Abated or exempted tax amount for the capital goods used for purposes other than the declared ones, or disposed of, which have been reported within 5 years (customs duties: 3 years) from the date of accepting an import declaration</td>
</tr>
</tbody>
</table>
The additional collection of taxes shall not be made in the following cases:

- Where the registration of a foreign-invested company is revoked, since the foreign-invested company is dissolved due to a merger.
- Where imported capital goods customs duties of which were exempted cannot be used for the reported purposes due to natural disasters or other reasons corresponding thereto, depreciation, advancement of technologies, or other changes to economic conditions, and the capital goods concerned are used for purposes other than the reported ones or disposed of after obtaining the approval of the Minister of Strategy and Finance.
- Where transferring shares, etc. to a citizen or corporation of the Republic of Korea to open the foreign-invested company to the public under the Securities Trade Act.
- Where a foreign investor, who invests in the industry-supporting service business or business accompanying high technology, transfers his stocks, etc. to a Korean national or Korean corporation, and the Minister of Strategy and Finance confirms that there is no difficulty for the relevant enterprise in providing independently in Korea such products or services produced or provided by the relevant industry-supporting service business or the business accompanying high technology.
- Where a foreign investor transfers his stocks, etc. to a Korean national or Korean corporation pursuant to other Acts and subordinate statutes or government policies and such transfer is confirmed by the Minister of Strategy and Finance.

1.3 Other Tax Support

(1) Tax Support for Foreign Engineers

A foreign engineer shall be entitled to the 50% reduction of income tax on earned income derived from the offer of his services to a Korean national within Korea until the month whereof belongs the date on which 2 years have passed since the first date on which the foreign engineer concerned offered his service in Korea. The initial date on which a foreign engineer provides his services shall be prior to December 31, 2012. (Persons with permanent residency of a foreign country shall not be deemed foreign engineers or foreign workers.)

Also, income tax shall be reduced 50% for the income paid to a foreign engineer who provides high technology under a technology introduction contract to a foreign-invested company subject to the reduction or exemption of corporate tax, etc. in Korea under the Foreign Investment Promotion Act by December 31, 2011.

(2) Special Taxation for Foreign Workers

Foreign executive or employees (referring to persons who are not daily workers) may choose between the following taxation methods. Special taxation shall be applied to workers of a domestic branch of a foreign corporation.

- A single income tax rate, set to be 15% of the income, which a foreign worker earns for his services in Korea and is paid by December 31, 2012, shall be applied. [Tax reduction or exemption, tax credit, and other regulations on income tax are not applied.]
- Aggregate income tax rate shall be applied (In cases where the foreigner concerned is a non-resident, personal exemption or special deduction is not applied besides basic deduction.)

Advance Tax Ruling System

A taxpayer may require an advance tax ruling on a tax related to a specific transaction associated with his/her business. The taxpayer shall file an application along with documents on the detailed fact relevance “under his/her own name” in advance. The National Tax Service of Korea shall provide a clear answer only to “the taxpayer directly concerned.”

- * Specific transaction: Transactions that have already occurred or are likely to occur in the near future, which are certified by documents.

(3) Effect

- Advance Tax Ruling reduces uncertainties concerning the interpretation of tax laws, and increases the predictability of business activities.
- The answer provided by the National Tax Service based on documents on fact relevance is binding.

(4) Qualifications and Requirements

- The interpretation of tax laws related to specific transactions of a business owner (including persons who will bear the tax obligation derived from future transactions) is subject to Advance Tax Ruling.
- The following is ineligible for Advance Tax Ruling:
  - Matters unrelated to the application of tax laws
  - Matters concerning the determination of facts
  - Matters concerning fact relevance of assumption
  - Where transactions for which the application is made are (possibly) against Acts or subordinate statutes
  - Where the application is made after the application period is expired
  - Where the purpose of the application is to evade taxes, etc.

(5) How to apply

- Download the application form from the National Tax Service website (http://www.nts.go.kr/eng). Complete and submit the form to the NTS Commissioner (Manager of Legal Affairs Division) via postal mail.
- Download the form at NTS web site (in Korean) - National tax info. or Tax info. links - Tax law advance ruling system
- Application shall be filed by the business owner. However, a delegated agent (tax accountant, certified public accountant, or lawyer), if consigned by the business owner, may submit the application on his/her behalf.

2. Cash Grant

In cases where foreign investment satisfies certain conditions, the central and local governments of Korea may provide cash grants for projects such as the construction of a new factory, etc. In the process, the Korean government takes into account whether the relevant foreign investment accompanies high technology, the effect of technology transfer, the size of job creation, whether the foreign investment overlaps with domestic investment, the propriety of the location in which the foreign investment is made, etc.
2.1 Qualifications and Purposes of Cash Grant

(1) Qualifications
A foreign investment shall meet the following requirements and its foreign investment ratio shall be over 30% to be eligible for a cash grant:

- Installation of a new factory facility or expansion of an existing factory facility or a business place in the event of a non-manufacturing business for management of a "industry-supporting service business" or a "business requiring high technology" essential for the enhancement of international competitiveness of the domestic industry
- Installation of a new factory facility or expansion of an existing factory facility for the production of parts/materials falling under the category of "parts/material business eligible for cash grant" concerning parts/materials stipulated under The Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material for which one of the following is the case:
  - Contributing greatly to high added value of the final product
  - Parts/materials requiring high technology or core sophisticated technology that deliver ripple effects of high technology or the creation of added value
  - Acting as the basis of an industry or effecting high inter-industry linkages

(2) Cash Grant Ratio
A cash grant for foreign investment shall be over 5% of the amount of foreign investment, and the ratio shall be determined through negotiations. The upper limit shall be decided by a closed formula. As for an R&D center, the formula shall include the amount of foreign investment and R&D funds from overseas that are used for the stipulated purposes.

<table>
<thead>
<tr>
<th>KSIC</th>
<th>Type of business</th>
<th>Number of full-time employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>Manufacturing</td>
<td>300</td>
</tr>
<tr>
<td>B</td>
<td>Mining</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>Transportation</td>
<td></td>
</tr>
<tr>
<td>J</td>
<td>Publishing, film, broadcast/communications and information service</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>Business facility management and industry-supporting service</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>Health and social welfare service</td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>Agriculture, forestry and fishery</td>
<td>200</td>
</tr>
<tr>
<td>D</td>
<td>Electricity, gas, steam and water supply</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Hotel and restaurant</td>
<td></td>
</tr>
<tr>
<td>K</td>
<td>Finance, insurance, science/technology service</td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>Arts, sports/leisure-related service</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Sewage/waste treatment, raw material recycling and environment restoration</td>
<td>100</td>
</tr>
<tr>
<td>P</td>
<td>Educational service</td>
<td></td>
</tr>
<tr>
<td>S</td>
<td>Association/organizations, repair and individual service</td>
<td></td>
</tr>
<tr>
<td>L</td>
<td>Real estate and lease</td>
<td>50</td>
</tr>
</tbody>
</table>

- Installation of a new research facility or expansion of an existing research facility for R&D activities for an "industry-supporting service business" or a "business requiring high technology" essential for the enhancement of international competitiveness of the domestic industry and having 5 or more full-time researchers with a masters degree in the relevant area or a bachelor’s degree in an area related to the business in addition to at least 3 years of research experience
- A case of investment that has major positive effects on the domestic economy compared to the amount of investment and the need for support being recognized by the Foreign Investment Committee as one of the following in connection with requirements for foreign investors
  - Where a foreign company that owns businesses in three or more countries establishes a regional headquarters having control over two or more countries in the Republic of Korea
  - Where a foreign company is engaged in a regional strategy industry stipulated in The Special Act on Balanced National Development, Article 2, Subparagraph 5 or a regional leading industry stipulated in the said Act, Article 2, Subparagraph 6 and it is judged that the relevant industry will contribute to the development of the local economy

(2) Cash Grant Ratio
A cash grant for foreign investment shall be over 5% of the amount of foreign investment, and the ratio shall be determined through negotiations. The upper limit shall be decided by a closed formula. As for an R&D center, the formula shall include the amount of foreign investment and R&D funds from overseas that are used for the stipulated purposes.

(Funds from domestic sources are excluded.)
(3) Ratio of sharing fiscal funds required
The central government and the local government share fiscal funds required for cash grants in the following ratios:
- Land purchase and lease expenses: 40:60 for the Greater Seoul area and 75:25 for outside the Greater Seoul area
- Employment/education/training subsidy: 58:42 (provided that employment subsidy for interns in the engineering sector will be entirely provided by the central government)
- Building construction expenses/expenses for purchasing capital goods and research equipment/devices/ expenses for installation of infrastructure facilities/R&D expenses: 40:60 for the Greater Seoul area and 75:25 for outside the Greater Seoul area (However, the ratio may be altered with the decision of the Committee.)
* Support and cash grant provided under the “Criteria for the Central Government’s Fiscal Fund Support concerning Local Governments’ Foreign Investment Attraction Activities” shall not be provided two or more times for the same item.

The total amount of support funds shall not exceed the cash grant ceiling set in the “Cash Grant Provision Guideline” (Schedule 2).

(4) Legal Purposes
A foreign-invested company shall use a cash grant only for the following purposes:
- Purchase of lease or land or a building for installation of a factory or research facility
- Expenses for building a factory or research facility
- Purchase of capital goods and research equipment to be used at a factory or research facility for business or research
- Expenses for installation of infrastructure facilities, including power/communication facilities, required for building a factory or research facility
- Employment/education/training subsidy
The purchase cost of land to be leased to foreign-invested companies shall be included in the cash grant limit. Though a foreign-invested company may receive a cash grant and financial support at the same time (sub-items shall not be overlapped), the limit to financial support shall not be exceeded.

2.2 Cash Grant Application Procedure

(1) Application for Negotiation and Cash Grant & Evaluation
A foreigner who intends to receive a cash grant shall submit an application form and an investment plan to the Minister of Knowledge Economy. An evaluation team consisting of related public officials and private sector experts shall evaluate the application form and the investment plan, and submit the evaluation report to the Minister of Knowledge Economy.

A foreigner may request a negotiation with the Minister of Knowledge Economy prior to the submission of the application form. In such cases, the foreigner can identify the possibility and amount of the cash grant through a pre-negotiation. Hence, pre-negotiation is more important than the formal negotiation procedure.

(2) Decision on Cash Grant & Contract Conclusion
The decision on the cash grant shall be made following deliberation or consultation by the Foreign Investment Committee (for less than 1 billion won in grants). Following the above decision, the applicant, the Minister of Knowledge Economy, and the head of a local government may conclude a contract for the cash grant. The contract period shall be 10 years from the last date of the cash grant payment, and the contract shall include details of how the cash grant is provided, the acquisition and lease of land, and follow-up management of the cash grant, etc. The contract shall be concluded within 60 days from the application for which the cash grant is filed.

(3) Payment of Cash Grant
The cash grant may be paid in a lump sum on the date when the decision on the cash grant is made, or in up to 10 installments for the duration of up to 5 years.
The applicant shall take out an insurance policy against loss, or take equivalent measures to ensure that all assets (including those under construction) such as buildings, facilities, equipment, etc. are restored or replaced to a satisfactory level. Contracts to acquire assets that receive cash grants shall be designed to efficiently use cash grants through public tenders, official appraisals, request for two or more estimates, etc.

A written consent of the Minister of Knowledge Economy shall be secured in advance to use the assets purchased with a cash grant for purposes other than the stated business; to transfer, exchange, or lend the assets; or to provide the assets as collateral. Also, a cash grant shall not be dealt out as dividends or royalties. The concerned foreign-invested company shall not guarantee liabilities other than for business purposes.

During the contract period, the applicant shall provide enough information for the evaluation of the contract implementation, and submit a statement of accounts audited externally to the Minister of Knowledge Economy every year.

(2) Management of Cash Grant

Lands purchased with a cash grant, provided by the central and local governments with an aim to support land purchase and rent, shall not be disposed of within 5 years after the sales contract. If the land is disposed of within 10 years after concluding the contract, proceeds from the sale shall be redeemed in the proportion of the support provided by the central and local governments to the total land purchase cost.

To be eligible for cash grants in education, training, and employment subsidies, the worker concerned shall be employed for three years or longer. Should the concerned worker be dismissed within three years, the subsidy shall be collected pro rata to the period in which the dismissal occurred (excluding interns in science & engineering fields).

Where the actual amount of foreign investment is less than the amount stated in the contract for cash support whose purposes are construction costs, purchase costs for facilities and equipment, and installation costs of basic facilities, the amount of the cash grant shall be reduced pro rata to reflect the difference.

(3) Cancellation, Withdrawal, Reduction, Redemption etc. of Cash Grant

For cases of application by false and improper methods, non-execution of contract obligations, and where business operation is impossible due to bankruptcy during the contract period, etc., measures may be taken, such as cancellation or withdrawal of the cash grant, or reduction or redemption, etc. of the amount of the cash grant. Initially, requests shall be made to fulfill the contract, and opportunities shall be provided to explain the situation. Afterwards, through deliberation and consultation by the working level committee, measures shall be determined regarding the concerned cash grant and relevant contract.

For cases where business operation is impossible due to bankruptcy, etc., if the applicant requests an extension of the contract period instead of returning the cash grant, the extension shall be granted, barring any special reason. In returning cash grant, the amount shall be the largest among the followings. In such cases, the responsibilities of returning the cash grant shall be burdened, jointly or separately, by the foreign investor or the foreign-invested company.

- The total amount of the cash grant, where business operation has become impossible prior to the execution of the investment expenditure plan
- The sum of 1/60 (maximum 60/60) of the total amount of the cash grant for each month that falls short of the contracted period of business, where business operation has become impossible after the investment expenditure plan is executed
- The number of persons the foreign-invested company failed to employ multiplied by the contracted cancellation charge for each person, where the contracted minimum employment obligations were not fulfilled during the contract period (The minimum employment obligation may be fulfilled by extending the business period.)
### Requirements for Foreign Investment Zone

#### Complex-type Foreign Investment Zone
- The relevant local government shall secure the demand for over 50% of the area slated to be designated as a foreign investment zone by signing MOUs (at least 150,000m²), and submit the designation plan to the Ministry of Knowledge Economy for deliberation.
- In cases of new designation, the industrial complex shall be developed in advance, so that construction for factories can start without delay; and clear demand from foreign investors shall be secured.
- In such cases, the development of the industrial complex does not refer to the completion of construction, but the stage where groundbreaking for factories is possible. Demand from foreign investors means the investment stipulated in MOUs.
- In regards to the expansion of an existing foreign investment zone, more than 80% of the existing foreign investment zone shall be occupied by foreign-invested companies and the demand for the expanded area shall be secured.
- Where a plan for the new designation of a foreign investment zone or the expansion of an existing one is submitted, a review report concerning the performance analysis of the existing zone and the expected effects of the expansion shall be attached.

#### Individual-type Foreign Investment Zones
- Individual-type foreign investment zones are designated through deliberation and resolution of the Foreign Investment Committee, after the investment feasibility and expected effects of the designation are generally reviewed. The candidate area shall meet the standards for designation.

### Business category Standards for designation

**Manufacturing business, business accompanying high technology, industry-supporting service business (logistics)**
- Foreign direct investment of USD 30 million or more

**Tourism, industry-supporting service business (excluding logistics)**
- Foreign direct investment of USD 20 million or more (e.g., tourist hotel, resort facility)

**Logistics, SOC**
- Foreign direct investment of USD 10 million or more (e.g., cargo terminal)

**R&D facility**
- R&D facilities for industry-supporting service business, and business accompanying high technology
- Foreign direct investment of USD 2 million or more (with at least 10 experienced researchers holding a master’s degree or higher)

### Comparison between Individual-type and Complex-type Foreign Investment Zones

<table>
<thead>
<tr>
<th>Category</th>
<th>Complex Type</th>
<th>Individual Type</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overview</strong></td>
<td>Areas are designated in advance to attract small- and medium-sized foreign-invested companies (1994–)</td>
<td>Areas are designated upon the request of foreign investors who would make large-scale investments (1997–)</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Industrial complex</td>
<td>No limitations (areas that foreign investors prefer)</td>
</tr>
<tr>
<td><strong>Requirement for designation (or occupancy)</strong></td>
<td>Foreign investment ratio shall be 30% or more</td>
<td>The investment amount shall be more than the required minimum amount by business sector (USD 30 mil. for manufacturing, USD 20 mil. for tourism, USD 10 mil. for logistics, etc.)</td>
</tr>
</tbody>
</table>
Investment zone for the service industry

- Individual type: MOU on occupancy demand for investors completing investment declaration should be clearly presented
- Complex type: In case two or more foreign investment enterprises demonstrate their intention to invest in national or public property and designate some areas in advance, the investors who have completed investment declaration are allowed to secure more than 60% of the designated areas.
- Considering the characteristics of the service industry, part of a building may be designated as an investment zone.

<table>
<thead>
<tr>
<th>Category</th>
<th>Complex Type</th>
<th>Individual Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site support</td>
<td>Land is purchased before it is leased to companies</td>
<td>Land purchase cost is subsidized if requested</td>
</tr>
<tr>
<td></td>
<td>- Seoul metropolitan area: 40%, other areas: 75%</td>
<td>Share of the subsidy:</td>
</tr>
<tr>
<td></td>
<td>- Subsidies for purchase cost</td>
<td>- Seoul metropolitan area: 40%, other areas: 75%</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax reduction or exemption</td>
<td>- Qualifications</td>
<td>- Qualifications</td>
</tr>
<tr>
<td>(Corporate Tax, customs</td>
<td>- Manufacturing USD 10 million or more</td>
<td>- The same as requirement for designation</td>
</tr>
<tr>
<td>duties, acquisition tax,</td>
<td>- Logistics: USD 5 million or more</td>
<td>- Reduction or exemption period</td>
</tr>
<tr>
<td>etc.)</td>
<td>- National tax (5 years) is exempted 100% for 3 years, and reduced 50% for</td>
<td>- National tax (7 years) is exempted 100% for 5 years, and reduced 50% for the</td>
</tr>
<tr>
<td></td>
<td>the following 2 years</td>
<td>2 years</td>
</tr>
<tr>
<td></td>
<td>- Local tax is reduced or exempted for the duration of up to 15 years</td>
<td>- Local tax is reduced or exempted for the duration of up to 15 years</td>
</tr>
<tr>
<td>Reduction or exemption of</td>
<td>Rent is reduced or exempted by 75-100% when necessary, the central or local</td>
<td>Rent is exempted 100% when necessary, the central or local governments purchase</td>
</tr>
<tr>
<td>rent</td>
<td>governments purchase and lease land.</td>
<td>and lease land.</td>
</tr>
</tbody>
</table>

Investment zone for the service industry

<table>
<thead>
<tr>
<th>Category</th>
<th>Detailed type of business (Guideline)</th>
<th>Employment criteria</th>
<th>Business plan conditions (FDI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td>Natural engineering and engineering R&amp;D (7011, 7012)</td>
<td>10 or more researchers</td>
<td>Investment of a site equal to the leased land space or an amount equal or more to the building price</td>
</tr>
<tr>
<td>Finance</td>
<td>-</td>
<td>30 or more</td>
<td></td>
</tr>
<tr>
<td>insurance</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry-supporting service (excluding logistics)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural business</td>
<td>5811, 5821, 59, 6312, 6399, 732</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>Resort condo, tourist hotel, marine tourist hotel, traditional Korean-style hotel, profession resort, comprehensive resort, comprehensive recreation facility, international conference facility, youth training facility</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.2 Complex-type foreign-invested zones follow-up management

- A foreign-invested company in a complex-type foreign investment zone is not allowed to make an indirect investment through a subsidiary of a Korean company in a foreign country.

- To avoid confusion of foreign-invested companies in the complex, the amount of investment made by a foreign-invested company in a complex-type foreign investment zone should be at least twice the value of the leased land space.

- The following should be made clear: When it is found that a foreign-invested company enjoying the benefit of the reduction of rent (less than 1%) in a complex-type foreign investment zone does not actually meet the requirements for the reduction of rent or stated a false fact to enjoy such a benefit, the reduced rent shall be recollected, with the period for such recollection calculated from the day the reason for recollection occurred.

- The following should be made clear: When a foreign-invested company in a complex-type foreign investment zone has failed to comply with its obligation concerning the amount of investment and the land size for factory construction, a rental fee will be imposed on the portion of the land exceeding the investment amount to factory construction land portion ratio based on a realistic rental fee (5%) under Article 17, Paragraph 2 of the Act, with the period for such imposition calculated from the day the reason for imposition occurred.

- In the event of a foreign-invested company's return of a leased land parcel earlier than the original schedule (i.e. 5 years), a realistic rental fee (5%) will be collected concerning the portion of the land related to the non-execution of the project plan, with the period for such collection calculated from the day the reason for recollection occurred. (This is to prevent foreign-invested companies from asking for excessively large amounts of land at the time of signing a contract for moving in.)

(1) Major items revised in the Foreign Investment Zone Management Guidelines (Revised on July 25, 2011)

Collection of rental fee and security deposit

<table>
<thead>
<tr>
<th>Classification (based on publicly announced land price)</th>
<th>0% (Reduced rent)</th>
<th>0.25% (Reduced rent)</th>
<th>1% (Normal rent)</th>
<th>5% (Realistic rent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major targets (Based on the amount paid)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign-invested companies with high technology investing $1 million or more</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign-invested companies engaged in manufacturing investing $3 million or more</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign-invested companies that have complied with the contract for moving in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign-invested companies that have not complied with the contract for moving in in a foreign investment zone</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Security deposit: Collection of an amount equal to a year's worth of rent. Concerning a company whose status is changed from "special rent" to "ordinary rent" due to a situation attributable to the company, the criteria for security deposit is also changed.

Revisions recently made concerning security deposit

1. The criteria for setting a security deposit was changed from "annual normal rent (i.e. 1% of the land value)" to "realistic rent (5% of the land value)" (Article 17, Paragraph 1) in connection with a need to secure a sufficient amount of security deposit.

2. In this case, if a security deposit exceeds 10 million won, half of it may be reduced and the foreign-invested company may choose cash or a guarantee insurance policy. (The State Property Act, Article 32, Paragraph 2 and the Enforcement Decree of the said Act, Article 30, Paragraph 4)

Status of designation

<table>
<thead>
<tr>
<th>Category</th>
<th>Date of initial designation</th>
<th>Size (1,000m²)</th>
<th>Occupancy area (1,000m²)</th>
<th>Occupancy rate (%)</th>
<th>Rent (Won/m²-year)</th>
<th>No. of companies in the zone</th>
<th>No. of employees</th>
<th>Investment amount (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheonan (Chungnam)</td>
<td>'94.10.13</td>
<td>510.1</td>
<td>510.1</td>
<td>100.00%</td>
<td>2,712</td>
<td>43</td>
<td>3,670</td>
<td>304</td>
</tr>
<tr>
<td>P'yungdong (Gwangju)</td>
<td>'94.10.13</td>
<td>1,091</td>
<td>907.6</td>
<td>83%</td>
<td>924</td>
<td>61</td>
<td>2,728</td>
<td>88</td>
</tr>
<tr>
<td>Daeji (Jeonnam)</td>
<td>'98.08.29</td>
<td>1,641.40</td>
<td>1,614.40</td>
<td>100.00%</td>
<td>468</td>
<td>41</td>
<td>2,835</td>
<td>78</td>
</tr>
<tr>
<td>Sacheon(Gyeongnam)</td>
<td>'01.08.17</td>
<td>495.9</td>
<td>495.9</td>
<td>100.00%</td>
<td>1,692</td>
<td>15</td>
<td>298</td>
<td>72</td>
</tr>
<tr>
<td>Dohang (Chungbuk)</td>
<td>'02.11.06</td>
<td>446.3</td>
<td>435</td>
<td>97.50%</td>
<td>1,744</td>
<td>12</td>
<td>1,665</td>
<td>105</td>
</tr>
<tr>
<td>Gumi (Gyeongsangbuk)</td>
<td>'02.11.06</td>
<td>324.4</td>
<td>132.6</td>
<td>40.30%</td>
<td>1,272</td>
<td>6</td>
<td>1,121</td>
<td>54</td>
</tr>
<tr>
<td>Jangan1 (Gyeonggi)</td>
<td>'04.09.30</td>
<td>418.2</td>
<td>321.5</td>
<td>76.90%</td>
<td>2,040</td>
<td>14</td>
<td>1,307</td>
<td>323</td>
</tr>
<tr>
<td>Inju (Chungnam)</td>
<td>'04.12.21</td>
<td>164.7</td>
<td>164.7</td>
<td>100%</td>
<td>1,500</td>
<td>7</td>
<td>392</td>
<td>278</td>
</tr>
<tr>
<td>Dangdong (Gyeongsangbuk)</td>
<td>'05.09.12</td>
<td>239.4</td>
<td>84</td>
<td>35.10%</td>
<td>4,584</td>
<td>3</td>
<td>206</td>
<td>49</td>
</tr>
<tr>
<td>Jisa (Busan)</td>
<td>'05.11.30</td>
<td>298.1</td>
<td>298.1</td>
<td>100.00%</td>
<td>2,740</td>
<td>13</td>
<td>815</td>
<td>115</td>
</tr>
<tr>
<td>Jangan2(Gyeonggi)</td>
<td>'06.12.21</td>
<td>368.9</td>
<td>21</td>
<td>71.40%</td>
<td>3,636</td>
<td>3</td>
<td>510</td>
<td>38</td>
</tr>
<tr>
<td>Osong (Chungbuk)</td>
<td>'07.07.31</td>
<td>301.8</td>
<td>1,704</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dalseong (Daegu)</td>
<td>'08.09.10</td>
<td>104.2</td>
<td>93</td>
<td>89.40%</td>
<td>1,200</td>
<td>5</td>
<td>121</td>
<td>33.4</td>
</tr>
<tr>
<td>Gumi (Parts)</td>
<td>'09.03.09</td>
<td>255.5</td>
<td>56.3</td>
<td>22.10%</td>
<td>1,272</td>
<td>2</td>
<td>17</td>
<td>10.6</td>
</tr>
<tr>
<td>Osong (Gyeongsangbuk)</td>
<td>'09.09.03</td>
<td>362.3</td>
<td>12.5</td>
<td>3.50%</td>
<td>3,540</td>
<td>1</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>Pohang (Parts)</td>
<td>'09.09.03</td>
<td>327.2</td>
<td>29.1</td>
<td>8.90%</td>
<td>1,740</td>
<td>1</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>Iksan (Parts)</td>
<td>'10.02.23</td>
<td>320</td>
<td>28</td>
<td>8.80%</td>
<td>1,236</td>
<td>1</td>
<td>5</td>
<td>1.3</td>
</tr>
<tr>
<td>Changwon (Parts)</td>
<td>'10.09.28</td>
<td>71.4</td>
<td>27.6</td>
<td>38.70%</td>
<td>5,412</td>
<td>1</td>
<td>4</td>
<td>12.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>7,587.00</td>
<td>5,177.8</td>
<td>68.2%</td>
<td>-</td>
<td>223</td>
<td>15,483</td>
<td>1,533.3</td>
</tr>
</tbody>
</table>
### 3.3 Industrial complex specialized in components and materials

#### (1) Background for adoption
- The Industrial complex specialized in components and materials is being formed by the Korean government to attract investment in Korea from foreign companies, including Japanese and German, with sophisticated parts and materials technology (as one of the complex-type foreign investment zones).
- At the Korea-Japan summit held in April 2008, Korean President Lee Myung-bak said that the country would form a industrial complex specialized in components and materials exclusively for foreign companies to promote investment in Korea in the said sector and bolster the ties between the two countries as strategic partners.
- The relevant task force team comprised of those from the Ministry of Knowledge Economy, local governments, KOTRA, Korea Core Industrial Technology Investment Association (KITIA) is carrying out activities to provide support for those interested in investment in the relevant sector in Korea.

#### (2) Investment incentives

**Summary**

<table>
<thead>
<tr>
<th>Category</th>
<th>Requirements</th>
<th>Details of incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax reduction</strong></td>
<td>- For manufacturers: Investment amount of $10 million or more</td>
<td>Corporate tax and income tax reduction: 100% in the first 3 years followed by 50% in the next 2 years Local tax exemption: 8–15 years</td>
</tr>
<tr>
<td></td>
<td>- For logistics companies: Investment amount of $5 million or more</td>
<td>No rent imposed (but security deposit should be made)</td>
</tr>
<tr>
<td><strong>Rent reduction</strong></td>
<td>- Investment amount of $1 million or more in a sector requiring high technology</td>
<td>Investment amount of $5 million or more in ordinary manufacturing</td>
</tr>
</tbody>
</table>

#### (3) Status of designation
- A total of four industrial complexes specialized in components and materials have been formed in Gumi, Pohang, Iksan, and the Busan-Jinhae FEZ with consideration given to the geographical proximity to large-sized domestic companies that require them and the convenience of foreigners’ daily lives.

**Status of attraction of investments in Industrial complex specialized in components and materials**

<table>
<thead>
<tr>
<th>Name</th>
<th>Gumi</th>
<th>Pohang</th>
<th>Iksan</th>
<th>BJFEZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated in</td>
<td>December 2008</td>
<td>July 2009</td>
<td>July 2009</td>
<td>July 2009</td>
</tr>
<tr>
<td>Site size</td>
<td>250,000㎡ (640,000㎡) with the 3rd complex included</td>
<td>330,000㎡</td>
<td>320,000㎡</td>
<td>100,000㎡</td>
</tr>
<tr>
<td>Total investment amount based on (report)</td>
<td>$10 million</td>
<td>$22 million</td>
<td>$10 million (Cantal)</td>
<td>$6 million (ALU00)</td>
</tr>
<tr>
<td>$25 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name of business (Land size)</td>
<td>Delco (43,100㎡)</td>
<td>Sanko Korea (116,500㎡)</td>
<td>Hwasung Korea (29,100㎡)</td>
<td>Canal (83,000㎡)</td>
</tr>
<tr>
<td></td>
<td>Sanko Korea (116,500㎡)</td>
<td></td>
<td></td>
<td>Tsubaki Korea (27,332㎡)</td>
</tr>
<tr>
<td>Type of business</td>
<td>Display, mobile, electronic products</td>
<td>Iron/steel, shipbuilding parts, materials</td>
<td>Vehicle, machinery, equipment, electronics, chemical materials</td>
<td>Automotive parts, shipbuilding materials</td>
</tr>
<tr>
<td>Note</td>
<td>Relatively advantageous being formed with an existing complex</td>
<td>Poor surroundings due to its being a newly formed complex</td>
<td>Poor surroundings due to its being a newly formed complex</td>
<td>Limited investment effects due to the time taken in construction work</td>
</tr>
</tbody>
</table>

* Source: KOTRA and the Parts and Materials Complex homepage (www.pmcomplex.go.kr)
(4) Incentives

Tax reduction or exemption: National tax (corporate tax, income tax) and local tax (acquisition tax, registration tax, property tax) are reduced or exempted.

<table>
<thead>
<tr>
<th>Eligible business/company</th>
<th>Details</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>New investment: Support is provided within the range of 50% of the foreign investment amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment for expansion:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Up to 50% of the foreign investment amount or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Up to 25% of the sum of the foreign investment amount and earned surplus (in this case, foreign investment shall account for no less than 25% of the total investment)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(5) Exemption of customs duties, etc. (Article 121 (3) of the Restriction of Special Taxation Act)

<table>
<thead>
<tr>
<th>Eligible business/company</th>
<th>Details</th>
<th>Capital goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business accompanying high technology and industry-supporting service business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies in an individual-type foreign investment zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies in a complex-type foreign investment zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies in a free economic zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies in an enterprise city development zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operator of development project in a free economic zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operator of development project in an enterprise city development zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operator of development project in the Jeju investment promotion zone</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(6) Financial (Site) Support (Article 14 of the Foreign Investment Promotion Act)

- Qualifications: A company whose foreign investment ratio is over 30% or whose majority shareholder is a foreigner
- Limitation

(6) New investment: Support is provided within the range of 50% of the foreign investment amount
(2) Investment for expansion:
 a) Up to 50% of the foreign investment amount or
 b) Up to 25% of the sum of the foreign investment amount and earned surplus (in this case, foreign investment shall account for no less than 25% of the total investment)
(7) Other support

- The obligation to hire people of distinguished service to the state is exempted.
- Buildings in foreign investment zones are exempted from a traffic generation charge.

3.4 Free Trade Zone

Industrial complexes, airports, seaports, distribution complexes, freight terminals, etc. are designated as free trade zones (FTZs), which are designed to generate synergy effects by clustering companies in manufacturing and logistics businesses.

In a free trade zone, benefits such as national and local tax reductions or exemptions are provided by the type of business and the investment size. Also, the Customs Act is not applied in such zones: the deferment of customs duties and the exemption of value added tax are applied for foreign goods and certain domestic goods which are imported into free trade zones.

Free trade zones have an advantage of not having to go through the complicated procedures of refunds, etc. when exporting products that are manufactured with imported raw materials. In addition, companies can lease lands or factories, etc. for an extended period at a low cost, which creates favorable business conditions for foreign-invested companies engaged in export-oriented manufacturing businesses, logistics business such as warehousing, distribution, loading, packing, etc. as well as wholesale for import and export trades. In particular, free trade zones are the optimal location for large-scale foreign-invested companies that operate both manufacturing and logistics businesses.

Administration agencies of free trade zones provide one-stop administrative services for investment reports, approval of move-ins, permission for factory construction, authorizations of export and import, etc.

Qualifications for occupancy

- Domestic and foreign-invested companies in the manufacturing business mainly for export
- Companies in the wholesale business mainly for import and export trades
- Companies in the logistics business such as warehousing, exhibitions, loading, transportation, etc.
- Businesses supporting tenant companies through finance, customs clearance, data processing, etc.

Prioritized businesses

- High-tech businesses announced by the Minister of Knowledge Economy
- Business accompanying high technology & industry-supporting service business under the Restriction of Special Taxation Act
- Business subject to foreign investment promotion, associated with regional strategic industries
- Manufacturing business with profound effects of technology transfer and employment

(1) Incentives

<table>
<thead>
<tr>
<th>Category Qualifications</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax reduction or exemption</td>
<td>- Business accompanying high technology &amp; industry-supporting service business</td>
</tr>
<tr>
<td></td>
<td>- Manufacturing: USD 10 million or more</td>
</tr>
<tr>
<td></td>
<td>- Logistics: USD 5 million or more</td>
</tr>
<tr>
<td></td>
<td>- National tax (corporation tax, income tax): for five years (100% for 3 years, 50% for the following 2 years)</td>
</tr>
<tr>
<td></td>
<td>- Acquisition, registration, and aggregate income tax: 100% exemption for 15 years</td>
</tr>
<tr>
<td>Special cases on customs duties</td>
<td>- Customs duties are exempted on foreign goods, since the Customs Act is not applied in free trade zones.</td>
</tr>
<tr>
<td></td>
<td>- Customs duties are exempted or refunded for domestic goods whose import declaration is made in free trade zones</td>
</tr>
<tr>
<td>Exemption of value-added tax</td>
<td>- Domestic goods whose import declaration is made in free trade zones</td>
</tr>
<tr>
<td></td>
<td>- Foreign goods and services supplied or provided among companies in free trade zones</td>
</tr>
<tr>
<td>Rent reduction or exemption</td>
<td>- 100% exemption from rent</td>
</tr>
<tr>
<td></td>
<td>- Foreign-invested companies with a new foreign investment amount of USD 10 million or more</td>
</tr>
<tr>
<td></td>
<td>- Foreign-invested companies with a foreign investment ratio of over 30%, and a new foreign investment amount of USD 1 million or more</td>
</tr>
<tr>
<td></td>
<td>- New foreign investment of USD 500,000 or more in high technology business, business accompanying high technology &amp; industry-supporting service business</td>
</tr>
</tbody>
</table>

(2) Designation Status

Free trade zones are divided into an industrial complex type and an airport/seaport type. The industrial complex type includes those in Masan, Iksan, Gunsan and Daebul. The airport/seaport type includes Incheon International Airport, Busan Port, Gwangyang Port, Incheon Port, and Gunsan Port (candidate for designation). The distribution center, cargo terminals, etc. can also be designated as free trade zones.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Masan</th>
<th>Iksan</th>
<th>Gunsan</th>
<th>Daebul</th>
<th>Donghae</th>
<th>Yulchon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (10,000 pyeong (1 pyeong = approx. 3.3 m²))</td>
<td>28.8</td>
<td>9.4</td>
<td>38</td>
<td>35</td>
<td>7.5</td>
<td>10.4</td>
</tr>
<tr>
<td>No. of occupying companies (foreign-invested companies)</td>
<td>89 (49)</td>
<td>31 (6)</td>
<td>33 (24)</td>
<td>29 (21)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign investment amount (USD 1,000)</td>
<td>122,289</td>
<td>5,313</td>
<td>43,822</td>
<td>62,622</td>
<td>62,622</td>
<td>-</td>
</tr>
<tr>
<td>No. of employees</td>
<td>6,735</td>
<td>1,156</td>
<td>174</td>
<td>3,119</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
### Additional Designation of Industrial Complex Type Free Trade Zones (2009)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ulsan FTZ (newly designated)</th>
<th>Masan FTZ (expanded)</th>
<th>Gimje FTZ (designated on January 6, 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Within Sril General Industrial Complex in Cheongnyang-ri, Onsan-eup, and Yongan-myeon in Ulsan Metropolitan City</td>
<td>Within Masan FTZ in Yeongdeok-dong and Bongam-dong, Masan city, South Gyeongsang Province</td>
<td>Gimje Jipyeongseo Industrial Complex in Bugyo-ri, Baeksan-myeon, Gimje city, North Jeolla Province</td>
</tr>
<tr>
<td>Area</td>
<td>1,397,482 m²</td>
<td>953,576 m² (no change in space)</td>
<td>991,740 m²</td>
</tr>
<tr>
<td>Land Use</td>
<td>The zone is classified into a production facilities district, logistics facilities district, public facilities district, etc.</td>
<td>Expansion of buildings and facilities in the existing Masan FTZ (construction of standard factories, road expansion near Samho stream, construction of parking tower, maintenance of main roads within the complex) without site expansion</td>
<td>The zone is classified into a production facilities district, logistics facilities district, support facilities district, public facilities district, etc.</td>
</tr>
<tr>
<td>Inquiry and References</td>
<td>The Ulsan Metropolitan City Government (Economic Policy Planning Division)</td>
<td>The South Gyeongsang Provincial Government (International Trade Division) and Administrative Agency of Masan Free Trade Zone (Export Industry Team)</td>
<td>The North Jeolla Provincial Government Investment Promotion Division</td>
</tr>
<tr>
<td>Management Authority</td>
<td>The Ministry of Knowledge Economy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Airport/Seaport Type Free Trade Zones

<table>
<thead>
<tr>
<th>Classification</th>
<th>Busan Seaport</th>
<th>Gwangyang Seaport</th>
<th>Incheon Seaport</th>
<th>Incheon International Airport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designation Date</td>
<td>Jan. 1, 2002</td>
<td>Jan. 1, 2002</td>
<td>Jan. 1, 2003</td>
<td>Apr. 6, 2005</td>
</tr>
<tr>
<td>Area (10,000 pyeong [1 pyeong ≈ approx. 3.3 m²])</td>
<td>531.3</td>
<td>671.2</td>
<td>215.82 (228.69)</td>
<td>208.89</td>
</tr>
<tr>
<td>No. of occupying companies</td>
<td>6</td>
<td>63</td>
<td>21</td>
<td>Logistics Complex 14</td>
</tr>
</tbody>
</table>

### Additional Designation of Airport-Port Type Free Trade Zones (2009)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Pohang Port FTZ (newly designated)</th>
<th>Busan Port FTZ (expanded)</th>
<th>Gwangyang Port FTZ (expanded)</th>
<th>Pyeongtaek Dangjin Port FTZ (Designated on March 30, 2009)</th>
<th>Busan Port FTZ (Yongdong District)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Heunghee-eup, Buk-gu, Pohang city, North Gyeongsang Province</td>
<td>Nulcha-dong and Seongbuk-dong in Gangseo-gu, Busan Metropolitan City</td>
<td>Dui-dong and Hwangyeum-dong, Gwangyang city, South Jeolla Province</td>
<td>Shinyoung-ri, Poseung-eup, Pyeongtaek city, Gyeonggi Province</td>
<td>Yongwon-dong, Angol-dong, Jedeok-dong, Eungbong-dong in Jinhae city, South Gyeongsang Province</td>
</tr>
<tr>
<td>Area</td>
<td>709,531 m²</td>
<td>1,393,068 m²</td>
<td>2,125,028 m²</td>
<td>1,428,915 m²</td>
<td>2,484,000 m²</td>
</tr>
</tbody>
</table>

3.5 Free Economic Zone

Free economic zones (FEZs) are equipped with infrastructure such as high-tech industrial complexes and rear complexes to support corporate activities; they also provide a pleasant living environment to induce excellent human resources at home and abroad. These advantages are enabled through the legislation of the Act on Designation and Management of Free Economic Zones. The manufacturing, logistics, and tourism industries are mainly operated in such zones. Various benefits are provided in free economic zones through deregulations: the establishment and operation of foreign education institutions and hospitals, the use of foreign currency, and the provision of foreign broadcasting programs are allowed; foreign language services are offered; taxes are reduced or exempted; financial supports are provided. The Korean government has designated six free economic zones in total: Incheon, Busan/Jinhae and Gwangyang Bay Area in 2003 and Yellow Sea, Daegu/Gyeongbuk, and Saemangeum/Gunsan in 2008. Free economic zones are being promoted into the hub of networking and logistics in Northeast Asia and the center of high value-added and high-tech industries.

**1) Objective and Grounds of Free Economic Zone**

- To enhance national competitiveness through deregulation and promotion of foreign investment
- Legal ground: The Act on Designation and Management of Free Economic Zones

**Qualifications for Occupancy**

- Foreign-Invested Companies
- Manufacturing industry, logistics industry, medical institutions, education institutions, foreign broadcasting stations, financial institutions, etc.
### (2) Incentives

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax type</th>
<th>Reduction period/ percentage of reduction</th>
<th>Conditions for tax reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>National tax</td>
<td>Income tax Corporate tax</td>
<td>For 5: 100% For 2 years: 50%</td>
<td>Manufacturing: Investment of $30 million or more Tourism: $20 million or more Logistics: $10 million or more R&amp;D: $2 million or more</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 years: 100% 2 years: 50%</td>
<td>Manufacturing: $10 million or more Tourism: $10 million or more Logistics: $5 million or more Medical institution: $5 million or more R&amp;D: $1 million or more</td>
</tr>
<tr>
<td></td>
<td>Customs duties</td>
<td>Exempt for 5 years from the date of import declaration</td>
<td>Imported capital goods</td>
</tr>
<tr>
<td>Local tax</td>
<td>Acquisition tax Property tax</td>
<td>15 years: 100%</td>
<td>Manufacturing: $10 million or more Tourism: $10 million or more Logistics: $5 million or more Medical institution: $5 million or more R&amp;D: $1 million or more</td>
</tr>
<tr>
<td>National tax</td>
<td>Income tax Corporate tax</td>
<td>3 years : 100% 2 years : 50%</td>
<td>Foreign-invested amount: $30 million or more, or The ratio of foreign investment: 50% or more Total development project expense: $500 million or more</td>
</tr>
<tr>
<td></td>
<td>Customs duties</td>
<td>Exempt for 5 years from the date of import declaration</td>
<td>Imported capital goods</td>
</tr>
<tr>
<td>Local tax</td>
<td>Acquisition tax, property tax</td>
<td>15 years: 100%</td>
<td>Foreign-invested amount: $20 million or more, or The ratio of foreign investment: 50% or more Total development project expense: $500 million or more</td>
</tr>
</tbody>
</table>

### Financial support
- Reduction or exemption of charges including farmland preparation charge on development project operators
- Provision of government funds for basic facilities
- Reduction or exemption of rent for foreign-invested companies (up to 100%)

### Improvement of business environment for foreign-invested companies
- Regulations on the Seoul metropolitan area such as factory location limits are not applied in free economic zones.
- Obligation to hire people of distinguished service to the state is exempted.
- Unpaid holidays for employees in foreign-invested companies are increased, and the period of employee dispatch and business sectors subject to dispatch are expanded.

### Improvement of living conditions for foreign nationals
- Establishment of foreign educational institutions (primary, middle, high school, and university) is allowed.
- Foreign language services are provided at government and public offices and foreign broadcasting programs are retransmitted.

### Streamlined administrative procedures
- Authorization and permission under 35 Acts are provided at once by approving execution plans.
- The Free Economic Zone Authority is established as a one-stop service provider.

### (3) Designation State

#### Free Economic Zones

<table>
<thead>
<tr>
<th>Category</th>
<th>Gyeonggi/Chunnam</th>
<th>Daegu Gyeonbuk</th>
<th>Jeonbuk</th>
<th>Incheon</th>
<th>Busan-Gyeongnam</th>
<th>Jeonnam-Gyeongnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Hwanghae</td>
<td>Knowledge creation-type</td>
<td>Samsan-eum Gunsan</td>
<td>Incheon</td>
<td>Busan-Jinhae</td>
<td>Gwangyang Bay</td>
</tr>
<tr>
<td>Location</td>
<td>Chungnam (Dangjin·Asan·Seosan)</td>
<td>Daegu Gyeonbuk (Gyeonggi·Yeongheon-Gumi·Piho)</td>
<td>Jeonbuk (Gimsan-Busan)</td>
<td>Incheon (Jeju)</td>
<td>Busan (Gangseo-gu)</td>
<td>Jeonnam (Jeju)</td>
</tr>
<tr>
<td>Land size</td>
<td>55.01㎢</td>
<td>39.54㎢</td>
<td>66.98㎢</td>
<td>209.4㎢</td>
<td>104.8㎢</td>
<td>90.48㎢</td>
</tr>
<tr>
<td>Airport/port</td>
<td>Dangjin·Asan·Seosan·Gimsan·Busan</td>
<td>Daejeon·Pusan·Gunsan·Incheon·Icheon</td>
<td>Daejeon·Pusan·Gunsan·Incheon·Icheon·Gimsan·Busan·New Port</td>
<td>Daejeon·Pusan·Gunsan·Incheon·Icheon·Gimsan·Busan·New Port</td>
<td>Daejeon·Pusan·Gimsan·Busan·New Port</td>
<td>Daejeon·Pusan·Gimsan·Busan·New Port</td>
</tr>
<tr>
<td>Schedule for development completion</td>
<td>2025</td>
<td>2020</td>
<td>2010</td>
<td>2020</td>
<td>2020</td>
<td>2020</td>
</tr>
<tr>
<td>Fund to be provided</td>
<td>7,445.8 billion won</td>
<td>4,607.8 billion won</td>
<td>5,301.7 billion won</td>
<td>26,593.0 billion won</td>
<td>8,440.6 billion won</td>
<td>13,547.3 billion won</td>
</tr>
<tr>
<td>Fund source</td>
<td>Central government 47% (8.6%)</td>
<td>51.3% (11.1%)</td>
<td>4,529 (8.5%)</td>
<td>16,775 (6%)</td>
<td>21,901 (26%)</td>
<td>56,030 (42%)</td>
</tr>
<tr>
<td>Local government</td>
<td>4,779 (6.4%)</td>
<td>11,656 (26%)</td>
<td>4,790 (9.0%)</td>
<td>70,600 (27%)</td>
<td>27,695 (33%)</td>
<td>38,365 (28%)</td>
</tr>
<tr>
<td>Private sector/foreigners</td>
<td>60,204 (93.6%)</td>
<td>29,212 (63%)</td>
<td>43,698 (82.5%)</td>
<td>178,555 (67%)</td>
<td>34,810 (41%)</td>
<td>41,078 (30%)</td>
</tr>
</tbody>
</table>

**Basic plan**
- Manufacturing (Carmaking, IT, BT)
- Value added logistics (Bio)
- Manufactur- ing (Carmaking, aviation, shipbuilding)
- Environmentally friendly industry
- Tourism/Leisure targeting China
- International business logistics hub
- High-end parts/materials and R&D
- Tourism/Leisure
- International logistics production basis
- Precision chemistry/new materials
- Tourism/Leisure
<table>
<thead>
<tr>
<th>Category</th>
<th>Foreign Investment Zone</th>
<th>Free Trade Zone</th>
<th>Free Economic Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governing law</td>
<td>The Foreign Investment Promotion Act</td>
<td>The Act on Designation and Management of Free Trade Zones</td>
<td>The Special Act on Designation and Management of Free Economic Zones</td>
</tr>
<tr>
<td>Objective</td>
<td>Foreign investment promotion, transfer of advanced technologies, job creation</td>
<td>Foreign investment promotion, trade promotion, regional development</td>
<td>Foreign investment promotion, enhancement of national competitiveness, balanced regional development</td>
</tr>
<tr>
<td>Location</td>
<td>Within an industrial complex</td>
<td>No limitation</td>
<td>Areas near ports, airports, industrial complexes, ports, airports, distribution centers, cargo terminals, etc.</td>
</tr>
<tr>
<td>Characteristics</td>
<td>Managed as an industrial complex for lease</td>
<td>Designated by the unit of individual business establishment</td>
<td>Status of a special administrative district (regional cooperative)</td>
</tr>
<tr>
<td>Designation authority</td>
<td>Mayors and Governors devise plans — The Foreign Investment Committee deliberates the plans</td>
<td>The Minister of Knowledge Economy</td>
<td>The Minister of Strategy and Finance — The Minister of Knowledge Economy since March 2008</td>
</tr>
<tr>
<td>Qualifications for occupancy</td>
<td>Foreign investment ratio of 30% or more for manufacturing, logistics, etc.</td>
<td>Foreign investment ratio of 30% or more for manufacturing, logistics, etc.</td>
<td>100% exemption on national or public properties</td>
</tr>
<tr>
<td>Requirements for taxation</td>
<td>Manufacturing over USD 10 mil. or more; Logistics over USD 5 mil. or more</td>
<td>Manufacturing, tourism: USD 10 mil. or more; Logistics, medical institute: USD 5 mil. or more</td>
<td>100% exemption on national or public properties</td>
</tr>
<tr>
<td>Taxes subject to exemption/reduction</td>
<td>Corporate tax, income tax: 5 years Local tax: within the duration of up to 15 years</td>
<td>Corporate tax, income tax: 7 years Local tax: within the duration of up to 15 years</td>
<td>Corporate tax, income tax: 5 years (100% for the following 2 years); Local tax: within the duration of up to 15 years</td>
</tr>
<tr>
<td>Customs duties</td>
<td>Customs duties are exempted on capital goods for 3 years</td>
<td>Deferment of customs duties</td>
<td>Customs duties are exempted on capital goods for 3 years</td>
</tr>
<tr>
<td>Rent</td>
<td>About 10/1,000 of the land price (Stated in the basic management plan)</td>
<td>About 1% of the land price (to be determined by the government)</td>
<td>About 1% of the land price (to be determined by authorities)</td>
</tr>
<tr>
<td>Rent reduction or exemption</td>
<td>Advanced technology &amp; USD 1 mil. or more: 100% Manufacturing &amp; USD 5 mil. or more: 75% (Parts/material-related complex: 100%)</td>
<td>Foreign investment &amp; USD 10 mil., the foreign investment rate of 30% &amp; USD 1 mil., business accompanying high technology &amp; USD 0.5 mil.: Rent for land are exempted 100%</td>
<td>Authorities determine the reduction or exemption rate in reference to regional ordinances (50%-100%)</td>
</tr>
<tr>
<td>Share of financial support</td>
<td>Seoul metropolitan area: 40% by the central government Other areas: 75% by the central government</td>
<td>Decision to be made on the government support ratio at the designation phase</td>
<td>Undecided</td>
</tr>
<tr>
<td>Note</td>
<td>Unified (on December 31, 2004) - Amendment to the Foreign Investment Promotion Act * Complex-type foreign investment zones were 'complexes for foreign-invested companies' under the Industrial Cluster Development and Factory Establishment Act before the two types were unified.</td>
<td>Unified (on June 23, 2014) - Amendment to the Act on Designation and Management of Free Trade Zones (on March 22, 2004)</td>
<td>3 free economic zones were additionally designated (on May 6, 2008)</td>
</tr>
<tr>
<td>Designated areas</td>
<td>17 complex-type FIZs: Cheonan, Ochang, Inju, Gumi, Pyeongdong, Daebul, Ansa, Janggan 1-2, Dangdong, Sacheon, Osong, Dalseong, Gumi Parts, Osong, Pohang Parts, Iksan Parts - 36 individual-type FIZs: S-LCD, Asahi Glass Fine Techno Korea, etc.</td>
<td>8 industrial complexes: Masan, Gunsan, Daebul, Iksan, Donghae, Yulchon, Uljin, Goseong</td>
<td>3 newly designated FEZs: Incheon, Busan, Gyeonggi</td>
</tr>
</tbody>
</table>
4. Other support
The Korean Government designates and operates a project manager system for the provision of efficient support for investment from foreign investors or foreign-invested companies. Each foreign investor or foreign-invested company may have its own project manager (designated by the KOTRA President). KOTRA will inform each foreign investor or foreign-invested company of the designation.

4.1 Project Manager (PM) Designation
The government designates a project manager in order to render efficient support to investment affairs of a foreign investor or a foreign-invested company. The head of the Korea Trade-Investment Promotion Agency may designate a person as a project manager for each foreign investor or each foreign-invested company and shall notify the relevant investor or foreign-invested company of the designated project manager.

Persons eligible for becoming project managers:
- Employee of KOTRA
- Public official or employees of central administrative agency, local government, and public agency under the Act on the Management of Public Institutions. In such cases, he/she shall obtain approval from the head of the agency, government or institution concerned.

A project manager shall perform general affairs related to foreign investment: collection and provision of data or information and arranging interviews at the request of a foreign investor or a foreign-invested company; assistance in the affairs and vicarious execution of civil affairs related to foreign investment; assistance in resettlement of the officers, employees and their families of a foreign investor or a foreign-invested company, such as housing rental and guidance for school admission.
**Business Management**

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Ⅰ. Visa and Stay in Korea

1. Visa
In principle, a foreigner shall obtain a visa at a diplomatic mission abroad in advance in order to enter Korea. A visa is a certificate of permission for entry into the country. Usually, a visa is issued in the form of a sticker or a rubber stamp in a passport, along with a statement of purpose (status of sojourn) and the period of sojourn.

How to enter Korea

Business Investment Visa (D-8)
Visa for Accompanying Persons (F-3)

1.1 How to enter Korea
A foreigner can enter Korea via one of the following three procedures.
· A foreigner may enter Korea without a visa and undergo an entry inspection at the port of entry to obtain the status of sojourn and the maximum period of sojourn.
· A foreigner may enter Korea when holding a visa issued at a diplomatic mission abroad.
· In the event that the authority to issue visas is not delegated to the head of the diplomatic mission abroad, a foreigner may enter Korea after he/she obtains a visa issuance certificate (or a visa issuance certificate number) issued by the immigration control office having jurisdiction over the inviter’s sojourn place, presents said certificate to the diplomatic mission abroad, and obtains a visa.

Foreigners’ sojourns in Korea are divided into long-term stays and short-term stays based on a ninety-day criterion. Changes to the status of sojourn may be permitted or restricted depending on his/her status of sojourn. Most short-term visas are issued immediately by a diplomatic mission abroad, since the authority to issue short-term visas is delegated to a consul. However, the issuance of a long-term visa may take longer, as it is issued at a diplomatic mission abroad after the approval of the Minister of Justice is obtained.
1.2 Business Investment (D-8) Visa

(1) Persons eligible for D-8 Visa
A business investment (D-8) visa is issued to essential professionals engaged in management, business administration, production, or technology of a foreign-invested company, as prescribed by the Foreign Investment Promotion Act. Employees hired in Korea, general administrators, or engineers and service providers that can be replaced by domestic human resources are not considered essential professionals.

**Essential professionals**
- **Executive**
   - An “executive” refers to a person who has direct control over an organization and exercises extensive rights in the decision-making process. As one of the highest members of a company, an “executive” is generally directed and supervised exclusively by the Board of Directors and shareholders. (An executive shall not be directly involved in the provision of services or the organization’s service-related business.)
   - **Senior Manager**
     - A “senior manager” refers to a person who is responsible for the establishment and execution of a company’s or a department’s objectives and policies; has the right to set up plans, lead employees and supervise business operations; executes the right to employ, dismiss and recommend employees, decides, supervises or controls the work carried out by employees in supervisory, professional or administrative positions; or has discretionary authority over everyday business. Frontline supervisors (except for professional service providers) or employees directly engaged in the provision of services do not fall into this category.
     - **Specialist**
       - A “specialist” refers to a person who has highly professional and monopolistic experience and knowledge essential for research, design, technology and management concerning the service provided by the company.

   - A “specialist” refers to a person who has highly professional and monopolistic experience and knowledge essential for research, design, technology and management concerning the service provided by the company.

(2) Application and procedures for visa issuance
A business investment (D-8) visa can be obtained as follows:
- A foreigner shall submit the required documents to a diplomatic mission abroad to apply for visa issuance. The head of a diplomatic mission abroad has the authority to issue business investment (D-8) visas for a period of sojourn up to one year.
- In the event that the authority to issue visas is not delegated to the head of an overseas diplomatic mission, a foreigner may apply for visa issuance after he/she receives a visa issuance certificate or a certificate number, which an inviting party has obtained from the immigration control office that has jurisdiction over the inviter’s sojourn place.
- In the event that a foreigner has entered Korea without a visa or with a short-term visa, he/she may apply for permission to change the status of sojourn at the immigration control office that has jurisdiction over his/her sojourn place or Invest KOREA.

Documents Required for Business Investment (D-8) Visa
The required documents may be adjusted in the process of an immigration inspection.
- **Passport** (or a passport copy in the event of applying for the certificate of visa issuance confirmation)
- An application form for visa issuance or the certificate of visa issuance confirmation
- A copy of the certificate of foreign-invested company registration
- A copy of the business registration certificate
- A copy of the corporation registration certificate
- A letter explaining the reason for invitation
### F-3 Visa for Accompanying Persons

The required documents may be adjusted in the process of an immigration inspection.

Those eligible for an F-3 visa are the spouse and unmarried children under the age of 20 accompanying a person eligible for a business investment (D-8) visa. The accompanying spouse and children (F-3) visa is issued as follows:

- A foreigner should submit an application to a Korean diplomatic mission in his/her country after preparing the necessary documents. The head of a Korean diplomatic mission abroad has the right to issue F-3 visas for a sojourn period of up to one year.

- In the event that the authority to issue visas is not delegated to the head of the diplomatic mission abroad, the certificate of visa issuance confirmation or the relevant number issued by the immigration control office having jurisdiction over the inviter’s sojourn place should be presented to a Korean overseas diplomatic mission for visa issuance.

- In the event that a foreigner has entered Korea without a visa or with a short-term visa due to an unavoidable reason, he/she may apply for a change of status at Invest KOREA or the immigration control office having jurisdiction over the sojourn place.

#### F-3 Visa Required Documents

The required documents may be adjusted in the process of an immigration inspection.

- Passport (or a passport copy in the event of applying for the certificate of visa issuance confirmation)
- A letter of authorization for the financial holding company
- A letter requesting cooperation with visa issuance
- A document verifying that it is a wholly-owned subsidiary of the financial holding company (i.e. a certified copy of the subsidiary’s corporation registration and the shareholder ledger)
- A letter of instruction for the dispatch of an employee, issued by the headquarters
- A letter requesting cooperation with visa issuance
- A document verifying that it is a wholly-owned subsidiary of the financial holding company (i.e. a certified copy of the subsidiary’s corporation registration and the shareholder ledger)
- A letter of instruction for the dispatch of an employee, issued by the headquarters
- A letter requesting cooperation with visa issuance
- A document verifying that it is a wholly-owned subsidiary of the financial holding company (i.e. a certified copy of the subsidiary’s corporation registration and the shareholder ledger)
- A letter of instruction for the dispatch of an employee, issued by the headquarters

- A color photo sized 3.5×4.5cm

Handling charge (revenue stamp): USD 50 for a single visa / USD 80 for a multiple visa

*No handling charge is collected for an application for the certificate of visa issuance confirmation.

### 2. Stay in Korea

A foreigner may stay in Korea in accordance with the scope of his/her sojourn status and sojourn period. All foreigners who stay in Korea for 91 days or longer shall register their status as a foreigner, within 90 days of his/her entry, with the head of an immigration office or a branch office having jurisdiction over his/her sojourn place. When a foreigner intends to change or has changed reported details of his/her foreigner registration, status of sojourn, workplace, or sojourn place, he/she shall make an alteration report or obtain permission for the change. A foreign investor who has entered Korea under the sojourn status of D-8 shall register his/her status as a foreigner and may change his/her sojourn by acquiring permission for a change to sojourn status or permission to extend his/her sojourn period.

#### 2.1 Permission of Change of Visa Status

In the case of a foreigner who has entered Korea without a visa or with a short-term visa due to unavoidable circumstances and would like to obtain a business investment (D-8) visa, his/her accompanying relatives must apply for a visa status change. Likewise, in the case of a foreign investor who intends to establish and operate a foreign-invested company during a long-term stay in Korea on a different visa status, his/her accompanied relatives must also apply for a visa status change. Business investment (D-8) visa applications must be submitted to an immigration control office having jurisdiction over the sojourn place or to Invest KOREA within the period of stay permitted under an existing visa.

Chinese citizens who entered Korea with short-term integrated (C-3) visa, those who entered as a tourist group, those who individually entered for pure tourism purpose, or those with industrial training (D-3), training employment (E-8), non-professional employment (E-9), or other visas (G-1) cannot receive permission to change their visa status (including French and Irish citizens holding an H-1 visa).

#### Required Documents

The required documents may be adjusted in the process of an immigration inspection.

1. For an individual investor
   - Application form
   - Passport
   - A certificate of foreign-invested company registration
   - A copy of the business registration certificate
   - A copy of the corporation registration certificate (if applicable)
   - A copy of the foreign currency purchase certificate
   - A foreign exchange report certificate issued by the customs office (in cases where investment capital is carried into Korea)
   - A remittance transaction certificate issued by a bank (in cases where investment capital is remitted)
2.2 Alien Registration

A foreigner who has entered Korea with a long-term (91 days or more) visa should apply for alien registration at the immigration control office with the jurisdiction over the sojourn place or Invest KOREA within 90 days. A foreigner who has entered Korea with a short-term visa and changed his/her status to a business investment (D-8) visa should immediately apply for alien registration at an immigration control office having jurisdiction over the sojourn place or Invest KOREA.

* Foreigners over the age of 18 should visit in person to register their fingerprints. Starting from Jan. 1, 2012, those who have registered already should visit in person for the extension of their stay.

Any foreign investor or employee of a foreign-invested business registered as an alien should return his/her alien registration card to the official at the departure inspection desk of the airport when leaving Korea at the end of his/her sojourn.

Required documents
- A copy of the passport
- A color photo sized 3.5×4.5cm

Handling charge (revenue stamp): 50,000 won

* No handling charge is collected for a change of status for the business investment (D-8) visa.

2.3 Extension of Period of Stay

A business investment (D-8) visa holder who intends to stay longer than the permitted period should apply for an extension of the period of stay to an immigration control office having jurisdiction over the sojourn place or Invest KOREA during the 2 months before the current sojourn period expires. It is possible to apply earlier if there is a legitimate reason for doing so, such as an overseas business trip.

In such cases, the period of stay can be extended for up to 5 years depending on the size of the foreign-invested company, the investment amount, or performance record. A foreign investor who intends to continue with his/her business activities or as a dispatched employee of the foreign-based headquarters may apply for an extended stay on a limitless number of occasions, provided that he/she has never been involved in any illegal activities.

Required Documents
The required documents may be adjusted in the process of an immigration inspection.

(1) For an individual investor
- Application form
- Passport
- A copy of the certificate of foreign-invested company registration
- A copy of the business registration certificate
- The office lease contract
- A color photo sized 3.5×4.5cm

Handling charge (revenue stamp): 50,000 won

* No handling charge is collected for a change of status of the business investment (D-8) visa.

(2) For an essential professional dispatched to Korea from the parent company in a foreign country
- Application form
- Passport
- A document verifying the business operation record
- The office lease contract
- A copy of the corporation registration certificate (if applicable)
- A copy of the certificate of foreign-invested company registration
- Passport; application form (a unified form); and a color photo sized 3.5×4.5cm

Handling charge (revenue stamp): 50,000 won

* No handling charge is collected for a change of status of the business investment (D-8) visa.

(3) For an essential professional dispatched to Korea as an essential professional from the parent company in a foreign country
- Application form
- Passport
- A color photo sized 3.5×4.5cm
- A letter explaining the reason for the invitation
- A document verifying that the person is qualified as an essential professional (i.e. the relevant diploma, experience certificate, qualification certificate, etc)
- Tax payment receipt for corporate tax and value added tax
- Income statement (from recent years)
- Tax payment receipt for corporate tax and value added tax

Handling charge (revenue stamp): 10,000 won

* No handling charge is collected for a change of status for the business investment (D-8) visa.
2.4 Re-entry Permit

A foreigner who intends to re-enter Korea after a temporary departure within the current period of stay should apply for a single or multiple re-entry permit at an immigration control office having jurisdiction over the sojourn place or Invest KOREA. Such application can be made at an immigration control office at the airport on the day of departure.

A re-entry permit is issued within the extent of the validity of the passport, the permitted sojourn period, and the period of the re-entry permit’s validity (i.e. 1 year for a single permit and 2 years for a multiple permit [1 year for Chinese nationals]).

2.5 Report on Change of Sojourn Place

A business investment (D-8) visa holder who has changed his/her place of sojourn should submit a report to an immigration control office having jurisdiction over the sojourn place or Invest KOREA. Such application can be made at an immigration control office at the airport on the day of departure.

A change in the company name (in cases where the investor is a company)

The required documents may be adjusted in the process of an immigration inspection.

A letter of instruction for the dispatch of an employee (a copy of labor contract)

* A letter of instruction for the dispatch of an employee issued by the headquarters.

2.6 Report on Change in Alien Registration Matters

2.7 Activities other than Status of Sojourn

A business investment (D-8) visa holder who intends to be concurrently engaged in activities other than those permitted by his/her status of sojourn should obtain approval from an immigration control office having jurisdiction over the sojourn place in advance.
2.8 Change or Addition of Workplace
A business investment (D-8) visa holder who intends to change or add his/her workplace within the extent of the visa status should register within an immigration control office having jurisdiction over the sojourn place or Invest KOREA within 14 days of the change. The change or addition shall take place within the affiliates of the company to which the D-8 visa holder belongs.

Required documents
The required documents may be adjusted in the process of an immigration inspection.
- Passport, alien registration certificate, and application form (a unified form)
- A copy of the certificate of foreign-invested company registration
- A copy of the business registration certificate
- A letter of instruction for the dispatch of an employee issued by the headquarters
- A document verifying the same affiliates
- A document verifying the closure of the original workplace (if applicable)
- Tax payment certificate
- A document verifying the operating (export/import) record
- Handling charge (revenue stamp): free

3. Policies for the Favorable Treatment of Foreign Investors
The Korean government provides foreign investors with a variety of benefits in relation to their arrival, departure, and stay. There are immigration checkpoints dedicated exclusively to processing foreign investors, and permanent residency is granted if certain conditions are met. Also, the Investment Consulting Center of KOTRA provides a one-stop service for foreign investors with services ranging from investment consulting to resolution of grievances during an investor’s stay in Korea.

F-5 (permanent residence) granted
Hiring foreign housekeepers
Exclusive immigration checkpoint for foreign investors
Unmanned immigration checkpoint for investors whose investment amount is over USD 2 million
Exclusive counter for sojourn permission for foreign investors
Exemption of handling charges concerning the issuance of stay permits for foreign investors
Extension of the maximum period of stay

3.1 F-5 (permanent residence) granted
Korea grants permanent residence status to foreign investors, directors of multinationals operating in Korea and foreigners with sophisticated technologies who contribute to the national competitiveness of Korea and help invigorate foreign investment.

(1) Permanent residence status is granted to those who meet one of the following requirements from among those who are not subject to deportation
- A foreigner who invests USD 500,000 or more and hires 5 Korean nationals or more
- A foreigner who invests USD 300,000 or more; who hires 3 Korean nationals or more as a business investment (D-8) visa holder; and who meets additional requirements. (He/she shall pass Level 3 of the Test of Proficiency in Korean run by the Korea Institute for Curriculum and Evaluation, and his/her annual income shall exceed a prescribed amount for the last three consecutive years.)

(2) Permanent residence status confers the right to enjoy the following benefits:
- Exemption from the obligation to apply for an extension of the period of stay
- Free economic activities in Korea
- Exemption from the obligation to obtain a re-entry permit if a visit to a foreign country lasts for less than a year
- Exemption from deportation

3.2 Hiring foreign housekeepers
Korea allows a foreigner who invests a large amount of capital to hire a foreign housekeeper to make their stay Korea more comfortable.

(1) A foreigner who intends to hire a foreign housekeeper should meet the following requirements:
- A foreign investor (a representative, executive or employee of a foreign-invested company) shall have an income equal to or greater than three times the amount of the per capita GNI of Korea in the preceding year as announced by the Bank of Korea.
- A foreigner, whose investment amount is less than USD 500,000, shall be in a high-tech information business and hire 3 or more regular Korean employees.

Scope of the "executives and employees"
Executives and senior managers fall into the category of essential professionals.

"High-tech information business"
The following high-tech businesses have been selected to qualify for Gold Card issuance (http://www.goldcard.or.kr) by Kiitech, an affiliate of the Ministry of Knowledge Economy: technological management, nano-technology, digital electronics, bio technology, transportation and machinery, e-Commerce (including information technology), environment, and energy.

A foreign housekeeper shall be aged 20 – 55 years old as of the date on which his/her visa application is submitted and shall be a middle school graduate or higher. He/she may obtain an F-1 (visiting family or relatives in Korea) visa only through an inviter’s application for a certificate of visa issuance confirmation. A housekeeper shall leave Korea upon termination or cancellation of the employment contract or upon his/her employer being deprived of the business investment (D-8) visa status.

Permission of Foreign Housekeepers Hiring
Required documents
- The required documents may be adjusted in the process of an immigration inspection.
3.3 Exclusive immigration checkpoint for foreign investors

The country operates an immigration checkpoint exclusively for foreign investors at Incheon International Airport to enhance the convenience of business investment (D-8) visa holders and their families.

3.4 Unmanned immigration checkpoint for investors whose investment amount is over USD 2 million

Foreigners staying in Korea for more than 1 year with a company investment (D-8) visa who invested more than 2 million USD, and foreigners who changed their company investment (D-8) visa to a resident (F-2) visa of Immigration Control Law enforcement ordinance asterisk 1 27 Ra clause, or to a permanent resident (F-5) visa of asterisk 1 28 3 of the same ordinance, may utilize the automatic immigration checkpoint after pre-registering their passport information, fingerprint, and face information with the Incheon Airport Immigration Control Office (Registration Center) or the foreigner investment support center (Invest KOREA).

3.5 Exclusive counter for sojourn permission for foreign investors

(1) Investment Consulting Center of KOTRA (Invest KOREA)

KOTRA (Invest KOREA) operates the Investment Consulting Center to help foreign investors with all matters pertaining to their visa and stay permit. Immigration control officials are dispatched from the Ministry of Justice to handle such matters as changes of visa status, extensions of the period of stay, issuance of re-entry permits, the granting of visa status to children born in Korea, alien registration, report of details of alien registration, report of change in the place of sojourn, change of or addition to workplaces, and activities other than those permitted by the status of sojourn for business investment (D-8) visa holders and their accompanying families regardless of the jurisdiction over the place of sojourn.

(2) The Seoul immigration control office and its branch at Seoul City Hall

Exclusive counters for foreign investors are installed at the Seoul immigration control office and its branch at Seoul City Hall, handling matters concerning stay permits for business investment (D-8) visa holders.

3.6 Exemption of handling charges concerning the issuance of stay permits for foreign investors

A business investment (D-8) visa holder is granted an exemption from payment of the following handling charges concerning permits of stay.

<table>
<thead>
<tr>
<th>Permits of stay</th>
<th>Handling charge normally collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance and re-issuance of alien registration certificate</td>
<td>10,000 won</td>
</tr>
<tr>
<td>Permit for extension of a period of stay</td>
<td>30,000 won</td>
</tr>
<tr>
<td>Permit for change of visa status</td>
<td>50,000 won</td>
</tr>
<tr>
<td>Permit for change/addition of workplace</td>
<td>Free</td>
</tr>
<tr>
<td>Re-entry permit</td>
<td>50,000 won for a multiple permit and 30,000 won for a single permit</td>
</tr>
</tbody>
</table>

3.7 Extension of the maximum period of stay

A foreign investor or an executive or an employee of a foreign-invested business whose investment amount is USD 500,000 or more may be granted a sojourn period of up to 5 years when changing his/her visa status or extending his/her period of stay.
### 1. Labor Laws

Labor Laws regulate employment, the working environment and labor relations with the aims of making sure workers lead decent lives while employers and employees have equitable relations. In Korea, migrant workers have equal status with Korean workers. Accordingly, the basic labor rights of migrant workers are protected by the Labor Standards Act, Minimum Wages Act, Wage Claim Guarantee Act, and other relevant labor laws.

#### 1.1 Objectives of Labor Law

When employing workers in Korea, laws regarding hiring, salary, and dismissal shall be observed. The Labor Law of Korea has been enacted in order to provide workers with adequate protection, to protect the basic structure of business activities, and to build a solid and stable economy based on the principles of capitalism.

#### 1.2 Labor Law Categories and Applications

The Labor Law is largely divided into four categories: Individual Labor Relations Law, Collective Industrial Relations Law, Cooperative Industrial Relations Law, and Employment Law. Depending on its characteristics, each law sets the standards for labor contracts and relations between employers and workers, enables autonomous dispute resolutions between labor and management by guaranteeing workers’ right to organize a union, and ensures mutual benefits to labor and management by promoting the participation and cooperation of both employers and workers.

<table>
<thead>
<tr>
<th>Labor Law Categories and Applications</th>
<th>Category</th>
<th>Acts</th>
<th>No. of Employees</th>
<th>Remark</th>
</tr>
</thead>
</table>
| Individual Labor Relations Law       | Labor Standards Act | 5 or more | - Some provisions are applicable to workplaces with 4 or fewer employees  
- Where the employer employs 10 or more workers, the rules of employment shall be prepared |
|                                      | Minimum Wages Act | All workplaces | 2010 minimum hourly wage: 4,110 won  
2011 minimum hourly wage: 4,320 won |
|                                      | General | All workplaces | - Not all provisions are applied to certain businesses and workplaces with fewer than 5 employees |
|                                      | Person in charge of safety and health management | 100 or more | - 50 or more employees for certain businesses |
|                                      | Safety and health officers, etc. | 50 or more | - Some business categories are excluded |
|                                      | Occupational health and safety committee | 100 or more | - Some businesses with 50 - 99 employees are included |
|                                      | Industrial Accident Compensation Insurance Act | All workplaces | - Some businesses with fewer than 5 employees in the agriculture, forestry, and fishery industries are excluded |
|                                      | Equal Employment Opportunity Act | All workplaces | - Some provisions are not applied to workplaces with fewer than 5 employees |

#### 2. Labor Management

Employees must be allowed to accept working conditions by their own free will, with employers and workers on an equal footing. Standards prescribed by the law shall be met. Even if accepted by free will, any aspect of working conditions that does not meet the standards set by the law will be deemed illegal.

<table>
<thead>
<tr>
<th>Category</th>
<th>Acts</th>
<th>No. of Employees</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective Labor-Management Relations Law</td>
<td>Trade Union &amp; Labor Relations Adjustment Act</td>
<td>All workplaces</td>
<td>- Some provisions are not applied to workplaces with fewer than 5 employees</td>
</tr>
</tbody>
</table>
| Cooperative Labor-Management Relations Law | Act on the Promotion of Workers’ Participation and Cooperation | 30 or more | - Regardless of the existence of a labor union, all businesses or workplaces vested with the right to determine working conditions shall establish a labor-management council  
- Workplaces with 30 or more employees shall implement a grievance settlement committee representative |
| Employment Related Law | Employment Insurance Act | All workplaces | - Businesses shall employ disabled persons at the obligatory employment ratio of 5/100 of the total number of workers  
- Companies shall pay contributory charges in the case of non-compliance, but will receive incentives in cases in which they hire disabled persons above the obligatory ratio number |
|                                      | Employment Promotion and Vocational Rehabilitation of Disabled Persons Act | 50 or more | - Companies shall maintain a minimum ratio of senior citizens employed for total employees (2% for the manufacturing industry, 6% for the transportation and real estate industries, 3% of other industries) |
|                                      | Act on Prohibition of Age Discrimination in Employment and Elderly Employment Promotion | 300 or more | - Companies shall maintain a minimum ratio of senior citizens employed for total employees (2% for the manufacturing industry, 6% for the transportation and real estate industries, 3% of other industries) |
2.1 Wages
Wages refer to money or other valuables paid to employees in exchange for their labor services, regardless of their titles (wage, salary, bonus, etc.). Wages shall be paid at or above the minimum wage set by the Minister of Employment and Labor every year. In 2018, the minimum wage was set at $4,320 won per hour, and $34,560 won per day for 8 hours daily.

The Labor Standards Act classifies wages into ordinary wage and average wage; retirement payment and other allowances set by labor are to be calculated based on one of these two wage categories. Average wage refers to the total wages paid to the worker during the 3 months prior to the event (e.g. retirement) facilitating the calculation of the average wage, divided by the total number of days during the same period. Average wage is used to calculate retirement payment, business suspension allowance, and industrial accident compensation. Ordinary wage refers to wages by hour, day, week, or as otherwise outlined in an employment contract for certain work done, or for total working hours. Allowances for extended, night, holiday work, annual paid leave, and advance notice of dismissal fall into this category.

2.2 Working Hours
The standard working hours set by the Labor Standards Act are 8 hours per day and 40 hours per week. The working hours prescribed by the Act shall not be exceeded. If carried out by order of the employer, work preparation hours, waiting hours, training hours and organizing hours after work are all counted as “working hours.”

<table>
<thead>
<tr>
<th>Category</th>
<th>Standard Working Hours 1 Day</th>
<th>Extended Work</th>
<th>Nighttime Work</th>
<th>Holiday Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male Workers</td>
<td>8 hours</td>
<td>40 (44) hours</td>
<td>Allowed</td>
<td>Allowed</td>
</tr>
<tr>
<td>Female Workers</td>
<td>8 hours</td>
<td>40 (44) hours</td>
<td>As agreed by the person concerned</td>
<td>As agreed by the person concerned</td>
</tr>
<tr>
<td>Female Workers Less than 1 Year After Childbirth</td>
<td>8 hours</td>
<td>40 (44) hours</td>
<td>In principle: not applicable Exception: as agreed by the persons concerned</td>
<td>In principle: not applicable Exception: as agreed by the persons concerned</td>
</tr>
<tr>
<td>Pregnant Workers</td>
<td>8 hours</td>
<td>40 (44) hours</td>
<td>Not applicable</td>
<td>In principle: not applicable Exception: upon an explicit request Approved by the Minister of Employment and Labor</td>
</tr>
<tr>
<td>Working Minors (under the age of 18)</td>
<td>7 hours</td>
<td>40 (42) hours</td>
<td>In principle: not applicable Exception: as agreed by the persons concerned</td>
<td>In principle: not applicable Exception: as agreed by the persons concerned</td>
</tr>
<tr>
<td>Hazardous Work (high pressure) Workers</td>
<td>6 hours</td>
<td>24 hours</td>
<td>Not applicable</td>
<td>-</td>
</tr>
</tbody>
</table>

The issuance of orders to work past standard working hours shall be agreed upon between the parties. However, even when agreed upon by both parties, at least 50% of ordinary wage shall be paid in addition to standard wages for extended work, nighttime work, and holiday work.

However, where introducing a flexible working hour system via employment regulations (every 2 weeks) or a written agreement with workers’ representatives (every 3 months), or introducing a selective working hour system through a written agreement with workers’ representatives, work may be ordered for over 8 hours per day, 40 hours per week for a certain period (2 weeks or 1 month), insofar as the average number of working hours per week does not exceed 40 hours. However, even in such cases, a flexible working hour system cannot be applied to pregnant women or minors.

2.3 Holidays and leave
Generally there are two types of holiday and leave: "Legal" holidays and leaves, for which the details, conditions, and effects are decided by law, and "agreed" holidays, for which such matters are decided autonomously by management and labor. Legal holidays/leaves include weekly holidays, Labor Day, monthly leave, annual leave, menstruation leave, and maternity leave. Agreed holidays/leaves may include public holidays, company foundation anniversaries, summer leave, and congratulatory & condolence leave.

(1) Paid Weekly Holidays
An employer shall give an average of one paid-leave day or more per week, if an employee has worked for the prescribed number of consecutive working days. The weekly holiday does not have to be Sunday. Where an employee works on a weekly holiday, 50/100 of the ordinary wage shall be paid in addition to standard wages for the work on that day.

(2) Annual Paid Leave
An employer shall provide workers, who have come to work for more than 80% of one working year, with 15 days of paid leave. For workers, who have worked for three or more consecutive years, one more day of paid leave shall be provided for every 2 years of consecutive work after the initial year, up to a total of 25 days. Annual leave shall be granted upon the request of a worker, and the worker will be paid ordinary or average wage for the period of leave in accordance with employment regulations. However, the employer may change the time of leave if granting the leave at the requested time would cause a major disruption in business operations. If days of leave expire and the worker does not take the leave despite the employer’s encouragement, the employer is not obligated to compensate the worker for the unused leave.

(3) Paid Maternity Leave
Pregnant workers shall be given a 90-day protective leave before and after childbirth, with 45 days or more to be allocated after childbirth. Wages for the first 60 days of the leave period shall be the burden of the employer, with the wages of the remaining 30 days are to be paid by employment insurance (the government). In cases of a business eligible for preferential support [Article 15 of the Enforcement Decree of the Employment Insurance Act], the wage for the 90 day period for an employee giving birth to a child on or after January 1, 2006, is paid entirely by the employment insurance.
2.4 Dismissals
The employer shall not dismiss, temporarily lay off, suspend, transfer a worker, reduce wages, or take punitive measures against a worker without justifiable cause. Such punitive measures shall be taken on reasonable grounds that are generally accepted by society at large. In general, reasons for punitive measures such as dismissals are stipulated in the employment regulations or the collective agreement, and procedures set in the concerned employment regulations or collective agreement shall be followed. When dismissing a worker, the worker shall receive notice of the dismissal at least 30 days prior to the actual dismissal. If not, the employer is obligated to pay more than 30 days’ worth of ordinary wage.

2.5 Retirement Benefit
In order to pay retirement benefits to retiring workers, the employer shall choose either the retirement allowance system or the retirement pension plan. In choosing the retirement benefit scheme or changing the chosen retirement benefit scheme to another type, the employer shall obtain the consent of the majority of the labor union if a labor union consisting of the majority of workers exists, or the majority of workers if a labor union does not exist.

(1) Retirement Allowance System
In the event that a worker retires or dies, the employer shall pay a retirement allowance equivalent to the average 30-day wage, as calculated in the Wages section, for each year of the worker’s continuous service. Upon the request of a worker, the employer may pay a retirement allowance for the worker’s continuous service period prior to his/her retirement.

(2) Retirement Pension Plan
To guarantee workers’ financial stability after retirement, the employer shall accumulate and invest funds for the retirement allowance into an external financial institution during the workers’ service period. Retirement allowance shall be paid to the workers as a pension or in a lump sum.

2.6 Labor-management Council
The labor-management council is a consultative committee created for the purpose of promoting participation and cooperation of all employers and workers to improve the welfare of workers and the sound development of companies. A business or workplace with 30 or more workers shall establish a labor-management council that consists of an equal number of representatives from management and labor (3 - 10 people from each side). The labor-management council will handle matters for discussions, resolutions, and reports depending on the resolution and performance obligations.

2.7 Social Insurance Policy

(1) Employment Insurance
Employment insurance is a social insurance policy that has been introduced in order to provide livelihood support for unemployed workers, to prevent layoffs due to industrial restructuring, and to promote re-employment, while providing employers with various types of support to strengthen corporate competitiveness.

Businesses and workplaces with one or more regular workers are obligated to subscribe to employment insurance. The employer shall report the creation of an insurance relation to the Korea Workers’ Compensation & Welfare Service within 14 days, from the date on which the business commenced, and shall report the insured qualification acquisition to the job center at the regional labor office within 14 days. Employers who have subscribed to employment insurance shall pay a premium to the district office of the Korea Workers’ Compensation & Welfare Service every month and report the total amount of wage they paid to their employees in the previous year by the end of February for the calculation of the monthly wage and premium in the following year.

Businesses exempted from mandatory subscription to employment insurance:
- Agricultural, forestry, fishery, hunting businesses with less than four regular workers
- Housekeeping services
- A construction project whose total construction cost is less than 20 million won, a construction of a building whose total floor area is less than 100 square meters or a major repair of a building whose total floor area is less than 200 square meters

(2) Industrial Accident Compensation Insurance
Industrial Accident Compensation Insurance is a social insurance policy that requires the government to take responsibility on behalf of employers for compensating workers for injuries or illnesses acquired at work, in accordance with the Labor Standards Act. Accordingly, employers subject to industrial accident compensation insurance are exempted from the individual compensation responsibilities towards workers by paying a premium. The government shall pay direct compensations to the workers from the funds created by employer-paid premiums.

Businesses and workplaces with one or more regular workers are obligated to subscribe to industrial accident compensation insurance. The employer shall report the creation of an insurance relation to the Korea Workers’ Compensation & Welfare Service within 14 days from the date on which the business commenced. Employers who have subscribed to the industrial accident compensation insurance shall pay a premium to the district office of the Korea Workers’ Compensation & Welfare Service every month and report the total amount of wage they paid to their employees in the previous year by the end of February for the calculation of the monthly wage and premium in the following year.

Businesses exempted from mandatory subscription to industrial accident compensation insurance:
- Agricultural, forestry, fishery, hunting businesses with fewer than five regular workers
- A construction project whose total construction cost is less than 20 million won, construction of a building whose total floor area is less than 100 square meters, or a major repair of a building whose total floor area is less than 200 square meters
- Employment activities within households
- Accident compensation business according to the Government Employees Pension Act and the Veteran’s Pension Act
- Accident compensation business according to the Seafarers Act, Act on Accident Compensation Insurance for Fishing Vessels and Their Crew Members, Private School Teachers and Staff Pension Act
1. Taxation

Taxation is the system by which the central government or local governments impose taxes on people who present tax liabilities without providing an offsetting benefit in order to raise revenues. There are 16 national taxes and 11 local taxes in Korea.

### 1.1 Taxation of the Republic of Korea

Korea’s taxation system has been developed to support the fiscal policies required for the economic development plans of the central or local governments. As of 2010, taxation consists of national and local taxes as follows.

### 1.2 Tax System of the Republic of Korea

#### Three Key Social Insurance Programs

<table>
<thead>
<tr>
<th>Category</th>
<th>Employment Insurance</th>
<th>Industrial Accident Compensation Insurance</th>
<th>National Pension</th>
<th>Health Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>To prevent unemployment, to promote employment, to develop workers job competency</td>
<td>To provide relief following accidents/ disasters including occupational injuries, disease, disability, death, etc.</td>
<td>To support a pension system for the elderly, incurable diseases, death, etc.</td>
<td>To prevent, diagnose and treat diseases and injuries</td>
</tr>
<tr>
<td><strong>Taken into effect</strong></td>
<td>July 1995</td>
<td>July 1964</td>
<td>January 1988</td>
<td>July 1977</td>
</tr>
<tr>
<td><strong>Applicable businesses</strong></td>
<td>At least 1 full-time worker</td>
<td>At least 1 full-time worker</td>
<td>At least 1 full-time worker</td>
<td>At least 1 full-time worker</td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td>Those under 65 years old</td>
<td>Workers at applicable business</td>
<td>Those between ages 18 and 60</td>
<td>Workers at applicable businesses</td>
</tr>
<tr>
<td><strong>Exempted parties</strong></td>
<td>Employer (exceptional subscription is possible)</td>
<td>Employees who have worked less than 1 month</td>
<td>Employees who have worked less than 1 month</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign national</strong></td>
<td>Excluded from subscription (partial visa reciprocity)</td>
<td>Subject to subscription</td>
<td>Subject to subscription in principle (national reciprocity)</td>
<td>Subject to subscription</td>
</tr>
<tr>
<td><strong>Acquiring eligibility</strong></td>
<td>From the worker’s first work day</td>
<td>-</td>
<td>From the worker’s first work day</td>
<td>From the worker’s first work day</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td>0.55% of the total wage (unemployment benefit)</td>
<td>None</td>
<td>4.5% of standard monthly wage</td>
<td>2.82% of standard monthly wage</td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>- Unemployment benefit: 0.55%</td>
<td>- Employment stabilization project: 0.25 - 0.85% (depending on company size)</td>
<td>6/1000 - 354/1000 of total salary (depending on business category)</td>
<td>4.5% of standard monthly wage</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>Unemployment benefits, employment stabilization project, occupational ability development, business, etc.</td>
<td>Medical treatment benefit, business suspension allowance, disability benefit, bereaved family’s benefit, etc.</td>
<td>Old age pension, disability pension, bereaved family’s pension</td>
<td>Medical treatment expense, health checkup cost, funeral expense, etc.</td>
</tr>
<tr>
<td><strong>Execution organization</strong></td>
<td>The Korea Workers’ Compensation &amp; Welfare Service</td>
<td>The Korea Workers’ Compensation &amp; Welfare Service</td>
<td>The National Pension Service</td>
<td>The National Pension Service</td>
</tr>
</tbody>
</table>
2. National Tax

National taxes are collected by the National Tax Service (tax office) and Korea Customs Service (customs) to support the central government. National tax is divided into internal taxes and tariffs. There are direct taxes and indirect taxes, depending on how the tax is paid. A direct tax means a tax paid directly to the government by the persons on whom it is imposed, while an indirect tax is a tax collected by an intermediary from the person who bears the ultimate economic burden of the tax. Direct taxes include income tax, corporate tax, inheritance tax, and gift tax. Indirect taxes include value added tax, individual consumption tax, liquor tax, securities transaction tax, and stamp tax.

2.1 Income Tax

According to the Income Tax Law, taxable income is divided into three categories: composite income, retirement income, and transfer income. Any income from sources other than those three is not taxed. The taxation system is as follows:

(1) Composite Income

Composite income is the sum of seven separate types of income: interest income, dividend income, real estate rental income, business income, earned income, annuity income, and miscellaneous income. The composite income tax base shall be calculated by deducting necessary expenses, making income deductions, etc. from the composite income. A composite income tax rate ranges from 6-38% of income. Declaration of composite income tax is exempted for interest income, dividend income and miscellaneous income that can be separately taxed at the source, and for earned income whose duty of tax payment is terminated due to year-end settlement on earned income.

<table>
<thead>
<tr>
<th>Composite Income Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Base</td>
</tr>
<tr>
<td>Not more than 12 million won</td>
</tr>
<tr>
<td>More than 12 million and not more than 44 million won</td>
</tr>
<tr>
<td>More than 44 million and not more than 88 million won</td>
</tr>
<tr>
<td>More than 88 million and not more than 300 million won</td>
</tr>
<tr>
<td>More than 300 million won</td>
</tr>
</tbody>
</table>

(2) Retirement Income

The settled tax amount is determined by first generating a retirement income standard of assessment by deducting retirement income from retirement salary. Then it is divided by the continuous service year and the general income tax rate is applied, and multiplied by the continuous service year. The generated computed retirement income tax amount is then deducted by the retirement income tax to determine the settled tax amount.

<table>
<thead>
<tr>
<th>Scope of Retirement Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>· Lump sum payments for retirement</td>
</tr>
<tr>
<td>· Honorary retirement allowances paid to public officials in various services, and teachers and employees of private schools</td>
</tr>
<tr>
<td>· Lump sum payments from retirement insurance policies</td>
</tr>
<tr>
<td>· Lump sum return payments or lump sum death payments under the National Pension Act</td>
</tr>
<tr>
<td>· Lump sum payments paid under the Public Officials Pension Act, the Veterans’ Pension Act, the Pension for Private School Teachers and Staff Act, or the Special Post Offices Act</td>
</tr>
<tr>
<td>· Other lump sum payments similar to those stated above, which are provided for in the Presidential Decree</td>
</tr>
</tbody>
</table>

(3) Transfer Income

Transfer income refers to income gained by individuals through the transfer of certain assets during the corresponding year. Under the tax law of Korea, transfer refers to the practical transfer of assets for money due to sale, exchange, and in-kind investment in corporations, etc. regardless of registration or enrollment concerning such assets. Land and buildings, real estate rights, other assets, and general stock are subject to transfer tax. However, transfer tax is not levied on income from the transfer of one house for one household, a disposition by adjudication of bankruptcy or an exchange, division, or annexation of farmland.
Doing Business In Korea

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Transfer Tax Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unregistered asset</td>
<td>70%</td>
</tr>
<tr>
<td>Registered asset</td>
<td></td>
</tr>
<tr>
<td>Non-business land</td>
<td>60%</td>
</tr>
<tr>
<td>Other registered asset</td>
<td></td>
</tr>
<tr>
<td>Not more than 1 year in possession</td>
<td>50%</td>
</tr>
<tr>
<td>More than 1 year and not more than 2 years in possession</td>
<td>40%</td>
</tr>
<tr>
<td>More than 2 years in possession</td>
<td>[1]</td>
</tr>
<tr>
<td>Stocks of corporate body other than small and medium business</td>
<td>60%</td>
</tr>
<tr>
<td>Major shareholder’s stocks with not more than 1 year in possession</td>
<td>30%</td>
</tr>
<tr>
<td>Stocks other than indicated above</td>
<td>[1]</td>
</tr>
<tr>
<td>Stocks of small and medium business</td>
<td>20%</td>
</tr>
<tr>
<td>Stocks of corporate body in which non-business land composes more than 50% of the total asset</td>
<td>10%</td>
</tr>
<tr>
<td>Other assets excluding those indicated above</td>
<td>[1]</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td>Registered asset non-business land</td>
<td>60%</td>
</tr>
<tr>
<td>Stocks of corporate body in which non-business land composes more than 50% of the total asset</td>
<td>60%</td>
</tr>
<tr>
<td>Non-business land</td>
<td>60%</td>
</tr>
<tr>
<td>Other registered asset</td>
<td></td>
</tr>
<tr>
<td>Major shareholder’s stocks with not more than 1 year in possession</td>
<td>30%</td>
</tr>
<tr>
<td>Stocks other than indicated above</td>
<td>[1]</td>
</tr>
<tr>
<td>Stocks of small and medium business</td>
<td>20%</td>
</tr>
<tr>
<td>Stocks of corporate body in which non-business land composes more than 50% of the total asset</td>
<td>10%</td>
</tr>
<tr>
<td>Other assets excluding those indicated above</td>
<td>[1]</td>
</tr>
</tbody>
</table>

[1] Refer to “Composite Income Tax Rate” in the earlier section.

2.2 Corporate Tax

There are 3 types of taxable income in corporate tax: income of each business year, liquidation income, and capital gains from the transfer of property.

Income of each business year is calculated by deducting the total amount of deductible expenses from the total amount of gross income. Liquidation income refers to the residual property value of a dissolved (merged or divided) corporation exceeding the total amount of equity capital. In cases where transferring property, specific houses, or non-business land in areas where land values have skyrocketed, taxes are imposed on the margin from transfer for the purpose of suppressing speculation. Corporate tax on capital gains from the transfer of land, etc. and corporate tax on income of each business year overlap as double taxation.

Corporate Tax Rate

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not more than 200 million won</td>
<td>Standard of assessment X 10%</td>
</tr>
<tr>
<td>More than 200 million and not more than 20 billion won</td>
<td>20,000,000 won + (amount exceeding 200 million won X 20%)</td>
</tr>
<tr>
<td>More than 20 billion won</td>
<td>3,980,000,000 won + (amount exceeding 20 billion won X 22%)</td>
</tr>
</tbody>
</table>

* Corporate taxation exception on union association

Standard of assessment is the addition of meals & entertainment inclusion in gross revenue and inclusion in gross revenue of donation generated in relation to net profit and revenue on the closing financial statements. 9% tax rate is applied to the standard of assessment.

2.3 Value Added Tax

The value added tax (VAT) is a tax levied on added value in each step of production and distribution. In principle, VAT is a general consumption tax levied on the consumption of all goods and services, and at the same time, a form of indirect tax for which the transfer of tax burden can be anticipated. VAT is imposed on added value generated at each stage of transaction.

Value added tax is imposed based on different taxation systems for general taxpayers and simplified taxpayers as follows.

Comparison of General Taxpayer and Simplified Taxpayer

<table>
<thead>
<tr>
<th>Category</th>
<th>General Taxpayer</th>
<th>Simplified Taxpayer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objects</td>
<td>All taxable business operators that are not simplified taxpayers</td>
<td>Private business operators with less than 48 million won in proceeds from supply for the immediately preceding year</td>
</tr>
<tr>
<td>Details</td>
<td>All obligations such as issuance, acquisition, report, and payment of account book and tax invoice shall be carried out.</td>
<td>Obligations of issuance, acquisition, report, and payment of account book and tax invoice, etc. are exempted, and tax amount to be paid can be calculated simply.</td>
</tr>
<tr>
<td>Tax Base</td>
<td>Proceeds from supply excluding VAT</td>
<td>Proceeds from supply including VAT</td>
</tr>
<tr>
<td>Collection over Transaction</td>
<td>Tax is collected separately</td>
<td>Tax is included in the proceeds</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Tax Amount to be Paid</td>
<td>Sales tax amount - deductible purchase tax amount</td>
<td>[Proceeds from supply x VAT rate of business category x tax rate] - [purchase tax amount, such as statement of purchase tax amount, etc. x VAT rate of business category x tax rate]</td>
</tr>
<tr>
<td>Tax Deduction and Refund</td>
<td>Purchase tax amount exceeding sales tax amount is refunded.</td>
<td>[Purchase tax amount in the issued statement of purchase tax amount x VAT rate of corresponding business category shall be deducted. Where the amount exceeds the tax amount to be paid, tax deduction is not made.</td>
</tr>
<tr>
<td>Additional Tax</td>
<td>All additional taxes in the Value-Added Tax Act shall be applied.</td>
<td>Only additional tax for non-registration, additional tax for unfaithful self-assessment by tax payment, and additional tax on unfaithful tax returns of zero-rate tax base shall be applied. Additional tax on non-registration is 0.5%.</td>
</tr>
<tr>
<td>Tax Obligation Exemption</td>
<td>N/A</td>
<td>In cases where the proceeds from supply during the taxable period is less than 12 million won.</td>
</tr>
</tbody>
</table>

In principle, the taxable period for value added tax is divided into two periods regardless of whether the taxpayer concerned is a general taxpayer (individuals, corporations) or simplified taxpayer. Value added tax shall be reported and paid within each designated period.
2.4 Securities Transaction Tax

The securities transaction tax is levied on the transfer of share certificates or shares. The Korea Securities Depository shall bear the tax obligations for listed share certificates or association registered share certificates transferred on the primary securities exchange (KOSPI) or the secondary exchange (KOSDAQ), or certificate of shares transferred via the quote dissemination system (3rd market). For the transfer of share certificates through a securities company, the securities company shall bear the tax obligation. For the transfer of shares to private individuals, the transferee shall bear the tax obligation. The transfer of share certificates listed on an overseas stock exchange according to the Securities Transaction Tax Act, or the transfer of share certificates, etc. for the purpose of listing them on an overseas stock exchange shall not be taxed. Non-taxable transfer is recognized for cases such as the transfer of share certificates, etc. by central or local governments.

2.5 Education Tax

The education tax has been introduced to secure financial resources needed to improve the quality of education. Education tax is a surtax that is added to certain national or local taxes such as the revenues of financial and insurance businesses, the special consumption tax and the aggregate land tax.

2.6 Gross Real Estate Tax

Gross real estate tax was taken into effect in 2005, and aims to reinforce taxation on persons possessing a high amount of real estate properties, to suppress real estate speculation, and to reorganize unreasonable aspects of the local tax system.

The local government having the jurisdiction over property shall levy property taxes on the land and building concerned. Apart from the property tax, the National Tax Service shall analyze the ownership of land and buildings exceeding certain criteria nationwide, and apply progressive tax rates to levy taxes or allow the property owner to declare and pay tax on a voluntary basis.

As of 2011, objects of taxation include houses whose publicly notified price is more than 600 million won (900 million won for a family with one house), land whose publicly notified prices are more than 500 million won, and business-purpose land whose notified prices are more than 8 billion won. Gross real estate tax could change every year depending on changes in real estate policy. Therefore, it is advised to refer to the Gross Real Estate Tax Act in order to confirm tax bases and tax rates.

2.7 Customs Tax

Customs duty is imposed on imported goods. The tax base of customs duty is the value and amount of imported goods (Article 15 of Customs Duty Act), and tax rates vary depending on items. (Article 49 of Customs Duty Act).

\[ \text{Customs Duty} = \text{Tax base} \times \text{Tax Rate} \]

* For more information, visit the Customs Service website (www.customs.go.kr).
3. Local Tax
Local taxes are levied primarily to raise capital needed to provide administrative services to local residents. The additional objectives of local taxes are income redistribution, regional industrial and economic growth, and balanced development of the country. Local taxes are divided into taxation of property, taxation of income, and taxation of consumption. Income taxation includes property tax, aggregate land tax, automobile tax, acquisition tax, and registration tax. Income taxation is comprised of agricultural income tax, income-proportional resident tax, etc. Consumption taxation includes license tax, leisure tax, tobacco consumption tax, butchery tax, regional development tax, and local education tax.

3.1 Acquisition Tax
Acquisition tax is levied on individuals when acquiring certain assets.

The tax base of the acquisition tax is the value of the asset at the time of acquisition. The value of an asset means all costs which have been paid or shall be paid to the other party of the transaction for the acquisition of taxable objects at the time of acquisition. In principle, the value at the time of acquisition shall be as reported by the acquirer, but when there is no such declaration, mark of a declared price, or when the declared price does not meet the standard market value, the standard market value shall be applied. However, the acquisition price will be recognized as the tax base in cases of an acquisition from the national/local government, an acquisition from overseas, an acquisition in which the acquisition price is proven by corporate account books/rulings, or an acquisition through public auction. In addition, in cases of construction (new construction and reconstruction excluded) and repair, change of the type of vehicle/machinery, and change of land category, the value increased from such an occurrence shall be the tax base.

Here is the standard tax rate of acquisition taxes, and tax rates can change within a 50% range.

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition by inheritance</td>
<td>2.80% (2.30% for farmland)</td>
</tr>
<tr>
<td>Free acquisition other than acquisition by inheritance</td>
<td>3.50% (2.80% for non-profit businesses)</td>
</tr>
<tr>
<td>Original acquisition</td>
<td>2.80%</td>
</tr>
<tr>
<td>Transfer of trust estate from trustees to benefiter</td>
<td>3.00% (2.5% for non-profit business)</td>
</tr>
<tr>
<td>Acquisition by division of public property</td>
<td>2.30%</td>
</tr>
<tr>
<td>Acquisition by division of common property</td>
<td>2.30%</td>
</tr>
<tr>
<td>Acquisition by reasons other than described above</td>
<td>4.00% (3% for farmland)</td>
</tr>
<tr>
<td>Ships subject to registration</td>
<td>2.00%</td>
</tr>
<tr>
<td>Compact ships</td>
<td>2.02%</td>
</tr>
<tr>
<td>Ships other than compact ships</td>
<td>2.00%</td>
</tr>
<tr>
<td>Vehicles for business</td>
<td>4.00%</td>
</tr>
<tr>
<td>Non-business vehicles</td>
<td>5.00% (4.00% for light vehicles)</td>
</tr>
<tr>
<td>Non-business cars</td>
<td>7.00% (4.00% for compact cars)</td>
</tr>
<tr>
<td>Two-wheeled vehicles</td>
<td>2.00%</td>
</tr>
<tr>
<td>Other vehicles</td>
<td>2.00%</td>
</tr>
<tr>
<td>Machinery equipment that requires registration according to the Construction Machinery Management Act</td>
<td>3.00%</td>
</tr>
<tr>
<td>Machinery equipment that requires no registration according to the Construction Machinery Management Act</td>
<td>2.00%</td>
</tr>
<tr>
<td>Aircraft subject to Civil Aeronautics Law Article 3</td>
<td>2.00%</td>
</tr>
<tr>
<td>Aircraft whose maximum take-off weight is more than 5700kg</td>
<td>2.01%</td>
</tr>
<tr>
<td>Aircraft whose maximum take-off weight is less than 5700kg</td>
<td>2.02%</td>
</tr>
<tr>
<td>Standing tree</td>
<td>2.00%</td>
</tr>
<tr>
<td>Mining and fishing rights</td>
<td>2.00%</td>
</tr>
<tr>
<td>Membership for golf courses, condominiums, riding centers, sports facilities</td>
<td>2.00%</td>
</tr>
</tbody>
</table>
However, higher tax rates are applied to the following properties.

### Heavy Tax Rate of Acquisition Tax

<table>
<thead>
<tr>
<th>Category</th>
<th>Heavy Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A</td>
<td></td>
</tr>
<tr>
<td>- Acquisition of taxable goods for business in order to newly build or to expand a factory within the overpopulation control area of the Seoul metropolitan area (excluding industrial complexes/region bidding for industrial complexes/industrial areas subject to the Act on Industrial Concentration Revitalization and Factory Establishment and the Act on Planning and Use of Land)</td>
<td>Standard tax rate and two times of 2%</td>
</tr>
<tr>
<td>- Acquisition of real estate for use as headquarters or for business purposes within the overpopulation control area of the Seoul metropolitan area</td>
<td>Standard tax rate and two times of 2%</td>
</tr>
<tr>
<td>Type B</td>
<td></td>
</tr>
<tr>
<td>- Acquisition of luxury property (vacation home, golf course, luxury recreation place, luxury house/boat)</td>
<td>[3 times that of standard tax rate] minus two times of 2%</td>
</tr>
<tr>
<td>Type C</td>
<td></td>
</tr>
<tr>
<td>- Acquisition of real estate in big cities for use as headquarters or for business purposes, including new construction and expansion of buildings for headquarters, as well as auxiliary land</td>
<td>In cases when type A and C are applied at the same time: 3 times that of general tax rate</td>
</tr>
<tr>
<td>- Acquisition of land for business in order to newly build or to expand a factory in big cities (excluding industrial complexes/region bidding for industrial complexes/industrial areas subject to the Act on Industrial Concentration Revitalization and Factory Establishment and the Act on Planning and Use of Land)</td>
<td>In cases when type B and C are applied at the same time: 3 times that of general tax rate and two times of 2%</td>
</tr>
</tbody>
</table>

### Non-Taxable Objects for Acquisition Tax

<table>
<thead>
<tr>
<th>Category</th>
<th>Applicable Objects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Taxation</td>
<td>Non-taxation to the state, etc. (acquisition of real estate by the central/local governments, etc.) Non-taxation due to specific purposes (Acquisition of real estate for the purposes of public service, joint ownership by residents, and special post office operation) Non-taxation due to natural disasters, etc. (within two years) Alternative acquisition due to land expropriation, etc. (within one year) Ownership acquisition in formality (acquisition by corporate merger, special acquisition by inheritance, etc.) Acquisition whose value is 500,000 won or less at duty free shops</td>
</tr>
</tbody>
</table>

### Registration License Tax

Registration license tax refers to tax levied on items related to the acquisition, transfer, change or termination of property rights and other rights, which are officially registered or recorded, and tax levied in cases of obtaining license, approval, registration, inspection and testing for certain business facilities and acts.

The tax base of the registration license tax is the value at the time of registration, value of bond, or investment amount. The value at the time of registration and recording shall be as reported by the individual who registers and records. When there are no declarations, or when the declared value falls short of the standard market value, the standard market value at the time of registering and recording shall be applied.
3.3 Resident Tax

Per capita refers to resident tax imposed on individuals whose address is in the jurisdiction of a given Si/Gun and corporations that own business places or work places in the jurisdiction of a Si/Gun. Pro rata property tax is imposed based on the total area of work places.

In regards to the per capita resident tax, mayors and county governors may adjust the tax rate within the range of 50% of the standard rate under ordinances. Pro rata property tax can be decided below the standard rate under ordinances.

Resident tax is exempted for persons subject to protection under the National Basic Living Security Act, Korea-based foreign aid organizations, Korea-based foreign government agencies, local autonomous bodies and organizations. Pro rata property tax is exempted when the total floor area of the relevant business place is less than 330 km².

The following is the tax base and tax rates for resident tax.

<table>
<thead>
<tr>
<th>Tax Base &amp; Tax Rate for Resident Tax and Local Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Per capita</td>
</tr>
<tr>
<td>Individuals who have addresses in Si/Gun</td>
</tr>
<tr>
<td>Individuals who have business places in Si/Gun</td>
</tr>
<tr>
<td>Corporations with more than 100 employees and with a capital or investment amount more than 10 billion won</td>
</tr>
<tr>
<td>Corporations with more than 100 employees and with a capital or investment amount worth 10 billion won or less</td>
</tr>
<tr>
<td>Corporations with 100 employees or less and with a capital or investment amount worth more than 5 billion won</td>
</tr>
<tr>
<td>Corporations with more than 100 employees and with a capital or investment amount worth 3 billion - 5 billion won</td>
</tr>
<tr>
<td>Corporations with 100 employees or less and with a capital or investment amount worth 1 billion - 3 billion won</td>
</tr>
</tbody>
</table>

3.4 Local Income Tax

Local income tax is divided into pro rata income and pro rata employee taxes. The tax base for pro rata income is the income tax amount, corporate tax amount, and agricultural income tax amount. Pro rata employee income taxes are imposed on persons with business places within the jurisdiction of a Si/Gun.

In regards to local income taxes, mayors and county governors may adjust the tax rate within the range of 50% of the standard rate under ordinances. Pro rata employee tax can be decided below the standard rate under ordinances.

Employee tax is exempted for persons subject to protection under the National Basic Living Security Act, Korea-based foreign aid organizations, Korea-based foreign government agencies, local autonomous bodies, organizations, and those subject to the non-collection of small tax policy for amounts less than 2,000 won. It is also true for businesses with the number of employees equaling 50 or less.

The following is the tax rate and base of local income tax.

### Tax Base and Tax Rate for Local Income Tax

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Base</th>
<th>Tax Amount</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro rata income</td>
<td>Income tax</td>
<td>Income tax amount</td>
<td>10%</td>
</tr>
<tr>
<td>Agriculture tax</td>
<td>Agricultural income tax amount</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>The total monthly wage which will be paid or has been paid to employees</td>
<td>0.50%</td>
<td></td>
</tr>
</tbody>
</table>

3.5 Property Tax

Property tax is a Si/Gun tax (or Gu tax) levied on the owners of land, buildings, vessels, and aircraft. The taxable objects for land are divided into three categories: general aggregate taxable objects, special aggregate taxable objects, and separate taxable objects.

The tax base for property tax is the standard market price. The standard tax rate for property tax is shown in the table below. The tax rates can be adjusted by ordinances by up to 50%. However, in the cases of the establishment or expansion of factories in overpopulation control areas, five times the tax rate of 0.25% (the tax rate for other buildings) will apply for 5 years from the first date of taxation.

### Tax Base and Tax Rate for Property Tax

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Base</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>General aggregate tax</td>
<td>Not more than 50 million won</td>
</tr>
<tr>
<td></td>
<td>50-100 million won</td>
<td>0.3% of the amount exceeding 50 million won</td>
</tr>
<tr>
<td></td>
<td>More than 100 million won</td>
<td>0.3% of the amount exceeding 100 million won</td>
</tr>
<tr>
<td></td>
<td>Special aggregate tax</td>
<td>Not more than 200 million won</td>
</tr>
<tr>
<td></td>
<td>200 million-1 billion won</td>
<td>0.3% of the amount exceeding 200 million won</td>
</tr>
<tr>
<td></td>
<td>More than 1 billion won</td>
<td>0.4% of the amount exceeding 1 billion won</td>
</tr>
<tr>
<td></td>
<td>Separate tax</td>
<td>1. Farmland, orchard, and pasture land, forest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Land for golf course and luxury resorts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Land other than items 1 and 2</td>
</tr>
<tr>
<td>Building</td>
<td>Buildings for golf course and luxury resorts</td>
<td>4% of tax base</td>
</tr>
<tr>
<td></td>
<td>Factory buildings in residential areas</td>
<td>0.5% of tax base</td>
</tr>
<tr>
<td></td>
<td>Other buildings</td>
<td>0.25% of tax base</td>
</tr>
<tr>
<td>House</td>
<td>Vacation home</td>
<td>0.50%</td>
</tr>
<tr>
<td></td>
<td>Other houses</td>
<td>Not more than 60 million won</td>
</tr>
<tr>
<td></td>
<td>60 million to 150 million</td>
<td>0.15% of the amount exceeding 60 million won</td>
</tr>
<tr>
<td></td>
<td>More than 150 million</td>
<td>0.25% of the amount exceeding 150 million won</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 300 million</td>
</tr>
</tbody>
</table>
### IV. Customs

#### 1. Customs Clearance

“Customs clearance procedures” refer to a series of procedures whereby goods to be exported or imported are shipped to a certain place, undergo customs inspection, are loaded into a foreign trade vessel or a foreign trade aircraft or are taken over by a domestic party. The procedures are governed by the Customs Act. Where a foreign investor makes an investment in kind with capital goods, a written confirmation of the completion of the investment in kind, in which the Commissioner of the Korea Customs Service confirms the implementation of the investment in kind, shall be obtained.

1. **Import Customs Clearance**

Import customs clearance refers to the series of customs processes whereby goods that arrive in Korea from abroad are declared to a customs office. Upon import declaration, the head of the customs office checks the items listed in the import declaration to determine whether they correspond to the actual goods, whether they adhere to the various import regulations, etc. before accepting the import declaration, at which time tariffs, etc. are paid.

1.1 **Import Declaration**

Import declaration must be conducted in the name of the owner or the customs broker, the customs brokerage firm, or the customs clearance handling firm. In principle, the declaration can only be made after the ship or plane with the loaded goods has entered the port. However, when swift customs clearance is required for imported goods, the time for declaration can be chosen from those set by the Commissioner of the Korea Customs Service (KCS) (i.e., before leaving/entering port, before entering a bonded area, or following storage in a bonded area).

**Import Declaration Time**

- Before leaving port: Declaring goods imported via plane or ship from Japan, China, Taiwan, Hong Kong, etc. prior to the ship or plane leaving port. (It is possible to declare 5 days before entering a port of Korea for ships, 1 day for planes);
- Before entering port: Declaring after the ship etc. carrying goods for import leaves the port of loading and prior to its arrival (based on the time of submitting the cargo manifest for airfreights and the cargo-unloading declaration for sea freight) at the port. (It is possible to declare 5 days before entering a port of Korea for ships, 1 day for planes);
- Before entering a bonded area: Declaring after the arrival of ships etc. loaded with imported goods at the port and before entering a bonded area to carry in for customs clearance;
- After storage in a bonded area: Declaring after storing the imported goods in a bonded area.

The import declaration becomes effective once the customs clearance system accepts the declaration materials transmitted by the declarer. This is also when the taxable goods, applicable laws, foreign exchange rate for taxation, taxpayer, etc. are determined.

**Required documents**

- Invoice and price declaration report, packing list (if required)
- Copy of Bill of Lading (B/L) or Airway Bill (AWB)
- Country of origin certificate (only for required goods)
- Confirmation documents on goods subject to confirmation by the head of the customs office under the Customs Act regulations

<table>
<thead>
<tr>
<th>Category</th>
<th>Applicable Object</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Taxation on State, etc.</td>
<td>- Land owned by the country, local government, local government associations, foreign governments &amp; international organizations stationed in Korea</td>
</tr>
<tr>
<td></td>
<td>- Land used for official or public good purposes by the country, local governments and local government associations for over 1 year</td>
</tr>
<tr>
<td>Non-Taxation by Usage Category</td>
<td>- Real estate used directly for business by a non-profit entrepreneur whose object is public utilities</td>
</tr>
<tr>
<td></td>
<td>- Buildings owned by the resident community, such as a village association as prescribed by the Presidential Decree</td>
</tr>
<tr>
<td></td>
<td>- Roads, rivers, embankments, conduits, remains, historical relics and graves as prescribed by the Presidential Decree</td>
</tr>
<tr>
<td></td>
<td>- Forest protection zone and other lands having considerable grounds for non-taxation of property tax for public interest</td>
</tr>
<tr>
<td></td>
<td>- Buildings constructed for temporary use, which fall short of one year as of the property tax base date</td>
</tr>
<tr>
<td></td>
<td>- Ships used for rescue in times of emergency, for ferries with no charge, for floating bridges, or for barges belonging to a mother ship</td>
</tr>
<tr>
<td></td>
<td>- Buildings on which it is improper to levy a property tax, such as buildings ordered to be removed by an administrative agency</td>
</tr>
</tbody>
</table>

**Non-Taxable Objects for Property Tax**

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Base</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel</td>
<td>Luxury vessels</td>
<td>5% of tax base</td>
</tr>
<tr>
<td></td>
<td>Other vessels</td>
<td>0.3% of tax base</td>
</tr>
<tr>
<td>Aircraft</td>
<td>0.3% of tax base</td>
<td></td>
</tr>
<tr>
<td>New establishment or expansion of factories in overpopulation control areas</td>
<td>500% of 0.25%</td>
<td></td>
</tr>
</tbody>
</table>

1) In the event of the establishment or expansion of factories in overpopulation control areas, five times the tax rate will apply for 5 years from the first date of taxation.

Properties falling into the following categories shall be excluded from the objects of taxation.
(2) Selection of Inspection Object
In order to check that the items listed in the import declaration and the imported goods match, and also to check for the existence of any violations of the related laws, selective inspections on imported goods (cargo selectivity, C/S) are carried out according to the standards set by the Commissioner of the KCS, and the objects for inspection and document submission are selected. In doing so, the potential to commit a crime and the credibility of the goods, importer, manufacturer, declarer, etc. are considered in the selection process.

(3) Inspection of Goods
In principle, when import declarations are made, customs offices will check the formalities of the declaration form, legal import requirements, and documents submitted for declaration when accepting the declaration. However, when the various marks, usage, functions, etc. cannot be checked solely through the import declaration and submitted documents, or when checking for the concealment of other goods and whether the reported items match the actual goods, the imported goods are subject to being opened and checked directly.

(4) Customs Clearance Requirement Inspection
Goods for post-inspection are inspected for verification of compliance with the following formalities:
- Whether all required documents for declaration have been prepared, and whether the items listed in the declaration form match the actual goods;
- Whether the items which the head of the customs office checks for compliance with the import requirements are appropriately classified and fulfill the import requirements;
- Whether the country of origin has been marked, whether the intellectual property right has been violated, and whether a request for analysis is needed, etc.

In principle, the examination of the tax amount on imported goods is carried out after acceptance of the declaration. However, such an examination is conducted before accepting the declaration for some items as described below. They are also examined to verify the appropriateness of classification, tax rate, taxable value, tax amount, and the appropriateness of applying for tax reduction or exemption/installment payment.
- Goods for tax reduction or exemption and installment payment
- Goods declared by tariff delinquents, or goods subject to imposition notification
- Goods separately designated by the KCS Commissioner for an examination of the tax amount prior to declaration acceptance for the purpose of securing duty claims (agricultural products, used cars, etc.)

(5) Payment of Tariffs, etc.
For the payment of tariffs and other taxes, a dual system is employed: the payment by report method, by which the declarer reports and pays the self-determined tax amount; and the imposition notice method, by which the head of customs office determines the tax amount and notifies the relevant party thereof. The tariff payer must declare the tax base, tax rate and paid tax amount on all imported goods, excluding goods subject to imposition notice, to the head of the customs office. The tariff must be paid within 15 days of acceptance of the import declaration, or prior to the declaration acceptance. Upon receipt of the tax payment declaration, the head of the customs office examines the items listed on the import declaration and other points for checking based on the related regulations.

When all the conditions are met, the import declaration is accepted and the reported tax amount is examined after that. When the head of the customs office collects tariffs via an imposition notice, the tax amount on the goods concerned is determined and the taxpayer is notified thereof. The taxpayer must pay the tax within 15 days of receiving the notice at a national treasury receipt bank or a post office.

Goods subject to imposition notice are as follows:
- Collecting tariffs when subject to Article 16 [11], [6], [8] and [11] of the Customs Act;
- Facilities constructed at bonded construction sites which are operated prior to import declaration;
- When goods stored in bonded areas are carried out before acceptance of the import declaration;
- Hand baggage and unaccompanied goods of travelers and crew;
- Postal goods (excluding those approved for import);
- Goods for which the head of the customs office levies or collects tariffs by law;
- Consignments donated to a domestic resident which the recipient will use for personal purposes;
- Goods subject to disposition of rectification by the head of the customs office (excluding the tax amount declared for tax payment);
- Other goods that are subject to notification of installment payment

### Import customs Clearance Procedure

1. **Accept Import Declaration**
2. **Cargo Selectivity**
3. **Import Declaration**
4. **Enter Bonded Area**
5. **Enter Port & Unload**
6. **Load/Depart**

### Prepay
- **Prepay**

### Pay All Taxes
- **Pay All Taxes**

### Goods Inspection
- **Goods Inspection**

### Customs Clearance Requirements Inspection
- **Customs Clearance Requirements Inspection**

### Import Inspection
- **Import Inspection**

### Check Out Freight / Accept
- **Check Out Freight / Accept**
1.2 Customs Clearance of a Foreign-Invested Company’s Capital Goods

When foreign investors make an in-kind investment of capital goods, a separate customs clearance procedure for capital goods must be added to the investment notification and registration.

(1) Check Items of Imported Goods
Foreign investors who have completed the investment notification must apply for a confirmation of imported capital goods at a foreign-exchange bank or KOTRA. The following items are to be confirmed:
- Capital goods exempted from tariff, individual consumption tax, and value added tax
- Capital goods imported by a foreign investor for investment purposes
- Import of external payment vehicles received by a foreign-invested company from foreign investors as an investment, or internal payment vehicles created in exchange for external payment vehicles, which are capital goods among the goods designated or notified by the Ministry of Knowledge Economy according to Article 17 of the Enforcement Decree of the Foreign Trade Act.

(2) Import Customs Clearance
Foreign-invested companies must complete the import declaration within 5 years from the day of the investment notification for the concerned capital goods. However, the deadline can be extended for another year for unavoidable reasons, such as delays in factory construction, etc.

If a foreign investor establishes a foreign-invested company by making an in-kind investment, the business registration must be acquired in clearing import customs prior to setting up the corporation in order to benefit from a value added tax deduction. Also, tariffs etc. may be exempted when foreign-invested companies, to which the Ministry of Strategy and Finance has decided to grant a tax reduction or exemption, import capital goods or make investments in kind, within the range of the received investment cash for direct use in businesses subject to tax reduction or exemption. However, capital goods imported as investment funds in the form of long-term loans do not benefit from tariff exemption. The tariff exemption application must be made before acceptance of the import declaration. Retroactive exemption applications, i.e., applications made after import declarations have been accepted, are not permitted.

(3) Confirmation of Completion of In-Kind Investment
Capital goods paid as objects of investments must receive confirmation of completion of in-kind investment from the KCS officer dispatched to KOTRA. Afterwards, the company establishment registration and foreign-invested company registration procedures are carried out.

(4) Capital Goods Post Management
Transferring or leasing capital goods exempted from tariffs through foreign investments, or using such goods for purposes other than the reported ones within 5 years of import declaration acceptance date under the Customs Act, must be reported in advance to a foreign investment bank or Invest KOREA (KOTRA). If capital goods are transferred without permission or used for purposes other than the reported ones, a sentence of up to 5 years’ imprisonment or a fine of 50 million won may be imposed on persons who do not report the handling of the capital goods.

Also, in the following cases, reduced or exempted tariffs will be collected:
- When a foreign-invested company has cancelled its registration or has concluded its business activities: The abated or exempted tax amount shall be collected retroactively for 3 years (individual consumption tax and added value tax: 5 years) prior to the date of cancellation or closure.
- When the investment object is used for purposes other than the reported ones or disposed of: Abated or exempted tax on capital goods that are used for purposes other than the reported ones or that are disposed of within 3 years of acceptance of import declaration under the Customs Act (5 years for individual consumption tax and value added tax) shall be collected.

<table>
<thead>
<tr>
<th>Capital Goods Customs Clearance Procedure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Report Foreign Investment</td>
<td>Report to: Foreign exchange bank or KOTRA</td>
</tr>
<tr>
<td></td>
<td>Documents to submit: 2 copies of investment report</td>
</tr>
<tr>
<td></td>
<td>(3 copies of tax reduction application for tax-reduced businesses)</td>
</tr>
<tr>
<td>Check Account of Capital Goods Items</td>
<td>Report to: Foreign exchange bank or KOTRA</td>
</tr>
<tr>
<td></td>
<td>Documents to submit: 3 copies of application, documentary evidence of price (bill of sale, etc.)</td>
</tr>
<tr>
<td>Import Customs Clearance</td>
<td>Clear customs after being issued business registration in the name of the foreign-invested company</td>
</tr>
<tr>
<td></td>
<td>- Documents to submit for tariff exempted capital goods</td>
</tr>
<tr>
<td></td>
<td>- 1 copy of exemption application</td>
</tr>
<tr>
<td></td>
<td>- Copy of certificate of account of capital goods import items</td>
</tr>
<tr>
<td></td>
<td>- Copy of documentary evidence (Investment report) of capital goods imported as in-kind investment of cash</td>
</tr>
<tr>
<td></td>
<td>- Copy of documentary evidence of tax reduced business (tax reduction decision)</td>
</tr>
<tr>
<td></td>
<td>- Invoice, price report, B/L or AWB, packing list (only for required items), certificate of county of origin (only for required items), documents requiring proof and checks of permits, approvals, etc. set by Article 226 of the Customs Law, bonded transportation report (for entered goods), import agent contract (when the importer and taxpayer are different)</td>
</tr>
<tr>
<td>Check Completion of In-Kind Investment</td>
<td>Report to: KOTRA officer dispatched to the KCS</td>
</tr>
<tr>
<td></td>
<td>- Required documents: 2 applications, copy of import report certificate</td>
</tr>
<tr>
<td>Register Company Setup</td>
<td>Report to: District courthouse registration department or registry office</td>
</tr>
<tr>
<td></td>
<td>- Documents to submit: Application, add in-kind investment completion certificate to basic documents for in-kind investments</td>
</tr>
<tr>
<td>Register Foreign-Invested Company</td>
<td>Report to: Foreign exchange bank or KOTRA</td>
</tr>
<tr>
<td></td>
<td>- Documents to submit: Application, add copy of in-kind investment completion certificate to basic documents for in-kind investments</td>
</tr>
</tbody>
</table>
However, tax collection can be exempted as an exception in the following cases:
* When collecting a tariff, if the value of the goods has depreciated due to usage, the tax collected will be reduced proportionate to the reduced value.

For the following cases which are recognized as having fulfilled the aim of tax reduction or exemption:
* When foreign investors who have invested in an industry-supporting service business or in a business accompanying high technologies transfer their businesses, subject to tax reduction or exemption, or held securities to a national or a corporation of the Republic of Korea, and when the Minister of Strategy and Finance confirms that the products and services produced or provided by the said businesses can be produced domestically without any problems.

2. Tariff Reduction, Exemption & Refund

“Tax reduction” refers to the full or partial exemption of tariff obligations, either conditionally or unconditionally depending on the case, for certain goods in order to achieve the specific aims of the country. The refund of customs duties on raw materials which are to be exported constitutes an export support system for the purpose of improving the price competitiveness of export goods on the global market.

II. Tariff Reduction & Exemption

2.1 Tariff Reduction and Exemption

There are two types of tariff reduction: unconditional reduction and exemption of taxes based on specific facts, and conditional tariff reduction and exemption in which tariffs are reduced or exempted on condition of specific usage. In principle, the Customs Act stipulates tariff reduction and exemption, although tariffs may be reduced or exempted according to the Foreign Investment Promotion Act, the Restriction of Special Taxation Act, the Submarine Mineral Resources Development Act, and multilateral and bilateral agreements.

### Categories of Bonded Areas

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated Bonded Area</td>
<td>Certain areas of central or local government public facilities or areas designated by the head of the customs office as bonded areas; these include designated storage places used to temporarily store goods awaiting customs clearance, and customs inspection places used as sites for the inspection of goods by customs.</td>
</tr>
<tr>
<td>Licensed Bonded Area</td>
<td>Civil profit-making facilities that have been applied for and licensed as a bonded area by the head of the customs office: these include bonded warehouses, bonded factories, bonded exhibitions, bonded construction work sites, and bonded areas.</td>
</tr>
<tr>
<td>General Bonded Area</td>
<td>Areas where all the functions of the existing licensed bonded areas (entry, storage, manufacture &amp; processing, exhibition, construction, and sale) can be carried out. They have been introduced to promote foreign investment, and are designated by the Commissioner of the KICS, unlike other areas.</td>
</tr>
</tbody>
</table>

### Tariff Reduction & Exemption under the Customs Act

<table>
<thead>
<tr>
<th>Unconditional Reduction &amp; Exemption</th>
<th>Conditional Reduction &amp; Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exemptions for goods used by diplomats (Article 88)</td>
<td>• Reductions or exemptions for correction of unbalanced tax rates (Article 89)</td>
</tr>
<tr>
<td>• Exemptions for goods used by the government (Article 92)</td>
<td>• Reductions or exemptions for goods used for academic research (Article 90)</td>
</tr>
<tr>
<td>• Exemptions for small-sum goods (Article 94)</td>
<td>• Exemptions for goods related to religion, etc. (Article 91)</td>
</tr>
<tr>
<td>• Exemptions for travelers’ personal effects, etc. (Article 96)</td>
<td>• Exemptions for specific goods (Article 93)</td>
</tr>
<tr>
<td>• Exemptions for re-import (Article 99)</td>
<td>• Reductions or exemptions for goods used to prevent environmental pollution (Article 95)</td>
</tr>
<tr>
<td>• Reductions for overseas trusted and processed goods (Article 101)</td>
<td>• Exemptions for re-export (Article 97)</td>
</tr>
<tr>
<td></td>
<td>• Reductions or exemptions for re-export (Article 98)</td>
</tr>
</tbody>
</table>
2.2 Tariff Refund

Tariffs paid or to be paid when importing raw materials for export are drawn back to the exporter or the manufacturer of the exported goods upon export, notwithstanding the Customs Act, etc.

**Tariff Refund Application Methods & Procedures**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports for Refund</td>
<td>- Exports for which export declarations are accepted under the regulations of the Customs Act. However, this only applies to those designated by the Ordinance of the Prime Minister in the case of free exports&lt;br&gt;- Sales or construction, paid for in foreign currency within Korea, designated by the Ordinance of the Prime Minister&lt;br&gt;- When providing to companies in areas designated by the Ordinance of the Prime Minister as bonded areas under the Customs Act, or to companies in free trade zones under the law concerning the designation and operation of a free trade zone&lt;br&gt;- Others designated by the Ordinance of the Prime Minister to be recognized as exports</td>
</tr>
<tr>
<td>Exports for Drawback</td>
<td>- When producing goods for export&lt;br&gt;- When exporting goods in their original imported state&lt;br&gt;- When receiving payments in foreign currency within Korea&lt;br&gt;- Entry in bonded areas and free trade zones, and other exports&lt;br&gt;- Application Period&lt;br&gt;- Other exports&lt;br&gt;- Application Deadline&lt;br&gt;- Documents to submit</td>
</tr>
<tr>
<td>Applicants for Drawback</td>
<td>- The seller or the manufacturer of the concerned goods&lt;br&gt;- The provider or the manufacturer who is listed as the refund applicant on the export declaration certificate&lt;br&gt;- When export goods are loaded&lt;br&gt;- Upon completion of exports, sales, construction, or supply of export goods</td>
</tr>
<tr>
<td>Calculation of the required amount</td>
<td>- Documents certifying the supply to exports, etc. (export declaration certificate etc.)&lt;br&gt;- Calculation of the paid tax amount for used raw materials (import declaration certificate, etc.)&lt;br&gt;- Other documents related to confirmation of other refunds</td>
</tr>
</tbody>
</table>

**1. Financial System**

The Korean financial market consists of a financial market in the traditional sense, in which short and long-term financial products are traded in relation to the procurement and operation of funds, a foreign exchange market, and a derivatives market.

- Money market
- Capital market
- Financial derivatives market
- Foreign exchange market
- Report on change of place of sojourn
financing institutions, respectively, to secure short-term funds. Furthermore, RP and CD markets combine features of both markets.

1.2 Capital Market

The capital market is a market for businesses, governments, or local governments to secure long-term investment funds. In a broad sense, it includes facility loans and other long-term loans from a bank; more specifically, it refers to markets where government bonds and corporate bonds, securities, etc. are issued and distributed. Securities traded in the capital market are largely divided into stocks and bonds.

(1)Foreigners’ Securities Investment

Investment by foreigners in domestic securities was promoted step by step considering its effect on macro-economic variables, such as currency, interest rate, exchange rate, etc. Currently, foreigners can acquire all securities under the Financial Investment Services and Capital Markets Act.

In order for foreign nationals to invest in domestic securities, they should create an ‘external account exclusively for securities investment’ and a ‘non-resident KRW account exclusively for securities investment’ under their own name, register as a foreign investor at the Financial Supervisory Service (FSS), and then get an investor registration number (ID) issued. Foreign investors can purchase domestic securities by designating a permanent agent to place purchasing orders through securities companies, and then have the funds remitted to the external account used exclusively for securities investment. The same amount will then be transferred to the non-resident KRW account used exclusively for securities investment. The amount will then be transferred to the external account used exclusively for securities investment to recover the invested amount.

Procedures for Foreign Investment in Domestic Securities

1. Place
2. Notify order conclusion
3. Permanent agent
4. Securities company
5. Securities exchange
6. Pay funds
7. Pay funds
8. Conclude order
9. Remit funds

The Financial Investment Services and Capital Markets Act

With the implementation of the Financial Investment Services and Capital Markets Act in February 2009, the strictly separated fields within the existing capital market in the finance sector such as securities companies, asset management companies, merchant banks, futures companies, trust companies, and so forth were consolidated. This measure is expected to bring changes to the Korean capital market that will encourage financial companies centering on investment banks and private equity funds to become larger and more specialized and to expand derivatives’ underlying assets, which will lead to Korea becoming a major financial hub.

The Financial Investment Services and Capital Markets Act & Changes to Financial Law

Current Financial Law System

Banking Act

Securities Exchange Act
Future Trading Act
Asset Management Act
Merchant Bank Act
Trust Act
Non-programmed Indirect Investment
Other financial investment laws (business setup, real estate, vessel investment company, etc.)
Further financial investment laws (over-the-counter derivatives trade, FX margin trade, etc.)

Insurance Business Act

The green colored parts currently have no legal system for investment protection.

Business Management

Key Items of the Financial Investment Services and Capital Markets Act

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand the scope of work for financial investment companies</td>
<td>Permits the combined operation of all financial investment businesses (investment dealing, investment agent, consolidated investment, investment entrusts, trusts)</td>
</tr>
<tr>
<td>Shift to a comprehensive concept of financial investment products</td>
<td>Small sum payment function &amp; foreign exchange handling are allowed in principle</td>
</tr>
<tr>
<td>Strengthen the investor protection system</td>
<td>Includes all future new financial investment products to be released</td>
</tr>
<tr>
<td>Expand consolidated investments (asset management)</td>
<td>Strengthens notice obligations. Investment agents to compensate for defective sales, and companies to bear the burden of compensation</td>
</tr>
<tr>
<td></td>
<td>Introduces a mandatory ‘know your client’ policy</td>
</tr>
<tr>
<td></td>
<td>Includes all asset-worthy property as investment objects</td>
</tr>
<tr>
<td></td>
<td>Abolishes asset restrictions on investment objects per fund type</td>
</tr>
</tbody>
</table>
1.3 Financial Derivatives Market

Financial derivatives are financial products devised to avoid risks resulting from fluctuations in the value of underlying assets. Depending on the trading method, the instruments used may include forward, futures, option, swaps, etc. Furthermore, depending on underlying assets, financial derivatives are divided into currency, interest rate, stocks, credit related products, etc. Also, trades are categorized into exchange trades and over-the-counter trades depending on where the trade occurs. The exchange market is where financial derivatives, whose aspects of trade other than the price are standardized, are traded. The over-the-counter market is where non-standardized financial derivatives are traded directly, rather than through exchanges.

### Types of Key Financial Derivative Products

<table>
<thead>
<tr>
<th>Category</th>
<th>Exchange trade</th>
<th>Over-the-counter trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Currency futures</td>
<td>Forward exchange</td>
</tr>
<tr>
<td></td>
<td>Currency futures options</td>
<td>Currency swaps</td>
</tr>
<tr>
<td></td>
<td>Currency options</td>
<td>Currency options</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Interest rate futures</td>
<td>Forward rate agreements</td>
</tr>
<tr>
<td></td>
<td>Interest rate futures options</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td></td>
<td>Interest rate options</td>
<td>Interest rate options</td>
</tr>
<tr>
<td>Stocks</td>
<td>Options on stocks</td>
<td>Options on stocks</td>
</tr>
<tr>
<td></td>
<td>Index futures</td>
<td>Equity swaps</td>
</tr>
<tr>
<td></td>
<td>Index options</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Index futures options</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>Credit default swaps</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total return swaps</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credit linked notes</td>
<td></td>
</tr>
</tbody>
</table>

### Comparison of Exchange & Over-the-counter Trades of Financial Derivatives

<table>
<thead>
<tr>
<th>Category</th>
<th>Exchange trade</th>
<th>Over-the-counter trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Conditions</td>
<td>Trade unit, settlement conditions, etc.</td>
<td>Decided through discussions between trading parties</td>
</tr>
<tr>
<td>Trade Location</td>
<td>Exchanges</td>
<td>Contracts are mostly concluded via phone, etc. through dealers or brokers.</td>
</tr>
<tr>
<td>Trading Parties</td>
<td>Trading is allowed only for exchange members. Others trade through the members.</td>
<td>No limits</td>
</tr>
<tr>
<td>Deal Counterpart</td>
<td>Exchanges</td>
<td>Buyers, sellers, and/or their agents of the deal</td>
</tr>
<tr>
<td>Settlement</td>
<td>Daily settlement. In most cases, only the balance is settled before maturity through offsetting transaction.</td>
<td>In most cases, goods are delivered or transferred at maturity.</td>
</tr>
<tr>
<td>Deposit</td>
<td>Deposit at exchange</td>
<td>Dealers and brokers set credit limits per customer or demand deposits</td>
</tr>
</tbody>
</table>
1.5 Structure of Financial Institutions

According to the financial services provided, financial institutions in Korea are categorized into banks, non-bank deposit handling institutions that handle financial products similar to bank deposits, securities companies and asset management companies, insurance companies, and other financial institutions.

Korean Financial Institutions

<table>
<thead>
<tr>
<th>Category</th>
<th>Division 1</th>
<th>Division 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Bank</td>
<td>Commercial Bank</td>
<td>Korea Development Bank</td>
</tr>
<tr>
<td></td>
<td>Local Bank</td>
<td>Export-Import Bank of Korea</td>
</tr>
<tr>
<td></td>
<td>Foreign Bank Branch</td>
<td>Industrial Bank of Korea</td>
</tr>
<tr>
<td>Special Bank</td>
<td>Korea Development Bank</td>
<td>National Agricultural Cooperative Federation</td>
</tr>
<tr>
<td></td>
<td>Export-Import Bank of Korea</td>
<td>National Federation of Fishery Cooperatives</td>
</tr>
<tr>
<td><strong>Non-bank deposit handling institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchant Bank</td>
<td>Merchant Bank</td>
<td>National Credit Union Federation of Korea</td>
</tr>
<tr>
<td>Mutual Savings Bank</td>
<td>Mutual Savings Bank</td>
<td>Korean Federation of Community Credit Cooperatives</td>
</tr>
<tr>
<td>Credit Cooperative Institution</td>
<td>Mutual Finance</td>
<td>Mutual Finance</td>
</tr>
<tr>
<td>Postal Savings and Insurance Services</td>
<td>Postal Savings and Insurance Services</td>
<td></td>
</tr>
<tr>
<td><strong>Securities companies &amp; asset management companies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Company</td>
<td>Securities Company</td>
<td>Securities Company</td>
</tr>
<tr>
<td>Asset Management Company</td>
<td>Asset Management Company</td>
<td>Asset Management Company</td>
</tr>
<tr>
<td>Futures Company</td>
<td>Futures Company</td>
<td>Futures Company</td>
</tr>
<tr>
<td>Securities Finance Company</td>
<td>Securities Finance Company</td>
<td>Securities Finance Company</td>
</tr>
<tr>
<td>Investment Advisory Company</td>
<td>Investment Advisory Company</td>
<td>Investment Advisory Company</td>
</tr>
<tr>
<td><strong>Insurance companies</strong></td>
<td>Life Insurance Company</td>
<td>Life Insurance Company</td>
</tr>
<tr>
<td>Non-life Insurance Company</td>
<td>Non-life Insurance Company</td>
<td>Reinsurance Company</td>
</tr>
<tr>
<td>Postal Savings and Insurance Services</td>
<td>Postal Savings and Insurance Services</td>
<td>Postal Savings and Insurance Services</td>
</tr>
<tr>
<td>Provident Institution</td>
<td>Provident Institution</td>
<td>Provident Institution</td>
</tr>
<tr>
<td>Korean Trade Export Insurance Corporation</td>
<td>Korean Trade Export Insurance Corporation</td>
<td></td>
</tr>
<tr>
<td><strong>Other financial institutions</strong></td>
<td>Credit-Specialized Financial Company</td>
<td>Leasing Company</td>
</tr>
<tr>
<td></td>
<td>Credit Card Company</td>
<td>Credit Card Company</td>
</tr>
<tr>
<td></td>
<td>Installment Financial Company</td>
<td>Installment Financial Company</td>
</tr>
</tbody>
</table>
2.2 Audit Policy

(1) External Audit Policy

The external audit policy refers to the auditing of a company by external accountants with no vested interests in that company. The policy was established to have external auditors conduct audits independently from internal auditors in order to protect interested parties such as shareholders, creditors, employees, etc. and to promote the sound development of companies. According to the Act on External Audit of Stock Companies, auditors who are certified public accountants inspect whether the financial statements created by businesses when settling their accounts comply with business accounting standards.

Companies subject to external audits should elect an auditor within four months of the start of each business year. Stock-listed corporations and association-registered corporations should elect the auditor within four months of the start of the first business year, and have the same auditor for three consecutive years.

If the company is creating consolidated financial statements, then the same auditor must be used for the financial statement, consolidated financial statement, and the combined financial statement. In electing an auditor, the company should obtain the approval of an auditor election committee (or an audit committee stipulated by the Commercial Act) endowed with expertise and independence. In particular, stock-listed corporations, association-registered corporations, and subsidiaries of business groups in which a member company has been notified by the Securities and Futures Commission to make a combined financial statement in the previous business year have to obtain approval from the audit election committee. When the company elects an auditor under the said regulations, it should be reported at the first general shareholders’ meeting after the election.

Article 2 of the Enforcement Decree of the Act on External Audit of Stock Companies stipulates that companies subject to external audit are corporations under certain categories as listed below. Thus, limited companies, etc. are not obligated to undergo an external audit, regardless of their size.

- A corporation whose total amount of assets at the end of the preceding business year comes to 10 billion won or more [as of the establishment of a new firm following the split of a corporation or merger with another firm, if applicable]
- Stock-listed corporations [under the Financial Investment Services and Capital Markets Act] or a corporation planning to be listed in the corresponding or following business year
- A corporation whose total liabilities come to 7 billion won or more at the end of the preceding business year and whose total assets come to 7 billion won or more [as of the establishment of a new firm following the split of a corporation or merger with another firm, if applicable]
- A corporation whose total number of employees comes to 300 or more and whose total amount of assets comes to 7 billion won or more at the end of the preceding business year as of the establishment of a new firm following the split of a corporation or merger with another firm, if applicable

2.3 Introduction of the International Financial Reporting Standards

The Korea Accounting Standards Board (KASB) declared the K-IFRS in December 2007. This means that the IFRS (International Financial Reporting Standards) were selected as the Korean business accounting standards. Accordingly, companies willing to apply the IFRS have been allowed to do so since 2009. In 2011, it became compulsory for all listed companies, including those on the KOSDAQ exchange, to apply the IFRS. However, as a way to reduce the burden on non-listed companies, a simpler set of accounting methods have been enacted and applied. Furthermore, in shifting key Korean financial statements from the separate financial statement to the consolidated financial statement, business capacity will be taken into consideration.
Businesses with assets of 2 trillion won or more must create and provide quarterly and semi-annual consolidated financial statements beginning in 2011, while businesses with less than 2 trillion won in assets must do so from 2013.

1. Foreigners’ Land Acquisition Policy

Land acquisition by foreigners in Korea is governed by the Foreign Investment Promotion Act, the Foreigners’ Land Acquisition Act, and the Foreign Exchange Transactions Act. When a foreigner plans to acquire land in Korea, he/she must follow certain procedures and report purchases to the appropriate authorities. In some cases, a real estate purchase requires the purchaser to obtain permission in advance. Areas subject to permission and those subject to reporting entail different acquisition procedures, so it is advised to pay careful attention in this respect. Regulations and limitations on the acquisition, usage, and development of land are applied uniformly to Koreans and foreign nationals alike.

### Laws Related to Foreigners’ Land Acquisition

<table>
<thead>
<tr>
<th>Category</th>
<th>Foreigners’ Land Acquisition Act</th>
<th>Foreign Investment Promotion Act</th>
<th>Foreign Exchange Transactions Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subjects</td>
<td>Foreigner (individuals, foreign corporations, domestic corporations with more than 50% of shares held by foreigners)</td>
<td>Foreigner (individuals, foreign corporations, permanent residents, and international organizations for economic cooperation)</td>
<td>Non-resident</td>
</tr>
<tr>
<td>Key Details</td>
<td>Land acquisition report: For reporting the acquisition of domestic land by a foreign national</td>
<td>Foreign investment report: For reporting foreign direct investments as stipulated in the regulations</td>
<td>Property acquisition report: For reporting non-resident acquisition of rights related to domestic real estate (right to lease on a deposit basis, mortgage, etc.)</td>
</tr>
<tr>
<td>Reporting Institution</td>
<td>Su/Gun/Gu office having jurisdiction over land</td>
<td>Foreign exchange bank, Invest KOREA</td>
<td>Foreign exchange bank</td>
</tr>
<tr>
<td>Reporting Deadline</td>
<td>Within 60 days of concluding a contract</td>
<td>Prior to bringing in investment funds</td>
<td>When withdrawing real estate acquisition funds</td>
</tr>
<tr>
<td>Ministry in charge</td>
<td>The Ministry of Land, Transport and Maritime Affairs</td>
<td>The Ministry of Knowledge Economy</td>
<td>The Ministry of Strategy and Finance</td>
</tr>
</tbody>
</table>

#### 1.1 Foreigners’ Land Acquisition Act

The Foreigners’ Land Acquisition Act stipulates that the acquisition of domestic land by a foreign national must be reported or permitted. The Foreigners’ Land Acquisition Act only covers land ownership, hence the acquisition of real estate other than land (buildings) and real estate related rights (right to lease on a deposit basis, mortgage) is not required to be reported under the said act. However, one must be aware that under the Foreign Exchange Transactions Act, the land acquisition report should include the acquisition of real estate other than land (buildings) and real estate related rights (right to lease on a deposit basis, mortgage).
(1) Land Acquisition Report

When a foreigner or foreign government signs a deal to acquire land in Korea, he/she/it should report the deal to the mayors, county governors, and head of the relevant Gu office within 60 days from the date of signing. However, those who have completed a report on a real estate transaction under Article 27 of the Business Affairs of Licensed Real Estate Agents and the Reporting of Real Estate Transactions Act or a report on a house transaction under Article 80 (2) of the Housing Act do not have to submit a separate report on a foreigner’s land acquisition. When a foreigner acquires land in Korea for inheritance or auction, he/she/it should report the fact to the mayors, county governors, and head of the relevant Gu office within 6 months of the said land acquisition.

### Land Acquisition Subject to Report

<table>
<thead>
<tr>
<th>Category</th>
<th>Acquisition by Contract</th>
<th>Non-Contract Acquisition</th>
<th>Continued Land Possession Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Objects</td>
<td>Land acquisition by contract (excluding lands subject to permission)</td>
<td>Land acquisition by inheritance, auction, exercise of right to repurchase, irrevocable judgment by the court, etc.</td>
<td>When ownership of land in Korea is transferred from a Korean national (corporation or organization) to a foreigner, and the foreigner continues to own the said land</td>
</tr>
<tr>
<td>Reporting Deadline</td>
<td>60 days from the contract date (the date when the contract is drawn up)</td>
<td>6 months from the date of land acquisition (the date when causes of acquisition other than contracts occur)</td>
<td>6 months from the change of ownership to a foreign national</td>
</tr>
<tr>
<td>Reporting Institution</td>
<td>Si/Gun/Gu land registration office having jurisdiction over the acquired land</td>
<td>Si/Gun/Gu land registration office having jurisdiction over the acquired land</td>
<td>Si/Gun/Gu land registration office having jurisdiction over the acquired land</td>
</tr>
<tr>
<td>Required Documents</td>
<td>Copy of land acquisition contract, ID, ID of agent and copy of ID of the foreigner concerned when reporting by agent</td>
<td>Documents certifying the causes of acquisition other than contracts, ID, Inheritance - Documents certifying ID of the successor, Auction - Decision on successful bid, Repurchase - Documents certifying repurchase, Irrevocable judgment - Written irrevocable judgment</td>
<td>Certified copy of documents certifying change of nationality, ID</td>
</tr>
<tr>
<td>Handling Period</td>
<td>Immediately (within 3 hours)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(3) Penalty Regulations

The Foreigners’ Land Acquisition Act specifies penalty regulations, including fines of up to 3 million won for not reporting land acquisition by contract, and fines of up to 1 million won for not reporting land acquisition by means other than a contract or for not reporting the possession of land contracts. The conclusion of land acquisition contracts without permission on land subject to permission nullifies the contract, and can lead to imprisonment of up to 2 years or a fine of up to 20 million won.

1.2 Foreign Investment Promotion Act

In order to acquire real estate for profit (office buildings, factory sites, houses for rent, etc.), a foreign-invested company must be registered under the Foreign Investment Promotion Act before the land acquisition report required under the Foreigners’ Land Acquisition Act is made. A foreign-invested company with at least 50% of its shares held by a foreigner (a foreign corporation) is categorized as a foreigner under the Foreigners’ Land Acquisition Act and is thus required to make a land acquisition report under the Foreigners’ Land Acquisition Act. A company with less than 50% of shares held by a foreigner, however, is not categorized as a foreigner and is considered a Korean entity, and may acquire land without making a report.

Also, the Foreign Investment Promotion Act provides exceptions to foreign-invested companies or operators of establishments built to improve the foreign-investment environment regarding the sale and lease of government and public-owned properties, and permits leases or sales under private contracts. When land is sold to a foreign-invested company and it is recognized that the purchaser is unable to pay in a lump sum, then the payment date can be postponed or the payment can be made in installments.

1.3 Foreign Exchange Transactions Act

When real estate transactions are accompanied by an inflow and outflow of foreign funds, the procedures specified under the Foreign Exchange Transactions Act on such flows shall apply to the concerned transaction. The main provisions of the Foreign Exchange Transactions Act on real estate transactions are described in the Entry & Remittance of Real Estate Sales Funds section.
1.4 Land Related Regulations

Land related regulations can be categorized into acquisition, usage and development. In principle, such controls apply indiscriminately to Korean nationals and foreign nationals alike.

(1) Land Acquisition Related Regulations

When concluding contracts on land located within an area subject to permission according to the National Land Planning and Utilization Act, permission from the city mayor, county governor or head of the relevant Gu is required. However, according to the Foreigners’ Land Acquisition Act, this will not apply to cases involving land acquisition reports completed or permits obtained by foreigners, foreign governments or international organizations.

In principle, the Farmland Act bans the possession of farmland by anyone other than those using or planning to use farmland to manage his/her own agriculture. However, owning farmland of less than 1,000㎡ for agricultural hobby or leisure purposes are permitted even if the agricultural land is not used for the owner’s own agricultural management.

(2) Land Usage Related Regulations

All land in Korea is divided into four categories according to its purposes - urban, managed, agricultural, and natural environment preservation - according to the National Land Planning and Utilization Act. Depending on the usage, there exist several restrictions on activities. Also, the Seoul Metropolitan Area Readjustment Planning Act divides the Seoul metropolitan area (Seoul, Incheon and Gyeonggi Province) into three areas (overpopulation control area, growth management area, and nature preservation area) and places restrictions on certain activities in each of the areas to resolve issues caused by the over-concentration of people and industries. Seoul is located within the overpopulation control area, and an overpopulation fee has to be paid to construct buildings for office use or sales, as well as public offices. There are also restrictions on the maximum capacity of any new construction and on the expansion of factories and schools. Details of key controls can be checked by acquiring a land usage plan confirmation note from the Si/Gun/Gu office having jurisdiction over the land.

2. Foreigners Land Acquisition Procedure

For foreigners acquiring land in Korea, the applicable laws and procedures differ depending on the purpose of acquisition, domestic residence, and whether the buyer is an individual or a corporation. The Foreigners’ Land Acquisition Act only specifies the procedures (land acquisition report, etc.) required when foreigners acquire domestic land. However, when acquiring real estate for profit (rental, etc.), the foreign investment notification procedure must be adhered to in addition to the land acquisition report. For non-residents under the Foreign Exchange Transactions Act, the real estate acquisition report should also be completed.

2.1 Foreign-Invested Companies

When a foreigner sets up a domestic corporation (foreign-invested company) under the Foreign Investment Promotion Act to conduct profit-making domestic activities and acquire real estate, i.e., purchasing office buildings, acquiring factory sites, etc., under the name of the corporation concerned, the Foreigners’ Land Acquisition Act, the Foreign Investment Promotion Act, and the Registration of Real Estate Act shall apply. However, the Foreign Investment Promotion Act does not apply to the establishment of domestic branches; hence real estate can be purchased under the branch’s name after reporting the branch’s establishment to a foreign exchange bank and registering the branch.

### Foreign-Invested Company Land Acquisition Procedure

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Related Institutions</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investment notification &amp; registration</td>
<td>Head and branch offices of a foreign exchange bank, Invest KOREA</td>
<td></td>
</tr>
<tr>
<td>Real estate acquisition contract and payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land acquisition report</td>
<td>Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned</td>
<td>- Report period: Within 60 days of concluding the contract - Required documents: Real estate acquisition contract - Applied only when the foreign investment ratio is 50% or more</td>
</tr>
<tr>
<td>Real estate registration</td>
<td>Registration office at the land location</td>
<td>- Registration period: Within 60 days of concluding the contract (balance payment date) - Required documents: Certified copy of corporate registration (copy of alien registration for individuals), registration application, documents certifying reasons for registration (approved contract, etc.), registration certificate, certified copy of real estate registration - Application by an agent requires a letter of attorney signed by the mandatory</td>
</tr>
</tbody>
</table>
2.2 Resident Foreigners
Reporting as specified in the Foreign Exchange Transactions Act is not necessary for real estate acquisition by resident foreigners, such as the purchase of a residential apartment or the acquisition of real estate by domestic branches of foreign corporations. Instead, it is necessary to register a transfer of ownership at the local Si/Gun/Gu office within 60 days of concluding the sales contract. In such cases, the Foreigners’ Land Acquisition Act and the Registration of Real Estate Act shall apply.

Resident Foreigners’ Land Acquisition Procedure

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Related Institutions</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate acquisition contract and payment</td>
<td>Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned</td>
<td>- Required documents: Real estate acquisition contract</td>
</tr>
<tr>
<td>Land acquisition report (the Foreigner’s Land Acquisition Act)</td>
<td>Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned</td>
<td>- Report period: Within 60 days of concluding the contract (balance payment date) - Required documents: Certified copy of alien registration, certified copy of branch office registration for branch offices, registration application, documents certifying reasons for registration (approved contract, etc.), registration certificate, certified copy of real estate registration</td>
</tr>
<tr>
<td>Real estate registration</td>
<td>Registry office at the land location</td>
<td>* In cases where the share of foreign investment exceeds 50%</td>
</tr>
</tbody>
</table>

2.3 Non-Resident Foreigners
In principle, non-resident foreigners must first report the acquisition of real estate to the head of a foreign exchange bank under the Foreign Exchange Transactions Act when bringing in funds for real estate acquisition. In cases where the real estate concerned is a piece of land, a land acquisition report should be filed under the Foreigners’ Land Acquisition Act at the Si/Gun/Gu office having jurisdiction over the land, and the transfer of ownership should be registered. In such cases, the Foreigners’ Land Acquisition Act, the Foreign Exchange Transactions Act, and the Registration of Real Estate Act shall apply.

Non-Resident Foreigners’ Land Acquisition Procedure

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Related Institutions</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate acquisition report</td>
<td>Head and branch offices of a foreign exchange bank</td>
<td>• Reporting time: When withdrawing real estate acquisition funds - Required documents: Real estate acquisition contract, real estate appraisal report or publicly notified land price certificate, certified copy of real estate registration</td>
</tr>
<tr>
<td>Real estate acquisition report (the Foreign Exchange Transactions Act)</td>
<td>Head and branch offices of a foreign exchange bank</td>
<td>• Reports must be made not only on real estate acquisition but also on the acquisition of rights to real estate (real right, right to lease, etc.) - When transferring proceeds from the disposal of real estate overseas, the above report must be submitted to the remitting bank</td>
</tr>
<tr>
<td>Land acquisition report</td>
<td>Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned</td>
<td>- Required documents: Real estate acquisition contract</td>
</tr>
<tr>
<td>Land acquisition report (the Foreigner’s Land Acquisition Act)</td>
<td>Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned</td>
<td>- Report period: Within 60 days of concluding the contract (balance payment date) - Required documents: Certified copy of land acquisition report, copy of passport</td>
</tr>
</tbody>
</table>

Application for registration number for real estate registration

- Individuals: Korea Immigration Service, Seoul
- Corporations: Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned

- Non-resident foreign individuals
- Application institution: Korea Immigration Office, Seoul
- Required documents: Certified copy of land acquisition report, copy of passport
- Non-resident foreign corporation
- Application institution: Land registration office at the Si/Gun/Gu office having jurisdiction over the land concerned
- Required documents: Certified copy of land acquisition report, documents certifying corporation registration, representatives, and their addresses by the corresponding country (including embassies in Korea)

- Application by agents requires the ID of the agent and a letter of attorney notarized by a notary institution of the home country

Real estate registration

- Registration office having jurisdiction over the land concerned
- Required documents: Address certificate, registry certificate for real estate registration, registration application, registration certificate, certified copy of real estate registration, documents certifying reasons for registration (approved contract, etc.)

- Application by agents requires a letter of attorney notarized by a notary institution of the home country
2.4 Denizenship Holders
Denizenship holders possess nationality of the Republic of Korea and are considered equal to Korean nationals; hence the Foreigners’ Land Acquisition Act does not apply. Permanent residents are exempted from making land acquisition reports when acquiring domestic land. Also, regardless of their domestic residence, denizenship holders are exempted from making real estate acquisition reports under the Foreign Exchange Transactions Act, but are subject to the Registration of Real Estate Act.

<table>
<thead>
<tr>
<th>Land Acquisition Report Procedure for Denizenship Holders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure</td>
</tr>
<tr>
<td>Real estate acquisition contract and payment</td>
</tr>
<tr>
<td>Apply for registration number for real estate registration (when the resident registration is cancelled)</td>
</tr>
</tbody>
</table>

3. Entry & Remittance of Real Estate Sales Funds
Under the Foreign Exchange Transactions Act, funds for real estate transactions are largely divided into funds carried in or remitted from abroad, and funds generated domestically. When making a real estate transaction with funds carried in or remitted from abroad, both the carrying in of funds for real estate purchase and the carrying out of funds from real estate sales by either residents or non-residents are guaranteed. However, when carrying out funds from sales of real estate purchased using funds generated domestically, a report must be made to the governor of the Bank of Korea.

3.1 Foreign-Invested Companies & Domestic Branches of Foreign Companies
Foreign investors planning to register a foreign-invested company may bring in funds for a real estate purchase after making the foreign investment notification, and may register the foreign-invested company only after all the preparatory procedures such as real estate acquisition have been completed. Domestic branches of foreign companies may bring in funds through a designated foreign exchange bank as a form of operating funds to purchase real estate. Funds for real estate acquisition are not always remitted from abroad, but are often supplied from the capital of the foreign-invested company or from the operating funds of the domestic branch. Hence, funds generated by real estate transactions frequently take the form of capital reductions or dividends for foreign-invested companies and operating revenue for the domestic branch. The domestic branches of foreign companies are not allowed to reduce the operating capital, except to close a branch and remit the liquidated funds abroad.

3.2 Resident Foreigners
When resident foreigners purchase real estate for residence or non-profit purposes, they may bring in purchasing funds and acquire domestic real estate without a separate report under the Foreign Exchange Transactions Act. Remitting abroad proceeds from sales of real estate acquired with funds carried in or remitted from abroad, including funds deposited in external accounts, is done by reporting to the head of a foreign exchange bank and providing documents certifying payment. However, the purchase of real estate from funds generated domestically requires a report to be made to the governor of the Bank of Korea.

3.3 Non-Resident Foreigners
In principle, for non-resident foreigners to purchase domestic real estate for non-profit purposes, a real estate acquisition report has to be made to the head of a foreign exchange bank when bringing in funds. The reported funds from sales of real estate can be sent out with a payment report to the head of a foreign exchange bank. However, real estate sales funds not reported in the real estate acquisition report must be reported to the governor of the Bank of Korea in order to be sent out.
4. Real Estate Related Tax

The tax rates levied on properties vary at the purchasing, holding, and sales stages: acquisition and value added taxes are imposed at the purchasing stage; property tax (among others), which differs by region and property size, is levied at the holding stage; and value added tax is imposed at the sales stage (individuals and corporations pay different value added taxes at this stage). Foreign-invested companies are given a range of tax benefits from the government according to the relevant tax ordinances.

4.1 Purchasing Stage Tax

Taxes levied at the purchasing (registration) stage of real estate include acquisition tax (4% of acquisition price) and value added tax (10% of building acquisition price; entrepreneurs may be exempted or refunded). Additional taxes include a special tax for rural areas (0.2%/of acquisition tax) and a local education tax (0.4% of registration tax).

4.2 Holding Stage Taxes

When holding real estate, a property and a local education tax (20% of property tax) are levied. However, for newly built or expanded factories in capital region overpopulation control areas, 5 x the standard property tax is levied (1.25%) for 5 years.

When real estate held surpasses a certain value scale (600 million won for houses, 500 million won for land subject to general aggregate tax, 800 million won for land subject to special aggregate tax), a comprehensive real estate holding tax (0.5-2.0% of the tax base for houses, 0.75-2.0% of the general aggregate tax base for land, 0.5-0.7% of the special aggregate tax base for land), and a special tax for rural areas (20% of comprehensive real estate holding tax) shall be levied.

4.3 Sales Stage Tax

Value added tax (10% of the building transfer price) must be paid at the time of sale. Individuals must pay transfer income tax (6-35% of the transfer income) and resident tax (10% of transfer tax). Corporations must pay corporate tax (10% for below 200 million won, 22% for over 200 million won) and resident tax (10% of corporate tax). However, individuals must pay 50% of the standard transfer income tax when the real estate has been held for less than one year, 40% when held for 1-2 years, and 70% when the transferred real estate is not registered.

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Tax support for foreign-invested companies

- Acquisition tax, registration tax and property tax are reduced for real estate acquisition by industry-supporting service businesses and businesses accompanying high technologies under the Foreign Investment Promotion Act, and real estate acquisition within foreign investment zones.
- Benefits related to national housing bond purchase are provided for foreign-invested companies registered under the Foreign Investment Promotion Act with regard to permits for the construction of buildings for business purposes and the registration of business real estate. Those receiving tax benefits on foreign investments are given full exemption, and other foreign-invested companies are given reductions on the purchase of national housing bonds according to their investment ratio.

The details mentioned above were valid as of 2011.

The tax base and the rate of real estate-related taxation may differ due to frequent changes in the law. For further details, please contact the National Tax Service (126), or refer to the Local Tax Act or the Value-Added Tax Act.
### VII. Factory Establishment

#### 1. Definition of Factory

A “factory” is a type of business establishment that falls under the Standard Industrial Classification (as published by the Commissioner of Statistics Korea) of any manufacturing business that is equipped with buildings, structures, and manufacturing and ancillary facilities, such as machinery or appliances, which together constitute the manufacturing or production processes.

- **Definition of Factories under Other Statutes**
- **Definition of Manufacturing Business**
- **Industrial Sectors for the Knowledge Industry Center (former Apartment-type Factories)**
- **Statutes concerning Factory Establishment**

#### 1.1 Definition of Factories under Other Statutes

**Article 3 (Types, etc. of Population-Concentration Facilities) of the Enforcement Decree of the Seoul Metropolitan Area Readjustment Planning Act**

Factories whose buildings’ total floor space (referring to the total floor area of each floor of buildings in which machinery and equipment are installed and which are used as manufacturing facilities, and to the total floor area of each floor of places of business) is equal to or exceeds 500 square meters.

**Article 3-4 (Kinds of Buildings by Use) of the Enforcement Decree of the Building Act**

Factories include manufacturing, repair or laundry shops and other similar type II neighborhood living facilities whose total building area is less than 500 square meters and which do not require permission for or reporting of the installation of emission facilities under the Clean Air Conservation Act or the Noise and Vibration Control Act.

**Article 7 of the Enforcement Rule of the Local Tax Act**

The scope of factories covers factories in industrial sectors as outlined in Annex 3 (including urban factories under Article 28 of the Commercial Land Use Act) which have a total building floor area of 500 square meters or more including the total building area of their manufacturing and ancillary facilities (but excluding facilities for enhancing employee welfare such as restaurants, rest areas, bathrooms, laundry areas, dispensaries, outdoor sports facilities, and dormitories, and emergency shelters, arsenals, and education facilities).

**(1) Scope of Factories**

The scope of properties classified as factories shall include those business establishments designed to operate a manufacturing business falling under the Standard Industrial Classification of manufacturing businesses (“C”, “10”, “33”) as published by the Commissioner of Statistics Korea. It also includes coal-processing businesses as specified under the Coal Industry Act.

- **Manufacturing facilities (including facilities for the processing, assembly and repair of goods) and trial production facilities**
- **Ancillary facilities installed within a factory site for the management or support of manufacturing facilities or the welfare of their employees**
- **Facilities required to be included under the pertinent statutes, as well as factory land**

#### 1.2 Definition of Manufacturing Business

“Manufacturing business” refers to those industrial activities by which raw input materials are transformed into new products of a different nature via the application of physical or chemical actions to certain substances or elements. Therefore, the term “manufacturing activities” does not include handling activities which do not change the essential nature of goods, including the simple sorting, readjustment, splitting, packing and repacking of goods.

1. **Distribution of raw materials or finished products**
   - Raw materials used by a manufacturing business include not only agricultural, forestry, fishery or mining products but also products (intermediate or semi-finished products) produced by another manufacturing business.
   - Relations with other industries
   - The assembly of machine parts purchased from third parties is classified into the category of manufacturing industry, while industrial activities such as the assembly or installation of building membranes or the standard parts or components of structures at a construction worksite are classified into the category of construction industry.
   - Industrial activities involving the specialized assembly or installation of industrial machines or equipment at business establishments are classified into the category of industries specializing in the manufacturing of such machines or equipment.
   - The assembly or installation of machines or equipment, if performed by the manufacturing, wholesale and retail industries incidental to their sales process, is classified into the category of manufacturing, wholesale or retail industry according to the main activities of the business entity.
   - Industrial activities such as the remodeling, improving or recycling of various goods of an essential nature are classified into the category of manufacturing industry.

2. **Relations with other industries**

1. Distribution of raw materials or finished products
   - Relations with other industries
   - The assembly of machine parts purchased from third parties is classified into the category of manufacturing industry, while industrial activities such as the assembly or installation of building membranes or the standard parts or components of structures at a construction worksite are classified into the category of construction industry.

3. **The assembly or installation of machines or equipment, if performed by the manufacturing, wholesale and retail industries incidental to their sales process, is classified into the category of manufacturing, wholesale or retail industry according to the main activities of the business entity.**

4. **Industrial activities such as the remodeling, improving or recycling of various goods of an essential nature are classified into the category of manufacturing industry.**

5. **In principle, a manufacturing business establishment that mainly assembles dedicated elements, components, accessories or parts of machines or items of equipment is classified into the category of manufacturing industry responsible for manufacturing machines or equipment for which such elements, components or parts are used. However, it is classified according to the materials and methods of processing or forming if the components or parts are manufactured or produced by metal casting, forging, pressing or powder metallurgy, or by the compression molding or extrusion of rubber or plastic materials.**

6. **If general (general-purpose) components or parts of machines or equipment are produced, the corresponding business is classified according to the types of components or parts, irrespective of the types of machines or equipment for which the products are employed.**

7. **Publishing, printing, or printing-related service businesses are classified into the category of manufacturing industry.**

8. **When an individual processes his/her own agricultural, forestry, or fishing products, the corresponding business is classified into the category of agriculture or fishing industry if the processing (or manufacturing) operation cannot be classified as a separate business entity.**

9. **When ordered specified products are manufactured and delivered to an individual or a business entity for fees or under a contract using manufacturing factory equipment, the corresponding business is classified into the appropriate manufacturing industry category based on the type of products, unless they are classified into one of the following: 1740 Dyeing and Processing Textiles, 2892 Heat Treatment and Coating of Metals, or 222 Printing and Related Service Activities.**

10. **Activities producing brown coal briquettes are included in the coal mining industry, irrespective of whether such activities are combined with coal mining.**

11. **A business is classified into manufacturing industry category if all of the following four requirements are satisfied, even when an individual or business sells products whose manufacture or production is outsourced to a third-party manufacturer:**
   - Direct planning of products to be produced (designing, designing, sample production, etc.).
   - Provision of raw materials purchased in one’s own account to contractors;
   - Manufacture of products under one’s own name; and
   - Direct selling of products in the market under one’s own responsibility having taken over them.

1.3 **Industrial Sectors for the Knowledge Industry Center (former Apartment-type Factories)**

Collective buildings with three or more stories where six or more factories occupy each building unit.
Facilities qualified for the Knowledge Industry Center (former Apartment-type Factories)
- Scope of occupation of production facilities in the Knowledge Industry Center.
- Projects recognized by the mayor, county governor, head of the relevant gu or the managing organizations of a cluster for manufacturing, knowledge, and information and communications industries and development of the regional economy.
- Facilities from which a venture business is operated under the Act on Special Measures for the Promotion of Venture Businesses.
- Scope of occupation of support facilities in a Knowledge Industry Center.
- Businesses which support financial, insurance, educational, medical, trade, sales, and logistical facilities businesses; distribution or other facilities whose purpose is to support the tenant businesses or which are required to enhance the welfare of employees, neighborhood living facilities under the Building Act (limited to facilities within the restricted area, if any).
- Facilities deemed to cause an impediment to the production activities of tenant businesses of the corresponding center by the mayor, county governor, or head of the relevant gu, or managing organizations are excluded.

The size of facilities which support the production activities of tenant businesses should not exceed 50% of the total building area of the knowledge industry center.
- The size of support facilities is 30/100 for an industrial complex, non-industrial complex (in metropolitan areas: 30/100 / outside metropolitan areas: less than 50/100).
- Excluded are those cases where large enterprises increase their office or warehouse areas in the nature preservation zone of the Seoul Metropolitan Area or areas falling under items c and d of paragraph 3 (other zones in growth management zones) of Annex 2.

1.4 Statutes concerning Factory Establishment

| The Framework Act on National Land | The purpose of this Act is to contribute to the balanced development of the national economy by providing for fundamental matters concerning the formulation and implementation of plans for and policies on the national land. (enacted on Jan. 1, 2003) |
| The National Land Planning and Utilization Act | The purpose of this Act is to promote public welfare and to enhance the quality of people's life by providing for matters necessary for the formulation and implementation, etc. of plans to utilize, develop and preserve the national land. (entered into effect on Jan. 1, 2003) |
| The Industrial Cluster Development and Factory Establishment Act | The purpose of this Act is to contribute to the sound development of the national economy through continued industrial development and balanced regional development, by developing industrial clusters, supporting the smooth establishment of factories, and realizing systematic management of industrial sites and industrial complexes. |
| The Industrial Sites and Development Act | The purposes of this Act is to contribute to the sound development of the national land and the improvement of national welfare by providing for fundamental matters concerning the formulation and implementation of plans for and policies on the national land. (entered into effect on Jan. 1, 2003) |
| The Support for Small and Medium Enterprise Establishment Act | The purpose of this Act is to contribute to the establishment of a solid industrial structure through the sound development of small and medium enterprises by facilitating the setting-up of small and medium businesses and developing a firm basis for their growth. |
| The Act on Special Measures for the Deregulation of Corporate Activities | The purpose of this Act is to contribute to the facilitation of the structural adjustment of industry as well as to the enhancement of the competitiveness thereof, by promoting the conversion of existing enterprises into venture businesses and the establishment of venture businesses. |
| The Act on Special Measures for the Promotion of Venture Businesses | The purpose of this Act is to promote foreign investment in Korea by providing the necessary support and convenience and to contribute to the sound development of the nation’s economy. |
| The Foreign Investment Promotion Act | The purpose of this Act is to contribute to the balanced development of the national economy by providing for fundamental matters concerning the formulation and implementation of plans for and policies on the national land. (enacted on Jan. 1, 2003) |

The Act on Special Measures for the Development of Small and Micro Enterprises
The purpose of this Act is to contribute to the balanced development of the national economy by promoting the free business activities of small enterprises and micro enterprises, and ensuring the restructuring and management stabilization of their business.

Acts on land use and building
Seoul Metropolitan Area Readjustment Planning Act, Farmland Act, Creation and Management of Forest Resources Act, Management of Mountainous Districts Act, Building Act, Grassland Act, River Act, Private Road Act, Funeral Services, etc. Act, Restriction of Special Taxation Act, Industrial Development Act

2. Factory Establishment and Registration
Factory establishment covers all procedures from the building of factories to changes in their registration. Approval (authorization and permission) of factory establishment includes the installation and approval not only of factories but also of affiliated and manufacturing facilities. Application for approval is required before building a factory. When construction is completed, a written declaration of factory establishment completion should be submitted to the person who approved its establishment within two months of the installation of the relevant machines and appliances.

2.1 Factory Establishment
Factory establishment includes all of the following processes: approval of factory establishment, extension, relocation, change of business category, and installation of production facilities; applications for the registration of a new factory of a size below the established criteria, and revision to registration.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment</td>
<td>Installation of manufacturing facilities by constructing new buildings (including structures) or changing the purpose of an existing building to that of a factory</td>
</tr>
<tr>
<td>Extension</td>
<td>Increase in the building or site area of a registered factory</td>
</tr>
<tr>
<td>Relocation</td>
<td>Closure of an existing factory registered in the Seoul Metropolitan Area (overpopulation control area, growth management zone, nature conservation zone) and establishment of a new factory in the same business category in another location</td>
</tr>
<tr>
<td>Change of business category</td>
<td>Cases involving a change of the business category of a factory whose establishment has been approved or a registered factory to another category, or the addition of other business categories to that of an existing factory</td>
</tr>
</tbody>
</table>

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### 2.2 Approval (Authorization and Permission) of Factory Establishment

#### (1) Approval of or Application for Factory Establishment
- Those who intend to establish a factory with a production floor area of 500 square meters or greater, or to extend, re-locate, or install production facilities, or to change the respective business category (including the addition of business categories), should obtain the approval of the mayor, or the county or district head. This applies to those cases where approval details are to be revised. Those who own or operate such a factory should also declare any minor changes to be made to the approval details to the mayor, or the county or district head.
- The owner or tenant of a factory which is exempt from such approval [less than 500 square meters] may apply to register their factory.

#### (2) Factory Floor Area

The factory floor area includes the floor area of each story of a building(s) where items of production machinery or appliances are to be installed and the horizontal projection area of any outdoor structures that are used for production.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installation of production facilities</td>
<td>Installation of manufacturing facilities to the whole or part of a factory building whose establishment has been approved or whose registration has been cancelled.</td>
</tr>
<tr>
<td>New registration</td>
<td>Owners of factory and land of less than 500m² (factory construction site)</td>
</tr>
<tr>
<td>Change of registration</td>
<td>Those who make a change in registration shall report the change to the relevant mayor or county governors within two months.</td>
</tr>
</tbody>
</table>

**Standard Factory Construction Area Ratio**

- "Standard factory construction area ratio" refers to the ratio of the factory building area to the factory site area by manufacturing business category. A construction area shall exceed the standard factory construction area ratio in order to obtain approval for factory establishment.
- **Standard Factory Construction Area**
  - Standard factory construction area x standard factory area ratio

#### (3) Extension of Ancillary Facilities

- Revised approval is issued to those businesses which have extended any ancillary facilities to their registered factory when an application is made to change or revise the factory registration.
- Approval of factory extension is not required if the extension only concerns ancillary facilities. It excludes those cases where large enterprises wish to increase their office or warehouse areas in the nature preservation zone of the Seoul Metropolitan Area or those areas falling under items c and d of subparagraph 3 (other zones in growth management zones) in Annex 2.
- **Scope of ancillary facilities** [Article 2 of the Enforcement Rule of the Industrial Cluster Development and Factory Establishment Act]
  1. Offices, warehouses, security offices, observatories, parking lots, toilets, or bicycle storage facilities;
  2. Water or oil tanks, silos or other outdoor storage structures (including underground storage facilities);
  3. Oil pipelines, outdoor gas filing facilities, water service or drainage facilities, power distribution facilities, machine or pump rooms;
  4. Refuse treatment or environmental contamination prevention facilities;
  5. Test or research facilities or facilities designed to enhance energy efficiency;
  6. Common workplace safety facilities or health management facilities;
  7. Cafeterias, rest, bathing, and laundry areas, dispensaries, outdoor gym facilities, dormitories or other employee welfare facilities;
  8. Product exhibition or sales areas [limited to those dedicated to the sale of factory-produced products], or hoists for the loading or unloading of raw materials and finished products;
  9. Other facilities that are deemed necessary for the management or support of production facilities or for employee welfare by the Minister of Knowledge Economy.

#### (4) Application for or Declaration of Changes to the Details of Factory Establishment Approval

- Factory site area [excluding decreases of approved site areas or increases of site areas by 20% or less];
- Factory building area [excluding increases of factory building areas by 20% or less or decreases of factory building areas within the standard factory building area ratio];
- Ancillary facility areas [excluding changes within the standard factory building area ratio];
- Changes to be declared:
  - Company’s name or CEO’s name (The CEO’s name may be declared if requested by the corporation);
  - Changes in specific business categories [Changes to business categories within the industry classification under the Published Standards of Factory Sites].

#### (5) Revocation of Factory Establishment Approval

The government may revoke its factory establishment approval or order restoration of the land concerned to its original state when it is believed to be too difficult for the entity who has obtained factory establishment approval to implement the project. Article 44 of the Farmland Act or Article 39 of the Management of Mountainous Districts Act is applied to the restoration of land with the necessary modifications.

- When the construction of a factory building is not commenced within three years from the day on which the factory establishment is approved (or within two years when farmland transformation is considered to have been approved or declared) without justifiable causes;
- When factory establishment has become unfeasible because the land transformation approval has been revoked;
- When the completion of factory establishment or the installation of production facilities is not declared by the day after the lapse of four years from the day of approval or when the construction work is stopped for one year or longer after its commencement. However, this rule is not applied in cases where it is believed to be inevitable in the light of regional economic conditions or factory size;
- When a factory’s land or facilities are used for other purposes without justifiable cause;
- When a factory becomes unable to satisfy the criteria for factory establishment approval.
6 Approval of Production Facility Installation
Those who intend to operate a manufacturing business by installing production facilities, etc. in the whole or part of a factory building with a floor area of 500 m² or more should obtain approval from the government. Those who intend to change more than 20% of the building area of their existing factory should also obtain approval for such a change.

Those who own or operate such a factory should also declare any minor changes to be made to the approval details to the mayor, or the country or district head.
- Factory buildings built with an approval for factory establishment without specifying the business category in advance;
- A registered factory building whose registration has been revoked pursuant to the pertinent provisions.

7 Reasons for Revoking Approval of the Installation of Production Facilities
- When the construction of a factory building(s) is not commenced within one year from the day on which the installation of factory facilities is approved without justifiable causes;
- When it becomes impossible to install the product facilities due to such causes as the destruction of the factory building, any change in its previously specified use, or other similar causes.

2.3 Declaration and Registration of Factory Establishment Completion

1 Declaration of Factory Establishment Completion
When an entity or individual who, having obtained factory establishment approval, obtains a permit to use the finalized buildings of his/her own factory and completes the installation of the relevant machines and appliances, he/she should submit a written declaration of factory establishment completion to the person who approved the factory establishment (or to the industrial complex management agency in the case of a tenant of an industrial complex).

2 Application for Partial Registration of a Factory
This application is submitted when an entity or individual who has obtained factory establishment approval intends to operate a part of that factory before its construction has been completed. When such an application is received, the government (or the management agency) should check whether construction of the factory building has been completed or whether the machines and appliances have been installed by visiting the site, and send a reply to the applicant within seven days (20 days in the case of legal fiction) indicating the necessary matters concerning the validity of the registered factory approval or the declaration of the factory construction or facility installation. When an entity or individual whose factory is partly registered obtains a permit for use of the finalized building and completes the installation of the relevant machines and appliances, he/she should declare completion of the factory establishment, etc. within two months.

3 Registration of Factory Buildings
An entity or individual who has obtained a permit for the use of factory buildings may submit an application for registration of the factory by attaching a copy of the building register before installing the production facilities.

4 Registration of Factory
The owner or tenant of a factory other than those subject to approval for factory establishment may apply for factory registration. The government (or the management agency) should notify the applicant within seven days (or 20 days in the case of legal fiction) of the day on which the factory registration application is received if the factory meets the standards provided under the Building Act, the National Land Planning and Utilization Act, other pertinent statutes, and the standard factory area ratio.

5 Change to Registration
- Company’s name or CEO’s name (The CEO’s name may be registered if requested by the corporation);
- Factory site area (limited to cases where the factory site area has been reduced);
- Factory building area (limited to cases where the factory building area has been reduced and the factory is constructed in accordance with the standard factory area ratio);
- Ancillary facility area (limited to cases where the factory is constructed in accordance with the standard factory area ratio);
- Changes in specific business categories:
  - Business category;
  - Extension of a factory when the factory building area remains less than 500 square meters after the extension.

6 Revocation of Factory Registration Details
- When a factory building is destroyed or its use is changed;
- When the operation of a factory is discontinued or its production facilities are destroyed or removed (i.e., when its production facilities are removed because of a discontinuation of the manufacturing business or for some other reason or cause);
- When the lease contract of a tenant business of an industrial complex is terminated;
- When a factory is used for a purpose other than the originally intended manufacturing or production operation. However, this provision does not apply to those cases where a part of the factory is being used for other purposes, provided that no remarkable impediment is caused to the manufacturing operations while the other part of the factory is still being used for the pertinent industrial use or for the originally intended manufacturing or production operations;
- When the factory owner fails to fulfill the conditions attached at the time of registering the factory;
- Part of the factory registration may be revoked as provided under the Ordinance of the Ministry of Knowledge Economy.

2.4 Time Required for and Types of Factory Establishment

<table>
<thead>
<tr>
<th>Time Required for Factory Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factory Establishment Permit</td>
</tr>
<tr>
<td>General factory establishment : 20 days</td>
</tr>
</tbody>
</table>
| When no change in use is involved : 14 days | Approval for use : 7 days | Notification of factory registration (within 3 days)
| When no legal fiction is involved : 7 days | Business start-up plan : 20 days | |
| |

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### Types of Factory Establishment

<table>
<thead>
<tr>
<th>Category</th>
<th>Applicant</th>
<th>Pertinent Statutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of general factory</td>
<td>All factory founders</td>
<td>The Industrial Cluster Development and Factory Establishment Act</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Article 13 (Approval of Establishment, etc. of Factories)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Article 16 (Registration of Factories)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Applicable to all factories with a building area of 500m² or more (Applications may be made for the approval of factories on a building area of less than 500m²)</td>
</tr>
<tr>
<td>Approval of business start-up plan</td>
<td>Start-up founders</td>
<td>Article 33 of the Support for Small and Medium Enterprise Establishment Act</td>
</tr>
</tbody>
</table>

### 3. Factory Site Location and Establishment Procedures

There are two types of factory sites: planned locations, on which factories are established and developed collectively, and individual locations, for which permits or approvals for factory establishment are individually obtained. One can apply for permission to establish a factory by submitting an application for approval once the factory site has been selected. The relevant authorities grant approval after conducting consultations and validity tests.

#### 3.1 Types of Factory Site

1. **Planned Location**
   A factory site developed by the state, a public organization or a private business according to a plan by selecting an area in which to establish or develop factories collectively.

2. **Individual Location**
   A factory site for which individual permits or approvals for establishing a factory in a zone not within a planned site have been obtained.

#### 3.2 Required Documents for Factory Establishment Approval

- Application for approval of factory establishment; application for approval of venture business plan
- Factory establishment plan (Venture business plan)
- Land use plan confirmation, cadastral (forest) map, land (forest) register [duplicate]
- Certified copy of land and building register
- Land sale contract, land (building) use consent
- Application documents for legal fiction (Ex.: Application for Approval of Farmland Transformation, Forest Land Transformation, etc.)

#### 3.3 Factory Founding Processes

- Civil engineering plan
- Cadastral map or surveyed map
- Plans for buildings and disaster prevention

### Factory Site Selection

- Decide the form of site
- Conduct investigation in site (region analysis)
- Analyze the site (individual analysis)
- Decide site for a factory

### Approval, Authorization, Permission of Factory Establishment

- Devise a business plan for factory establishment
- Prepare required documents
- Devise a civil engineering plan (individual location)
- Apply for the approval of factory establishment including legal fiction
- Obtain the approval of factory establishment (individual location)

### Factory Site Construction

- Start and complete civil engineering works (individual location)
- Devise construction design
- Apply for permission of construction
- Conduct test for use and report the factory establishment completion (within 2 months after installing machinery)
- Obtain the factory establishment completion certificate (notification)
1. Korea’s IPR System

Intellectual Property Rights are defined as the legal rights bestowed upon a person’s intellectual creation that is considered worthy of receiving legal protection. Intellectual property rights include industrial property rights and copyrights. With the advancement of high technologies and culture, new forms of intellectual property rights are emerging such as trade secret rights and topography rights. Industrial property rights and copyrights are governed by the Korean Intellectual Property Office and the Ministry of Culture, Sports, and Tourism, respectively in Korea.

1.1 Types of Intellectual Property Rights

(1) Definition of Intellectual Property Rights

Intellectual Property Rights are defined as the legal rights bestowed upon a person’s intellectual creation that is considered worthy of receiving legal protection. The owners of real estate such as buildings and land and moveable assets like machinery can use them or lend them to others in return for compensation, since their ownership is equivalent to property rights. As such, the owners of IPRs can also use or lend their rights to others.

(2) Types of Intellectual Property Rights

<table>
<thead>
<tr>
<th>Intellectual Property rights</th>
<th>Industrial Property rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent</td>
<td>Source/core technology (major invention)</td>
</tr>
<tr>
<td>Utility model</td>
<td>Peripheral/remedial technology (minor invention)</td>
</tr>
<tr>
<td>Design</td>
<td>Design of product</td>
</tr>
<tr>
<td>Trademark</td>
<td>Distinguishable symbol / character, figure</td>
</tr>
<tr>
<td>Copyright</td>
<td>Creative work in literature and art field</td>
</tr>
<tr>
<td>Neighboring right</td>
<td>Right of performers, phonogram producers, broadcasting organizations</td>
</tr>
<tr>
<td>Database</td>
<td>Producers of databases</td>
</tr>
</tbody>
</table>

1.2 Industrial Property Rights

(1) Patent Right

Subject of Protection
- The highly advanced creation of technical ideas utilizing the rules of nature

Requirements of Patent Right
- Requirements for applied invention to acquire a patent right.
The applied invention should be able to be used for industry (availability in the concerned industry)
- The applied invention should not be a technology (existing technology) known before patent application (novelty)
- The applied invention, although this is different from the existing technology, should not be easily thinkable one from the existing technology (Evolution)

Examination Process
- Formality Examination
The formality examination consists of reviewing the process, subject of application, and legality of the methods used. If defects are found in the process by examination, the applicant is asked to amend the process. If the amendment is insufficient to correct the defect, the application is invalidated.
- Request for an Examination
An application for a patent is examined only when an applicant requests an examination. If a request for an examination is not filed within five years of the application, the application is deemed invalid. (Three years in the case of utility models)
- Disclosure of Application
The Korean Intellectual Property Office discloses the patent application 18 months after the application date (priority date when priority is claimed), or earlier at the request of the applicant (when earlier publication is requested).
- Substantial Examination
The applicant is notified of the decision to award a patent or to refuse registration after a substantial examination. In the case of a rejection, a notice of rejection (initial and final notice of rejection) is sent to the applicant, who may then submit his/her opinion within a given period.
- Decision of Patent
The applicant is notified of the decision to grant a patent when the examination result shows no reason for a refusal.
- Registration and Publication of Registration
The applicant pays a registration fee to register the patent immediately upon receiving notification of the decision to award a patent. The patent right enters into effect upon establishment of registration. The registered application for a patent is published and disclosed to the public.
- Decision to Refuse Registration
A patent is not granted when the reason for refusal remains unchanged after the applicant’s submittal of a written opinion and complementary statement.
- Appeal against Examiner’s Decision to Refuse Registration
An applicant who has received a rejection decision files a claim to assert that the decision is wrong and to request that the decision be reversed.

Utility Model Right
- The shape or structure of an article, or a combination of articles that is industrially feasible.

Quick Registration System of Utility Model (applicable to applications filed from July 1, 1999 to September 30, 2006)
- The quick registration system was introduced to protect utility model technologies whose lifecycle is comparatively short and which are easily imitated, and to encourage small and mid-sized venture companies to develop and commercialize their technologies.
- Since rights are granted without any substantial examination of the registration conditions, it is possible that the rights are defective. Thus, the technology evaluation system was introduced to prevent any victims of defective rights arising from quick registration.
Current System (registration after examination, applicable to applications filed on or after October 1, 2006)
- The advantages of the quick registration system have been weakened by a significant reduction of the examination process period. Also, certain drawbacks with the quick registration system, such as the abuse of rights registered without examination, the burden on applicants stemming from the complicated nature of the examination process, and the low efficiency of examination, have surfaced. Against such a background, the registration system has been changed to incorporate registration after examination.
- The examination processes for utility models and patents are the same, improving the convenience of civil petitioners.

(3) Trademark Right

Concept of Trademark
- Trademark under the Trademark Act
  The scope of a trademark was limited to a sign, letter, figure, three-dimensional shape, color or combination thereof. On July 1, 2007, the definition of the trademark was expanded to include all kinds of marks that can be visually recognized such as a combination of colors, a hologram, and motion marks. In a broader sense, a trademark may include a service mark, collective mark, or business emblem, and serves to distinguish the goods related to a person’s business from those of other entities.
- Service Mark
  “Service mark” refers to a mark (trade name of advertisement, finance, and restaurant businesses) which is used by a person who conducts a service business for the purpose of distinguishing his/her service business from those of others.
- Collective Mark
  “Collective mark” refers to a mark which is intended to be used directly by a corporation established by joint goods producers/sellers, or by the corporation’s members for their goods in business or service business.
- Business Emblem
  “Business emblem” refers to a mark which is used by a person who conducts a nonprofit business for the purpose of indicating his business. (Organization Committee for the Olympics, Korean Red Cross, etc.)

Examination Process
- Publication of Application
  The trademark application is published before the establishment of the right is registered in order to collect opinions and allow requests for opposition, making the examination fair. An applicant may request compensation when other persons use the trademark for which he/she has filed an application without obtaining due authorization and subsequently cause losses to his/her business.
- Opposition
  Anyone can raise opposition to a trademark for which an application has been published within two months (an extension is not allowed) of the publication date. Applications for opposition should be written in the specified form and include the reasons for opposition and the necessary evidence.
(4) Design Right

Application and Examination Process
- Application for examined design registration and unexamined design registration
- Designs for items whose lifecycle is short, such as foods (A1), clothes (B1), bedding (C1), papers and printouts (F3), containers (F4), fabrics (M1), miscellaneous goods (B2), shoes (B5), teaching materials (F1), and office supplies (F2), are registered without examination, while designs for other items are registered after examination.

Application for Design Registration Chart

Unique Systems under the Design Protection Act
- Similar Design
  All owners of a design right or applicants for design registration can register designs similar to their registered design or for which an application for registration has been filed [basic design] by making changes to the shape, pattern, or color of an article in order to prevent imitations or appropriations of the design.
- Design of One Set of Articles
  Where two or more items are used together as a single set of articles, and where the design of the set of articles shows unity as a whole, an application for registration of the articles as one single design may be filed [tea set, smoking set, etc.].
- Secret Design
  If an applicant requests confidentiality, the Korean Intellectual Property Office does not announce the registration of the design for 3 years from the registration date.

1.3 Copyright Law

Copyright law is composed of three rights: copyright, neighboring right of copyrights, and right of database producers. As of April 2009, computer program protection law and copyright law were integrated, and the most recent material explaining the revision of the copyright law was released in December 2010.

- "Copyright works" refers to creative works that express the emotions and ideology of a person, and they are not limited to literature and the arts.
- A creative database is protected as a copyright work. The revision in 2003 allows the protection of a database without creativity as a copyright work.

(1) Copyright Law

Definition
- Copyright is divided into moral right and economic right.
- Moral right exists to protect the honor of the author, and economic right aims to protect the economic benefit of the author.

Types
- Moral right: publication right, name-indicating right, integrity right
- Economic right: reproduction right, performing right, air transmission right, display right, distribution right, rental right, derivative work right

Legal characteristics of copyright
- Generation of copyright: Copyright is generated with the creation of a work. It differs from industrial property right in that copyright works without registration, whereas industrial property right does not work without registration.
- Legal characteristics of copyright: Copyright is an exclusive right. Therefore, a person using a creative work must obtain permission from a copyright holder before using it. Economic right can be transferred to another person, whereas moral right cannot be transferred or inherited.
Limitation of copyright
- Copyright property right is the right to use a work exclusively. Considering that a work is created with direct or indirect support from society, recognizing the monopoly of a work’s creator without limit is not beneficial to the public good and also hinders cultural development. Therefore, limitations are imposed on copyrights.

Protection period of copyright
- Principle: during the lifetime of copyright holders and 50 years from the death of copyright holders
- Work of an unknown author: work for business objectives, video works, program works: 50 years from the date of declaration
- Joint works: 50 years from the death of the last copyright holder
- Calculation of protection period: calculated from the next year from the year of the author’s death and the declaration of works.

* The copyright law was revised on June 30, 2011 after the signing of the Korea-EU FTA. The protection of intellectual property rights was extended from 50 to 70 years. However, the revision will take effect on June 1, 2013. (Grace period of two years)
* The moral rights of an author expire at the death of the author, but are protected under article 14-2.

Registration of copyright
- Copyright can be legally protected without registration, but the registration generates legal benefits.
  - Estimation: Estimate by registered author, copyright holders, the date of creation, and declaration. When the right of registered works is infringed, it is estimated to have been infringed by error.
  - Resistance: In the case of transfer of the copyright property right, those to whom the right is transferred have the right to resist a third party.

(2) Neighboring right of copyright

Definition
- Neighboring right of copyright is bestowed on persons who contribute to distributing copyright works to the public through financial support or creative means.

Neighboring right holders
- Performers: actors, actresses, singers, conductors, musicians, etc.
- Record producers
- Broadcasters

Right of neighboring right holders
- Some of the right is limited for the benefit of the public. When broadcasting and performing a creative work, permission must be obtained not only from the neighboring right holders but also from the copyright holders.

Protection period of neighboring right holders
- Performance: 50 years from the performance
- Record: 50 years from the release of records
- Broadcasting: 50 years from broadcasting

(3) Right of database producers
Copyright law protects the right of database producers. Databases without creativity are also protected under the current copyright law.

- Definition of Database
  - An edited work that arranges and composes subject matter in a systematic manner. [Article 2-19]

- Right of database producers
  - Those who invest considerably in the establishment of a database have the right to reproduce, distribute, and broadcast the work. [Article 93-1]

- Protection period
  - The right of database producers takes effect after the creation of a database. The right exists for 5 years. [Article 95-1] If a database is renewed or reviewed with a large investment, the right of the database producers takes effect and exists for five years. [Article 95-2]

(4) Infringement Remedy

Principle
- Copyright holders can apply for remedy against the infringement of their rights.

Civil Charge
- Victims can sue a pirate in court and file a claim for damages.
- The right to claim damages should be filed within 10 years from the infringement. If not, the right to such expires.

Criminal Charge
- Legal action by copyright holders against pirates.
- Infringement of copyrights is a crime indictable upon complaint, and the victim should file a lawsuit within six months of becoming aware of the infringement. Therefore, a third party may report an infringement to the copyright holder, but may not directly sue the infringer.
- A fine of less than 50 million won or imprisonment of less than 5 years may be imposed on those who infringe copyright law.

* A fine of less than 30 million won or imprisonment of less than three years may be imposed on those who infringe moral right, neighboring right or database producer right. [Article 136-2]

1.4 New Intellectual Property Right
The development of science and technology has increased the need to protect new intellectual properties. International discussion on the protection of intellectual properties that cannot be protected under the existing system is ongoing. The new intellectual property right includes traditional knowledge, new plant species, the names of internet domains, and trademarks for tastes, sounds and smells.

The government established the National Intellectual Property Commission in May 2011 to strengthen the support for intellectual property rights.
2. Efforts to Protect Intellectual Property Rights

Korea has carried out administrative innovation on various fronts related to intellectual property rights in a bid to become an intellectual property powerhouse. The Korean government has streamlined administrative procedures concerning intellectual property rights and improved the relevant systems at the Korean Intellectual Property Office to aggressively deal with changes in the global trade environment. Furthermore, Korea has developed close cooperative relationships with a number of international organizations in the domain of intellectual property rights and has strengthened global cooperation in the field as an increasing number of countries pursue FTAs with other countries.

2.1 Reinforcement of Protection of Intellectual Property Rights

The Korean government has set itself the long-term goal of becoming a pioneer of intellectual property rights by creating, protecting and utilizing intellectual property rights, and has innovated the administrative systems of IPR-related organizations. The Korean Intellectual Property Office (KIPO) has been improving the efficiency and productivity of works related with intellectual property rights to accommodate dynamic changes in the international trade environment.

[1] Establishment of World-class Intellectual Property Service System

The Korean Intellectual Property Office has been making efforts to establish a world-class intellectual property service system by increasing cooperation with major advanced nations, sharing knowledge with developing countries, and increasing the competitiveness of the inspection and processing period. As a result of its efforts to shorten the trial period, KIPO instituted a more rapid patent application examination period (18.5 months) in 2010, compared to the USA (25.8 months as of 2009), and Japan (29.1 months as of 2009).

KIPO provides a customized inspection system that enables patent applicants to choose the timing of inspection. It has also established a cooperation system with the intellectual property offices of advanced nations (China, Japan, the USA and the EU) in order to respond effectively to the rising number of patent applications. These efforts led to a shortening of the period and time taken for Korean companies to obtain intellectual rights overseas. Moreover, KIPO also expanded the project of sharing its experience with the least developed and developing countries, improving Korea’s image abroad. * GS: The developed five patent offices accounting for about 80% of the patent applications worldwide, and GS refers to the patent offices of China, the U.S., Japan, Korea and Europe.


As the importance of trademarks has been increasing with the continuous growth of the trademark design market, the protection of intellectual property rights for trademarks has been broadened to include hologram marks and motion marks. Also, the relevant laws are being revised in order to apply certain details of the FTA agreement between Korea and the US to the Korean domestic market. Further, the many different formats of civil affairs documents have been consolidated into a single format to suit civil needs. The consolidated format is designed to improve the convenience of civil petitioners and enhance administrative efficiency regarding patents.


KIPO is strengthening coordination with the prosecutor’s office, the police, and local governments in order to better prevent the piracy of patented products, as well as educating government officials to distinguish counterfeit products from originals. The government has enacted a regulation to reward those who report fake products. [Enacted on February 25, 2010]

[4] Efforts to Educate the Public about Intellectual Property Rights Protection

Public awareness on the importance of intellectual property rights protection is essential to prevent violations of intellectual property rights. Patents must be fully acquainted with follow-up measures when their intellectual property rights are being infringed. And the general public must acknowledge the damage caused by purchasing counterfeit products. The Korean government has strongly advocated the protection of intellectual property rights, producing and distributing educational videos on the subject.

[5] Intellectual Property Rights Related Information and Counseling Services

Anyone can report or receive counseling about fake products or business confidentiality infringements online by accessing the Brand Police website under the Korean Intellectual Property Office (http://www.brandpolice.go.kr:9010/main.kipo). Also, small and medium-sized enterprises may receive counseling services for general IPR-related concerns, including application submission and conflict countermeasures, from public patent attorneys on the website.

2.2 Intensification of International Cooperation

[1] Intensification of Multinational Cooperation

In 2009, the intellectual property offices of Korea, the US, Japan, China and the EU began to strengthen their cooperation with each other, and since then they have been making efforts to secure mutual trust in their respective inspection results, and coordinate their inspection criteria and educational courses for inspectors.

[2] Intensification of Bilateral Cooperation

Korea has concluded free trade agreements with 16 countries including Chile, Singapore, EFTA, ASEAN, and India. Negotiations to forge free trade agreements are under way with 12 countries including Australia, New Zealand, Turkey, Columbia, Canada, GCC and Mexico.

[3] Intensification of Cooperation among Korea-China-Japan

Patent experts of the three nations formed a working-level committee to cooperate on patents. In 2010, they released a report on patent criteria analysis, and in 2011, they reviewed the inspection criteria by analyzing practical cases.


According to a report released by WIPO, the number of international patent applications rose 4.8% to 162,900 cases in 2010. Despite the fall in applications (1.7%) in the US, and a stall in the EU, patent applications increased in Asia including Korea, China and Japan. Korea saw patent applications rise by 20.5% year-on-year, accounting for 5.9% of global
patent applications, and ranked 5th, following the US, Japan, Germany and China. Koreans can now file applications for international patents with WIPO or KIPO as Korea has been admitted to section I (1984) and section II (1990) of the Patent Cooperation Treaty (PCT).

It is strongly recommended to focus special attention on ensuring that South Korea (the Republic of Korea) is designated in the application and NOT North Korea (DPRK), as incorrect designation could cause significant problems in the application process. Cases have been documented in which the correction deadline for country designation has expired, or the wrong designation has been discovered in the process of integrating an application into the Korean system, even though one can confirm the preliminary designated country within 15 months of the application date under Rule 4.9(b) of the PCT. Such mistakes can cause fatal problems since it is impossible to obtain a patent as a new invention in Korea because the invention already exists in WIPO.

(5) Protection of Internationally Recognized Trademarks

According to the Trademark Act of Korea, a trademark similar to an internationally recognized trademark cannot be registered as a trademark irrespective of whether the trademark concerned is registered or not. Registration of a trademark by an individual who is not the authentic owner of the trademark will be rejected, and will be subject to a trademark registration cancellation trial even if such registration has already occurred.

Also, the application for a trademark which could cause any mistakes or confusion concerning production or service sources will be rejected even if the products or services associated with the new trademark are dissimilar to famous ones. Even if registration has already been performed, the authentic owner of the trademark can lodge an appeal for a trademark registration revocation trial.

Internationally recognized trademarks are protected under the Unfair Competition Prevention and Trade Secret Protection Act and the Trademark Act. If one has been damaged or is likely to be damaged by unfair competition from others using signs that include a registered name, firm name or famous trademark which can cause confusion with other business entities’ products or operational facilities, the individual can claim infringement prevention, compensation for damage or/and recovery of the business credit, and charge the infringer with a crime.
01. Investment Consulting Center
02. Invest Korea’s global network
03. Useful business contacts
01. Investment Consulting Center

The Investment Consulting Center (ICC) provides one-stop consulting services free of charge to foreigners who wish to invest in Korea. The services include pre-investment market research, administrative support, and settlement assistance, for the successful establishment of business in Korea.

In order to provide systematic and professional consultation services the center is staffed by consultants, comprising private-sector experts recruited from key investment-related fields, and civil servants seconded from other major government agencies and ministries.

To Receive ICC’s Investment Consultation Services

- **Walk-in consultation**: prior reservations available
- **Telephone consultation**: including consultation via Fax
- **On-line consultation**: questions submitted to the ICC homepage are answered within 48 hours (www.investkorea.org - ICC - Q&A)
- **Online video consultation**: ICC services via video conference are currently available only at the Seoul Global Center and Incheon FEZ, but will be available in all provincial governments and FEZs in the future

**Investment Consulting**

- Initial Consulting (Consulting on general foreign investment regime such as investment procedures, requirements, and incentives)
- Professional Consulting by Investment Field (In-depth consultation in each field of taxation, accounting, and legal affairs provided by professional consultants)
- Reserved Consultation with External Specialized Agencies (Arrangement of free or paid consulting with legal and accounting firms after professional consulting with the ICC)

**Administrative Assistance**

- Foreign investment notification (including consultation)
- Registration of foreign-invested companies (including the declaration of change)
- Application for the review of the specification of imported capital goods
- Consultation on tax exemption and reduction programs
- Business tax ID registration
- Issuance of certificates of the completion of capital goods investment in-kind
- Customs-related consultation
- Guidance and support for the application and registration of foreign-invested companies
- Issuance of residence permits to investors (D-8) and their accompanying dependents (F-3) and household assistants (F-1)
- Alien registration; declaration of change of residence
- Consulting on personnel and labor relations related to foreign-invested companies
- Assistance for business location search

**Investor Settlement Service**

- Provision of information and consulting on life in Korea, including housing, education, medical services, and getting a driver’s license
- Proxy services for reserving hospital appointments, restaurants, and art performances
- One-day Secretary Service (On-site administrative assistance provided by the ICC consultants)
- Publication of guidebook ‘Guide to Living in Korea’ and webzine on life in Korea
- Appointment of a designated coordinator for settlement assistance (One-on-one assistance for the executives and employees as well as their family members of foreign-invested companies for the first one-year period)

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02. Investment Consulting Center       02. Invest Korea’s global network      03. Useful business contacts
02. Invest Korea’s global network

Japan

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CIS

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02. Invest Korea’s global network

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FAX: (62-21) 572-2187
Homepage: http://www.kotra.or.id
E-mail: jakarta@kotra.or.kr

03. Useful business contacts

Law firms

<table>
<thead>
<tr>
<th>Law firms</th>
<th>Homepage</th>
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<tbody>
<tr>
<td>Law Firm GwangJang</td>
<td><a href="http://www.leeke.co/">http://www.leeke.co/</a></td>
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<tr>
<td>Law Firm Jisung Horizon</td>
<td><a href="http://www.js-horizon.com/new/eng/">http://www.js-horizon.com/new/eng/</a></td>
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<tr>
<td>Law Firm The One</td>
<td><a href="http://www.one21.co.kr/">http://www.one21.co.kr/</a></td>
</tr>
<tr>
<td>Law Firm DaeRyook</td>
<td><a href="http://www.deryooklaw.com/">http://www.deryooklaw.com/</a></td>
</tr>
</tbody>
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Middle East

Dubai KBC
Add.: PO BOX 12869, SHEIKH ZAYED RD, DUBAI, UAE
TEL.: (971-4) 332-7776
FAX.: (971-4) 3291300
Homepage: http://www.kotra.or.kr/dubai
E-mail: dxkbtc@emirates.net.ae
## 03. Useful business contacts

### Accounting firms

<table>
<thead>
<tr>
<th>Accounting firms</th>
<th>Homepage</th>
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<tbody>
<tr>
<td>Daemyung Accounting Corporation</td>
<td><a href="http://www.dmgt.co.kr/english/index.asp">http://www.dmgt.co.kr/english/index.asp</a></td>
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<td>BOD Daejoo Accounting Corporation</td>
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<td>Dongnam Accounting Corporation</td>
<td><a href="http://www.dongnamcpa.com">http://www.dongnamcpa.com</a></td>
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<td>Dongwon Accounting Corporation</td>
<td><a href="http://www.dongwon.tax.co.kr">http://www.dongwon.tax.co.kr</a></td>
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<tr>
<td>Samil Accounting Corporation</td>
<td><a href="http://www.pwc.com/kr/en/index.jhtml">http://www.pwc.com/kr/en/index.jhtml</a></td>
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<tr>
<td>Samhwata Accounting Corporation</td>
<td><a href="http://shcpa.co.kr">http://shcpa.co.kr</a></td>
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<tr>
<td>Sunmyung Accounting Corporation</td>
<td><a href="http://www.sunmyungcpa.co.kr">http://www.sunmyungcpa.co.kr</a></td>
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<td>Sungto Accounting Corporation</td>
<td><a href="http://www.sungto.co.kr">http://www.sungto.co.kr</a></td>
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<tr>
<td>Woori Accounting Corporation</td>
<td><a href="http://www.wooricpa.co.kr">http://www.wooricpa.co.kr</a></td>
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<td>WooRim Accounting Corporation</td>
<td><a href="http://www.wrac.co.kr">http://www.wrac.co.kr</a></td>
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<tr>
<td>Il Shin Accounting Corporation</td>
<td><a href="http://www.ilshincipa.co.kr">http://www.ilshincipa.co.kr</a></td>
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<td>Choongung Accounting Corporation</td>
<td><a href="http://www.horwath.co.kr/eng/index.asp">http://www.horwath.co.kr/eng/index.asp</a></td>
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<td>Taeyoung Accounting Corporation</td>
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<td>Han Kyung Accounting Corporation</td>
<td><a href="http://www.hkco.co.kr/index-e.html">http://www.hkco.co.kr/index-e.html</a></td>
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<td>Ernst&amp;Young Accounting Corporation</td>
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<td>Accounting Corporation G-Pyung</td>
<td><a href="http://www.g-pyung.com">http://www.g-pyung.com</a></td>
</tr>
<tr>
<td>Lian Accounting Corporation</td>
<td><a href="http://www.liancg.com/eng/about.htm">http://www.liancg.com/eng/about.htm</a></td>
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</tbody>
</table>