The taxation differences between subsidiaries(corporation) and branches

To understand the differences in the burdens of various taxes for a corporation or a branch established by a foreign company in Korea.

<Overview>

When a non-resident foreign corporation or individual desires to do business in Korea, it needs to decide the type of entity which is suitable for its business purpose.

Type	Act	Note
Local Corporation(subsidiary)	Foreign Investment Promotion Act	Recognized as a foreign direct investment
Branch	Foreign Exchange Transactions Act	Categorized as a domestic branch of the foreign corporation

Taxation shall be one of the key considerations in choosing the type of entity. Both have similar tax obligations but there are some differences in scope of taxable income as follows.

Category	Foreign-Invested Company	Domestic Branch of a Foreign Company
Scope of Corporate income tax	Tax obligations for all domestic and overseas income	Tax obligations for income from domestic sources only
Tax benefit	Applicable same as Domestic corporation	Not applicable
Tax on repatriation of profit or liquidation profit	Dividends tax/ liquidation profit tax imposed	Not applicable (instead, branch taxes for some countries' branches)

1. Corporate Tax

- Corporation: It shall pay the corporation tax on both the domestic and overseas profits generated by businesses that belong to the corporation, in the same manner as domestic corporations. It may have tax benefits based on the domestic corporation taxation or the Restriction of Special Taxation Act. Because the distribution of the profits to the parent company must be done through the distribution of dividends, the parent company shall pay the dividends tax on the repatriation of earnings. In the event the corporation is to be liquidated in the future, it shall have an obligation to pay the corporation tax on the liquidation profit.

- Branch: Because it is typically considered to be a fixed business location (domestic business location), it shall file and pay taxes on the business profit and domestic source income pertinent to the fixed business location. As for the remittance of profits, it shall not be taxed, except if there is a branch tax in the tax treaty. In the event the branch is closed in the future, there will be no tax obligation for the corporation tax on the liquidation profit. (Article 3, Item 1 of the Corporation Tax)

2. Value Added Tax

- In the same manner as the domestic corporation of a foreign company, the branch of foreign company that has a domestic business location in Korea shall be obligated to pay the Value Added Tax.

3. Branch Tax

- Purpose: The branch tax, which is a taxation introduced to maintain the taxation balance between the case when a foreign corporation establishes a domestic corporation in Korea (affiliated company) and the case when it is establishing a branch, is a taxation which imposes a corporation tax on the fixed business location (branch) of the foreign corporation, and then applies an additional branch tax rate on the profits thereafter
- As for the foreign corporations which are subject to branch tax in accordance with the tax treaty (Morocco, Brazil, Canada, Philippines, and Australia), the branch tax is imposed on the repatriation amount to its headquarters or net income after corporation tax.