

Comparison of corporation, branch and representative office

1. How Foreigners invest into Korea

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

2. Comparison of a Foreign-Invested Company and a Domestic Branch

- A Foreign-Invested Company under the Foreign Investment Promotion Act

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 shall invest not less than 100 million won for the local corporation and acquire not less than 10 percent of the company's stocks with voting rights concerned to be recognized as foreign investment under the Foreign Investment Promotion Act.

※ Status of foreigners operating a private business

In January 2012, the Daegu District Court of Korea ruled that private businesses run by foreigners cannot be recognized as foreign-invested companies. In accordance with such ruling, the Ministry of Justice issues a D-9 visa instead of a D-8 visa to foreigners operating a private business that is not a joint venture with a domestic private business when the invested amount is KRW 300 million or more.

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

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

A 'Rep. office (liaison 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. A 'Rep. 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.'

<Comparison of a Foreign-Invested Company and a Domestic Branch>

| Category | Foreign-Invested Company | Domestic Branch of a Foreign Company |
|---|--|---|
| Act | Foreign Investment Promotion Act | Foreign Exchange Transactions Act |
| Corporation Type | Domestic corporation | Foreign corporation |
| Identity | Foreign investors and foreign-invested companies are of separate entities (independent accounting and settlement) | Headquarters and branches are of a single entity (the same accounting and settlement) |
| Delegated agency to process report and grant permission | KOTRA or foreign exchange bank | Designated foreign exchange bank (reporting), MOSF (in case of grant permission such as financial industry) |
| Investment Limitation | KRW 100 million or more per case, no upper limit | No limit in investment amount |
| Scope of Tax Obligations | <p>Tax obligations for all domestic and overseas income</p> <p>Corporate tax rate (Progressive marginal tax rate based on the amount):</p> <p>9% for up to KRW 200 million, 19% for exceeding KRW 200 million but not exceeding KRW 20 billion, 21% for exceeding KRW 20 billion but not exceeding KRW 300 billion and 24% for exceeding KRW 300 billion</p> | <p>Tax obligations for income from domestic sources only</p> <p>Corporate tax rate (Progressive marginal tax rate based on the amount):</p> <p>9% for up to KRW 200 million, 19% for exceeding KRW 200 million but not exceeding KRW 20 billion, 21% for exceeding KRW 20 billion but not exceeding KRW 300 billion and 24% for exceeding KRW 300 billion</p> <p>For some countries such as France, Australia and Canada, etc., branch tax shall be paid.</p> |

(Source: Invest Korea)