This guide provides an overview of registration, compliance and reporting requirements for corporates coming inbound into Korea for the first time. The information provided is general in nature and should not be relied upon as professional advice.

Registration requirements
A taxpayer who starts a business shall register the required particulars of each business place within 20 days from the business commencement date. The particulars may be registered before the business commencement date, if desired. The tax office having jurisdiction over the business place of the taxpayer shall issue a business registration certificate to the taxpayer concerned.

When foreign investors establish a business in Korea, they should choose to establish an entity in the form of subsidiary company, branch office, or liaison office.

The key registration procedures in Korea are:
1. Setting up a subsidiary:
   - Register with commercial court and tax office and designate foreign exchange bank
   - It would take 2 months in average

2. Setting up a branch office has similar procedures to setting up a subsidiary

3. Setting up a liaison office
   - Register with a tax office
   - It would take 1 week in average

Choice of vehicle
When establishing a business in Korea, it is important to choose the most appropriate registration vehicle. The three most common types of corporate registration vehicle are:

1. Korean incorporated subsidiary company
   Established as a local company, a subsidiary company has a closer relationship with the local business community and the opportunity for incentives depending on the type of business based on the Special Tax Treatment Law. The minimum capital requirement at establishment to be allowed as a foreign invested company is KRW 100 million.

2. Registered foreign company (Branch office)
   A branch office is treated as a separate taxable entity and able to operate as a revenue generating entity. Sales and manufacturing activities are allowed. There is no minimum capital requirement at establishment. Tax incentives are not available to branch office. It may include operating funds from head office.

3. Representative company (Liaison office)
   A liaison office, which is not a legal entity and is deemed as non-income generating entity, can only conduct preliminary or auxiliary activities such as marketing and supporting for its head office. There is no minimum capital requirement at establishment.
Compliance and reporting

1. Corporate secretarial

Subsidiary company: Every year a subsidiary company is required to hold an annual meeting of the directors in order to approve the financial statements. Also, a subsidiary company is required to hold a general meeting of shareholders annually.

Branch office: A branch office, which does not have its own board of directors, must appoint a representative who will be responsible for maintaining compliance with relevant legislation.

Liaison office: A liaison office, which does not have its own board of directors, must appoint a local agent who will be responsible for maintaining compliance with relevant legislation.

2. Accounting and reporting

Subsidiary company: A subsidiary company is generally required to lodge externally audited financial statements and the statutory accounts should be reported to the Korean tax authority annually together with the corporate income tax returns. A stock company with total assets equal to or greater than KRW 10 billion as of the end of the preceding fiscal year is required to have externally audited financial statements.

Branch office: A branch office is not required to lodge externally audited financial statements, but they have to submit the financial annually together with the corporate income tax returns.

Liaison office: A liaison office is not required to file a corporate income tax return nor submit a financial statement to a tax office.

3. Tax

We have highlighted some of the key Korean tax issues in this guidance note. The information provided is general in nature and should not be relied upon as professional advice.

3.1 Income tax

Tax rates: The basic Korean corporate income tax rates are 10% on the first KRW 200 million, 20% for the tax base between KRW 200 million and KRW 20 billion, and 22% for the excess. A resident tax surcharge of 10% on corporate tax liability is assessed each year together with corporate income tax returns.

Repatriation of profits: Profits from a Korean subsidiary remitted to its offshore holding company as dividends will be subject to withholding tax. No withholding tax is payable on after-tax profits remitted from a branch office, but branch office tax would be assessed depending on the tax treaty with each country.

Tax losses: A net operating loss carryover is allowed for ten years for fiscal years commencing after 31 December 2008 and five years for prior years.

3.2 Indirect tax

Value-added tax (VAT): Korea currently has a 10% VAT standard rate applied to the tax exclusive price of most goods and services supplied and provided within Korea as well as on imported goods.

Preliminary returns: A business is required to file preliminary returns for the first and third quarters of the year, which end in March and September, respectively. These preliminary returns must indicate the tax base and the tax amount payable or refundable. The preliminary return must be filed within 30 days following the last day of each preliminary return period. A trader must pay the tax amount payable for the preliminary return period when the return is filed.

Final returns: A business must file a final return for the quarters ended June and December for the second and fourth quarters of the year, respectively. The final return must be filed within 25 days following the end of the tax period. A trader must pay the tax amount payable for the final return period at the time of filing the return.

Zero-rate VAT: Generally, the following goods and services are subject to zero rate VAT:

- Goods for exportation
- Services rendered outside South Korea
- Other goods or services supplied for foreign exchange earnings

3.3 Payroll withholding tax

Payroll: A monthly withholding tax return on payroll income must be filed with the district tax office by the tenth day of the following month and the taxes withheld must be paid to either the district tax office or a bank designated as a national treasury agent.

Year-end payroll settlement: A year-end payroll withholding tax return needs to be prepared and adjustments to the taxes withheld during the year will be settled.

Social security insurance: There are four types of social security programs in which enrolment is required:

- National pension
- National health insurance
- Unemployment insurance
- Worker’s accident insurance

For foreigners: Special treatment or exemption may be offered in income tax and/or social security insurance obligations. As required, certain documentation is required for submission to related government organizations.

Funding operations

As part of establishing business operations in Korea, it is crucial to consider how the business will be funded by way of debt or equity or combination of both.

Debt vs Equity rules: Appropriate classification of debt and equity instruments is important as returns paid on debt interest are tax deductible and returns paid on equity interests are non-deductible.

Thin capitalization rules: In general, when a business borrows from its controlling shareholders overseas, an amount greater than three times (two times from FY 2015 is planned) its equity interest payable in excess of the borrowing is classified as dividends to which the article on dividends in tax treaty applies. Therefore, the excess portion of the borrowing will be treated as non-deductible expense when filing corporate income tax returns.

Foreign investment consideration

Government policy: Tax incentives are available for qualified foreign investments in free trade zones, foreign investment zones, free economic zones, etc.

Business tax incentive: The Special Tax Treatment Control Law (STTCL) prescribes exemption or reduction in corporate income tax returns.