

Tax Incentive System on Foreign Investment in Korea

*We are endeavoring
to create a business-friendly tax
climate for foreign investors.*



National Tax Service

www.nts.go.kr



[Abbreviations]

- **FIC** Foreign Invested Company
- **NTS** National Tax Service
- **MOFE** Ministry of Finance and Economy
- **RPTA** Restriction on Preferential Taxation Act
- **VAT** Value Added Tax



2005 Policy Goal of National Tax Service

We, National Tax Service (NTS) chose 「**Gamdong-Sejung (Tax Administration which Impresses Taxpayers)**」 as NTS's catch-phrase for the year 2005 in order to embody a tax administration which impresses taxpayers through continued management of customer satisfaction.

To achieve this goal, NTS will make best efforts to raise the quality of taxpayer service another level up by introducing the 「On-line Management System of Customer Satisfaction」 to enable NTS to find out taxpayers' responses on real time basis.

We would also solve tax related difficulties of foreign investors with priority so that they can focus on their businesses without unnecessary concerns about tax affairs and improve the systems which are inconsistent with international taxation standards.



YongSup Lee
Commissioner of National Tax Service

Overview of the Tax Incentive System

Korean government has introduced various tax reduction and exemption incentives on foreign investments to contribute to economic development by promoting foreign capital and transferring advanced technologies.

Although Foreign-Invested-Companies (FIC) are not treated differently from domestic companies, the government has allowed special preferential treatment under Restriction of Preferential Taxation Act (RPTA).

The objects of tax incentive for foreign investment includes business income of FIC, dividend income of foreign investor, technical license royalties realized by foreign licensor, and employment income of foreign engineer, etc.

Tax Incentives for Foreign Investment

Reduction or exemption of corporate or personal income tax

Reduction or exemption of acquisition tax, registration tax, property tax, and aggregate land tax

Reduction or exemption of customs duties, special consumption tax, and VAT

Business Subject to Reduction or Exemption

Corporate or personal income tax, acquisition tax, registration tax, property tax and aggregate land tax may be reduced or exempted for the following businesses. (RPTA §121-2 ①)

A business of industry-supporting service which is vital to the strengthening of international competitiveness of domestic industries, and a business accompanying with high-level technology.

A business carried on by FIC which moves in a foreign investment zone and meets the requirements under Foreign Investment Promotion Act §18 and Enforcement Decree §25 ①.

New manufacturing facility installed under the Act on Designation and Management of Free Economic Zones and meets the requirements under Enforcement Decree of RPTA §116-2 ⑤.

A business carried on by FIC that falls under an operator executing the free economic zone development project under the Act on Designation and Management of Free Economic Zones.

Reduction or Exemption of Corporate Income Tax

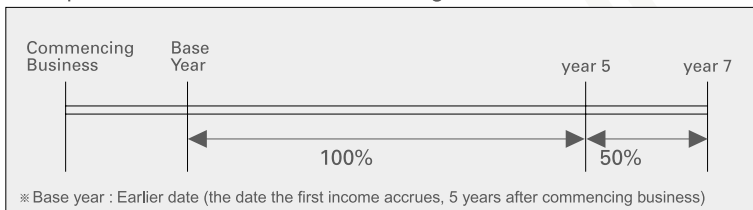
Reduction or exemption of corporate or personal income tax is applied to the relevant enterprise in the following manner.

In the taxable year ending within 5 years from the taxable year wherein the first income accrues from the relevant enterprise after commencing the relevant business. (or the taxable year whereto belongs the date on which 5 years elapsed.)

- ☞ 100 % of taxes subject to reduction or exemption (the amount obtained by multiplying the amount equivalent to the corporate or personal income tax on the relevant business incomes by the ratio of foreign investments) shall be reduced or exempted.

In the taxable year ending within 2 years thereafter, the tax amount equivalent to 50 % of the tax amount subject to reduction or exemption shall be reduced or exempted.

Exemption or Reduction Period on Foreign Investment



Procedures for Tax Reduction or Exemption of Corporate or Personal Income Tax

Application for Tax Reduction or Exemption

Foreign investor should make an application for a reduction or exemption to the Minister of Finance and Economy (MOFE) not later than the closing date of the taxable year whereto belongs the date of commencing business by the relevant FIC.

Necessary documents for tax reduction or exemption

- 2 copies of application form (Form No. 80)
- 2 copies of related documentary evidences

Application for Modification of Contents of Tax Reduction or Exemption

In case foreign investor modifies the business contents on which a decision of tax reduction or exemption is made, he should make an application for modified business contents of tax reduction or exemption to the MOFE not later than the date on which 2 years elapsed from the date on which such cause for alteration occurred.

Application of Prior Confirmation

Foreign investor may request the MOFE to confirm whether or not the relevant business corresponds to the business subject to a reduction or exemption before making a report of the acquisition of newly issued stocks or investment equities.

Reduction or Exemption of Dividend Income Tax

Dividend incomes from domestic companies by a foreign company or non-resident are taxed in Korea. However, dividend income by a foreign investor who operate a foreign invested company which is eligible for the reduction or exemption of corporate or personal income tax will be reduced or exempted under RPTA §121-2 ③.

For a period for which the entire amount of corporate or personal income tax is eligible for the exemption, foreign investor shall be allowed an exemption from the entire dividend income tax amount.

For a period for which 50% of corporate or personal income tax amount is eligible for reduction, foreign investor shall be allowed a reduction of a dividend income tax amount equivalent to 50%.

Reduced tax rate for dividend income by tax treaty

Japan	5%(over 25%*), 15%	Germany	10% (over 25%), 15%
U.K.	5%(over 25%), 15%	U.S.	10% (over 10%), 15%
Canada	15%	France	10% (over 10%), 15%
Singapore	10% (over 25%), 15%	Netherlands	10% (over 25%), 15%
Australia	15%	China	5% (over 25%), 10%

※ Possession rate of voting share by foreign investor

Reduction or Exemption of Local Taxes

The assets acquired or retained by the FIC for carrying on the reported business, the following taxes shall be reduced or exempted as follows, or a certain amount shall be deducted from the tax base. (RPTA §121-2 ④)

Aquisition Tax, Registration Tax, Property Tax: 100% of the tax amount shall be reduced or exempted within 5 years from the date of commencing the business, and the amount equivalent to 50 % of the tax amount shall be reduced or exempted within 2 years thereafter.

Aggregate Land Tax:
100% of the tax amount shall be deducted from the tax base within 5 years from the date of commencing the business, and the amount equivalent to 50% of the amount shall be deducted from the tax base within 2 years thereafter.



Reduction or Exemption of Customs Duties, VAT, etc.

Capital Goods Subject to Exemption

The following capital goods required for any business subject to the reduction of or exemption from corporate or personal income tax shall be exempted from customs duties, special consumption tax and value-added-tax. (RPTA §121-3 ①)

Capital goods introduced by a FIC as a means of foreign payment or of domestic payment which have been contributed by foreign investors.

Capital goods introduced by a foreign investor as a subject matter for investments.

Procedures for Tax Reduction or Exemption:

Any foreign investor or FIC shall, when it intends to be exempted from customs duties, special consumption tax and value-added-tax, make an application for such exemption to the customs collector.



Tax Exemption for Technological License

With regard to a contract which introduces any high-level technology vital to the strengthening of international competitiveness of domestic industries, where a contract has been concluded to introduce the technologies falling under the following, the corporate or personal income tax on the royalties for technological license received by the licensor pursuant to the contents of such contract shall be exempted for 5 years from the date on which such royalties are to be paid for the first time under the relevant contract. (RPTA §121-6)

Any technology which has great spreading economic or technological effects on the national economy and is vital to the advancement of industrial structures and the strengthening of industrial competitiveness.

Any technology for which 3 years elapse or do not elapse from the date of its introduction into Korea and of which economic effects or technological capacities are far more superior than the already-introduced technology.

Any technology necessary for the relevant manufacturing process which is mainly achieved in Korea.

The licensor who provides technology under a contract introducing the technology shall apply for such exemption to the MOFE not later than the date on which one year not elapsed as yet (in case where the date of first payment of royalties arrives ahead, before the first payment date)

Tax Incentive for Foreign Engineers

A foreign engineer who falls under the Enforcement Decree of RPTA §16 ① shall be allowed to be exempted from income tax on labor income derived from the provision of his services to a national within Korea if such labor income has been earned until the month whereto belongs the date on which 5 years have passed since the first date on which the foreign engineer concerned provided his services in Korea. (RPTA §18 ①)

A foreign engineer shall be allowed to be exempted from income tax on labor income derived by providing his services to a national within Korea under a contract for the introduction of technologies as referred to in the Foreign Investment Promotion Act. In this case the exemption amount shall be limited to the income earned until the month whereto belongs the date on which 5 years have passed since the date of delivery of the certificate of report on a contract for the introduction of such technologies. (RPTA §18 ②)

Foreign engineer shall file a written application for tax exemption to the head of tax office not later than the 10th of the month next to that whereto belongs the day on which he has provided service.

Special Taxation Treatment for Foreign Employees

Korean government introduced special taxation treatment to compensate for foreign employees who may incur additional expenses for working abroad.

From 2004, foreign employees may choose either ① or ② when he files year-end tax settlement. (RPTA §18-2)

① Separate taxation of wage & salary income applying 17% flat rate.

- In this case, exemption, deduction and reduction will not be allowed and foreign employees must submit an application form to be applied 17% flat rate.

② Exemption of 30% of wage & salary income on income tax.

- Monthly withholding after subtracting above amount.
- Exemption, deduction and reduction will be allowed. at the year-end tax settlement after subtracting above amount.



VAT Refund for Foreign Business

Foreign companies or non-residents that do not have a permanent establishment in Korea can get the VAT refund when she purchased the following goods or services that VAT was imposed and received tax receipts. (RPTA §107 ⑤).

Listed goods or services that VAT is refunded : Services of restaurant, hotel, advertisement, electricity, communication, real estate lease, repair services for the business offices in Korea and the rental services of office appliances.

Foreign companies or individuals should apply for the VAT refund to the department of individual taxpayer of Seoul Regional Tax Office until the 30th of June by himself or a tax agent with the following documents.

- The Certificate of Business Registration, Invoices, Original Copy of Tax Receipts, Letter of Power of Attorney (for tax agents)

However, the VAT refund is applied only to the companies from the countries that don't have VAT or refund VAT to Korean companies or residents in that country by the principle of reciprocity.

Korean Tax Rate Table

Corporate Income Tax		Non-resident & Foreign Corporations*	
Tax Base	Tax Rate	Items of Income	Withholding Tax Rate
100 mil. or lest	13%	Interest, Dividend, Royalty	25%*
Over 100 mil.	25%	Miscellaneous	25%
Personal Income Tax		Personal Service	20%
Tax Base	Tax Rate	Business Income	2%
10 mil. or less	8%	Capital Gains Income	10 or 25%
10 ~ 40 mil.	17%	Capital Gains from Securities	10 or 25%
40 ~ 80 mil.	26%	Lease of ship, aircraft, etc.	2%
Over 90 mil.	35%	Withholding on Resident's Income	
Capital Gains Tax		Items of Income	Tax Rate
Items	Tax Rate	Pension	Pers'l Income Tax Rate
Possessed 2 years or more	Pers'l Income Tax Rate	Interest & Dividend	15%
1~2 years	40%	Miscellaneous	20%
Less than 1 year	50%	Business	3%
Securities	10, 20, 30%		

※ Global Taxation will be applied to foreign corporations with permanent establishments.

※ Tax rate may be reduced by tax treaty

National Tax Service provides the following foreign taxpayer services

- Foreign Taxpayer Help-line (English) Tel : 82-2-397-1440
- Q&A, Foreign Taxpayer Advocate Service (English) www.nts.go.kr/eng
- English Web Page of NTS www.nts.go.kr/eng
- National Tax Consultation Center Tel : 1588-0060
- NTS Hometax Service www.hometax.go.kr

Useful Links for Foreign Investors

- Invest Korea (KOTRA) www.investkorea.org
- Korean Government Homepage www.korea.net
- Ministry of Finance and Economy www.mofe.go.kr
- Ministry of Industry and Energy www.mocie.go.kr
- Korea Customs Office www.customs.go.kr



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