This report provides helpful information on the current business environment in South Korea. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on South Korea

Contents

RBC Royal Bank®

Important to Know

Official language

- Korean

Currency

- Won (KRW)

Bank holidays

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Source: www.goodbusinessday.com.

Types of Business Structure

Under South Korean law, there are several business structures available, although the vast majority of companies are joint stock corporations (JSC) and it is the preferred structure for foreign investors. A financial institution must hold the paid-in share capital, denominated in KRW, in a restricted account until the business is legally established.

Joint stock corporation

JSC (*Jusik Hoesa)*. This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum share capital of KRW 50 million. Foreign investment is subject to the Foreign Investment Promotion Act (FIPA) and South Korea's Commercial Code. The same process for incorporation applies to both domestic and foreign investors. The appropriate authorities must be notified (tax office and/or Invest Korea) and the corporation must be registered with the Court Registry Office.

Private limited liability company

Yuhan Hoesa. This is a company whose shares are registered to their owners and, thus, are not publicly tradable. It is limited to no more than 50 shareholders. It is not a commonly used structure in South Korea.

General partnership company

Hapmyoung Hoesa. This is a corporation similar to a general partnership. In a general partnership, all partners have full and joint liability.

Limited partnership company

Hapja Hoesa. This is a corporation similar to a limited partnership. In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability.

Cooperatives. There are several cooperatives in South Korea for various sectors, particularly in agriculture. The National Agricultural Cooperative Federation (*Nonghyup*), an umbrella organization for its member cooperatives, is the second largest agricultural cooperative in the world.

Branches and representative offices

Non-South Korean companies are entitled to establish a branch or liaison office in South Korea, except in sectors where foreign investment is restricted. A branch's activities are subject to the Foreign Exchange Trade Act, and are considered part of a company's head office and thus not a separate legal entity. Branches require no minimum share capital. To open a branch, a company must file a number of documents, including head office documents. In addition the Ministry of Strategy and Finance (MOSF) must be notified for banking, securities and other financial institutions. While branches are permitted to make sales, representative offices may not sell directly in South Korea.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have its place of effective management in South Korea.

Domestic and foreign currency account restrictions

Residents are permitted to hold foreign currency accounts both within and outside South Korea.

Resident entities must notify MOSF prior to opening a foreign currency account outside South Korea. Resident individuals must notify the Bank of Korea (BOK) prior to making transfers to resident accounts held abroad greater than USD 50,000 per day.

Resident local currency accounts are not convertible into foreign currency.

Non-residents are permitted to hold local currency and foreign currency accounts in South Korea. Non-residents domestic currency accounts for current transactions ("free won" accounts) must be held with foreign exchange banks. Non-resident domestic currency accounts for investment in domestic securities are also possible. However, transfers between these accounts and free won accounts are not permitted. Non-residents must notify the BOK of overseas remittance of funds withdrawn from these accounts.

Anti-money laundering and counter-terrorist financing rules

Account opening procedures require formal identification of the account holder.

Legal entities are required to provide evidence of their registration together with the type of business, purpose of establishment and the names of its representatives.

All financial institutions are also required to identify and verify customer identification data when conducting single or multiple linked transactions equal to or above KRW 20 million.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

Non-resident free won accounts are settlement accounts for current transactions and reinsurance contracts. A non-resident is permitted to convert KRW-denominated funds in this account into foreign currency and transfer the proceeds abroad.

Value-added tax (VAT) on banking services

Under South Korean law, banking and insurance services are exempt from VAT. A Securities Transaction Tax of 0.3% is applied to the sale of listed shares and 0.5% is applied to unlisted shares. A 0.5% education tax is also applied to some financial transactions.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for domestic payments in South Korea by value. They can be initiated using Internet and other electronic banking facilities. South Korea has one of the world's most advanced mobile and Internet banking networks. Non-urgent credit transfers (direct deposits) are the primary payment method used to make payroll payments. They are also a common method of payment for business-to-business transactions, along with cheques and direct debits. Card payments are commonly used for consumer transactions and are the most frequently used type of cashless payment by volume. Credit cards are much more popular than debit cards because debit cards can only be used between 08:00 and 23:00. Pre-authorized direct debits are widely used in South Korea, primarily by utility and insurance companies to collect low-value regular domestic payments. A CMS debit transfer is a type of direct debit which can be used by companies to collect high-value payments, such as tuition. Cheque use has been declining in recent years, but still remains an important payment medium for both consumers and companies. There are four main types of cheques and bills: cashier's, current account, household cheques and promissory notes. Cashier's cheques can be used by consumers instead of cash for regular payments and can be dispensed at any ATM. Companies use current account cheques or promissory notes for high-value, post-dated payments, though the government has discouraged this practice.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (KRW billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques and bills*	805.3	740.2	– 8.1	4,388,977.0	5,121,637.7	16.7
Credit transfers	2,045.6	2,321.6	13.5	44,034,780.8	51,332,536.2	16.6
Direct debits**	648.9	715.3	10.2	52,271.0	63,026.6	20.6
Debit cards	1.8	1.3	– 27.8	79.2	57.4	– 27.5
Credit cards	3,472.5	4,147.4	19.4	403,632.2	456,420.6	13.1
Card-based electronic money	128.6	11.9	– 13.0	105.0	95.7	– 8.9
Total	**7,102.7**	**7,337.7**	**3.3**	**48,889,844.2**	**56,973,774.2**	**16.6**

Source: Economics Statistics System, the Bank of Korea, May 2009; Korea Financial Telecommunications and Clearings Institute statistics.

*Figures only include transactions cleared through the cheque clearing system. **Figures only include transactions cleared through the Bank Giro system.

International Payments

International payments can be made though BOK-Wire+ which has a SWIFT connection to the Continuous Linked Settlement (CLS) system. Cross-border payments can also be made using traditional correspondent banking techniques, through which several banks have access to the European payment systems.

Payment Processing Times

Transactions processed (KRW-denominated)	Value dating rules	Cut-off time(s) in local South Korea Time (SKT)
High-value and urgent domestic and cross-border electronic payments in KRW (USD and JPY for banks with foreign currency deposit accounts with the BOK)	Settlement in real time with immediate finality	17:30 SKT
Non-urgent, low-value domestic consumer payments	Most payments are settled on a next-day basis. Cashier's cheques can be settled in real time. Cheques and bills are settled on an overnight basis once cleared, although clearing can take up to four days, depending on the location of the two participating banks.	Payments submitted through a bank branch, e.g., cheques, must be submitted by 17:00 SKT. For other instruments, including payments initiated via the Internet or electronic banking systems, the cut-off times vary between banks.

Central Bank Reporting

The BOK collates balance of payments statistics from the responses to mandatory reporting on all payments and receipts between resident and non-resident bank accounts in South Korea and on all remittances/withdrawals on residents' accounts held abroad.

Foreign exchange banks, which include all domestic and foreign banks in South Korea, submit their payments records to the BOK.

Exchange Arrangements and Controls

South Korea applies some foreign exchange controls.

Residents and non-residents need only report imports or exports of cash greater than USD 10,000 (or equivalent) to customs.

The BOK must approve transfers of domestic and foreign currency abroad greater than USD 1 million (or equivalent) in value.

Proceeds from capital and invisible transactions above the equivalent of USD 500,000 must be repatriated within 18 months to South Korea or must be held abroad for foreign transactions.

Controls on inward direct investment apply to some agricultural products including rice, public sector utilities involved in privatization, nuclear energy, and investment in financial institutions, transport and communication.

There are no controls on outward direct investment but companies must declare any such investments to the relevant foreign exchange bank.

The Ministry of Strategy and Finance (MOSF) must approve overseas investment in financial institutions or in any overseas financial or insurance institution.

Insurance companies are prohibited from denominating more than 30% of the value of their total assets in foreign currency.

Resident companies can borrow foreign currency funds upon notifying their foreign exchange banks, but must notify the MOSF for amounts over USD 30 million, which can be done through the foreign exchange bank. Non-residents can borrow in domestic currency from foreign exchange banks up to KRW 30 billion per borrower without any restriction.

Cash and Liquidity Management

The liberalization of foreign exchange controls in the past decade has permitted the establishment of cash and liquidity management structures.

Physical Cash Concentration

Physical cash concentration is available from all South Korean and foreign cash management banks. Resident and non-resident accounts can participate in the same domestic cash concentration structure, so long as they are within the same legal entity. Cash pooling between multiple entities is still not possible. It is customary for companies to hold several collection accounts at several different local banks in order to allow customers to make internal transfers through their own banks. The Korea Financial Telecommunications and Clearings Institute's (KFTC) Cash Management System allows companies to concentrate the balances from these collection accounts into a nominated account.

A number of international banks offer cross-border, physical cash concentration for South Korea's conglomerates (*chaebols*), though cross-currency cash concentration is difficult because the won is only tradable in South Korea.

Notional Cash Pooling

Notional cash pooling is not available in South Korea.

Short-term Investment

Bank instruments

Interest-bearing current accounts are not available. Banks offer time deposits in a range of currencies for terms from overnight to five years, although within three years is the norm. Non-residents are prohibited from investing in KRW-denominated time deposits with a tenor of less than 12 months. Institutional banking customers cannot invest in foreign currency time deposits. Banks also issue certificates of deposit (CDs), usually for three-month terms in amounts over KRW 10 million.

Non-bank instruments

Some South Korean companies issue commercial paper (CP) in the form of unsecured promissory notes, but they are not popular instruments of short-term investment for companies themselves. The main investors are banks and asset management companies.

The South Korean government issues Treasury bills for periods of up to ten years and are not generally used as short-term investment instruments for companies. The BOK issued Monetary Stabilisation Bonds (MSBs) with maturities of up to two years.

South Korean companies have access to money market funds and their popularity has increased over the past decade.

Short-term Borrowing

Bank

Overdrafts are available to companies with a good credit rating. Bank lines of credit and bank loans are usually available in South Korea to both resident and non-resident companies. Banks usually require compensating balances in order to provide advances and may require collateral.

Non-bank

Companies can issue commercial paper (CP) for periods from a week to 360 days, though three months is the most common maturity. Companies can issue commercial paper equal to half their equity up to a maximum of KRW 15 billion. CP issues must have a credit rating.

Trade bills are commonly discounted, and factoring (mostly disclosed) is available.

Taxation

Corporate Taxation

- Resident companies are taxed on their worldwide income after the deduction of allowable expenses, including capital gains. Non-resident companies are taxed on South Korean-sourced income only. Corporate income tax rates were revised in 2008 as follows:

Tax base	Tax rate		
	FY 2008	FY 2009	FY 2010~
Above KRW 200 million	25%	22%	20%
KRW 200 million or below	11%	11%	10%

Advance Tax Ruling Availability

- A taxpayer can submit a written ruling request to the National Tax Service (NTS) or the Ministry of Strategy and Finance (MOSF) to resolve or clarify certain tax issues before entering into transactions. Obtaining a ruling can take from a few weeks to several months. Such rulings are public information. Although third parties can refer to rulings, they are only binding upon the party that requested them.

Withholding Tax (subject to tax treaties and other exemptions)

	Resident company	Non-resident company	
		With treaty	No treaty
Dividend	None	5–15%	22%
Interest	14–25%	0–15%	22%
Royalties	None	0–15%	22%
Business profits	N/A	Can be exempt*	2.2%
Personal services income	N/A	Can be exempt**	22%
Other income	N/A	Can be exempt†	22%

* Business profits derived by a resident of a country with which South Korea has a treaty can be exempt from South Korean corporate income tax when the treaty provides for such an exemption.

** Personal services' income derived by an employee of a resident company of a country with which South Korea has a treaty can be exempt from South Korean corporate income tax when the treaty provides for such an exemption.

† Other income derived by a resident of a country with which South Korea has a treaty can be exempt from South Korean corporate income tax when the treaty provides for such an exemption.

- The sale of listed shares by a foreign shareholder is exempt from capital gains tax when the following requirements are satisfied:
  - listed shares are transferred through the Korea Stock Exchange or KOSDAQ;
  - the foreign company has no permanent establishment in South Korea; and

- the foreign company (and any related parties) owns less than 25% of the share capital of the South Korean company during the year in which the transfer occurs, and did so during the prior five-year period.

- The characterization of a gain from trading in derivative products or sophisticated financial products is still in the development stage in South Korea and there are currently no definite rules. Certain gains are treated as interest and other gains are treated as other income. Withholding tax rates would differ depending upon the character of the income derived.

- Income from transactions in stock indexed futures under the Securities Transaction Law and transactions in futures under the Future Transaction Law derived by a foreign company with no permanent establishment in South Korea are not treated as South Korean-sourced income subject to South Korean withholding tax.

Capital Gains Tax

- South Korean domestic tax law imposes a capital gains tax equal to the lesser of 22% of the capital gain or 11% of the sales proceeds when a non-resident derives capital gains from the sale of shares in a South Korean company provided that such a company is not a real-estate heavy company and unless a reduced rate of withholding tax is applicable under a double taxation treaty.

- Domestic companies report capital gains, together with other profits earned by the company, on their corporate tax return and there is no preferential rate for capital gains. Foreign companies that derive capital gains from the sale of real estate or real-estate heavy companies are required to file a tax return and are subject to tax at the regular corporate tax rate.

Acquisition Tax

- When a taxpayer acquires certain assets, such as property, a vehicle or luxury assets (including golf club membership), set out in the Local Tax Law, a 2.2% acquisition tax is imposed on the purchasing price of the assets acquired.

- When a shareholder acquires 51% or more of shares in a domestic company, the shareholder is deemed to have acquired the underlying assets (mentioned above) of that company; therefore the acquiring shareholder is subject to a 2.2% deemed acquisition tax on the book value of such assets.

Thin Capitalization

- If a foreign invested company borrows from a foreign controlling shareholder (FCS), or an FCS or head office guarantees borrowings from third parties, and such borrowing exceeds 300% of its net equity or paid-in capital, whichever is greater, then the interest expense on the debt exceeding 300% (600% for financial institutions) of the FCS's share of the borrower's net equity or paid-in capital is not a deductible expense for South Korean corporate income tax purposes. Furthermore, any disallowed interest is treated as a dividend to the FCS and is subject to withholding tax. An FCS is a head office or a foreign entity owning, directly or indirectly, 50% or more of the shares of a South Korean company or a foreign entity that substantially controls the South Korean company.

- When a company borrows funds that are then used to lend to related parties, a portion of the interest expense incurred by the company, equivalent to the ratio of the loans made to the related party over the company's total borrowings, would not be deductible for income tax purposes. This is because the loan to a related party would be considered a non-business asset under the Corporate Income Tax Law when the lender is not engaged in a financing business.

Transfer Pricing

- Companies are required to conduct their business on arm's length principles. Where arm's length pricing is not initially applied to transactions with related parties, appropriate adjustments to profits can be made by the tax office upon an audit. In determining what constitutes an arm's length price, the International Tax Coordination Law is applied. Companies should maintain sufficient documentation to support the prices used and any adjustments made. Failure to do so can lead to penalties being charged. Advance pricing agreements can be made with the National Tax Service.

Registration Tax

- A company is subject to a 0.48% capital registration tax on the amount of capital contributed. The tax rate triples when the company is located in the Seoul metropolitan area.

- An asset registration tax applies to certain assets that need to be registered with the court. The registration of real estate is subject to a tax of 2.4% of the transaction price and the registration of vehicles is subject to a tax of between 2% and

5%. The real estate registration tax rate triples when the registration is executed in the Seoul metropolitan area.

Securities Transaction Tax

- Securities transaction tax is imposed on the seller at a rate of 0.5% and 0.15–0.3% for listed shares of the transfer price upon the sale of securities.

Sales Taxes / VAT

- VAT is levied on all taxable goods and services and on all taxable goods imported into South Korea. The standard rate is 10%, but a zero-rated VAT is available on certain supplies or services, including the export of goods, services provided outside South Korea, international navigation services involving ships and aircraft, etc. Furthermore, public transportation services, certain food products, publications, medical services, etc. listed in the VAT Law are exempt from VAT.

Payroll and Social Security Taxes

- Employers are required to withhold the following taxes, pension contributions and insurance contributions from their employees' payroll on a monthly basis and submit them to appropriate government offices by the tenth day of the month following the month in which salaries are paid. Industrial injury compensation insurance and unemployment insurance are paid annually and due by March 31.
  - Individual income tax rates are as follows:

Annual taxable income	Combined tax rate		
	2008	2009	2010~
Less than KRW 12 million	8.8%	6.6%	6.6%
KRW 12 million – 45 million	18.7%	17.6%	16.5%
KRW 45 million – 88 million	28.6%	27.5%	26.4%
Over KRW 88 million	38.5%	38.5%	36.3%

› Social taxes are as follows:

	Employer	Employee	Total	Notes
National Pension	4.5%	4.5%	9.0%	Monthly cap: KRW 162,000 each
National Health Insurance	2.54%	2.54%	5.08%	Monthly cap: 1,569,092 KRW 1,671,060 each
Long-term Care Insurance	0.12%	0.12%	0.24%	Calculated as 4.78% of the National Health Insurance premium
Industrial Injury Compensation Insurance	0.74–36.4%	N/A	0.74–36.4%	Varies depending on the type of industry
Unemployment Insurance	0.70–1.30%	0.45%	1.15–1.75%	
Disability	Businesses with more than 50 employees are required to hire people with disabilities, who should make up 2% of the total workforce. Failure to comply results in a penalty of KRW 500,000 per person.			

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 15, 2009.

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