

WM GROUP: FOREIGN DIRECT INVESTMENT COMPANY INCORPORATION SERVICES

Welcome to **WM Accounting and Service Group**. We are a one-stop accounting and Investment consulting firm with vast experience in accounting, commercial law and real estate. We are happy to offer your esteemed firm a one-stop service for all you consultancy and tax needs in Korea.

Below is a brief overview on the procedures and costs for establishing a business by foreign nationals in South Korea.

Procedure of Business Established by Foreign Nationals in Korea

There are three ways foreign nationals can engage in business activities in South Korea.

- 1) Establishing a Local Corporation
- 2) Opening a Private Business
- 3) Opening a Branch Office

	Type of Business	Governing law	Note	Investment Capital
1	Local Corporation	Foreign Investment Promotion Act	Foreign Invested Company	Min.:KRW100million
2	Private business			Min.:KRW100million
3	Branch	Foreign Exchange Transactions Act	Domestic Branch of a Foreign Company	Min.:KRW100million

Differences between a Local Corporation and a Domestic Branch of a Foreign Company

Division	Foreign Invested Company	Domestic Brach of a Foreign Company
Governing law	Foreign Investment Promotion Act	Foreign Exchange Transactions Act
Corporation type	Domestic corporation	Foreign corporation
Identity	Foreign investors and foreign-invested companies are separate entities (independent accounting & settlement)	The head office and the branches are of a single entity (consolidated accounting & settlement)
Min.(Max.) Investment Amount	Min.: KRW 100million Max.: No limitation	No limitation
Delegated agency to process notifications and grant permits	Invest KOREA, KOTRA's overseas KBCs(Korea Business Center), head office and branches of foreign exchange bank in Korea(NOTIFICATION ONLY)	Branches of foreign exchange banks in Korea (Notification), Ministry of Strategy and Finance (Business Permit for financial business, etc.)

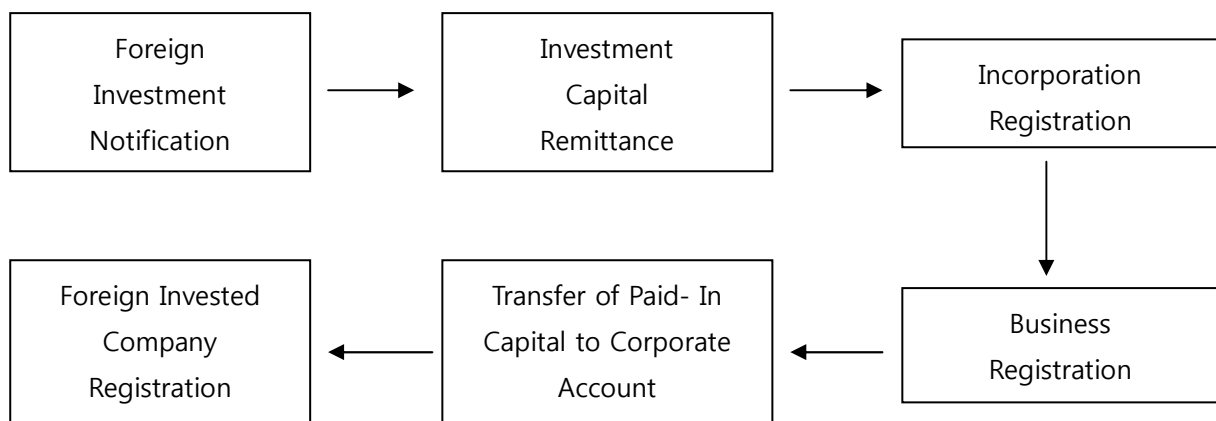
PROCEDURES FOR FOREIGN DIRECT INVESTMENT (FDI)

◎ Establishment of a Local Corporation

The procedure for establishment of a local corporation can be classified into four steps:-

1. Foreign investment notification
2. Investment Capital Remittance
3. Incorporation and Business registration
4. Foreign Invested company registration.

The procedure is basically identical to the corporation establishment procedure applied to Korea nationals except for the pre-report of foreign investment and registration of a foreign invested company. But, opening a private business doesn't need to registration for Incorporation.



1. Foreign Investment Notification

: Persons required filing the notification at designated head offices or branches of domestic banks (foreign exchange bank) and domestic branches of foreign banks.

2. Investment Capital Remittance

: Investment capital may be remitted to domestic banks from overseas, at this time, domestic capital doesn't approval. (Remitter and recipient name have to be same.)

3. Incorporation/Business Registration

: Place for registration – A competent court and jurisdictional tax office.

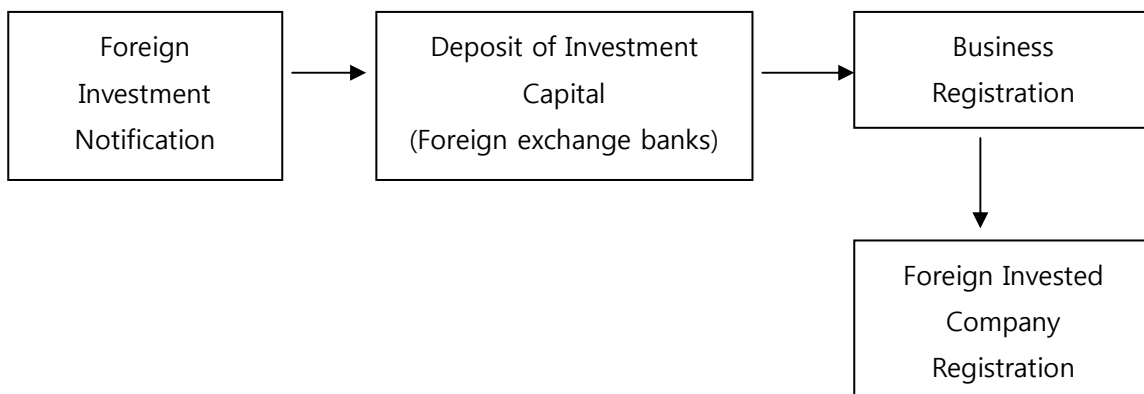
4. Transfer of Paid-In Capital to Corporate Account

: Upon completion of the incorporation registration and business registration, companies are incorporated and the paid-in capital deposited in a temporary account can be transferred to a corporate account.

5. Foreign Investment Company Registration

◎Private business

Private businesses are treated equally as local corporations in its business activities. Private business doesn't require Incorporation Registration.



◎ Establishing a Branch Office in Korea

Undergo the branch establishment procedure stipulated by the Foreign Exchange Transactions Act, and receive court registration. A branch undertakes sales activities in Korea to generate profit.

1. Notification of Branch Establishment

: In principal, a foreign company should report the establishment of a domestic branch to the head of a designated foreign exchange bank.

2. Registration of Branch Establishment

: Under the Commercial Act, 'branched' are collectively referred to as 'business office'. The Act stipulates that the establishment and registration of a business office is required where a foreign company carries business in Korea.

TIMELINE AND COST OF INCORPORATION

1. It takes **one week to establish a Branch office or Corporation** after capital remittance (detailed below) and the required documents are received. The fees for establishing a branch or corporation is 7,500,000KRW (7,200USD).
2. **Minimum Investment Capital** required for establishing a **branch office or foreign investment corporation** is **100,000,000KRW**. This type of investment benefits from certain tax incentives and the investor receive a D-8 Investment Visa.

*NOTICE: Please take into account any daily fluctuations in the exchange rate when remitting the 100,000,000KRW. This amount cannot be any less when it's converted and received by the bank, so it is advisable to remit a little extra.

3. The main difference between Branch Office and Corporation lies in taxation. In the case of a local corporation, you only need to pay local corporate tax. For a branch, you need to pay a branch tax and as well as report this tax to your head office. You need to discuss this with your local CPA. Please be aware that if the day for settling accounts is different between the Korean branch and your head office, you need to settle twice.

WM SERVICE GROUP'S SYSTEMATIC PROCEDURES FOR FDI COMPANY INCORPORATION

1. Our client pays/settles our fees and signs WM Group Incorporation Support Contract.
2. WM Group provides our client with a detailed engagement plan, outlining a roadmap for company registration in South Korea, thus minimizing unwanted surprises and meeting client expectations.
3. Our client and WM Group agree the legal, tax and accounting implications of company registration in Korea.
4. Prior to company set up, WM Group collects the required due diligence from our client, including passport copies, proof of address, and details of the company's intended activities.
5. Prior to company registration, our client and WM Group also agree the company name and the optimum corporate structure, including shareholders and directors.
6. WM Group Incorporation team will check the availability of trade name and obtain a certificate of name availability through the Supreme Court in South Korea.
7. To proceed with company set up, WM Group has to apply for foreign investment approval for the business at the **Ministry of Strategy and Finance** in Seoul or Busan. If approved, WM Group will begin company incorporation.
8. Prior to company set up, WM Group prepares incorporation documents (such as memorandum and articles of association, as well as a statement on the amount and form of the proposed initial share capital) for our client's signature and return to us.
9. To support company setup, WM Group Incorporation Team will file the application package for incorporation registered with the District Government Office, and obtain a corporate registration tax bill.
10. WM Group Incorporation Team liaises with the Commercial Registrar's Office in the Busan District Court to complete company registration. Company set up is completed with the corporate structure as approved by our client.
11. In order to complete the company set up, WM Group will register the company for tax at the District Tax Office in Busan and obtain a tax identification number and business registration certificate.
12. After company set up, WM Group Company Secretary Team prepares all post incorporation documents, including minutes of the first meeting, preparation of By Laws, and issuance of initial Share Certificates.
13. Following company setup, WM Group provides our client with a complete company kit including i) original Certificate of Incorporation ii) a bound copy of the government approved Articles of Association iii) original share certificates iv) an original government receipt as evidence of payment of annual company registration and license fees.
14. To support company set up, WM Group Banking Team completes **corporate bank account** opening for our client. The account includes world-class multi-currency Internet banking facilities and our client is not required to visit South Korea to complete this task. WM Group works with internationally recognized banks such as **Korea Exchange Bank, Industrial Bank Of Korea** and **HSBC Bank** to provide corporate bank account services.
15. To support company set up, WM Group provides our client with a local business address in South Korea for invoicing purposes, together with telephone, fax and email support until the business establishes their own premises.

16. WM Group handles our client's business support services through **provision** of services such as tax accounting, bookkeeping, payroll, International Tax Advisory, Tax Consolidation to support the new company. A separate contract is required for this provision.
17. WM Group assists our client to obtain **corporate finance**, trade finance and to open **merchant accounts** after company set up.
18. WM Group assists our client to locate business premises and recruit local staff after company set up.

QUICK TIPS ON VARIOUS FOREIGN INVESTMENT OPTIONS

- ❖ Liaison office is limited in activities to liaison and market survey. Branch office and subsidiary are not limited in activities. However, branch's activities are influenced by HQs' activities and subject to government approval. Subsidiary's activities are not limited if they are registered with the commercial court.
- ❖ Branch Office needs to pay branch Tax in Korea as well as report this tax to the head office Country. Branch office always has to follow Korean and Head Office Country Tax laws. Tax Consolidation and Bookkeeping is tedious because it has to be done in both countries.
- ❖ When there is shortage in operating fund, only capital increase and loan from the affiliated companies are allowed. However, funding for operation from HQs is not limited for branch and liaison office.
- ❖ Corporate tax is levied on the profit. Therefore, the size of profit is key factor to decide the amount of corporate tax. In case that Korea office earns revenue from overseas, zero rates is applied in Value Added Tax, which means all of input (purchase) VAT are refunded. When zero rates are applied, actual tax is minimal. As such, liaison office doesn't have advantage in terms of tax.
- ❖ Directors and the statutory auditor are appointed for subsidiary. Instead, only representative is needed for branch and liaison office. Director is the member of board of directors, who has the independent power to run the company even though the company is dependent on HQs, whereas, the representative is not independent organization because head is employee. Director, the statutory auditor and representative will be subject to liability only if involved in violation of laws and regulation. Therefore, exposure to liability is almost same among legal types.
- ❖ Remittance of profit is not limited. However, branch needs audit report and thin capitalism is applied. Subsidiary needs resolutions about dividend in General Shareholders Meeting.

Foreigner is allowed to be director and the statutory auditor in subsidiary and the representative in branch and liaison office. Furthermore, there are no regulations requiring minimum number of local directors.