What are the differences among a local corporation, a branch office and a liaison office?

Every month, Invest KOREA provides answers to some frequently asked questions submitted by foreign-invested companies in Korea and potential investors.

A foreign-invested company (a local corporation)

– An investment of at least KRW 100 million per foreign investor is required to establish a foreign-invested company under the Foreign Investment Promotion Act and the Commercial Act.

A branch office or liaison office of a foreign company

– A branch office: When engaging in a business that generates profits in Korea, it is classified as a "branch office" under the Foreign Exchange Transactions Act. Because a branch office is a foreign corporation, it is not recognized as foreign direct investment.

– A liaison office: A liaison office is different from a branch office in that it does not carry out business that generates profits in Korea, but instead undertakes "non-sales" activities such as liaison work, market research, research and development activities. Unlike a branch office, a liaison office is assigned a serial number equivalent to a business registration number by a competent tax office without a registration process in Korea.

Foreign-Invested Company vs. Branch Office vs. Liaison Office

<table>
<tr><th>Total Area</th><th>Foreign-Invested Company</th><th>Branch</th><th>Liaison Office</th></tr>
<tr><td>Applicable laws</td><td>Foreign Investment Promotion Act</td><td colspan="2">Foreign Exchange Transactions Act</td></tr>
<tr><td>Type of corporation</td><td>Domestic corporation</td><td colspan="2">Foreign corporation</td></tr>
<tr><td>Company name</td><td>No restrictions</td><td colspan="2">Must be identical to that of the headquarters</td></tr>
<tr><td>Scope of business activities</td><td>No restrictions within the permitted scope</td><td>Restricted to the same activities as the head office, within the permitted cope</td><td>Not permitted to generate profits and restricted to activities related to establishing business contacts</td></tr>
<tr><td>Capital requirement</td><td>KRW 100 million or greater</td><td colspan="2">No restrictions</td></tr>
<tr><td>Legal liability</td><td>Liability limited to the domestic corporation</td><td colspan="2">Liability extends to the headquarters</td></tr>
<tr><td>Independence</td><td>Independent by law</td><td colspan="2">Subordinated to the headquarters</td></tr>
<tr><td>Loans in Korea</td><td>Possible depending on its credit rating</td><td>Almost impossible</td><td>Impossible</td></tr>
<tr><td>Establishment procedures</td><td>1. Foreign investment notification
2. Registration for incorporation
3. Business registration
4. Registration of foreign-invested company</td><td>1. Notification of branch establishment
2. Court registration
3. Business registration</td><td>1. Notification of branch establishment
2. Registration of serial number</td></tr>
<tr><td>Accounting and taxation</td><td>Obligation of bookkeeping according to Korean GAAP and external audit for certain conditions</td><td>Obligation of bookkeeping according to Korean GAAP, but no obligation of external audit</td><td>No bookkeeping obligation</td></tr>
<tr><td>Corporate tax rate</td><td colspan="2"><table><tr><th>Tax base</th><th>Tax rate</th></tr><tr><td>Not over KRW 200 mil.</td><td>9%</td></tr><tr><td>Over KRW 200 mil. and not over KRW 20 bil.</td><td>19%</td></tr><tr><td>Over KRW 20 bil. and not over KRW 30 bil.</td><td>21%</td></tr><tr><td>Over KRW 30 bil.</td><td>24%</td></tr></table>* Local corporate tax equivalent to 10% of thecalculated corporate tax amount is separately imposed.</td><td>No obligation to pay corporate tax</td></tr>
<tr><td>Taxable income</td><td>Total income based on all profits made by the local corporation</td><td>Profit from all domestic-source income of local branch is combined.
Branch tax applies in some countries</td><td>No taxable income</td></tr>
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For further inquiries, please contact the Investment Consulting Center

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