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## BUSINESS ENVIRONMENT

### THE CONSUMER

#### Consumer Profile

South Korea's population is ageing very quickly, the median age is 44.8 years old. While only 14.8% of the population is under 18 years old, 67.8% is between 18 and 64 years old and 17.5% is above 65 years old (Data Reportal, 2022). The population is growing at a rate of 0.1%, according to the latest data provided by the World Bank. Households have an average of 2.4 people in 2021 (Kostat). 27% of households live alone, 48% of households are composed of 2 or 3 people, 24% of households of 4 or 5 people and only 1.5% of households have more than 6 members (UN, latest data available). The gender ratio is 1 man to 1 woman with 81.5% of the population living in urban areas (Data Reportal, 2022). The population is concentrated in the non-mountainous lowlands: the Gyeonggi province around Seoul is the most populated while the Gangwon province is the least dense. The main cities are Seoul, Busan, Incheon, Daegu, Daejeon, and Gwangju. The level of education is very high. In Korea, 89% of adults aged 25-64 have completed upper secondary education, higher than the OECD average of 79% (OECD, 2020). Moreover, the population with tertiary education aged 25-34 year olds is nearly 70% in 2020, far above the OECD average (45%). The most active occupations in the labour force concern administration and accounting, then salespeople with kitchen and restaurant staff. Then come administrators, office workers and farmers.

#### Purchasing Power

The GDP per capita PPP is \$ 45,225.8 in 2020 (World Bank). In Korea, the average household net-adjusted disposable income per capita is USD 24,590 a year, lower than the OECD average of USD 30,490 a year (OECD, 2020). A significant gap exists between the richest and the poorest: 20% of the population earns more than five times more than the lower 20%. In addition, the average salary in Seoul is among the highest in Asia, currently at KRW 2.9 million, or around USD 2,275 (Statista). In terms of employment, 66% of people aged 15 to 64 in Korea have a paid job, which is the same level as the OECD employment average. The Gini index on income inequality is estimated at 0.34 and stable, but gender inequality is among the highest among OECD countries. Some 75% of men are in paid work, compared with 57% of women. The gender pay gap in Korea is the highest among OECD countries at 31.5% in 2020, contributing to making working life for women in Korea unappealing.

#### Consumer Behaviour

South Korea is a consumer society. Purchases not only serve the primary needs but also for image and status reasons. The economic slowdown and the high level of debt have pushed some Koreans to pay attention to their spending, even if luxury goods are still trendy. Products attracting the most consumers are successful brands where detailing is visible. Consumption is used to make a statement. In general, purchases are made in department stores, shopping centres but also in new types of stores (example: food retailers).

Korean consumers are not loyal to brands, they tend to be tech-savvy and concerned with brand names. Koreans are very connected. As a matter of fact, more than 98% of South Korean households access internet daily and over 85% of the Korean population owns a smartphone (Data Reportal, 2022). Online shopping is very

democratised. Around 90% of the nation's population use e-commerce platforms, and this is expected to rise to 94.4% in 2023. The use of the internet also makes it possible to search for information on a product before picking it up in a store. Social networks are used to explore, review products and buy. Influencers and testers of known products are influential in consumer decision making. Consumers are increasingly less attracted to domestic products while purchases of foreign products are growing.

South Koreans tend to change their consumption behaviour. Koreans are increasingly looking for leisure free time. Consumption friendly to the environment is not yet fully widespread, even if it is developing. A new group of consumers has emerged, insisting on "green labels" and hunting for eco-friendly, or organic and natural alternatives. Concerns for the environment are a little stronger among young people. There is a second-hand market in South Korea that is developing, especially with flea markets and internet exchanges. The collaborative economy is present and growing in South Korea.

### **Consumer Recourse to Credit**

South Korea is very modern for payment systems. While only 20% of transactions are made in cash, debit and credit cards and T-Money cards are widespread. South Korea's central bank aims to stop using liquidity by 2020. As a result of credit-enhancing measures, the level of household debt has exploded. In mid-2018, household debt to their disposable income reached 161.1% and outstanding amounts to won 1 993 trillion. On average, one person has 80 million won of debts and 37% of the population had debts in June 2018. Consumer credit and credit card purchases are very common and used to finance vehicles but general consumption. The country's central bank is alerting consumers about the level of private debt but also about the fact that defaults are rising. The expansion, if it continues, could therefore be slowed down by the authorities.

### **Growing Sectors**

Cars, computers, smartphone and software, medicines, parapharmacy and medical equipment, transport, food, restaurants and hotels, education services, interior decoration, fashion, luxury goods and services for the elderly.

### **Consumers Associations**

[Korean Consumer Agency](#)

## **IMPORTING & DISTRIBUTING**

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### **Import Procedures**

The Korean Customs Service's (KCS) is the official customs department of South Korea which works under the Ministry of Strategy and Finance. Importers can make an import declaration online using the Korean Customs Service's Electronic Data Interchange (EDI) system for paperless import clearance. The KCS has been operating a web-based clearance system 'UNI-PASS' since October 2005. For more information, please see the Import Procedure listed on the [website of the Korea Customs Service](#).

The following documents are required for customs clearance procedure in South Korea:

- Import declaration form
- Commercial invoice: An original invoice and two copies must be presented with the shipping documents and must include total value, unit value, quantity, marks, product description and shipping from/to information.
- Certificate of origin: A certificate of origin, in duplicate, is required for certain products. Exporters are encouraged to discuss specific document requirements with their respective importer.

- Packing list
- Bill of lading
- A certificate of inspection
- Maritime Insurance

It should also be noted a free-trade agreement between the European Union and South Korea has been in force since 2015 (after four years of provisional application).

### **Specific Import Procedures**

The Government of Korea has established requirements and procedures for the import of certain products, including registration, standards and safety and efficacy testing to ensure the protection of public health and sanitation, national security, safety and the environment. In general, health or safety related products, such as pharmaceuticals and medicines, require further testing or certification by the relevant organisations before they are cleared through customs. Exporters of medical devices and pharmaceuticals must have their products registered with the Ministry of Food and Drug Safety (MFDS). Imports of agricultural products generally must receive clearance from several agencies: the Korean Customs Service (KCS), MFDS, National Quarantine Office and the Animal and Plant Quarantine Agency.

### **Distribution channels**

Retail sales in South Korea increased by 11.3% in 2021 compared to 2020, due to the sharp increase in online sales following the coronavirus pandemic. According to the Ministry of Commerce, Industry and Energy, combined sales of 25 major offline and online retailers reached KRW 12.19 trillion in February 2022. Traditional retail distribution networks of small family-run stores, stalls in markets and street vendors are being replaced by large discount stores. During the Covid-19 pandemic, offline shops continued to lose ground. Convenience stores were the only winners, while department stores and supermarkets sales dropped. In 2021, as the economy started to recover from the pandemic, department store sales rebounded by 24.1% and sales at convenience store chains climbed 6.8%. Sales in supermarkets fell by 2.3% due to a reduction in the number of stores, as well as consumer tendencies of avoiding publicly used facilities (South Korea Ministry of Commerce).

As consumers take to the internet to purchase products out of convenience, they are also showing a similar trend in store-based retailing by frequenting convenience stores. In Korea, the high convenience store density suggests that convenience stores are highly accessible and thus have become favoured by consumers looking to quickly pick up some grocery items. Also, convenience stores aggressively developed creative products and services in order to attract frequent consumer visits to the outlets.

As internet retailing becomes one of the strongest retailing channels in South Korea, retail grocery companies have engaged in omni-channel strategies that cater to online shoppers. One such measure is click and collect, whereby consumers can pick up the items they ordered online via pick-up stations in the outlets.

Rapid expansion of large-scale businesses over the years has heightened the competitive pressure in the Korean retail sector. As a result, leading players have actively pursued merger and acquisition (M&A) opportunities to achieve bigger control of the market. Leading retail companies in Korea today have become a "conglomerate" power that operates retail businesses in diverse retail industry segments.

### **Distribution market players**

According USDA Foreign Agricultural Service, Korean retail food sales totaled \$103 billion in 2020 (latest data available), accounting for 29% of total retail sales. Grocery supermarkets are the leading food retail channel, followed by hypermarket discount stores, convenience stores, on-line retailers, and department stores. The Korean market is concentrated.

Grocery supermarkets were the main food retail channel, with 39.3 trillion won in food sales in 2020, followed by

hypermarkets (17.2 trillion won) and convenience stores (13.6 trillion Won).

Hanaro Mart, Lotte Super, GS Supermarket are among the leading supermarkets if we consider the number of shops. The major hypermarkets are EMART, Home Plus, Lotte Mart and COSTCO. Finally, CU, GS25 and Seven Eleven are the largest convenience stores.

## Retail Sector Organisations

Korean Ministry of Trade, Industry and Energy

## OPERATING A BUSINESS

### Type of companies

#### Yuhan Hoesa: Private Limited Company

**Number of partners:** Minimum one, maximum fifty partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** Liability is limited to the amount contributed.

#### Jusik Hoesa: Public Limited Company

**Number of partners:** One or more partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** Liability is limited to the amount contributed.

#### Hapja Hoesa: Limited Partnership

**Number of partners:** Two or more partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** Liability of active partners is unlimited. Liability of sleeping partners is limited to the amount contributed when they do not take part in the company management.

#### Hapmyong Hoesa: General Partnership

**Number of partners:** Two or more partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** Liability is unlimited.

#### Yuhan Chegim Hoesa: Limited Liability Company

**Number of partners:** One or more partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** Each member's liability limited to the amount of contributed capital

Setting Up a Company	South Korea	OECD
Procedures (number)	3.0	5.2
Time (days)	8.0	9.5

Source: Doing Business - Latest available data.

## Cost of Labour

### Minimum Wage

Since January 2022, the legal minimum wage is KRW 9,160 (approximately USD 7) per hour (Minimum Wage Commission).

### Average Wage

The average salary in South Korea in 2020 is approximately \$41,960 a year, \$3,500/month (OECD).

### Social Contributions

Social Security Contributions Paid By Employers: • National Pension: 4.5% (National pension contribution is capped at a monthly salary of KRW 5,240,000)

- Health Insurance: 3.924% (currently capped at a monthly contribution of KRW 8,203,680 in total)
- Employment Insurance: from 1.05% to 1.65% (1.15% to 1.75% starting from July 2022), depending on the number of employees and type of industry.
- Worker's Compensation Insurance: 0.73% to 18.63% depending on the industry

Social Security Contributions Paid By Employees: • National Pension: 4.5% (National pension contribution is capped at a monthly salary of KRW 5,240,000)

- Health Insurance: 3.924% (currently capped at a monthly contribution of KRW 8,203,680 in total)
- Employment Insurance: 0.80%

## Intellectual Property

### National Organisations

[Korea Institute of Patent Information \(KIPRIS\)](#)

[International Intellectual Property Training Institute \(IIPTI\)](#)

### Regional Organisations

[Intellectual Property Rights Experts Group \(IPEG\)](#)

### International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

[Membership to the TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

## TAX RATES

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### Consumption Taxes

#### Nature of the Tax

Value Added Tax (VAT) - Boo-ga-ga-chi-se (also known as Boo-ga-se)

### **Tax Rate**

10%

### **Reduced Tax Rate**

A 0% rate applies to exported goods, services rendered outside Korea, international transportation services by ships and aircraft, and other goods or services supplied for foreign currency.

### **Other Consumption Taxes**

Korea imposes excise duties on alcoholic beverages (volume-based) and tobacco.

Stamp duties ranging from KRW 50 to KRW 350,000 apply to agreements relating to the creation, transfer, or alteration of rights.

A company acquiring real estate, motor vehicles, heavy equipment, and certain other items must pay an acquisition tax ranging from 1% to 7% (generally at 4.6%, including the local surtax).

## **Corporate Taxes**

### **Company Tax**

- 9% up to KRW 200 million)
- 19% from KRW 200 million to KRW 20 billion
- 21% between KRW 20 billion and KRW 300 billion
- 24% over KRW 300 billion

### **Tax Rate For Foreign Companies**

A corporation having its head or principal office, or effective management in Korea is considered a resident corporation.

A non-resident corporation is generally deemed to have a permanent establishment if:

- It has any fixed place of business in Korea, where the business of the entity is wholly or partly carried on
- Its employees provide services in Korea for more than six months within 12 consecutive months
- Its employees continuously or repeatedly render similar services in Korea for two or more years, even if each service visit is for less than six months within 12 consecutive months
- It is represented by a dependent agent in Korea, i) who has the authority to conclude contracts on its behalf and who has repeatedly exercised that authority; ii) who, even if having no such authority, repeatedly performs a principal role in the course of concluding contracts.

### **Capital Gains Taxation**

For resident companies, capital gains are treated as ordinary business income and taxed at the normal corporate tax rate. However, capital gains from the sale of non-business purpose real estate are subject to additional capital gains tax, at the rate of 10% (40% in the case of non-registered land or houses).

For non-resident companies, Korean-source capital gains are taxed at either 11% of sales or 22% of the gains

realized (whichever is less). In general, no special taxes are levied on gains from mergers.

### **Main Allowable Deductions and Tax Credits**

As a general rule, expenses incurred in the ordinary course of business are deductible, with those above KRW 30,000 needing to be supported by qualifying evidence.

A doubtful accounts reserve is allowed as a deduction for tax purposes at the greater of 1% on the tax book value of the receivables at a year-end or actual bad debt ratio (does not apply to financial institutions). Entertainment expenses of more than KRW 30,000 on an event basis supported by corporate credit card vouchers, cash receipts, or tax invoices can be deductible (up to certain limits). With some exceptions, interest paid in the ordinary course of business is deductible as long as the related loan is used for business purposes. Insurance premiums paid to an insurance company are deductible.

Start-up expenses, such as incorporation expenses, founders' salary, and registration fees and taxes, are deductible if the expenses are recorded per the articles of incorporation and are actually paid. Goodwill can be amortised over a period of five years using the straight-line method.

Certain charitable contributions can be deductible at up to 50% of the total taxable income for the concerned fiscal year after the deduction of net operating loss (including donations to public interest entities like government bodies and social welfare organisations, or for academic research, technical development, etc.) or up to 10% of the total taxable income for the fiscal year after the 50% deduction of other donations and net operating loss. The amount in excess of such limits can be carried over for ten years.

Net operating losses can be carried forward 10 years up to 80% of a fiscal year's taxable income, or for 15 years when incurred in fiscal years starting on or after January 1, 2020. SMEs and certain qualifying companies under recovery process are allowed to deduct the net operating losses carried over from prior years without limitation. The carryback of losses is not permitted; however, SMEs can elect to carry back a net operating losses for one year if they have duly filed tax returns for the year when NOL was incurred and the preceding year.

A special deduction from 5% to 30% (depending on corporate location, size, business types, etc., capped at KRW 100 million) applies to SMEs operating in a qualified business (applicable to taxable income arising in the tax years that end before 31 December 2022). New startup SMEs located outside of metropolitan and overpopulated areas, engaging in specified businesses such as manufacturing, mining, restaurants, audio-video production, telecommunications, computer programming, advertising, and amusement facilities (excluding cryptocurrency trading), are eligible for a tax relief of 50% to 100% reduction in corporate income tax for the first five years. Furthermore, several tax credits are available for qualified investments.

### **Other Corporate Taxes**

A capital registration tax of 0.48% (or 1.44% for the Seoul Metropolitan Area) is levied. A property tax ranging from 0.1% to 4% is levied on land and buildings for residential and commercial use, vessels, and aircraft. A comprehensive real estate holding tax, as a national tax, ranging from 0.5% to 6% is charged on a certain excessive aggregated statutory value of land and houses.

Nominal stamp duty is levied on agreements relating to the creation, transfer and alteration of rights. Starting from January 1st, 2023, the transferor of shares will be obligated to pay a securities transaction tax, which will be 0.35% of the share transfer price. However, for listed share transfers, the rate will be 0.2% from January 1st to December 31st, 2023. If the shares being transferred are listed on the Korea New Exchange (KONEX), the rate will be 0.1%.

Companies acquiring real estate, motor vehicles, heavy equipment, and certain other items must pay acquisition tax, with rates generally ranging from 1% to 7% (including the local surtax). A 12% acquisition tax rate is applicable to the acquisition of a residential house by a corporation.

Stamp duties ranging from KRW 50 to KRW 350,000 apply to agreements relating to the creation, transfer, or alteration of rights.

When a person receives a gift that increases their property or its value, they are subject to a gift tax. However, if the gifted property is already subject to CIT or individual income tax, the gift tax will not be imposed. The tax rate for gift tax ranges from 10% on a tax base of not more than KRW 100 million to the highest marginal tax rate of 50% on the excess over KRW three billion in the tax base.

The four types of social security contributions in Korea are national pension (4.5% of salaries, capped at a monthly salary of KRW 5,530,000 until June 2023), national health insurance (3.925%), and employment insurance. In addition to a 0.90% contribution to employment insurance, employers are required to make a 0.25% to 0.85% contribution to employment stabilisation insurance and occupational competency development insurance. Furthermore, contributions to the Worker's Accident Compensation Insurance rates vary from 0.7% to 18.6% of total wages and payroll, depending on the type of industry.

## **Other Domestic Resources**

[National Tax Service](#), to obtain a summary of taxes and mandatory contributions

## **Double Taxation Treaties**

### **Countries With Whom a Double Taxation Treaty Have Been Signed**

[List of Korea's International Tax Treaties](#)

## **Withholding Taxes**

- Dividends: 0% for domestic companies, 15.4% for resident individuals (including the surtax), 22% for non-residents (including the surtax)
- Interest: 15.4% for interests obtained from financial institutions (including the surtax), 27% for regular loans (including the surtax) paid to a resident company or individual, 22% if paid to a non-resident company or individual
- Royalties: 0% for domestic companies, variable rates for resident individuals, 22% for non-residents (including the surtax)

Different withholding taxes may apply to non-residents of countries with which South Korea signed a tax treaty, with rates as low as 0%.

