

## SOUTH KOREA



# Measures to encourage overseas direct investment

**By Hun Mook Lee**

The Ministry of Finance and Economy (MOFE) has announced a number of measures designed to encourage overseas direct investment, strengthen investment infrastructure and revitalise corporate expansion overseas. The measures include easing regulations to expand overseas direct investment and easing regulations on overseas real estate investment.

## Easing regulations to expand overseas direct investment

Some examination requirements such as financing and appropriateness of investment plan will be excluded for general overseas direct investment, shifting to a de-facto reporting system. In cases where all the requirements are satisfied, reporting will immediately be accepted. Currently, the acceptance of a report is decided within 30 days.

In case institutions handling financial and insurance businesses plan to make overseas direct investment in non-financial businesses overseas, or even companies with weak financial structure make overseas direct investment, they are required to report directly to the Ministry of Finance and Economy as of now. However, with the introduction of the new measure, they are allowed simply to file a report with any commercial bank.

Currently, overseas direct investment vehicles are restricted to cash, capital goods and listed shares. However, non-listed and non-registered shares will be included in the vehicles. Documents required to submit for follow-up management will be either consolidated or abolished.

A compensatory mechanism will be prepared for monitoring and taxation purposes in view of the eased regulation. Overseas direct investment data are compiled by the Export-Import Bank of Korea and accordingly reported to the National Tax Service (NTS). So, only individuals' reporting records are notified to the NTS. With the new measure, the whole process of data compilation and notification will be upgraded and utilised for taxation purposes. Reporting of corporations will also be listed. The overseas direct investment statistics system will be

revised in line with international standards. Overseas direct investment performance analysis will be substantiated as well.

## Easing regulations on overseas real estate investment

The Government will ease regulations in order to boost overseas real estate investment through indirect investment. In cases where a Special Purpose Vehicle is established by an asset management company fund for overseas real estate investment, reporting requirements will be eased from reporting to the Ministry of Finance and Economy to reporting to banks. As for the fund type investment by Real Estate Investment Trusts, refund will be granted on corporate tax paid overseas, thereby boosting the yield.

Acquisition limit on overseas real estate by Korean nationals for investment purpose will be raised from the current US\$1 million to US\$3 million. Regarding residential purpose investment, the acquisition limit has already been liberalised as of March 2006. According to the Foreign Exchange Liberalisation Plan announced in May 2006, the acquisition ceiling will be adjusted upwardly during the 2006-2007 period. The ceiling will be abolished during the 2008-2009 period.

Investor convenience will be enhanced by softening up procedural restrictions. In cases where a third party makes remittance overseas through an escrow account of brokers overseas, an obligatory reporting to the Bank of Korea (BOK) will be exempted. As for deposits abroad to acquire overseas real estate, reporting to the BOK will also be exempted.

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