

2003

# Avenues to *Support for foreign R&D activities in Korea* Discovery



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Korea Investment Service Center

**kotra**  
대한무역투자진흥공사

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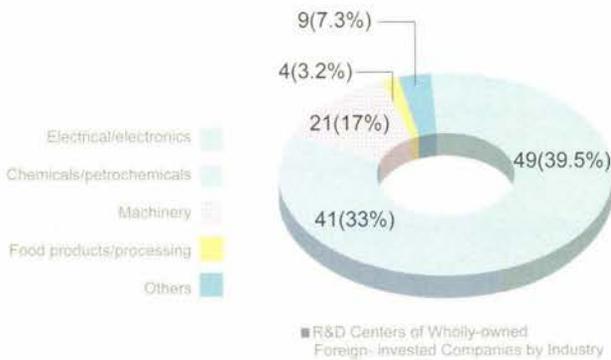
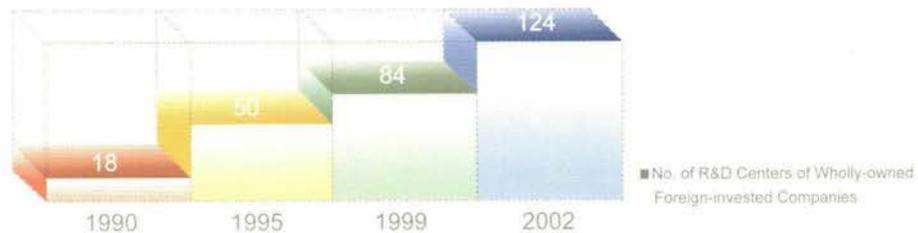


## Overview of R&D Centers Established by Foreign-invested Companies

As of the end of 1999, some 390 foreign-invested companies had established a total of 475 private R&D centers, or 9.9 percent of all such facilities in Korea.

During 1999 alone, R&D expenditures by foreign-invested companies amounted to 2.5 trillion won (US\$2.1 billion), or 24.7 percent of total R&D expenditures by all private-sector entities in Korea.

By the end of 2002, wholly-owned foreign-invested companies had established 124 private R&D centers, or 1.3 percent of all such facilities (9,705) in Korea.



## ***Incentives for R&D Centers Established by Foreign-invested Companies***



### ***Tax Benefits based on the Foreign Investment Promotion Act***

R&D centers with more than 20 full-time R&D personnel, and with foreign investment of more than US\$5 million, shall be designated as Foreign Investment Zones and be granted the following tax reductions/exemptions:

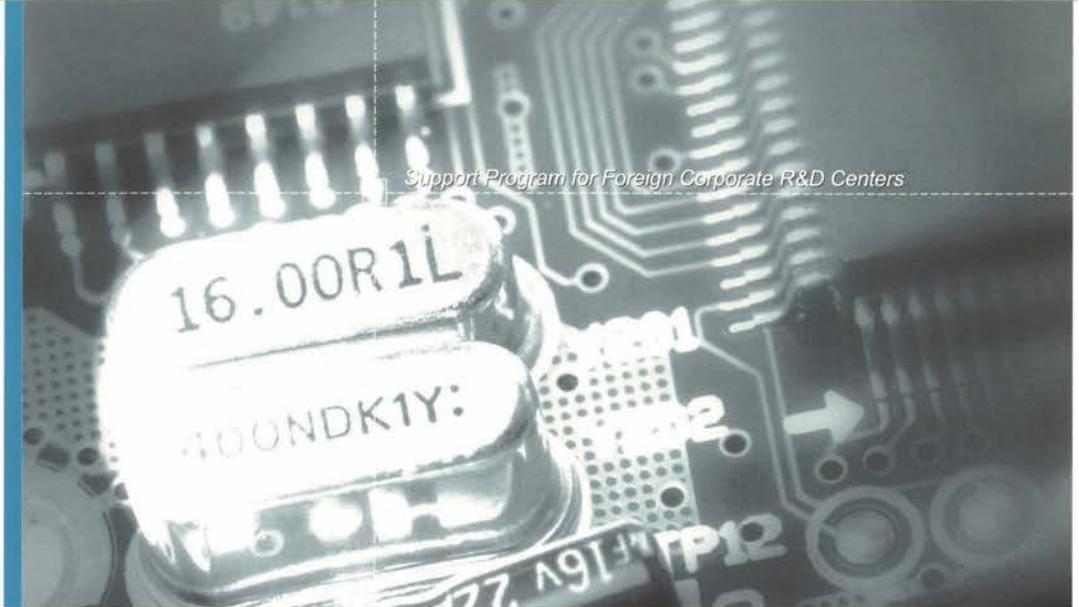
- 100 percent exemption of corporate and income tax for seven (7) years; and 50 percent reduction of corporate and income tax for the following three (3) years
- 100 percent exemption of local tax such as acquisition tax and registration tax
- 100 percent exemption of rent on government-owned land

## Financial Support Program for Parts & Materials Technology Development

- **Purpose:** To support core technology development capabilities of promising companies so as to boost their competitiveness in the global sourcing market.
- **Responsible authority:** Capital Goods Policy Division, **Ministry of Commerce, Industry and Energy (MOCIE)**
- **Budget (2003):** 132.3 billion won (US\$106 million)
- **Terms of eligibility:** To be announced prior to program execution
- **Preferential treatment for foreign-invested companies:**  
Firms are subject to two mandatory evaluations (technology feasibility evaluation and core technology evaluation) in order to qualify for program eligibility. However, foreign-invested companies that have invested more than US\$5 million in the domestic parts and materials industry 12 months prior to implementation of the program shall be exempted from the technology feasibility evaluation.

## Application Procedure





Support Program for Foreign Corporate R&D Centers

## Details of Financial Assistance

MOCIE will provide partial financial aid for research expenses through government funding for a period of three (3) years. This outlay will be recouped by means of a special technology tax in the event that the technology in question is successfully developed. (See table for details)

Government Funding Level		Corporate Contribution	Technology Tax Claw Back
Company Type	Research Type	Support Ratio	
SME <sup>1)</sup> , Venture Company	Collaboration <sup>2)</sup>	75%	<ul style="list-style-type: none"> <li>• 40% of government funding if technology successfully commercialized<sup>3)</sup></li> <li>• 20% of government funding if participating firm is an SME<sup>3)</sup></li> <li>• 20% of government funding if an SME is a 50% technology development partner<sup>3)</sup></li> </ul>
	Independent	50%	
Conglomerate, Research Institute, University	Collaboration <sup>2)</sup>	50%	
	Independent	33.33%	

1) Small and medium enterprise  
 2) Industry, university and research institute collaboration  
 3) Annual rate of tax to be determined by MOCIE

## **General Support System for R&D Center Establishment**

Private R&D centers should meet the following three conditions in order to be eligible for government financial support.

- 1 Register with **Korea Industrial Technology Association (KOITA)**
- 2 Employ at least five (5) R&D-dedicated personnel in the case of SMEs, and at least 10 R&D-dedicated personnel in the case of conglomerates
- 3 Retain independent facilities for R&D purposes including site and equipment

### **Details of Support**

#### **Tax Incentives**

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##### **Early recognition of technology development expenditures**

All investment expenses for technology development shall be recognized as being incurred three years prior to the expenditures being made, but for tax incentive purposes the actual investments should be made within this three-year period.

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##### **Tax reduction for technology and human resource development**

A portion of the technology and human resource development expenses shall be subtracted from corporate or income tax levied on an applicant company.

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##### **Tax reduction for investment to establish R&D facilities**

A portion of investment in R&D facilities shall be subtracted from the taxable amount imposed on an applicant company.

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##### **Exemption of local real estate tax for R&D facilities**

Local taxes (e.g., acquisition tax, property tax, registration tax, and so on) imposed on real estate for R&D facilities shall be exempted.

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## **Details of Support**



### **Customs Incentives**

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#### **Customs duty reductions for R&D equipment**

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Custom duties imposed on specifically designated R&D equipment shall be reduced by 80 percent.

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#### **Customs duty reductions for R&D materials**

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Customs duties imposed on materials used for R&D purposes (reagents, samples and parts, etc.) shall be reduced by 80 percent.

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## **Financial Assistance**

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### **Support for participation in national R&D projects**

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A certain portion of R&D expenditures shall be subsidized in the case where an applicant company participates in a national R&D project.

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### **Preferential treatment for SME designation**

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The number of R&D personnel shall be deducted from the total number of employees to enable the applicant company to acquire SME designation.

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### **Preferential treatment under Technology Credit Guarantee Program**

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An applicant company may gain designation (from the Small and Medium Business Administration) for preferential treatment under the Technology Credit Guarantee Program. In such a case, the company shall be exempted from the required technology feasibility evaluation and automatically gain eligibility to apply for credits from the Technology Credit Guarantee Fund.

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## **Preferential Treatment Regarding Military Service**

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### **Exemption from military service**

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A certain number of employees of each applicant company will be designated as exempt from military service upon contracting for employment of at least five (5) years in a corporate R&D center.

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*>> Other support measures are available from the central government, local governments, state-owned companies and public agencies.*

## ***Additional Support for R&D Centers of Foreign-invested Companies***



### ***Strengthened Linkage between FDI Promotion Policies and R&D Financial Assistance Program***

- Foreign investors will be given priority in the allotment of government financial assistance for R&D in line with foreign direct investment (FDI) promotion policies.
- Additional consideration will be given to foreign-invested companies when applying to receive policy funds such as the Industrial Technology Development Fund operated by **MOCIE**. The fund has a budget of 550 billion won (US\$440 million). Assistance will also be available from related bodies such as the **Small and Medium Business Administration (SMBA)** and the **Small Business Corporation (SBC)**.
- Preferential treatment for R&D centers of foreign-invested firms in the form of loans and technology credit guarantees currently are under consideration.

### ***Establishment of R&D Parks for Foreign-invested Companies***

Complexes reserved exclusively for foreign-invested companies will be established to provide such firms with sites for R&D center establishment.

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