

Bond Market Costs and Taxation

This chapter contains critical updates to taxation practices in the Korean bond market, also focusing on more recent announcements with a bearing on the service costs of certain bonds for issuers. A comprehensive description of bond market costs and other taxation subjects can be found in the original *ASEAN+3 Bond Market Guide Republic of Korea*.

B. Listing Fees

This section is included in this update note to detail applicable concessions offered to issuers for the listing of SRI bonds—also referred to as ESG or thematic bonds—on KRX.

1. Listing Review Fee

SRI bonds issued by corporates have been listed on KRX and registered in the dedicated SRI Bonds segment since 2019.

In support of the introduction of SRI bonds, KRX has waived listing review fees (initial listing fees) for new issuances in the SRI Bonds segment since 15 June 2020. This exemption had initially been announced for a duration of 3 years but has since been extended to cover the period until 14 June 2025.

2. Annual Listing Fee

Similarly, KRX has been granting a temporary exemption of annual listing fees for debt securities registered in the SRI Bonds segment until 15 June 2020, covering a 5-year period since the introduction of this concession in 2020.

C. Ongoing Costs for Issuers of Corporate Bonds and Notes

The content of this section adds to the original cost items for issuers by offering details on the recently announced support by the Government of the Republic of Korea for interest payments by issuers offering SRI bonds in the Korean bond market.

3. Support for Interest Payments under the K-Taxonomy [New]

Issuers of SRI bonds who list and register their instruments on the dedicated SRI Bonds platform operated by KRX are principally able to avail an interest payment subsidy offered by the MOE under measures supporting the K-Taxonomy (see Chapter III.B for details on the K-Taxonomy).

The incentive is available for large companies at interest rate support of 0.2%, while small and medium-sized enterprise issuers would be able to claim 0.4% support for their payable

interest rate. In effect, the MOE would pay the mentioned amount of interest and the eligible issuer would pay the remaining interest rate. However, practically, the issuer would pay interest to bondholders in full and claim the subsidy from the MOE thereafter. The subsidy period per issuer is limited to 1 year (i.e., for the number of interest payments an issuer is liable to pay within 1 year from the approval of the MOE). The calculation of the subsidy follows the market practice for accrued bond interest calculation in the Republic of Korea (i.e., actual/365).

To help incentivize potential issuers of green bonds and test the usefulness of the proposed interest payment scheme, the MOE conducted a trial program in late 2023, in which 23 public and private companies were planning to issue green bonds and obtain the interest payment subsidy, at a cost of approximately KRW5.1 billion.

For more details on the K-Taxonomy, as well as the related industry guidelines, please refer to Chapter III.B.

H. Taxation Framework and Requirements

For ease of reference, **Table 6.4** displays the tax rates applicable to nonresidents and foreign corporations with relevance for the bond market at the time of publication of this update note.

**Table 6.4: Duties and Taxes on Fixed-Income Securities in the Republic of Korea
(For Nonresidents and Foreign Corporations)**

Duties and Tax	Type of Bond	Tax Rate
Withholding Tax on Interest Income	Government and MSB	0% ^a
	Corporate	14% ^b
Withholding Tax on Capital Gains	Government and MSB	0% ^a
	Corporate	10% of transfer value or 20% of gains on the transfer, whichever is lower ^c
Stamp Duty	N.A.	N.A.
VAT	N.A.	10%

MSB = Monetary Stabilization Bond, N.A. = not applicable, VAT = value-added tax.

^a Following the Ministry of Economy and Finance's announcement in December 2022, with effect from 1 January 2023; applicable principally to KTBs and MSBs, but may be extended to debt instruments issued by public sector entities with additional documentation requirements.

^b Total tax rate is 15.4% if local tax is included.

^c Total tax rate is 11% of transfer value or 22% of gains on the transfer, whichever is lower, if local tax is included.

Sources: ASEAN+3 Bond Market Forum constituents and Ministry of Economy and Finance. 2022. Pre-Announcement of Legislation on the Revision of the Enforcement Decree of the Income Tax Act and the Corporate Tax Act. Press Release. 17 October.

<https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5437>.

Nonresidents and foreign corporations are subject to taxation on domestic income, but the types of taxation vary based on domestic business location, domestically sourced income, tax treaty status (of the nonresident's or foreign corporation's host economy) with the Republic of Korea, and other factors. Previously, both interest income on bonds and capital gains were subject to taxation for nonresidents and foreign corporations. However, as part of

measures to make the Korean bond market—and the domestic capital market at large—more attractive to foreign institutional investors, in 2023 the Government of the Republic of Korea introduced a tax concession on withholding tax for interest payments and capital gains on interest and gains from the holding or trading of Korean government bonds (see revised subsection 9).

9. Tax Exemption for Nonresident Investors

This subsection has been revised to include formal definitions of nonresident (foreign) investors, the details of the recent measure to introduce an exemption from withholding tax for these investors, and information on the practical application of the exemption process.

a. Definition of Nonresident (Foreign) Investor

The domestic tax laws classify foreigner investors as either “nonresidents” under the Income Tax Act or “foreign corporations” under the Corporate Tax Act. “Residents” are defined, under the Income Tax Act, as individuals who have their domicile or place of residence in the Republic of Korea for no less than 183 days in a given year of assessment (i.e., one taxable period). “Foreign corporations” are defined, under the Corporate Tax Act, as corporations that have their headquarters or main office outside of the Republic of Korea.

b. Exemption from Withholding Tax on Interest Income from Government Bonds and Monetary Stabilization Bonds

In a pre-announcement of intended changes to existing legislation on 17 October 2022, the MOEF referenced its intention to create a more conducive investment environment in the Republic of Korea, including changes to withholding tax on interest income and capital gains from investments in KTBs and MSBs;³⁵ the tax measure was to take effect from tax year 2023.³⁶

While the measure, referred to as an exemption from withholding tax for nonresident (foreign) investors and part of a larger strategy to make the Korean capital market more attractive for these investors, was principally available as of 1 January 2023, it only attained the force of law with the actual amendments of the Corporate Tax Act (as well as the Income Tax Act, with relevance for individual investors) effective 1 July 2023. In the meantime, the government treated the withholding tax as zero-rated for any foreign investor wanting to avail the tax concession.

c. Practical Application of Tax Exemption

To be eligible for tax exemption, nonresident (foreign) investors should submit a tax exemption application. In a move to enhance investor-friendly practices in the capital market, an official application form for tax exemption in English has been made available since July 2023, in accordance with the enforcement rules of the Income Tax Act and Corporate Tax Act.³⁷

³⁵ The NTS clarified that financial securities, housing bonds, and foreign exchange stabilization bonds also qualify for the tax exemption, as they are considered government bonds.

³⁶ The pre-announcement by the MOEF can be found at <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5437>.

³⁷ In the terminology of the NTS, the application form is referred to as a Non-Taxation Application Form, as referenced in the 2023 Guidance on Non-Taxation of Interest Income/Capital Gains from Investment in Government Bonds/Monetary Stabilization Bonds.

Due to the efforts of market participants in discussions with the NTS, an application for eligibility need only be submitted once to the withholding agent or qualified intermediary; a new form and supporting documents will only need to be submitted if relevant details of the investor change. The key document (the completed application form) may subsequently be shared with other intermediaries in the domestic markets, such as securities firms (brokers) or other withholdings agents. Most likely, custodians will be the party facilitating the process, since they act as standing proxy (i.e., the principal representative for the investor in the Korean market).

d. Documentation Requirements

To obtain eligibility for a withholding tax exemption, two key documents must be produced by the investor; in part, these documents may be submitted to the custodian or other intermediary during the account opening process or as part of periodical KYC practices. Documents (here mentioned for a foreign institutional investor not using a “Qualified Foreign Intermediary” [QFI]) include the following:

- i. NTS Application Form for Non-Taxation of Government Bonds (form name is shown as: Application for Tax Exemption on [to tick] Interest Income/Capital Gains from Investment in Government Bonds or Monetary Stabilization Bonds [for Foreign Corporations], or NTS Application Form for Non-Taxation/Tax Exemption on Korean Source Income under the Tax Treaty), or NTS Application Form for Non-Taxation/Tax Exemption on Korean Source Gains from Transfer of Securities under the Tax Treaty; and
- ii. original certificate of residence or a permissible alternative (see subsection f).³⁸

Only when the total amount to be exempted exceeds KRW1 billion, and the claim is lodged under a tax treaty, does the foreign investor need to submit additional supporting documents (listed immediately below), other than the certificate of residence and tax form(s), to show that the investor is the real beneficiary of the income source in the Republic of Korea:

- (i) names and addresses of board members;
- (ii) list and details of stockholders and their shareholdings; and
- (iii) audit reports for the past 3 full years, which an investor has submitted to its home market authorities.

These documents need only be submitted once to the custodian or principal contact of the investor, who will then send the information to the NTS as a matter of record. Certificates of residence need only be submitted again if relevant details of the investors change. Investors using the services of a QFI should submit the relevant documents (specific form types apply) to the QFIs (details on QFIs can be found in subsection 11). There is no requirement for formal confirmation from the NTS. The exemption of withholding tax may begin upon completion of the documentation process.³⁹

³⁸ For easy reference, tax forms may be downloaded from the NTS English language website at www.nts.go.kr/english/main.do; select “Resources,” then “Forms.”

³⁹ Process description and applicable details in part adapted from 2023 Guidance on Non-Taxation of Interest Income/Capital Gains from Investment in Government Bonds/Monetary Stabilization Bonds.

The above information on documentation requirements was believed to be accurate at the time of publication of this update note. Foreign investors, or those with an interest to invest in KTBs and MSBs, and to avail of the tax exemption, should get in touch with their global custodian, ICSD, or broker—or their domestic custodian or securities firm in the Republic of Korea (as the case may be)—for up-to-date documentation requirements and other details.

e. Tax Refund

If nonresident investors paid withholding tax but were eligible for the exemption from withholding tax at the time, the investor may submit a request for a tax refund to the withholding agent (e.g., custodian or securities firm) within 5 years of the original tax payment. The withholding agent will file an amended tax return to the NTS for this purpose.

f. Documents as Alternatives to Certificate of Residence

Korean authorities recognize the fact that the form, format, and issuers of certificates of residence, certificates of domicile, or similar documents differ greatly depending on the legal and regulatory framework in the home market of an investor. As such, regulatory prescriptions and market practice have resulted in the acceptance of different types of documents in lieu of a certificate of residence, as detailed in **Table 6.5**.

Table 6.5: Overview of Alternative Documents in Lieu of a Certificate of Residence

Investor Category	Documents that can Replace a Certificate of Residence
Individual	One of the following documents: <ul style="list-style-type: none"> - copy of passport - identity card or government-issued document with full name and address - Foreign Investor Registration Certificate
Corporation	One of the following documents: <ul style="list-style-type: none"> - Certificate of Registration for Corporation - government-issued document with corporation name and address - Foreign Investor Registration Certificate
Government Agency Pension Fund	One of the following documents: <ul style="list-style-type: none"> - government-issued document or equivalent document that can verify identity of actual investor - Foreign Investor Registration Certificate
Overseas Investment Vehicle	(1) In the case of an Overseas Public Investment Vehicle (i.e., a public fund in the economy of establishment) (pursuant to §119-3④, Income Tax Act; §93-3④, Corporate Tax Act) One of the following documents that can verify the public fund in the economy of establishment: <ul style="list-style-type: none"> - fund establishment certificate - fund registration certificate - document issued by supervisory authority - other equivalent document <p style="text-align: right;"><i>continued on next page</i></p>

	<p>Table 6.5 <i>continued</i></p> <p>(2) In the case of other public funds (pursuant to §179-5 of the Enforcement Decree of the Income Tax Act; §132-5 of the Enforcement Decree of the Corporate Tax Act)</p> <p>One of the following documents that can verify the fund's establishment:</p> <ul style="list-style-type: none"> - fund establishment certificate - fund registration certificate, or similar - Foreign Investor Registration Certificate <p>Document(s) that can verify that the fund qualifies as an Overseas Investment Vehicle or Equivalent to an Overseas Public Investment Vehicle</p> <p>(3) In the case of an Overseas Private Investment Vehicle deemed as the Beneficial Owner (pursuant to §119-2①, Income Tax Act; §93-2①, Corporate Tax Act)</p> <p>One of the following documents that can verify the existence of the overseas investment vehicle:</p> <ul style="list-style-type: none"> - fund establishment certificate - fund registration certificate - document issued by supervisory authority - other equivalent document - Foreign Investor Registration Certificate <p>(4) Others investment vehicle types Document(s) as abovementioned that are applicable to ultimate beneficial investors</p>
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Source: Adapted from National Tax Service, Republic of Korea. 2023. *Guidance on Non-Taxation on Interest Income/Capital Gains from Investment in Government Bonds/Monetary Stabilization Bonds*.
<https://www.nts.go.kr/english/na/ntt/selectNttInfo.do?mi=10790&nttSn=1326124>.

11. Qualified Financial Intermediary

The QFI concept refers to foreign corporations with headquarters or a main office in an economy with which the Republic of Korea has entered into a tax treaty. A QFI has to be approved by the commissioner of the NTS as a corporation conducting business activities similar to those of KSD and fulfilling the function of a securities custodian. The NTS will conduct a comprehensive examination of applicants before a decision. QFIs may be global custodians, ICSDs, or other international intermediaries.

Only QFIs are able to act as withholding agent for foreign investors for tax purposes. Foreign investors not using a direct relationship with a domestic custodian or other intermediary will need to submit their tax exemption application, certificate of residence, and other applicable documents (see subsection 9) to the QFI. Given the nature of the omnibus accounts, ICSDs offering their clients indirect access to the Korean bond market will be required to have QFI status.

Both Clearstream and Euroclear have since acquired QFI status (in March 2023 and March 2024, respectively) through the formal approval from the NTS, in time for the commencement of the indirect market access option (see Chapter II.K and M for details).