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The 2022 Global Philanthropy Environment Index Republic of Korea

Expert: Sung-Ju Kim / The Beautiful Foundation

Institutional Affiliation: North Carolina State University / The Beautiful Foundation

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Cooperative, Corporation, Society

Five main social issues addressed by these organizations: Arts and Culture, Basic Needs, Health and Medical Research, Higher Education, Youth and Family

Average time established by law to register a philanthropic organization: 0-30 days

Average cost for registering a philanthropic organization: USD 0

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government, Local Government

Registration as a philanthropic organization (PO) at a state level is free. However, the incorporated PO should register at a district court to obtain legal identification, which costs around USD 100 – USD 400, depending on the location.

Philanthropic Environment Scores:

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	4.47	4.10	4.25	3.85	3.00	4.00	3.94
2018 GPEI	4.67	4.40	4.20	4.10	N.A.	4.50	4.37

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

Key Findings

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.

Question One: To what extent can individuals form and incorporate the organizations defined?

Score: 4.6

In South Korea, POs can take the form of unregistered groups or legally incorporated organizations. POs that incorporate as legal nonprofit entities only can obtain legal and governmental benefits as a nonprofit entity from the government (e.g., government subsidies, grants). Furthermore, not all incorporated POs are eligible to provide a tax deduction for charitable donations to their donors in South Korea. By law, only the nonprofit organizations authorized as either a designated charity organization (called *jijeong gibugeum danche*) or a legal donation organization (called *beob-jeong gibugeum danche*) by the government may provide tax deductions for giving. In terms of leadership, at least half of board members must be Korean citizens in the case of a public benefit nonprofit organization (a so-called "public charity"). There are no statutory limitations on who may register a PO. At the time of incorporation as a nonprofit entity, there is minimum capital required to form an association or a foundation. For an association, the entity should have minimum capital between USD 2,000 and USD 5,000. For a foundation, the entity should have USD 500,000 in capital and assets. Social enterprises can be founded as nonprofit or for-profit entities. If a social enterprise is incorporated as a nonprofit entity, benefits and duties of the organization must be underlined by the nonprofit laws. However, if a social enterprise is incorporated as a for-profit entity, the enterprise must achieve the social enterprise certificate from the government in order to receive government benefits.

Question Two: To what extent are POs free to operate without excessive government interference?

Score: 4.0

Although the law has basic institutional requirements, such as a board of directors, a general meeting, by-laws, and audits, POs have the discretion and freedom to run the organization's internal affairs. There is also no restriction or limit to interactions with various media channels and ability to cooperate with domestic and international entities. However, POs are somewhat restricted in their administration and fundraising activities. According to the Act on the Establishment and Operation of Public Interest Corporations, if a PO has KRW 100 billion (USD 900 million) in capital, it must recruit one quarter of the board of directors from nominees who are recommended by the local government. In addition, if a PO intends to raise funds KRW 10 million (USD 9,000) or more from the general public (not from their members and the identified stakeholders for the entity), the PO must obtain permission for the fundraising event from the local government. Lastly, if a PO is assigned as the designated charity organization (called as *jijeong gibugeum danche*), the PO must spend 80 percent or more of their total expenditures for the identified purpose of the organization.

Question Three: To what extent is there government discretion in shutting down POs?

Score: 4.8

The governing body can voluntarily terminate a philanthropic organization in general. A PO that is incorporated as “*Sadan bubin*” can voluntarily terminate when three or four members of the board can request a dissolution. If a PO registered as “*Jeadan bubin*,” decides to dissolve, the remaining assets after all debts have been paid shall be distributed in such amount or amounts to an entity determined by a court of competent jurisdiction at the request of the entity. The government can order a PO be dissolved on the grounds of misuse of finances, unethical conduct, and other violations. Even if the government orders an involuntary termination, the PO can appeal the dissolution to a court. Civil Act 38 regulates the termination of POs as follows: “In a case where a juristic person operates such business outside the scope of its purpose, violates such conditions attached to its authorization of incorporation, or acts in a manner harmful to the public interest, the competent authorities may cancel the PO’s permission to operate.”

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question Four: To what extent is the tax system favorable to making charitable donations?

Score: 4.0

Individual and corporate donors have access to income tax incentives in the form of tax credits for individuals or tax deductions for corporations from their charitable donations. The process for receiving the tax benefit is also clear, consistent, and easy because the records for philanthropic donations to legal POs can be accessed by the National Tax Service database. However, tax benefits for charitable donations are somewhat limited. For individual giving, the tax benefit was changed from tax deduction to tax credit. Individual donors can receive full tax credits (100% of tax credits for their donations) when they make charitable donations up to 30 percent of their total income. However, the formulas to calculate the tax benefits for charitable giving by individuals are intricate, as they depend on income, employment, and donation recipient. For corporate giving, the tax benefits are applied differently depending on the total amount of operating profit and type of grantee. Corporations can receive a tax deduction for the total amount of charitable giving equivalent to an amount up to 10 percent or 50 percent of total operating profit depending on where they donate to. These regulations and restrictions for charitable donations somewhat limit individual and corporate philanthropic donations to charity in South Korea.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 4.2

The process of receiving tax-exempt status is clear and predictable. In general, POs receive tax exemptions in the form of property tax exemptions, corporate tax exemptions, income tax exemptions, value-added tax exemptions, and the like. If POs run businesses unrelated to their main

purposes, they must pay an "unrelated business income tax." A new regulation, titled the Inheritance Tax and Gift Tax Act (*Sangsoksse & Jeungyose bop*), was enacted regarding tax reports for POs by the government in 2020. All incorporated POs (except a nonprofit private organization, called *biyoungri mingan danche*) must submit full annual financial reports to the National Tax Service from 2020. The report used to be requested for only incorporated POs with KRW 5 billion (USD 4.4 million) or higher in capital or POs that have received a total philanthropic giving KRW 2 billion (USD 1.8 million) or more; however, the annual account report is now required from all POs regardless of asset size and donation amounts.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 4.0

There are no costs or taxes on sending cross-border philanthropic cash and/or in-kind donations, except the costs of the wire transfer fee. If the amount is more than USD 50,000, tax authorities must be immediately notified of the transaction. The tax authorities will immediately engage in an inquiry regarding the source of the money. There are no restrictions on sending cross-border charitable donations except for those supporting activities related to terrorism and to a few select countries, particularly related to donations to North Korea and its related international organizations. Individual donors or corporations can receive a tax credit or deduction for a cross-border donations relying on their international grantees. In order to receive tax benefits for their cross-border donations, the cross-border grantees must be registered as an organization eligible to receive the designated donation in advance. In addition, individual donors or corporations must report the total amount of the cross-border donations to the National Tax Service. If a PO donates a total of KRW 10 billion (USD 8.8 million) or higher to overseas organizations without reporting to the National Tax Service, the individuals or the corporations should pay a fine for the violations, according to foreign exchange transactions act.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 4.5

There are no costs, taxes, or approval processes required for receiving cross-border philanthropic cash and/or in-kind donations (Customs Act Article 91). There are no restrictions on receiving cross-border charitable donations other than prohibitions on receiving funds from sanctioned countries such as North Korea, as well as those linked to activities such as terrorism.

IV. Political Environment

The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.

Question Eight: To what extent is the political environment favorable for philanthropy?

Score:3.7

In general, there are no conflicts between the government and philanthropic sector. The government creates many opportunities to involve philanthropic organizations in policy development and implementation. In particular, the policy related to the social economy, which was introduced by the philanthropic sector and then driven by government, has been developed and implemented with active participation of the philanthropic sector. With regards to this policy, several types of organizations have been created, such as the social enterprise, community enterprise, and self-supporting enterprise. Some of these new organizations have hybrid characteristics blurring the border between the business and philanthropic sectors. Since the current government was inaugurated in 2017, the administration aimed to increase interaction and cooperation with civil society (e.g., a new government-initiated committee was developed, called the “Civil Public Committee”). Simultaneously, the National Assembly has enforced transparency and accountability of nonprofit organizations, particularly regarding philanthropic giving to civil society organizations. Both the government and Assembly initiatives toward the nonprofit sector intentionally and unintentionally induce somewhat complicated and unstable circumstances for the success of philanthropy and nonprofit organizations in South Korea.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

Score: 4.0

In general, the government has promoted a cultural philanthropic tradition and allowed POs equal access to resources and opportunities, especially through a law supporting training for PO's, networking opportunities, and diversification of funding sources. The government has also implemented effective anti-corruption laws and programs. Governments do not regulate or guide any philanthropic use for individual donations. However, the additional government enforcements to manage PO transparency (e.g, the 2018 Accounting Standards for Public Service Corporations) escalate some concerns about PO transparency. Also, an adherent ceiling of tax benefits for individual and corporate donations may be suppressing the growth of philanthropic culture in South Korea. In December 2019, regulations were changed to lower the threshold at which public interest corporations (*gongick bubin*) are required to have a financial audit by an independent accountant. Previously, only public-interest corporations with KRW 10 billion (USD 8.8 million) in assets were required to undergo a third-party financial audit. This standard was amended to also cover any public-interest corporation with total income of KRW 5 billion (USD 4.4 million) or above and those that have received at least 2 billion won (USD 1.8 million) in donations have to have an audit. On the other hand, the South Korean government has promoted philanthropic engagements for the social economy and social enterprise. As a result, social economy centers were established with government support.

V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

Score: 3.0

Economic conditions for the philanthropic sector in South Korea have been somewhat unstable and insufficient in general. Although philanthropic culture has been widely embedded in South Korean society, philanthropic donations have not sufficiently fulfilled to support POs' activities for public need. The total amount of charitable giving has slightly decreased during the last five years. Giving by corporations has also decreased since 2015 in South Korea.

Since COVID-19 outbreak crossed the globe in 2019, the general economic climate has fluctuated and the nonprofit sector in South Korea has faced fatal financial and service provision challenges. Financial challenges have been more serious for small/grassroot organizations than major POs, larger organizations have more resources to successfully raise more philanthropic donations than small organizations. Charitable donors are more likely to donate to well-known organizations (or major POs) than grassroot organizations.

VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 4.0

In traditional Korean society, there is a strong heritage of philanthropic giving that was grounded in the cultural and religious heritage of Confucianism and Buddhism. People used to give money and time to the needy within the boundaries of their community and kinship systems. As society became modernized, the spirit of philanthropy waned gradually, due to such experiences as colonization, the Korean War, dictatorships, industrialization, and urbanization. However, increasing community voices and the recent growth of civil society in South Korea has inclined South Korean society toward restoration of its historical philanthropic traditions. Increased understanding of the different roles of civil society, civic movements and social economy, and core societal values such as coalition-building, solidarity, and reciprocity, have been revived and provide support to philanthropic activities. Western perception of philanthropic culture has grown in South Korea. An average of 14–53 percent of people in South Korea have participated in charitable donations. Average donations have fluctuated between USD 140 – USD 500 per year according to survey datasets. The estimated donor rates and average gift have been consistently lower than other developed countries. During the last five years, the growth rate of the total amount of charitable donations has slightly decreased in South Korea. Philanthropic culture is not fully developed yet. In addition, recent accounting fraud and financial scandals involving POs have undercut the growth of philanthropic culture in South Korea.

VII. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

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Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. Increasing numbers of mega-donors and venture philanthropists;
2. Scandals surrounding the misuse of charitable tax deduction for large-scale donations; and
3. Disaster giving following major emergencies (such as 2019 major wildfire in South Korea and COVID-19 among others).

Future development trends in the philanthropic landscape

Philanthropy in South Korea has been continuously growing while evolving its size and dimensions. Although estimated average charitable gifts have slightly decreased during the last five years, philanthropic donors have increased. New giving vehicles (such as crowdfunding, high net worth giving, bequest, and others) have been introduced to South Korean society. This suggests the philanthropic landscape will expand and grow. In addition, the relationship between government and POs was either a supplementary or complementary relationship in the past. However, the relationship has been changed to an adversarial model, particularly after the Candlelight Revolution of 2016–2017. Although the current administration established a somewhat fair level of government regulation on fundraising and philanthropic giving, prior studies highlight that philanthropic giving and volunteering appear to be a social value that needs to be further developed in South Korean society.

Three key recommendations to improve the environment for philanthropy

- Enforce self-regulations to improve trustworthiness for POs;
- Eliminate duplication in government regulations and simplify legal requirements for POs; and
- Expand tax benefits for philanthropic donations.

VIII. Philanthropic Response to COVID-19

These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

After the first confirmed case was reported in South Korea on January 20, 2020, the South Korean government has been recognized for its agile, effective, and transparent response to the COVID-19 pandemic. While monitoring the progress of the virus and its containment, the South Korean government maximized opportunities and opened channels for civil society to contribute its resources and inputs, while coordinating the tasks and priorities of its various Ministries and institutes. Civil society's roles and contributions became more central and significant during the pandemic. Although most work of government ministries proceeds with few opportunities for civil society involvement, civil society succeeded in substantially contributing to policy formation by providing innovative ideas, suggesting alternatives, and backing policy decisions, through various mechanisms including public hearings, expert meetings, councils of central governments' ministries, and local government forums. Institutionalized civility was reflected in South Korean citizens' mature and voluntary observance of quarantine rules and guidelines. Most South Korean citizens and residents voluntarily observed the rules, not just from fear of enforcement of government policy, but from a sense of civic duty to protect society and to ensure public safety and health. Civil society organizations' support for vulnerable groups and advocacy coalitions' calls for social justice and equity at risk under this global pandemic also reflect this institutional civility.¹

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

Philanthropic giving remarkably increased to combat COVID-19. The Community Chest of Korea, the largest South Korean charitable institute focused on community-based fundraising, reported that they successfully raised approximately KRW 112.9 billion (USD 100 million) and donated 22.3 million masks and 1.7 million hand sanitizers for COVID-19 relief. This amount is historically remarkable, the second highest amount in the Community Chest of Korea's fundraising history during the last 30 years.

Impact of COVID-19 on the philanthropic environment

Nonprofit organizations in Korea have been facing unprecedented disruptions across multiple dimensions due to the unfolding COVID-19 outbreak. POs in South Korea reported they have faced severe disruptions in their service provision and delivery. They experienced some income declines and report feeling pessimistic about the future. Nonprofits in South Korea showing high levels of uncertainty casts a shadow over the future of the sector. Particularly, POs in South Korea are deeply concerned regarding the decline in individual donations because based on the current charitable giving trends, big POs are receiving more charitable donations than small POs do, as they have higher public profiles.

¹ This paragraph first appeared in Jeong, B. & Kim, S. (2021). The Government and Civil Society Collaboration against COVID-19 in South Korea: A Single or Multiple Actor Play? *Nonprofit Policy Forum*, Volume 12(1), pp. 165-187. DOI: <https://doi.org/10.1515/npf-2020-0051>

Anticipated impact of COVID-19 on the philanthropic environment in 2021

Nonprofits in South Korea have been facing unprecedented disruptions in service delivery and sustainability during the last year. Notwithstanding these difficulties, nonprofits in South Korea are striving to find alternative ways to maintain their services for the community. Nonprofit leaders are being pressured to come up with alternative budget scenarios and identify new short and long-term plans. While IT options have become more optimized under COVID-19 (e.g., synchronous online interactions), nonprofits have also explored innovative strategies to deliver their services to the community.

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