



## SOUTH KOREA - January 2018

---

**SEOUL 'CAUTIOUSLY' CONSIDERS HIGHER PROPERTY TAX ..... 1**

**KOREA CONSIDERS PROPERTY TAX HIKE ..... 1**

**SOUTH KOREA MULLS PROPERTY TAX HIKE TO CURB PRICE RISES ..... 2**

**KOREA'S PROPERTY TAX RATE TO GDP STANDS BELOW OECD AVERAGE IN 2017 ..... 3**

---

### Seoul 'cautiously' considers higher property tax

South Korea's chief economic policymaker said Friday the government is "cautiously" considering raising property taxes in yet another attempt to tame rising home prices.

Finance Minister Kim Dong-yeon said there are speculative demands in some areas such as the wealthy Gangnam Ward and adjacent districts.

"We have been reviewing many options in regard to a hike in property ownership tax," Kim said in a session with senior journalists at the press center in central Seoul.

There have been mounting worries that housing prices in Seoul have recently been rising excessively despite a series of measures to rein in surging prices, including tightened home mortgages for multiple home owners.

As for the economic recovery, Kim said Asia's fourth-largest economy is maintaining its recovery pace, backed by improving domestic demand and exports.

Last week, the Bank of Korea forecast that South Korea's gross domestic product will grow 3 percent in 2018, faster than its previous estimate of 2.9 percent.

The latest GDP forecast for South Korea is in line with the government's economic outlook. The nation's economy expanded 3.1 percent in 2017 on-year and 2.8 percent in 2016, the BOK said.

Last year was the first time since 2014 that the economy grew more than 3 percent.

### Korea considers property tax hike

The government is considering a property tax hike on owners of multiple homes in Seoul's affluent areas to stabilize the property market, Finance Minister Kim Dong-yeon said Tuesday.

"Given the continued rise of housing prices in Seoul's rich areas, it would be justifiable for the government to raise property taxes," Minister Kim said in a radio interview.

Kim, also serving as deputy prime minister, said no concrete plans have been set as relevant government offices were working together to fix details such as tax rates.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

“Housing price volatility is an important factor in macro financial stability and any increase in property tax has lots of impact on homeowners nationwide, so we have to be very thoughtful,” the minister said.

Last year, the government named Seoul and two other cities as targets for a crackdown on property speculators and the authorities imposed more capital gains taxes and increased the housing supply.

Kim said these measures hardly worked to stabilize the price of homes especially those in the Gangnam area.

“We supplied more homes than initially expected in the metropolitan areas and saw a rise in the volume of transactions. But the prices of apartments that cost more than 600 million won in four sections of the Gangnam area keep rising. This is due to growing speculative investments there,” he said. The affluent Gangnam area is located south of the Han River.

Kim said the government worries about a possible bubble that has been forming in the property market. If the economy slows down and interest rates rise, the bubble is feared to cause household defaults and financial risks, according to the lifelong bureaucrat.

“We don’t think raising property taxes is the sole solution to address the issue. But the soaring housing prices prompt us to take action. Meanwhile, Korean homeowners pay less property taxes than those in other countries,” he said.

This is the first time the vice prime minister has confirmed his plans to raise property taxes. In the past, he just said the government was reviewing a lot of options to overhaul the property tax system.

The property market was a rare bright spot in Korea’s slowing economy from 2016 to last year. The average apartment price in Seoul has risen more than 20 percent over the last four years to exceed 600 million won, or \$535,000, per unit

### South Korea mulls property tax hike to curb price rises

Earlier measures – including levying heavy capital gains taxes on those who have invested in multiple homes and restricting mortgages – have not been effective

During a briefing on economic policy directives for 2018, finance minister Kim Dong-yeon said the government would comprehensively consider diverse factors such as equity in taxation.

“Since tax revision has a huge impact, it is crucial to have a discussion. We will prepare measures after gathering diverse opinions through a special committee,” he said.

The official tax hike plan on homeowners is expected to be unveiled in August when the government announces its tax revision plans.

Raising property taxes has been regarded as the government’s last hidden card to stabilise housing prices, as it has been cautious about the tax hike. Policymakers have been traumatised by tax hikes ever since they witnessed how the administration under President Roh Moo-hyun in 2003 to 2008, was damaged by “comprehensive real estate tax”.

The Roh administration, whose ideology the current administration under President Moon Jae-in has inherited, introduced the tax to curb soaring housing prices but ended up losing votes due to strong resistance from taxpayers who criticised it as a “tax bomb”.

With the housing market showing signs of overheating, the administration seems to be left with no option but the property tax hike.

Unlike previous administrations that tried to bolster the housing market to prop up economic growth, the Moon administration has declared war on real estate speculators. On August 2, it announced real estate stabilisation measures, which include levying heavy capital gains taxes on those who have invested in multiple homes on top of restricting mortgages.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

However, it failed to curb flat prices in the capital city of Seoul. According to Korea Appraisal Board, prices in Seoul rose 3.82 per cent between January and November this year, picking up pace from the previous year. Prices rose steeply especially in the southern districts where high-priced flats are located.

“There has been polarisation between Seoul and provinces following the August 2 measures. Demand has always surpassed supply in Seoul as additional supply of homes is restricted there,” said Chae Sang-wook, an analyst at Hana Financial Investment.

He added that those who had invested in multiple homes in the provinces seem to be selling them to purchase one good apartment in Seoul instead, further inflating flat prices in key areas of Seoul. Following the August 2 measures, housing prices in Seoul rose 2.8 per cent, while prices in other regions rose a mere 0.7 per cent.

“If the polarisation continues, it will hinder the government’s real estate market stabilisation policies. It may have to boost the real estate market in the provinces,” he said.

Market watchers expect the Moon administration to target those who own multiple homes instead of raising overall property taxes since that would face strong resistance from homeowners.

On top of pressuring demand by raising property taxes, the government plans to stabilise the market by increasing the supply of new homes. According to the government housing welfare roadmap, one million homes will be supplied for the next five years through public sector companies such as the Korea Land and Housing Corporation. They will target newlyweds, young people and low-income households.

#### **Korea's property tax rate to GDP stands below OECD average in 2017**

South Korea's property tax rate compared with its GDP stood below the average for Organization for Economic Cooperation and Development member countries, official data showed Monday.

According to the Paris-based organization, the country's recurrent taxes on immovables reached 0.80 percent of its economy in 2017.

This placed it the 16th highest among 31 countries that were checked and below the 0.91 percent average for other developed market economies with high incomes.

The latest findings showed that South Korea's tax rates on property were on par with the OECD average between 2007 and 2008.

Among countries examined Britain had the highest property tax rate at 3.11 percent, followed by Canada and France with 3.06 percent and 2.65 percent, respectively. The United States and Israel made the top-five list, while the small European state of Luxemburg had the lowest tax rate at 0.07 percent.

Switzerland, the Czech Republic, Austria and Turkey also had low property tax rate numbers compared with their GDP.

The data showed that in the late 1990s and early 2000s Asia's fourth-largest economy ranked around 19th place, but this rose during former President Roh Moo-hyun's term in office, with the country's standing peaking at 13th in 2007, before generally dropping in the following years to backtrack to 21st place in 2013 through 2014 and 19th in 2015.

The rise in ranking is attributed to Seoul starting to levy the comprehensive real estate holding tax starting in 2005.

The latest findings, meanwhile, could open the door for the incumbent Moon Jae-in administration to reintroduce tougher real estate tax laws that can be used to control rising home prices and curb speculation. Rising real estate prices have been cited as one of the reasons for South Korea's high household debt that hovers over 1,400 trillion won (\$1.31 trillion) at present.

Related to revising property tax rules, the government said a special committee under a presidential fiscal reform panel will soon start talks on ways to control real estate prices, with emphasis placed on revising the taxes that can be levied on owners of multiple homes and possible changes to tax rates.

#### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

Once formed the committee will discuss matters like the country's low level of property taxes and relatively high transaction costs.

Seoul, meanwhile, aims to make changes to related laws at the National Assembly after September.

**International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.