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Controversy over property tax hike

While the government is expected to discuss raising property taxes at a special committee, it won't be easy to reach a consensus as resistance by taxpayers is will be inevitable.

Strategy and Finance Minister Kim Dong-yeon recently said that a special committee on fiscal reform will be launched soon to examine overall tax policies of the Moon Jae-in administration. Based on a tax reform plan, the committee will also set up long-term guidelines for fiscal policies. The liberal administration is likely to increase fiscal spending especially to tackle the country's low birthrate and expand overall social welfare spending.

The committee is especially getting the spotlight as it is expected to discuss raising property taxes.

Those who support the property tax hike say that the tax is small here compared with other Organization for Economic Cooperation and Development (OECD) member countries. The ratio of real estate property tax to gross domestic product (GDP) stands at 0.8 percent in Korea, which is lower than the 1.1 percent OECD member average. President Moon Jae-in also mentioned this in his book, arguing that it should be raised to the average OECD level.

Experts generally agree that the property tax burden is lighter in Korea compared with other developed countries. According to Lee Sun-hwa, a researcher at the Korea Institute of Local Finance, the effective property holding tax rate of Korea stood at 0.156 percent, which is only one third of the average 0.435 percent of 13 OECD member countries compared in the report. The effective holding tax rate measures the ratio of property tax to the total market capitalization of real estate properties possessed by the private sector.

Voices supporting property tax hike got louder following steep hike of apartment prices, especially in upscale southern districts of Seoul. According to Real Estate 114, a real estate market information provider, apartment prices in Gangnam-gu averaged 43.26 million won per 3.3 square meters as of February, jumping 12.5 percent from last July when it averaged 38.44 million won. An analysis on housing market trend data by KB Kookmin Bank showed that apartment prices of 11 southern districts rose 42 percent during the past four years.

However, the administration is cautious as any tax hike could discourage voters. The former Roh Moo-hyun administration, whose ideology has been inherited by the current administration, had raised the tax steeply by introducing a "comprehensive real estate tax," but it faced criticism that it was throwing "tax bombs" at home owners.

Market watchers say that the government should raise the "official" value of real estate first. The government uses these officially appraised values for taxation, but they reflect only part of the market price.

"The official value of apartments in Seoul used by the government stood at only 66.5 percent of their real prices. They are seriously compromising justice in taxation," said Prof. Jeong Se-eun at Chungnam National University.

International Property Tax Institute

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While Korea's property holding tax is low compared with other countries, experts say the government should consider lowering the real estate transaction tax. According to Lee, the effective real estate transaction tax rate was 0.21 percent, nearly double the average 0.113 percent of nine OECD member countries whose data was available.

Fundamentally, there won't be real estate speculation if there are better investment tools. "The government should make efforts to get excess liquidity in the real estate market to flow into more productive sectors," said Kim Cheon-gu, a senior researcher at the Hyundai Research Institute.

Support for South Korea property tax to curb soaring prices rises

Supporters of the hike say South Korea's tax is small – ratio of real estate property tax to GDP is 0.8pc against 1.1pc average for OECD member countries

While the South Korean government is expected to discuss raising property taxes at a special committee, it won't be easy to reach a consensus as resistance by taxpayers will be inevitable.

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Voices supporting a property tax hike have increased following a steep hike of apartment prices, especially in the upscale southern districts of Seoul. According to market information provider Real Estate 114, apartment prices in Gangnam-gu averaged 43.26 million won (US\$40,365) per 3.3 square meters as of February, jumping 12.5 per cent from last July when it averaged 38.44 million won. An analysis on the housing market trend data by KB Kookmin Bank showed that apartment prices of 11 southern districts rose 42 per cent during the past four years.

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