



SOUTH KOREA – June 2018

AFTER ELECTION, GOV'T PLANS PROPERTY TAX INCREASE 1

After election, gov't plans property tax increase

Emboldened by the ruling Democratic Party's landslide victory in last week's regional elections, the government announced it would take steps to raise Korea's property taxes.

The Fiscal Reform Special Commission under the Presidential Commission on Policy Planning said on Monday that it will hold a policy debate over real estate taxation reform on Friday. The debate will focus on studies on the impact of higher property taxes, particularly comprehensive taxes on multiple and high-value properties, with the goal of finding an appropriate taxation level.

The commission will give its final proposal to the government by June 28. The government will use it to come up with its property tax reform bill, which will likely be announced at the end of the month. The administration hopes the bill will be passed by the National Assembly in September and go into effect next year. Increasing property taxes has been one of the Moon Jae-in government's key goals since taking office in May of last year.

The administration announced a real estate measure last August that raised capital gain taxes on landlords who owned multiple homes. The previous administration gave tax cuts to multiple homeowners if they held onto the properties for more than 10 years. But last year's change removed the tax benefit. It was a clear sign from the Moon administration that it wanted owners of multiple apartments, who it saw as jacking up prices, to sell their properties.

Many in the real estate market speculate that the Moon government will raise comprehensive real estate taxes, which the Roh Moo-hyun administration first introduced in 2007.

Not all property owners are subject to the comprehensive tax. It only applies to owners of multiple properties whose combined government-assessed value exceeds 600 million won (\$543,000) and owners of single properties worth over 900 million won.

Under the currently law, the taxable value of a property is 80 percent of its government-assessed value.

However, market watchers believe the government will raise that ratio to 100 percent. Experts agree that for the government to keep Moon's campaign promise of raising property taxes until they are equivalent to 1 percent of the nation's GDP, it would need to raise them by 3.2 trillion won. To achieve that goal, it has to raise the ratio from 80 percent to 100 percent. If the government changes its property value calculation to 70 percent of actual market value from 60 percent, it will collect an additional 2.7 trillion won.

The Moon government and the ruling party have struggled to pass the reform bill in the National Assembly due to strong protests from opposition parties. After the Democratic Party's landslide victory in last week's elections, they are in a stronger position to pass it.

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Finance Minister Kim Dong-yeon said last month that the government will look into all factors, including tax burdens and real estate prices, before making a decision on tax reform.

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