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Property tax bomb

Policymakers should lower transaction taxes

Concerns are growing about a sharp rise in property taxes after the government announced its official valuation of home prices.

The average apartment valuation rose by 5.32 percent nationwide this year, not much higher than last year's 5.02 percent increase. However, that of apartments in Seoul jumped 14.17 percent, the highest in 12 years.

Accordingly, the number of apartments priced at 900 million won (\$794,350) or higher jumped by 56.1 percent to 219,000 from last year. Owners of these high-priced apartments are subject to the comprehensive property tax, which is designed to fight property speculation, together with higher capital gains tax. They are now expecting a shock from an incoming "tax bomb."

Housing prices in the capital and its vicinity have surged over the past few years while those in the provinces, especially Ulsan, South Gyeongsang Province and North Chungcheong Province, have plunged. It is, therefore, natural for the government to readjust its official valuation reflecting regional changes in housing prices. Despite the latest readjustment, the official assessment still accounts for only 68.1 percent of market prices, according to officials.

Aside from the reassessment, however, the comprehensive property tax rate will rise by up to 0.7 percentage points this year, and owners of two or more homes will have to pay an additional 0.5 percentage points in tax. Owners of expensive homes and multi-home owners in Seoul and its surrounding area are sure to face much heavier tax burdens.

The real estate market has shrunken sharply because of various regulations, including mortgage controls, the imposition of massive capital gains tax on owners of multiple homes, and the retrieval of excessive profits from reconstructed apartments. The dropping of the property tax bomb on the already frozen real estate market is likely to shrink home transactions.

According to the Korea Institute of Public Finance, the country's property tax rate was 0.8 percent of gross domestic product (GDP) in 2016, lower than the OECD average of 1.1 percent. However, its transaction taxes stood at 2 percent of GDP, five times higher than the OECD average of 0.4 percent.

That explains why there have long been calls for a reduction in housing transaction taxes. To minimize resistance resulting from the property tax increase and prevent a slump in the real estate market, the government should no longer hesitate to lower transaction taxes, including acquisition and capital gains taxes.

Gov't Meddles in Property Value Assessment

The government pressured appraisers to hike their valuation of prime property for tax purposes, sources said Thursday.

International Property Tax Institute

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A look at the latest assessment of the 10 most expensive pieces of land in Seoul unveiled by the Korea Appraisal Board recently shows seven of them rising at almost the same rate.

The valuation of the land on which sits the Nature Republic cosmetics shop in Seoul's Myeong-dong shopping district rose 100.4 percent from W91.3 million to W183 million per sq.m. The valuation of the Woori Bank site nearby increased 100.3 percent and of the Uniqlo store site 100.1 percent (US\$1=W1,128).

Appraisers agree that the huge increase must have been motivated by government pressure.

Sources said an official from the Ministry of Land, Infrastructure and Transport told around 20 appraisers during a recent meeting in Seoul that the ministry wants to boost the average valuation of land across the country to 70 percent of market rates over the next four to five years. But the valuation of pieces of land worth more than W30 million per sq. m was to be raised at once.

Participants at the meeting voiced concerns over fairness, so the government agreed to cap any single increase at 100 percent. Appraisers who failed to obey the directive were put under intense scrutiny.

The official appraisal is used to calculate property and real estate taxes, and is typically much lower than the actual market value. The government's guidelines apparently aimed to lay down the groundwork for imposing punitive taxes on super-rich landlords.

Shim Gyo-eon at Konkuk University said, "Getting only expensive pieces of land to reflect market rates more closely violates the principle of fair taxation and raises concerns of infringing the property rights of individual citizens."

Legally, it is the duty of independent surveyors to assess the value of land. When the ministry evaluates any given property, at least two appraisers must be consulted. The government can then order a re-evaluation or entrust another surveyor with the task, but there are no legal grounds for telling them how to do their job.

One industry source said, "This was against the law, so no paper records were left behind, while participants at the meeting were made to sign confidentiality agreements."

The ministry denies the allegations. Ministry official Han Jeong-hee said, "I am not aware that any such orders were given to real-estate appraisers."

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