



# SOUTH KOREA – December 2019

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**COMPREHENSIVE REAL ESTATE TAX..... 1**

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## **Comprehensive real estate tax**

*Heavier holding tax needs to be offset by lighter transaction tax*

The government began to send out its bills for the comprehensive real estate holding tax to property owners Wednesday last week. Taxpayers appear confused and shocked with far higher amounts compared with the previous year. Especially disgruntled are those homeowners whose property values rose above 900 million won (\$763,000) this year as they were slapped with a higher tax rate, and retired people who have only one home but saw their tax burden almost double.

Four factors have combined to push up both the number of aggregate real estate taxpayers and their tax amounts — a readjustment of officially announced real estate prices to better reflect market prices, hikes in the ceiling for the tax rate and taxed amount, and a rise in housing prices. The higher reflection of market rates has pushed up the prices of apartments and detached houses in Seoul by 14.02 percent and 13.95 percent, respectively, this year. That means a far larger number of homeowners have to pay the gross real estate tax. Among apartment owners, 203,147 people, up 50 percent from last year, will have to pay comprehensive real estate holding tax this year.

Existing taxpayers have also been hit by the rise in the tax rate, from the previous 0.5 percent to 2 percent to 0.5 percent to 3.2 percent, as well as the 300-percent jump in the upper limit of the payment amount. Considering the purpose of this tax is to stabilize housing prices by restricting multiple homeowners and demand for high-priced homes, the outcry against the heavier taxes show the government’s anti-speculation policy has begun to take effect.

To produce the desired effect, however, some supplementary measures are also needed. Some multiple homeowners tend to avoid the tax by registering themselves as rental business operators, so the government needs to adjust the tax-benefit system to close this loophole. To provide exits for owners of multiple and/or expensive homes wanting to dispose of their properties, the government has to consider temporary reductions or exemptions of transaction taxes. Besides, for retired people who have only one home, the tax authorities could reduce the comprehensive property tax now even if they may have to levy a heavier capital gains tax or gift tax later.