



## SOUTH KOREA – November 2021

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### ***Property owners cry foul over growing real estate tax burden***

*Some politicians, experts see new measures as 'double taxation'*

With the government sending out demands for real estate tax payments a week ago, those subject to them have begun expressing severe discontent at the sudden increase in their tax burden. Calling the Moon administration's tax "punitive," some property owners are even attempting to form a resistance movement.

The comprehensive real estate tax is levied upon those who own one home with a market price over 1.6 billion won (\$1.35 million), or those who own multiple homes with each being worth more than 600 million won. The scheme, which some call "a tax on the rich," was introduced in 2005 to discourage property speculation.

The reason behind the massive outcry from property owners is that the burden from the tax has escalated substantially, with the country experiencing soaring housing prices during recent years and the government also greatly increasing the rate in 2021.

Some 5.7 trillion won has been levied on 947,000 homeowners in comprehensive real estate tax this year; and compared to 2020, the number subject to it has increased 42 percent, while the total tax revenue has jumped a whopping 216 percent.

A civic organization is currently collecting plaintiffs to file a joint case with the Constitutional Court. The group — Solidarity of Citizens for Filing Constitutional Court Case against the Comprehensive Real Estate Tax — said over 2,000 people had expressed their intention to participate in the lawsuit since it started receiving applicants a week ago.

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"Not only Seoul residents but also people from regional cities are joining the group. The comprehensive real estate tax is an unparalleled tax mistake, because it violates the principle of horizontal equity in taxation by levying a punitive tax on owners of more than one home," said Lee Jae-man, a former tax official who heads the group.

"The tax also violates the Constitution as it is considered double taxation, given that property taxes are already imposed on people's homes."

According to a recent poll by Realmeter, 53.3 percent of respondents said they support changing the current comprehensive real estate tax. Mostly people in their 30s and over 60 showed support for the change, reflecting those age groups' particularly sensitive toward the government's real estate policies.

Politicians are also speaking out on the matter. The main opposition People Power Party's outspoken lawmaker Hong Joon-pyo — a major contender in the party's presidential primaries — argued that the tax was double taxation that violates the Constitution.

"A single item should be taxed once, but the government is imposing two different taxes homeowners — property tax and comprehensive real estate tax — which makes it double taxation," Hong wrote on Facebook. "The comprehensive real estate tax is not so much a tax as plunder."

#### Rebuttal from finance ministry

Responding to the criticism, the Ministry of Economy and Finance explained that the tax on real estate was not that high compared to other countries. According to a ministry press release distributed in April, Korea's real estate tax rate was 0.16 percent — based on real estate holding taxes divided by property value. The comparable rate in the U.S. stands at 0.9 percent, followed by Canada at 0.87 percent, the U.K. at 0.77 percent and France at 0.55 percent.

"It is difficult to say that Korea's tax burden on owning real estate is excessive. The ministry will continue to bring about equity in taxation through justifiable and appropriate application," it said.

The ministry also defended itself against the double taxation accusation, saying the property tax and the comprehensive real estate tax were not double taxation, as repetitive items are exempted in determining them. The ministry also argued that the real estate tax contributes to lessening unequal regional development, as the money collected is redistributed to local governments.

However, experts view the ministry's explanation as inadequate and misleading. They point out that the government's comparison with eight OECD countries in terms of real estate taxation was inappropriate, as the data is from 2018 and does not reflect the sudden increases of both tax rates that took effect this year as well as the soaring housing prices in recent years.

"A simple comparison with other countries isn't enough. It is excessive for the amount of real estate tax to be tripled in just one year," University of Seoul professor Kim Woo-cheol said.

"The tax burden compared to housing prices alone might be lower than the OECD average, but when compared to taxpayers' income levels, it is closer to the OECD average. Thus it is difficult to simplify the matter."

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Some experts also argue that the increased tax burden will trickle down to tenants, thus even renters will be affected by the tax.

### ***More people subject to comprehensive real estate tax on rising home prices***

The number of people who are subject to the so-called comprehensive real estate tax rose 42 percent this year from the previous year amid skyrocketing home prices and hikes in the tax rates, the finance ministry said Monday.

A total of 947,000 people are subject to the comprehensive real estate taxes this year, compared with the 667,000 people tallied for last year, according to the ministry.

The 2021 numbers accounted for 1.8 percent of the country's 52 million population.

Such people are forecast to pay a combined 5.7 trillion won (US\$4.8 billion) in taxes this year, more than tripling from 1.8 trillion won for last year.

The comprehensive real estate tax scheme was introduced in 2005 in a bid to curb speculative purchase of properties, often called "taxes on the rich."

The tax is levied on owners who have multiple homes with their combined state-assessed price value exceeding 600 million won. For owners of one home, the taxation base was raised to 1.1 billion won from the previous 900 million won.

Higher tax bills come as housing prices have skyrocketed despite the government's measures to cool down the property market.

The government said its actual tax revenue from such taxes is forecast to reach 5.1 trillion won.

South Korea has unleashed a series of measures to curb highflying home prices, including tax hikes and lending regulations. But the measures have led to only a short-term letting up as more people have taken out bank loans to buy homes in anticipation of higher prices.

In tandem with rising home prices, the country's state-assessed price value for homes has also sharply increased.

In South Korea, the government taxes land and homes based on its annual assessment value instead of the actual market value.

The average government-assessed housing prices rose 19.08 percent across the nation this year, the sharpest on-year gain in 14 years. The government plans to raise state-evaluated prices for all types of real estate, including apartments and land, to up to 90 percent of their market prices in the next 10-15 years.

The government also sharply hiked the comprehensive real estate tax rate on owners of two or three homes in some speculative areas.

Public discontent over the government's housing policy has increased as runaway home prices drove up tax burdens on home owners and raised costs for people who seek to rent or buy homes.

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## ***Property tax bomb***

### *Punitive real estate tax needs overhaul*

The Moon Jae-in administration is facing growing tax resistance from owners of multiple and high-priced homes who will have to pay a much higher property tax next month. The number of people subject to the so-called comprehensive real estate tax amounts to 947,000 this year, up 42 percent from 667,000 last year, the Ministry of Economy and Finance said Monday. This accounts for 1.8 percent of the nation's total population. They must pay a combined 5.7 trillion won (\$4.8 billion) in taxes this year, up more than 200 percent from last year.

The comprehensive real estate tax, introduced in 2005 to curb property speculation, is levied on owners of multiple homes with a combined state-assessed home value surpassing 600 million won. Owners of one home must also pay when their home is valued at over 1.1 billion won, a taxation base which was previously set at 900 million won.

It appears inevitable to see the sudden upsurge in the real estate tax amid a sharp rise in home prices coupled with higher tax rates aimed at fighting property speculation. However, complaints are growing over the "tax bomb." The Moon administration cannot deflect criticism for attempting to pass the buck on to the people because it has failed to stabilize housing prices with its misguided anti-speculation policies. The government should not say that there is no problem with the punitive tax as less than 2 percent of Koreans are affected by the soaring burden — not the majority of taxpayers.

What is worrisome is that tenants are likely to bear the brunt of the heavy taxation as landlords are certain to raise rents to mitigate their higher tax burden. An increasing number of owners of multiple homes have bequeathed part of their property to their children or other family members to avoid taxes. By September this year, the number reached 63,054, the second largest since 2006 when relevant surveys began.

The mounting tax burden has also ignited a heated debate among major presidential candidates. Yoon Seok-youl of the main opposition People Power Party (PPP) has pledged an overhaul of the current system. "Once I am elected president, I will either integrate the comprehensive real estate tax into the property tax or exempt the owners of one home from the taxation." Yoon is seemingly trying to highlight President Moon's policy failures regarding housing speculation in order to woo disgruntled voters in the run-up to the March 9 presidential poll.

In contrast, Lee Jae-myung of the ruling Democratic Party of Korea (DPK) has expressed opposition to the idea of abolishing the punitive tax. "Instead of doing away with the comprehensive tax and thus reducing the tax burden on the rich, we need to make sure taxes collected from real estate can be provided to more people." Lee is apparently attempting to defend Moon's real estate policies and make a pitch for his populist idea of redistributing wealth to the poor.

We call for an overall review of the punitive tax scheme — but this does not necessarily mean abolishing it. Tax systems should never be interfered with for the sake of politics or ideology. What is most urgent is to modify the current system to correct its problems and ease the tax burden on owners of only one home who have nothing remotely to do with property speculation.

## ***Real estate tax policy bordering on populism stunt***

The politically divisive issue to polarize public opinion

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Korea's two leading presidential contenders are reducing real estate tax policy to a populism stunt, in calculated moves fully aware of the political value of the highly divisive issue — the chief failure of and cause for voter discontent with the Moon Jae-in administration.

Ways to raise or cut taxes on the rich are taking center stage in the discussion, whereas little attention is being paid to how best to increase the housing supply in areas highly sought after for safe and healthy living environments or to improve the quality of state-built public housing.

Voters galvanized by the emotionally charged issue of socioeconomic inequality between the haves and the have-nots are likely to be confused into thinking that electing either of the two will bring justice. Yet, the years of policy failures are certain to repeat themselves, unless the candidates understand that market expectations cannot be managed.

Lee Jae-myung, the ruling party's presidential candidate, floated the idea of imposing a tax on landowners, raising the effective tax rate to 1 percent, up from the current 0.17 percent.

The plan will lead to about 50 billion won in tax revenue to be redistributed to the bottom 90 percent of the public in what he has termed as a basic income.

Lee said that those who are not in the top 10 percent income bracket — who generally oppose his plan for fear of losing their money — are being manipulated by the media and corrupt political forces.

"Ninety percent of the public will receive more than they pay," he wrote on Facebook, Monday.

Dividing the public into 10 percent against the remaining 90 percent is an approach similar to how his party is preparing new tax incentives for those in their 20s and small business owners.

The ruling party's youth committee is exploring ways to find tax exemptions for young people with annual incomes of less than 50 million won, given their low compensation relative to those in their 30s and 40s.

But this is facing criticism, since 7.06 million — or 36.8 percent of the country's total 19.17 million salaried workers — were exempted from paying income tax as of 2019, as shown by the National Assembly Budget Office.

All of those earning less than 10 million won in annual salary, and 85.6 percent of those earning less than 15 million won, were exempt from paying income tax.

Meanwhile, main opposition People Power Party (PPP) presidential candidate Yoon Seok-youl said that the Comprehensive Real Estate Tax, imposed on owners of homes that have officially appraised values of at least 1.1 billion won (\$932,000), will be put under revision, Nov. 14.

"We will consider lowering the tax rate for owners of one home and introduce a system whereby senior citizens who have owned a home for a long period will be able to delay paying the tax until the property is sold or inherited," Yoon wrote on Facebook.

The comprehensive real estate tax in his view is problematic no matter how few taxpayers are subject to it. Issues of double taxation, the violation of individual property rights, equality in taxation and the banning of excessive taxation remain unresolved. "The government should not be telling people to sell their homes if they do not want to pay hefty taxes," Yoon said.

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Both Lee and Yoon have said that they will supply 2.5 million housing units within their five-year term. Yoon plans to ease government rules to encourage the development and reconstruction of old apartments, whereas Lee seeks to build state-run apartments near subway stations.

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