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New real estate taxation policy faces strong backlash

Criticism is mounting over the ruling party's plan to limit the targets of the comprehensive real estate tax to the top 2 percent of owners of one home, in what market watchers call a politically motivated move ahead of the presidential election next year.

The much-rushed, "unheard of and unconstitutional" idea is not only confusing homeowners who are not able to predict whether they will have to pay the hefty tax or not, but is also in danger of squandering administrative resources needed to determine the scope of the tax base set by assessing the value of homes every year.

Key specifics of the revision including officially appraising the value of homes are left to be finalized by government ministries-revised ordinances, bypassing the National Assembly.

This, some experts say, is unconstitutional since a relevant clause under the Constitution stipulates that the tax rate and the list of taxable income and assets must be set by the legislature.

The minimum state-assessed value of housing subject to the comprehensive real estate tax will be raised to over 1.2 billion won (\$1.06 million) for homeowners of a single home, from the current 900 million won, upon the passage of a revision proposed by the ruling Democratic Party of Korea (DPK).

The number of people subject to the tax will more than halve to around 90,000, down from 183,000. The amount of taxes to be collected will drop to 129.7 billion won, down 33.7 percent from 195.6 billion won.

This decrease will lead to 1.2 percent less income from a combined 5.8 trillion won in the aforementioned real estate tax to be paid by 854,000 people including multiple homeowners.

Seoul National University economist Kim So-young said the unreasonable revision is a direct result of misdirected policy priorities.

"The revision is nothing short of giving a penalty to those who own what many wish to have and work hard for. The government should help create a decent living environment, not punish people for pursuing it," he said.

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The revision lacks consistency and predictability, two key components people need to make their life plans accordingly, he added. Also lacking is a reasonable explanation against the enormous backlash from people whose tax will become heavier by at least hundreds of thousands of won, based on criteria they consider lack logic and highly prone to market fluctuations.

The revision only undermines the overall real estate policy, according to Myongji University real estate professor Kwon Dae-jung.

"A revision of this sort is unheard of, not to mention unconstitutional. What good can come of dividing people into the top 2 percent and the rest?"

The revision has left too much room for administrative discretion over tax policies, Kim said, against Article 59 of the Constitution, which dictates that the base, scope and rate of tax be determined by laws passed by the National Assembly.

"The officially appraised value — the key determinant in assessing the amount of real estate tax — is set by the government. Worse yet, the government ministries — the finance ministry in this case — reserves the right to revise ordinances at the last minute. These are grounds for the plan to be ruled unconstitutional."

Homeowners and would-be buyers not being able to make investment choices remains another major problem.

"People seeking to buy or sell homes will be left confused over whether they would be among the top 2 percent every year. Another complaint will be that they would have to still pay the tax even when the prices of their homes fall," he said.

The ruling party's revision seeks to satisfy its voter base, most of which remains enraged by the rapidly diminishing prospects of owning a home and procuring stable living arrangements.

Data from the People's Solidarity for Participatory Democracy released March 3 showed that the medium price of a 99-square-meter apartment in Seoul rose to 1.14 billion won in January, nearly double from 640 million won in May 2017.

The spike in Seoul's apartment prices resulted from two dozen botched real estate policies defined by heavier tax and tightened lending rules, the combination of which has led to a growing number of landlords raising rent on their tenants or evicting them.

DP to push for property tax cuts on high-end homeowners amid surging house prices

The ruling Democratic Party (DP) on Friday adopted a set of policies aimed at reducing real estate-related taxes on high-end homeowners amid spiking house prices.

During a plenary party meeting earlier in the day, the DP won its lawmakers' endorsement through online voting for its plan to push for the tax cuts, according to party officials.

The DP has been under pressure to address growing public discontent over the overheated real estate market after runaway house prices drove up tax burdens on home owners while raising costs for home lenders.

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The housing market issue has been widely blamed for the DP's crushing defeats in the Seoul and Busan mayoral elections in April.

Under the new policies, the lowest limit for levying the Gross Real Estate Tax, a special tax imposed on owners of multiple or high-end houses, will be raised to some 1.1 billion won (US\$973,020) from current 900 million won. The tax cut will benefit owners of a single home only.

According to party officials, the portion of homeowners to be levied with the Gross Real Estate Tax under the new policies will be reduced to top 2 percent of the total.

Under the decisions, the benefit of the Real Estate Transfer Tax exemption will also be extended to homes worth up to 1.2 billion won, from the current standard at 900 million won, the DP also noted.

"The (internal) controversies over the two real estate issues have been settled. The decisions will be pushed for through the DP's bills (on revising related laws)," Rep. Koh Yong-jin, the party's chief spokesman, said.

The ruling party can pass a bill without difficulty as it commands a parliamentary majority with 174 out of 300 seats.

The decisions mark the latest in a series of real estate-related tax cuts the ruling party has introduced as it seeks to win back voters' support following its election defeats as well as ahead of next year's presidential election.

In another major decision last month, the DP also extended the benefit of the 0.05-percentage-point property tax cut, currently available for houses worth 600 million won or less, to houses worth up to 900 million won.

The package of new policies faced backlash from some hardline members who denounced them as "tax cuts for the rich."

A clueless government

Apartments rented on jeonse, or long-term deposit, contracts continue to get more expensive. Jeonse prices rose for the 102nd week in a row. The trend has continued from the first week of July 2019 through the first week of this month. Unless the Moon Jae-in administration changes its real estate policies, the trend will not change. If the liberal administration insists on elevating the appraised value of apartments, raising real estate taxes and controlling demand instead of increasing supply, a jeonse crisis is inevitable.

Regrettably, the burden directly falls on lower-income people and the young generation despite the government's promise to stabilize the real estate market. Instead of dreaming of owning a home, these vulnerable classes are struggling to find jeonse contracts they can afford. Worse, the upsurge in jeonse prices could trigger a further spike in sale prices of apartments across the country.

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Everyone knows the reason for the real estate fiasco. The government was bent on regulating redevelopment of buildings and complexes through a series of anti-market policies. A shortage of apartment supplies only fuels hikes in prices.

On top of that, the government continued raising taxes such as the transaction tax, property ownership tax, and the comprehensive real estate tax for the rich. The government pressured owners to sell extra apartments, but even single-home owners could not avoid the shocks due to its rapid lifting of the appraised value of their apartments. As a result, many homeowners must pay up to 30 percent higher ownership taxes.

Single-home owners can hardly move to other places due to higher transaction taxes. Multiple home owners chose to hand over their extra homes to their children or not to sell them. The 102-week increase in jeonse prices is a result of policy failure. Due to low interest rates, housing prices are bound to rise. But the government's anti-market measures helped real estate prices rise further.

In a speech marking his fourth year in office last month, President Moon Jae-in admitted his administration's mistakes. Yet the government is still sitting on its hands. It has ignored the public's pain over the last two years. Is the government really clueless about the course change needed now? We urge it to stop its dangerous policy experiment immediately. Otherwise, the jeonse crisis will get even more out of control.

More cry than wool

DP hard-liners block push to lessen tax burden after by-election defeat

After a crushing defeat in the April 7 by-elections mostly due to popular fury over real estate policy failures that drove up housing prices, the ruling party vowed to ease tax burdens and launched a special committee on real estate issues. But its result was disappointingly small. To reduce property tax a bit only for houses in a certain price range was all it decided to do to lessen the tax burden.

Song Young-gil, Democratic Party of Korea leader, and Kim Jin-pyo, the chair of the committee, showed a strong will to address two taxes that many complain of: Transfer tax and comprehensive real estate tax. But hard-liners advocating the direction of President Moon Jae-in's policies put the brakes on their push for change.

In their general meeting last Thursday, DP lawmakers agreed to raise the upper price limit of homes subject to property tax cuts from 600 million won (\$538,000) to 900 million won. They also decided to reduce the property tax rate for houses from 600 million won to 900 million won by 0.05 percentage point. House prices here are based on state-assessed values, and property tax cuts apply only to those homeowners without second homes.

But the expected effect of property tax reduction for houses valued from 600 million won to 900 million won is not so big (about 180,000 won).

The party failed to reach consensus on an issue that really matters: Whether to reduce comprehensive real estate tax and transfer tax.

The committee proposed changing the criterion for comprehensive real estate tax. Currently, the tax is imposed on houses whose state-assessed values are 900 million won or more. Under a new criterion suggested by the committee, the top 2 percent of houses in terms of state-assessed value will be

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slapped with the tax. It is odd to determine objects of taxation not by an absolute amount such as income, but by a relative percentage.

Kim said that the committee will hold a hearing on the proposal, but it is likely to be scrapped given a strong opposition from DP hard-liners. A series of misguided policies kept raising housing prices and prompted the government to increase its house assessment for taxation. About 25 percent of Seoul apartments have become subject to comprehensive real estate tax. The tax originally targeted a small group of very expensive houses, but these days it is becoming a common tax.

The party also decided to eliminate all of the tax benefits to those landlords who registered their lease of stand-alone houses or multiplex units with the government.

If the benefits are removed, landlords will face hefty comprehensive real estate tax for owning multiple houses. The party expects registered landlords to put their rented housing units on the market to avoid heavier taxes.

Last July, the government and the ruling party effectively abolished tax benefits to registered landlords who rent out apartments. This time, the party is seeking to axe benefits to landlords who lease non-apartment houses mostly to the working classes.

In 2017, the Moon administration encouraged landlord registration with tax benefits, emphasizing good relations between landlords and tenants. Now the ruling party seeks to undo the measure. This will damage trust in government policies.

If the party wants landlords to sell their rented houses, a lower transfer tax will help. But DP hard-liners oppose this, too.

Discouraging housing rental will shrink the pool of houses to let. Jeonse (house lease on a deposit basis) prices keep rising.

Whenever the government announced new policies to stabilize housing prices, distress on both landlords and tenants rose. Measures missed the mark because the party was swayed by hard-nosed Moon supporters who refuse to change the course. So long as they blindly believe that housing prices will be stabilized only when the government holds the rein tight to regulate the market, any measure from them will hardly work.

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