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TAX BOMB: GOVERNMENT RAISES TAX BASE FOR APARTMENTS SHARPLY, CITING PRICE SURGE CAUSED BY POLICY FAILURES 1

Tax bomb: Government raises tax base for apartments sharply, citing price surge caused by policy failures

The Land Ministry raised this year's tax base for apartments by a nationwide average of 19 percent.

The real estate tax base set by the ministry as of Jan. 1 serves as the standard in determining property holding taxes, basic pension benefits and other government welfare benefits.

The rate of increase stands at a 14-year high. Not since 2007, when it was 22.7 percent, has the tax base seen such a steep increase.

For the area of Sejong, the de facto administrative capital of South Korea, the average tax base shot up 70.7 percent.

It soared because apartment prices there surged – propelled by a push by the ruling Democratic Party of Korea to relocate the National Assembly to Sejong. The party raised the issue in an apparent bid to win over voters in the Sejong area.

The number of apartment units subject to the comprehensive real estate tax for the first time this year increased about 70 percent, from 309,361 last year to 524,620. The tax, separate from the property tax, is levied on homes whose tax base exceeds 900 million won (\$796,000). Holding taxes consist of the property tax and the comprehensive real estate tax.

In Seoul, 16 percent of apartments will be subject to the comprehensive real estate tax this year.

This clearly deviates from the original purpose of the tax, which was designed to target a small minority of people who possess exceptionally expensive homes. The tax is becoming generalized.

For example, a person who owns an apartment worth 1.71 billion won – its tax base is 1.2 billion won – will have to pay 4.32 million won in holding taxes this year, up 43 percent from last year. Their tax bill will amount to about a month's salary.

The tax hike will be especially hard-hitting for retirees who have only one apartment in Seoul and live on the national pension. As of June 2019, the maximum national pension payment was 2.1 million won a month.

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Housing prices have hit all-time highs, affected by policies that suppress housing supply and make it difficult to take out mortgages. The Moon administration has announced such measures on 25 occasions.

According to the Citizens' Coalition for Economic Justice, apartment prices shot up 78 percent in the 44 months from May 2017, when Moon was inaugurated as president, to January this year.

Four years ago, the average sale price of an apartment in Seoul was about 600 million won. Now it is approaching 1 billion won.

Yet the government is getting ready to drop a tax bomb that reflects the surge in housing prices. For a person with two apartments in Seoul, this year's holding tax bill could exceed 100 million won.

As tax bases rise, so do national health insurance premiums for local subscribers. The premiums charged to those who are not salaried workers are interlocked with the value of their homes.

Due to the apartment tax base hike, 1.27 million households whose breadwinners are self-employed will have to pay higher premiums from November. Retirees without regular cash income, such as rent, will be hit hard.

To make matters worse, the transfer tax is so high that it is not easy to sell a home. A great loss is inevitable. The acquisition tax has risen sharply as well.

It is questionable if the decision to increase the tax base was reasonable. In some areas, tax bases rose faster than housing prices. Last year, housing prices went up 3.01 percent in Seoul and 7.91 percent in Busan. But the tax base was disproportionately raised in Seoul (19.91 percent) compared with Busan (19.67 percent).

The ministry said in a press release Monday that the tax base for 92 percent of apartment units nationwide is below 600 million won and that it would cut property taxes for those.

It also noted that only 3.7 percent of apartment units have a tax base over 900 million won.

This is tax politics, and it seeks to divide the nation into two classes: the 92 percent versus the 8 percent, depending on whether their taxes will be cut. The minority versus the majority, depending on whether they pay the comprehensive real estate tax.

Punitive taxes are not a solution to high housing prices. They will worsen the problem and only punish innocent single-apartment owners who have nothing to do with speculation. Tax bases and related tax rates must be modified to reasonable levels.

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