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Ruling party seeks higher tax on foreign property speculators

In a bid to calm real estate prices, South Korea's ruling party said Monday it would seek legislation to levy a heavier tax on property speculation by foreign nationals.

The Democratic Party of Korea and the government said the bill would impose a 20 percent acquisition tax on home purchases by foreign nationals if the buyers do not reside there for more than six months out of the year without an acceptable reason.

The current law states that taxes for foreign nationals buying real estate here are the same as for Koreans, but foreign buyers are not required to submit financing plans and do not face the same restrictions on loan-to-value and debt-to-income ratios when purchasing properties here.

According to the National Tax Service, from 2017 to May this year, 23,219 foreign nationals purchased 23,167 homes worth a combined 7.7 trillion won ($6.4 billion). By country of origin, Chinese nationals purchased the most homes at 13,573, with US citizens trailing far behind at 4,282.

By region, Seoul ranked No. 1 with 4,473 properties worth a combined 3.3 trillion won. Gyeonggi Province ranked No. 2 by value with 10,093 properties worth a total 2.7 trillion won. Owners of homes that accounted for 32.7 percent of the total, or 7,569, never resided in the purchased properties, NTS data showed, suggesting the homes were bought for investment purposes.

Ruling party Rep. Chung Il-young said foreign demand for investment properties in the local real estate market has surged, and the latest bill takes a leaf from other developed countries' real estate rules designed to stabilize prices. Chung warned that additional bills imposing heftier transfer and comprehensive real estate taxes would be levied on foreign buyers if they fail to uphold the latest legislation.

Singapore, Canada and New Zealand imposes either heftier taxes or stricter restrictions to block speculative real estate buying by foreign nationals.

Following the Moon Jae-in administration's 22nd set of policy actions announced on July 10 to curb the heated real estate market, South Korea's National Assembly on Tuesday passed a separate bill aiming to block speculative buying and increase taxation for owners of multiple homes. The property acquisition tax rate was raised to a maximum of 12 percent from the current 3.5 percent for homeowners who own a property worth more than 300 million won in state-designated speculative areas.

Controversy rising over real estate bills

Rival parties continued to clash over revisions to the Housing Lease Protection Act, which would be aimed at raising taxes on owners of multiple homes and containing property market speculation.

The ruling Democratic Party of Korea (DPK), which controls 176 seats out of the 300-member Assembly, is determined to pass the bills at a plenary session today, the last day of the July extraordinary assembly. But the main opposition United Future Party (UFP) is refusing to cooperate.

The Legislation and Judiciary Committee, where 11 out of 18 seats are held by the ruling party, passed the revision bills on Monday night to enable them to be put to a vote in the plenary session. The UFP did not participate in the committee vote.

The DPK has claimed it is necessary to swiftly pass the bills in order to improve the people's livelihoods and support the Moon Jae-in administration's policy priority to cool down the housing market, particularly relating to the steep housing prices in Seoul and nearby areas.

"We will make sure to pass the bills related to real estate and other related bills to improve the people's livelihoods at the plenary session today," DPK chairman Lee Hae-chan said during a meeting of the party's supreme council.

But the UFP is claiming that the DPK is railroading the bills without due procedure or proper review and is resolved to protest the ruling party's push to pass controversial bills, not just regarding real estate but also other thorny issues, such as the bill for establishing a separate agency, other than the prosecution and police, for investigating corruption allegations against ranking officials.

On Monday, UFP interim chief Kim Chong-in slammed the ruling party for rushing the real estate-related revisions, saying they will do little to achieve the Moon administration's policy objective of cooling down the housing market.

"The people's rage over the government's real estate policies is getting stronger," Kim said during a party meeting. "The bills have only contributed to deepening the conflict between landlords and tenants. In the long run, the laws will not be beneficial for the tenants, and will only end up hampering the housing supply."

On July 2, President Moon instructed Land, Infrastructure and Transport Minister Kim Hyun-mee to come up with measures to address the housing issue, including levying heavier taxes on people with more than one home and revising the comprehensive real estate tax bill.

"DPK Rep. Yun Ho-jung, chairman of the Legislation and Judiciary Committee, has ignored laws and principles to handle the bills in accordance with a scenario designed to comply with the President's order," UFP members of the Legislation and Judiciary Committee said in a statement, Monday. "This is dictatorial behavior."

The UFP is feeling more confident about blocking the passage of the bills after a speech at the National Assembly by one of its lawmakers, Rep. Yun Hee-suk, made headlines last week.

An economic expert, the first-term lawmaker pointed out the fallacies of the government's real estate policy based on her experience as a leaseholder.

She also drew attention for selling one of her homes in Sejong City in light of the rising criticisms against politicians and ranking officials who own more than one home, which is seen to go against the government's policy for cooling down the housing market.

Cheong Wa Dae had sought to convince owners of multiple homes among senor presidential aides to sell their properties other than their main residence by the end of July, but some were unable to meet the deadline.

Korea's tax on real estate trading highest among OECD

The tax on real estate transactions compared to the country's GDP was the highest for Koreans in 2018, strengthening calls for revisions to the government's botched real estate policies over the past few years to lower the tax to encourage multiple home owners to sell their properties.

Data submitted by the National Assembly Budget Office (NABO) to Rep. Jeong Jeong-soon of the ruling Democratic Party of Korea, showed Koreans paid an aggregate 27.4 trillion won ($22.7 billion) in taxes on property transaction in 2018, accounting for 1.5 percent of the country's nominal GDP. This is the highest among OECD member countries, followed by Australia (1.3 percent), Belgium and Italy (1.1 percent). The figure was 0.4 percent for Germany, 0.3 percent for Japan and 0.1 percent for the U.S. The OECD average was 0.4 percent.

The tax paid by Koreans for owning real estate was 15.6 trillion won in 2018, or 0.9 percent of GDP, this time much lower than the OECD average of 1.1 percent. Korea came in 17th, while Canada and the U.K topped the list with 3.1 percent, followed by the U.S. (2.7 percent).

Reducing the transaction tax is inevitable for the government to achieve its much-elusive goal of having multiple home owners sell their properties, thereby increasing supply in the market, Jeong said.

"The government policy implementation should follow a thorough review of factors that directly lead to spikes in home prices, a necessary step to limit confusion experienced by jeonse tenants," he said. Jeonse is a uniquely Korean way of renting a home whereby tenants pay landlords a lump sum instead of a monthly rent.

The report comes amid escalating criticism of government real estate policy that has seen a 52 percent increase of the median price of apartments in Seoul over the past three years. The increase of 314 million won is double the 134 million won during the term of former President Park Geun-hye between 2013 and 2017.

Similarly, Bank of Korea data showed the combined value of homes in Korea exceeded 5,000 trillion won in 2019, the highest since 1995 when the central bank began compiling related data.

The nominal combined value of homes in Korea was 5,560 trillion won, up 7.4 percent from 4,700 trillion won a year earlier.

This is a much faster rise given the value first topped 1,000 trillion won in 2000, before it hit 2,000 trillion won in 2006, 3,000 trillion won in 2010 and 4,000 trillion won in 2016.

Foreigners blamed for high real estate prices

As Korea struggles to control rising real estate prices, the role of foreign buyers has become an issue.
Real estate transactions by foreign nationals hit 2,090 in June, the highest monthly rate since 2015, according to a report submitted by the Ministry of Land, Infrastructure and Transport to the United Future Party lawmaker Sung Il-jong.

Gyeonggi had the highest amount of transactions, accounting for more than half, followed by Seoul with 20 percent. In the capital, transactions were concentrated in three districts of southern Seoul: Gangnam, Songpa and Seocho.

“Korea’s [real estate market] is becoming a gambling arena for foreign speculators,” said lawmaker Sung.
Some analysts say this could be true, as foreigners face fewer mortgage restrictions than their Korean counterparts — especially if they borrow abroad.

“Foreigners can borrow money from international banks that do not have systems like LTV [loan-to-value] or DTI [debt-to-income] ratios,” said Choi Hwang-su, a professor of real estate management at Konkuk University.

The steady rise in property prices in Seoul could be another attraction, especially for investors looking to make short-term profits.

Property prices in Seoul are unlikely to cool off soon. Recently, the Bank of Korea announced the highest house price index in history and forecast that the housing bubble will continue.

Analysts say some foreigners may be trying to find an alternative to investments in Hong Kong after Beijing passed a new law that could restrict freedoms there and threaten the rule of law.
“There are definitely people in Hong Kong who want to get out. They might consider other locations in Asia, one of which is Korea,” said Choi.

Koreans are not very happy at the idea of foreigners pushing up property prices, according to reactions online.
“The government is strengthening regulations and tying up the hands and the feet of locals while allowing foreigners, including Korean immigrants to China, sweep up all the properties behind our backs,” one online commentator wrote.

Such sentiments have reached the national assembly, with lawmakers quick to assign blame.

Ruling Democratic Party floor leader Kim Tae-nyeon hinted at the possibility of introducing the “Singapore model,” which slaps heavier acquisition taxes on foreign investors who purchase property on the island.
The Singapore government imposes two types of acquisition tax, the buyer’s stamp duty (BSD) and the additional buyer’s stamp duty (ABSD), on people who acquire property.

While BSD rates are under 5 percent for all investors, the ABSD varies depending on the number of houses owned and the buyer’s nationality. Non-Singapore residents are charged a fixed 20 percent ABSD rate, which is higher than for a Singapore citizen with more than three properties.

In Korea, acquisition tax rates depend on the price of the property bought and not on the buyer’s nationality or the purpose of the purchase.

The opposition United Future Party claims the Moon Jae-in administration’s real estate measures are to blame.
Lawmaker Sung cited statistics that show real estate transactions by foreigners peaked around the time when new measures were announced by the administration.

A total of 22 sets of measures to cool the real estate markets have been announced by President Moon.

But not everyone believes foreigners are playing any kind of role in setting local real estate prices.
“I am skeptical if there are enough foreigners buying properties and buildings in Gangnam to change the entire course of the market," said Professor Choi. "This is alarming because people are getting the wrong idea."

Real estate agents in Gangnam District shared similar opinions, saying they’ve barely seen any customers from other countries aside from dual passport holders or Korean immigrants looking for houses for residential purposes, not for speculation.

“It’s very rare to see foreign customers. This year we had about five,” said one real estate agent in Samseong-dong in Gangnam District, southern Seoul.

“Most of them are the so-called black-haired foreigners or Koreans who turn out to have foreign citizenship.”
And the local real estate market may not be as attractive as scaremongers like to think, according to experts. Foreigners and locals face the same tax regulations — acquisition taxes and the comprehensive real estate tax — when selling or buying a property in Korea.

Other risks such as exchange rates and geopolitical uncertainties related to North Korea can make the country an undesirable place for direct foreign investment.

Land Minister Kim Hyun-mee dismissed mounting concerns, saying foreign purchases “only account for 0.6 to 0.8 percent of transactions” and should not be a point of concern.

However, DP lawmaker Chung Il-young proposed on July 31 a revision to the regional tax law, which would apply a 20 percent tax for foreign buyers that purchase property for non-residential purposes.