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Property owners get big tax shock

A 66-year-old man who lives in Mok-dong of Yangcheon District, western Seoul, was shocked recently after checking his comprehensive real estate tax bill. It was up sevenfold. He owns two apartments including his current residence. They were purchased using severance pay, with rent from the second unit to be used for living expenses.

Last year, the bill was 100,000 won (\$90) for comprehensive real estate tax. This year, it was 700,000 won. Next year, it will be about 1.5 million won.

“Some people might say the amount is so little for me as a person who owns two apartments. However, I’m really confused now receiving the bill when I’m not earning any money at the moment,” Park said. “I want to sell one, but then I’ll be obliged to pay a large amount of capital gains tax, and I would lose a way to make a living.”

On Nov. 20, the National Tax Service started sending this year’s comprehensive real estate tax bills to homeowners. The homeowners can check the bills right away online, or they will receive the bills in the mail around Nov. 26.

The comprehensive real estate tax is a national tax targeting expensive residential real estate and some kinds of land. It is separate from property taxes levied by local governments.

Under the government’s comprehensive real estate tax regulation, the tax is levied yearly on June 1 on apartment whose government-assessed value exceeds 900 million won. But the tax also applies to individuals who own multiple apartments with a combined assessed value exceeding 600 million won.

The increase in the government’s assessed values of the real estate is the major reason behind the jump in comprehensive real estate tax.

The assessed values of all apartments this year rose 5.98 percent compared to the previous year. The rise in Seoul was the sharpest, where the change was 14.73 percent.

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The situation is most evident in the Gangnam District, Seocho District and Songpa District, all in southern Seoul, and Mapo District, Yongsan District, and Seongdong District, along the northern side of the Han River. The assessed values of apartments that are priced 3 billion won or above there jumped nearly 30 percent on year. About 700,000 to 800,000 property owners must pay the comprehensive real estate tax this year. The amount of total tax collected also jumped. The collections amounted to some 4 trillion won, a 19.5 percent increase year-on-year.

The number of people liable to pay with the comprehensive real estate tax has risen rapidly under the Moon Jae-in government.

In 2017, when the Moon government began, no properties in Dongjak District, southern Seoul, were subject to the comprehensive real estate tax. However, roughly 2,982 are expected to be hit with the tax this year. Also, no apartment in Gangseo District, western Seoul, was subject to the comprehensive real estate tax in 2017 — but this year, 510 will be.

For a person who owns an 84-square-meter (904-square-foot) flat in the Mapo Raemian Prugio apartment complex in Mapo District, western Seoul, this year's comprehensive real estate tax obligation would come to about 320,000 won. A person who owns a same-sized flat in Godeok Raemian Hillstate in eastern Seoul has also become subject to comprehensive real estate tax.

People who own relatively expensive apartments are being hit hardest. A homeowner who owns a 112-square-meter Acro River Park apartment in Banpo-dong in Seocho District needs to pay about 9.76 million won in comprehensive real estate tax this year. Last year, the tax obligation was only about 5.72 million won.

For a person who has a 235-square-meter flat in Hannam The Hill in Hannam-dong, central Seoul, which is trading at about 6 billion won, this year's comprehensive real estate tax obligation would come to about 22.24 million won, up 45 percent on year.

“Particularly those who are aged or who had retired and have no other means to earn money will take a direct hit” Park Won-gab, a senior real estate analyst at KB Kookmin Bank, said.

Park also said “the homeowners who are heavily burdened by the taxes will be most likely to shift their jeonse [long-term housing rental deposit] apartments to monthly rents [to secure cash].”

The government in July announced its plan to raise the maximum rate of comprehensive real estate tax to 6 percent from the current 3.2 percent. The new tax rate will be applied starting next year.

For a person who only owns a single 120-square-meter apartment flat in Dogok Rexle apartment complex in Dogok-dong, Gangnam District, this year's comprehensive real estate tax obligation will come to 2.73 million won. Under the new tax rate, it will be 5.09 million won next year.

A homeowner with a 119-square-meter apartment flat in Jamsil LLL's complex has to pay 2.22 million won of tax this year, and it will increase to some 4.4 million won next year.

The government in early November also announced that it will raise the assessed value of apartments, which will increase the tax bills. The plan is to raise assessed values to 90 percent of market price over the next 10 years.

Currently, 72.2 percent of the market value is used to arrive at the assessed value for apartments priced 900 million won or above, while 68.1 percent for apartments priced under that.

For instance, the assessed value of a flat worth 1.5 billion won is currently at 1.08 billion won, but it will increase to 1.35 billion won by 2025.

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"As the assessed value tends to be lower for the low-priced properties, if the assessed value is to be raised to 90 percent of the market values, people who own low- and middle-priced apartments will face a heavier burden," said Ahn Myung-sook, a senior manager at Woori Bank's real estate consulting center.

Woo Byung-tak, the head of real estate investment counseling at Shinhan Bank, agrees with Ahn.

"If [the government] wants to raise the comprehensive real estate tax, it must lower the rate of the transaction tax and offer people an escape in order for the stabilization in real estate market," said Woo.

Gov't damper on flat prices keeps pushing them up

Prices of apartments in Seoul are on the rise even as the government and ruling party vow to raise assessed values of properties, which will significantly increase taxes paid by homeowners.

According to the latest assessment by the Korea Appraisal Board, Seoul apartment prices in the first week of this month rose 0.02 percent over the previous week.

This is double the 0.01 percent average weekly increase of the last 10 weeks.

The greater Seoul area — which includes the city of Incheon and surrounding province of Gyeonggi — has seen an even sharper spike. Apartments in Gyeonggi rose 0.23 percent compared to the previous week, much higher than the previous week's 0.16 percent increase.

Prices in Incheon last week rose 0.15 percent week-on-week, up from the previous week's 0.12 percent.

In Seoul, apartments that were relatively cheap have seen sharp rises, such as in Jung District, where last week prices rose 0.08 percent, more than double the 0.03 percent increase the previous week.

Gangbuk, Nowon and Gwanak districts all saw prices rise 0.03 percent compared to the previous week. Movements in the popular, pricey neighborhoods south of the Han River were mixed.

Gangnam District's apartment prices fell 0.01 percent on week while Seocho District's prices remained unchanged. Songpa District apartment prices rose 0.01 percent. Those three districts are lumped together under the term greater Gangnam in the real estate market.

One of the factors that drove up apartment selling prices, which have been stable for 10 weeks prior, were rising jeonse (long-term housing rental deposit) prices.

Last week, Seoul jeonse prices rose 0.12 percent, continuing an upward trend for 71 consecutive weeks.

When compared to the previous week, the increase was 0.02 percentage points higher.

Jeonse prices are rising after the ruling Democratic Party passed legislation that strengthened the rights of tenants, including automatic renewal of jeonse contracts after two years as well as limiting hikes in jeonse contracts to 5 percent.

The ruling party passed the legislation in July in record time.

Since the legislations was passed, there has been a sharp decline in jeonse apartments put up for leasing. Some landlords switched to monthly rent contracts or quasi-jeonse-monthly rent contracts.

Since the legislation was enacted, jeonse prices in Seoul rose 0.45 percent in July compared to the previous month, compared to June's 0.24 percent increase. In August, they rose 0.65 percent and in September 0.6 percent.

Even monthly rents are on the rise as supplies of available apartments shrink.

Monthly rents rose 0.14 percent in September compared to the previous month, a sharp increase compared to June's 0.05 percent.

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With jeonse and monthly rent prices rising, some people have chosen to buy apartments for 900 million won (\$803,000) or less. In this relatively cheap segment, government restrictions are not so onerous. The Moon Jae-in government has put limits on loans for apartments costing 1.5 billion won or more and tightened regulations on borrowing for jeonse loans contracts. It has choked off the use of jeonse loans for actual purchases of properties.

“Usually tax hikes lead to stabilizing of [apartment] prices,” said Lee Chang-moo, a Hanyang University urban planning professor. “However, under the current situation, it’s hard to say it will have such an effect unless there is an increase in housing supplies.”

Some analysts say the government’s endless restrictions on the real estate market is only creating confusion. “When the tax burden increases, [apartment owners] just need to sell their properties,” said Ahn Myung-sook, a senior manager at Woori Bank’s real estate consulting center. “However, it seems the attitude is that they will hold on since the burden of paying taxes on real estate sales is equally high.” Ahn said for the market to be operate normally, the government needs to lower the tax burden on people selling apartments.

The government’s targets for higher assessed values of real estate are owners of expensive apartments or multiple apartments. It wants to raise the assessed values of apartments up to 90 percent of the market value by 2030. Currently they are at 69 percent percent of market value on average nationwide. The government has announced that it will cut the tax rates for apartments with assessed values of 600 million won or less to ease the tax burden on people who own relatively cheaper apartments. These apartment owners will see their tax rate cut by 0.05 percent for three years until 2023. However, the people that benefit from the tax rate cuts are likely to be far fewer than the government anticipate as apartment prices have risen so rapidly.

According to the Ministry of the Interior and Safety, apartments with assessed values of 600 million won or lower account for 95.5 percent of all apartments in the country. That’s 17.9 million apartment units among 18.7 million units.

In Seoul, they account for 80 percent, or 2.47 million units out of 3.1 million units. However, these figures derive from last year’s market values.

This year, the number and proportion would be smaller. According to KB Kookmin Bank, the medium apartment price in Seoul has already exceeded 900 million won, indicating a drop in apartments with assessed values below 600 million won. According to the real estate information provider Budongsan 114, last month the number of apartments with market values of 900 million won or less in Seoul shrunk 14 percent year-on-year.

Apartments with market values below 900 million won in Seoul account for 54.2 percent, a drop from 62.6 percent last year.

Neighborhoods that are seeing rapid declines in such low-cost apartments include Jung District and Mapo District.

Apartments in Jung District with market values 900 million won or less have declined from 55.6 percent a year ago to 30.6 percent, while in Mapo District that figure has dropped from 49 percent to 25.4 percent during the same period.

According to tax accountant Yang Kyeong-seop, a 59-square-meter (635-square-foot) Samsung Raemian apartment in Mapo District this year was assessed at 594 million won. Considering that next year the

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government will apply a higher assessed value to the apartment, the owner could see the property tax increase by 70 percent.

The owner would have to pay 1.36 million won in property taxes compared to this year's 790,000 won. This year the average assessed value was equivalent to 69 percent of the market value.

"The government tax cut will not have a huge impact in Seoul, where many of the apartments in Seoul are now 1 billion won or higher," said Kim Yeon-hwa, who heads the real estate team

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