Summary

I. Key Elements and Features of the 2025 Tax Law Amendment Bills

1. Main Components of the Government's Tax Law Amendment Bills

❑ The government submitted the 2025 Tax Reform Proposal to the National Assembly on September 3. The proposal consists of partial amendments to 13 laws.

- ◦ It sets the goal of establishing "a fair and efficient tax system for genuine economic growth" and is structured around three policy directions: tax incentives to promote technology-driven growth, an inclusive tax framework, and measures to strengthen the revenue base.

❑ (Corporate Taxation) Expansion of tax incentives for strategic technologies and industries such as AI and content production, along with stronger taxation measures to broaden the revenue base.

- ◦ Increase in corporate income tax rates: Raise tax rates by 1 percentage point for each taxable-income bracket.
- ◦ Revision of the tax incentive scheme for promoting investment and mutual cooperation: Include dividends in the scope of the tax incentive scheme for promoting investment and mutual cooperation and increase the proportion of corporate income subject to recirculation requirements (through December 31, 2028).
- ◦ Reform of the Integrated Employment Tax Credit: Revise the

credit structure (from clawing back credits when employment declines to providing additional credits when employment is maintained) and introduce minimum employment-increase requirements by firm size.

- Enhanced tax credit for video content production costs: Extend the applicable period by three years and raise the basic credit rate for large companies by 5 percentage points.
- New tax credit for webtoon content production costs: Reduce corporate and individual income tax by 10–15 percent of production costs, depending on firm size.
- Expansion and establishment of detailed technologies under national strategic technologies and new growth and source technologies: Add detailed technologies in the areas of AI, future mobility and transportation, and the defense industry.
  - National strategic technologies: generative and agentic AI, AI-enabled autonomous navigation, and others.
  - New growth and source technologies: technologies enabling entry into and stabilization of global supply chains for defense materials.

❑ (Income Taxation) Expansion of tax support for low- and middle-income households and families with multiple children, as well as improvements to shortcomings in existing systems.

- Expansion of the income deduction for credit card spending: Extend the sunset period by three years and increase the basic deduction limit in proportion to the number of children.
  - For individuals with an annual salary of KRW 70 million or less: increase the limit by KRW 500,000 per child, up to KRW 1 million.
  - For individuals with an annual salary above KRW 70 million:

increase the limit by KRW 250,000 per child, up to KRW 500,000.

- ○ Expansion of the special tax credit for education expenses: Apply the credit to arts and physical-education academy fees for children in grades one and two of elementary school (under age nine).
- ○ Reform of the tax exemption scheme for interest and dividend income on deposits and equity contributions of mutual finance cooperative members: Apply either tax exemption or reduced separate taxation depending on agricultural or fishing status and income level (annual salary of KRW 50 million or comprehensive income of KRW 38 million).
  - Members above the income threshold: tax exemption → reduced separate taxation (5 percent through 2026, 9 percent from 2027).
  - Farmers, fishers, forestry workers, and members below the income threshold: extend the tax exemption period by three years (reduced separate taxation applies from 2029)
- ○ Higher tax credit rate for contributions under the Hometown Love Donation: Increase the tax credit rate for donations between KRW 100,000 and KRW 200,000 from 15 percent to 40 percent.

❑ (Capital and Financial Taxation) Tax measures to invigorate the capital market and strengthen taxation to broaden the revenue base.

- ○ Introduction of separate taxation on dividend income from high-dividend companies: Replace comprehensive income taxation with reduced separate taxation for dividend income received by resident individuals from high-dividend companies.
  - High-dividend companies: listed companies whose cash divi-

dends do not decline from the previous year and that either have a dividend payout ratio of 40 percent or more, or have increased dividends by 5 percent or more compared with the three-year average.

- Separate tax rates: 14 percent for dividend income up to KRW 20 million; 20 percent for income between KRW 20 million and KRW 300 million; and 35 percent above KRW 300 million.
- Applicable period: dividends attributable to fiscal years 2026 through 2028.

○ Increase in the Securities Transaction Tax (STT) rate: Raise the tax rate on KOSPI and KOSDAQ transactions by 0.05 percentage points.

○ Increase in the education tax rate for the finance and insurance sectors: Introduce a new tax base tier for entities with revenue exceeding KRW 1 trillion and raise the rate from 0.5 percent to 1.0 percent.

○ Expansion of the taxable scope for reduced capital reserve dividends: Extend taxation to major shareholders other than corporate shareholders, limited to cases where the dividend related to the capital reduction exceeds the share acquisition cost.

2. Characteristics and Assessment of the Government's Tax Law Amendment Bills

❑ The 2025 Tax Reform Proposal is the new administration's first package of tax law amendment bills, and several changes can be observed in its policy direction compared with previous years.

○ According to the 2025-2029 National Fiscal Management Plan and the Mid- to Long-Term Tax Policy Management Plan, the new administration's tax policy framework appears to emphasize expanding tax support for strategic industries and strengthening the revenue-raising function of the tax system to meet fiscal needs.

◦ To reduce uncertainty arising from shifts in tax policy direction and to enhance predictability for the public, it is also necessary to consider establishing a long-term and sustainable tax policy roadmap.

  - Without a shared set of medium- to long-term policy objectives, changes in tax policy direction may lower predictability for households and businesses and increase uncertainty, potentially constraining medium- to long-term planning such as investment and home purchases.

❑ This year's tax law amendment bills also consist of measures that support the new administration's national development strategies, such as the AI transformation and the ultra-innovation economy, from a tax policy perspective.

◦ According to the New Government Economic Growth Strategy released on August 22, 2025, the administration has identified AI transformation, the ultra-innovation economy, balanced regional growth, and revitalizing people's livelihoods as its core growth strategies. The current tax law amendment bills include tax measures aligned with these strategies.

  - Specifically, the bills include adding detailed technologies in the AI sector under national strategic technologies to support AI-driven innovation and the ultra-innovation economy; strengthening and introducing tax credits for video and webtoon content production; and introducing a separate taxation measure on dividend income from high-dividend companies to support household asset-building.

  - The bills also include measures such as expanding the income deduction limit for families with children and improving tax support system for companies relocating to regional areas to promote balanced regional growth.

- ○ Although not included in this year's tax law amendment bills, other items essential for the rational operation of Korea's tax system should continue to be pursued as medium- to long-term tasks.

❑ NABO estimates that the 2025 tax law amendment bills will increase tax revenue by KRW 37.8 trillion over the next five years under the cumulative method (compared to the government's estimate of KRW 34.4 trillion), meaning the bills are revenue-increasing overall.

- ○ Given the recent decline in the tax-to-GDP ratio and the continued deficit in the managed fiscal balance, the current tax law amendment bills strengthens the revenue-raising function of the tax system.
  - Tax-to-GDP ratio: 22.1 percent in 2022 → 19.0 percent in 2023 → 17.6 percent projected for 2024
  - Managed fiscal balance: △ KRW 87.0 trillion in 2023, △ KRW 104.8 trillion in 2024, and △ KRW 111.6 trillion in the second supplementary budget for 2025
- ○ Considering fiscal needs, it is necessary to assess whether the scale of the revenue increase in the bills is appropriate. To further broaden the revenue base, options may include rationalizing unnecessary tax exemptions and reductions, adjusting the scope of income and consumption tax exemptions, and establishing a reasonable taxation framework for capital gains.
  - Because most of the revenue-increasing effect stems from higher tax rates, repeated rate adjustments could lead to taxpayer resistance or economic distortions, suggesting that such

adjustments may not constitute a sustainable long-term policy tool.

- ❑ Based on NABO's cumulative estimates for the next five years, the 2025 tax law amendment bills are projected to reduce individual tax burdens by KRW 1.8 trillion (KRW 0.06 trillion for low- and middle-income households, KRW 1.7 trillion for high-income earners) while increasing corporate tax burdens by KRW 25.1 trillion (KRW 5.7 trillion for small and medium-sized enterprises, KRW 19.4 trillion for large companies).
  - ○ The reduction in tax burdens for high-income earners is expected to arise mainly from the separate taxation of dividend income from high-dividend companies.
    - \- To mitigate concerns that capital market revitalization policies may exacerbate wealth inequality, supplementary tax measures may also need to be considered.
  - ○ The increase in corporate tax burdens reflects a combination of higher corporate tax rates and reduced tax support resulting from the expiration of the temporary investment tax credit.
    - \- While a higher corporate tax burden can help secure tax revenue and improve vertical equity among firms, it is also necessary to consider the potential adverse effects, such as reduced investment and slower economic growth due to increased business costs.

- ❑ From a medium- to long-term perspective, it is necessary to explore a comprehensive redesign of the financial and capital income tax system.
  - ○ The announcement and subsequent withdrawal of the planned revision to the enforcement decree to expand the scope of major

shareholders subject to capital gains tax on stock transfers may be viewed as a step to ensure flexibility in government policy in response to market reactions. At the same time, however, it also raises concerns about undermining the consistency and credibility of tax policy in the financial and capital income tax system.

- Expanding the scope of major shareholders subject to capital gains tax on stock transfers was originally intended to broaden taxation on financial and capital income and thereby expand the tax base.

○ As the government has already withdrawn its plan to revise the enforcement decree related to the scope of major shareholders, it is difficult to pursue related measures again in the short term. At the same time, it remains necessary to consider the ongoing issues that have emerged following the repeal of the financial investment income tax, such as the absence of taxation on capital gains and the lack of tax equity between stock income and other types of financial and capital income.

❑ Under the revised tax expenditures included in this year's tax law amendment bills, tax revenue is expected to increase by KRW 188.4 billion in 2026 and by a total of KRW 866.8 billion over the next five years, indicating both an expansion in the scale of tax expenditure rationalization compared with 2024 and a shift toward net revenue increases.

○ However, the aggregate amount of tax expenditures in 2026 is projected to reach KRW 80.5 trillion, an increase of KRW 4.1 trillion (5.3 percent) from 2025. This underscores the need for continued efforts to ensure effective rationalization and aggregate management of tax expenditures.

- Because tax expenditures reduce tax revenue based on statutory provisions regardless of economic conditions or changes in tax receipts, failure to rationalize them through measures such as sunset clauses may weaken the national revenue base over the medium to long term.

3. Main Components of Tax Law Amendment Bills Proposed by Lawmakers

❑ A number of tax law amendment bills initiated by lawmakers that share the same basic intent as the government's bills—such as supporting future strategic industries, reducing tax burdens for low- and middle-income households and families with multiple children, and invigorating the capital market—are currently pending before the National Assembly's Strategy and Finance Committee.

- These include revision bills to expand the tax credit for video content production to support future strategic industries, extend the sunset period for income tax reductions for returning high-skilled Korean professionals, introduce separate taxation on dividend income from high-dividend companies to invigorate the capital market, expand the scope of the special tax credit for education expenses to support low- and middle-income and multi-child households, and increase the deduction limit for credit card spending.
  - However, differences remain between these proposals and the government bills in terms of specific details such as eligible beneficiaries and the extent of credit rate adjustments.

❑ A number of lawmaker-initiated tax law amendment bills with provisions that differ from the government bills are also pending before the Strategy and Finance Committee.

- Income taxation: Expanding personal exemptions, introducing a tax credit for telecommunications expenses, lowering the withholding tax rate on dividend income, and tightening the criteria for major shareholders subject to capital gains tax on stock transfers.
- Corporate taxation: Expanding the scope of national strategic technologies, introducing a tax incentive scheme to promote domestic production of national strategic technology projects, extending the temporary investment tax credit, and creating a new tax credit for performance content production costs.
- Asset and consumption taxation: Lowering inheritance tax rates, expanding inheritance deductions, and raising the threshold for simplified VAT taxation.

II. Aggregate Analysis of the Government's Tax Law Amendment Bills

1. Revenue Impact Analysis

NABO projects that the government's 2025 tax law amendment bills will increase tax revenue by KRW 37.804 trillion over 2026-2030 under the cumulative method (KRW 8.9473 trillion under the net method), which is KRW 3.3974 trillion higher than the government's estimate.

❑ **(Government Estimate)** Under the government's 2025 tax law amendment bills, tax revenue is projected to increase by a total of KRW 34.4066 trillion over 2026–2030.

- ○ Large revenue increases are expected from corporate tax (KRW +18.5487 trillion) and the Securities Transaction Tax (KRW +11.4780 trillion), along with increases in other taxes (KRW +5.2280 trillion) and value-added tax (KRW +0.08699 trillion).
- ○ By contrast, income tax revenue (KRW △1.7477 trillion) is expected to decrease, mainly due to the expansion of the income deduction limit for credit card spending based on the number of children (KRW △1.2 trillion).

[Table] Revenue Impact of the Government's 2025 Tax Law Amendment Bills (Government Estimate)

(Unit: KRW 100 million)

Cumulative method						
Government	2026	2027	2028	2029	2030	Total
Total	25,167	80,257	79,570	79,548	79,524	344,066
Income tax[1]	△421	△3,794	△4,398	△4,420	△4,444	△17,477
Corporate tax	2,227	45,815	45,815	45,815	45,815	185,487
Value-added tax	1,251	1,862	1,862	1,862	1,862	8,699
Inherita	33	66	66	66	66	297

nce and gift tax						
STT	21,400	23,345	23,345	23,345	23,345	114,780
Others	677	12,963	12,880	12,880	12,880	52,280
Net method						
Government	2026	2027	2028	2029	2030	Total
Total	25,167	55,090	△687	△22	△24	79,524
Income tax[1)]	△421	△3,373	△604	△22	△24	△4,444
Corporate tax	2,227	43,588	0	0	0	45,815
Value-added tax	1,251	611	0	0	0	1,862
Inheritance and gift tax	33	33	0	0	0	66
STT	21,400	1,945	0	0	0	23,345
Others	677	12,286	△83	0	0	12,880

Note: 1) Figures exclude the revenue impact of changes to the criteria for major shareholders subject to capital gains tax on stock transfers.
1. Under the cumulative method, the revenue impact is calculated each year relative to the 2025 baseline year. Under the net method, the revenue impact is measured relative to the previous year.

Source: Compiled by NABO based on data from the Ministry of Economy and Finance

❑ **(NABO Estimates)** Under the government's 2025 tax law amendment bills, tax revenue is projected to increase by a total of KRW 37.8040 trillion over 2026–2030.

- ○ Large revenue increases are expected in corporate tax (KRW +18.8122 trillion), the Securities Transaction Tax (KRW +12.7967 trillion), and other taxes (KRW +6.8150 trillion).
  - \- By item, increases are expected from the corporate tax rate hike (+KRW 18.5 trillion), the STT rate hike (+KRW 12.8 trillion), and the increase in the education tax rate on finance and insurance (+KRW 6.6 trillion).
- ○ Income tax revenue, however, is expected to decline due to expanded tax support for families with children (higher de-

duction limits for credit card spending and higher tax exemption limits for childcare allowances, both based on the number of children, etc.).

[Table] Revenue Impact of the Government's 2025 Tax Law Amendment Bills (NABO Estimate)

(Unit: KRW 100 million)

Cumulative method						
NABO	2026	2027	2028	2029	2030	Total
Total	30,512	85,723	85,064	87,268	89,473	378,040
Income tax[1)]	△53	△2,338	△4,961	△4,601	△4,322	△16,274
Corporate tax	6,587	45,371	45,378	45,386	45,400	188,122
Value-added tax	1,342	2,012	2,077	2,144	2,213	9,787
Inheritance and gift tax	32	64	64	64	64	288
STT	21,921	24,844	25,938	27,052	28,213	127,967
Others	684	15,770	16,568	17,223	17,906	68,150
Net method						
NABO	2026	2027	2028	2029	2030	Total
Total	30,512	55,210	△659	2,204	2,205	89,473
Income tax[1)]	△53	△2,285	△2,623	360	279	△4,322
Corporate tax	6,587	38,784	7	8	14	45,400
Value-added tax	1,342	670	65	67	69	2,213
Inheritance and gift tax	32	32	0	0	0	64
STT	21,921	2,923	1,094	1,115	1,160	28,213
Others	684	15,086	798	656	683	17,906

Note: 1) Figures exclude the revenue impact of changes to the criteria for major shareholders subject to capital gains tax on stock transfers.
1. Under the cumulative method, the revenue impact is calculated each year relative to the 2025 baseline year. Under the net method, the revenue impact is measured relative to the previous year.

Source: Compiled by NABO based on data from the Ministry of Economy and Finance

- (Comparison Between Government and NABO Estimates) NABO's projected revenue-increasing effect of the government's 2025 tax law amendment bills (KRW 37.804 trillion over five years) exceeds the government's estimate (KRW 34.4066 trillion) by KRW 3.3974 trillion.
  - Most of the differences in revenue estimates arise from variations in the data used and the underlying forecasting assumptions, and NABO incorporates changes in revenue expected from economic expansion.
  - Securities Transaction Tax: differences reflect variations in projected securities trading value.
    - STT rate hike: NABO KRW 12.7967 trillion vs. government KRW 11.4780 trillion
  - Education tax: differences reflect whether the expansion of the finance and insurance sector is incorporated.
    - Finance and insurance education tax rate hike: NABO KRW 6.5513 trillion vs. government KRW 5.3333 trillion.
  - Corporate tax: differences stem from data sources and estimation methodology.
    - Corporate tax rate hike: NABO KRW 18.4820 trillion vs. government KRW 17.4424 trillion.
    - Termination of the temporary investment tax credit: NABO KRW 0.7621 trillion vs. government KRW 1.2752 trillion.
  - Other taxes: differences stem from data sources and estimation methodology.
    - Adjustment to eligibility for tax-exempt comprehensive savings: NABO KRW 1.0155 trillion vs. government KRW 0.8160 trillion.
    - Termination of VAT refunds for cosmetic surgery for foreign

tourists: NABO KRW 0.8597 trillion vs. government KRW 0.7728 trillion.

[Table] Comparison of Revenue Impact by Major Tax Items: Cumulative Method, Total for 2026-2030

(Unit: KRW 100 million)

Major items in the tax law amendment bills	NABO (A)	Gov't (B)	Difference (A-B)
(Securities Transaction Tax) STT rate increase	127,967	114,780	13,187
(Education tax) Increase in the education tax rate on finance and insurance	65,513	53,333	12,180
(Corporate tax)Corporate tax rate increase	184,820	174,424	10,396
(Corporate tax) Termination of the temporary investment tax credit[1)]	7,621	12,752	△5,131
(Income tax) Adjustment to eligibility for tax-exempt comprehensive savings	10,155	8,160	1,995
(Value-added tax) Termination of VAT refunds for cosmetic surgery for foreign tourists	8,597	7,728	869

Note: 1) Figures are based on the total revenue impact, including the Special Rural Development Tax applied to tax credits and reductions.

Source: Government revenue estimates are based on the cost statements for each tax item attached to the bills and on data submitted by the Ministry of Economy and Finance.

2. Analysis of Tax Burden Incidence

NABO projects that, under the government's 2025 tax law amendment bills, the individual tax burden (net method) will decrease by KRW 435.1 billion over 2026-2030, while the corporate tax burden will increase by KRW 6.2075 trillion.

❑ Individual tax burdens are expected to decline under the 2025 tax law amendment bills, whereas corporate tax burdens are expected to rise, with large companies bearing a greater share of the increase than small and medium-sized enterprises.

❑ The projected reduction in individual tax burdens is KRW

435.1 billion. Low- and middle-income households are expected to see a tax burden increase of KRW 32.3 billion, while high-income earners are expected to see a decrease of KRW 467.4 billion.

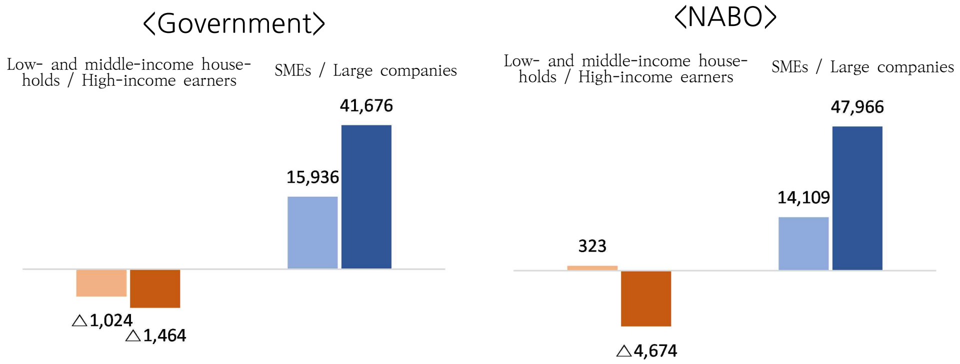
- ◦ The government projects reductions of KRW 102.4 billion for low- and middle-income households and KRW 146.4 billion for high-income earners.
- ◦ Differences between NABO's estimates and the government's arise from both the revenue projections and the incidence classifications.
  - Low- and middle-income households: NABO estimates a larger revenue-increasing effect than the government from the adjustment to eligibility for tax-exempt comprehensive savings.
  - High-income earners: The government classifies the incidence of separate taxation on dividend income from high-dividend companies under "Others," while NABO categorizes it under "High-income earners."

❑ The corporate tax burden is expected to increase by KRW 6.2075 trillion, with SME tax burdens increasing by KRW 1.4109 trillion and large-company tax burdens by KRW 4.7966 trillion.

- ◦ The government projects increases of KRW 1.5936 trillion for SMEs and KRW 4.1676 trillion for large companies.
- ◦ Differences largely stem from variations in estimated revenue impacts for the increase in the education tax rate on finance and insurance and the corporate tax rate increase.

[Figure] Comparison of Tax Burden Incidence under the Government and NABO Estimates (Net Method): Total for 2026-2030

(Unit: KRW 100 million)



Notes: 1. Under the net method, figures represent revenue changes relative to the previous year; the chart shows the cumulative total for the five years from 2026 to 2030.

2. Low- and middle-income households are defined as individuals with annual salary equal to or below 200 percent of the average wage (KRW 87 million).

Source: NABO

3. Analysis of Tax Expenditure Rationalization in 2025

A total of 45 tax expenditure rationalization items are included, and the revenue impact of the rationalization measures is estimated at KRW 188.4 billion in 2026 (KRW 866.8 billion over 2026-2030).

❑ The tax expenditure rationalization items included in this year's tax law amendment bills total 45 (5 newly introduced, 22 expanded, 7 abolished, and 11 reduced). The resulting revenue impact is estimated at KRW 188.4 billion in 2026 and KRW 866.8 billion over the next five years.

- According to NABO's compilation, the 2025 rationalization results for tax expenditures reaching sunset consisted of 16 items reduced or abolished, 11 items expanded, and 45 items granted simple sunset extensions.

[Table] Status of Tax Expenditure Rationalization Items and Simple Sunset Extensions in 2025

(Unit: number of items)

Category	Tax expenditure rationalization items (A)					Simple sunset extensions (B)	Total (A+B)
	New	Expanded	Reduced	Abolished	Sum		
Tax expenditures reaching sunset in 2025	-	11	9	7	27	45	72
New or not subject to sunset	5	11	2	-	18	-	18
Total	5	22	11	7	45	45	90

Source: Compiled by NABO based on the 2026 Tax Expenditure Budget Book and the 2025 Tax Reform Proposal

- The revenue impact of the tax expenditure rationalization measures is projected to be KRW 188.4 billion in 2026 and KRW 866.8 billion over the next five years (2026–2030). Revenue increases from abolished and reduced items (KRW 4.0095 trillion) exceed revenue decreases from newly introduced or expanded items (KRW △3.1427 trillion).

[Table] Revenue Impact of Tax Expenditure Rationalization under the Government's 2025 Tax Law Amendment Bills (NABO Estimate)

(Unit: KRW 100 million)

Category	2026	2027	2028	2029	2030	Total
New or expanded	△709	△6,059	△8,147	△8,224	△8,288	△31,427
Abolished or reduced	2,593	8,493	9,232	9,696	10,082	40,095
Total	1,884	2,434	1,085	1,471	1,794	8,668

Note: The revenue impact of tax expenditure rationalization reflects only the expanded or reduced portions. Simple sunset extensions do not generate revenue effects.

Source: NABO

❑ While it is necessary to present concrete plans for rationalizing and operating items that continue to remain in place despite being recommended for long-term reduction or abolition in the in-depth evaluation, policy measures are also needed to manage the aggregate amount of national tax reductions, which continues to increase even though the national tax reduction ratio remains below its statutory ceiling.

- The 2025 in-depth evaluation found that certain items received temporary sunset extensions without any specific operational plan, despite recommendations to reduce or abolish them over the medium to long term.
- The national tax reduction ratio for 2026 is projected at 16.1 percent, below the statutory ceiling of 16.5 percent. This is largely due to projected increases in national tax revenue and the upward adjustment of the statutory ceiling resulting from high national tax reduction ratios in previous years, indicating the need for meaningful efforts to manage and adjust the aggregate amount of tax

expenditures.

- Because the formula for the national tax reduction ratio* reflects both total national tax revenue and total national tax reductions, increases in tax reductions may not significantly raise the ratio if tax revenue increases proportionately.

* National tax reduction ratio = national tax reductions / (total national tax revenue + national tax reductions) × 100

- In addition, because the national tax reduction ratio consistently exceeded the statutory ceiling* from 2023 to 2025, the ceiling has increased from 14.3 percent in 2023 to 16.5 percent in 2026.

* Statutory ceiling on the national tax reduction ratio = average national tax reduction ratio for the preceding three years + 0.5 percentage points

III. Analysis by Tax Category

1. Income tax

a. Introduction of Separate Taxation on Dividend Income from High-Dividend Companies

❑ (Amendment) Dividend income received by individual shareholders from high-dividend companies is excluded from comprehensive income taxation and instead becomes a subject to separate taxation.

- ○ Criteria for high-dividend companies: Listed companies* on KOSPI or KOSDAQ that meet either condition ① or ② below:
  - ① Dividend payout ratio of 40 percent or higher
  - ② Dividend payout ratio of 25 percent or higher and dividend payments at least 5 percent above the three-year average
  - * Cash dividend amounts must not decline relative to the previous year
- ○ Separate tax rates: Three-tier progressive rates

	Up to KRW 20 million	KRW 20 million to KRW 300 million	Over KRW 300 million
Tax rate	14%	20%	35%

- ○ Applicable period: Dividends attributable to fiscal years 2026–2028

❑ (Revenue Impact) The introduction of separate taxation on dividend income received by individual shareholders from high-dividend companies is projected to reduce income tax revenue by a total of KRW 913.6 billion over 2027–2030, or KRW 228.4 billion per year on average.

❑ (Assessment) To induce companies to increase dividend payments through separate taxation of dividend income, a comprehensive review of the eligibility criteria, the separate tax rates, and the timing of implementation is necessary.

- ◦ An analysis of listed companies' compliance with the high-dividend criteria indicates that the provision may favor shareholders in certain industries.
  - As of 2024, the share of companies meeting the high-dividend criteria was 14.5 percent in manufacturing, 20.6 percent in non-manufacturing, and 44.4 percent in finance and insurance. The high dividend-payout requirement is particularly disadvantageous for manufacturing and technology sectors, which typically allocate a larger share of earnings to facility investment and R&D reinvestment.
- ◦ The proposed maximum separate tax rate (35 percent) is slightly lower than the marginal effective rate under comprehensive income taxation after the dividend tax credit (38.95 percent), suggesting some incentive effect. However, it remains high relative to capital gains tax rates (20–25 percent).
- ◦ Additional adjustments to the implementation timeline and related provisions may be needed to prevent distortions in decision-making.
  - Under the current government bills (applicable to dividends attributable to fiscal year 2026 and including a dividend-increase requirement), companies may have an incentive to reduce 2025 year-end dividends.
- ◦ Over the medium to long term, it is necessary to explore reforms to the taxation framework that address equity between dividend income and capital gains taxation.

b. Expanded Tax Support for Families with Children

❑ (Amendment) Expand tax support for families with children by increasing the income deduction limit for credit card spending, raising the tax exemption limit for childcare allowances, expanding both the eligibility and exemption limit for parental leave benefits, broadening the scope of the special tax credit for education expenses, and easing the housing criteria for the monthly rent tax credit.

- ○ Expansion of the income deduction limit for credit card spending for families with children and extension of the application period.
  - For individuals with an annual salary of KRW 70 million or less: the limit increases from KRW 3 million to KRW 3.5 million for one child and KRW 4 million for two or more children.
  - For individuals with an annual salary above KRW 70 million: the limit increases from KRW 2.5 million to KRW 2.75 million for one child and KRW 3 million for two or more children.
  - Extension of the application period: December 31, 2025 → December 31, 2028.
- ○ Expansion of the tax exemption limit for childcare allowances: Expand the exemption for employer-paid childcare allowances for children aged six or under from KRW 200,000 per month to KRW 200,000 per child per month.
- ○ Expansion of the tax exemption eligibility and limit for parental leave benefits: Include early-childhood leave benefits paid to private-school staff covered under the Pension for Private School Teachers and Staff Act as tax-exempt, and raise the exemption limit for parental leave benefits from KRW 1.5 million per month to a maximum of KRW 2.5 million per month depending on the

leave period.

- ○ Expansion of the special tax credit for education expenses: Include arts and physical-education academy fees for lower-grade elementary students under age nine, and abolish the income requirement for direct descendants.
- ○ Easing of housing criteria for the monthly rent tax credit: For households with three or more dependent children, the housing criteria for eligibility are eased.
  - National housing size (85 m^2, or 100 m^2 outside the Seoul metropolitan and urban areas) or a market value of KRW 400 million or less → housing size of 100 m^2 or a market value of KRW 400 million or less.

❑ (Revenue Impact) The expansion of the income deduction limit for credit card spending for families with children, the higher tax exemption limits for childcare and parental leave benefits, and the expanded scope of the special tax credit for education expenses are projected to reduce income tax revenue by a total of KRW 1.3085 trillion over 2026–2030, or KRW 261.7 billion per year on average.

- ○ Considering the main beneficiary groups and the reduction in the tax burden per household, the effect is expected to result in only a modest easing of the tax burden for middle-income households and above.

❑ (Assessment) While expanding tax support for families with children is positive, the deduction structure—which is based on consumption and spending—concentrates most of the benefits on wage earners, particularly middle-income and higher-income households, leaving the self-employed and low-income groups excluded. This reduces fairness in terms of the scope of beneficiaries.

- Given the persistently low birth rate and the limited effectiveness of current tax support in reducing the tax burden for families with children, some need for expanded support proportional to the number of children is recognized.
- However, if the goal is to support families with children, it would be more appropriate to consider fiscal expenditure measures rather than tax expenditures, in light of the exclusion of the self-employed and issues of equity across income groups.
- In addition, considering Korea's low effective income tax rate and the growing demand for fiscal welfare spending, the income tax system will need to be managed in a way that strengthens the stability of the revenue base and contributes to medium- to long-term fiscal soundness.

c. Expansion of the Tax Credit for Hometown Love Donations

❑ (Amendment) Increase the tax credit rate for the portion of Hometown Love Donations between KRW 100,000 and KRW 200,000 from the current 15 percent to 40 percent (from 16.5 percent to 44.0 percent when including local income tax).

- Maintain the 100/110 tax credit for Hometown Love Donations of up to KRW 100,000 (full credit when including local income tax); increase the tax credit rate for the KRW 100,000–200,000 bracket from 15 percent to 40 percent (from 16.5 percent to 44.0 percent when including local income tax); and maintain the 15 percent rate (16.5 percent including local income tax) for donations between KRW 200,000 and KRW 20 million.

- (Revenue Impact) The expansion of the tax credit for Hometown Love Donations is projected to reduce income tax revenue by a total of KRW 117.2 billion over 2027–2030, or KRW 29.3 billion per year on average.

- (Assessment) An analysis of the ratio of operating expenses to Hometown Love Donations for each local government shows that, as of 2025, 32 out of 243 local governments exceed the statutory limit (15 percent of the previous year's donation amount). In the absence of adequate oversight by the central government, further expansion of tax support requires caution.
  - For the 32 local governments exceeding the statutory limit, average operating expenses amounted to 23 percent of the previous year's donation amount as of 2025. When including the cost of providing thank-you gifts, 46.2 percent of donations were spent on gifts and operating expenses.
    - These operating costs include only the contribution paid to the "Hometown Love e-eum" platform; costs associated with private platform operations introduced in 2024 and local governments' promotional expenses are not included, so the total cost is likely higher.
  - Excessive administrative costs relative to donations may limit the capacity of local governments to use the Hometown Love Donation program as a fiscal resource. Since most of these revenues are offset by central government tax credits (which account for 90.9 percent of all tax credits under the program), inefficiencies may arise from a whole-of-government perspective.
    - The majority of donors (83.9 percent in 2023 and 90.9 percent in 2024 by number of donations) give KRW 100,000, the

amount eligible for the full tax credit, meaning that 100/110 of this donation is borne by the central government.

- ○ Additional considerations include the potential for rising administrative costs due to excessive competition over thank-you gifts and the limited regional economic impact in areas where no local businesses or industries exist to supply such gifts.
- ○ Going forward, the central government should oversee whether each local government complies with the statutory limit on operating expenses relative to donations.
  - Given the current lack of adequate oversight, rather than expanding tax support, it would be more appropriate to consider measures that promote voluntary giving, such as revitalizing designated donations, which allow donors to choose the projects they wish to support.

d. Extension of the Application Period for Tax Exemptions and Rationalization of the Scope for Deposits and Equity Contributions in Mutual Finance Cooperatives

❑ (Amendment) The scope of tax-exempt interest and dividend income on deposits and equity contributions in five mutual finance cooperatives (the National Agricultural Cooperative Federation, National Federation of Fisheries Cooperatives, National Forestry Cooperative Federation, Korea Federation of Community Credit Cooperatives, and National Credit Union Federation of Korea) will be reduced and restructured based on income thresholds.

- ○ For associate members of the National Agricultural Cooperative Federation, the National Federation of Fisheries Cooperatives, and the National Forestry Cooperative Federation, and for members of the Korea Federation of Community Credit Cooperatives and the National Credit Union Federation of Korea with annual salary of KRW 50 million or more (or comprehensive income of KRW 38 million or more), the tax exemption will be terminated and replaced with reduced separate taxation.

❑ (Revenue Impact) Ending the tax exemption for interest and dividend income on deposits and equity contributions for members above the income threshold is projected to increase income tax revenue by a total of KRW 456.3 billion over 2026–2030, or KRW 91.3 billion per year on average.

❑ (Assessment) The reduction of tax-exemption benefits for associate members of the agricultural and fisheries mutual finance cooperatives and for members of the National Credit Union Federation of Korea and the Korea Federation of Community Credit Cooperatives—groups for whom qualification requirements are relatively relaxed—can be viewed as a measure to address the fact that the actual beneficiaries of the tax support were not fully aligned with the policy's intended objectives.

- For example, associate members account for 82.9 percent of tax-exempt deposits in the National Agricultural Cooperative Federation, and agricultural and fisheries mutual finance cooperatives overall have a high proportion of associate members.
- Moreover, tax-exempt deposits in the National Credit Union Federation of Korea and the Korea Federation of Community Credit Cooperatives amount to KRW 90.3 trillion—larger than the KRW 73.7 trillion held in agricultural and fisheries mutual finance cooperatives. In this context, the special tax benefits not available

to commercial banks should be operated in a way that strengthens financial support for local residents and cooperative members, consistent with the original intent of the system.

- In addition, because those losing tax-exempt status represent only about 15 percent of all members and will still be eligible for reduced separate taxation, the increase in their tax burden is expected to be limited.

2. Corporate tax

a. Corporate Income Tax Rate Increase

❑ (Amendment) The corporate income tax rate would increase by 1 percentage point across all taxable-income brackets.

- Tax base: up to KRW 200 million, 9% / KRW 200 million–20 billion, 19% / KRW 20–300 billion, 21% / over KRW 300 billion, 24%
  → up to KRW 200 million, 10% / KRW 200 million–20 billion, 20% / KRW 20–300 billion, 22% / over KRW 300 billion, 25%

❑ (Revenue Impact) The corporate income tax rate increase is projected to raise corporate income tax revenue by a total of KRW 18.5 trillion over 2026–2030, or KRW 3.7 trillion per year on average.

❑ (Assessment) There are arguments both for and against increasing the corporate income tax rate, making it difficult to draw a definitive conclusion. A comprehensive review of the government's rationale and potential adverse effects is needed during the National Assembly deliberation process.

- Although corporate income tax rates in Korea and major advanced economies have generally trended downward, some countries—including the United Kingdom and France—have recently raised their rates to reinforce fiscal capacity.

- Following the fiscal deterioration caused by the COVID-19 pandemic, certain countries introduced temporary or permanent corporate income tax rate increases.

○ Arguments in favor: Supporters argue that raising the rate can help secure a stable revenue base and strengthen fiscal sustainability, and that the negative effects commonly associated with higher corporate taxes—such as reduced investment—may be limited.

- After the corporate income tax rate was reduced by 1 percentage point across all taxable-income brackets under the 2022 tax revision, no clear improvement in investment or economic growth has been observed despite the weakening of the revenue base.

○ Arguments against: Opponents argue that a rate increase may weaken firms' investment and hiring capacity and lead to slower economic growth, and that if corporate profitability deteriorates due to domestic or global economic conditions, the effect of reinforcing fiscal capacity may also be limited.

b. Revision and Extension of the Tax Incentive Scheme for Promoting Investment and Mutual Cooperation

❑ (Amendment) The government proposes to extend the application period of the tax incentive scheme for promoting investment and mutual cooperation and to revise the scheme by adding dividends to the scope of income subject to recirculation requirements.

- ○ Extend the application period of the scheme for three years, from the end of 2025 to the end of 2028.
- ○ In addition, add dividends to the scope of corporate income subject to recirculation and raise the required proportion of corporate income to be recirculated.
  - Scope of recirculation: investment, wage increases, and expenditures for mutually beneficial cooperation → add dividends
  - Required recirculation ratio: raise the ratio for firms from the current 60–80% (investment-inclusive type) and 10–20% (investment-exclusive type) to 65–85% and 20–40%, respectively (as prescribed in the Enforcement Decree)

❑ (Revenue Impact) Extending the application period of the tax incentive scheme for promoting investment and mutual cooperation by three years is projected to increase corporate income tax revenue by a total of KRW 839.6 billion over 2027–2029, or KRW 279.9 billion per year on average.

- ○ The revenue impact of the other revisions to the scheme, including the expansion of income subject to recirculation, cannot be reliably estimated.

❑ (Assessment) There is ongoing debate regarding the effectiveness and efficiency of the tax incentive scheme for promoting investment and mutual cooperation. An analysis of its effects on investment and wage increases shows that only investment exhibits some significant effects with a time lag.

- ○ In Korea, the recirculation of corporate income tends to be weighted toward investment, and the purpose of this scheme's operation differs from those in other countries.

- In countries such as the United States and Japan, similar schemes are used primarily to discourage major shareholders from avoiding dividend income taxation.

○ Empirical analysis of the effectiveness of the tax incentive scheme for promoting investment and mutual cooperation shows that, while some statistically significant effects on investment emerge with a time lag after implementation, no meaningful effects are observed for wage increases.

- Some significant increases in investment are observed beginning three years after the scheme's implementation.

○ There are also concerns that the scheme may distort corporate decision-making regarding retained earnings and reduce the efficiency of investment.

- Because the scheme requires a uniform recirculation ratio without accounting for differences in firms' growth stages or economic conditions, it may create inefficiencies in decisions related to retained earnings and investment.

c. Tax Credits for Video and Webtoon Content Production

❑ (Amendment) Increase the basic tax credit rate for video content production costs for large companies from the current 5 percent to 10 percent, and introduce a new tax credit for webtoon content production costs.

○ Basic credit rate (large companies): current 5% → amended 10%

○ Tax credit for webtoon content production costs: 10% (15% for SMEs), newly introduced

[Table] Overview of the Government Proposal to Expand the Tax Credit for Video Content Production

	Basic Credit (A)	Additional Credit (B)	Maximum Credit Rate (A+B)			Basic Credit (A)	Additional Credit (B)	Maximum Credit Rate (A+B)
Large companies	5%	10%	15%	⇒	Large companies	**10%**	10%	**20%**
MMEs	10%	10%	20%		MMEs	10%	10%	20%
SMEs	15%	15%	30%		SMEs	15%	15%	30%

❑ (Revenue Impact) Raising the basic tax credit rate for video content production costs for large companies is projected to reduce corporate income tax revenue by a total of KRW 99.8 billion over 2027–2029, or KRW 33.3 billion per year on average.

- Behavioral changes in corporate investment resulting from the higher credit rate, as well as the effects of adding the webtoon content sector, are not reflected in the estimate.

❑ (Assessment) The need to expand tax support for video content and to introduce a tax credit for webtoon content production is recognized, and the scheme should be designed to reflect industry structure and production conditions.

- Utilization of the tax credit for video content production is low, indicating that revisions to the Enforcement Decree and Enforcement Rules are needed to align the eligibility requirements, such as production cost criteria, with the characteristics of video content in order to enhance the effectiveness of the policy.
- Even with expanded tax support, there is concern that benefits may be concentrated among large production companies; therefore, rais-

ing the basic credit rate for middle market enterprises (MMEs) and SMEs should also be considered.

- As the need for tax support for the webtoon content industry is recognized, an effective system will require revisions to the Enforcement Decree and Enforcement Rules that take into account the industry's structure, current conditions, and production environment.

d. Reform of the Integrated Employment Tax Credit

❑ (Amendment) The calculation of the number of regular employees will be simplified, the per-employee credit amount for increases in regular employees will be redesigned with a progressive structure, and the follow-up management process will be revised.

- When the number of regular employees who have worked for at least one year increases beyond the minimum required employment level, the per-employee credit amount will be applied differentially over three years depending on the employment retention period.

Current	Amendment

Current

(Unit: KRW 10,000)

	Per-employee credit			
	SMEs		MMEs	Large companies
	Seoul Metropolitan Area	Other regions		
Youth, etc.	1,450	1,550	800	400
General	850	950	450	0

* Applied to the entire increase in employment.

Amendment

(Unit: KRW 10,000)

		Per-employee credit			
		SMEs		MMEs	Large companies
		Seoul Metropolitan Area	Other regions		
Youth, etc.	1st year	700	1,000	500	300
	2nd year	1,600	1,900	900	500
	3rd year	1,700	2,000	900	0
General	1st year	400	700	300	0
	2nd year	900	1,200	500	0
	3rd year	1,000	1,300	500	0

* For middle market enterprises and large companies, the credit applies only to the increase beyond the minimum required number of employees.

- ○ Even if the number of regular employees decreases, only the portion corresponding to the decline relative to the increased number of regular employees will be excluded from the credit.

❑ (Assessment) By simplifying the calculation of regular employees and revising the follow-up management process, the amendment reduces the burden on companies. However, for companies that find it difficult to maintain employment due to voluntary resignations, the usability of the scheme may be limited.

- ○ By simplifying the calculation of regular employees to an annual basis and revising the criteria for determining youth, the amendment reduces some compliance costs. In addition, by excluding only the portion corresponding to decreases within the increased number of regular employees, it helps resolve the unfairness previously caused when the number of regular employees declined for reasons not attributable to the company.

- Conversely, companies that lack the capacity to hire beyond the minimum employment level or that struggle to maintain employment due to voluntary resignations may find it difficult to make use of the scheme.

e. Improving the tax support scheme for companies relocating to regional areas

❑ (Amendment) The application period for the tax support provisions for companies relocating to regional areas* will be extended by three years, from 2025 to 2028. In addition, the tax reduction period for eligible companies will be expanded from a minimum of eight years to a maximum of fifteen years, and new rules on reduction limits and clawbacks will be introduced.

* These provisions cover tax deferral on capital gains from transfers related to relocation and corporate income tax and individual income tax reductions on income generated after relocation.

❑ (Revenue Impact) Extending the application period for tax support by three years and expanding the tax reduction period are projected to decrease tax revenue by a total of KRW 181.3 billion over 2027–2030, or KRW 45.3 billion per year on average.

❑ (Assessment) The measure can be understood as an effort to promote the relocation of new factories and companies; however, because tax support alone may be insufficient to induce relocation, careful consideration is needed to balance policy effectiveness with the burden on companies.

- If the extended tax reduction period does not lead to meaningful increases in new factory or corporate relocations, the measure may end up providing only ex post benefits to companies that have already relocated. Therefore, a comprehensive policy design that includes improvements to residential environments and linkages with industry–academia–research clusters should accompany the tax support.
- The clawback provision, which recovers tax benefits if the number of regular employees declines within two years after receiving the tax incentive, may impose a significant burden on companies located in regions facing labor shortages. As a result, this rule could discourage companies from relocating to regional areas, indicating the need for careful review.

3. Other Taxes

a. Increase in the Securities Transaction Tax Rate

❑ (Amendment) The Securities Transaction Tax (STT) rate on KOSPI and KOSDAQ securities will be raised by 0.05 percentage points from the current level.

- KOSPI tax rate (%): (2023) 0.05 → (2024) 0.03 → (2025) 0 → (from 2026) 0.05
- KOSDAQ tax rate (%): (2023) 0.20 → (2024) 0.18 → (2025) 0.15 →

(from 2026) 0.20

- ❑ (Revenue Impact) Raising the Securities Transaction Tax rate on KOSPI and KOSDAQ securities by 0.05 percentage points is projected to increase STT revenue by a total of KRW 12.7967 trillion over 2026–2030, or KRW 2.5593 trillion per year on average.

- ❑ (Assessment) The amendment should be viewed from a transitional perspective as a measure to complement taxation on stock capital gains and to strengthen revenue. Over the medium to long term, however, the role of the Securities Transaction Tax should be reconsidered within the broader direction of reforming the financial taxation system around income tax.
  - ○ The amendment aims to reinforce the revenue-raising function of the tax system by restoring the STT rate to its 2023 level.
    - The reduction in the KOSPI and KOSDAQ Securities Transaction Tax rates relative to 2023 is estimated to decrease revenue by KRW △0.9 trillion in 2024 (a 0.02 percentage point cut) and by KRW △2.1 trillion in 2025 (a 0.05 percentage point cut).
    - A related proposal to lower the threshold for major shareholders subject to capital gains tax on listed shares was withdrawn due to concerns about heavier tax burdens and potential negative effects on the stock market.
  - ○ While the intention of the amendment to secure additional revenue is acknowledged, from the perspective of tax rationalization, the respective roles of income tax on stock transfers and the Securities Transaction Tax will need to be reconsidered over the

medium to long term.

- The STT has the limitation of applying regardless of income level or whether the taxpayer realized gains or losses, and it can overlap with capital gains taxation on certain listed stocks.
- Major countries tend to tax stock transactions primarily through income tax rather than transaction taxes, and even in countries that levy both income tax and transaction taxes, the income tax system is structured to avoid gaps in the taxation of stock income. These cases therefore warrant consideration.

b. Increase in the Education Tax Rate on Finance and Insurance

❑ (Amendment) A new tax base tier will be established for finance and insurance companies with revenue exceeding KRW 1 trillion, and the education tax rate for this tier will be raised by 0.5 percentage points (from 0.5 percent to 1.0 percent).

Under the current system, a single rate of 0.5 percent applies regardless of revenue.

❑ (Revenue Impact) Raising the education tax rate on finance and insurance is projected to increase education tax revenue by a total of KRW 6.5666 trillion over 2027–2030, or KRW 1.3133 trillion per year on average.

❑ (Assessment) A comprehensive review is needed of conditions in the finance and insurance industry surrounding the proposed rate increase, the potential rise in the cost of financial services, the necessity and urgency of securing resources for higher education investment through the rate increase, and the current allocation structure of national education finance, which is centered on primary and secondary education.

- ◦ The government cites improved tax equity as the rationale for the rate increase and has indicated that, beginning in 2026, it will transfer the entire amount of education tax collected from the finance and insurance sector, including the additional revenue generated by the higher rate, to the Special Account for Higher Education and Lifelong Learning Support to be used as investment resources for higher education.
  - Given the recent increase in fiscal demand in the higher education (university) sector and the government's plans to expand investment in this area, the proposed rate increase is expected to contribute, to some extent, to securing resources for higher education investment.
- ◦ However, the finance and insurance industry has expressed differing views on the government's proposal.
  - According to data submitted to the National Tax Service, as of 2023, only 59 out of 4,764 finance and insurance companies had revenue exceeding KRW 1 trillion, representing 1.2 percent of the total.
  - Uncertainty about future profitability, including the possibility of interest rate cuts, and challenges in maintaining financial soundness may also be contributing to industry concerns.
- ◦ There is also the possibility that higher tax rates could increase the price of financial and insurance services, including loan interest rates and insurance premiums, thereby raising costs for consumers.
  - In particular, low-credit borrowers, low-income households, and small businesses generally face higher loan interest rates than high-credit borrowers, high-income households, and large

companies. If loan rates rise proportionally with the higher tax rate, their burden may increase more significantly.

- Even if indirect channels such as reduced preferential interest rates are considered, there are limits to preventing the pass-through of tax burdens through regulatory means.

○ Meanwhile, fiscal needs for higher education continue to grow, yet most national education finance is still allocated to primary and secondary education. This raises the need to consider a more rational distribution of national education resources across levels of education.

- According to the 2026 (expenditure) budget, of the KRW 99.8 trillion allocated to education, KRW 73.6 trillion (73.7 percent) is allocated to the Local Education Finance Grant, while KRW 9.2 trillion (9.2 percent) is allocated to the Special Account for Higher Education and Lifelong Learning Support.
- The Local Education Finance Grant serves as the principal funding source for primary and secondary education, and its allocation structure is driven largely by the formula that determines the total grant amount as 20.79 percent of national taxes plus a portion of the education tax.
- The education tax, in addition to funding the Local Education Finance Grant, also provides resources to the Special Account for Higher Education and Lifelong Learning Support.

4. Local Taxes

a. Key Provisions of the “2025 Local Tax Revenue-Related Laws Amendment Bill”

❑ (Key Amendments) The government’s proposed amendments to local tax-related laws include measures to support balanced national development and stabilize people's livelihoods.

- ○ Introduce regionally differentiated tax reductions for balanced national development, revitalize local real estate markets, promote the improvement and reuse of vacant homes, and strengthen tax support for regional investment and employment.
  - Apply differentiated reduction rates by region for tax reductions on industrial, logistics, and tourism complexes, giving priority to non-metropolitan and especially depopulated areas.
  - To revitalize local real estate markets, introduce a new acquisition tax reduction for individuals who purchase newly built but unsold apartment units (exclusive area up to 85㎡, acquisition value up to KRW 600 million) in local areas, and exempt such acquisitions from the heavy acquisition tax applied to owners of multiple homes.
  - To stimulate construction investment in local areas, expand the "second home" acquisition tax reduction for individuals who purchase an additional home in depopulated regions.
  - To promote the demolition and reuse of vacant homes, introduce a property tax reduction on land following the demolition of vacant homes and create a new acquisition tax reduction for newly built homes or buildings constructed after demolition.
  - To promote regional investment and employment, strengthen tax support by introducing a new corporate local income tax credit for companies located in depopulated areas that hire local residents.

- ○ To help stabilize people's livelihoods, the bill introduces tax support measures for first-time home purchases and for households acquiring homes for childbirth and childrearing, for parental leave support, and for strengthening assistance to vulnerable groups.

- The government will extend the current acquisition tax reduction for first-time homebuyers and for households purchasing homes for childbirth or childrearing, and in particular, increase the acquisition tax reduction limit for first-time home purchases in depopulated areas from KRW 2 million to KRW 3 million.
- Introduce a deduction from the employee portion of the resident tax base for wages paid to substitute workers hired during parental leave.

○ In addition, taking into account the national tax reform that raises the corporate income tax rate, the bills include a proposal to increase the local corporate income tax rate by 0.1 percentage points across all taxable-income brackets.

b. Local Tax Support for Balanced National Development

❑ (Amendment) The bill introduces local tax measures to support balanced national development by promoting regional economic recovery, revitalizing local real estate markets, and encouraging regional investment and employment.

○ To support regional economic recovery, the bills introduce differentiated tax reductions by region for industrial, logistics, and tourism complexes closely linked to local economies, classifying areas into the Seoul metropolitan area, non-metropolitan areas, and depopulated areas. (For example, the current uniform 25 percent acquisition tax reduction for tourism complexes would be differentiated to 10 percent in the Seoul metropolitan area, 25 percent in non-metropolitan areas, and 40 percent in depopulated areas.)

- ○ To revitalize local real estate markets, introduce a new acquisition tax reduction for individuals purchasing newly built but unsold homes (50%: 25% statutory, 25% by local ordinance); exempt such acquisitions from the higher acquisition tax applied to owners of multiple homes; and provide a property tax reduction (50% for five years) on land following the demolition of vacant homes.
- ○ To promote investment and employment, introduce a resident tax deduction for long-tenured employees who have worked for three years or more at SMEs in non-metropolitan areas (10% per employee); introduce a new corporate local income tax credit when companies in depopulated areas hire local residents (KRW 450,000 per employee); and provide an additional 15% reduction in acquisition and property taxes for real estate used by corporate research centers engaged in national strategic technologies.

❑ (Assessment) This year's local tax support measures for balanced national development represent a meaningful departure from previous uniform, one-size-fits-all approaches, adopting instead a differentiated and strategic framework that reflects local characteristics and conditions. However, the following structural limitations remain.

- ○ Despite national balanced development policies, a vicious cycle of concentration in the Seoul metropolitan area, depopulation in provincial regions, and weakening industrial bases continues. This reflects structural limitations that cannot be resolved through tax support or short-term fiscal investment alone.
- ○ Depopulated areas face limited living infrastructure (such as healthcare, education, and cultural services), which constrains the ability of tax incentives to attract population inflows or promote

long-term settlement.

- To enhance the effectiveness of the policy, a balanced approach is needed that combines tax-support measures designed to encourage participation with strengthened regulatory and enforcement measures.