August 6, 2026

National Assembly Budget Office NABO Focus Vol. 173

nabo Focus

Key Contents of the 2026 Tax Reform Bill

Tax Analysis Division 1, Analyst Shin Hong-cheol

Overview of the 2026 Tax Reform Bill

▪ **The government announced the 2026 Tax Reform Bill on August 3, aiming to revive potential growth, support public livelihoods, strengthen non-capital regions, and promote tax reform for fair taxation.**

- The bill sets the policy goal of "Supporting a Great Economic Leap Forward for an Irreplaceable Korea," with four strategies: reviving potential growth, supporting public livelihoods and regions, promoting fair taxation, and rationalizing the tax system while enhancing taxpayer convenience.

▪ **The following examines the main provisions, tax revenue effects, and tax burden incidence effects (government estimates) of the 2026 Tax Reform Bill.**

- The main provisions are broadly categorized into items aimed at achieving these policy goals—such as real estate tax reform, balanced development, support for strategic industries and capital markets, and public livelihood stabilizations—and items to restructure tax expenditures.

Real Estate Tax Reform

▪ **By shifting deductions from the holding period to the residence period and reforming the Comprehensive Real Estate Tax's tax base and rates, differences in Capital Gains Tax and Comprehensive Real Estate Tax burdens among homeowners will widen based on residence status and duration, multiple-home ownership, and housing value.**

- (Capital Gains Tax) Rename the Special Deduction for Long-Term Holding as the Long-Term Residence Income Deduction, replace the holding-period deduction with a residence-period deduction, and temporarily reduce the heavy tax rate on multiple-home owners in adjusted target areas, etc.

[Table 1] Real Estate Tax Reform (Capital Gains Tax)

Classification			Current	Amendment
Special Deduction for Long-Term Holding (Housing)	Name		Special Deduction for Long-Term Holding	Long-Term Residence Income Deduction
	One- House-Owning household	Deduction Rate	Residence 4%/yr + Holding 4%/yr	(2028) Residence 6%/yr + Holding 2%/yr (From 2029) Residence 8%/yr
		Max Deduction	10 years, up to 80%	10 years, up to 80%
	Multiple Homes (Non-Adjusted Target Areas)	Deduction Rate	Holding 2%/yr	(2028) Residence 2%/yr or Holding 1%/yr (From 2029) Residence 2%/yr
		Max Deduction	15 years, up to 30%	(2028) 15 years, up to 30% (Residence) or 15% (Holding) (From 2029) 15 years, up to 30%

National Assembly Budget Office

	Deduction Limit	<New>	(2028) KRW 2 billion (From 2029) KRW 1 billion
	Special Exception for Calculating the Period of Residence	<New>	Recognize non-residence periods due to unavoidable circumstances, such as school enrollment/transfer, as residence periods (Total of 4 reasons)
Basic Deduction		KRW 2.5 million/yr	KRW 25 million/yr (Transfer price of KRW 3 billion or less)
Temporary Reduction of Heavy Tax Rate in Adjusted Target Areas	2 Homes	20%p additional	(2027) 5%p additional (2028) 10%p additional
	3 or More Homes	30%p additional	(2027) 10%p additional (2028) 15%p additional

- (Comprehensive Real Estate Tax) Replace the holding-period tax credit for one-house-owning households with a residence-period tax credit; differentiate the basic deduction for one-house-owning households by residence status; raise the fair market value ratio; unify tax rates based on the current 3-or-more-home owners standard; and increase rates for the KRW 600 million–1.2 billion tax base segment, etc.

[Table 2] Real Estate Tax Reform (Comprehensive Real Estate Tax)

<table>
<tr><th colspan="2">Classification</th><th>Current</th><th>Amendment</th></tr>
<tr><td rowspan="3">Tax Base</td><td>Tax Base Amount</td><td>(One House) KRW 1.2 billion
(Multiple Homes) KRW 900 million</td><td>(One House) KRW 1.4 billion
(Multiple Homes) KRW 900 million</td></tr>
<tr><td>Basic Deduction</td><td>(One House) KRW 1.2 billion
(Multiple Homes) KRW 900 million</td><td>(One House) Residential: KRW 1.4 billion, Non-residential: KRW 900 million
(Multiple Homes) KRW 400 million+ KRW 500 million × (Residential Housing Value / Total Housing Value)</td></tr>
<tr><td>Fair Market Value Ratio</td><td>60%</td><td>(One-house-owning household, Non-capital 1 or 2 Homes) 70%
(3-Home Owners, etc.) 2027: 70%, From 2028: 80%</td></tr>
<tr><td colspan="2">Tax Rate</td><td>
<table>
<tr><th>Tax Base</th><th>2 or less homes</th><th>3 or more homes</th></tr>
<tr><td>KRW 300 million or less</td><td colspan="2">0.5%</td></tr>
<tr><td>KRW 300–600 million</td><td colspan="2">0.7%</td></tr>
<tr><td>KRW 0.6–1.2 billion</td><td colspan="2">1.0%</td></tr>
<tr><td>KRW 1.2–2.5 billion</td><td>1.3%</td><td>2.0%</td></tr>
<tr><td>KRW 2.5–5 billion</td><td>1.5%</td><td>3.0%</td></tr>
<tr><td>KRW 5–9.4 billion</td><td>2.0%</td><td>4.0%</td></tr>
<tr><td>KRW 9.4+ billion</td><td>2.7%</td><td>5.0%</td></tr>
</table>
</td><td>
<table>
<tr><th>Tax Base</th><th>All Housing</th></tr>
<tr><td>KRW 300 million or less</td><td>0.5%</td></tr>
<tr><td>KRW 300–600 million</td><td>0.7%</td></tr>
<tr><td>KRW 0.6– 1.2 billion</td><td>1.3%</td></tr>
<tr><td>KRW 1.2–2.5 billion</td><td>1.5%(2 Homes or less limited to 2027)/2.0%</td></tr>
<tr><td>KRW 2.5–5 billion</td><td>2.0%(2 Homes or less limited to 2027)/3.0%</td></tr>
<tr><td>KRW 5–9.4 billion</td><td>2.7%(2 Homes or less limited to 2027)/4.0%</td></tr>
<tr><td>KRW 9.4+ billion</td><td>3.5%(2 Homes or less limited to 2027)/5.0%</td></tr>
</table>
</td></tr>
<tr><td colspan="2">One-House-Owning Household Tax Credit</td><td>Age + Holding Credit (Up to 80%)
(Age) 60+/65+/70+ 20%/30%/40%
(Holding) 5 yrs+/10 yrs+/15 yrs+ 20%/40%/50%</td><td>Age + Residence Credit* (Up to 80%, KRW 6 million**)
(Age) 60+/65+/70+ 20%/30%/40%
(Residence) 5 yrs+/10 yrs+/15 yrs+ 20%/40%/50%
*For 2027, the higher deduction rate between Residence Credit and Holding Credit (1/2 of Residence Credit) applies / **KRW 8 million for 2027</td></tr>
<tr><td colspan="2">Exception for Calculating Residence Period</td><td><New></td><td>Recognize non-residence periods due to unavoidable circumstances, such as school enrollment/transfer, as residence periods (Total of 2 reasons)</td></tr>
<tr><td colspan="2">Tax Burden Cap</td><td>150% of Previous Year's Property Tax + Comprehensive Real Estate Tax Amount</td><td>200% of Previous Year's Property Tax + Comprehensive Real Estate Tax Amount</td></tr>
</table>

Promoting Balanced Development

▪ **The reform promotes balanced development and addresses regional polarization by differentiating the deduction rates and application periods of various tax credits by region (capital region, non-capital metropolitan cities, other non-capital areas, etc.).**

- Specifically, it includes applying regional preferential coefficients to investment tax credit deduction rates and exempting relocation allowances for workers moving to non-capital regions from taxation, etc.

[Table 3] **Promoting Balanced Development**

Classification	Current	Amendment
Regional Preference for Investment Tax Credit	Apply basic deduction rates (1–50%) by technology type and company size	Apply basic deduction rate × regional preferential coefficient (1.0–1.5)* *Capital region: 1.0; other non-capital preferential regions: 1.5, etc.
Regional Preference for Income Tax Reduction for SME Employees	(Youth) 90% income tax reduction for 5 years after employment (Non-Youth) 70% income tax reduction for 3 years after employment	(Youth) 90% reduction for 5–10 years based on SME location (Non-Youth) 70–90% reduction for three years based on SME location
Regional Reflow of Tax Support for Relocation to Regions, etc.	<New>	Additional tax collected for the shortfall if the regional reflow amount of a company receiving tax support for regional relocation/special-zone entry is less than 30% of the reduced tax amount
Tax Exemption for Regional Relocation Allowance	<New>	Tax exemption for relocation allowances paid by companies relocating to non-capital regions to employees (monthly limit of KRW 200,000–500,000 depending on relocation area)

Support for Strategic Industries and Capital Markets

▪ **The bill promotes economic growth by expanding support for strategic industries, such as semiconductors, and capital markets.**

- Specifically, it includes establishing a new domestic production tax credit and a productive financial ISA, etc.

[Table 4] **Support for Strategic Industries and Capital Markets**

Classification	Current	Amendment
Domestic Production Tax Credit	<New>	Apply tax credits based on production volume and region to residents and domestic corporations that produce and sell eligible items domestically in six sectors, including semiconductors, AI robot parts, secondary batteries, solar power, wind power, and core materials (–2036.Dec.31.)
Reorganization of National Strategic Technology Fields	Hydrogen Field	Expand and reorganize into Future Energy Field (including Small Modular Reactors (SMR), Micro Modular Reactors (MMR), etc.)
Productive Financial ISA	<New>	(Basic) Investable only in domestic stocks, etc., with full tax exemption on interest/dividend income (Youth) 10% income deduction on contributions for those with a total salary of KRW 75 million or less
Tax Special Exception for BDC	<New>	9% separate taxation on dividend income from investments in Business Development Companies (BDC) that invest 60% or more of their assets in venture/innovative companies, etc. (–2029.Dec.31.)

Stabilizing Public Livelihoods

▪ **The bill eases tax burdens and supports public livelihood stability by expanding and extending tax support for vulnerable groups, including youth and working- and middle-class populations.**

- Specifically, it includes easing income requirements and increasing payment amounts under the Earned Income Tax Credit (EITC), expanding monthly rent tax credits for youth, and easing income requirements for basic deduction dependents under global income tax, etc.

[Table 5] **Stabilizing Public Livelihoods**

Classification	Current			Amendment		
EITC Expansion		Income Standard	Max Payment Amount		Income Standard	Max Payment Amount
	Single-Person Households	KRW 22 million	KRW 1.65 million	Single-Person Households	KRW 26 million	KRW 1.80 million
	Single-Earner Households	KRW 32 million	KRW 2.85 million	Single-Earner Households	KRW 37 million	KRW 3.10 million
	Dual-Earner Households	KRW 44 million	KRW 3.30 million	Dual-Earner Households	KRW 52 million	KRW 3.60 million
Expansion of Monthly Rent Tax Credit	Apply a 15/17% credit rate based on a total salary scale (Annual eligible monthly rent limit of KRW 10 million)			Apply a 17% credit rate for youth regardless of salary level (Annual eligible monthly rent limit of KRW 12 million)		
Expansion of Basic Deduction Dependents	Spouse and dependents with income of KRW 1 million or less (or total salary of KRW 5 million or less)			Spouse and dependents with income of KRW 3 million or less (or total salary of KRW 7.5 million or less)		

Enhancing Tax Fairness

▪ **The bill enhances tax fairness by addressing deficiencies identified in the operation of systems such as the family business inheritance deduction.**

- (Reorganization of Family Business Inheritance Deduction) Reduce potential system abuse through business-type reorganization and strengthening deduction requirements, etc.
- (Others) Improve valuation methods for listed stocks of companies suspected of "stock price suppression," etc.

[Table 6] **Enhancing Tax Fairness**

Classification		Current	Amendment
<Reorganization of Family Business Inheritance Deduction>			
Subject and Qualifications	Definition	<New>	(Definition of Family Business) A company possessing specialized technology and management know-how
	Applicable Industries	Stipulated in the Enforcement Decree based on major divisions (16 categories)	Stipulated directly in the Act based on sub-sub-divisions (727 categories), excluding marts, transportation services such as buses/taxis, hospitals/pharmacies, etc.
	Management Period	Decedent management period of 10 years or more	Decedent management period of 30 years or more
Deduction Level	Deduction Target	Scope of land eligible for deduction: 3–7 times the building's floor area	Scope of land eligible for deduction: 2–3 times the building's floor area; new deduction limit per land area (KRW 10 million/㎡)
	Limit	Decedent management period: 10–20 yrs / 20–30 yrs / 30 yrs+ KRW 30 billion/ KRW 40 billion/ KRW 60 billion	Decedent management period × KRW 2 billion (Up to KRW 100 billion)

Classification	Current	Amendment
Tax Special Exception for Business Succession to a Third Party	<New>	Apply a special tax exception when a business is succeeded by a third party other than an heir: 20% capital gains tax reduction for the business seller; 10% income tax/corporate tax reduction for the business buyer for 5 years
<Others>		
Improvement of Valuation Method for Listed Stocks	(Stock Valuation Method) Average closing price on the exchange for two months before and after the evaluation date; 20% premium for the largest shareholder	At least 30% premium for companies suspected of intentionally undervaluing stocks for inheritance or other purposes

Restructuring Tax Expenditures

▪ **The bill includes 115 tax expenditure restructuring items, comprising 20 terminations, 17 conversions to fiscal projects, 64 redesigns, and 14 permanencies.**

- Notably, the reform includes items that shift the support method from tax expenditures to fiscal expenditure through conversion to fiscal projects.

[Table 7] **Restructuring Tax Expenditures**

Classification (No. of Cases)	Key Contents
Termination (20)	Abolition of items with achieved support objectives or low effectiveness (e.g., individual consumption tax reduction for hybrid vehicles)
Conversion to Fiscal Project (17)	Conversion from tax to fiscal expenditures to improve support efficiency (e.g., childbirth/adoption/marriage tax credits, additional public transportation in credit card income deduction, individual consumption tax reduction for electric/hydrogen vehicles)
Redesign (64)	Redesign systems to align with policy goals, including supplementing requirements (e.g., reduced targets for the integrated employment tax credit)
Permanency (14)	Removal of sunset clauses where continued support is necessary (e.g., income deduction for comprehensive housing subscription savings)

Tax Revenue Effects and Tax Burden Incidence Effects

▪ **The bill is estimated to have a 5-year tax revenue effect of KRW 3.443 trillion (based on the net method).**

- Comprehensive Real Estate Tax (KRW 2.2 trillion) increases due to real estate tax reform.
- Income tax (△ KRW 0.6 trillion) decreases due to EITC expansion, while Corporate tax (△ KRW 0.2 trillion) decreases due to expanded investment tax credits.
- The tax revenue effects also reflect the conversion of tax expenditures to fiscal projects.

[Table 8] **Tax Revenue Effects Based on the Net Method**

(Unit: KRW 100 million)

Classification	Total	2027	2028	2029	2030	2031
Total	34,430	7,812	18,893	4,882	642	2,201
Income Tax	△5,579	△11,343	3,130	177	213	2,244
Corporate Tax	△1,636	△20	△1,583	△44	55	△44
Value-Added Tax	6,007	4,328	1,540	111	28	-
Comprehensive Real Estate Tax	21,815	8,227	10,966	2,622	-	-
Other	13,823	6,620	4,840	2,016	346	1

Note: The net method refers to the change in the tax revenue effect compared to the previous year

▪ **Under the bill, tax burdens decrease for working- and middle-class populations (△ KRW 1.2258 trillion) and SMEs (△ KRW 79.1 billion), while increasing for high-income earners (KRW 122.6 billion).**

- The largest incidence scale is attributed to "Other," at KRW 4.6831 trillion.
  - "Other" includes the effect of converting tax expenditures to fiscal projects (+KRW 1.1 trillion).

[Table 9] Tax Burden Incidence Effects

(Unit: KRW 100 million)

Working/ Middle Class	High-Income Earners	SMEs	Large Enterprises	Other	Total
△12,258	1,226	△791	△578	46,831	34,430

▪ **NABO plans to publish its *Analysis of the 2026 Tax Law Amendment Bill* during the regular session of the National Assembly, examining the bill's overall characteristics, tax revenue effects, and major issues by tax item of the 2026 Tax Reform Bill from various perspectives.**

Publication Registration No. | **31-9700484-001731-14** ISSN | **2672-0280**
Published by | **National Assembly Budget Office** Publisher | **Chi Dong-ha, Chief of the National Assembly Budget Office**
Produced by | **Tax Analysis Division 1** Contact | **+82-2-6788-4745**