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Virtual Asset Income Tax Ahead of the 2027 Rollout: Key Issues and Tasks

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Background

- **Virtual asset income taxation was introduced by the December 2020 amendment to the Income Tax Act. After three postponements, it will first apply to transfers and lending on or after January 1, 2027.[1)]**
  - It was originally scheduled to take effect in January 2022, but the National Assembly postponed it three times, citing market conditions and the implementation of the Act on the Protection of Virtual Asset Users.
  - Ahead of implementation, issues have been raised over limits on tax base identification, taxation infrastructure, taxation criteria for various transaction types, and the scope of recognized transaction losses.
- **This report outlines the main provisions of virtual asset income taxation and reviews the issues to be addressed before implementation.**

Overview of Virtual Asset Income Taxation

- **The Income Tax Act classifies income from transferring or lending virtual assets under the Act on the Protection of Virtual Asset Users as other income, subject to separate taxation.**
  - Income is taxed at 20% (22% including local tax) on the amount exceeding KRW 2.5 million, after deducting necessary expenses (acquisition cost and incidental expenses) from gross income.
    * For assets held before the implementation date, the acquisition cost is the greater of the December 31, 2026 market value and the actual acquisition cost.
  - Residents must file and pay tax themselves in May of the following year. For nonresidents, domestic virtual asset service providers withhold the tax.*
    * Withholding is the lesser of 10% of the transfer price and 20% of the transfer gain.

[Table 1] Overview of Virtual Asset Income Taxation

Category	Overview
Taxable Income	Income from transferring (purchase and sale, exchange) or lending virtual assets under the Act on the Protection of Virtual Asset Users
Classification / Tax Rate	Other income / Separate taxation at 20% (22% including local income tax)
Necessary Expenses	(Principle) Actual acquisition cost and incidental expenses (Exception) If acquisition cost cannot be verified, 50% of the transfer price is deemed necessary expenses
Basic Deduction	No tax on income up to KRW 2.5 million per year; KRW 2.5 million is deducted from any excess
Loss Offsetting / Carryforward	Losses cannot be offset against other income or carried forward
Filing and Payment	(Residents) Self-filing and payment in May of the following year / (Nonresidents) Withholding upon transfer, lending, or withdrawal

Source: Prepared by the National Assembly Budget Office based on the Income Tax Act and its Enforcement Decree

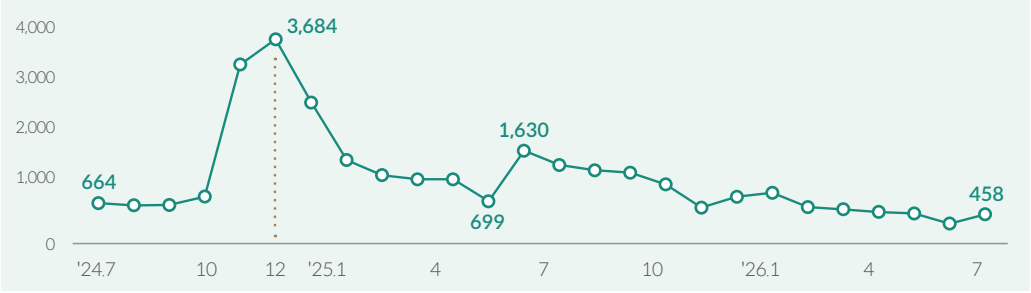
1) For reference, four proposed Income Tax Act amendment bills on virtual asset taxation are pending in the National Assembly (as of September 7, 2026).
[Postponement] 2204341 (Rep. Song Eon-seog), 2220515 (Rep. Jung Sung-kook), 2220914 (Rep. Kim Sang-hoon)
[Abolition] 2217609 (Rep. Song Eon-seog)

Virtual Asset Market Trends

- **In the second half (2H) of 2025, domestic virtual asset exchanges had 11.13 million user accounts and average daily trading volume of approximately KRW 5.4 trillion.**[2)]
  - Market capitalization of virtual assets deposited at domestic exchanges (KRW 87.2 trillion) fell by KRW 7.9 trillion (△8%) from 1H, while user accounts rose by 360,000 (+3%) to 11.13 million.
  - Listed assets on domestic exchanges have steadily increased to 1,732, expanding the acquisition and trading of new assets.
  - Accounts holding KRW 10 million or more total 1.12 million (approximately 10% of all accounts), while most accounts (74.2%) hold less than KRW 1 million.
- **Trading volume at the top five domestic exchanges peaked at USD 368.4 billion (approximately KRW 495 trillion) in December 2024, when Bitcoin prices surged, and has declined continuously since 2H 2025.**

[Figure 1] **Monthly Trading Volume at the Top Five Domestic Virtual Asset Exchanges**

(Unit: USD 100 million)



Source: Prepared by the National Assembly Budget Office based on the Block, "Monthly Exchange Volume"

Issue ① Limitations in Identifying the Tax Base

- **Under the Income Tax Act, virtual asset service providers must submit transaction records to the tax authorities, but identifying the tax base for every transactions is technically difficult.**
  - Because no reporting entity is clearly responsible for decentralized and over-the-counter transactions, the tax authorities may be unable to identify and tax all transactions.
    - **(Decentralized)** When individuals exchange virtual assets through blockchain-based platforms (smart contracts), no entity exists to submit transaction records.
    - **(Over-the-Counter)** Transactions using hardware (cold) wallets make it hard to identify actual owners, raising concerns that they may be used to avoid tax.
- **Overseas virtual asset exchanges have no duty to submit or report transaction records to Korean tax authorities, so transactions through them may also be hard to identify.**
  - To close this gap, automatic exchange of virtual asset transaction information among participating countries under the OECD CARF will begin in 2027, but differences in countries' implementation timing may leave gaps in tax base identification.
    - Korea set the legal basis for information exchange through measures including the 2025 amendment to the Adjustment of International Taxes Act, and is in the first information exchange group in 2027 (46 countries and jurisdictions).[3)]
    - By contrast, 29 countries, including Canada, Switzerland, Singapore, and Hong Kong, will begin exchanges in 2028 and the United States in 2029, leaving gaps in the interim.[4)]

2) Korea Financial Intelligence Unit and Financial Supervisory Service, "Survey Results of Virtual Asset Service Providers for the 2H 2025", press release, March 26, 2026.

3) OECD Global Forum, 'Jurisdictions committed to implement the Crypto-Asset Reporting Framework,' June 23, 2026.

4) However, the limitation period for tax assessment on offshore transactions is seven years (15 years for fraud), so unreported cases are expected to be taxable retrospectively.

Issue ② Establishing Filing and Payment Infrastructure

- **Many individual taxpayers with no self-filing experience are expected to face taxation, and the nature of virtual asset transactions makes acquisition costs and transaction histories hard to verify, raising concerns about substantial compliance costs.**
  - The same asset is often acquired and transferred repeatedly across multiple exchanges and wallets, so taxpayers will often struggle to identify and report their transactions themselves.
  - In response, the National Tax Service (NTS) set up a dedicated organization (Digital Asset Coordination Division) in July this year and plans to complete a "Virtual Asset Integrated Analysis System" (tentative name) for analyzing transaction data by the end of 2026.[5)]
- **Major countries are building tax infrastructure by linking exchange-provided transaction data to filing and verification systems.**
  - **(United States)** For transactions on or after January 1, 2025, brokers (exchanges) must report gross proceeds to the Internal Revenue Service (IRS) on Form 1099-DA and give taxpayers a copy.[6)]
  - **(Japan)** Exchange provide an "Annual Transaction Report" listing transaction dates, quantities, and amounts, when entered into a tax authority calculations program that computes the tax automatically.

Issue ③ Uncertainty in Tax Criteria for Various Transaction Types

- **The Income Tax Act taxes income from transferring or lending virtual assets, but it has no clear criteria for returns from staking, lending, hard forks, airdrops, and similar activities.**
  - **(Staking)** Virtual assets are deposited in a blockchain network and coins are received as a validation reward. This may be lending income if viewed as consideration for lending, or other income or business income if viewed as consideration for validation services.
    - (Timing/Tax Base) Where rewards are automatically restaked, the payment date and valuation date are hard to determine.
  - **(Lending and Liquidity Provision)** Coins are lent or deposited in a liquidity pool in return for fees or rewards. Depending on whether control or ownership transfers, this may be a transfer or lending.
    - (Timing/Tax Base) Views differ: as lending income, it may be taxed when consideration is received, but as a transfer, at the time of deposit.
  - **(Hard Forks and Airdrops)** New coins are acquired for free through a blockchain split or free distribution, and it is unclear whether the acquisition is subject to gift tax.[7)]
    - (Timing/Tax Base) There are no clear criteria on whether to tax at market value on acquisition or at transfer, treating the acquisition cost as zero.
- **The NTS says it is conducting commissioned research on virtual asset taxation and developing detailed criteria, including expert consultations for public notices.[5)]**

5) National Tax Service, "Status of NTS Preparations for Virtual Asset Income Taxation", written response to the National Assembly Budget Office, September 7, 2026.

6) U.S. Department of the Treasury and IRS, "Digital Asset Broker Reporting Rules (Form 1099-DA)," June 2024.

7) A Ministry of Economy and Finance ruling (Property Tax Division-814, July 25, 2022) held that transfers without consideration are subject to gift tax, but the Tax Tribunal (Josim2025Seo2821, etc.) held that promotional airdrops are other income in the nature of prizes.

Issue ④ Scope of Recognized Losses

- **Current law lets gains and losses be offset within the same tax period when calculating virtual asset income, but does not allow net losses to be carried forward.**
  - The United States, the United Kingdom, and other countries that tax virtual asset gains as capital gains allow broad offsetting and unlimited loss carryforward.
  - Japan plans to allow a three-year loss carryforward from 2028, limited to transactions through domestically registered dealers.[8)]
- **Any discussion of loss carryforward for virtual asset income should consider consistency with taxation of other investment assets.**
  - Under Korea's current tax system, transfer losses on domestic stocks, overseas stocks, derivatives, and similar assets also cannot be carried forward.
    * By contrast, the United States and the United Kingdom tax stocks and virtual assets as capital gains and allow transfer losses to be carried forward.

[Table 2] **Taxation of Stock Transfer Income and Availability of Loss Offsetting and Carryforward**

Category	Taxation Method	Loss Offsetting / Carryforward
Domestic Stocks[1)]	· Major shareholders[2)]: Progressive taxation at 20/25% · Over-the-counter transactions, etc.: separate taxation at 10/20%	- Gains and losses from transfers of stocks and derivatives may be offset against each other. - Carryforward deductions for losses are not permitted.
Overseas Stocks	Separate taxation at 20%	
Derivatives	Basic tax rate of 10% (flexible tax rate)	

Notes: 1) Taxable transfers include those by major shareholders of listed companies, over-the-counter transfers, and unlisted stocks. Small shareholders' gains on KOSPI and KOSDAQ stocks are not subject to capital gains tax, though transaction taxes (securities transaction tax and special tax for rural development) apply.
2) Market capitalization of KRW 5 billion or more per stock, or ownership of at least 1% (KOSPI), 2% (KOSDAQ), or 4% (KONEX/KOTC).

Source: Prepared by the National Assembly Budget Office based on the Income Tax Act

Future Tasks

- **(Strengthening Tax Base Management) The NTS should strengthen its own capabilities and also consider incentives for using domestic exchanges to bring more of the tax base into the formal system.**
  - Alongside developing technologies to track and verify virtual asset transactions, it should find ways to encourage self-filing by users of over-the-counter transactions and of overseas exchanges in countries that do not implement CARF.
  - Following Japan's example, it could also consider incentives for using domestic exchanges, where transactions are easier to identify.
    • Japan plans to apply low-rate separate taxation (20%) and a three-year loss carryforward to income from registered exchanges. Transactions through overseas exchanges and similar channels face progressive taxation (up to 55%) with no carryforward.
- **(Establishing Filing and Payment Infrastructure) Tax infrastructure should be in place before implementation to support smooth filing and payment.**
  - A system linked to exchanges should be built to automatically calculate and report acquisition costs and gains and losses.
  - Advance guidance and publicity should run in parallel to minimize taxpayers confusion in the early stages.
- **(Clarifying Tax Criteria) Uncertain tax criteria should be clarified before implementation.**
  - Before implementation, the tax authorities should set specific interpretation criteria through administrative interpretations (public notices, rulings), and FAQs, and communicate them to taxpayers.

8) Japan Ministry of Finance, "Outline of Tax Reform for Fiscal Year 2026 (令和８年度税制改正の大綱)", December 26, 2025.

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