Summary

I. Changes in Economic and Social Conditions and Income Redistribution

1. Changes in the Global Economic Environment

❑ Overall improvement in the quality of life, including rising income levels and falling poverty rates, driven by globalization and technological advancements

- Rapid progress in the integration of global markets, accelerated technological development, and flexibilization of labor markets
- Assessment of these economic and social changes as having made significant contributions to promoting social values and improving the quality of human life

❑ Disagreement on whether these benefits are being distributed equitably to all, despite recent economic and social changes bringing about an increase in income and opportunities

- **[Viewpoint on Deepening Income Inequality]** Globalization is increasing wealth inequality, with the rise in the rate of return on capital exceeding economic growth cited as the cause. (Thomas Piketty and Gabriel Zucman, 2014)
- **[Viewpoint on Inequality Difference Between Countries vs. Within Countries]** Inequality between countries (G20 countries and other OECD countries) has eased, but income and wealth inequality within countries has deepened. (OECD and World Bank, 2017, etc.)
- **[Viewpoint on Improved Income Inequality]** As low-income individuals become wealthier, the likelihood of underreporting income increases; adjusting for this factor, income inequality between countries, as well as

within countries, has not increased or has even slightly improved. (Maxim Pinkovskiy, Xavier Sala-i-Martin, Kasey Chatterji-Len and William Nober, 2024)

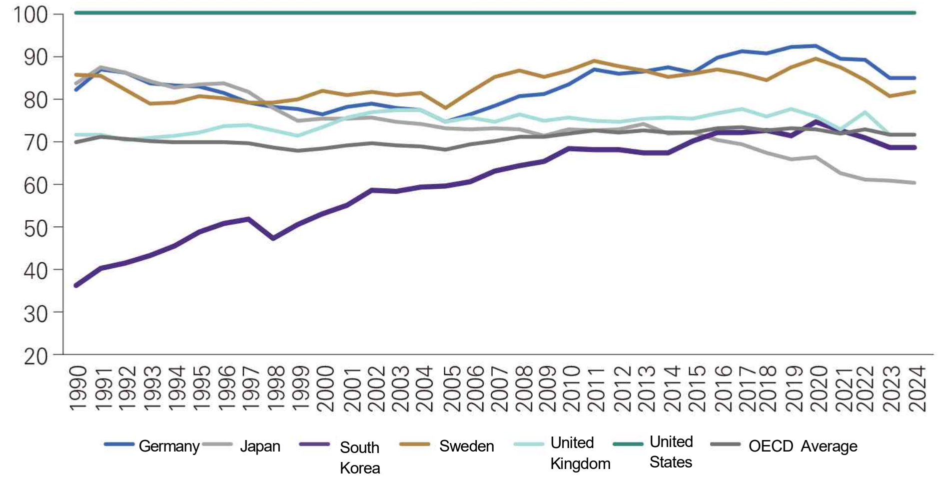
2. Changes in Domestic Conditions

❑ Slowdown in growth rate due to low birth rate and aging population, etc.

- ○ Korea achieved high economic growth and stable income distribution during the latter half of the 20th century.
  - \- The concentration of labor-intensive industries, along with rapid economic growth, enabled the improvement of income distribution through job creation even without significant welfare policies.
- ○ The Korean economy has experienced a continuous slowdown in growth rate since the 2000s, with income levels stagnating at 70% of advanced economies since 2010.
  - \- Due to the rapid progress of aging caused by low birth rates, social burdens are increasing, including a surge in pension payments, and economic vitality is declining.

[Figure] Trends in GDP per Capita
Based on Purchasing Power Parity in Major Countries

(Unit: %)



Note: U.S. Standard Conversion
Source: OECD Database

❑ Stabilization of income inequality since the late 2000s, and relatively high among OECD countries

○ Korea's income inequality showed an upward trend from the early 1990s, stabilizing and slightly improving since the late 2000s; however, inequality based on disposable income, reflecting the effects of taxes and transfer payments, shows no clear signs of improvement.

- Korea's income inequality is relatively high among OECD countries.

○ Wage gaps and limited effects of redistribution policies are cited as causes for Korea's relatively high income inequality (OECD, 2020).

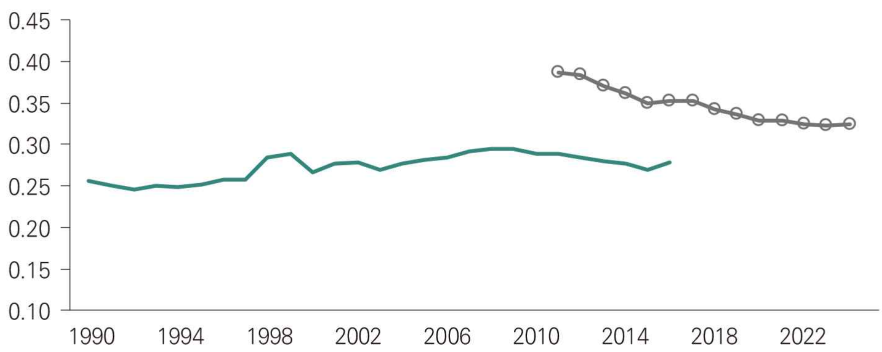
○ Productivity gaps between large corporations and SMEs, and between manufacturing and service industries, related to the duality of the labor market (a double labor market), causing wage inequality; conversely, the effects of redistribution policies through taxes and welfare are assessed as limited compared to other OECD countries.

- Gini coefficient reduction rate from taxes and transfer payments (%, 2022): Korea (18.2), U.S. (22.1), U.K. (29.7), Canada (29.3), Sweden (33.1)

○ Changes in contribution to overall income inequality by income source: slight decrease in the contribution of labor income (employment and business), which accounts for the largest share, to inequality; increase in the contribution of property income to inequality since 2023

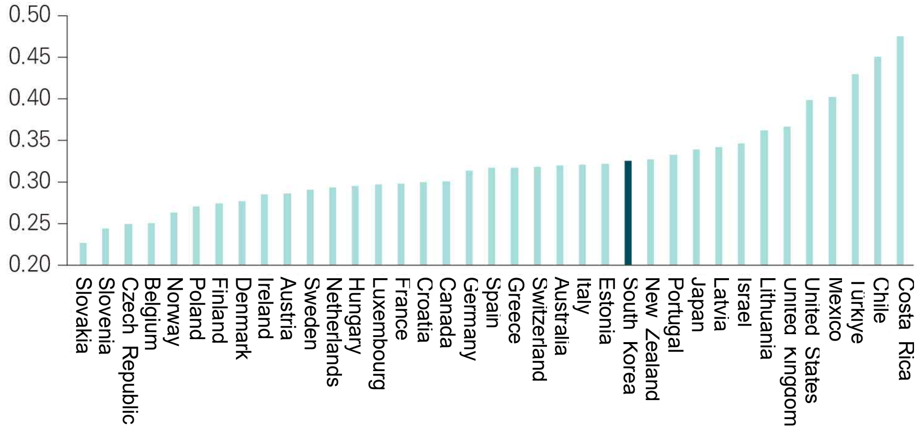
- Relative share of disposable income inequality contribution by income source (%, estimated by the National Assembly Budget Office)
  - · Earned Income: (2018) 41.8 (2021) 36.5 (2022) 34.9 (2023) 33.0
  - · Business Income: (2018) 21.7 (2021) 21.1 (2022) 21.2 (2023) 17.0
  - · Property Income: (2018) 10.8 <u>(2021) 10.2 (2022) 8.0 (2023) 13.6</u>

[Figure] Disposable Income Gini Coefficient: 1990-2024



Note: 1990-2016: urban households with 2 or more persons; 2011-2024: all households
Source: Statistics Korea (http://kosis.kr). 1990-2016: Household Income and Expenditure Survey; 2011-2024: Household Financial Welfare Survey

[Figure] Disposable Income Gini Coefficient of OECD Countries: 2022



Note: Germany and Japan: 2021 data; Australia: 2020 data
Source: OECD Database

❑ Increased policy demand for income and wealth redistribution

○ Diversification of social values regarding growth and distribution and heightened public demand for welfare as income levels increase

○ Main past stance: tax policy to minimize negative impact of high tax burdens on economic growth while fulfilling its policy functions; recent discussions also raised regarding tax policy's active role as a tool to promote inclusive and sustainable growth.

- Globally, since the 2000s, tax rate reductions have been pursued in various countries to mitigate the negative impact of high tax burdens on economic growth. However, since the 2010s, as discussions on strengthening the income redistribution function of tax policy expanded, some countries have attempted to strengthen taxation on high-income earners.
- In Korea, attempts to strengthen income redistribution functions, such as increasing the top income tax rate and expanding the Earned Income Tax Credit (EITC), have also been pursued in tax policy since the financial crisis.

❑ Increased risk to fiscal soundness

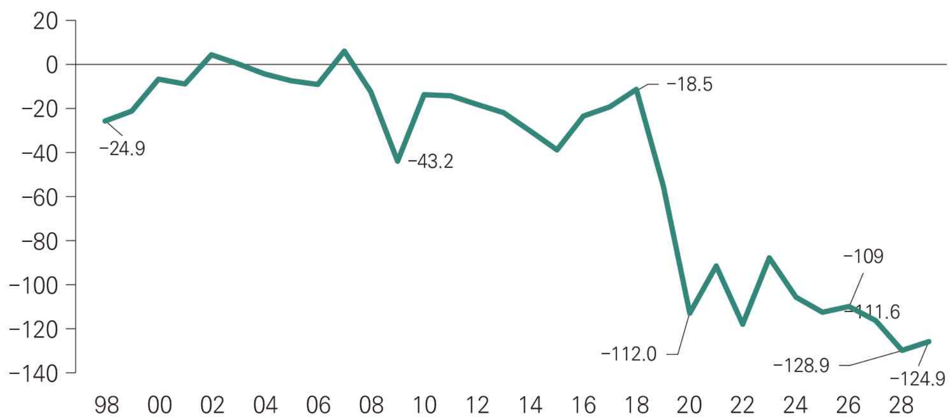
○ The managed fiscal balance deficit significantly worsened from around KRW 30 trillion in the past to KRW 112 trillion in 2020 due to the COVID-19 crisis and other factors.

○ Following the global financial crisis and the COVID-19 pandemic, as national debt ratios rapidly increased worldwide, there is a need to secure national fiscal capacity in preparation for weakening macroeconomic stability due to factors such as the weak debt repayment capacity of emerging economies and instability in international financial markets.

○ Potential government burden was persistent due to the deterioration of public pension finances leading to a shortage of actuarial reserves, and the increase in public enterprise debt, among other factors.

[Figure] Managed Fiscal Balance

(Unit: KRW trillion)



3. Changes in Economic and Social Environment and Income Redistribution Policy

❑ The increase in inequality heightens social risks due to inter-class conflict and social and political division, and not only weakens the perception of welfare, but also can negatively affect growth due to decreased productivity.

- ○ Political tension is caused by deepening inter-class discord and antagonism; public financial burden is increased due to rising demand for expanded social safety nets to address social risks.

❑ While demand for active policies to resolve income inequality is increasing, the current income redistribution function in Korea is assessed as relatively low, thus necessitating more strategic policy formulation to maintain and strengthen social cohesion.

- ○ Due to structural issues such as slowing growth rates and widening wage gaps between low-skilled and high-skilled workers, it is deemed difficult to expect the economic structure itself to resolve income distribution issues without government intervention.

❑ Recent economic and social environmental changes, such as slowing growth rates and labor market shifts, present various challenges in implementing tax policies, in terms of their impact on growth, equity, and revenue generation.

- ○ As concerns about the negative impact of strengthening the income redistribution function of tax policy on economic growth persist, policy consideration for this is necessary.
  - − As a decline in growth potential is expected due to rapid aging, policy consideration for supporting sustainable economic growth is important.
- ○ Increased demand for expanded social safety nets to address social risks, and the expected increase in public financial burden, necessitate appropriate revenue-securing tax policies.
  - − Securing appropriate tax burdens is necessary to secure financial resources, including transfer payments that reduce inequality; and especially, expanding education and welfare for the lowest income bracket, which drives the fluctuations in overall income inequality, is

more effective through fiscal expenditure than tax policy.

- Concurrently, consideration of the feasibility of policies, taking into account tax resistance and political acceptability, is also necessary.

II. Current Status and Causes of Income Inequality in Korea

❑ (Based on Market Income) Market income inequality, an indicator measuring the degree of inequality produced by the economic structure itself prior to government intervention, has not shown stabilization or a clear improvement trend during 2011-2024.

- The Gini coefficient maintained around 0.40, with slight fluctuations in the income quintile ratio at around 11 times.

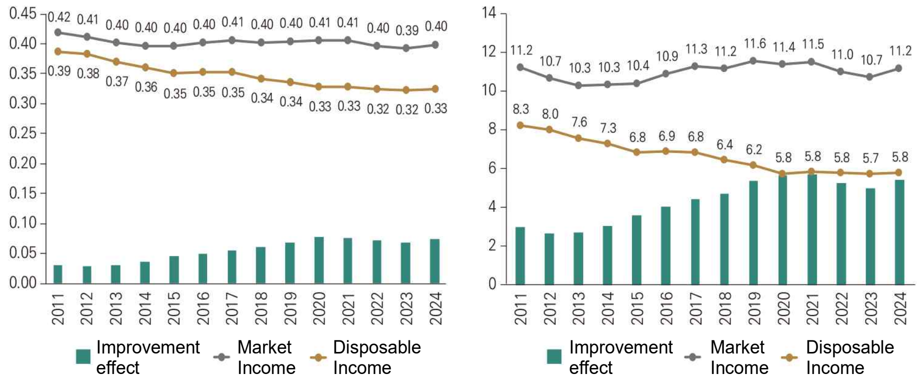
❑ (Based on Disposable Income) Inequality based on disposable income, which reflects households' actual income after the effects of taxes and transfer payments, showed an improving trend since 2011 but has been maintained without further improvement since 2020.

- The improvement effect (market income − disposable income), which signifies the policy redistribution function of taxes and social security contributions, steadily increased since 2011 but has stagnated since 2020.
  - Gini Coefficient Improvement Effect: (2011) 0.031 → (2020) 0.077 → (2024) 0.074
  - Quintile Ratio Improvement Effect (points): (2011) 2.96 → (2020) 5.62 → (2024) 5.41

[Figure] Trends in Income Inequality Indicators

Gini Coefficient

Income Quintile Ratio (ratio)



Notes: 1. Market Income Basis: Income basis measuring the degree of inequality produced by the economic structure itself, prior to government intervention

2. Disposable Income Basis: Actual income basis for households, reflecting the effects of taxes and transfer payments

3. Improvement Effect: Market Income - Disposable Income

Source: Prepared by the National Assembly Budget Office based on the Household Financial Welfare Survey

❑ From 2018 to 2023, examining the share of contribution to overall market income inequality by income source, the contribution of earned income, which accounts for the largest share, showed a slight increase.

○ Meanwhile, the contribution of business income consistently showed a decreasing trend; the share of contribution from property income fluctuated annually depending on conditions such as the real estate and stock markets.

[Table] Share of Contribution to Market Income Inequality by Income Source

(Unit: %)

Year	Earned Income	Business Income	Property Income	Residual
2018~2023	59.70	23.00	15.52	1.79
2018	58.26	22.37	17.80	1.57
2019	48.62	36.68	13.04	1.66
2020	49.76	33.73	14.87	1.64
2021	66.25	15.93	16.11	1.72
2022	67.48	16.15	14.44	1.93
2023	64.38	16.56	17.03	2.02

Notes: 1. Estimation results of Shorrocks (1982) inequality decomposition method
2. Survey weights utilized annually

Source: Prepared by the National Assembly Budget Office based on the Household Financial Welfare Survey

❑ The share of labor income (earned and business income) contribution to disposable income inequality, closely linked to household purchasing power, consistently decreased; conversely, the share of property income remained around 11% during the analysis period, rising in 2023.

- Despite the steady expansion of the share of contribution from taxes and social security contributions, the reason for disposable income inequality not further improving after 2020 can be cautiously interpreted as partially attributable to the sustained contribution of property income to inequality.

[Table] Share of Contribution to Disposable Income Variance by Income Source

(Unit: %)

Year	Earned Income	Business Income	Property Income	Transfer Income	Tax	Social Security Contributions
2018~2023	35.7	22.0	11.3	1.8	-12.1	-17.1
2018	41.8	21.7	10.8	1.5	-7.9	-16.3
2019	32.9	26.5	11.5	1.6	-11.8	-15.8
2020	33.6	26.5	12.0	1.8	-12.0	-14.0
2021	36.5	21.1	10.2	2.0	-12.7	-17.6
2022	34.9	21.2	8.0	2.1	-15.0	-18.9
2023	33.0	17.0	13.6	1.8	-16.6	-18.1

Notes: 1. Shorrocks (2013) Inequality Decomposition Method

2. Survey weights utilized annually

Source: Prepared by the National Assembly Budget Office based on the Household Financial Welfare Survey

❑ Net asset-related inequality indicators, representing household wealth, also maintained a similar level.

※Net assets are the value obtained by subtracting liabilities from assets.

○ Gini coefficients for net assets and liabilities at a similar level

- Non-equivalized Net Asset Gini Coefficient: (2018) 0.60 (2020) 0.60 (2021) 0.61 (2024) 0.63
- Equivalized Net Asset Gini Coefficient: (2018) 0.57 (2020) 0.58 (2021) 0.57 (2023) 0.57
- Debt Gini Coefficient: (2018) 0.576 (2020) 0.75 (2021) 0.75 (2023) 0.75

※The Equivalized Net Asset Gini Coefficient is calculated after equivalizing net assets per adult household member.

❑ When the variance of net assets is broken down by component, the relative contribution between real estate and stock market assets fluctuates annually depending on market conditions.

○ During 2020-2022, when the real estate market was favorable, the contribution of real estate assets exceeded the average level of the analysis period (62.0%).

- Meanwhile, in 2023, while the relative contribution of real estate decreased, the contribution of financial assets significantly increased due to the influence of the stock market's upward trend.
- This suggests that the inequality components of net assets are being substituted or transferred between real estate and financial assets such as stocks, depending on the conditions of asset markets like real estate and stock markets.

[Table] Share of Net Asset Variance Contribution by Component

(Unit: %)

Year	Equity			Debt	
	Financial Assets		Real Estate	Financial Liabilities	Rental Deposit
	Housing Rental Deposit	Other			
2018~2023	1.3	27.0	62.0	-4.6	-5.0
2018	1.3	25.6	62.0	-5.2	-5.9
2019	1.2	25.4	62.8	-5.0	-5.5
2020	1.5	22.2	65.9	-5.1	-5.4
2021	1.3	22.5	67.1	-4.4	-4.7
2022	1.5	22.9	64.7	-6.0	-4.9
2023	1.1	41.2	49.8	-3.3	-4.6

Notes: 1. Shorrocks (2013) Inequality Decomposition Method
2. Survey weights utilized annually

Source: Prepared by the National Assembly Budget Office based on the Household Financial Welfare Survey

III. Evaluation of Korea's Tax System from a Social Inclusiveness Perspective

1. Trends in Tax Policy Changes from the Past to the Present

❑ In Korea's past tax policy, the income redistribution function was relatively inadequate.

- Due to the policy stance of the development era, which focused on growth rather than distribution, a high reliance on consumption taxes and a trend of tax rate reductions continued until the 1990s.

❑ Since the financial crisis, attempts to strengthen income redistribution functions, such as the segmentation of income tax brackets, an increase in the top tax rate, and the expansion of EITC, have been pursued in tax policy, but it is difficult to view this as a fundamental change in policy direction.

- In the mid-2000s, with the inauguration of a government that declared a policy stance of distribution over growth, discussions on the U.S. Buffett Rule[1] in the 2010s, among others, influenced the strengthening of income redistribution policy functions.
- Increased apparent progressivity of income tax, etc., but a narrow scope of taxation due to a high ratio of tax-exempt individuals, with consumption and transaction taxes still accounting for a significant proportion in the tax structure

---

1) The Buffett Rule is a concept derived from the name of American investor Warren Buffett, and it is a taxation principle that originated from the recognition that "it is unfair for the wealthy to be subject to relatively lower tax rates than the middle class." Specifically, while criticizing the reality that low tax rates are applied to capital income (e.g. dividends, capital gains), and high tax rates are applied to earned income, the intent is that high-income earners should be subject to tax rates similar to or higher than those of the middle class or workers. In Korea, too, there have been discussions on introducing a "Korean-style Buffett Rule," and as part of it, measures such as "strengthening taxation on high-income earners" or "strengthening taxation on capital income" have been discussed.

2. Income Redistribution Function of Korea's Tax Policy

a. Vertical Equity

❑ (Concept) The principle that taxation should treat individuals in different income brackets differently, generally based on the ability-to-pay principle that those with higher incomes should bear a greater tax burden

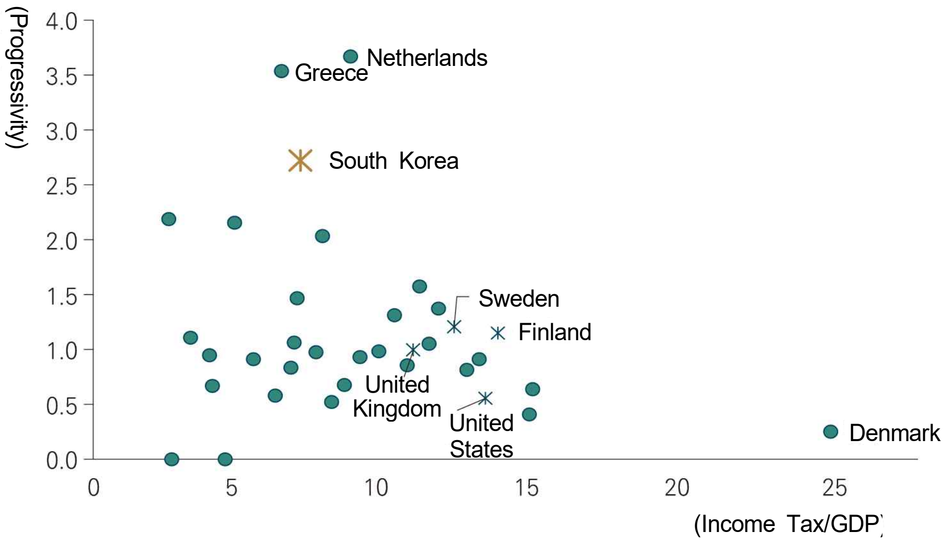
❑ (Measurement 1: Average Tax Rate and Progressivity) Income redistribution effects are estimated by the size of tax revenue (the size effect) and progressivity (the progressivity effect) (Kakwani, 1977), with the size effect among these estimated by the average tax rate.

- ○ Korea's income tax: high progressivity due to the application of a high top tax rate to very high income brackets, yet a very low overall effective tax rate
  - Average Effective Tax Rate (2022): Korea 5.2%, OECD 10.4%[2)]
- ○ Apparent progressivity is very high, but the overall income tax effective tax rate is low, leading to limitations in effectively achieving income redistribution functions.

2) Based on a single-income household with two children (100% of average income)

[Figure] International Comparison of Income Tax Progressivity and Income Tax Size Relative to GDP: 2020

(Unit: %)



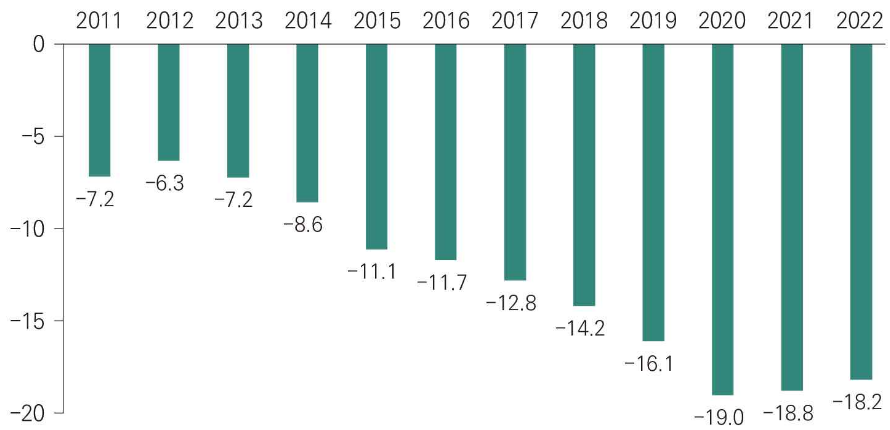
Source: OECD Database

❑ (Measurement 2: Gini Coefficient Improvement Effect) As distribution is also carried out on the expenditure side, it is necessary to measure the distribution effect using the Gini coefficient reduction rate, considering the combination of taxation and fiscal expenditure.

- Korea's Gini coefficient reduction rate increased from 7.2% in 2011 to 18.2% in 2022, showing that the income redistribution effect of taxation and transfer payments has significantly increased compared to the past.
- When comparing the Gini coefficient reduction rates of OECD countries and Korea based on data from periods such as 2021-2023, Korea's income redistribution effect is evaluated as limited compared to developed countries.

[Figure] Income Redistribution Effect of Taxation and Transfer Payments (Gini Coefficient Reduction Rate): Korea

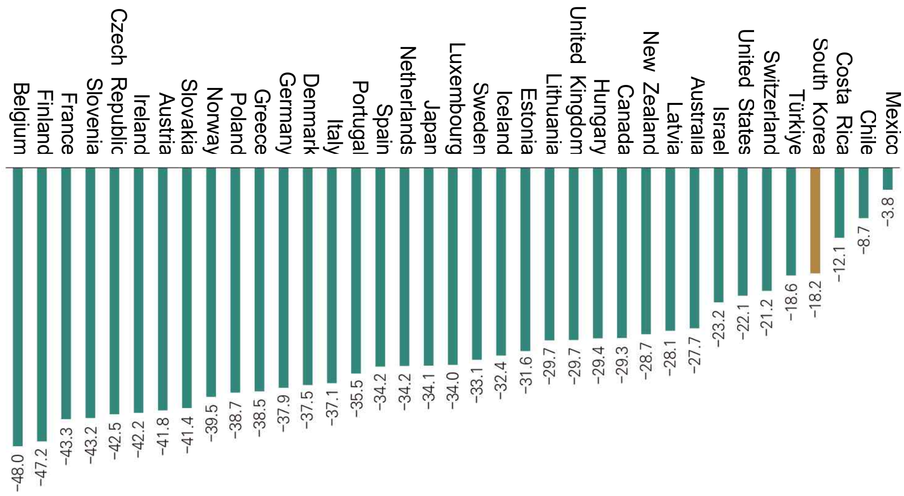
(Unit: %)



Source: OECD, Income Distribution Database

[Figure] Income Redistribution Effect of Taxation and Transfer Payments (Gini Coefficient Reduction Rate): OECD Countries

(Unit: %)



Note: The most recent available observations by OECD country: Iceland 2017, Australia 2020, Germany and Japan 2021, Finland, Netherlands, Sweden, UK, Canada, Latviap, USAp, Costa Ricap are 2023, and other countries are 2022 data (p indicates provisional data).

Source: OECD, Income Distribution Database

b. Horizontal Equity

- ❑ (Concept) The principle that taxation should treat individuals in the same income bracket equally, and including equal treatment regardless of gender, equality of opportunity, intergenerational equity, and treating individuals in similar situations equally

- ❑ Asset disparity and capital taxation discussion
  - ○ According to the World Inequality Database, asset inequality is higher than income inequality, with a slight upward trend.
    - Share of income and assets held by the top 1% in Korea (%, 2023): Income 13.98, Assets 25.60
    - Trend of income/assets of the top 1% in Korea (1980→2023): 7.44→13.98/22.30→25.60
  - ○ Due to accelerated technological progress and population decline, asset inequality may increase in the future.
    - As compensation for knowledge increases due to the advent of a knowledge-based society and technological advancements, the rate of increase in the return on capital accelerates, while capital per capita may grow due to population decline.
  - ○ Considering that capital is primarily held by the elderly and high-income groups rather than the youth and low-income groups, tax equity between labor income and capital income is important not only for income redistribution but also from the perspective of intergenerational equity.

[Table] Share of Top Cumulative Income and Assets

(Unit: %)

	Top 1% Income		Top 10% Income		Top 1% Assets		Top 10% Assets	
	Korea	United States	Korea	United States	Korea	United States	Korea	United States
1980	7.44	10.42	31.40	33.84	22.30	23.23	64.24	64.99
2000	6.53	17.34	28.00	42.73	22.24	32.34	64.06	68.65
2023	13.98	20.73	37.41	46.76	25.60	34.80	65.93	69.55

Note: Share (%) refers to the proportion of income and assets held by each class within total income or total assets.

Source: World Inequality Database (WID)

❑ Tax equity between labor income and capital income

○ Tax equity and distribution function with labor income declined due to the failure to establish a comprehensive income tax system for income generated from financial asset investments, despite the growth in capital market size.

- Stock and bond market size (2024): Market capitalization of listed companies 2,303 trillion won, outstanding balance of listed bonds 2,583 trillion won

○ Current income tax imposes limited income taxation on financial income.

- Number of individuals subject to global taxation on financial income (interest and dividend income): 191,501 people, approximately 1.9% of the total number of individuals who filed comprehensive income tax returns (as of 2022)
- Proportion of major shareholders subject to capital gains tax on listed stocks (as of end of December 2024, compared to the total number of shareholders): KOSPI 0.004%, KOSDAQ 0.006%
- Tax void, including non-taxation of capital gains from bonds and OTC derivatives

IV. Policy Tasks

1. Basic Direction

▣ Improvement of deficiencies in the current tax system in terms of strengthening income redistribution

❑ Need to focus on improving deficiencies in the current tax system from the perspective of income redistribution function, as tax policy requires various considerations not only in terms of equity but also economic growth and revenue generation

- Focusing on normalizing the income tax system through a gradual increase in the income tax proportion, while strengthening taxation on capital gains, including financial income, and reorganizing the property tax system

▣ Securing adequate tax revenue

❑ Securing an appropriate tax burden is an important task of tax policy for securing financial resources, including transfer resources, to reduce income inequality.

- Considering Korea's tax structure, which has high apparent progressivity but a narrow tax base, there is a need to focus on expanding the tax revenue base prior to increasing tax rates.

▣ Policy mix

❑ Minimizing the negative impact of strengthening the income redistribution function on economic growth through a policy mix between tax policy and fiscal expenditure policy

- Due to Korea's tax revenue structure, including a relatively narrow tax base, there are limitations with tax policy alone in realizing the income distribution function for lower-income groups not included in the scope of taxation.

- Fluctuations in overall income inequality are primarily driven by the lowest income bracket (Go Yeong-seon, 2025).

○ Considering measures to expand social welfare expenditure, such as converting existing earmarked tax revenues into general revenues, based on an evaluation of goal achievement, to reduce the adverse effects of high tax rates on economic growth

2. Policy Tasks by Tax Source

a. Labor Income Taxation

❑ Limitations in properly performing the redistributive function of income tax and low overall function of securing financial resources, despite an outwardly high progressive structure, due to a narrow tax base and deepening concentration of income tax revenue among high-income brackets

○ Top Income Tax Rate (2022): Korea 45%, OECD 36.1%

○ Average Effective Tax Rate (2022): Korea 5.2%, OECD 10.4%[3)]

❑ Need to normalization of the income tax system through a gradual increase in the proportion of income tax to strengthen its income redistribution function

○ Inevitability of increasing the effective tax rate in the middle-to-high income brackets to secure an appropriate proportion of income tax. Essentiality of securing social consensus on the validity of increasing the tax burden, primarily premised on the restructuring of non-essential expenditures

- Adjustment of timing and scale, considering factors such as the rate of increase in social security contributions and earned income tax

○ Employment-friendly tax system reform, such as promoting the economic activity participation rate of low-skilled workers and women, and strengthening incentives for human capital investment in low-skilled and elderly workers

3) Based on a single-income household with two children (100% of average income)

b. Capital Income Taxation

❑ Inadequate taxation of capital gains, including discrimination between financial products and extensive tax loopholes for capital gains from listed stocks

- ○ Limited income tax taxation on gains arising from holding and transferring financial assets such as stocks and bonds
  - (Upon Holding) Proportion of individuals subject to global taxation of financial income (2022): 1.9% of total comprehensive income filers
  - (Upon Transfer) Proportion of capital gains tax on listed stocks (as of end of December 2024): 0.01% of total shareholders, with capital gains from bonds and OTC derivatives being fully tax-exempt
- ○ Failure to establish a capital gains tax system, including criteria for major shareholders subject to capital gains tax on listed stocks and securities transaction tax, despite the growth in capital market size, and policy inconsistency due to the postponement and abolition of original plans, hindering predictability for investors and financial markets

❑ Need to establish a comprehensive tax system for capital gains in the mid-to-long term, while supplementing the existing tax system in a direction that reduces distortions in the capital market

- ○ Consideration of establishing a comprehensive income tax system for income generated from investing in financial assets such as stocks and bonds, while considering a plan to set the basic deduction amount at a high level in the initial stage of implementation, taking into account the impact on the capital market and public acceptability
- ○ Gradual abolition of securities transaction tax, which is imposed on each transaction regardless of whether a gain or loss occurs upon stock transfer
- ○ Expansion of taxpayer incentives for stock market participation through increased tax support for Individual Savings Accounts (ISA), Individual Retirement Pensions (IRP), and pension savings, in the interest of fostering

the capital market

c. Corporate Income Taxation

❑ Consideration of the possibility that current excessive tax benefits for SMEs may rather hinder corporate growth incentives, despite support for improving corporate productivity and reducing wage inequality between large and small/medium-sized enterprises being important tasks for reducing income inequality

- ○ Concern about excessive tax benefits hindering incentives for SME growth and increasing incentives for mid-sized and large enterprises to reduce their corporate size through outsourcing, etc.
- ○ In this case, the difficulty of excluding the possibility of reducing high-quality jobs in large enterprises and ultimately maintaining or expanding wage inequality
  - Proportion of National Tax Reductions (2022, %): SMEs 33.1/ Mid-sized enterprises 6.2/ Large enterprises 8.8
  - Corporate Income Tax Effective Rate (2022, %): SMEs 14.4/ Mid-sized enterprises 19.6/ Large enterprises 19.2
  - As of 2023, 3,001 enterprises grew from SMEs to mid-sized enterprises, while 5,704 cases saw corporate size decrease from mid-sized enterprises to SMEs.

❑ Need to support SMEs to be provided in a way that does not hinder growth

- ○ The need for evaluation to be conducted to promote competition among SMEs and ensure the effectiveness of support, and the continued expansion of support in the direction of simplifying systems and reducing the burden of tax administration, in addition to tax support

d. Property Taxation

- ❑ Limitations in adequately taxing the property value of real estate owners due to price increases, stemming from the current property tax system centered on transaction taxes
  - ○ The high proportion of transaction taxes on real estate and financial assets is attributable to transaction taxes having been a more useful means of securing tax revenue than property holding taxes as a taxation tool for profits from rising real estate prices, particularly in a state of high tax resistance.
    - Proportion of Property Taxation to Total Tax Revenue (%): Korea (11.9), US (10.4), OECD Average (5.3)
    - Proportion of Property Holding Tax to Total Tax Revenue (%): Korea (3.8), US (9.3), OECD Average (3.2)
    - Proportion of Transaction Tax to Total Tax Revenue (%): Korea (8.0), US (0.9), OECD Average (1.8)
  - ○ Nevertheless, the necessity of reviewing the policy objectives of property taxation based on various criteria such as tax revenue effects, resource allocation distortion, and political acceptability, rather than placing the policy objective solely on the proportion of property holding tax itself
    - While strengthening the function of property holding tax may be rational in terms of adequately taxing the tax-bearing capacity resulting from rising property prices, the necessity of various considerations in terms of feasibility, such as the issue of taxing unrealized capital gains and the valuation of asset values

❑ Redesign of the property tax structure for strengthening the income redistribution function

○ Necessity of resetting the classification of taxable objects and tax rate levels, considering the expected effects, by setting the policy objectives of property taxation on achieving tax equity, such as balance with labor income taxation and income redistribution

- As the proportion of wealth and income composition of high-income earners shifting from real estate to financial assets such as stocks or bonds increases, the necessity of comprehensively considering issues of real estate and financial asset taxation, rather than focusing property taxation solely on real estate
- Furthermore, the necessity of considering on which part to focus the taxable objects, whether on "asset value" or "income generated from assets" (interest, dividends, capital gains)

○ As the fundamental reform of property taxation to a property holding tax system necessitates the prioritization of establishing a valuation system encompassing real estate and financial assets, focusing transitionally on adequately taxing income generated from assets may be a better alternative in terms of taxpayer acceptability and feasibility.

○ Consideration of a plan to strengthen property taxation on ultra-high-priced housing that has a spillover effect on surrounding areas in terms of real estate price stability and enhancement of the redistribution function

- The Spillover Effect refers to the sharp rise and fall of the housing price index in high-priced or central areas spreading to surrounding areas or the entire market, or producing a psychological contagion (expectation change) effect, and this tendency is also observed in Korea (Lee Hang-yong and Lee Jin [2014], Jeong Jun-ho [2022]).

e. Consumption Taxation

❑ In the case of value added tax, expanding the tax revenue base by adjusting the scope of tax exemption, focusing on areas where benefits primarily accrue to high-income earners under the current tax system or where the validity of tax exemption has decreased in line with environmental changes

- ○ The redistribution function of value added tax is relatively low, as indicated by the level of the VAT burden ratio relative to household income appearing to decrease as income quintiles rise.
  - As relative consumption size (average propensity to consume) decreases with increasing income, the relative tax burden level based on income tends to appear regressive.
  - However, as a result of measuring the ratio of VAT amount to consumption amount, which indicates VAT tax-bearing capacity, the difference among income quintiles is not significant, and it appears to be proportionally distributed.
- ○ The exemption system for items such as food, healthcare, and public transportation, where low-income households have a relatively high consumption propensity, serving to partially alleviate the regressivity of the VAT burden
- ○ However, the existence of exempt sectors that do not contribute to alleviating regressivity or rather strengthen it in terms of income redistribution
  - For example, the consideration of reducing and reorganizing exemptions, focusing on items where benefits primarily accrue to high-income households or where the necessity for exemption is low, such as in private education, finance and insurance, and the for-profit art sector

❑ The necessity for consumption taxation to primarily focus on establishing a sustainable welfare funding system to prepare for an aging society, while also alleviating the tax regressivity problem through a reduction in the VAT exemption scope and a combination with fiscal policies for redistribution, in order to enhance the income redistribution function

- The necessity of prioritizing the expansion of the tax revenue base based on VAT efficiency
  - The reorganization of exemptions for sectors hindering the redistribution function having a positive impact on simplifying the current tax system and enabling VAT to play the role of a stable revenue source
- The existence of various discussions regarding the possibility of weakening the income redistribution function due to a shift in the tax structure from income tax to consumption tax, and the proposal of an alternative that compensation is possible through a policy combination with fiscal expenditure
- In addition to VAT, the necessity for environmental taxes such as carbon tax to be considered as potential means of securing tax revenue, and the matters to be considered together regarding improvements to tax equity issues that may arise in this process
  - Given that concerns about the deepening tax burden on low-income households may undermine taxpayer policy acceptance, the necessity for more comprehensive policy formulation, including the minimization of tax regressivity through the concurrent implementation of policies such as transfer payments

3. Linkage between Tax Policy and Social Security Expenditure

❑ Expansion of social welfare expenditure through the generalization of earmarked tax revenue

- ○ Importance of securing sustainable tax revenue to cover social transfer payments that reduce inequality, but the difficulty of tax increases
- ○ Prior to tax increases, the necessity of considering a plan to utilize earmarked tax revenues with fiscal capacity for the expansion of social welfare expenditure by converting them into general funds, especially those that are continuously extended despite having achieved their original purpose or have lowered expenditure priorities due to changes in the economic and social environment
  - Education tax, Special tax for rural development, etc.

[Table] Current Status of Major Earmarked Taxes

	Introduction Period (Duration)	Purpose	Taxable Objects	Expenditure	Size (2024)
Traffic, Energy, and Environment Tax	1994 (31 years)	Investment in social overhead capital	• Gasoline and diesel	• Special account for transportation facilities • Special account for environmental improvement • Special account for national balanced development • Climate response fund	11.4 trillion won
Education tax	1982 (43 years)	Expansion of education finance	• Revenue of financial and insurance businesses, liquor tax, individual consumption tax, and traffic, energy, and environment tax	• Special account for early childhood education support1) • Special account for higher and lifelong education support • Local education finance grant	5.4 trillion won
Special Tax for Rural Development	1994 (31 years)	Preparation for the weakening of rural competitiveness due to the opening of agricultural markets (UR Agreement)	• Amount of reductions in internal taxes, etc., securities transaction amount, acquisition tax, leisure tax, and comprehensive real estate tax amount	• Special account for rural and fishing village structural improvement	7.0 trillion won

Note: 1. Purpose, Taxable Objects, and Expenditure are prepared as of December 2025.
1) Scheduled name change to the special account for infants and toddlers from January 2026.
Source: Prepared by the National Assembly Budget Office