

REPUBLIC OF KOREA
1999

1. Overview of the system

Unemployed persons are covered by an unemployment insurance to which employers and employees contribute. As a last-resort benefit, social assistance is also provided under the *Livelihood Protection Programme* (LPP) which purports to guarantee a minimum standard of living for the needy.

The national currency is the Won (KRW). In 1999 W 1189.5 was equal to USD 1 (average of daily exchange rates). In that year, the average production worker earned KRW 17 706 000 (for comparison purposes, the 1997 APW earnings level was KRW 14 484 828).

All net incomes, replacement rates and other figures in this report are based on the Korean tax and benefit system in effect as of 1 July 1999.

2. Unemployment insurance

There are two kinds of unemployment benefits. Only the Job-Seeking Allowance is contemplated in the calculations used in this study:

- *Job- Seeking Allowance*: provides cash payments to maintain the worker's standard of living.
- *Employment Promotion Allowance*, split into:
 - Early Re-employment Allowance, aimed to facilitate and encourage the recipients' re-entry into a job, for those who get a steady job earlier than halfway the given benefit duration; it amounts to a half of the residual days of Basic Allowance.
 - Job Abilities Development Allowance, for those who take training from the approved vocational training institutes.
 - Wide-area Jobseeking Allowance. This allowance is paid to those who are seeking jobs 50Km away from their residence referred by the Employment Security Office.
 - Moving expenses. Paid for moving expenses to those who move to another place to take jobs or training mandated by the Employment Security Office.

2.1 *Conditions for receipt*

Voluntary unemployed people are disqualified.

2.1.1 *Employment conditions*

See the contribution conditions (2.1.2).

2.1.2 *Contribution conditions*

Having worked at least 12 months in the 18-month period preceding unemployment (this rule changed to 6 months in April 2000; see 13 below).

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

The daily basic allowance is 50 per cent of the daily wage. The daily wage is the amount calculated by dividing the wage paid in the last three months preceding unemployment by the total number of working days of the same three-month period. The minimum benefit is 70 percent of the minimum wage (90 percent from 2000); the maximum monthly benefit is KRW 900 000. The daily minimum wage is KRW 12 200 (14 920 from 1 September, 2000; see 13 below).

2.2.2 *Income and earnings disregards*

A recipient who finds a job can keep part of the benefit up to a given ceiling. That ceiling -- equal to 60 percent of the (daily) job-seeking allowance amount -- applies if the income earned divided by the number of allowance days to which the beneficiary is entitled exceeds 60 percent of the (daily) job-seeking allowance amount.

The payment of unemployment benefit is suspended in case the beneficiary gets re-employed and contributes to the Employment Insurance System (EIS). The same applies if the beneficiary works 80 hours or more per month.

2.3 *Tax treatment of benefit*

The tax rate on earned income of workers varies between 10 to 40 percent (see 10.1.2) but unemployment benefits are not taxed in accordance with Article 12 of the Income Tax Law.

2.4 *Benefit duration*

The maximum duration of payment of unemployment benefits ranges between two and seven months, depending on the age of the recipient at the time of job loss and the period of contribution to the EIS. It is shown below in days of benefit:

Age (years)	Periods of contribution to the EIS (years)			
	Under 3	3 - 5	5 - 10	Over 10
Under 25	60	90	120	150
25 –30	60	90	120	150
30 –50	90	120	150	180
Over 50	120	150	180	210

There is a two-week waiting period.

(7 days per week, 30 days per month, 365 days per year)

The benefit duration table above is applicable only until 1 January 2000.

2.5 *Treatment of particular groups*

Disabled persons, regardless of their age, are entitled to the same number of days of benefits as those over 50 years of age.

3. **Unemployment assistance**

None.

4. **Social assistance**

Livelihood protection programmes (LPPs) distinguish between two broad types of support. First, there is *livelihood aid* for households where no-one is able to work due to disability, old age (over age 65) or pregnancy. Recipients of LPP aid are categorised as either necessitating *institutional care* or requiring *home care* support. Second, for the other cases, there exists *self-support care*. Recipients of *self-support care* have a greater ability to work than those protected by *livelihood aid*. This report focuses solely on self-support care recipients.

4.1 *Conditions for receipt*

Satisfying the conditions regarding income support and other conditions relating to work ability, or satisfying the income and property standard. For the latter, the income limit is KRW 230 000 per month and the property limit is KRW 29 million.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

Livelihood aid (payments of living cost) is paid to recipients of self-support only for 6 months during the winter period. Recipients of self-support care may receive as well medical, educational and maternity aid. Only livelihood aid has been included in the calculations. The benefit level varies according to the number of household members of recipients as follows:

Size of household:	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
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Monthly payments (KRW):	79,000	150,000	210,000	250,000	290,000	320,000
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4.2.2 *Income and earnings disregards*

None.

4.3 *Tax treatment of benefit*

Not taxable.

4.4 *Benefit duration*

Benefits can be received for 6 months, covering the winter season (October to March).

4.5 *Treatment of particular groups*

None.

5. Housing benefits

None.

6. Family benefits

None.

7. Child-care benefits

Not yet installed.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

None.

10. Tax system

10.1 Personal Income Tax System

10.1.1. Tax unit

Principle: Each individual is taxed for his/her own income. Exception: In the case of a married couple receiving rental income from real estate property or interest and dividend income (only if more than KRW 40 million when both are combined) the income from both spouses is combined to determine their taxable income.

10.1.2 Allowances and tax credits

10.1.2.1 Standard reliefs

The standard reliefs are taken as deductions from the gross income:

Employment Income Deduction: the following deduction from gross income is allowed for wage and salary income earners:

Salary	Deduction
Up to KRW 5 000 000	Total amount
KRW 5000 000 – KRW 15000 000	KRW 5 000 000 plus 40 per cent of the salary over KRW 5 000 000
Over KRW 15 000 000	KRW 9 000 000 plus 10 per cent of the salary over KRW 15 000 000 (limit : KRW 12 000 000)

Basic allowance: a taxpayer can deduct KRW 1 000 000 per person who meets one of following conditions:

- taxpayer him/herself
- taxpayer's spouse whose taxable income is less than KRW 1 000 000
- taxpayer's (including the spouse's) dependents (parents, siblings, children) within the same household whose taxable income is under KRW 1 000 000 and whose ages are as follows :
 - parents: aged 60 years (female : aged 55 years) or over
 - brother/sister: aged 60 years (female : aged 55 years) or over, or aged 20 years or under
 - children: aged 20 years or under

Additional allowance: a taxpayer can deduct KRW 500 000 from his/her gross income when the taxpayer or his/her dependents fall into the following categories:

- a person aged 65 years or over
- a disabled person prescribed by a Presidential Decree
- a female wage earner who is the head of a household or a female wage earner with spouse
- child under 6 years of age (permitted only for a female wage earner or a male wage earner without a spouse)

Extra allowance:

- a single income earner without a spouse or any other dependents may deduct KRW 1 000 000 from gross income
- a single income earner with a dependent (e.g., spouse, child) may deduct KRW 1 000 000 from gross income

Tax credits: for wage and salary income earners, the following tax credit is allowed as follows:

Calculated tax	Amount of tax credit
Up to KRW 500 000	45 per cent of the calculated tax
Over KRW 500 000	KRW 225 000 plus 30 per cent of the calculated tax over KRW 500 000 (limit: KRW 600 000)

10.1.2.2. Main non-standard tax reliefs

Wage and salary income earners may deduct from gross income the expenses for several items paid during the tax year such as insurance premiums, medical expenses, educational expenses, saving/payments for housing, charities and credit card purchases (all of them up to specific limits). The calculations consider only the lump-sum tax relief.

Lump-sum tax relief: Any taxpayer whose total deductible expense for the categories mentioned above is not over KRW 600 000 may deduct KRW 600 000 from their gross income as a lump-sum tax relief. This is assumed to be the case for the taxpayer in this report.

10.1.2. Tax schedule

Over (KRW)	Not more than (KRW)	Marginal tax rate (%)
0	10 000 000	10
10 000 000	40 000 000	20
40 000 000	80 000 000	30
80 000 000		40

10.2. Local income tax

10.2.1. Tax base

The local income tax base is the income tax paid to the central government.

10.2.2. Tax rate

A uniform rate of 7.5 per cent is applied. However, the local government can adjust the rate between the lower limit of 3.75 per cent and upper limit of 11.25 per cent.

10.2.3. Tax rate (selected for this study)

A country-wide rate of 10 per cent

11. Employees' Social Security Contributions to Schemes Operated within the Government Sector

11.1. National pension

4.5 per cent of standard income.

11.2. Medical insurance

Insurance premium is charged between 1 per cent and 4 per cent of standard income. The average rate of insurance premium (selected for this report) is 1.7 per cent.

11.3. Unemployment insurance

0.5 per cent of gross income.

11.4. Work injury insurance

None.

12. Universal Cash Transfers

None.

13. Main Policy Changes in the Tax/Benefit System

Social welfare expenditure has increased significantly over the past few years, which has resulted in increased social assistance benefits for families in financial need. Among other policy changes, the Korean authorities have enacted a new social assistance system in September 1999, the 'National Basic Livelihood Security Law', in effect as of 1 October 2000. The concept underlying this new law is that of 'productive welfare', i.e. the purpose is to provide adequate income support while encouraging benefit recipients to participate in the labour market (see OECD (2000) *Pushing Ahead with Reform in Korea: Labour Market and Social Safety Net Policies*, for detailed up-to-date information on these changes).

Changes in unemployment insurance during year 2000:

- The contribution conditions have been modified, reducing the minimum requirement from 12 to 6 months in the 18 months preceding unemployment (as of 1 April 2000).
- The minimum benefit is 90 percent of the minimum wage from year 2000.
- The daily minimum wage is KRW 14 290 as of 1 September 2000.
- The following table concerning benefit duration applies from 1 January 2000:

Age (years)	Periods of contribution to the EIS (days)				
	Under 1	1-3 years	3-5 years	5-10	over 10
Under 30	90	90	120	150	180
30-50	90	120	150	180	210
Over 50 and the disabled	90	150	180	210	240

There is a two-week waiting period.
(7 days per week, 30 days per month, 365 days per year)

14. Memorandum Item

14.1. *Identification of the Average Production Worker (APW)*

- Sector used : manufacturing
- Geographical coverage : whole country
- Type of workers : production workers (male and female).

14.2. *Method to calculate earnings*

The *Report on Monthly Labour Survey*, December 1999 issue published by the Ministry of Labour is used to calculate the annual earnings of the APW. The statistics were obtained through a sample survey of 3,900 firms with ten or more regular employees throughout the whole country. Basic method of calculation used: average monthly earnings x 12.

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**The annual tax/benefit position of an unemployed single person
1999
(in won)**

	Unemployment insurance (6 months)	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Total taxable benefits	0	0
B. Income tax and social security contributions		
Total income tax and social security contributions	0	0
C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	948 000
Non-means tested benefits		
Unemployment insurance	8 853 000	0
Total non-taxable benefits	8 853 000	948 000
D. Net income out of work (A-B+C)	8 853 000	948 000
E. Net income in work (APW earnings level)	16 152 872	16 152 872
F. Net replacement rate (D/E) (per cent)	55	6

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**The annual tax/benefit position of an unemployed married couple
with two children (6 and 4 years old)**

1999

(in won)

	Unemployment insurance (6 months)	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Total taxable benefits	0	0
B. Income tax and social security contributions		
Total income tax and social security contributions	0	0
C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	3 000 000
Non-means tested benefits		
Unemployment insurance	8 853 000	0
Total non-taxable benefits	8 853 000	3 000 000
D. Net income out of work (A-B+C)	8 853 000	3 000 000
E. Net income in work (APW earnings level)	16 287 656	16 287 656
F. Net replacement rate (D/E) (per cent)	54	18

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**The annual tax/benefit position of a lone parent
with two children (6 and 4 years old)**

1999

(in won)

	Unemployment insurance (6 months)	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Total taxable benefits	0	0
B. Income tax and social security contributions		
Total income tax and social security contributions	0	0
C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	2 520 000
Non-means tested benefits		
Unemployment insurance	8 853 000	0
Total non-taxable benefits	8 853 000	2 520 000
D. Net income out of work (A-B+C)	8 853 000	2 520 000
E. Net income in work (APW earnings level)	16 227 156	16 227 156
F. Net replacement rate (D/E) (per cent)	55	16