
REPUBLIC OF KOREA 2003

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 National Basic Livelihood Security (NBLIS) System which guarantees basic livelihood and supports self-reliance for all those with incomes below the minimum cost of living, the official poverty line, regardless of their working ability.

The national currency is the Won (KRW). In 2003, the average worker (broadened new definition) is expected to earn KRW 25 114 192¹.

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 2003.

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 and to facilitate their re-employment.
- Employment Promotion Allowance, split into:
 - Early Re-employment Allowance aims to facilitate the recipients' re-entry into a job, for those who get a steady² job earlier than halfway the given benefit duration; it amounts to a half of the residual days of Basic Allowance.
 - Job Abilities Development Allowance is paid to those who take training from vocational training institutes under the direction of the local labour offices.

1. AW refers to the Average Worker estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2005-2006, OECD, 2007, part 5, sections 2 and 3.

² Jobs that guarantee more than 6 months of continuous employment. Number of working hours doesn't matter.

- Wide-area Jobseeking Allowance is paid to those who are seeking jobs 50 km away from their residence referred by the Employment Security Office.
- Moving expenses are paid to those who move to another place to take jobs or training mandated by the Employment Security Office.

2.1 Conditions for receipt

Voluntarily unemployed people are disqualified.

2.1.1 Employment conditions

See the contribution conditions (section 2.1.2).

2.1.2 Contribution conditions

Having worked at least *180 days or more* in the 18-month period preceding unemployment.

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 90 per cent of the minimum wage; the maximum monthly benefit is KRW 1.05 million (KRW 35000 per one-day). The daily minimum wage is KRW 18072 (see section 13 below).

2.2.2 Income and earnings disregards

If a recipient finds a job or earns income from the job he/she found, such an incident should be notified to employment office. If the income earned divided by the number of allowance days to which the beneficiary is entitled exceeds 60 per cent of the (daily) job-seeking allowance, such excess will be deducted from the (daily) job-seeking allowance the recipient is originally entitled to.

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

Unemployment benefits are not taxed, in accordance with Article 12 of the Income Tax Law. Early Re-employment Allowance is not taxable.

2.4 Benefit duration

The maximum duration of payment of unemployment benefits ranges between three and eight 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 (days)				
	Under 1 year	1-3 years	3-5 years	5-10 years	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.)

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

For the past forty years, the Korean government has provided limited protection mainly for those who are unable to work due to age or disabilities under the previous Livelihood Protection System. However, the Korean financial crisis in 1997 and following structural reforms caused rapid increase in the number of the poor and unemployed, which required urgent expansion of the social safety net. To face this situation in a fundamental way, the government enacted the National Basic Livelihood Security (NBLs) Act in September 1999, and fully implemented the system in October 2000.

The new system has changed the paradigm of policies to fight poverty. The system emphasises social responsibility for poverty and has strengthened the right of the people in the low-income bracket to receive public assistance. All the people who live under the poverty line are provided financial benefit regardless of their working ability.

At the same time, the system provides well-organised self-support services so that recipients who are able to work can free themselves from poverty. The government provides self-support programmes for those in the lower-income bracket who are considered and judged to have a degree of ability to work.

4.1 *Conditions for receipt*

Benefits for the NBLs are subject to means test based on the new income scale introduced in 2003. This new scale, named “Combined Income Criteria”(also known as “Recognized Amount of Income Criteria”), reflects the combination of household income and property value that is converted into a certain amount. In addition, there is another eligibility criteria of “lack of supporters”.

2003 Minimum Cost of Living*

Size of household (persons)	1	2	3	4	5	6
Minimum Cost of Living (thousand KRW)	356	589	810	1 019	1 159	1 308

* The Minister of Health and welfare notifies the public of MCL.

Firstly, the Minimum Cost of Living is annually determined by the Central Living Assistance Committee, a committee appointed and led by the Minister of Health and Welfare to set up guidelines for overall social assistance matters. To be eligible for the NBLs benefits, the amount of combined income should be below the minimum cost of living as shown in the above table. Previously, recipients should meet both income and property criteria, while the application of the dual criteria often led to blind spots in protection of the needy. For example, the unemployed who had no income but owned a house (worth KRW36million or over as of 2002) were excluded from the NBLs benefits. In order to address this problem, the government has adopted unified criteria where property value is converted into a monetary amount and added to the income amount. Specifically, properties are divided into three categories- general, financial, and vehicles-and the conversion rate* is applied to each type of property, from which the total value of property is calculated. Debts are then subtracted and also the value of essential properties considered necessary to maintain everyday life of the recipient. These combined income criteria are designed to enhance rationality and equity in the provision of NBLs benefits.

* Conversion rate is determined by the Ministry of Health and Welfare, considering interest rate, inflation, and the growth rate of real estate and housing prices.

Secondly, those who live with person/persons responsible for supporting them (hereafter, “legal supporter”) are not eligible as recipients. More concretely, eligibility is given only to those with neither spouse nor lineal relatives by blood nor brothers/sisters, who are not only liable but also able to support them. Obligation as a “legal supporter” is exempted in some cases such as his/her property value is less than 120 per cent of the total of both his/her and the applicant/recipient’s property value. The assistance agency, however, can provide assistance benefit in advance for those whose “legal supporters” refuse to support, and afterwards make those “legal supporters” pay the cost.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

Assistance is given in the form of the total of seven benefits such as cost of living, housing, medical care, educational, childbirth, funeral and self-support benefits. The NBLs Act stipulates that the recipient’s total household income should exceed the minimum cost of living (MCL), which is set to guarantee the minimum for healthy and civilized living. If the recipient receives any supports under other programmes as well, they are deducted from the total amount of assistance under the NBLs system. Actually, the total amount of assistance under the NBLs system equals the balance of the minimum cost of living and the recognized income of the household including other supports under different programmes.

Monthly cash benefit¹ (cost of living and housing assistance) levels per household, under the NBLS in 2003

Size of household (persons)	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
Monthly benefit (in thousand KRW)	313	519	714	897	1020	1151

1. In-kind benefits such as medical and educational aid, etc. are provided in case those benefits are needed by the beneficiaries.

4.2.2 Income and earnings disregards

Thirty per cent of the income earned by the disabled in the "Job Rehabilitation Programmes", "Self-Support Cooperative", students and all recipients taking part in the Self-support labor program is disregarded from the earned income which would otherwise be deducted from the total amount of assistance.

4.3 Tax treatment of benefit

Not taxable.

4.4 Benefit duration

Benefits continue until he/she loses his/her qualification as a recipient.

4.5 Treatment of particular groups

4.5.1 Old age pension

Old age pension of KRW 45 000 is paid monthly to those aged over 65 (KRW 50 000 for those aged over 80).

4.5.2 Disability allowance

Disability allowance of KRW 50 000 is paid monthly to those with first, second and third (mental disability or autism) degree disability who suffer from additional forms of other disability.

5. Housing benefits

Housing assistance was newly introduced in the NBLSS to support residential stability in consideration of the fact that housing expenditure takes up a considerable part of living expenses, especially in the low-income class. It is provided in cash covering housing rent and the maintenance/repair expenses. In-kind benefits in the form of maintenance/repair services can be provided from 2001, when it is judged to be necessary by the assistance agency.

Monthly housing benefit levels per household, under the NBLSS in 2003

Size of household (persons)	1 - 2	3 - 4	5 - 6
Housing assistance (thousand KRW)	32	41	54

6. Family benefits

Undefined.

7. Child-care benefits

The Livelihood Protection beneficiaries with children are eligible to the subsidies for child educare center fees as follows:

- Household with children below 5 years old; KRW 125 – 243 thousand a month.
- Household with children of 5 years old; KRW 125 thousand a month.

8. Employment-conditional benefits

Self-support services for the people in the low-income bracket with working abilities are newly introduced in the NBLSS to embody the concept of Productive Welfare. Productive Welfare aims not only to prevent them from falling into deepening poverty, but also to make them support themselves on their own by providing proper self-support programmes.

Self-support programmes are aims to enable the recipients with work ability to support themselves by providing proper Self-support services according to their desire and ability to work. It takes a step-by-step development strategy to gradually enhance self-supporting desire and ability of the people participating in the program. At the initial stage, rehabilitation programmes or local social activities are provided to encourage the will for self-support. Then, in order to strengthen self-supporting abilities, the recipients take the self-support labor programs such as free nursing service and house repairing business. Also, the government supports the recipients by providing job training or supports business start-ups by establishing communities to ensure self-support. At the last stage, the recipients can support themselves by participating in the labour market as workers or by starting small businesses.

Year 2003 was the third year for self-support assistances, and the government mainly focused on establishing the infrastructure for efficient provision of services. It supported establishment of the Self-support Guardian Institutes, which has been increased to 209 in December 2003 from 70 in 2000. As a result of these efforts, Self-support services have been provided to 50 000 persons in 2002. As many as 4300 persons out of this total succeeded in self-support as of December 2003, while 3700 persons have been disqualified as recipients on account of their failure to take part in self- support programmes.

9. Lone-parent benefits

Lone-parents with combined value of income and property below the levels shown in the table are eligible to the benefits below:

- Child raising support subsidy; KRW 20 000 a month and school fees of high schools.
- Low-interest livelihood support loan; maximum KRW 20 million.
- Long-term low rental housing arrangement service.

Minimum property and income thresholds for lone-parent families were revised in 2003. The new thresholds, as in the eligibility for the NBS benefits, reflect the combination of household income and property value that is converted into a certain amount. They vary depending on the number of family members (in million KRW):

Number of family members	2	3	4	5	6
Combined value of income and property	0.84	1.11	1.38	1.56	1.76

10. Tax system

10.1 Personal income tax system

10.1.1 Tax unit

Principle: Each individual is taxed for his/her own 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 (million KRW)	Deduction
Up to 5	Total amount
5 – 15	KRW 5 million plus 47.5% of the salary over KRW 5 million
15 – 30	KRW 9.75 million plus 15% of the salary over KRW 15 million
30 – 45	KRW 12 million plus 10% of the salary over KRW 30 million
Over 45	KRW 13.5 million plus 5% of the salary over KRW 45 million

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

- Taxpayer him/herself.
- Taxpayer's spouse whose taxable income is less than KRW 1 million.
- Taxpayer's (including the spouse's) dependents (parents, siblings, children) within the same household whose taxable income is under KRW 1 million 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 1 million (in case of (c) and (d) KRW 0.5 million) from his/her gross income when the taxpayer or his/her dependents fall into the following categories (a) and (b) or (c) and (d) respectively:

- a) A person aged 65 years or over.
- b) A handicapped person prescribed by a Presidential Decree.
- c) A female wage earner who is the head of a household with dependents and no spouse or a female wage earner with spouse.
- d) A 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 million from gross income.
- A single income earner with a dependent (e.g. spouse, child) may deduct KRW 0.5 million 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	50% of the calculated tax
Over KRW 500 000	KRW 250000 plus 30% of the calculated tax over KRW 500 000 (limit: KRW 450 000)

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 (in million KRW)	Not more than (in million KRW)	Marginal tax rate (%)
0	10	9
10	40	18
40	80	27
80		36

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 10 per cent is applied. However, the local government can adjust the rate between the lower limit of 5 per cent and upper limit of 15 per cent.

10.2.3 Tax rate (selected for this study)

A country-wide rate of 10 per cent.

10.3 Employees' social security contributions to schemes operated within the government sector

10.3.1 National pension

4.5 per cent of standard income.

10.3.2 Medical insurance

1.97 per cent of standard income.

10.3.3 Unemployment insurance

0.45 per cent of gross income.

10.3.4 Work injury insurance

None.

11. Part-time work

11.1 Benefit rules for part-time work

11.2 Special tax and social security contribution rules for part-time work

12. Policy developments

12.1 Policy changes introduced in the last year

12.2 Policy changes announced