

KOREA 2008

Table of Contents

Introduction.....	1
1. Overview of the tax-benefit system.....	2
2. Unemployment insurance.....	3
3. Unemployment assistance.....	5
4. Social assistance.....	6
5. Housing benefits for rented accommodation.....	8
6. Family benefits.....	9
7. Childcare for pre-school children.....	10
8. Employment-conditional benefits.....	15
9. Lone-parent benefits.....	17
10. Tax system.....	18
11. Part-time work.....	23
12. Policy developments.....	23
Social security contributions to general government.....	24
Social security contributions paid to institutions outside general government.....	24
Payroll taxes.....	24

Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at www.oecd.org/els/social/workincentives.

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

1. Overview of the tax-benefit system

Unemployed persons are covered by an employment 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.

All net incomes, replacement rates and other figures in this report are based on the Korean tax and benefit system in effect as of January 2008.

1.1. Average Worker wage (AW)

The national currency is the Won (KRW). In 2008, the average worker (broadened new definition) is expected to earn KRW 33 467 499 ¹.

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 2006-2007*, OECD, 2008, part 5, sections 2 and 3

2. Unemployment insurance

Unemployment benefits can be categorized into two, namely job-seeking allowance and employment promotion allowance.

- *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 the given benefit duration; it amounts to one-third to two-thirds of Basic Allowance for the residual days.
 - Job Abilities Development Allowance is paid to those who take training from vocational training institutes under the direction of the Employment Security Office.
 - 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

Must be insured for 180 days during 18 months before leaving job and still being unemployed despite having will and capacity to work(those who voluntarily leave job and those who are dismissed due to their own faults are not entitled to unemployment benefits) and must make engage in active job-search activities.

2.1.1 Employment conditions

See the contribution conditions (section 2.1.2).

2.1.2 Contribution conditions

Must be insured for 180 days during 18 months before leaving job

2.2 Calculation of benefit amount

Calculation of gross benefit

2.2.1 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

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

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

wage; the maximum monthly benefit is KRW 1,200,000 (KRW 40,000 per one-day). The daily minimum wage is KRW 30,160.

2.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

If a recipient finds a job or earns income from the job he/she found, such an incident should be notified to the Employment Security Office. If the income earned divided by the number of allowance days to which the beneficiary is entitled exceeds 120 per cent of the minimum wage(daily), 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 60 hours or more per month.

2.3 *Tax treatment of benefit and interaction with other benefits*

Unemployment benefits are not taxed, in accordance with Article 12 of the Income Tax Law.

2.4 *Benefit duration and waiting periods*

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 7 day waiting period.

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.

2.5.1 *Young persons*

2.5.2 *Older workers*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

2.5.3 *Others if applicable*

3. Unemployment assistance

3.1 Conditions for receipt

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

3.2 Calculation of benefit amount

3.2.1 *Calculation of gross benefit*

3.2.1.1 *Irregular additional payments* **[NEW ITEM]**

3.2.1.2 *Obligations of family members* **[NEW ITEM]**

3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

3.3 Tax treatment of benefit and interaction with other benefits

3.4 Benefit duration and waiting periods

3.5 Treatment of particular groups

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

[e.g. lone parents, immigrants, part-time employees, self-employed, disabled]

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 against 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.

- The base unit for verifying whether qualification for this system is satisfied is individual household, and depending on size of the household members, the payment rate applies differently.

- Also, for those aged 18 to 64 with work capability, the livelihood benefits is provided on condition of participation in the self-help work program, and by verifying whether they carry out conditions for receipt of the benefits, all or part of the benefits are suspended.

- Regarding means-test, for households consisting of only those without work capacity such as elderly, severely disabled, etc. a special rule exempting property from calculation of income is applied.

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 “Evaluated 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”.

2008 Minimum Cost of Living*

Size of household (persons)	1	2	3	4	5	6
Minimum Cost of Living (KRW)	463,047	784,319	1,026,603	1,265,848	1,487,878	1,712,186

* The Minister of Health and Welfare declares the level of MCL every year.

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 KRW 36million 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 rate, 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 130 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 cost) levels per household, under the NBLS in 2008

Size of household (persons)	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
Monthly benefit (in KRW)	387,611	656,544	859,357	1,059,626	1,245,484	1,433,250

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

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

4.2.1 Additional irregular payments(New)

To ease economic hardship of low-income group due to high oil prices, subsidy for oil prices is temporarily provided from July 2008 to June 2009 to those subject to National Basic Livelihood System and those just above the NBL system subjects eligible to receive disability benefits.

4.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

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 labour program is deducted from the earned income which would otherwise lower the level of the total amount of assistance.

4.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

4.4 *Benefit duration and waiting periods*

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

Depending on a recipient's economic conditions, he/she can re-apply anytime.

4.5 *Treatment of particular group*

4.5.1 *Young persons*

4.5.2 *Older workers*

Korean government pays 84,000 KRW per month for households consisting of a single aged 65 or more as basic aged pension for elderly, and 134,160 KRW for households consisting of spouses.

4.5.3 *Others if applicable(disability allowances)*

All those subject to NBL with 1st and 2nd degree disability, those intellectually-disabled and those suffering autism receive 130,000 KRW per month. And those less disabled with 3rd to 6 degree disability receive 30,000 KRW per month as disability allowances.

5. **Housing benefits for rented accommodation**

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

5.1 *Conditions for receipt*

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.

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

Monthly housing benefit levels per household, under the NBLSS in 2008

Size of household (persons)	1	2	3	4	5	6
Housing assistance (KRW)	79,859	135,268	177,053	218,314	256,607	295,292

5.2.2 *Income and earnings disregards*

5.2.3 *Costs eligible for housing benefits*

5.3 *Tax treatment of benefit and interaction with other benefits*

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

5.4.2 *Older workers*

5.4.3 *Others if applicable*

6. **Family benefits**

6.1 *Conditions for receipt*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

6.2.1.1 *Irregular additional payments* [NEW ITEM]

6.2.2 *Income and earnings disregards*

6.3 *Tax treatment of benefit and interaction with other benefits*

6.4 *Treatment of particular groups*

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

7. **Childcare for pre-school children**

7.1 ***Out-of-pocket childcare fees paid by parents***

In 2008, parents pay different monthly child-care fees for children of different ages (according to government subsidy chart). 372,000 won for less than 1 year old, 327,000 won for 1 year old, 270,000 won for 2 years old, 185,000 won for 3 year old, 167,000 won for 4~5 years olds per month.

Average child-care fees paid by parents are affected by such aspects as the child's age, and type of facilities. Facilities are divided into those supported by the government (state & public, corporations) and not supported by the government (private). The government supports facilities by providing costs for operating the facility such as labor costs. This makes child-care fees at government supported facilities cheaper than unsupported facilities. For 5 years old, child-care fees are 167,000 won for government-supported facilities, and 231,000 won for unsupported facilities in Seoul. In June 2008, 21.8% of all children were using government supported child-care facilities.

Child-care fees are not too much a burden for parents working 40 hours a week.

Cost items for childcare facilities include ①labor cost, ②meals and snacks for the children, ③books and teaching tool, ④management and operations costs.

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

For tax deduction for child-care fees, there is the 'child-care fee deduction', and 'education fee deduction for preschool babies, infants, and kindergarten children'.

Education fee deduction is a special deduction, in which each child using child-care facilities or kindergartens are subject to deduction of up to 2,000,000 won per year.

Child-care fees are taken into consideration when calculating minimum living expenses.

7.2 Child-care benefits

The definition of income is the average monthly income of urban worker families. Annual data released by the National Statistical Office is reflected as the standard.

Maximum income level is reflected differently according to the number of family members, and types of support. Based on a family of 4, the differentiated child-care fees for low-income brackets are divided into legal low-income bracket for level 1, 1,440,000 won of recognized income per month for level 2, 1,840,000 won of recognized income per month for level 3, 2,580,000 won of recognized income per month for level 4, 3,690,000 won of recognized income per month for level 5.

For a family of 4, the average monthly income for urban worker families is 3,690,000 won.

Level 1: Legal low-income bracket child.

Level 2: 120% of 2007 minimum living expenses.

* Minimum living expense for 2007 is 1,205,535 won.

* Minimum living expense is surveyed and released by the Ministry of Health and Welfare every year, under the Basic Livelihood Security Act.

Level 3: Family of 4, with an income less than 50% of average monthly income for urban workers at 3,690,000 won.

Level 4: Family of 4, with an income less than 70% of average monthly income for urban workers at 3,690,000 won.

Level 5: Family of 4, with an income less than 100% of average monthly income for urban workers at 3,690,000 won.

Standards for a legal low-income bracket child is:

Recipients and their family members under the Basic Livelihood Security Act.

Children in single parent families that are selected to be protected under the "Single Parent Family Welfare Act".

Children between 3 and 4 that are living in child welfare facilities under the Child Welfare Act.

Children accompanied by women admitted into facilities for female victims of violence (household, sexual), and prostitution victims.

Free child-care fees for 5 year old children are provided to families with less than 3,690,000 won, or 100% of recognized monthly income (family of 4).

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

Child-care fees for second child and up are provided to families with less than 3,690,000 won, or 100% of recognized monthly income (family of 4).

2. The amount of child-care fee support benefit is calculated based on the child-care fees from child-care facilities, and provided in different grades according to income gaps.

3. Children subject for child-care fee support can only receive the support when they're going to child-care facilities, and not when they're cared for at homes.

Hence the support is only given when the children use designated child-care facilities.

Increase in child-care fees is decided by taking into consideration annual inflation rate, types of child-care facilities, regional conditions and etc.

7.2.1 *Conditions for receipt*

Cash benefits for child-caring parents are divided into low-income brackets, disabled children, 5 year old children, and 2 children. When a child from a family with less than a certain amount of income uses child-care facilities, child-care fees are supported differently for different income levels. For disabled children, the full amount of child-care fees are supported regardless of the parent's income level, type of disability, or disability level. When there are 2 or more children using child-care facilities, partial child-care support is provided for the second child and up. At the end of 2006, 650,000 children, or 63% from a total of 1,040,000 children using child-care facilities received child-care support.

7.2.2 *Calculation of benefits amount*

7.2.2.1 *Calculation of gross benefit*

Category	Plan	Performance	Remarks
○ Support for babies and infants' child-care fees	○ 438.6 billion won	○ 5,21.8 billion won	
- Graded Child-care fee - Child-care fee for 5 year olds	- 409 billion won	- 441.7 billion won	
- Child-care fee for disabled children	- 130.3 billion won	-117.6 billion won	
- Child-care fee for more than 2 children	- 32.4 billion won	- 23.7 billion won	
	- 21.9 billion won	- 47.8 billion won	

① Graded child-care fee for children between 0~4 years of age

- Period: Started and continued from 1991

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

- Description: Graded support is provided to 5 different levels after dividing the families with recognized monthly average income of less than 100% of urban workers' average family income.

Level 1 (Basic livelihood benefactors and etc.): Full amount of government support.

Level 2: Full amount of government support

Level 3: 80% of government support

Level 4: 60% of government support

Level 5: 30% of government support

Support amount: 372,000 won (less than a year old), 327,000 won (1 year old), 270,000 won (2 years old), 185,000 won (3 years old), 167,000 won (4 -5 years old) per month

* Teacher-child ratio(1:3 for zero year olds, 1:5 for 1 year olds, 1:7 for 2 year olds, 1:15 for 3 year olds, 1:20 for 4-5 year olds)

Income limits for 0-4 year-olds

	up to 3	4	5	6
Layer 1	beneficiaries of basic livelihood system			
Layer 2	under1.23mil	under1.51mil	under1.78mil	Under2.05mil
Layer 3	under1.78mil	under1.99 mil	Under2.10 mil	under2.30mil
Layer 4	Under2.50 mil	under2.78mil	under2.94mil	Under3.22mil
Layer 5	Under3.57 mil	Under3.98mil	Under4.20mil	Under4.60mil
Income limits for free child-care fee support for 5 year olds				
	Under3.57 mil	Under3.98mil	Under4.20mil	Under4.60mil

② Free child-care fee support for 5 year olds

- Period: Started and continued from 1999

- Description: In principle, provides an opportunity for free child-care for preschool 5 year olds. Start from low-income brackets and expand free support as much as the budget allows (for children in families of less than 100% of monthly average income of urban workers' families).

- Support amount: 167,000 won per month

③ Free child-care support for disabled children

- Period: Started and continued from 2003

- Description: Child-care support provided on confirmation of disabled welfare cards or disabled medical certificate, regardless of family income level.

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

- Support amount: 372,000 won per month

④ Child-care support for more than 1 children

- Period: Started and continued from 2005

- Description: Child-care support provided from the second child and up of less than 5 years of age when children from a family of less than average monthly income of urban worker families use child-care facilities at the same time.

Level 1: Full amount of government support.

Level 2: Full amount of government support

Level 3: Full amount of government support

Level 4: Full amount of government support

Level 5: 80% of government support

Support amount: 372,000 won (less than a year old), 327,000 won (1 year old), 270,000 won (2 years old), 185,000 won (3 years old), 167,000 won (4 -5 years old) per month

In 2008, 1,052,650(38.4%) of 2,744,597 children(0 to 5 years) were using childcare facilities, and 19.3%(about 530,548 children) were using kindergarten(as of June 2008).

Compulsory education in elementary school is provided for children from age 6.

7.2.2.2 *Income and earnings disregards*

- Tax exempted miscellaneous incomes are not taken into consideration when calculating recognized income.

7.2.3 *Tax treatment of benefit and interaction with other benefits*

- Child-care fee supported by the government is not taxed. Child-care fee paid by parents are given tax deduction of up to 2 million won as educational fees at year end adjustments.

7.2.4 *Treatment of particular groups*

- Recipients under the Basic Livelihood Security Act, children in low income single parent families, children with disabled parents are given priorities in entering government supported child-care facilities.

- Regardless of income level, full amount of government child-care support is provided to recipients under the Basic Livelihood Security Act, children in low income single parent families, all disabled children, and children between 3 and 4 living in child welfare facilities.

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

8. Employment-conditional benefits

In 2008, the government introduced an earned income tax credit (EITC), which is likely to boost employment by making work pay for low-skilled persons.

Earned Income Tax Credit (EITC)	<p>1. Must have one or more dependent children under age 18;</p> <p>2. Must have total annual income* of less than 17 million won;</p> <p>* interest, dividend and business income etc. included</p> <p>3. Value of all property* held must be less than 100 million won;</p> <p>* e.g. land, building, bank deposit, shares, bonds, etc.</p>	Eligible household is granted the EITC of up to 1,200,000 won per year.		
		Annual earned income from employment (X)	Stage	Credit
		0-8 million won	Phase-in	$15\% \times X$
		8 million won-12 million won	Plateau	1,200,000 won
		12 million won-17 million won	Phase-out	$24\% \times (17 \text{ million won} - X)$

8.1 *Conditions for receipt*

8.2 *Calculation of benefit amount*

8.2.1 *Calculation of gross benefit*

8.3 *Tax treatment of benefit and interaction with other benefits*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

8.4 *Benefit duration*

8.5 *Treatment of particular group*

8.5.1 *Young persons*

8.5.2 *Older workers*

8.5.3 *Others if applicable*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

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: (for 2008 and 2009)

- Child raising support subsidy and education costs; KRW 50,000 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 NBLs 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):

(for 2009)

Number of family members	2	3	4	5	6
Combined value of income and property (2008)	1.02	1.33	1.65	1.93	2.23
(2009)	1.09	1.40	1.72	2.04	2.36

9.1 *Conditions for receipt*

Household consisting of head of household mother or father and children aged less than 18 with its certified income less than 130% or below of the basic livelihood costs

(except recipients of the National Basic Livelihood Security Benefits)

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

9.2.1.1 *Irregular additional payments* **[NEW ITEM]**

Cases exist where each local government pays transportation fees, learning material expenses, etc.

9.2.2 *Income and earnings disregards*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

9.3 Tax treatment of benefit and interaction with other benefits

Not taxable

9.4 Benefit duration

Child raising support : Children aged under 10

Education cost : Children aged under 18

9.5 Treatment of particular group

No difference

9.5.1 Young persons

9.5.2 Older workers

9.5.3 Others if applicable

10. Tax system

Each individual is taxed on his/her own income.

Non-taxable wage income includes the:

- national pension, medical insurance, unemployment insurance and work injury insurance that are borne by employer
- overtime payment to productive workers: up to KRW 2 400 000 of overwork payment of productive workers in manufacturing and mining sectors whose monthly wage is less than KRW 1 000 000.

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

The standard relieves 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

Reference date for all information is July 1st 2008

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

KRW 5 000 000 to KRW 15 000 000	KRW 5 000 000 plus 50% of the salary over KRW 5 000 000
KRW 15 000 000 to KRW 30 000 000	KRW 10 000 000 plus 15% of the salary over KRW 15 000 000
KRW 30 000 000 to KRW 45 000 000	KRW 12 250 000 plus 10% of the salary over KRW 30 000 000
Over KRW 45 000 000	KRW 13 750 000 plus 5% of the salary over KRW 45 000 000

Tax allowances for part-time workers is 80,000KRW per day.

- *Basic allowance*: a taxpayer can deduct KRW 1 000 000 from his/her income for each person who meets one of following conditions: (but not applied to part-time workers)
 - taxpayer him/herself
 - taxpayer's spouse whose taxable income is under KRW 1 000 000;
 - taxpayer's (including the spouse's) dependents (parents, siblings, children) within the same household whose income after accounting for the employment income deduction is under KRW 1 000 000 and whose ages are as follows:
 1. parents: aged 60 years (female: aged 55 years) or over
 2. brother/sister: aged 60 years (female: aged 55 years) or over, or aged 20 years or under
 3. children: aged 20 years or under (for the purposes of this Report, where there are two wage earners in the household, it is assumed that the principal wage earner will always claim this allowance).
- *Additional allowance*: a taxpayer can deduct KRW 1 000 000 (500 000 in the case of (c)) from his/her gross income when the taxpayer or his/her dependents fall into the following categories (for this report, only cases (c) and (d) would be applicable):
 - 1 a person aged 65 years or over (KRW 1,500,000 in case of 70 years or over)(a)
 - 2 a handicapped person (b)
 - 3 a female wage earner who is the head of a household with dependents (but without spouse) or a female wage earner with spouse (in the case of this report, any female wage earner would be entitled to this allowance)³ (c)
 4. a child aged 6 years or younger (in this Report, the allowance of KRW 1 000 000 is claimed by the principal wage earner in a household with children) (d)
- *Extra allowance for multiple children*
 - An income earner with two or more dependent children eligible for basic allowance may deduct from gross income KRW 500,000 if there are (at least) 2 children plus an additional KRW 1,000,000 for every additional child.

Compulsory social security contribution:

- *National pension deduction*: Employees can deduct 100 per cent of their contribution of National Pension
- *Medical insurance premium and Unemployment insurance premium deduction*: employees can deduct 100% of their contribution to authorities.

³ This extra allowance was introduced to promote female work-force participation. The presence of this allowance necessitates further specifying the demographic make-up of each family type considered within this report. To that end, for Korea, it is assumed that with the exception of the single parent with two children, the principal wage earner is a male.

Lump-sum tax relief:

- Wage and salary income earners may deduct from gross income the expenses for several items paid during the tax year such as insurance premiums (include Medical insurance premium and Unemployment insurance premium), medical expenses, educational expenses, saving/payments for housing, charities and credit card purchases (all of them up to specific limits).
- Any taxpayer whose total deductible expense for the categories mentioned above is not over KRW 1 000 000 may deduct KRW 1 000 000 from their gross income as a lump-sum tax relief.

10.1.1.2 Standard tax credits

- *Tax credits:* wage and salary income earners obtain the following tax credit:

Calculated tax	Amount of tax credit
Up to KRW 500 000	55% of calculated tax
Over KRW 500 000	KRW 275 000 plus 30% of the calculated tax over KRW 500 000 (maximum credit: KRW 500 000)

10.1.2.2. Main non-standard tax reliefs

Wage and salary income earners may deduct from gross income the expenses for the following items during the tax year:

- *Insurance premiums (a):* the general insurance premium up to KRW 1 000 000, as well as the Medical insurance premium and the Unemployment insurance premium can be entirely (100 per cent) deducted from taxable income.
- *Medical expenses (b):* up to KRW 5 000 000. Full deductions are allowed for medical expenses exceeding 3 per cent of taxable income for the taxpayer himself, taxpayer's dependents who are aged 65 years or older and handicapped persons.
- *Educational expenses (c):* tuition fees for pre-school, elementary, middle school and college (but the graduate school fee deduction is allowed only for the taxpayer himself), either for the taxpayer himself or his/her dependents (including the taxpayer's spouse, children, and siblings), can be deducted from gross income. The deductible amount is 100 per cent for the taxpayer himself. For the taxpayer's dependents, the maximum deductions are as follows:
 - For pre-school: up to KRW 2 000 000 per child;
 - For elementary, middle and high school: up to KRW 2 000 000 per student;
 - For college/university: up to KRW 7 000 000 per student.
- *Saving/Payment for housing (d):* full amount paid up to KRW 10 000 000 for the interest of long-term mortgage loans plus 40 per cent of the amount repaid of the loan for leasing a house or the amount contributed to a savings account for housing by a taxpayer who does not own a house or owns one which is not more than 85m² and whose value does not exceed KRW 300 000 000.
- *Charities (e):*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

- 4 donations to a government body, donations for national defence, natural disaster, and certain charitable associations: total amount up to gross income is deductible;
- 5 donations to public welfare or religious associations: up to fifteen per cent of gross income.
- *Credit card purchases (f)*: Employees may deduct 20 per cent of their credit/debit card purchases that exceed 20 per cent of their total income to a maximum of the lesser of KRW 5 000 000 or 20 per cent of their total income.
- *Lump-sum tax relief*: Any taxpayer whose total deductible expense for (a), (b), (c), (d) and (e) is not over KRW 1 000 000 may deduct KRW 1 000 000 from gross income as a lump-sum tax relief.

10.1.2 *Income tax schedule (central government income tax)*

- *Tax schedule*

Over (KRW)	Not more than (KRW)	Marginal tax rate (%)
0	12 000 000	8
12 000 000	46 000 000	17
46 000 000	88 000 000	26
88 000 000		35

10.1.3 *State and local income taxes*

10.1.3.1. *Tax base*

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

10.1.3.2. *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 the upper limit of 15 per cent.

10.1.3.3. *Tax rate (selected for this study)*

A country-wide rate of 10 per cent is used in this Report.

10.2 *Treatment of family income*

10.3 *Social security contributions and payroll taxes*

10.3.1 *Contributions payable by employees and benefit recipients*

10.3.1.1 *National pension*

4.5 per cent of the standardised average monthly wage income (for the purposes of this Report, the standardised average monthly wage income is assumed to be equal to the monthly gross earnings) to a maximum of KRW 1 944 000.

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

10.3.1.2 Medical insurance

The medical insurance premium, which has a rate of 2.643 per cent, is levied on standardised average monthly wage income. The contribution for the medical insurance includes a long term care insurance contribution for old-age as of July 1, 2008.

10.3.1.3 Unemployment insurance

0.45 per cent of gross income.

10.3.1.4 Work injury insurance

Employers only.

10.3.2 Contributions payable by employers

10.3.2.1 National pension

4.5 per cent of standardised average monthly wage income to a maximum of KRW 1 944 000.

10.3.2.2 Medical insurance

The medical insurance premium, which has a rate of 2.643 per cent, is levied on standardised average monthly wage income.

10.3.2.2 Unemployment insurance

- the insurance premium is between 0.7 per cent and 1.3 per cent of gross income;
- the insurance premium selected for this study is 0.7 per cent.

10.3.2.3 Work injury insurance

- the insurance premium consists of an industry-specific rate which is set by the Labour Minister multiplied by gross income;
- the average rate of all industries (selected for this study) is 1.95 per cent.

10.3.3 Payroll taxes

10.4 Treatment of particular group

10.4.1 Young persons

10.4.2 Older workers

10.4.3 Others if applicable

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

11. Part-time work

11.1 Special 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 during 2008

When job-seeking benefits are extended for training, the daily amount of the benefits is 100% of the recipient's benefits.

Tax schedule has been changed : from KRW 10 000 000, KRW 40 000 000 , KRW 80 000 000 to KRW 12 000 000, KRW 46 000 000, KRW 88 000 000;

12.2 Future policy changes announced in 2008

ANNEX

DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.