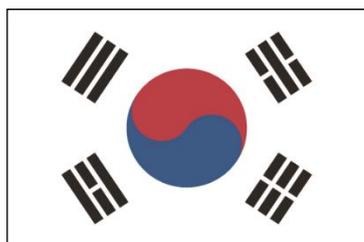


# THE OECD TAX-BENEFIT DATABASE

Description of policy rules for  
Korea 2022



# THE OECD TAX-BENEFIT DATABASE FOR KOREA

## Description of policy rules for 2022

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## Preface

This report provides a detailed description of the tax and benefit rules in Korea as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

**TaxBEN** is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

### Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)

### Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

### Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2022**.
- The symbol  in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format [\[variable name\]](#).

## The OECD tax-benefit model for Korea: Policy rules in 2022

### 1. Reference wages

The 2022 (preliminary) average wage [**AW**] is KRW 50 483 933 (Korean Won).<sup>1</sup>

The minimum wage [**MIN**] in 2022 is KRW 9 160 per hour. The annual salary based on the minimum wage (assuming 40 hours per week) is computed as the hourly minimum wage multiplied by monthly working hours (normally 209 hours) and 12 months, i.e.  $\text{KRW } 9\,160 \times 209 \times 12 = \text{KRW } 22\,973\,280$ .

### 2. Unemployment benefits

Unemployment benefits can be categorized into two main groups:

1. Job-seeking Allowance which provides cash payments to maintain the standards of living of workers, artists, and labour providers and to facilitate their re-employment (see Section 2.1. ), and
2. Employment Promotion Allowances, split into:
  - Early Re-employment Allowance, aimed to facilitate workers’ re-entry into a job (classified in the model as in-work benefit and described in Section 6.1. );
  - (Vocational) Skills Development Allowance, paid to those who participate in training from vocational training institutes (*not covered by the model*);
  - Wide-area Job-seeking Allowance, paid to those who are seeking jobs 50 km away from their residence (*not covered by the model*);
  - Moving Allowance, paid to those who move to another place to take jobs or training (*not covered by the model*).

#### 2.1. Job-seeking allowance (구직급여)

Code in the OECD tax-benefit model:<sup>2</sup> [**UI\_p**; **UI\_s**]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. ⓘ

##### 2.1.1. Eligibility conditions ⓘ

**Age:** Those who have been insured before the age of 65 and leave a job after the age of 65 are eligible for unemployment benefits. But workers newly employed and artists or labour providers newly signed a contract on providing arts and cultural services or other

<sup>1</sup> AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

labour service at the age of 65 and older are excluded from unemployment benefits and childcare leave benefits.

**Contribution/employment history:** An employment insurance subscriber who is a worker must receive remuneration for 180 days or longer during 18 months before leaving for another job (approximately 7 months considering unpaid leave). An employment insurance subscriber who is an artist must provide labour for employment-insurance applied workplaces for more than 9 months during 24 months before leaving for another job. In case of labour providers, they must provide labour for employment-insurance applied workplaces for more than 12 months during 24 months before leaving for another job.

*OECD note:* The model requires an individual to have at least 7 months of contributions to be eligible. In fact, assuming a 5-day work week, if remuneration is paid for 6 days per week, including paid holidays, 6 months of paid work would fall short of the 180-day requirement.

**Behavioural requirements and related eligibility conditions:**  Must have willingness 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)<sup>3</sup> and must engage in active job-search. TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.<sup>4</sup>

### 2.1.2. Benefit amount

The daily basic allowance is 60% of the daily wage (average daily remuneration). The daily wage (remuneration) is the amount calculated by dividing the wage (remuneration) paid in the last three months (12 months for artists and labour providers) preceding unemployment by the total number of working days (the total number of insured days) of the same three-month period. The benefit is paid 7 days a week. The payments of the Job-Seeking allowance are usually made every 4 weeks (28 days). Nevertheless, beneficiaries can decide to split the payments in more instalments, up to one every week.

The minimum benefit for workers is computed in proportion to the prescribed daily working hours before severance. After an amendment in 2019, the minimum benefit was reduced from 90% of the minimum wage to 80%. Due to transitional provisions, if 90% of 2019 minimum wage is higher than 80% of relevant year minimum wage, the former is provided. Thus, the minimum benefit for 2022 is equal to 90% of 2019 minimum wage.

As a result, the minimum benefit in 2022 is KRW 30,060 per day if the prescribed daily working hours<sup>5</sup> is less than 4 hours, KRW 60,120 for 8 or more hours (5 hours: KRW 37,575, 6 hours: KRW 45,090, 7 hours: KRW 52,605). The minimum benefit of artists in 2022 is KRW 16,000 per day and for labour providers KRW 26,600 per day. The

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<sup>3</sup> More precisely, article 40(1)-2,3 of the Employment Insurance Act defines unwilling unemployed individuals as: “The insured employee is able and willing to work but is still yet to secure employment (including self-employment in a for-profit business); The reasons for job-leaving shall not fall under any of the serious causes attributable to him or her and shall not be due to his or her own circumstances”.

<sup>4</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

<sup>5</sup> Prescribed working hours are the working hours determined by the labour and management through employment contracts and collective agreements.

maximum benefit in 2022 is KRW 66,000 per day and this is equally applied to workers, artists, and labour providers.

*OECD note:* The OECD calculations assume that the jobseeker worked full-time before losing the job. As a result, the minimum UI benefit that enters the calculations is equal to KRW 60,120. This value is then multiplied by 7 under the assumption that the benefit is paid for 7 days a week.

### 2.1.3. Benefit duration

The maximum duration of unemployment benefit ranges from 120 to 270 days, depending on the age of the recipient at the time of leaving for another job and the period of contribution to the Employment Insurance System (EIS):

Age (years) at the time of leaving for another job	Job-Seeking Allowance duration (days) <sup>6</sup>				
	Period of contribution to the EIS				
	Under 1 year	1 to under 3 years	3 to under 5 years	5 to under 10 years	10 years or more
Under 50	120	150	180	210	240
Over 50 (or disabled)	120	180	210	240	270

There is a 7-day waiting period (*not covered by the model*).

### 2.1.4. Means test

The benefit is not means-tested.

### 2.1.5. Tax treatment

The benefit is not taxable.

### 2.1.6. Interactions with other components of the tax-benefit system

Job-seeking allowance is included in the income test for means-tested benefits, such as National Basic Livelihood Security, housing benefit, and lone-parent support subsidy.

### 2.1.7. Combining benefit receipt and employment/starting a new job

If a recipient finds a job while receiving the Job-seeking allowance, such an incident should be notified to the Employment Security Office. If a recipient's daily income exceeds daily job-seeking allowance, such days' allowance will be deducted from the total 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 EIS. The same applies if the beneficiary works 60 hours or more per month.

*OECD note:* The OECD calculations assume that the recipient of the Jobseeker's allowance who moves into work finds stable and permanent employment contributing to the unemployment insurance fund (EIS). As a result, the unemployment benefit is suspended and therefore the rules described in paragraph 2.1.7. are not applied. However, the jobseeker may be entitled to the Early Re-employment Allowance

<sup>6</sup> Information derived from: <http://www.moel.go.kr/policy/policyinfo/safety/list3.do>.

described in section 2.2. as, in the TaxBEN model, they find a steady job and retain the employment for more than 12 months.

## 2.2. Early Re-employment Allowance (조기재취업수당)

Early Re-employment Allowance aims to facilitate the recipients' re-entry into a job.

Code in the OECD tax-benefit model: `[WorkBonus_p; WorkBonus_s]`

### 2.2.1. Eligibility conditions

The Early Re-employment Allowance is granted to persons who get a steady job and retain the employment for more than 12 months, regardless of the number of working hours, before the job-seeking allowance expires. When a person gets re-employed, a half or more days should be left until the end of job-seeking allowance.

### 2.2.2. Benefit amount

The benefit equals the amount equivalent to the daily job seekers' allowances multiplied by one half of the number of unpaid days.

*OECD note:* The model takes into account the annualized values of the various benefits. Hence, in order not to misrepresent the size of this allowance, in TaxBEN the lump-sum value is divided into a number of payments which are received by the recipient for the remaining months of duration of the Job-seeking allowance to which they were originally entitled.

In short, if an individual was originally entitled to 120 days of Job-seeking allowance (i.e. the duration for an individual younger than 50 and with less than 1 year of contribution to the EIS) and they take up employment after 60 days of unemployment, they are entitled to a lump sum transfer of:

$$\begin{aligned} \text{Lump sum amount} &= 0.5 * \text{The residual days of the Job-seeking} \\ &\text{allowance} * \text{daily benefit amount} = \\ &= 0.5 * (120 - 60) * \text{daily benefit amount} \end{aligned}$$

The pro rata amount is:  $\text{Pro rata amount} = \text{Lump-sum} / (\text{the residual days} / 30 \text{ days}) = \text{Lump-sum} / (60 / 30) = \text{Lump-sum} / 2$

Finally, the pro-rata amount is paid to the recipient for the residual months of the initial Job-seeking allowance duration (i.e. 2 months, according to the example above).

### 2.2.3. Benefit duration

The benefit is paid as a lump-sum amount.

### 2.2.4. Means test

Not means-tested.

### 2.2.5. Tax treatment

Tax exemption is granted as part of unemployment allowance.

### 2.2.6. Interaction with other components of the tax-benefit system

The benefit is included in the income test for means-tested benefits, such as National Basic Livelihood Security, housing benefit, and lone-parent support subsidy.

### 2.2.7. *Combining benefit receipt and employment/starting a new job*

The benefit is targeted at recipients of job-seeking allowance who start a new and steady job.

## 2.3. *National Employment Support Programme*

A “*Korean-style unemployment assistance programme*” was implemented on the 1<sup>st</sup> of January 2021. The programme aims at providing employment and livelihood support services to the vulnerable groups in employment, including low-income job seekers, young persons looking for their first job, and career-interrupted women.

Two Types compose the programme:

- Type I, which provides job search promotion subsidy and employment support services;
- Type II, which provides work activity expenses and employment support services.

### 2.3.1. *Eligibility conditions*

The eligibility to the National Employment Support Programme varies depending on which Type of the programme is operated.

**Type I** is composed of Requirement-assessment type and of Selection type. Eligibility for the two groups is as follow:

- Requirement-assessment type: the claimant must be a jobseeker aged between 15 and 69 years old. They must have a household income equal or below 60% of the median income, and household assets equal or below 400 million KRW. They must also have work experience of at least 100 days in the last 2 years.
- Selection type: the claimant must be a job seeker aged between 15 and 69 years old. They must have a household income equal or below 60% of the median income, and household assets equal or below 400 million KRW. They must also have work experience of less than 100 days in the last 2 years. Job seeking youth aged between 18 and 34 years old with a median income equal or below 120% are also eligible. Work experience is not included in the eligibility criteria for young people (18-34).

Recipients of cost-of-living benefits (i.e. the National Basic Living Security, see section 3.1. ), those who receive unemployment benefits (Section 2.1), local government’s youth benefits (subsidizing the costs for job-search activities), and those who participated in government-funded direct job creation programmes in the previous six months are excluded from the support. Moreover, in case the individual monthly average income of the claimant is equal or above 60% of the median income for a single-person household, they are not eligible for the Type I Programme.

**Type II** provides support to the following groups:

- Young people (18-34) regardless of their household income level, and who do not qualify for Type I benefit;
- Middle-aged (35-69) persons with a household income of 100% of the median income or less;
- 16 types of vulnerable groups in employment age (15-69 years old) regardless of their household income level, including youth not in education, employment

or training (NEET), and out-of-school youth (these groups are not considered by the OECD TaxBEN model).

Neither of the two Types require the claimant to be involuntarily unemployed, as the NESP is targeted to vulnerable groups who are not covered by employment insurance, regardless of the voluntariness of employment.

**Table 1: Eligibility requirements for the National Employment Support Programme**

Requirements		Age	Income	Household assets	Work Experience
Type I	Requirement-assessment type	15 – 69 (Youth are defined as 18-34)	Household income $\leq$ 60% of median income	400 million KRW or less	100 days, or 800 hours or more in the last 2 years
	Selection type		Household income $\leq$ 60% of median income (Special case for the youth: 120% or less)	400 million KRW or less	100 days, or 800 hours or more in the last 2 years (Work experience is not considered for the youth.)
Type II			Household income $\leq$ 100% of median income for those aged 15-69  Household income not considered for the youth	X	X

### 2.3.2. Benefit Amount

The Job search promotion subsidy (included in Type I) is 500,000 KRW per month and can be received up to 6 months. Its aim is to support the livelihood stability of jobseekers actively looking for a job.

The Type II programme covers part of expenses depending on the participation of employment support programs (i.e. KRW 18,000 per day, up to KRW 284,000 per month depending on the number of days participating in vocational training). Participation to such programs is optional and not mandatory.

*OECD note:* the expenses covered through the Type II programme are not included in the TaxBEN model.

See Section 2.3.7. for information on the Employment Success Allowances received by those who take up employment.

### 2.3.3. Benefit duration

The Job search promotion subsidy (included in Type I) can be received for up to 6 months. Upon claimants' request, the subsidy can be paid in installments for one year for a maximum of total 3 million KRW. In this case, the recipient can choose the amount of the monthly installments up to the ceiling of 500,000 KRW (and always summing up to a maximum benefit amount of 3 million KRW).

*OECD note:* in the TaxBEN model, we assume that an individual receiving the Job search promotion subsidy opts to receive 500,000 KRW per month for 6 month (total benefit amount: 3 million KRW).

#### 2.3.4. Means test

For Type I, claimants must have a household income below or equal 60% of the median income (120% for people aged 18 to 34 years old). In addition to that, claimants' personal income must be below 60% of the median income for a single-person household (regardless of the actual household size). For Type II, claimants must have a household income below 100% of median income (household income is not considered for people aged 18 to 34).

The income components that are included in the definition of household income are:

- Current gross earnings from work of the jobseeker, including those of other working household members (if any). Individuals in unstable employment are categorized as not-employed and receive the support. Individuals are classified as being in unstable employment if they work less than 30 hours per week (regardless of the length of the working period), or if they are self-employed whose monthly income is less than 2.5 million KRW;
- Income from business, interests and dividends, in accordance with the Income Tax Act
- Pensions, allowances, benefits, money and other valuables regularly paid, in accordance with the National Pension Act, the Public Officials Pension Act, the Military Pension Act, the Pension For Private School Teachers and Staff Act, and the Special Post Offices Act.

**Table 2: Summary of the income components considered in the monthly household income**

Included	Not included
Gross earnings from work of the household (include: the claimant, the spouse, the children, and the parents of the claimant and the spouse, registered in the Household Register)	Housing Benefit for Rented Accommodation 3.2.
Income from business, interests and dividends	Family benefits such as the Child Benefit and the Lone parent Support Subsidy 4.
Pensions and benefits	Childcare subsidies and benefits 5.2. 5.3. and 5.3.
	Into-work benefits such as the Early re-employment allowance 6.1.

The household monthly income is calculated as the sum of the monthly income components listed above for all the household members. Income tax liabilities and social security contributions are *not* subtracted from the household monthly income.

The household monthly income is *not* divided by the number of household members or other equivalence scales. This household monthly income is then compared with the % of the median monthly income thresholds to identify eligibility for the benefit. In 2022, the reference median monthly income thresholds are the following:

## Standard median monthly income thresholds for different household compositions

in 2022 (unit : KRW)

No. of persons	1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons
median income 60%	1,166,887	1,956,051	2,516,821	3,072,648	3,614,709	4,144,202	4,668,355
median income 100%	1,944,812	3,260,085	4,194,701	5,121,080	6,024,515	6,907,004	7,780,592
median income 120%	2,333,774	3,912,102	5,033,641	6,145,296	7,229,418	8,288,405	9,336,710

Note: Median income for households with 8 people or more (100%): The household median income increases by 873,588 KRW when one person increases in the household (median income for 8-person households=8,654,180 KRW).

### *OECD note: Computing the eligibility to the Job search promotion subsidy*

This note provides a specific example to illustrate how to compute the eligibility to the Job search promotion.

- Let's imagine a household of 3 people: a person aged 40 years old, their spouse, and one child aged 4 years old, where the parent is working for 20 hours per week. The individual's gross monthly earnings from work amount to 1,000,000 KRW, the spouse's gross monthly earnings from work amount to 1,000,000 KRW, while the monthly income from business, interests, dividends and pensions is assumed to be 0. As described in Pensions, allowances, benefits, money and other valuables regularly paid, in accordance with the National Pension Act, the Public Officials Pension Act, the Military Pension Act, the Pension For Private School Teachers and Staff Act, and the Special Post Offices Act.

Table 2, other benefits such as the Housing benefit for rented accommodations and family benefits are **not** included in the means test. Hence, the eligibility condition is as follow:

$$\text{Monthly Household income} = 1,000,000 + 1,000,000 = 2,000,000$$

$$\text{Monthly income threshold of 60\% of median income for a family of 3 people} \\ = 2,516,821$$

$$\text{Monthly income threshold of 60\% of median income for a single} \\ \text{– person household} = 1,116,887 \text{ KRW}$$

Because, the monthly household income (2,000,000 KRW) is below the monthly income threshold of 60% for a family of 3 people (2,516,821 KRW), and the individual income of the claimant is below the threshold of 60% the median income for a single-person household, the claimant under consideration is eligible to receive the Job search promotion subsidy of 500,000 KRW per month.

In the case in which the household monthly income was still 2,000,000 KRW, but the claimant's individual monthly earnings were above the threshold of 1,166,887 KRW, then **the claimant would not be eligible** to the Job Search Promotion Subsidy.

### 2.3.5. Tax treatment

Not taxable.

### 2.3.6. Interaction with other components of the tax-benefit system

The National Employment Support Programme cannot be cumulated with any cost-of-living benefits (e.g. the National Basic Livelihood Security, see Section 3.1. ) or with the Job Seeking allowance (Section 2.1. ).

The following benefits can be received with the National Employment Support Programme:

- The Housing Benefit for Rented Accommodation (see 3.2. );
- Family benefits such as the Child Benefit (see 4.1. ), and the Lone-parent Support Subsidy (see 4.2. )
- Childcare subsidies and benefits (see 5.2. and 5.3. );
- Early re-employment allowance (see 6.1. ).

The NESP Job search promotion subsidy enters the means-testing of incomes from work, business, interests, dividends, and transfers, which is different from the means-testing for the housing benefit or the lone-parent support subsidy.

*OECD note:* if an individual is eligible for the Job Seeking allowance, or the NESP, the TaxBEN model assumes that the individual first exhausts the Job seeking allowance before claiming the NESP. After the Job seeking allowance has expired, if the individual is also eligible for the NBLs, the model assumes that they choose the benefit (NESP vs. livelihood components of the NBLs) with the highest amount (since the benefits cannot be cumulated<sup>7</sup>).

### 2.3.7. Combining benefit receipt and employment/starting a new job

The National Employment Support Programme is not compatible with any work activity: those who take up employment become ineligible. However, both Type I and Type II provide an “Employment Success Allowances” up to 1.5 million KRW to those who take up employment. The aim of this allowance is to encourage individuals who enter the job market to stay in work for longer. The eligibility requirements for this Employment Success Allowance are the following:

- Employees who work more than 30 hours a week on the job subject to employment insurance;
- Self-employed persons who have registered his or her business, have workplace dedicated for the business, and have revenues incurred through business operation;
- Dependent self-employed persons who is on a continuous employment and have average monthly earning of 2.5 million KRW.

The amount of the allowance paid depends on the duration of the employment contract. Those who have worked longer than 12 months on a continuous basis can apply for the Employment Success Allowances two times, at 6 month-period and at 12 month-period. Those who have worked longer than 6 months on a continuous basis can apply for and

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<sup>7</sup> In contrast, the NESP **can** be cumulated with the Housing benefit component of the NBLs, described in section 3.2. .

receive Employment Success Allowance of 500,000 KRW, and those who have worked longer than 12 months on a continuous basis can apply for and receive Employment Success Allowance of 1 million KRW. The Employment Success Allowances are provided only for the first eligible employment of the claimant and consists in lump-sum payments (and not monthly transfers).

### 3. Social assistance and housing benefits

#### 3.1. National Basic Livelihood Security (국민기초생활보장제도)

Code in the OECD tax-benefit model: [SA]

The government enacted the National Basic Livelihood Security (NBLs) Act in September 1999, and fully implemented the system in October 2000. The so-called “customized NBLs” was introduced in July 2015 to strengthen the previous NBLs program by providing customized aids for cost of living, medical services, housing, and education based on the needs of recipients.

NBLs is a non-contributory benefit, means-tested and not taxable.

##### 3.1.1. Eligibility conditions

All people who live under the poverty line are provided financial benefit regardless of their working ability. Those aged 18 to 64 with work capability must participate in the self-help work program. The eligibility to NBLs benefits is based on recognized income, which is a combination of assessed income and converted property income (see Section 3.1.4. ). 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.

##### 3.1.2. Benefit amount

The benefit amount is calculated as a difference between total net household income and the income criteria (see Section 3.1.4. ). Benefit payments for cost of living and housing are provided monthly.

##### 3.1.3. Benefit duration

Benefit can be granted for unlimited time (as long as eligibility holds) and without a waiting period.

##### 3.1.4. Means test

The recognised income of a recipient’s household should be less than the eligibility criteria. The criterion in 2022 equals 30% of the median income. The median income and the corresponding criteria for 2022 are:

Size of household (persons) <sup>8</sup>	1	2	3	4	5	6
Median income (KRW, thousands per month)	1 945	3 260	4 195	5 121	6 024	6 907
Criterion for cost of living benefit (KRW, thousands per month)	584	978	1 259	1 536	1 807	2 072

Property value is converted into a monetary amount and added to the income amount (*assumed to be negligible in the model*).

The costs generated due to persons with disabilities, single parents, patients who require a long-term medical treatment are deducted from the earned income (*not covered by the model*).

Since 2019, 30% of all earned income is disregarded from the means test to provide work incentives<sup>9</sup>.

*OECD note:* Recognized income is determined by the sum of “assessed income” and “income converted from properties”:

*Recognized income*

$$= \text{Assessed income} + \text{converted income from properties}$$

In TaxBEN, the assessed income takes into account households’ earnings, as well as unemployment benefits and the Early re-employment allowance (multiplied by 0.7 to simulate the 30% disregard on all earned income introduced in 2019). The national Basic Livelihood Security (3.1. ), the housing benefit for rented accommodations (3.2. ), the child benefit (4.1. ), and the lone-parent support subsidy (4.2. ) **are not included** in the computation of the assessed income. Income tax and out-of-pocket payments for medical insurance premium and unemployment insurance are not deducted from assessable income, while 75% of out-of-pocket national pension contributions are deducted.

*Assessed income*

$$\begin{aligned} &= 70\% \text{ of household earnings from work} \\ &+ \text{unemployment insurance amount} \\ &+ \text{early reemployment allowance} \\ &- 75\% \text{ of national pension contributions} \end{aligned}$$

The converted (i.e., imputed) income from properties should consist in the total property value minus the value of fundamental properties, minus the liabilities, and multiplied by the income conversion rate. However, in the model, the converted income from properties **is always equal to zero**.

Once the Assessed Income has been computed in accordance with the formula provided above, the eligibility to the SA is established by comparing the amount computed to the eligibility criterion for the reference household. Finally, the benefit amount is computed by subtracting the computed Assessed Income from the eligibility criterion for the household.

Example:

<sup>8</sup> Information derived from the Ministry of Health and Welfare: [http://www.mohw.go.kr/react/policy/index.jsp?PAR\\_MENU\\_ID=06&MENU\\_ID=06350109&PAGE=9&topTitle=Standard%20median%20income](http://www.mohw.go.kr/react/policy/index.jsp?PAR_MENU_ID=06&MENU_ID=06350109&PAGE=9&topTitle=Standard%20median%20income).

<sup>9</sup> Information retrieved from the Ministry of Health and Welfare’s website: [http://www.mohw.go.kr/react/policy/index.jsp?PAR\\_MENU\\_ID=06&MENU\\_ID=06350104&PAGE=4&topTitle=Contents%20of%20investigation](http://www.mohw.go.kr/react/policy/index.jsp?PAR_MENU_ID=06&MENU_ID=06350104&PAGE=4&topTitle=Contents%20of%20investigation).

Let's simulate the case of a single individual without children currently in employment earning 5,062,235 KRW per year. This individual is not receiving any Re-employment allowance. His assessed income is:

$$\begin{aligned}
 & \textit{Assessed income} \\
 & = 70\% \textit{ of household earnings from work} \\
 & - 75\% \textit{ of national pension contributions} \\
 & = 5,062,235 * 0.7 - 0.75 * (227,801) = 3,372,714 \textit{ KRW}
 \end{aligned}$$

Hence, our individual is eligible to receive the National Basic Livelihood Security as their assessed income is below the criteria of 6,576,000 KRW per year. The amount of NBLs that they receive during a year is:

$$NBLS = 6,576,000 - 3,372,714 = 3,203,286 \textit{ KRW}$$

In conclusion, our individual receives a NBLs of 3,203,286 KRW per year.

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

NBLs supports those who cannot maintain the basic standards of living on their own or even after receiving all possible support from the people with support obligations and other sources, including government benefits and allowances. A person who receives job-seeking allowance is not eligible for NBLs.

*OECD note:* The TaxBEN model assumes that support from the people with support obligations is not forthcoming.

The educational benefits under the NBLs cannot be received by the claimant if they are already receiving the child-education support subsidy included in the Lone Parent Support Subsidy.

*OECD note:* in TaxBEN, the NBLs is only considered with respect to the livelihood and housing benefit components, as the educational benefit depends on the school expenditures. Hence, no overlapping with the child-education support subsidy included in the Lone Parent support subsidy occurs.

### 3.1.7. Combining benefit receipt and employment/starting a new job

As mentioned in section 3.1.4. , since, since 2019, 30% of all earned income is disregarded from the means-test to provide work incentives. Moreover, 10-50% of the income earned by the disabled in the "Job Rehabilitation Programmes", "Self-Support Cooperative", students, the elderly is deducted from the earned income to encourage work among the recipients (*not covered by the model*).

## 3.2. Housing benefit for rented accommodation (주거급여)

Since 2000, housing benefit was provided as part of the National Basic Livelihood Security (NBLs). The benefit was a fixed subsidy based on household income and the number of people in the household. In 2014, the Korean government passed the new Housing Benefit Act to relieve the rent burden and to ensure the minimum housing standard for vulnerable households. It transformed housing benefit into a stand-alone programme. The monthly cash subsidy is based on household income, rent level, family size, and location. Locations are divided into four categories: Seoul, Incheon and

Gyeonggi-do, other metropolitan cities/Sejong/special case city<sup>10</sup> (outside the Seoul Metropolitan Area), and other regions.

This is a non-contributory benefit, means-tested and not taxable.

Code in the OECD tax-benefit model: **[HB]**

### 3.2.1. Eligibility conditions

Households whose recognized income level is 46% or less of median income are eligible for the housing benefit.

The income limits in 2022 are:

Size of household (persons)	1	2	3	4	5	6
Recognized income level (KRW, ten thousands per month)	89	150	193	236	277	318

### 3.2.2. Benefit amount

- Households in rental housing: the benefit amount is based on the minimum residential criteria; standard rental fees are calculated according to region and the number of family members. The housing benefit is paid on a monthly basis.

Standard rental fees<sup>11</sup> (Thousand KRW), 2022:

Household size \ Location	Grade 1	Grade 2	Grade 3	Grade 4
	Seoul	Gyeonggi-do Incheon	Metropolitan city, Sejong, special case city (outside the Seoul Metropolitan Area)	Other region
1	327	253	201	163
2	367	283	224	183
3	437	338	268	218
4	506	391	310	254
5	524	404	320	262

<sup>10</sup> As of January 2022, there are four special case cities in Korea (with a population of over 1 million), which are Suwon, Goyang, Yongin (all in the Seoul Metropolitan Area), and Changwon (in Gyeongsangnam-do).

<sup>11</sup> Information derived from page 41 of: [http://www.bokjiro.go.kr/gowf/wel/welsvc/FileDown.do?svFileNm=WELSVC\\_202101071553520.pdf&fileMg=16034926&fileWhlRouteNm=/upload\\_data/AC/service01](http://www.bokjiro.go.kr/gowf/wel/welsvc/FileDown.do?svFileNm=WELSVC_202101071553520.pdf&fileMg=16034926&fileWhlRouteNm=/upload_data/AC/service01).

6	621	478	379	310
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The values for Seoul are used in the model.

- Owner-occupied households (*not covered by the model*): housing repair cost is supported after housing deterioration level is established:

Type of repair	Light repair	Medium scale repair	Large scale repair
Repair cost (KRW, million)	4.57	8.49	12.41
Repair cycle	3 years	5 years	7 years

### 3.2.3. Benefit duration

Benefit is provided on a continuous basis as long as eligibility conditions are met.

### 3.2.4. Means test

The recognized income of a recipient's household should be less than the eligibility criteria (46% of the median income).

*OECD note:* The definition of Recognized Income is similar to the same adopted for the National Basic Livelihood Security, in section 3.1. An individual can cumulate the housing benefit and the job search promotion subsidy from the National Employment Support Programme (NESP), while they cannot cumulate the livelihood benefit under the NBL with the job search promotion subsidy from the NESP. In the definition of recognized income considered for the housing benefit, the job search promotion subsidy is accounted for as part of transfer income. However, the job search promotion subsidy **does not affect** the eligibility to the housing benefit under the NLSB. Hence, this source of income is not considered in the model's computations.

The definition of assessed income in this case is as follow:

*Assessed income*  
 = 70% of gross earnings from employment of the household  
 + jobseeking allowance (if any)  
 + early reemployment allowance (if any)  
 – 75% of national pension contributions

Note that some of the income components listed above may not be relevant depending on the characteristics considered for the family. For example, both the job-seeking allowance and the job search promotion subsidy are part of the recognized income, but only one of the two is considered because the two benefits cannot be claimed together.

### 3.2.5. Tax treatment

Benefits are not taxable.

### 3.2.6. Interaction with other components of the tax-benefit system

Housing benefits are offered regardless of other social welfare benefits.

### 3.2.7. Combining benefit receipt and employment/starting a new job

See Section 3.1.7.

## 4. Family benefits

### 4.1. Child benefit (아동수당)

This is a non-contributory benefit, not means-tested and not taxable, introduced in September 2018.<sup>12</sup>

#### 4.1.1. Eligibility conditions

Paid for children under the age of 8.

#### 4.1.2. Benefit amount

The benefit is paid on a monthly basis and consists of KRW 100 000 per eligible child and month.

#### 4.1.3. Benefit duration

As long as the eligibility conditions hold.

#### 4.1.4. Means test

None.

#### 4.1.5. Tax treatment

The benefit is not taxable.

#### 4.1.6. Interaction with other components of the tax-benefit system

None.

#### 4.1.7. Combining benefit receipt and employment/starting a new job

Not applicable.

### 4.2. Lone-parent support subsidy (한부모 가족지원금)

Code in the OECD tax-benefit model: [\[LPB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

#### 4.2.1. Eligibility conditions

Recipients must satisfy the following conditions in order to be recognized as eligible lone-parent households:

- A household must consist of the head of household (mother/grandmother or father/grandfather) and children aged less than 18 (22 if attend a school);
- Recognized income (see section 4.2.4. for the definition) should be less than 52% of the moderate livelihood cost (60% if a parent is 24 years old or younger).

Income thresholds (in KRW per month) for Lone-Parent Support Subsidy in 2022 are:

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<sup>12</sup> [OECD taxing wages 2020](#) [accessed 1.2.2021]

Number of family members		2	3	4	5	6
Lone-parent or grandparent	(52% of the NBLs)	1,695,244	2,181,245	2,662,962	3,132,748	3,591,642
Youth lone-parent (less than 24)	(60% of the NBLs)	1,956,051	2,516,821	3,072,648	3,614,709	4,144,202

#### 4.2.2. Benefit amount

The following benefits are available to lone parents:

- Child-rearing support subsidy: KRW 200 000 a month for children aged less than 18 if the parent is 25 years old or older (younger parents benefit from higher payments, see below);
- Additional child-rearing support subsidy:
  - KRW 50,000 a month for children aged 5 and younger who are parented by grandparents or unmarried single parents aged 35 or older
  - KRW 100,000 a month for children aged 5 and younger who are parented by single parents aged 25 to 34
  - KRW 50,000 a month for children aged 6 to younger than 18 who are parented by single parents aged 25 to 34
- Child education support subsidy (school supplies): KRW 83 000 a year for children who are enrolled in middle school or high school;
- Living cost assistance subsidy: KRW 50 000 a month for families living in lone-parent facilities (*not covered by the model*);
- Education support subsidy: entrance and enrolment fees for high school students who are from lone-parent family (*not covered by the model*).

In addition, there are benefits targeted specifically at young (24 year old or younger) lone-parents:

Subsidy Type	Child-rearing (for all children under 18 years old)	School Qualification Exam	High School Education	Financial Independence Boost
Amount (KRW)	350 000 per month	Less than 1 540 000 per year	Actual costs (maximum 5 000 000 per year)	100 000 per month
Household Income Threshold	Less than 60% of the NBLs	Less than 60% of the NBLs	53- 60% of the NBLs (Except recipients of education benefits)	Less than 60% of the NBLs

Out of the benefits mentioned in the table only child-rearing subsidy is covered by the model.

#### 4.2.3. Benefit duration

As long as the eligibility conditions hold.

#### 4.2.4. Means test

The benefit is means-tested on the basis of the mechanism described in 4.2.1. Lone parents aged between 18 and 24 years old are entitled to a KRW 400,000 deduction from their assessed income, plus an additional 30 percent deduction of the income.

*OECD note:* The definition of Recognized Income is similar to the one adopted for the National Basic Livelihood Security, in section 3.1. . An individual can cumulate the Lone-parent support subsidy and the Job search promotion subsidy from the National Employment Support Programme (NESP). However, in the definition of recognized income considered for the Lone-parent support subsidy the Job search promotion subsidy **is not taken into account**. Moreover, starting from 2022, the 30% discount rate for earned incomes is applied to the computation of the Assessed income for the Lone-parent Support Subsidy.

Young lone parents aged 24 years old or younger benefit from a KRW 400,000 deduction from their recognised income, as well as an additional 30% deduction on their earned income.

The definition of assessed income in this case is as follow:

*Assessed income*  
 = 70% of gross earnings from employment of the household  
 + jobseeking allowance (if any)  
 + early reemployment allowance (if any)  
 – 75% of national pension contributions

Note that some of the income components listed above may not be relevant depending on the characteristics considered for the family.

#### 4.2.5. Tax treatment

The benefit is not taxable.

#### 4.2.6. Interaction with other components of the tax-benefit system

Since May 2021, a recipient of the NBLs (see section 3.1. ) can cumulate the Child-rearing support subsidy (including the additional child rearing support subsidy) and the Living cost assistance subsidy.

#### 4.2.7. Combining benefit receipt and employment/starting a new job

Earned income is included in the means test.

### 4.3. Child care allowance for children not using child care centers: In-house Childcare Allowance and Newborn Benefit (가정양육수당, 영아수당)

Code in the OECD tax-benefit model: [\[hca\]](#).

In the model, this benefit is classified as part of Family benefits [\[FB\]](#).

To reduce burden of parents who do not enroll their children into childcare centers and to enhance fairness in the provision of the subsidies, the Korean government introduced the child care allowance for non-users of childcare centers in July 2009.

#### 4.3.1. Eligibility conditions

The benefit is provided to households with children under 84 months (i.e. 7 years old) not using childcare centers.

#### 4.3.2. Benefit amount

In 2022, the government provided the following allowances regardless of household income levels for all children under 86 months (i.e. 7 years old) not using childcare centers:

Child's age (months)	0-11	12-23	24-86
Childcare allowance (KRW per month)	200 000	150 000	100 000

In addition, the newly introduced Newborn benefit in 2022, provides allowance of 300,000 KRW per month to households that do not enroll their newborn (aged 0 months to 23 months) into childcare centers. Recipients of the Newborn benefit are not eligible to receive the In-house Childcare allowance.

*OECD note:* The Newborn benefit is offered to all children who are below 2 years old, and it applies to all the children who were born on or after the 1<sup>st</sup> of January 2022. However, in *TaxBEN*, the Newborn benefit does not take effect in 2022, since children can only be considered as being 1 year old or older. Hence, starting from 2023 it will be possible to model a child aged at least one year old who was born in 2022, and the benefit will be applied. Please, notice that this is linked to the structure of the model, and that in actuality a child born on or after the 1<sup>st</sup> of January 2022 would receive the Newborn benefit.

#### 4.3.3. Benefit duration

The benefit is provided until there are eligible children.

#### 4.3.4. Means test

Not applicable.

#### 4.3.5. Tax treatment

The benefit is not taxable.

#### 4.3.6. Interaction with other components of the tax-benefit system

None.

#### 4.3.7. Combining benefit receipt and employment/starting a new job

None.

## 5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2022**.

### 5.1. Gross childcare fees

Code in the OECD tax-benefit model: **[RKcc\_cost]**

Average child-care fees paid by parents are affected by such aspects as the child's age and the type of facilities. Types of childcare facilities are divided into those supported by the government (state-run, public, corporate childcare facilities) and not supported by the government (private childcare facilities). In 2022, monthly child-care fees are: KRW 499 000 per month for a child less than 1 year old, KRW 439 000 for 1 year old, KRW 364 000 for 2 years old, and KRW 280 000 for 3-5 year old per month.

For children between the ages of 3-5, the government provides KRW 280 000 per month in childcare fee subsidies. For state-run and public childcare facilities, the monthly childcare fee paid by parents is KRW 280 000, which is fully covered by the government.

For private childcare facilities, childcare fees differ depending on the region and the child's age, but the average rate is KRW 363 845. The government covers KRW 280 000 and the parents pay the rest out of pocket.

#### *5.1.1. The extended childcare service*

The extended childcare service is provided from 4 PM to 7:30 PM. The extended childcare fees, KRW 3 000 per hour for 0 year olds, KRW 2 000 for 1-2 year olds, and KRW 1 000 for 3-5 year olds, are fully covered by the government.

*OECD note:* The extended childcare service is included in the model when the childcare hours needed to cover the labour supply of the parents is between 36 and 40 hours per week. In fact, standard childcare hours go from 9 AM to 4 PM, for a total of 35 hours per week. Since the TaxBEN model assumes that 40 hours of childcare are needed to cover the needs of two parents working full-time, 5 hours of extended childcare service are included in the computations to establish the total childcare fees. In case one of the two parents (or the single parent in mono-parental households) only works 35 hours per week (or less), then the standard fees apply since no extended childcare service would be required by said household.

#### *5.2. Fee discounts and free provision*

The government supports facilities by providing subsidies for operating the facility such as labour costs. This makes child-care fees at government-supported facilities cheaper than in unsupported facilities. For example, child-care fees for 5 year-olds are KRW 280 000 for government-supported facilities, and KRW 451 300 for unsupported facilities in Seoul (*not covered in TaxBEN*).

#### *5.3. Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: [\[cc\\_benefit\]](#)

##### *5.3.1. Eligibility*

All families with children up to 5 years old attending childcare are eligible.

##### *5.3.2. Benefit amount*

Childcare benefits completely offset childcare costs for parents of children aged 0 to 5 using facilities supported by the government regardless of household income. The benefit payments are provided on a monthly basis.

##### **Support for children from 0 to 2 years old:**

The childcare benefits are provided for 0-2 year old who attend childcare. The government provides support to all households with 0 to 2 year-old regardless of household income levels since 2013. In 2022, the standard amount of support per month was set at KRW 499 000 for children less than one year of age, KRW 439 000 for one year old, KRW 364 000 for 2 year old.

##### **Support for children from 3 to 5 years old:**

In the past, the childcare benefits for 3-5 year old were provided for those using childcare facilities and kindergartens. However, since March 2012, with the introduction of the Nuri Course, recipients have expanded to include all households with 5-year old regardless of household income level. In March 2013, Nuri Course was expanded to include 3-4 year old without regard to their household income level. The total monthly benefits provided to an eligible child amount to KRW 280 000.

There is additional support for children with disabilities (*not covered by the model*).

*OECD note:* The model summarises childcare fees and the corresponding subsidies as follow:

Age of the child	Full-time childcare fees (in KW)	Full-time childcare subsidies (in KW)	Extended childcare services fees/subsidies (KRW) (not included in the model)
<1	499,000	499,000	3,000 per hour
1	439,000	439,000	2,000 per hour
2	364,000	364,000	2,000 per hour
3-5	280,000	280,000	1,000 per hour

### 5.3.3. *Benefit duration*

As long as eligibility holds.

### 5.3.4. *Means test*

Childcare benefits are provided for 0-5 year old without regard to income levels.

### 5.3.5. *Tax treatment*

Child-care fee supported by the government is not taxed.

### 5.3.6. *Interaction with other benefits*

None.

### 5.3.7. *Combining benefit receipt and employment/starting a new job*

No restrictions.

## 5.4. *Child care allowance for children not using child care centers*

Code in the OECD tax-benefit model: [\[hca\]](#).

In the model, this benefit is classified as part of Family benefits [\[FB\]](#). For this reason, the benefit is described in section 4.3. of this report.

## 5.5. *Tax concessions for childcare expenditures*

The childcare expenditures related specifically to the education fees paid for children can be deducted from the tax on an employee's income under the tax laws.

### 5.5.1. *Eligibility*

An employee with wage and salary income who is a Korean tax resident is entitled to benefit from the above-mentioned tax credit (one of the special tax credits), where he or she paid the education fees for his or her child/children.

### 5.5.2. *Maximum amount*

The maximum amount to be credited is KRW 450 000. At first, the relevant education fees paid by the employee for his or her child are taken into account in the calculation of the amount within the scope of tax credit, up to KRW 3 million per a child. The relevant education fees mean the education expenses paid to child-care facilities, kindergarten, private teaching institutions, and sports facilities provided under the relevant rules and regulations. Then, the amount is subject to 15% credit rate.

*OECD note:* Although this tax concession could be applied to any education-related expenditures incurred by parents, in *TaxBEN* we only consider the expenditures incurred for the use of childcare. Moreover, in the model the use of public childcare is assumed, which is provided to all children up to 5 years old for free. Thus, in the model the amount of tax credit is zero.

### 5.5.3. *Variation by income*

There is no variation by income.

### 5.5.4. *Impact on overall income tax calculation*

The tax concession is made by the form of a tax credit, which could directly reduce the taxpayer's amount of tax paid.

## 6. In-work benefits

This section describes the following in-work benefits which are aimed at creating incentives for employment and re-employment: Early Re-employment Allowance (described in Section 6.1. and Earned Income Tax Credit (described in Section 6.2. ). Other major programmes to support employed which are not covered by the model are described in the Annex.

### 6.1. *Early Re-employment Allowance (조기재취업수당)*

This benefit is described in section 2.2. as it is linked to the Job seeking allowance.

### 6.2. *Earned Income Tax Credit (근로장려금)*

Code in the OECD tax-benefit model: [\[EIC\\_j\]](#)

Earned Income Tax Credit (EITC) was introduced on 1 January 2008 (the actual benefits to be made from 2009) to encourage low-income earners' participation in the labour market and to provide them with income support.

In the model the EITC is simulated in the income reference year, i.e. as if it is paid out by the end of the year for which the income is assessed.

#### 6.2.1. *Eligibility conditions*

A Korean tax resident with either wage and salary income, business income or income for clergy is eligible for filing an application for EITC, if he or she ("the applicant") meets all the following requirements.

a) Income requirement: the sum of the annual income earned by the applicant and his/her spouse shall be less than the threshold provided under the tax law.

b) Wealth requirement: the total value of the specified properties held by the applicant and all of his/her household members shall be less than KRW 200 million (*assumed to be satisfied in the model*).

The applicant should be a Korean national and cannot be a dependent child of any other Korean tax resident (*assumed to be satisfied in the model*).

### 6.2.2. Benefit amount

In 2022, the EITC is calculated in the following way:

Household type	Gross income from employment (X) (KRW, million per year)	Stage	Amount of EITC (KRW, million per year)
Single person	Less than 4	Phase-in	$150/400 \times X$
	4-9	Plateau	1.5
	9-22	Phase-out	$1.5 - (X - 9) \times 150/1300$
One-earner household	Less than 7	Phase-in	$260/700 \times X$
	7-14	Plateau	2.6
	14-32	Phase-out	$2.6 - (X - 14) \times 260/1800$
Dual-earner household	Less than 8	Phase-in	$300/800 \times X$
	8-17	Plateau	3
	17-38	Phase-out	$3 - (X - 17) \times 300/2100$

### 6.2.3. Benefit duration

The eligibility for EITC benefit is assessed every year.

### 6.2.4. Means test

The eligibility and the amount of the EITC depend on both total annual income and wealth of the applicant and all of his/her household members. The total value of properties such as land, buildings, vehicles, and savings shall not exceed KRW 200 million as mentioned in 6.2.1. . The total income thresholds are as follows.

Household type	Definition	Threshold (million in KRW)
Single person	A household that consists of neither spouse nor dependent child	22
One-earner household	1) A household where a spouse has less than KRW 3 million of annual income, or 2) A household that consists of no spouse but a dependent child or a parent aged over 70	32
Dual-earner household	A household that consists of a spouse and/or a dependent child/children, and the spouses' annual income is at least KRW 3 million per year	38

The amount of the credit is income-dependent. The calculations can be divided into three stages based on working income level: phase-in range, flat range and phase-out range. In the phase-in range, the EITC increases at a fixed rate as working income increases. In the flat range, the maximum amount is achieved and it is paid regardless of increase in working income. After that, in the phase-out range the EITC decreases at a fixed rate as working income increases until it reaches zero.

### 6.2.5. Tax treatment

The benefit is not taxed.

### 6.2.6. Interaction with other components of the tax-benefit system

The mere fact that a person is eligible for NBLs does not exclude the entitlement to benefit from the EITC. Therefore, a household who receives NBLs can simultaneously obtain EITC.

## 6.3. Child Care Tax Credit (자녀장려금)

Code in the OECD tax-benefit model: [\[CTC\\_j\]](#)

Child Care Tax Credit (CTC) was introduced on 1 January 2014 (the actual benefits to be made from 2015) to support childcare expenses for low-income earners. In the model, CTC is implemented since 2014.

### 6.3.1. Eligibility conditions

A Korean tax resident with either wage and salary income, business income or income for clergy is eligible for filing an application for CTC, if he or she meets all the following requirements.

- a) Dependant requirement: the applicant shall have a dependent child /children
- b) Income requirement: the sum of the annual income earned by the applicant and his/her spouse shall be less than KRW 40 million
- c) Wealth requirement: the total value of the specified properties held by the applicant and all of his/her household members shall be less than KRW 200 million (*assumed to hold*).

The applicant should be a Korean national and cannot be a dependent child of any other Korean tax resident.

### 6.3.2. Benefit amount

In 2022, the CTC was calculated in the following way:

Household type	Gross income from employment (X) (KRW, million per year)	Amount of CTC (KRW, million per year)
One-earner household	Less than 21	Number of children × 0.7
	Over 21, up to 40	Number of children × [0.7 – (X – 21) × 20/1900]
Dual-earner household	Less than 25	Number of children × 0.7
	Over 25, up to 40	Number of children × [0.7 – (X – 25) × 20/1500]

This is, in principle, a refundable tax credit.

### 6.3.3. Benefit duration

The eligibility for CTC benefit is assessed every year.

### 6.3.4. Means test

The eligibility and the amount of the CTC depend on both total annual income and wealth of the applicant and all of his/her household members (see section 6.3.1. ).

### 6.3.5. Tax treatment

The benefit is not taxed.

### 6.3.6. Interaction with other components of the tax-benefit system

An individual eligible for the NBLIS is not excluded by default from the entitlement to the CTC.

## 7. Social security contributions and payroll taxes

### 7.1. Employee social security contributions (가입자 기여금)

Variable names: [**P\_SocSec**; **S\_SocSec**]

**National pension contribution** rate is 4.5% of the standardised average monthly wage income (see *OECD note* below). The scope of the standardised average monthly wage income is from KRW 310 000 to KRW 4 860 000 as of 1 July 2019.

If the average monthly wage income of a person is less than KRW 310 000, it is regarded as KRW 310 000. If the average monthly wage income of a person is more than KRW 4 860 000, it is regarded as KRW 4 860 000.

**Medical insurance premium**, which has a rate of 3.6768375% (health insurance of 3.335% and long-term care insurance, which equals 10.25% of the latter), is levied on average monthly wage income. The scope of the monthly medical insurance premium (excluding Long term care insurance premium) is from KRW 9 300 to KRW 3 322 170. To include Long term care insurance, we should multiply the aforementioned amounts by 1.1025. Thus, the scope of the total monthly premium is from KRW 10 253 to 3 662 692. If the calculated premium is less than KRW 10 253, the worker should pay KRW 10 253. Likewise, if the calculated premium is more than KRW 3 662 692, the worker only pays KRW 3 662 692.

**Unemployment insurance** is 0.8% of standardised average monthly wage income. There are no maximum nor minimum limits to the amount of unemployment insurance contribution that could be paid by the employee.

*OECD note:* The standardized average monthly wage income is based on the “remuneration” earned by the employee, which is the amount of earnings remaining after deducing non-taxable income components, such as unemployment benefits, social assistance and housing benefits, and family benefits. This amount is then divided by the number of working months in the preceding year. In the calculations, the standardised average monthly wage income described above is approximated by the OECD Average Wage measure for Korea.<sup>13</sup>

### 7.2. Employer social security contributions (사용자 부담금)

Variable names: [**SSCR\_p**; **SSCR\_s**]

**National pension contribution** rate and its application is the same as for employees.

**Medical insurance premium** rate and its application is the same as for employees.

**Unemployment insurance** is between 1.05% and 1.65% of gross income. In the model, 1.05% is used.

<sup>13</sup> See Section 1. For more information on the calculation of the OECD average wage measure see the methodology annex of the [‘Taxing Wages’ publication](#).

**Work injury insurance** consists of an industry-specific rate which is set by the Ministry of Employment and Labour multiplied by total wage. In the model the average rate of all industries is used, which in 2022 equals 1.53%.

## 8. Taxes

Each individual is taxed on his/her own income.

### 8.1. Personal income tax (소득세)

Code in the OECD tax-benefit model: [INC\_TAX\_p; INC\_TAX\_s]

#### 8.1.1. Tax allowances

**Employment Income Allowance:** the following deduction from gross income is allowed for wage and salary income earners, up to 20 000 000:

Gross Wage and Salary (KRW per year)	Deduction (KRW per year)
Up to 5 000 000	70% of the salary
5 000 000 to 15 000 000	3 500 000 + 40% of the salary over 5 000 000
15 000 000 to 45 000 000	7 500 000 + 15% of the salary over 15 000 000
45 000 000 to 100 000 000	12 000 000 + 5% of the salary over 45 000 000
Over 100 000 000	14 750 000 + 2% of the salary over 100 000 000

**Personal allowance:** personal allowance consists of basic deduction and additional deduction as follows.

**Basic deduction:** a taxpayer can deduct KRW 1 500 000 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 less than KRW 1 000 000;
- Taxpayer's (including the spouse's) dependants (e.g. parents, children) within the same household satisfying income and age requirements. The taxable income of each dependant shall be less than KRW 1 000 000 and the age of each dependant shall be as follows:
  - parents: aged 60 years or older (*not covered by the model*);
  - brother/sister: aged 60 years or older or 20 years or under (*not covered by the model*);
  - children: aged 20 years or under.

**Additional deduction:** a taxpayer can deduct KRW 1 000 000 (KRW 500 000 in the case of c), KRW 2 000 000 in the case of b)) from his/her gross income when the taxpayer or his/her dependants fall into the following categories:

- a) a person aged 70 years or older (*not covered by the model*);
- b) a handicapped person (*not covered by the model*);
- c) a female wage earner who is either the head of a household with dependents (but without a spouse) or a female wage earner with a spouse;
- d) a single parent with lineal descendants or adopted children who are eligible for the above-mentioned basic deduction\*.

\* Where both the categories c) and d) are simultaneously met, only the condition d) shall be applied for the purpose of taxation.

**Allowance for national pension contribution:** Employees can deduct the total amount of their national pension contributions.

**Special and Other income deduction:** Employees may deduct some expenses, subject to the specified requirements and limitations, such as compulsory insurance premiums (e.g. national health insurance, employment insurance). In the case in which these deductions are not exercised, the individual can take advantage of the Lump-sum tax relief. These income deductions are included in the model.

Moreover, employees may also deduct personal pension savings, long-term collective investment security savings, interest payments on the mortgage loans, the consumption amounts spent by way of credit/debit card, and so on. These deductions are not covered by the model.

### 8.1.2. Tax base

Tax base is calculated by deducting employment income deduction, personal allowance (basic deduction and additional deduction), allowance for national pension contribution and other income deduction (as explained above) from the gross employment income.

### 8.1.3. Income tax schedule

The following tax schedule is applied to the income starting on 1 January 2022:

Tax Base (KRW per year)	Tax rate (%)
Up to 12 000 000	6
Over 12 000 000, up to 46 000 000	15
Over 46 000 000, up to 88 000 000	24
Over 88 000 000, up to 150 000 000	35
Over 150 000 000, up to 300 000 000	38
Over 300 000 000, up to 500 000 000	40
Over 500 000 000, up to 1 000 000 000	42
Over 1 000 000 000	45

### 8.1.4. Tax credits

Employees are entitled to tax credit for wage and salary income, child tax credit, pension account tax credit, special tax credit for the specified payments (e.g. private insurance premiums, medical expenses, education expenses and qualified donation), and tax credit for house rent from the tax on their income, subject to the specified limitation under the tax rules.

#### **Working tax credit:**

Wage and salary income earners obtain the following tax credit:

Calculated tax	Amount of tax credit
Up to KRW 1 300 000	55% of calculated tax
Over KRW 1 300 000	KRW 715 000 plus 30% of the calculated tax over KRW 1 300 000

Total wage and salary income	Ceiling on credit amount
Not more than KRW 33 million	KRW 740 000
Not more than KRW 70 million	The greater of KRW 660 000 and KRW 740 000 - [(total wage and salary income - KRW 33 million)*0.8%]
Exceeding KRW 70 million	The greater of KRW 500 000 and KRW 660 000- [(total wage and salary income- KRW 70 million)* 50%]

#### Child tax credit:

- If an employee has a child/children within the scope of the above-mentioned basic deduction, the employee is allowed to gain child tax credit in the amount of KRW 150 000 per a child. But where the number of dependent children are three or more, the child tax credit is determined as KRW 300 000 plus KRW 300 000 per each from the third child.
- Child tax credit is applied from children aged 7 or above.
- An employee can also get the extra child tax credit for birth or adoption of a child (KRW300 000 with a child, KRW 500 000 with two children, and KRW 700 000 with three or more children) in the taxable year (*not covered by the model*).

#### Lump-sum tax relief (Standard tax credit):

KRW 130 000 of tax credit per year is available to an employee where a special income deduction, special tax credit or tax credit for house rent are not applied.

### 8.2. Local income tax (지방소득세)

The local income tax is a local tax that is levied on the income of individuals and corporations by metropolitan cities and municipalities. It is divided into individual local income tax and corporate local income tax. As it was converted from a surtax (10% of the income tax paid to the central government) to an independent tax in 2014, the tax base is shared, but the tax rate and tax deductions or exemptions are set separately. In TaxBEN, only the individual local income tax is modelled.

#### 8.2.1. Local income tax schedule

The following tax schedule is applied to the income starting on 1 January 2022:

The local income tax	Tax Base (KRW per year)	Tax rate (%)
Individual local income tax	up to 12,000,000	0.6%
	Over 12,000,000, up to 46,000,000	1.5%
	Over 46,000,000, up to 88,000,000	2.4%
	Over 88,000,000, up to 150,000,000	3.5%

	Over 150,000,000, up to 300,000,000	3.8%
	Over 300,000,000, up to 500,000,000	4.0%
	Over 500,000,000, up to 1000,000,000	4.2%
	Over 1000,000,000	4.5%
Corporate local income tax	up to 200,000,000	1.0%
	Over 200,000,000, up to 20,000,000,000	2.0%
	Over 20,000,000,000, up to 300,000,000,000	2.2%
	Over 300,000,000,000	2.5%
Elasticity in the tax rates	Each government can increase or decrease 50% of the tax rate	

### 8.2.2. Tax credits and deductions

- Individual local income tax: Under the Income Tax act and the Special Tax treatment control law, 10% of the amount of tax deductions and exemptions is deducted or exempted;
- Corporate local income tax: No tax deductions or exemptions.

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Korea 2022 (Figure 7). TaxBEN by default produces the following output: 1) net household incomes (**black lines**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (e.g. a lone parent working at different earnings levels with two children aged 4 and 6 respectively – users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). Figure 7 shows outputs for four scenarios:

- By percentage of the average wage (**Panel A**);

- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the household income components. Note that each component can contain more than one benefit. The table of content of this report describes which benefit is included in each category.

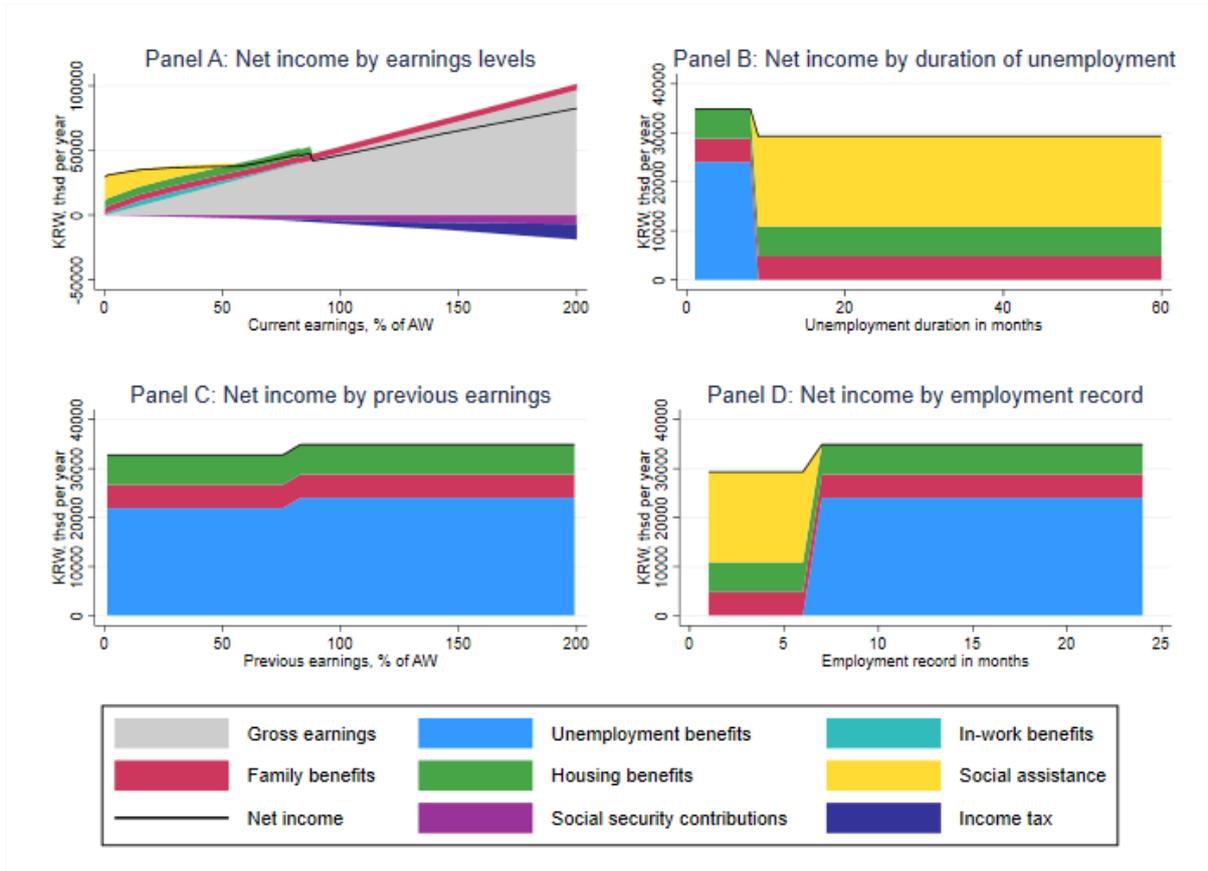
Results in Figure 7 refer to a couple with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one of the two adult members (the ‘second adult’, using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (so-called ‘first adult’) is employed full-time and full-year at different earnings levels ranging between 0 and 200% of the Average Wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits but claiming social assistance, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x axis in Panel B measures the time of benefit receipt, starting from the first month. The x axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2<sup>nd</sup> month of unemployment benefit receipt whereas Panel D consider the case of previous earnings equal to the average Wage. Previous earnings in Panel B are also equal to the average wage.

**Figure 1. Selected output from the OECD tax-benefit model**

Couple with two children.



Source: Calculations based on the OECD tax-benefit model. 2022 policies

## Annex 1: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Korea that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### 1.1. Youth Job-seeking Activity Subsidy (청년구직활동지원금)

The policy aims at supporting a smooth entry into the labour market by targeting unemployed young people (aged 18-34 years old) who are conducting self-directed job search activities. This policy was first introduced in 2019.

#### 1.1.1. Entitlement and eligibility conditions

Claimants must satisfy all the following conditions:

1. Being aged between 18 and 34 years old;
2. Being unemployed within two years of graduation or dropping out from school;
3. Having resources equal to or lower than 120% of the standard median income.

#### 1.1.2. Benefit amount

The benefit can be received only once and it consists in KRW 500,000 per month.

#### 1.1.3. Benefit duration

The maximum duration of the subsidy is 6 months.

#### 1.1.4. Means test

Recipients must have resources equal to or below 120% of the standard median income.

#### 1.1.5. Tax treatment

#### 1.1.6. Interactions with other components of the tax-benefit system

#### 1.1.7. Combining benefit receipt and employment/starting a new job

### 1.2. Mutual Aid for Youths (청년내일채움공제)

Mutual Aid for Youths is aimed to encourage more young job seekers to obtain jobs from SMEs and support them to build a career in the early stages of labour market entry to promote their long-term employment by helping them accumulate wealth. The tripartite actors of young worker-firm-government jointly accumulate in the worker's account, the mutual aid fund (12 million KRW) is provided to a young worker on maturity, and young workers newly employed in SMEs with a monthly wage less than 3 million won. As of the end of 2021, 507,000 young workers joined the program and received support, among them 133,065 individuals received the accumulated fund.

### 1.3. Subsidy for the Right Job for the “New Middle-Aged”

#### (신중년적합직무고용장려금)

“Subsidy for the Right Job for the New Middle-Aged” is designed to create decent work for the “new middle-aged” by subsidizing the labour costs of businesses which hire people aged 50 and older for the right jobs for them. The right jobs for the new

middle aged refer to those suited for their characteristics and career backgrounds, contributing to their re-entry to the labour market. Subsidy for the Right Job for the New Middle-Aged targets businesses eligible for preferential support and middle-standing enterprises under the Employment Insurance Act. The Subsidy amounts to KRW 800 000 for businesses eligible for preferential support and KRW 400 000 middle-standing enterprises per month for up to one year.

#### **1.4. Hope Growing Account - Self-Sufficiency Promotion Program** (희망키움통장)

Hope Growing Account is an asset-building support program for low-income families which provides labour incentives and helps recipients save money to become self-sufficient. The Hope Growing Account 1 was introduced in 2010 and targeted at NBLS households whose total household incomes are above 60% of 40% of the median income and have (at least more than one) working family member. Through this Account, they receive the incentives to work as well as the support to save up money to become self-sufficient. The Hope Growing Account 2 was introduced in 2014 for families near the poverty line with the income under 120% of the minimum cost of living and the total earned income above 70% of the minimum cost of living. Hope Growing Account 2 aims to prevent the working poor from becoming livelihood and medical benefit recipients and help them move up to the middle class. Self-Sufficiency Promotion Program supports NBLS beneficiaries and families in the second lowest income bracket to save enough money to be self-reliant. The program encourages low income families to get in to the habit of saving money and cultivates their willingness to escape poverty and the status of NBLS household by staying in the labor market. Beginning with the introduction of Hope Growing Account 1 in 2010, the Ministry of Health and Welfare gradually expanded the program to cover participants of the self-support program, those in the second lowest income bracket and young adults.

As for young adults, Youth Hope Growing Account was first introduced in 2018 for young adults that are recipients of cost of living benefits, and Youth Savings Account was introduced in 2020 to additionally cover young adults in the second lowest income bracket. Furthermore, Korea is promoting the introduction of Youth Tomorrow Savings Account to support households below 100% of the median income and young adults working as temporary workers.

#### **1.5. Employment retention subsidy (고용유지지원금)<sup>14</sup>**

The Employment retention subsidy programme has been in place since 1995. Due to the spread of COVID-19, the eligibility conditions for the programme have been relaxed effective from January 29, 2020 until the day the national infectious disease risk alert level is lifted.

##### **1.5.1. Entitlement and eligibility conditions**

Firms must reduce employees' working time between 20% and 100%. Firms must experience at least a 15% reduction in sales or 15% reduction in production or 50% increase in inventory.

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<sup>14</sup> Not modelled in TaxBEN.

During the COVID-19 Pandemic, these conditions have been relaxed. Firms directly hit by COVID-19 are recognized as “inevitable employment adjustment firms” without having to experience a 15% reduction in sales.

The shutdown period shall be more than 20% of the total working hours of all insured workers, and one month or longer leave of absence should be used.

#### *1.5.2. Benefit amounts*

In Korea, the employer shall pay the employees concerned “business shutdown allowance” of at least 70% of their average wage during the shutdown period (Article 46 (1) of the Labor Standards Act). Thus, employees receive at least 70% of their average wages (regardless of the wage level) from employers. Employment retention subsidy, which is financed by Employment Insurance Fund, is a government support programme for employers under a temporary setback to help them with labour costs. The government subsidizes one-half to two thirds of a company’s shutdown allowance if the business keeps its employees on a paid leave or leave of absence programmes at an event of temporary management crisis. The maximum amount of support per day is KRW 66 000 per worker.

Because of the COVID-19 Pandemic, the government has raised the level of support from one-half of allowance paid by employer to two-thirds for large companies, and from two-thirds to up to 90 percent for SMEs, among workplaces where group gatherings are restricted or banned until the end of March 2021.

#### *1.5.3. Benefit duration*

The maximum duration of the subsidy is 180 days.

#### *1.5.4. Means test*

Not applicable.

#### *1.5.5. Tax treatment*

#### *1.5.6. Interactions with other components of the tax-benefit system*

#### *1.5.7. Combining benefit receipt and employment/starting a new job*

### **1.6. Job Search Promotion Subsidy (취업촉진수당)**

#### *1.6.1. Entitlement and eligibility conditions*

Eligibility: Recipients of job-seeking benefits. Requirements:

**Early Re-employment Allowance:** Those who have found a new job and continued to work in that job for 12 consecutive months with at least half of the number of days remaining in which they were eligible to receive job-seeking benefits will receive this type of allowance.

**Vocational Skills Development Allowance:** Those who participate in training programmes under the instruction of an employment security office will receive this type of allowance on the date of their participation.

**Long-Distance Job Search Allowance:** Those who conduct a long-distance job search in regions 25 kilometres away from their place of residence in accordance with guidance from an employment security office will receive this type of allowance.

**Relocation allowance:** Those who relocate to take up a job or participate in vocational skills development training, etc. will receive this type of allowance.

*1.6.2. Benefit amount*

Early Re-employment Allowance: Half of the job-seeking benefits for the remaining number of days

Vocational Skills Development Allowance: KRW 7,530 per day

Long-Distance Job Search Allowance: Transportation expenses

Relocation allowance: Expenses for hiring a moving truck driver (up to 7.5 ton truck)

*1.6.3. Benefit duration*

Single payment

*1.6.4. Means test*

Not applicable

*1.6.5. Tax treatment*

Non-taxable

*1.6.6. Interaction with other components of the tax benefit system*

Not applicable

*1.6.7. Combining the benefit with employment / starting a new job*

Can find a new job

*1.7. Emergency Employment Stability Subsidy (긴급고용안정지원금)<sup>15</sup>**1.7.1. Entitlement and eligibility conditions*

This measure is aimed towards the dependent self-employed and freelancers: Persons who are not subscribed to the Employment Insurance who worked as a dependent self-employed or a freelancer during October 2021 to November 2021. To be eligible, the individual must have an annual income of KRW 50 million or lower, which has to have been reduced by at least 25% due to COVID-19.

*1.7.2. Requirements for the programme*

Persons whose income was reduced by 25% or more (once among March, April, October, November of 2021, annual income of 2019 or annual income of 2020) compared to October 2021~November 2021.

*1.7.3. Benefit amount*

KRW 2 million.

*1.7.4. Benefit duration*

Single payment

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<sup>15</sup> Not modelled in TaxBEN.

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*1.7.5. Means test*

Individuals annual income of KRW 50 million or less. Means-testing uses the Public Information Sharing System or reviews the information submitted by the applicants of the subsidy.

*1.7.6. Tax treatment*

Non-taxable

*1.7.7. Interaction with other components of the tax benefit system*

Not applicable

*1.7.8. Combining the benefit with employment / starting a new job*

Can find a new job