

Korea

Korea	2004			
	The tax/benefit position of single persons			
Wage level (per cent of APW)	67	100	167	67
Number of children	none	none	none	2
Gross wage earnings	17022822	25534233	42557055	17022822
Standard tax allowances				
Basic allowance				
Married or head of family				
Dependent children				
Deduction for social security contributions and income taxes				
Work-related expenses				
Other				
Total	13746053	15444079	18508106	16246053
Tax credits or cash transfers included in taxable income	0	0	0	0
Central government taxable income (1 - 2 + 3)	3276769	10090154	24048949	776769
Central government income tax liability (exclusive of tax credits)	294909	916228	3428811	69909
Tax credits				
Basic credit	162200	399868	500000	38450
Married or head of family				
Children				
Other				
Total	162200	399868	500000	38450
Central government income tax finally paid (5-6)	132709	516359	2928811	31459
State and local taxes	13271	51636	292881	3146
Employees' compulsory social security contributions				
Gross earnings	1200960	1801440	3002400	1200960
Taxable income				
Total	1200960	1801440	3002400	1200960
Total payments to general government (7 + 8 + 9)	1346940	2369435	6224092	1235565
Cash transfers from general government				
For head of family				
For two children				
Total	0	0	0	0
Take-home pay (1-10+11)	15675882	23164798	36332963	15787257
Employers' compulsory social security contributions	1495455	2243182	3738637	1495455
Average rates				
Income tax	0.9%	2.2%	7.6%	0.2%
Employees' social security contributions	7.1%	7.1%	7.1%	7.1%
Total payments less cash transfers	7.9%	9.3%	14.6%	7.3%
Total tax wedge including employer's social security contributions	15.3%	16.6%	21.5%	14.7%
Marginal rates				
Total payments less cash transfers: Principal earner	10.6%	18.1%	23.5%	10.6%
Total payments less cash transfers: Spouse	n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner	17.8%	24.8%	29.7%	17.8%
Total tax wedge: Spouse	n.a.	n.a.	n.a.	n.a.

Korea	2004				
	The tax/benefit position of married couples				
	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
Gross wage earnings		25534233	34045644	42557055	34045644
Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	18444079	27721100	31690132	25721100
Tax credits or cash transfers included in taxable income		0	0	0	0
Central government taxable income (1 - 2 + 3)		7090154	8090154	10866923	10090154
Central government income tax liability (exclusive of tax credits)		638114	728114	978023	916228
Tax credits					
Basic credit		316434	343434	480884	399868
Married or head of family					
Children					
Other					
	Total	316434	343434	480884	399868
Central government income tax finally paid (5-6)		321680	384680	497139	516359
State and local taxes		32168	38468	49714	51636
Employees' compulsory social security contributions					
Gross earnings		1801440	2401920	3002400	2401920
Taxable income					
	Total	1801440	2401920	3002400	2401920
Total payments to general government (7 + 8 + 9)		2155288	2825068	3549253	2969915
Cash transfers from general government					
For head of family					
For two children					
	Total	0	0	0	0
Take-home pay (1-10+11)		23378945	31220576	39007802	31075729
Employers' compulsory social security contributions		2243182	2990910	3738637	2990910
Average rates					
Income tax		1.4%	1.2%	1.3%	1.7%
Employees' social security contributions		7.1%	7.1%	7.1%	7.1%
Total payments less cash transfers		8.4%	8.3%	8.3%	8.7%
Total tax wedge including employer's social security contributions		15.8%	15.7%	15.7%	16.1%
Marginal rates					
Total payments less cash transfers: Principal earner		12.6%	12.6%	12.6%	18.1%
Total payments less cash transfers: Spouse		7.9%	7.1%	10.6%	7.1%
Total tax wedge: Principal earner		19.7%	19.7%	19.7%	24.8%
Total tax wedge: Spouse		15.3%	14.6%	17.8%	14.6%

The national currency is the won (KRW). In 2004 KRW 1 153.79 was equal to USD 1 (average of eleven months daily exchange rates). In this year, the Average Production Worker is expected to earn KRW 25 534 233.

1. Personal income tax system

1.1. Central government income tax system

1.11. Tax unit

Each individual is taxed on his/her own income.

Non – taxable wage income:

- 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 per month is non taxable.

1.12. Allowances and tax credits

1.121. Standard reliefs

The standard reliefs are taken as deductions from gross income:

- *Employment income deduction*: The following deduction from gross income is allowed for wage and salary income earners:

Salary	Deduction
Up to KRW 5 000 000	Total amount
KRW 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

- *Basic allowance*: A taxpayer can deduct KRW 1 000 000 from his/her income for each person who meets one of following conditions:
 - ❖ 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]:
 - ❖ a person aged 65 years or over (KRW 1 500 000 in case of 70 years or over) (a);
 - ❖ a handicapped person (b);
 - ❖ 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)* (c);
 - ❖ a child aged 6 years or under (for the purposes of this Report, this allowance is claimed by the principal wage earner in households with children) (d);
 - *Extra allowance:*
 - ❖ an income earner who is not claiming any other dependents may deduct KRW 1 000 000 from gross income;
 - ❖ a single income earner with a single dependent (e.g., spouse, child) may deduct KRW 500 000 from gross income;
 - *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.
 - *Tax credits:* For wage and salary income earners, the following tax credit is allowed:

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 (limit: KRW 500 000)

1.122. 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):* General insurance premium up to KRW 1 000 000.
- *Medical expense (b):* Up to KRW 5 000 000. Full deductions are allowed for medical expenses exceeding 3% of taxable income for the taxpayer himself, taxpayer's dependents who are aged 65 years or over and handicapped persons.
- *Educational expense (c):* Tuition fees for pre-school, elementary, middle school and college (but graduate school fee deduction is allowed only for taxpayer himself, either for the taxpayer himself or his/her dependents (including the taxpayer's spouse, children, and

* 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.

siblings), can be deducted from gross income. Deductible amount is full for taxpayer, and for dependents 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 for purchasing a house by a taxpayer who does not own a house or owns one which is not more than 85 m² plus 40 per cent of the amount repaid for the loan for leasing house or the amount contributed to a savings account for housing.
- *Charities (e)*: Deductible amount is as follows:
 - ❖ donation to a government body, donation for national defense, natural disaster, certain charitable associations: total amount up to gross income;
 - ❖ donation to public welfare, religious associations: up to ten per cent of gross income.
- *Credit card purchase (f)*: Employees may deduct 20 per cent of their credit/debit card purchases that exceed 10 per cent of their total income to a maximum of the lesser of KRW 5 000 000 or 10 per cent of their total income.
- *Lump-sum tax relief*: Any taxpayer whose total deductible expense for (a), (b), (c), (d), (e) and (f) is not over KRW 600 000 may deduct KRW 600 000 from their gross income as a lump-sum tax relief. This amount is reduced by the employee contributions to the obligatory medical insurance scheme (see Section 1.121). This lump-sum relief is used in the calculations for this Report.

1.13. Tax schedule

Over (KRW)	Not more than (KRW)	Marginal tax rate (%)
0	10 000 000	9
10 000 000	40 000 000	18
40 000 000	80 000 000	27
80 000 000		36

1.2. Local income tax

1.21. Tax base

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

1.22. Tax rate

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

1.23. Tax rate (selected for this study)

A country-wide rate of 10 per cent.

2. Compulsory social security contribution to schemes operated within the government sector

All compulsory social security contributions can be deducted in calculating taxable income.

2.1. Employees' contribution

2.11. National pension

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

2.12. Medical insurance

Insurance premium is charged at 2.105 per cent of standardised average monthly wage income.

2.13. Unemployment insurance

0.45 per cent of gross income.

2.14. Work injury insurance

Employer only.

2.2. Employers' contribution

2.21. National pension

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

2.22. Medical insurance

- Insurance premium is charged at 2.105 per cent of standardised average monthly wage income.

2.23. Unemployment insurance

- Insurance premium is charged between 0.7 per cent and 1.3 per cent of gross income.
- Insurance premium selected for this study is 0.7 per cent.

2.24. Work injury insurance

- Insurance premium is a specific rate for each industry set by the Labour Minister × gross income.
- Average rate of all industries (selected for this study) is 1.48 per cent.

3. Universal cash transfers

None.

4. Main changes in tax/benefit system since 2000 with regard to APW

2000	Contribution to National Pension are to be deductible from 2001, upper cap of employment income deduction limit(KRW 12 000 000) is abolished from 2001.
2001	Personal income tax rates are lowered by 10% (10, 20, 30, 40% were reduced to 9, 18, 27, 36%, respectively) from 2002.
2002	Limits of deduction for education fees are expanded from 2003. For pre-school: from KRW 1 000 000 to KRW 1 500 000. For elementary, middle school and high school: from KRW 1 500 000 to KRW 2 000 000. For college and university: from KRW 3 000 000 to KRW 5 000 000. Limit of deduction for interest of long-term mortgage loan for housing is expanded from KRW 3 000 000 to KRW 6 000 000 from 2003.
2003	Employment income deduction and tax credit applicable to low income are increased. The deduction rate for the taxable wage income range of KRW 5 000 000 to KRW 15 000 000 is increased from 45 per cent to 47.5 per cent. The tax credit rate for calculated tax below KRW 500 000 is increased from 45% to 50% and the maximum tax credit is increased from KRW 400 000 to KRW 450 000.
2004	Limits of deduction for education fees are expanded. For pre-school: from KRW 1 500 000 to KRW 2 000 000. For college and university: from KRW 5 000 000 to KRW 7 000 000. Limit of deduction for interest on long-term mortgage loan for housing is expanded from KRW 6 000 000 to KRW 10 000 000. The marginal deduction rate for the taxable wage income range from KRW 5 000 000 to KRW 15 000 000 is increased from 47.5 per cent to 50 per cent. The tax credit rate for tax amounts below KRW 500 000 is increased from 50% to 55% and the maximum permitted tax credit goes up from KRW 450 000 to KRW 500 000.

5. Memorandum item

5.1. Identification of the Average Production Worker (APW)

Sector used: manufacturing.

Geographical coverage: whole country.

Type of workers: production workers (male and female).

5.2. Method to calculate earnings

The *Report on Monthly Labour Survey* covering data in the first half of 2004 by the Ministry of Labour is used to calculate the annual earnings of the APW. The statistics were obtained through a sample survey of 4 900 firms with ten or more regular employees throughout the whole country.

Basic method of calculation used: average monthly earnings \times 12.

5.3. Employer's reserve for employee's retirement payment

An employer should pay to a retiree the retirement payment which is not less than 30 days' wage and salary per one year of service (about 8.3 per cent of gross income or more). An employer can contribute to the Retirement Payment Reserve Fund established within the company or Retirement Insurance Fund established outside the company to prepare for the retirement payment. Such contribution is treated as business expense under certain constraints. Because contribution to the Retirement Fund is not compulsory, this survey does not include such contribution except the contribution converted to employer's contribution to the national pension plan (see Section 2.21).

2004 Parameter values

APW earnings	Ave_earn	25 534 233	Secretariat estimate
Tax allowances	basic_al	1 000 000	
spouse	spouse_al	1 000 000	
dependents including children	dep_al	1 000 000	
extra allowance 1	ext1_all	1 000 000	
extra allowance 2	ext2_all	500 000	
additional allowance	add_all	500 000	
additional allowance 2	add2_all	1 000 000	
lump-sum	lump_sum	600 000	
max number of kids permitted to be under 7	child_und7_max	1	
Employment income deduction	empdedsch	0	1
		5 000 000	0.5
		15 000 000	0.15
		30 000 000	0.1
		45 000 000	0.05
Tax credit threshold	tax_thresh	500 000	
maximum credit	cred_max	500 000	
tax credit rate 1	cred_rate1	0.55	
tax credit rate 2	cred_rate2	0.3	
Tax schedule	tax_sch	0.09	10 000 000
		0.18	40 000 000
		0.27	80 000 000
		0.36	
Local tax rate	local_rate	0.1	
Social security contributions	SSC_pens	0.045	
	SSC_pens_max	1 944 000	
	SSC_sick	0.02105	
	SSC_unemp	0.0045	
Employer contributions	emp_pens	0.045	
	emp_sick	0.02105	
	emp_unemp	0.007	
	emp_inj	0.0148	

2004 Tax equations

The equations for the Korean system are independent between spouses except that the principal earner has tax allowances for the spouse and for any children.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables married and children. A reference to a variable with the affix total indicates the sum of the relevant variable values for the principal and spouse. And the affixes princ and spouse indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with spouse values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	Earn		
2. Allowances:			
employment income	emp_al	B	Empincded(earn, empincdedsch)
basic	bas_al	B	basic_al
spouse	sp_al	P	Married*spouse_al*(earn_spouse-emp_al_spouse<=spouse_al)
dependents	dp_al	P	Children*dep_al
extra and additional allowances	ext_al_princ	P	(1-Married)*(Children=0)*ext1_all + Married*((sp_al+dp_al)=0)*ext1_all + (1- Married)*(Children>0)*add_all+(Children>0)*add2_all
extra and additional allowances	ext_al_spouse	S	(earn_spouse>0)*(ext1_all + add_all)
Social Security Contribution (SSC)	ssc_al	P	SSC
lump-sum	lump_sum	B	Positive(lump_sum-earn*SSC_sick)
Total	tax_al	B	emp_al+bas_al+sp_al+dp_al+ext_al+ssc_al
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al)
5. CG tax before credits	CG_tax_excl	B	Tax(tax_inc, tax_sch)
6. Tax credits :	tax_cr	B	IF(CG_tax_excl<=tax_thresh, cred_rate1*CG_tax_excl, MIN((cred_rate1*tax_thresh+ cred_rate2*(CG_tax_excl- tax_thresh)), cred_max))
7. CG tax	CG_tax	B	CG_tax_excl-tax_cr
8. State and local taxes	local_tax	B	local_rate*CG_tax
9. Employees' soc security	SSC	B	MIN(earn*SSC_pens, ssc_pens_max)+earn*(SSC_sick+SSC_unemp))
11. Cash transfers	cash_trans	J	0
13. Employer's soc security	SSC_empr	B	MIN(earn*(SSC_pens), ssc_pens_max)+earn*(emp_pens+emp_sick+emp_unemp+emp_ijnj)

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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Part IV

Country Details, 2004

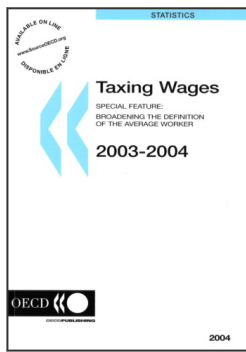
Australia (2004-2005 Income Tax Year)	111
Austria	125
Belgium (French only)	137
Canada	147
Czech Republic	163
Denmark	173
Finland	183
France (French only)	191
Germany	205
Greece	215
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