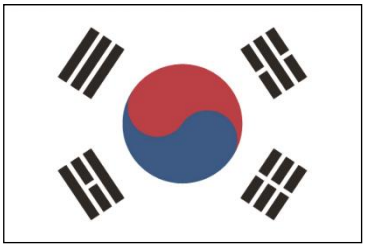
THE OECD TAX-BENEFIT MODEL FOR KOREA

Description of policy rules for 2019



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BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT MODEL FOR KOREA
Description of policy rules for 2019

OECD team: Olga Rastrigina (lead author), Raphaela Hyee, Herwig Immervoll, Duncan MacDonald, Daniele Pacifico

National team: Woojung Chang (Permanent Delegation of Korea to the OECD), Hyunsoo Yang (Permanent Delegation of Korea to the OECD), Hyejin Chung, (Ministry of Health and Welfare)

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BETTER POLICIES FOR BETTER LIVES

Social Policy Division and Jobs and Income Division

www.oecd.org/social

Directorate for Employment, Labour and Social Affairs

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Preface

The OECD Tax-Benefit model (**TaxBEN**) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families ("vignettes", e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN's policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

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

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided here.
- Further information on the model, model results, and references to reports and analytical uses is available on the project website. A methodology document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol ⓘ in the text provides a link to a 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.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Korea: Policy rules in 2019

1. Reference wages

The 2019 (preliminary) average wage **[AW]** is KRW 50 483 933 (Korean Won).[1]

The minimum wage **[MIN]** in 2019 is KRW 8 350 per hour. The annual minimum wage is computed by multiplying the minimum monthly wage by 209 working hours per month[2] and by 12 months, i.e. KRW 8 350* 209 * 12 = KRW 20 941 800.

2. Unemployment benefits

Unemployment benefits can be categorized into two main groups:

1. Job-seeking Allowance which provides cash payments to maintain workers' standards of living and to facilitate their re-employment (see Section 2.1.), and
2. Employment Promotion Allowances, split into:
   - Early Re-employment Allowance, aimed to facilitate recipients' 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:[3] **[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: There is no age limit in the eligibility for unemployment benefits, although those newly employed at the age of 65 and older are excluded from employment insurance.

Contribution/employment history: Must be insured for 180 days (i.e. approximately 6 months) during 18 months before leaving a job.

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[1] 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.

[2] 209 working hours per month include 48 hours per week (40 standard working hours per week + 8 hours of paid weekly holiday) multiplied by 4.35 weeks per month.

[3] 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.

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) and must engage in active job-search. TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.[4]

2.1.2. Benefit amount

The daily basic allowance is 50% of the daily wage. The daily wage is the amount calculated by dividing the wage paid in the last three months preceding unemployment by the total number of working days of the same three-month period. The benefit is paid 7 days a week. The minimum benefit is 90% of the minimum wage, i.e. KRW 8 350* 8 * 0.9 = KRW 60 120 per day or KRW 60 120 * 7 * 4.35 = KRW 1 830 654per month. The maximum monthly benefit is announced at the end of the previous year (i.e. KRW 2 009 700 in 2019).

2.1.3. Benefit duration

The maximum duration of unemployment benefit ranges from 3 to 8 months, depending on the age of the recipient at the time of job loss and the period of contribution to the Employment Insurance System (EIS):

Age (years)	Job-Seeking Allowance duration (days)				
	Period of contribution to the EIS				
	Under 1 year	1-3 years	3-5 years	5-10 years	Over 10
Under 30	90	90	120	150	180
30-50	90	120	150	180	210
Over 50 (or disabled)	90	150	180	210	240

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 or earns income from the job he/she found, such an incident should be notified to the Employment Security Office. If the income earned divided by the number

[4] Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018), Langenbucher (2015) and Venn (2011).

of allowance days to which the beneficiary is entitled 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.

See also Early Re-employment Allowance (Section 6.1.).

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.).

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 recognized income of a recipient's household should be less than the eligibility criteria. The criterion in 2019 equals 30% of the median income. The median income and the corresponding criteria for 2019 are:

Size of household (persons)	1	2	3	4	5	6
Median income (KRW, thousands per month)	1 707	2 907	3 760	4 614	5 467	6 321
Criterion for cost of living benefit (KRW, thousands per month)	512	872	1 128	1 384	1 640	1 896

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)*.

3.1.5. Tax treatment

The benefit is not taxable.

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

NBLS supplements all other support for 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. The model assumes that support from the people with support obligations is not forthcoming. A person who receives job-seeking allowance is not eligible for NBLS.

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

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 1999, 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 2015, 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, Seoul Metropolitan Area, other metropolitan areas, and small cities and rural areas.

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 less than 44% of median income are eligible for the housing benefit.

The income limits in 2019 are:

Size of household (persons)	1	2	3	4	5	6
Benefit amount (KRW, ten thousands per month)	75	129	165	203	241	278

3.2.2. Benefit amount

- Households in rental housing: the benefit amount is based on the minimum residential criteria; standard rental fees (KRW 147 000 – 441 000 per month) are calculated according to region and the number of family members.

Housing benefit (Thousand KRW), 2019:

Region / Household size	Grade 1 Seoul	Grade 2 Gyeonggi-do Incheon	Grade 3 Metropolitan city, Sejong-si	Grade 4 Other region
1	233	201	163	147
2	267	226	178	161
3	316	272	213	194
4	365	317	247	220
5	377	329	258	229
6	441	389	296	267

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
Amount of benefit (KRW, million)	3.78	7.02	10.26
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 (44% of the median income).

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. 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.

4.1.1. 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);
- Income should be less than 52% of the moderate livelihood cost (60% if a parent is than 24 years or younger).

Income thresholds (in KRW per month) for Lone-Parent Support Subsidy in 2019 are:

Number of family members		2	3	4	5	6
Lone-parent or grandparent	(52% of the NBLS)	1 511 395	1 955 217	2 399 039	2 842 861	3 286 683
Youth lone-parent (less than 24)	(60% of the NBLS)	1 743 917	2 256 019	2 768 122	3 280 224	3 792 326

4.1.2. 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;
- Additional child-rearing support subsidy: KRW 50 000 a month for children aged less than 5, and who are parented by grandparents or unmarried single-parent aged 25 years old or above;
- Child education support subsidy (school supplies): KRW 54 100 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 (less than 24 year old) lone-parents:

Subsidy Type	Child-rearing	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 (Except recipients of the NBLS)	Less than 60% of the NBLS	Less than 60% of the NBLS (Except recipients of the NBLS)	53-60% of the NBLS (Except recipients of the NBLS)

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

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

The benefit is means-tested.

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

Earned income is included in the means test.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2019.**

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 2019, monthly child-care fees are: KRW 454 000 per month for a child less than 1 year old, KRW 400 000 for 1 year old, KRW 331 000 for 2 years old, and KRW 220 000 for 3-5 year old per month.

For children between the ages of 3-5, the government provides KRW 220,000 per month in childcare fee subsidies. For state-run and public childcare facilities, the monthly childcare fee paid by parents is KRW 220,000, 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 293,134. The government covers KRW 222,000 and the parents pay the rest out of pocket.

5.1.1. Discounts for part-time usage

Childcare fees for part-time use are lower than for full-time use. Part-time childcare service is limited to a maximum of 6 hours between 9 AM and 3 PM.

For part-time use, the government provides monthly childcare fee subsidies of KRW 354,000 for 0-year olds, KRW 311,000 for 1-year olds, and KRW 258,000 for 2-year olds (as of 2019).

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 220 000 for government-supported facilities, and KRW 348 000 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.

Support for children from 0 to 2 years old:

The childcare benefits are provided for 0-2 year olds who attend childcare. The government provides support to all households with 0 to 2 year-olds regardless of household income levels since 2013. In 2019, the standard amount of support per month was set at KRW 454 000 for children less than one year of age, KRW 400 000 for one year olds, KRW 331 000 for 2 year olds.

Support for children from 3 to 5 years old:

In the past, the childcare benefits for 3-5 year olds 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 olds regardless of household income level. In March 2013, Nuri Course was expanded to include 3-4 year olds without regard to their household income level. The total monthly benefits provided to an eligible child amount to KRW 220 000.

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

5.3.3. Benefit duration

As long as eligibility holds.

5.3.4. Means test

Childcare benefits are provided for 0-5 year olds 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]**.

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. In 2016, 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

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.

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)

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]**

6.1.1. Eligibility conditions

The Early Re-employment Allowance is granted to persons who get a steady job before the job-seeking allowance expires. A steady job is a job that guarantees more than 12 months of continuous employment; the number of working hours doesn't matter. When a person gets re-employed, a half or more days should be left until the end of job-seeking allowance.

6.1.2. Benefit amount

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

6.1.3. Benefit duration

The benefit is paid as a lump-sum amount.

6.1.4. Means test

Not means-tested.

6.1.5. Tax treatment

Tax exemption is granted as part of unemployment allowance.

6.1.6. 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.

6.1.7. 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.

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 2019, 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 × X
	4-9	Plateau	1.5
	9-20	Phase-out	1.5 – (X – 9) × 150/1100
One-earner household	Less than 7	Phase-in	260/700 × X
	7-14	Plateau	2.6
	14-30	Phase-out	2.6 – (X –14) × 260/1260
Dual-earner household	Less than 8	Phase-in	300/800 × X
	8-17	Plateau	3
	17-36	Phase-out	3 – (X –17) × 300/1900

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	20
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	30
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	36

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 2019, 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.

6.3.5. Tax treatment

The benefit is not taxed.

6.3.6. 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 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. The scope of the standardised average monthly wage income is from KRW 290 000 to KRW 4 490 000 as of 1 July 2018.

If the average monthly wage income of a person is less than KRW 290 000, it is regarded as KRW 290 000. If the average monthly wage income of a person is more than KRW 4 490 000, it is regarded as KRW 4 490 000.

Medical insurance premium, which has a rate of 3.350256% (health insurance of 3.06% and long-term care insurance, which equals 6.55% of the latter), is levied on average monthly wage income. The scope of the average monthly wage income is from KRW 280 000 to KRW 99 249 000.

Unemployment insurance is 0.65% of gross income.

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 0.9% and 1.5% of gross income. In the model, 0.9% is used.

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 2018 equals 1.50%. In addition, the work injury insurance rate for any commuting accident is 0.15%. Thus, the total rate is %

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:

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), 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 2019:

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	42

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.

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 (school children aged under 7 can be benefited from Child tax credit as well).
- 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)*

Variable names: **[LOCTAX_j]**

The local income tax base is the income tax paid to the central government. In the model, a uniform rate of 10% is applied. However, the local government can adjust the rate between the lower limit of 5% and the upper limit of 15%.

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

This section shows selected output of the TaxBEN model for Italy 2019 (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.

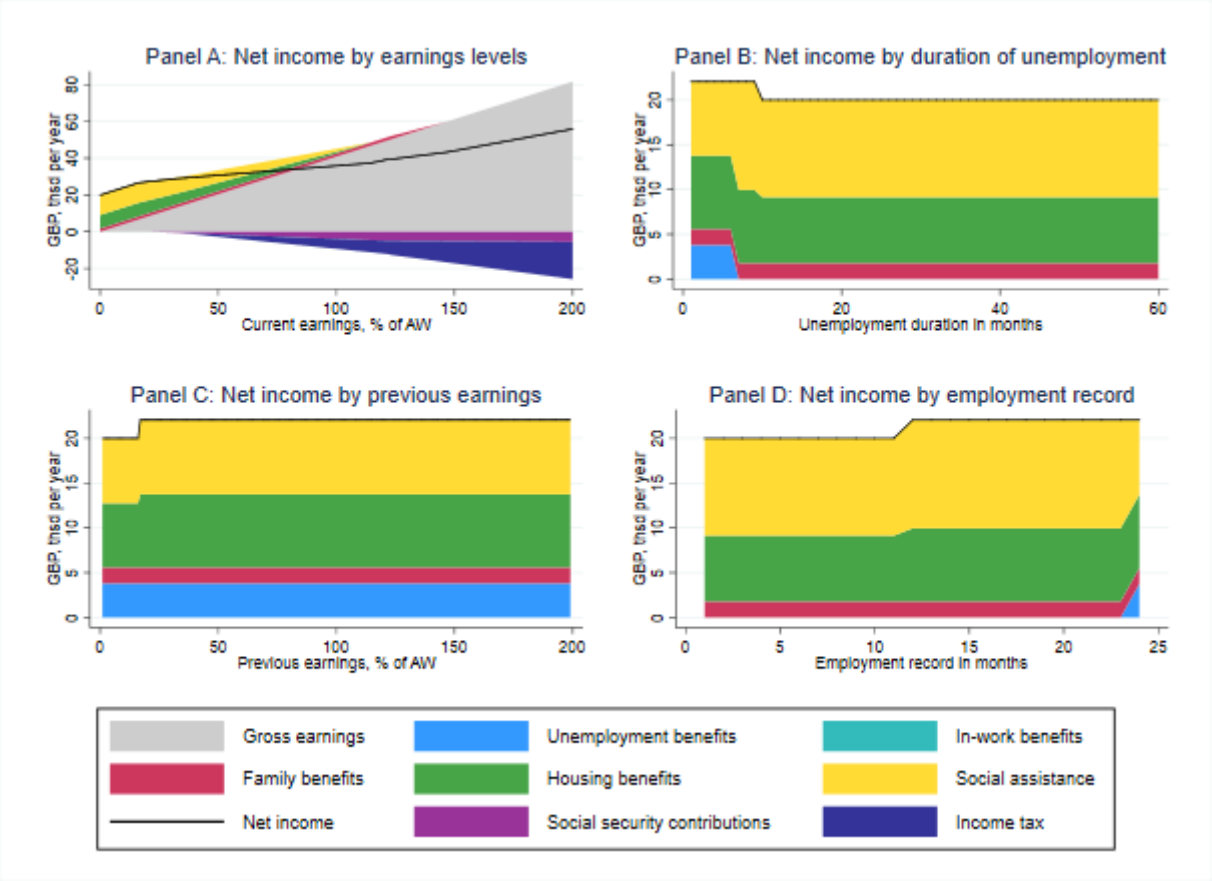
Results in Figure 7 refer to a couple with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements 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 2nd 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. 2019 policies

Annex: 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.

Mutual Aid for Youths (청년내일채움공제)

Mutual Aid for Youths is aimed to encourage more young job seekers to obtain jobs from SMEs and promote their long-term employment by helping them accumulate wealth. In addition to the existing two-year plan, a three-year plan which allows youth to accumulate a total wealth of 30 million Korean won for three years was created in July 2018, which will be operated as a temporary project until 2021. As of 2018, about 100,000 young people have newly subscribed to the two-year or three-year plans. Starting from 2019, high-income earners will be restricted from subscription. Also, workers with a monthly wage of more than 5 million Korean won including overtime pay are not eligible for subscription to the program.

Youth Job Search Allowance (청년구직활동지원금)

Youth Job Search Allowance was designed to help youth to plan their own career and focus on their job search activities. An allowance of 500,000 won a month is provided to young people engaging in job search activities for a maximum of six months. This system was designed in consideration of Korea's youth labour market and their job search patterns. That is, Korea has a large share of highly-educated adults (the university enrolment rate of Korea is 69% compared to 43% in OECD) and many are hired through open recruitment test. Also, according to surveys among young people, the expense incurred during job search was cited as the biggest difficulty in their job search activities. To avoid duplications with other similar programs run by local governments, it is targeted for young graduates within two years after graduation. To ensure an efficient execution of the limited budget, the target population was limited to young people earning 120 per cent or less of the median income.

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 small and mid-sized businesses under the Employment Insurance Act. The Subsidy amounts to KRW 800 000 for businesses eligible for preferential support and KRW 400 000 for small and mid-sized businesses per month for up to one year.

Hope Growing Account (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 First Hope Growing Account was introduced in 2010 and targeted at NBLS households whose total household incomes are above 60% of 40% of the median income. Through this Account, they receive the incentives to work as well as the support to save up money to become self-sufficient. The Second Hope Growing Account 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.

In 2004, Hope Growing Account 2 was introduced. The person eligible to open the Account includes families receiving housing or education benefits, and others near the poverty line who are at or below 50% of the median income. To maintain the Account, their earned income must be at or below 70% of the median income. 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.