

Redistributive Effects of Taxes and Benefits in Korea

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Abstract—This paper attempts to explain the distributions of incomes, taxes, and benefits using the household survey data of the Statistics Korea.

Taxes and benefits are small relative to GDP in Korea. Because of this, the redistributive effects of taxes and benefits in Korea are much smaller than in other developed countries. Increasing total taxes and benefits can give rise to greater redistributive effects.

Changes in macroeconomic variables and changes in tax laws by the government of Korea are important driving factors of the distributions of income and income tax. The progressivity of income tax in Korea is much higher than that of other developed countries tax systems.

Keywords—tax, progressivity, Income Redistribution, Household Survey

I. KOREA'S TAX AND BENEFIT SYSTEMS

THE Korea's tax system is generally classified into three types: income-, consumption-, and property-taxes. Three main taxes are Value Added Tax (VAT), Personal Income Tax (PIT), and Corporate Income Tax (CIT). Using household survey data, taxes considered in this paper are PIT, Property Tax (PT), Comprehensive Real Estate Holding TAX (CREHT), VAT, Individual Excise Tax (IET), Liquor Tax (LT), Transportation–Environment–Energy Tax (TEET), Tobacco Consumption Tax (TOBT), and their related surtaxes. National Health Insurance (NHI) fees, Health Promotion Charges (HPCs) levied on tobacco products, and other social security contributions are included in the data.

There are three types of Korea's social security system: public assistance programs, social insurance programs, and welfare service programs.

The National Basic Livelihood Security System (NBLSS) is the most important public assistance program in Korea, which was introduced in 2000 to guarantee the minimum cost of living for low-income households.

The National Health Insurance (NHI) program covers the whole population under a compulsory social insurance system. Public pensions can be classified depending on occupation: general public and special occupations. The largest pension is the National Pension (the pension for the general public). There are other cash benefits of the social insurance programs, such as

unemployment benefits and industrial accident compensation. Government support for education is another major in-kind benefit. The operating cost of elementary, middle, and high schools is generally financed through the support of the central government.

II. DATA AND METHODS

The Household Income and Expenditure Survey (HIES) by the Statistical Office of Korea data are a stratified random sample drawn from almost all types of households, except those engaged in the agriculture, forestry, and fishing industries.

The HIES is compiled on a monthly basis by the bookkeeping or daily recording of each surveyed household. There are 12 monthly records for each household.

Using HIES data, one can analyze the Taxes and contributions: PIT, PT, CREHT, VAT, IET, TEET, LT, TOBT, related surtaxes, public pension contributions, National Health Insurance fees, and other social security contributions.

There is limitation with HIES data. They does not have data on In-kind benefits. In-kind benefits cover medical, education, childcare, and housing benefits.

Taxes and benefits of households are directly calculated with actual receipts and government spending on goods and services (benefit incidence). The medical and educational benefits of the NBLSS are determined by the means-tested income. The average benefit levels of the medical or educational benefits of the NBLSS are assigned to each individual of the selected households.

The redistributive effects are measured in percentage terms by changes in Gini coefficient relative to the Gini of private income(Gini-based measures). The redistributive effect is calculated by multiplying the revenue size and progressivity.

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