SECTOR UPDATE

2026.1.14

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REITs (OVERWEIGHT)

Separate tax treatment for listed REITs

- Korea's economic growth strategy now includes separate tax treatment for dividends from listed REITs—this was not part of the original bill.
- The change is expected to increase retail participation in the REIT market and improve liquidity.
- On top of the tax benefits, the industry is now focusing more on using leverage (than on raising new capital) in an effort to enhance value per share.

WHAT'S THE STORY?

REITs pay dividends but lack tax benefits: The '2026 economic growth strategy' announced on Jan 9 includes plans to extend separate taxation benefits to listed REITs. Despite domestic REITs distributing at least 90% of their distributable income as dividends, the bill for separate taxation of dividend income, which came into effect in 2026, only covered listed high-dividend companies—REITs, infrastructure funds, and ETFs were excluded. In response, the REIT industry requested that listed REITs be included in the separate taxation framework, and this has now been accommodated in the government's economic growth strategy.

After-tax returns to rise upon inclusion in separate taxation framework: With regular stocks, dividends paid from 2026 will be taxed separately. But with listed REITs, it is less clear as to when the tax benefits will come into effect (on dividends paid in 2026 or 2027?). Separate taxation for dividends paid by listed REITs will be pursued in 2H26 and implemented after amendments to the Act on Restriction on Special Cases Concerning Taxation. REITs inherently offer high dividend yields, so if their dividends are taxed separately at a low rate, it would significantly boost investors' after-tax returns. Currently, dividend income from listed REITs on investments of up to KRW50m per person is taxed separately (9.9%). However, few investors have benefited, as: 1) the investment threshold is very low; 2) the REITs must be held for at least three years; and 3) investors have to apply individually for the tax break. The latest move, therefore, should encourage greater retail investment in the REIT market and improve liquidity. More importantly, it signals a policy intent to expand the REIT market through broader tax support.

REITs making most of remaining leverage: The stock prices of listed REITs are highly sensitive to interest-rate movements. In 2025, as interest rates declined, refinancing rates for listed REITs fell by more than 200bps (vs their 2023 highs).

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In 2H24, excessive rights offerings caused shareholder dilution, which hurt the sector's performance. With interest rates having stabilized, the industry is increasingly choosing to use leverage over issuing new equity. This is a profound change—REITs are now prioritizing enhancing value per share and improving cash flow (which capital can be returned to shareholders). Additionally, tax support would boost final dividend yields, positively influencing investor sentiment.

REITs to be included in separate taxation regime for dividends paid by qualifying high-dividend companies

Korea has enacted an amendment to the Act on Restriction on Special Cases Concerning Taxation to introduce a separate taxation regime for dividends paid by qualifying high-dividend companies (new Article 104-27). Previously, dividend income (interest and dividend) exceeding KRW20m per year was aggregated with other income for comprehensive taxation with a maximum rate of 45% (excluding local income taxes). Under the amendment, dividends from qualifying high-dividend companies will be taxed separately.

The final bill for separate tax rates is outlined in table 1. Under the original bill, qualifying high-dividend companies should either: 1) have a dividend payout ratio of at least 40%; or 2) have a dividend payout ratio of at least 20% and have increased dividends by at least 10% y-y. REITs were initially excluded because the tax benefit was intended to encourage higher dividend payouts, but listed REITs were already disbursing over 90% of their distributable income as dividends, leaving little room for hikes. However, the government's growth strategy now includes REITs, which development is expected to significantly improve investor sentiment towards listed REITs.

Separate taxation regime for dividends paid by high-dividend companies

Tax base	Separate tax rate
Not exceeding KRW20m	14%
In excess of KRW20m but not exceeding KRW300m	20%
In excess of KRW300m but not exceeding KRW5b	25%
In excess of KRW5b	30%

Source: National assembly, News article

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