

Voluntary Report – Voluntary - Public Distribution

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Report Name: South Korea Adopts Volume-based Liquor Tax for Beer

Country: Korea - Republic of

Post: Seoul ATO

Report Category: Trade Policy Incident Report, Beverages, Promotion Opportunities

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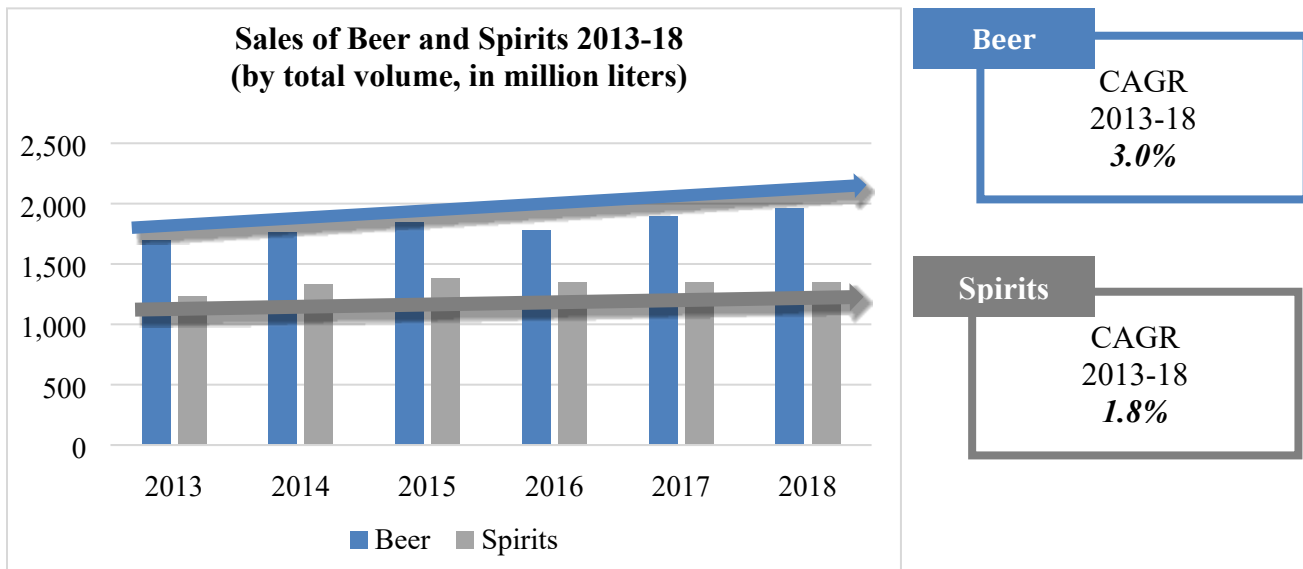
Report Highlights:

The Korean government implemented a volume-based liquor tax for beer on January 1, 2020. All beer will now be subject to 830.3 won (72 cent) per liter liquor tax. This tax will replace the previous 72 percent value-based liquor tax for beer. The policy change will reduce the cost of higher value beers in the market, including imported U.S. craft beer.

The Korea Ministry of Trade, Industry and Energy (MOTIE) announced on December 30, 2019 that the liquor tax for beer will be changed from a value-based system to a volume-based system on January 1, 2020. Under the volume-based liquor tax, any beer, regardless of production cost or retail price, will be subject to the same 830.3 won (72 cent) per liter liquor tax. Beer distributed to restaurants and bars in kegs will be taxed at 664.2 won per liter (a 20 percent tax discount) until the end of 2022, after which it will be taxed the same as other beer.

The policy change will benefit higher quality beer, including imported U.S. craft beer, as higher priced products will see the largest decline in liquor taxes. Most mass-produced lower price products will see a minimal change in taxes. Beer priced over 35 cents per 12 oz container (CIF for imported or ex-brewery for locally brewed beer) will benefit from the new tax policy, while beer priced less than 35 cents will face a higher tax bill.

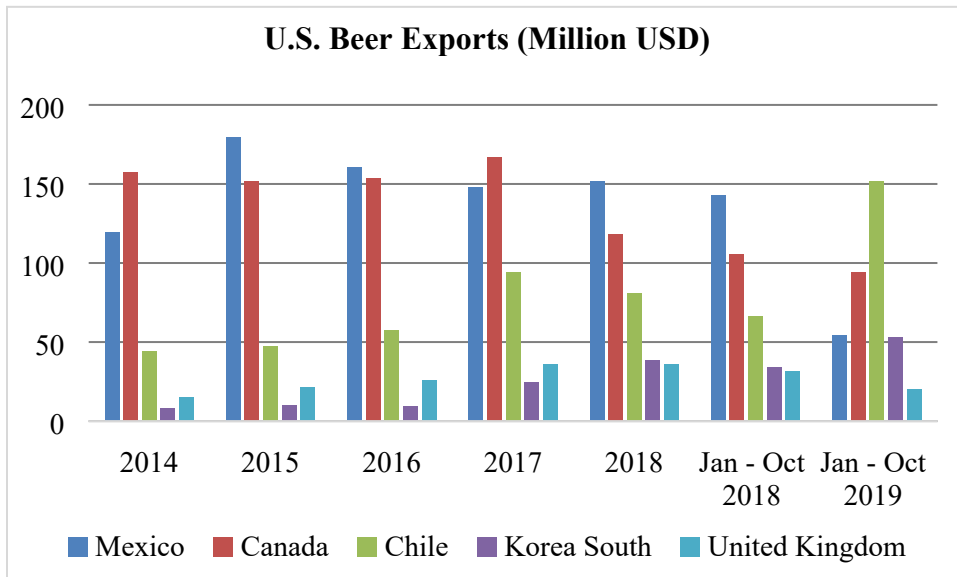
The Korean beer market has grown steadily in recent years, outpacing sales of spirits. Imported beer sales have expanded faster than local beer sales as consumers demand more quality and more diverse beers, although Korea has a growing craft beer industry as well.



Source: Euromonitor

Note: Soju, a traditional Korean liquor, accounts for almost 99 percent of spirit sales

U.S. beer exports to Korea totaled \$53 million in 2019 through October, up 55 percent from the same period in 2018. The increase in trade has not shown up yet in Korean import statistics, indicating that some of the imported U.S. beer may still be in bonded warehouses. Korea is the fourth largest export market for U.S. beer, and the U.S. is the fourth largest supplier of imported beer to Korea. For more information about the Korean beer market, please refer to the [Korea Beer Market Report 2019](#) (GAIN KS1902, February 15, 2019).



Source: U.S. Customs export data (HS 2203)

The table below provides an example of how the tax change will impact a CIF \$1 twelve-ounce container of beer from the United States. Under this scenario, cost of imported U.S. beer after tariff and taxes will decline by 31 percent. The price of a \$2 twelve-ounce container of beer would decline by 40 percent.

Table 1: Korean Import Tariff & Taxes on Imported U.S. Beer

Tax System	Import Tariff*	Liquor Tax	Education Tax	Value Added Tax
Value-based (Old)	0%	72%	30%	10%
Volume-based (New)	0%	830.3 won/liter	30%	10%

Note*: Import tariff on U.S. beer was removed to zero percent under the Korea-U.S. Free Trade Agreement.

Table 2: Effects of Import Tariff and Taxes on Imported U.S. Beer (12 oz Bottle)

Value-based system (Old)		Volume-based system (New)		
A	CIF* Invoice Value	\$1.00	CIF* Invoice Value	\$1.00
B	Import Tariff: A x 0%	\$0.00	Import Tariff: A x 0%	\$0.00
C	Liquor Tax: (A+B) x 72%	\$0.72	Liquor Tax: 830.3 won x 355ml/1000ml**	\$0.25
D	Education Tax: C x 30%	\$0.22	Education Tax: C x 30%	\$0.08
E	Subtotal: (A+B+C+D)	\$1.94	Subtotal: (A+B+C+D)	\$1.33
F	Value Added Tax **: E x 10%	\$0.19	Value Added Tax ***: E x 10%	\$0.13
	Product Cost after Tariff and Taxes (E+F)	\$2.13	Product Cost after Tariff and Taxes (E+F)	\$1.46

Note*: CIF is the export price upon arrival in a port in Korea inclusive of insurance and freight cost. The value of one-time use plastic keg containers is included in the CIF product value.

Note**: Calculated for a 355-milliliter volume bottle (12 oz) / \$1 = 1,160won as of Dec. 31, 2019

Note***: The Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer.

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Attachments:

No Attachments.