

OPINION

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Considerations on Virtual Asset Income Taxation under the 2025 Income Tax Act Amendment

Under the current Income Tax Act, the taxation of virtual asset income will take effect on January 1, 2027. However, detailed provisions and guidelines regarding various forms of income related to virtual assets, such as profits arising from the lending of virtual assets, airdrops, hard forks, mining, and staking, are still insufficient. Nevertheless, the Income Tax Act amendment bill submitted by the government to the National Assembly on 3 September contained virtually no meaningful improvements to the virtual asset taxation regime.

According to the analysis in this paper, the failure to properly establish the taxation system – one of the principal reasons for the three deferrals to date of the taxation of ‘other income’ from virtual assets – remains unresolved. As a result, the possibility of a fourth deferral of the taxation of virtual assets cannot be ruled out. In order to prevent a fourth deferral and to implement, as scheduled on 1 January 2027, the taxation of individual income from virtual assets, the following measures are required.

To ensure the stable implementation of the virtual asset personal income taxation system, it is necessary to eliminate the related gaps in taxation and to promptly establish the taxation infrastructure. Above all, when taxing individual income from virtual assets, aspects such as the taxable scope, the method of taxation, and the timing of taxation should be clearly defined for each type of income. Additionally, the tax authorities should establish an efficient taxation system for collecting transaction information and handling tax filings, and should support the activation of efficient tax service platforms that link with virtual asset exchanges and individual wallets.

To accomplish these taxation system reform objectives, the tax authorities should establish a task force for improving the virtual asset taxation regime and promptly prepare detailed measures and plans necessary for the implementation of virtual

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asset taxation. The National Assembly needs to add supplementary opinions to the 2025 Income Tax Act amendment that would require the tax authorities to report specific outcomes of the virtual asset taxation system improvements to the relevant standing committee of the National Assembly, following the precedent set during the enactment of the Virtual Asset User Protection Act.

Introduction

The Korean virtual asset market has maintained steady growth and has established itself as one of the key pillars of the domestic investment market. In particular, as of the end of the first half of 2025, the number of users on virtual asset exchanges who had completed customer due diligence (KYC) and were thereby eligible to trade exceeded 10 million, reaching 10.77 million.¹⁾ Meanwhile, as of the end of December 2024, the number of investors holding shares in listed corporations was estimated at approximately 14.23 million.²⁾ In light of these figures and the pace at which the virtual asset market is spreading, it is fully foreseeable that the market may grow even further.

The Korean virtual asset market is experiencing simultaneous quantitative expansion and qualitative advancement, with individual investors at its center. Accordingly, there is a pressing need for institutional reforms regarding the taxation of individual income arising from virtual asset transactions under the Income Tax Act. While the current Income Tax Act is scheduled to implement the virtual asset ‘other income’ taxation system starting January 1, 2027, detailed provisions and guidelines remain lacking with respect to various forms of virtual asset-related income, such as profits from lending virtual assets, airdrops³⁾, hard forks⁴⁾, mining⁵⁾, and staking.

1) Financial Services Commission, 2025. 10. 1, Results of the Survey on the Status of Virtual Asset Service Providers in the First Half of 2025, Press Release.

2) Korea Securities Depository, 2025. 3. 17, Shareholder Status of Listed Companies as of the End of December 2024, Press Release.

3) The term ‘airdrop’ of virtual assets refers to the act of distributing virtual assets to the wallet addresses of existing virtual asset holders for purposes such as marketing. Kab Lae Kim, 2022, Major Issues and Improvement Directions in Domestic Virtual Asset Income Taxation, KCMI Issue Report 22-23, p. 18.

4) The term ‘hard fork’ refers to a software upgrade that fundamentally changes the communication protocol of a blockchain network, making the new ledger incompatible with the legacy ledger. Ibid., p. 17.

5) The term ‘mining’ “refers to the process in some distributed-ledger protocols by which transactions of virtual currencies are verified and are added to the blockchain-based ledger (record of transactions)”. OECD, 2020, Taxing Virtual Currencies, p. 12.

Nevertheless, the Income Tax Act amendment proposed by the government to the National Assembly on September 3rd (hereinafter 'the 2025 Income Tax Act Amendment') contained almost no significant improvements to the virtual asset taxation regime. As a result, the failure to adequately prepare the taxation system - one of the key factors behind the three previous deferrals of 'taxation on individual income from the transfer and lending of virtual assets' (hereinafter 'virtual asset taxation deferral') - remains unresolved.⁶⁾ Consequently, the possibility of a fourth virtual asset taxation deferral cannot be ruled out. This article examines the history of virtual asset taxation deferrals in Korea, assesses the current state of the individual income taxation system for virtual assets, and then proposes directions for future institutional reform.

History of Virtual Asset Taxation Deferrals

Taxation on individuals' virtual-asset income was institutionalized through the Income Tax Act amendment (Law No. 17757) on December 29, 2020. This taxation scheme is characterized by classifying income from the transfer or lending of virtual assets as 'other income' for tax purposes. To date, the implementation of this tax scheme has been deferred three times.

The initially enacted virtual asset 'other income' taxation system was scheduled to take effect on January 1, 2022. However, in 2021 the virtual asset market plummeted and many virtual asset exchanges failed to meet registration requirements and shut down. Additionally, major virtual asset investment fraud cases such as V Global occurred. Public sentiment emerged that the personal income tax on virtual assets should be implemented only after establishing virtual asset investor protection systems and reforming the virtual asset taxation system. The political sphere, reflecting this public opinion in favor of deferring taxation, reached a bipartisan agreement to defer the virtual asset tax by one year. Consequently, on December 8, 2021, an amendment to the Income Tax Act was promulgated as Act No. 18578, changing the implementation date for virtual asset income taxation from January 1, 2022 to January 1, 2023.⁷⁾

6) During the three periods in which taxation on virtual assets was deferred, "the claim that the infrastructure was insufficient was repeated each time, but there was little substantive discussion about the infrastructure." Digital Times, 2024. 12. 1, Virtual Asset Taxation Eventually Postponed for Another 2 Years... What Tasks Must be Completed During the Deferral Period?

7) A National Assembly member who participated in the bipartisan agreement on the deferral of the taxation explained that "the ruling and opposition parties agreed on the view that deferring taxation on virtual assets for one year, to allow both the market and the government to prepare thoroughly and complete the taxation system before implementation, is consistent with tax acceptability, equity, and the principle of fair taxation." Korea IT Times, 2021. 11. 30, Virtual Asset Taxation Deferred for One Year until 2023: Need to Raise the Non-Taxable Threshold.

However, during the one-year taxation deferral period granted by the National Assembly, the system for taxing individuals' virtual asset income was not sufficiently improved. As a result, debate over the deferral of virtual asset taxation erupted once again in the National Assembly at the end of 2022. Considering the fierce opposition from market participants to the implementation of taxation in 2023 and the practical reality that the necessary tax infrastructure was not in place, lawmakers from both the ruling and opposition parties agreed to a two-year deferral of the virtual asset taxation. Consequently, through the supplementary provision amendment of the Income Tax Act (Law No. 19196) on December 31, 2022, the implementation date for virtual asset income taxation was changed from January 1, 2023 to January 1, 2025.

Even during the two-year deferral period starting in 2023, adequate efforts to establish a personal income taxation system for virtual assets and to modernize the related institutional framework were not made. With the enactment of the Virtual Asset User Protection Act on July 18, 2023, criticisms that the government was imposing taxes on virtual asset-related income without providing any taxpayer protections were alleviated. However, reform of Income Tax Act provisions for virtual asset 'other income' taxation was still not properly carried out. Participants in the virtual asset market have continued to point out that the underlying issues - namely the lack of tax infrastructure and institutional preparedness, which led to the first and second deferrals - remain unresolved. Amid strong opposition from virtual asset market participants, the implementation date for virtual asset 'other income' taxation was changed from January 1, 2025 to January 1, 2027 through the supplementary provision amendment of the Income Tax Act (Law No. 20615) on December 31, 2024.

These three successive deferrals of virtual asset taxation were an unprecedented situation, virtually unseen in major countries around the world. At the time of the third taxation deferral, not only the ruling party but also the opposition party (currently the ruling party) emphasized that additional institutional reforms were needed.⁸⁾ Subsequently, there were almost no official and concrete measures to reform the virtual asset taxation system, such as running an effective public-private joint task force to diagnose gaps in virtual asset taxation and propose solutions, or incorporating the establishment of a virtual asset tax infrastructure into the National Tax Administration Operational Plan. This stands in stark contrast to the actions taken after the Virtual Asset User Protection Act was enacted on July 18, 2023, when the financial

8) Dong-A Ilbo, 2024. 12. 2, Democratic Party Makes Sharp U-Turn: "Agrees to 2-Year Deferral of Virtual Asset Taxation"

authorities reformed the virtual asset system through reporting implementation plans to the National Assembly⁹⁾, establishing dedicated organizations, and promptly enacting the necessary subordinate regulations.

Deficiencies in the System for Taxing Individuals' Virtual Asset Income

As discussed above, the lack of proper systems and infrastructure for taxing personal income from virtual assets has been one of the primary reasons for the three deferrals of the implementation of the virtual asset 'other income' taxation system. However, the government's 2025 amendment bill to the Income Tax Act maintains the virtual asset taxation system as of December 31, 2024 - the date on which implementation was deferred - without any significant improvements. Therefore, it is essential to examine whether the current virtual asset personal income taxation system is sufficiently prepared to be implemented on January 1, 2027.

Taxation on income generated from the transfer of virtual assets can be implemented to some extent through withholding at source by virtual asset exchanges, where the regulatory framework is relatively well established. However, legal ambiguities still exist regarding taxation of non-residents, taxation of transactions other than domestic crypto exchange trading (decentralized services, overseas exchanges, P2P transactions), standards for calculating cost basis, and the timing of taxation. Given that the Korean Supreme Court adopts a strict principle of tax legalism in virtual asset taxation,¹⁰⁾ any gap in taxing income from virtual asset transfers could cause great confusion in the virtual asset market.

For income generated from virtual asset lending, the tax authorities have neither specified which lending activities fall under 'other income' category nor provided market participants with detailed guidance on the applicable taxation methods. Furthermore, a taxation system for identifying taxpayers liable for income from virtual asset lending and notifying the taxpayers has yet to be established.¹¹⁾ Income generated from virtual asset lending is understood to

9) During the enactment process of the Virtual Asset User Protection Act, the National Assembly attached supplementary opinions regarding the commissioning of research services and reporting to the relevant standing committee. Based on these supplementary opinions, the National Assembly requested the Financial Services Commission to commission the research and subsequently received a report on the research results.

10) See Supreme Court Decision, 2024. 12. 26, 2024Du53727.

11) A resident who has other income from virtual assets during the comprehensive income tax filing period (from May 1 to May 31) must file a report on the tax base of such other income with the head of the tax office having jurisdiction over the place of tax payment. (Income Tax Act §70(1))

primarily refer to income from lending transactions and similar activities. However, the position of the tax authorities remains unclear on whether the concept of virtual asset lending includes PoS staking and on the criteria for distinguishing between virtual asset lending and staking.

In terms of taxing income from blockchain validation (PoW mining and PoS validation), the Korean taxation system remains significantly ambiguous compared to the taxation systems of major countries, as shown in the table below.

**<Table 1> International Comparison of Income Tax Treatment
for Blockchain Validation Compensation**

	South Korea	United States	Japan	United Kingdom	Germany
Distinction between Business Income and Non-Business Income	unclear	clear (compared with Korean distinction criteria)	clear (compared with Korean distinction criteria)	clear (compared with Korean distinction criteria)	clear (compared with Korean distinction criteria)
Taxation on Non-Business Compensation for Validation	unclear	ordinary income	miscellaneous income	miscellaneous income	other income

Source: KCMI(2022)¹²⁾

Even in the taxation of income from airdrops and hard forks, which can be considered unique tax situations specific to virtual assets, the Korean taxation system remains highly ambiguous compared to the taxation systems of major countries, as shown in the table below.

12) This comparison table was prepared based on the comparison table in "Kab Lae Kim, 2022, Key Issues and Directions for Improvement in the Taxation of Income from Virtual Assets in Korea, KCMI Issue Report 22-23, p. 17," with relevant tax laws and regulations reverified as of November 1, 2025.

**<Table 2> International Comparison of Income Tax Treatment
for Hard Forks and Airdrops**

	South Korea	United States	Japan	United Kingdom	Germany
Taxation on Virtual Assets from Airdrops	income subject to gift tax or other income (unclear)	ordinary income	miscellaneous income	for consideration or business: taxable without consideration: non-taxable	for consideration: taxable without consideration: non-taxable
Taxation on Virtual Assets from Hard Forks	income subject to gift tax (unclear)	ordinary income	miscellaneous income	non-taxable (adjustment of cost basis upon transfer)	non-taxable (taxable if held for less than one year at the time of transfer)

Source: KCMII(2022)¹³⁾

When assessed comprehensively, the current framework for taxing other income from virtual assets under the Income Tax Act is far too underdeveloped to be implemented as of January 1, 2027.

Conclusion

Despite sufficient time being provided during the three preceding deferral periods, the taxation system for virtual asset personal income remains unprepared. This could lead to serious problems, such as an erosion of public trust in the tax authorities and tax policy, and confusion among market participants due to continued uncertainty in taxation. If the virtual asset market conditions next year are unfavorable and market participants show strong resistance to taxation, the incomplete state of the taxation system could become a catalyst for another deferral. If a situation arises where public opinion is formed calling for a fourth tax deferral, there is a risk of triggering tax resistance strong enough to make future taxation difficult. To prevent this fourth deferral scenario and to implement the taxation of individual income from virtual assets as scheduled on January 1, 2027, the following measures are necessary.

13) This comparison table was prepared based on the comparison table from 'ibid., p. 21,' with relevant tax laws and regulations reverified as of November 1, 2025.

In the short term, to ensure the stable implementation of the individual virtual asset income taxation system, it is necessary to eliminate any gaps in taxation and promptly establish the tax infrastructure. Above all, with regard to the taxation of individual income from virtual assets, the taxable scope, the method of taxation, and the timing of taxation should be clearly defined for each type of income. Additionally, the tax authorities should establish an efficient taxation system for collecting transaction information and handling tax filings, and should promote the use of tax service platforms that link with virtual asset exchanges and individual wallets. To achieve these taxation system improvement tasks, the tax authorities should form a virtual asset taxation system reform task force and swiftly prepare detailed measures and plans necessary for the implementation of taxation. The National Assembly needs to add supplementary opinions to the 2025 Income Tax Act amendment that would require the tax authorities to report specific outcomes of the virtual asset taxation system improvements to the relevant standing committee of the National Assembly, following the precedent set during the enactment of the Virtual Asset User Protection Act.

In the long term, fundamental discussion is needed on whether it is desirable to systematize income arising from the transfer and lending of virtual assets as ‘other income.’ Given the current situation where virtual assets have established themselves as investment assets, it is necessary to engage in in-depth discussions on issues such as loss offset, loss carryforward, and tax equity in relation to financial investment income, taking into consideration the characteristics of virtual assets.