



## INSIGHT: NORTHEAST ASIA

# With Japan as inspiration, South Korea unveils donation system to rejuvenate local economies



### THE TAKEAWAY

In response to the overconcentration of people and resources in the Seoul Capital Area, South Korea is taking steps toward fully implementing a new [Hometown Love Donation System \(HLDS\)](#). The system lets people donate to municipal governments to help revitalize local areas affected by population decline in return for gifts and tax deductions. The HLDS, modelled after Japan's successful Hometown Tax Donation System (HTDS) — which has significantly increased tax donations to local governments and contributed to more balanced regional development — will launch in 2023.

### IN BRIEF

The HLDS will permit South Koreans to donate to any municipal government except for the local government of their residence with limits on the amount of donations, up to C\$5,223 (5 million won) per person per year. Donations up to C\$104 (100,000 won) can be 100 per cent tax-deductible, and 16.5 per cent of the amount after that can be tax-deductible. In South Korea, like Japan, municipal governments

will provide donors with gifts equivalent to up to 30 per cent of their hometown donations.

In 2021, the South Korean government identified [89 local municipalities](#) with a high chance of vanishing within the next few decades. A year later, the government set up [C\\$1.1 billion \(1 trillion won\) fund](#) to help these municipalities initiate projects to ease the decline. Together with this fund, the HLDS is expected to contribute to more balanced regional development. Municipal governments in South Korea will be able to [use the HLDS funds](#) to support and protect the socially vulnerable, promote local culture, art, and public health, revitalize local community and volunteer events, and support other local projects promoting residents' welfare.

### IMPLICATIONS

In drafting the HLDS, South Korean government officials often referenced Japan's successful HTDS, which increased local tax donations from C\$73.2 million (7.3 billion yen) in 2008 to [C\\$832 million \(830.2 billion yen\) in 2021](#). Japan's nationwide efforts to aid areas affected by the 2011 Tohoku earthquake

and tsunami and the 2014 Masuda Report (and Masuda's subsequent book *Local Extinctions*, which [warned](#) about the negative effects of Tokyo's pull of people and resources from around the country and cautioned that half of Japan's municipalities could disappear by 2040), have contributed to the popularity of the HTDS. Supporters of the HLDS in South Korea believe that it will slow down rural freefall. They often cite Masuda's book as South Korea is facing similar issues, as well as several successful cases in Japan like [Kamishihoro-cho, Hokkaido](#), which was able to revive [population growth](#) thanks to hometown tax donations.

However, there are concerns about the social costs of the donation and tax deduction administrative processes and the market distortions caused by the provision of gifts, including the risk of corruption or unfair competition in selecting gift suppliers. Some experts also claim the HLDS could [adversely affect other donation projects](#) such as charity events and disaster relief campaigns in a relatively small donation market. The HLDS could disadvantage local regions and municipalities without local specialties and fuel unhealthy competition between local governments. Moreover, some say that government projects and responsibilities are being passed on to the public in the name of donations.

The South Korean government has set various restrictions on the amount of donations and tax deductions to dispel worries and increase transparency in the early stages of the HLDS. Despite government efforts, [a survey in August](#) found that 65 per cent of the respondents had reportedly never heard of the HLDS. The success of the new donation system will depend on more people coming forward voluntarily, requiring stronger public relations to spread the word and build public confidence in the system.

## WHAT'S NEXT

### 1. Move towards crowdfunding-like donations

Tax deductions and gifts are still the main drivers for hometown donations in Japan. But over time, hometown donation projects [responding to specific social issues](#), such as the [initiative](#) aimed at stopping the culling of abandoned dogs in Jinseki Kogen, Hiroshima, have started to raise more funds. Likewise, South Korea's HLDS is also expected to play a crowdfunding-like role for municipal governments to raise funds for local social issues.

### 2. Competition among hometown donation platforms

[Private donation platforms](#) in Japan such as "Furusato Choice" and "Rakuten Furusato Tax" have contributed to the successful launch of hometown tax donations. Similarly, the South Korean government may add private platforms to the public online platform to improve service quality and attract more donors.

### 3. Multiple service languages for foreign donors

Like [the Japanese startup Luxurique](#), which launched an English-language hometown tax donation platform for foreign donors, the South Korean government is expected to expand donation services to target foreign residents who are interested in tax deductions and local specialties.

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