

---

# Abstract

The purpose of this study is to estimate the extent of local fiscal losses incurred by providing bases to the US Forces in Korea (USFK) and to present a feasible loss compensation plan. The provision of lands for the presence of US troops for the defense of Korea has resulted in various economic and financial losses, such as regional underdevelopment, insufficient residents' income, and local tax bases erosions. This study analyzed the extent of local tax exemptions on land provided to the US FK. Next, this study estimated the opportunity costs due to tax exemptions and the cost of losses due to underdeveloped local economy.

The extent of Gyeonggi Province's local tax exemptions on land provided to the USFK is estimated to be around 11.96 billion won. In addition, the extent of the non-taxable opportunity costs in three cities, including Dongducheon City, Uijeongbu City, and Paju City in Gyeonggi Province, is estimated to be about 21.17 billion won. Furthermore, 100% of the buildable sites and miscellaneous lots of the USFK provided lands in these three cities are developed for apartments (condominiums), the production inducement effect will be 26.07 billion won, the added value induction effect will be 16.419 billion won, and the employment inducement effect will be 301.5 people.

In conclusion, local financial losses due to land provision to USFK should be directly preserved by central government. To compensate for local fiscal losses, first, the 'U.S. military base local shared tax' should be implemented by revising the local shared tax system. Second, it is necessary to compensate for local financial losses by establishing a 'special account for the management of the U.S. military provided areas' (tentative name). Third, as in the case of Japan, the 'grant system for US Forces in Korea base' (tentative name) should be introduced.

**Keyword** local fiscal stress; providing lands to US Forces in Korea; local tax exemptions; local shared tax