
TAXATION LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA FOR FOREIGN- INVESTED BUSINESSES AND FOREIGN INDIVIDUALS

Adopted by Decision No. 26 of the Standing Committee of the Supreme People's Assembly on January 31, 1993, amended by Decree No. 484 of the Presidium of the Supreme People's Assembly on February 26, 1999, amended by Decree No. 2315 of the Presidium of the Supreme People's Assembly on May 17, 2001, amended by Decree No. 3400 of the Presidium of the Supreme People's Assembly on November 7, 2002, amended by Decree No. 2688 of the Presidium of the Supreme People's Assembly on April 29, 2008, amended by Decree No. 2842 of the Presidium of the Supreme People's Assembly on August 19, 2008, and amended by Decree No. 2048 of the Presidium of the Supreme People's Assembly on December 21, 2011

Chapter 1 Fundamentals

Article 1 (Objective)

This Law is enacted for the purpose of ensuring impartiality in the imposition of tax on and accuracy in the payment of tax by foreign-invested businesses and foreign individuals.

Article 2 (Tax registration, registration of alteration and cancellation)

Foreign-invested businesses and foreign individuals shall be registered for tax purposes with the financial institution concerned.

Where a foreign-invested business is established, merged, divided or dissolved, formalities for tax registration, alteration or cancellation shall be carried out within 20 days of the date of the registration.

Article 3 (Financial accounting, retention of documents)

The accounts of foreign-invested businesses shall be settled in accordance with the law and regulations on the settlement of financial accounting of foreign-invested businesses.

Documents on financial accounting shall be retained for a period of 5 years. This period may be extended if deemed necessary.

Article 4 (Currency for tax payment, taxpayer)

Taxes to be paid by foreign-invested businesses and foreign individuals shall be calculated in Korean Won, and paid directly by the beneficiary or deducted and paid by a withholding agency.

Article 5 (Guidance organ)

Taxation of foreign-invested businesses and foreign individuals shall be placed under the unified administration of the central financial guidance organ.

Article 6 (Applicability)

This Law shall apply to the foreign-invested businesses, foreign individuals and overseas Koreans conducting business transactions or earning income in the territory of the DPRK.

Article 7 (Application of relevant treaty)

Where any treaty concluded between the DPRK and a foreign country provides otherwise than this Law, the treaty shall prevail.

Chapter 2 Enterprise Income Tax

Article 8 (Taxable objects)

A foreign-invested business shall pay tax on income from sale of products, income from transfer of construction works, income from freight and charges, and other earnings from business activities conducted in the territory of the DPRK, as well as on such other incomes earned in the DPRK as income from interest, dividends, lease of fixed assets, sales proceeds of assets, royalties for intellectual property right and technical know-how, provision of management-related service and donation.

A foreign-invested business shall also pay tax on the incomes derived from its branches, representative offices and agencies established outside the territory of the DPRK.

Article 9 (Tax rates)

The income tax rate for foreign-invested businesses shall be 25% of the net profit.

The income tax rate for foreign-invested businesses established in the special economic zones shall be 14% of the net profit.

The enterprise income tax rate in the priority sectors such as the high technology, infrastructure construction and scientific research shall be 10% of the net profit.

Article 10 (Tax rate on other income)

Where a foreign enterprise earns other income such as income from dividends, interest, rental charge, royalties or other sources in the territory of the DPRK, such income shall be taxable at the rate of 20%.

The tax rate shall be 10% in the special economic zones.

Article 11 (Calculation)

Enterprise income tax shall be calculated from January 1 to December 31 of each year by applying the prescribed tax rate to the net profit, which remains after the deduction of turnover tax or business tax and other expenses from the gross profit, which shall be determined by deducting costs of materials, fuel, power and labour, depreciation, costs of goods purchased, maintenance costs of workshop and company, insurance premium, sales cost and other expenses from the gross income.

Article 12 (Estimated payment)

An estimated enterprise income tax shall be paid each quarter. In this case estimated income tax returns shall be submitted to the relevant financial institution within 15 days from the end of each quarter.

Article 13 (Full payment)

A foreign-invested business shall determine its income tax after the annual settlement of the accounts and make a supplementary payment for any shortfall. In this case any overpayment shall be refunded.

In the event of dissolution of an enterprise, the enterprise concerned shall create a security for tax payment in the relevant financial institution within 20 days of the official declaration of its dissolution and shall pay income tax within 15 days of settlement of accounts. Should an enterprise be merged or broken up, the enterprise shall settle its income as of the date of such effect and pay income tax to the relevant financial institution within 20 days of the declaration of the merger or break-up.

Article 14 (Tax payment on other income)

Tax on other income earned by a foreign enterprise shall be assessed and paid by the beneficiary, or deducted and paid by the withholding agency to the relevant financial institution within 15 days of earning such income.

Article 15 (Exemption, reduction)

Enterprise income tax shall be exempted or reduced in the following cases:

1. Where a foreign government or an international financial organization grants a loan to the DPRK, or a foreign bank grants a loan to a bank or enterprise of the DPRK on favourable terms, income tax shall not be payable to the interests accruing therefrom;

2. A foreign-invested enterprise in a priority sector or in a production sector in the special economic zones shall be entitled to an exemption from enterprise income tax for 3 years from the first profit-producing year and to a reduction of up to 50% for the following 2 years, provided that it is to be operated for more than 10 years; and

3. A foreign-invested enterprise engaged in infrastructure development such as railways, roads, airports and ports may be granted full exemption from enterprise income tax for 4 years from the first profit-producing year and a reduction of up to 50% for the following 3 years.

Article 16 (Exemption, reduction or refunding of tax on reinvested amount)

Where a foreign investor reinvests the profits from his business in the territory of the DPRK to operate the enterprise for more than 5 years, 50% of the income tax paid on the reinvested amount may be refunded, and in the case of construction of infrastructure facilities the full amount of income tax paid on the reinvested amount may be refunded.

Where the reinvested amount is withdrawn before a period of 5 years, the income tax refunded shall be paid.

Chapter 3 Individual Income Tax

Article 17 (Obligation of tax payment)

Any foreign individual earning income within the territory of the DPRK shall pay individual income tax.

A foreign individual who stays or resides in the territory of the DPRK for more than 1 year shall pay individual income tax on earnings from outside the territory of the DPRK.

Article 18 (Taxable objects)

Individual income tax shall be levied on income from:

1. Remuneration for work;

2. Interest payments;
3. Dividends;
4. Lease of fixed assets;
5. Proceeds from the sale of assets;
6. Royalties for intellectual property right and technical know-how;
7. Provision of management-related service; and
8. Donation.

Article 19 (Tax rates)

Individual income tax shall be charged at the following rates:

1. Individual income tax on labour remuneration shall be the prescribed rate within the range of 5~30% of the income;
2. Individual income tax rate shall be 20% of interest payments, dividends, income from lease of fixed assets, royalties for intellectual property right and technical know-how and income from provision of management-related service;
3. Tax rate on income from donation shall be the prescribed rate within the range of 2~15% of the income; and
4. Individual income tax rate on the income from the sale of assets shall be 25%.

Article 20 (Calculation of tax on labour remuneration)

Individual income tax on labour remuneration shall be calculated by applying the prescribed tax rate to the monthly income.

Article 21 (Calculation of tax on dividends and others)

Individual income tax on dividends, proceeds from the sale of assets, royalties for intellectual property right and technical know-how, income from provision of management-related service and donation shall be calculated by applying the prescribed rate to the income in question.

Article 22 (Calculation of tax on interest)

Individual income tax on interest shall be calculated by applying the prescribed rate to the interest earned from bank deposits.

Article 23 (Calculation of tax on income from lease of fixed assets)

Individual income tax on income from lease of fixed assets shall be calculated by applying the prescribed rate to the remaining amount of income after deducting 20% from the income such costs as labour, packing and commission.

Article 24 (Tax payment)

Individual income tax shall be paid as follows:

1. Individual income tax on labour remuneration shall be deducted by the payer at the time of payment and paid to the relevant financial institution within 5 days, or paid by a beneficiary to the relevant financial institution within 10 days;
2. Individual income tax on sales proceeds of assets and income from donation shall be assessed and paid by the beneficiary to the relevant financial institution within 10 days from the end of each quarter; and
3. Individual income tax on interest, dividends, lease of fixed assets, royalties for intellectual property right or technical know-how, and income from provision of management-related service shall be deducted and paid by the withholding agency or assessed and paid by the beneficiary to the relevant financial institution within 10 days from the end of each quarter;

Chapter 4 Property Tax

Article 25 (Objects of taxation and exemption)

A foreign individual shall pay property tax on buildings, vessels or aircraft that are registered with the DPRK.

Buildings in the special economic zones shall be exempted from property tax for a period of 5 years.

Article 26 (Registration of property)

A foreign individual shall register his property with the relevant financial institution as follows:

1. The property shall be registered at an assessed value within 20 days of acquisition thereof;
2. In case of change of the owner or registered value of property, new registration shall be made within 20 days from the date of the change;
3. The value of property shall be assessed as of January 1 each year and re-registered by the end of each February; and
4. In case a property is scrapped, registration thereof shall be cancelled within 20 days.

Article 27 (Taxable amount)

Property tax shall be levied on the value of the property registered with the relevant financial institution.

Article 28 (Tax rate)

The property tax rate shall be 1~1.4% of the value of the registered property.

Article 29 (Calculation)

Property tax shall be calculated from the month following the registration of the property by applying the prescribed rate to the value registered with the relevant financial institution.

Article 30 (Payment)

Property tax shall be paid by the owner of the property to the relevant financial institution within 20 days after the end of each quarter.

Chapter 5 Inheritance Tax

Article 31 (Obligation of payment)

Where property in the territory of the DPRK is inherited by a foreign individual, inheritance tax shall be payable.

Where a foreign individual residing in the territory of the DPRK inherited a property that is outside the territory of the DPRK, inheritance tax shall also be payable.

Article 32 (Taxable objects)

Inheritance tax shall be levied on the remaining value of the inherited property, after all outstanding debts relating to it are cleared.

Article 33 (Assessment of value of inherited property)

The value of the property inherited shall be priced in view of the value of the property at the time of inheritance.

Article 34 (Tax rate)

The rate of inheritance tax shall be 6~30% of the inherited value.

Article 35 (Calculation)

Inheritance tax shall be calculated by applying the prescribed tax rate to the amount to be taxed.

Article 36 (Payment)

Inheritance tax shall be assessed and paid by an inheritor to the relevant financial institution within 3 months of the date of inheritance.

Where the tax payable for inherited property exceeds the prescribed amount, payment by installment shall be permitted.

Chapter 6 Turnover Tax

Article 37 (Obligation of payment)

A foreign-invested business in the production and construction sector shall pay turnover tax.

Article 38 (Taxable objects)

Turnover tax shall be levied on income from sale of products and from transfer of construction works.

Article 39 (Tax rate)

The rate of turnover tax shall be 1~15% of the income from sale of products and from transfer of construction works.

The rate of turnover tax on luxury goods shall be 16~50% of the income from sale of products.

Article 40 (Calculation)

Turnover tax shall be calculated by applying the prescribed rate to the income from sale of products or income from transfer of construction works.

In case a foreign-invested business is engaged both in production and service, turnover tax and business tax shall be calculated separately.

Article 41 (Payment)

Turnover tax shall be paid to the relevant financial institution each time the income from sale of products and from transfer of construction works are earned.

Article 42 (Exemption)

Export goods shall be exempted from turnover tax. Turnover tax shall, however, be payable for controlled export goods according to the prescribed rate.

Chapter 7 Business Tax

Article 43 (Obligation of payment)

A foreign-invested business in the service sector shall pay business tax.

Article 44 (Taxable objects)

Business tax shall be levied on the income from service in such sectors as transport, power, commerce, trade, banking, insurance, tourism, advertising, hotel, public catering, recreation and welfare facilities.

Article 45 (Tax rate)

The rate of business tax shall be 2~10% of the income concerned.

Article 46 (Calculation)

Business tax shall be calculated by applying the prescribed rates to the income by categories of business.

Where a foreign-invested business is engaged in several categories of business, business tax shall be calculated by each category of business.

Article 47 (Payment)

Business tax shall be paid to the relevant financial institution each time the income from service is earned.

Chapter 8 Resource Tax

Article 48 (Obligation of payment, classification of resources)

Where a foreign-invested business exports resources or exploits them for the purpose of sale, tax shall be payable.

Resource tax shall also be payable where resources are exploited for self-consumption.

Resources shall include mineral resources, forest resources, animal and plant resources, marine resources and water resources that exist in natural state.

Article 49 (Taxable objects)

Resource tax shall be levied on the income earned from export or sale of the resources, or at the prescribed value.

Article 50 (Tax rate)

Tax rate for different categories of resources shall be fixed by the Cabinet.

Article 51 (Calculation)

Resource tax shall be calculated by applying the prescribed rate to the income from export or sale of resources or to the prescribed value.

Where different kinds of resources are found in the course of exploitation, calculation shall be made separately.

Article 52 (Payment)

Resource tax shall be paid to the relevant financial institution each time income is earned from the export or sale of resources, or resource concerned is used

Article 53 (Exemption, reduction)

Resource tax shall be exempted or reduced in the following cases:

1. Enterprises that exploit such resources as oil or natural gas shall be entitled to exemption for 5~10 years;
2. Resource tax may be reduced where, instead of selling resources in natural state, quality processed goods that are made thereof through modern technical process are exported, or resources are sold to the institutions, enterprises or organizations of the DPRK according to the measures taken by the State; and
3. Resource tax on the ground water used for production by a foreign-invested enterprise in the priority sector may be reduced.

Chapter 9 Local Taxes

Article 54 (Obligation of payment, classification)

A foreign-invested business and a foreign resident shall pay local taxes to the relevant financial institution.

Local taxes shall include city management tax and vehicle tax.

Article 55 (Obligation of payment of city management tax)

A foreign-invested business and a foreign resident shall pay city management tax for the maintenance and management of public facilities such as parks, roads and waste disposal facilities.

Article 56 (Taxable objects)

City management tax shall be levied on the total amount of wage and salary paid by a foreign-invested business or the monthly income of a foreign resident.

Article 57 (Calculation, payment)

City management tax shall be calculated and paid as follows:

1. City management tax on a foreign-invested business shall be calculated each month at the rate of 1% of the total amount of wage and salary paid by the business and paid to the relevant financial institution within 10 days after the end of each month; and

2. City management tax on a foreign resident shall be assessed each month at the rate of 1% of the monthly income and paid by himself or herself to the relevant financial institution within 10 days after the end of each month. If a circumstance so requires, it shall be deducted and paid by a withholding agency.

Article 58 (Obligation of payment of vehicle tax)

Foreign-invested business and foreign individuals shall pay vehicle tax for the use of vehicles.

Article 59 (Registration)

Foreign-invested business and foreign individuals shall register vehicles with the relevant financial institution within 30 days of the acquisition thereof.

Article 60 (Amount of tax)

The amount of tax for different types of vehicles shall be fixed by the central financial guidance organ.

Article 61 (Payment)

Vehicle tax shall be paid to the relevant financial institution by the user of the vehicle before the end of February of each year.

Vehicle tax may be exempted for the period during which the vehicle concerned is not used.

Chapter 10 Sanction, Complaints

Article 62 (Imposition of arrearage)

Where a foreign-invested business or a foreign individual fails to pay tax within the prescribed period of time, the financial institution shall levy an arrearage of 0.3% every day on the amount overdue, beginning the day after the deadline for the tax payment.

Article 63 (Fine)

Fine shall be imposed in cases of:

1. Any delay in carrying out tax formalities or submitting income tax returns, and financial statements;
2. Short deduction of taxes or nonpayment of deducted taxes; or
3. Tax evasion.

Article 64 (Administrative or penal liability)

Where a serious consequence is caused as a result of violation of this Law administrative or penal liability shall be imposed depending on the seriousness of the offence.

Article 65 (Complaints, settlement)

Foreign-invested businesses or foreign individuals may lodge with the relevant institution any complaint in connection with tax payment.

The institution that has received complaint shall examine and settle the case within 30 days of receipt thereof.