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# TAXATION REGULATIONS IN THE MT. KUMGANG SPECIAL ZONE FOR INTERNATIONAL TOURISM

Adopted by Resolution No. 95 of the Presidium of the Supreme People's Assembly on June 27, 2012

## Chapter 1 Generals

### Article 1 (Objective)

These Regulations are formulated for the purpose of providing strict guidelines for the tax affairs in the Mt. Kumgang Special Zone for International Tourism, thereby ensuring proper imposition and payment of tax.

### Article 2 (Applicability)

These Regulations shall be applicable to the individuals and businesses that conduct economic transactions or earn income in the Mt. Kumgang Special Zone for International Tourism (the SZIT).

Businesses shall include the businesses, branches and offices that are established and operated by foreign investors, south Koreans and overseas Koreans, and individuals include foreigners, south Koreans and overseas Koreans.

### Article 3 (Tax registration, issuance of tax registration certificate)

A business shall, within 15 days of receipt of a business registration certificate, file an application for tax registration with the tax office of the SZIT (the tax office).

The tax office shall issue a tax registration certificate within 10 days of receiving an application to that effect.

### Article 4 (Change of registered tax items, revocation)

A business shall, upon merge or division thereof or any change in the registered capital and business category, shall register the particulars of change in the tax affairs with the tax office within 10 days of registration of the changed items with the SZIT management committee.

A business to be dissolved shall revoke tax registration not later than 20 days before the dissolution.

### Article 5 (Tax registration by individuals)

Individuals who earn income in the SZIT while staying or residing therein shall file an application for tax registration with the tax office within 20 days of obtaining the permission for stay or residence.

Tax registration for employees may be made by the business concerned.

### Article 6 (Language, types and form of tax documents)

Tax documents in the SZIT shall be prepared in Korean language.

Where necessary, tax documents may be prepared in a foreign language. In this case Korean translation thereof shall be attached.

The types and forms of tax documents shall be determined by the tax office.

#### Article 7 (Period of retention of tax documents)

Tax documents shall be retained for a period of 5 years. The yearly statement of settlement of accounts and the ledger of fixed assets shall be retained as long as the term of operation of a business concerned.

#### Article 8 (Currency for payment of tax, obligor for payment)

Tax shall be paid in the designated foreign currency directly by the obligor for payment or deducted and paid by a withholding agency.

#### Article 9 (Procedures for payment of tax)

An obligor for payment shall file a tax payment report with the tax office for confirmation and pay the tax to the bank designated by the SZIT guidance organ. In this case the bank shall issue to the payer a confirmation of tax payment and send a notice of tax payment to the tax office.

#### Article 10 (Period of tax payment)

An obligor for payment shall pay tax within the prescribed period of time.

Where it is impossible to pay tax within the prescribed period of time for unavoidable reasons, the period may be extended subject to the approval of the tax office.

#### Article 11 (Application of international agreements)

Any agreement concluded between the DPRK and a foreign country in respect of tax affairs in the SZIT shall take precedence.

#### Article 12 (Guidance organ)

Tax affairs in the SZIT shall be placed under the guidance of the SZIT guidance organ.

## Chapter 2 Business Income Tax

#### Article 13 (Obligation for payment of business income tax, taxable objects)

Businesses shall pay tax for the income earned from business operation in the SZIT and other income earned therein.

Income from business operation shall include the income from tourist service, sale of products and transfer of construction works, freight and charges, while other income include income from interests, dividend, lease of fixed assets and sale of property, royalties for intellectual property rights and know-how, income from management-related service and donation.

#### Article 14 (Rate of business income tax)

The rate of business income tax in the SZIT shall be 17% of the net profit.

The rate shall be 10% in the sector of infrastructure construction.

#### Article 15 (Calculation of business income tax)

Business income tax shall be calculated 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 the business, insurance premium and sales cost.

#### **Article 16 (Term and method of payment of business income tax)**

Businesses shall pay an estimated income tax within 15 days of the end of each quarter and the full amount within 3 months of the end of the fiscal year.

A business that wishes to pay a full amount of income tax shall file the yearly statement of settlement of accounts and a tax payment report with the tax office for verification before paying the income tax to the bank concerned. In this case any overpayment shall be refunded or shortfall paid.

#### **Article 17 (Payment of income tax in case of dissolution, merger or division of a business)**

Where a business is to be dissolved, the business concerned shall, within 20 days of declaration of dissolution, provide security for payment of tax to the tax office and pay income tax within 15 days of completion of settlement of accounts.

Where a business is to be merged or divided, income tax shall be paid within 20 days of declaration thereof.

#### **Article 18 (Reduction or exemption of business income tax)**

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

1. Where a foreign government or an international financial organization grants a loan or a foreign bank offers a loan on favourable terms to a bank or business in the SZIT, income tax shall not be payable for the interests accruing therefrom;

2. Where a business reinvests its profits for the operation of business for another 5 years, 50% of the income tax paid for the reinvested amount shall be reduced;

3. Where the total amount of investment is more than 10 million€, the business concerned shall be entitled to exemption of income tax for the first 3 years and reduction of 50% for the following 2 years; and

4. Where a business invests in the construction of infrastructure facilities worth more than 20 million €, the business concerned shall benefit from exemption of income tax for the first 4 years and reduction of 50% for the next 3 years.

#### **Article 19 (Submission of application for reduction or exemption of business income tax)**

A business that wishes to benefit from reduction or exemption of income tax shall file with the tax office an application to that effect and a document of verification of the term of operation and the reinvested amount.

The application shall specify the name and seat of the business, business category, total amount of investment, the bank with which it keeps its account and the account number.

#### **Article 20 (Withdrawal of business income tax reduced or exempted)**

Where a business pulls out or is dissolved before the term prescribed in article 18 of these Regulations or withdraws the reinvested capital, the income tax that has been reduced or exempted shall be collected.

#### **Article 21 (Business income tax for other incomes of branch or office)**

A branch or office that earns other income in the SZIT shall pay income tax within 15 days of earning the income.

A rate of 10% shall be applicable to the other income earned by a branch or office.

## Chapter 3 Personal Income Tax

### Article 22 (Obligation to pay personal income tax, taxable objects)

Individuals that earn income in the SZIT shall pay tax.

The taxable objects shall include income from labour remuneration, interests, dividend, lease of fixed assets and sale of property, royalties for intellectual property rights and know-how, income from donation and management-related service.

### Article 23 (Rate of personal income tax)

The rate of personal income tax shall be as follows:

1. Rate for labour remuneration shall be 5~30% of the income in case the monthly wage is more than 300€;
2. Rate for income from interests, dividend, lease of fixed assets, offer of intellectual property rights or know-how and management-related service shall be 20% of the income;
3. Rate for income from donation shall be 2~15% of the income in case the amount of income is more than 5,000€; and
4. Rate for income from the sale of property shall be 25% of the income.

### Article 24 (Calculation of personal income tax)

Personal income tax shall be calculated as follows:

1. Personal income tax on remuneration for labour shall be calculated by applying the prescribed rate to the monthly wage;
2. Personal income tax on income from dividend, sale of property, offer of intellectual property or know-how, provision of management-related service and donation shall be calculated by applying the prescribed rate to the income concerned;
3. Personal income tax on income from interests shall be calculated by applying the prescribed rate to the income earned by making a deposit in a bank; and
4. Personal income tax on income from the leasing of fixed assets shall be calculated by applying the prescribed rate to the amount remaining after deducting from the rental charge 20% for costs of labour and packaging, and commission.

### Article 25 (Term and method of payment of personal income tax)

Personal income tax shall be paid as specified hereunder:

1. Personal income tax on remuneration for labour shall, within 10 days of the following month of earning the income, be deducted and paid by the payer or assessed and paid by the beneficiary;
2. Personal income tax on income from sale of property and donation shall be assessed and paid by the beneficiary within 30 days of earning the income; and
3. Personal income tax on income from interests, dividend, lease of fixed assets, offer of intellectual property rights or know-how and provision of management-related service shall, within 10 days of the following month of earning the income, be deducted and paid by the payer or assessed and paid by the beneficiary.

### Article 26 (Exemption from personal income tax)

Personal income tax shall not be levied on income from interests from the savings deposits granted by a financial institution of the DPRK or from the money deposited by non-residents in a bank established in the SZIT.

## Chapter 4 Property Tax

### Article 27 (Obligation to pay property tax)

Individuals that are in possession of buildings, vessel or airplane in the SZIT shall register them with the tax office and pay tax thereon.

### Article 28 (Registration of property, revocation thereof)

Registration of property in the SZIT or revocation thereof shall be conducted as specified hereunder:

1. Property shall be registered at the appraised value within 20 days of acquisition thereof in the SZIT;

2. In case the owner and value of a property is changed, the particulars of change shall be registered within 20 days of occurrence thereof;

3. Property shall be appraised as of January 1 every year and re-registered within February; and

4. In case a property is scrapped, formalities for the revocation of registration shall be performed within 20 days.

### Article 29 (Rate of property tax)

The rate of property tax shall be 1% for buildings and 1.4% for vessel or airplane.

### Article 30 (Calculation of property tax)

Property tax shall be calculated by applying the prescribed rate to the value registered at the tax office.

### Article 31 (Term and method of payment of property tax)

Property tax shall be calculated every month to be paid within 20 days from the end of given quarter.

### Article 32 (Exemption of property tax on new buildings)

Where a new building is acquired, property tax thereon shall be exempted for 2 years from the date of registration with the tax office.

## Chapter 5 Inheritance Tax

### Article 33 (Obligation to pay inheritance tax)

An individual that has inherited a property in the SZIT shall pay tax thereon.

Inherited property shall include such property or property right as real property, currency, property in kind, securities, intellectual property right and claim for insurance.

### Article 34 (Appraisal of inherited property)

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

### Article 35 (Rate of inheritance tax)

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

### Article 36 (Calculation of inheritance tax)

Inheritance tax shall be calculated by applying the prescribed rate to the amount remaining after deducting from the value of the inherited property the debts of the inheritor, funeral expenses spent by the inheritor, expenses used for the administration of the inherited property and notarial fees for the inheritance of property.

### Article 37 (Term and method of payment of inheritance tax)

Inheritance tax shall be paid by the inheritor with 3 months of inheritance. In this case a report on payment of inheritance tax specifying the value of inherited property and the amount of deduction, and an application for deduction of inheritance tax attested by a notary public shall be filed with a tax office for verification.

Where there are more than 2 inheritors, inheritance tax shall be paid by each inheritor on his share of inheritance.

### Article 38 (Payment of inheritance tax by installment)

Where inheritance tax is more than 30,000€, payment by installment for 3 years shall be permitted subject to the agreement of the tax office.

## Chapter 6 Turnover Tax

### Article 39 (Obligation to pay turnover tax, taxable objects)

Businesses in the sectors of production and construction shall pay turnover tax.

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

### Article 40 (Rate of turnover tax)

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

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

### Article 41 (Calculation of turnover tax)

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

Where a business is engaged both in production and service, turnover tax and business tax shall be calculated separately.

### Article 42 (Term and method of payment of turnover tax)

Turnover tax shall be paid within 20 days of earning income from the sale of products or from transfer of construction works.

### Article 43 (Exemption of turnover tax, exception to exemption)

Export goods shall be exempt from turnover tax. For goods whose export is restricted by the State turnover tax shall be payable.

## Chapter 7 Business Tax

### Article 44 (Obligation to pay business tax, taxable objects)

Businesses in the service sector shall pay business tax.

Business tax shall be levied on the income from service in such sectors as transportation, telecommunication, commerce, finance, insurance, tourism, advertising, hotel business, public catering, recreation and welfare facilities.

#### Article 45 (Rate of business tax)

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

#### Article 46 (Calculation of business tax)

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

Where a business is engaged in several categories of business, business tax shall be calculated by categories of business.

#### Article 47 (Term and payment of business tax)

Business tax shall be calculated each quarter to be paid within 10 days from the end of each quarter.

#### Article 48 (Reduction or exemption of business tax)

Business tax shall be exempted or reduced for the businesses that invest in the sector of production and supply of energy such as electricity, gas and thermal energy, and in the construction of infrastructure facilities such as water supply and drainage, industrial water, roads, railways and airports.

## Chapter 8 Local Tax

#### Article 49 (Obligation to pay local tax, types thereof)

Businesses and individuals shall pay local tax.

Local tax shall include city management tax and vehicle tax.

#### Article 50 (Object of taxation)

City management tax shall be levied on the total amount of monthly income of a business or total monthly income of an individual such as labour remuneration, income from interests, dividend and sale of property.

#### Article 51 (Rate and calculation of city management tax)

City management tax shall be calculated by applying 1% to the total sum of monthly wage of a business or an individual's total monthly income.

#### Article 52 (Term and method of payment of city management tax)

City management tax shall be calculated each month to be paid within 10 days of the following month.

City management tax of individuals shall be calculated each month and deducted and paid by the business concerned or assessed and paid by the beneficiary within 10 days of the end of the given month.

#### Article 53 (Taxable objects)

Vehicle tax shall be levied on the cars, buses, trucks, motorcycles and special vehicles.

Special vehicles shall include cranes, oil cars, forklifts, cement carriers, excavators, bulldozers and refrigerator cars.

#### Article 54 (Registration of cars)

An individual that has purchased a vehicle in the SZIT shall, within 30 days of acquisition thereof, file an application for the registration with the management committee.

The application shall contain the name, place of residence or stay of the owner of the vehicle, number and type thereof, number of seats, loading capacity and the date of acquisition.

The management committee shall, upon registration of a vehicle, issue a registration certificate to the applicant and send a copy thereof to the tax office.

#### Article 55 (Amount of vehicle tax)

The amount of vehicle tax shall be 100~200€ a year per one.

#### Article 56 (Calculation of vehicle tax)

Vehicle tax shall be calculated by applying the prescribed amount of tax to the number of vehicles by types.

Tax in a given year for a vehicle that is newly bought, transferred or scrapped, or used without the license of the tax office shall be calculated by applying the daily amount of tax of a vehicle by types to the number of days used.

#### Article 57 (Term and method of payment of vehicle tax)

Vehicle tax shall be paid within February of each year by the user of a vehicle concerned.

An individual that bought a vehicle in the SZIT shall, within 30 days of the registration thereof, pay the tax for the given year.

#### Article 58 (Refund in case of transfer or scrap of vehicle)

An individual who transferred or scrapped a vehicle shall file with a tax office a note of verification thereof, as well as an application for refund of vehicle tax specifying the name, address, type of the vehicle, date of transfer or scrap, amount of vehicle tax paid and to be refunded.

The tax office shall, within 10 days of receipt of the application, review it and refund the tax from the date of transfer or scrap to December 31.

#### Article 59 (Exemption of tax during period when vehicle is not used)

A business or individual that wishes to suspend using a vehicle for a certain period of time shall file an application to that effect and have the vehicle tax for the given period exempted.

## Chapter 9 Sanction, Complaints

#### Article 60 (Arrears)

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

#### Article 61 (Fines)

Fines shall be imposed on a business or an individual in the following cases:

1. Fines of up to 100~1,500€ for failure to register tax, property and vehicle without valid reasons or delay in submitting tax payment report, yearly statement of settlement of accounts and other tax documents;
2. Fines of up to twice the amount due for short deduction or non-payment of deducted amount; and
3. Fines of up to 3 times the amount due in case of tax evasion or short payment.

#### Article 62 (Complaints, settlement)

Businesses and individuals that have any complaint about the imposition and payment of tax may appeal to the SZIT guidance organ or the tax office.

The complaint shall be settled within 30 days of receipt thereof.