

# **REGULATIONS FOR THE IMPLEMENTATION OF THE LAW ON FOREIGN-INVESTED BUSINESS AND FOREIGN INDIVIDUAL TAX**

*Adopted by Decision No. 39 of the Cabinet on June 14, 2002*

## **Chapter 1. General**

**Article 1.** These regulations are intended to ensure proper implementation of the Law of the Democratic People's Republic of Korea on Foreign-Invested Business and Foreign Individual Tax and to establish a system and discipline in tax payment.

**Article 2.** Taxes to be paid by foreign-invested enterprises and foreign individuals shall comprise enterprise income tax, personal income tax, property tax, inheritance tax, turnover tax, business tax and local taxes.

**Article 3.** These regulations shall be applied to any foreign-invested enterprise or foreign individual carrying out business transactions or earning incomes in the territory of the DPRK. These regulations are also applicable to any overseas Korean doing business or earning incomes in the territory of the DPRK. A foreign-invested business is a foreign-invested enterprise or a foreign enterprise.

The foreign-invested enterprises comprise any joint ventures, both contractual and equity, or wholly foreign-owned enterprises which are set up and run inside the DPRK. The foreign enterprises comprise foreign companies, firms and other economic institutions that either carry out business activities through their permanent representatives in the territory of the DPRK or earn income through nonpermanent representative therein.

A foreign individual means any foreigner doing business or earning income inside the DPRK.

**Article 4.** Foreign-invested enterprises and foreign individuals shall go through the following procedures for tax registration:

1. A foreign-invested business shall make tax registration with the relevant financial organization (hereinafter called the taxation institution) within 20 days (15 days in the Rason economic and trade zone) from the date of its registration as a corporate body.

In case of change in its location, merger, break-up, or change in the amount of registered capital, the scope of business, categories of business and so on, registration of tax change shall be made with the taxation institution within 20 days (15 days in the Rason economic and trade zone) from the date of registration of the event.

The foreign-invested business which is to be dissolved shall go through the formalities for the cancellation of its tax registration with the taxation institution 20 days prior to the cancellation of its business registration, and

2. A foreign individual who stays or resides in the territory of the DPRK for more than 180 days (90 days in the Rason economic and trade zone)

shall make tax registration with the taxation institution within 20 days (15 days in the Rason economic and trade zone) from the date of approval for his stay or residence.

**Article 5.** For tax registration, a foreign-invested business and foreign individual shall submit the application for tax registration to the taxation institution.

The application of a foreign-invested enterprise shall contain the name and address of the enterprise, the date and number of its business registration, its total investment and registered capital, its mode of management and categories of business, the period of its business, the total number of its employees (including the number of foreigners), its total area of land and floor space, the name of its bank and the number of its account, the names of its manager and chief accountant, and other contents considered necessary, and be accompanied by a copy of the certificate of business registration.

The application of a foreign individual shall contain his full name, nationality, address, passport number, the date of issue of his certificate of stay or residence, and the period of his stay or residence, and it shall be accompanied by necessary documents.

The application for change or cancellation of tax registration shall be presented to the taxation institution, and it shall state the name of the business or the name of the individual as well as the reasons for the change or cancellation.

**Article 6.** A certificate of tax registration shall be issued to an applicant within 10 days from the date of his tax registration.

In case of change in the details of tax registration, another certificate shall be issued.

**Article 7.** Forms of documents used for tax administration shall be prescribed by the Ministry of Finance of the DPRK (hereinafter called the central financial supervisory organ).

Tax documents shall be filed in Korean.

Where a foreign language is used, Korean translation shall be given under each item.

Tax documents shall have the registered seals of the business, the manager and the chief accountant of the business.

**Article 8.** Bookkeeping of a foreign-invested business shall follow the laws and regulations governing it.

Documents related to tax administration (including relevant computer diskettes and CDs) shall be filed in the order of the date of transaction and be kept for 5 years from the creation of each document (until the termination of the business in case of financial statements and documents of fixed assets).

**Article 9.** Tax shall be calculated and paid in convertible currency at its exchange rate to Korean *won*, published at the corresponding date by the Foreign Trade Bank.

**Article 10.** Tax shall be paid directly by the tax payer or be deducted

and paid by an entity withholding incomes.

**Article 11.** Tax shall be paid to the account of the taxation institution with the relevant bank.

In case of tax payment, the tax return confirmed by the taxation institution shall be submitted to the relevant bank, and the bank shall receive and settle only such a tax return.

The bank shall issue a tax receipt to the direct payer or withholder (hereinafter called the tax payer) and a notice of tax payment to the taxation institution.

**Article 12.** Imposition of tax on, and its collection from, foreign-invested businesses and foreign individuals and control over their tax payment shall be undertaken by the taxation institution under the unified supervision and direction of the central financial supervisory organ.

**Article 13.** The foreign individual wishing to return to his country (except a temporary exit) shall be allowed to go through the exit formalities only when he carries a document certifying his tax payment.

**Article 14.** If any tax-related agreement concluded between the Government of the DPRK and the government of their country contains tax provisions that differ from those stipulated in these regulations, foreign investors and foreign individuals may pay taxes in accordance with such agreement.

A foreign investor includes a corporate body and an individual of a foreign country that have made investment in the territory of the DPRK.

## **Chapter 2. Enterprise Income Tax**

**Article 15.** A foreign-invested business shall pay enterprise income tax on the income from business activities and other incomes earned within the territory of the DPRK, as well as on the income earned outside the DPRK.

**Article 16.** Enterprise income tax shall be levied on the followings:

1. Income from business activities of a foreign-invested business in the territory of the DPRK comprises the proceeds of sale of products in the industrial, agricultural and fishery sectors, incomes from construction, prospecting and development projects, charges for transport, telecommunications and electricity, the proceeds of sale of commodities in commercial sectors (including trade), interests and commissions in financial sectors, the proceeds of sale of foodstuffs and service fees in the sectors of public catering, service and amusement, as well as incomes from other business categories.

2. Other incomes earned by a foreign-invested business inside the DPRK comprise incomes from activities not directly related to main business categories-interests, dividends, incomes from lease of fixed assets and from sale of property, income from transfer of intellectual property rights and technical know-how, income from management-related service, income from

donation, as well as other incomes.

3. Incomes of a foreign-invested business outside the DPRK comprise incomes from its branches, agencies, representative offices and subsidiaries and other incomes earned outside the DPRK.

**Article 17.** The financial year for enterprise income tax collection begins on January 1 and ends on December 31 of each calendar year.

For the first year in which the foreign-invested business starts its operation, 'the year for tax payment shall be from the date of operation to December 31 of the same year, and for the last year in which it is dissolved, the year for tax payment shall be from January 1 to the day of dissolution.

**Article 18.** Enterprise income tax shall be applied to the net profit, which remains after the deduction of turnover tax or business tax and other expenditures from the gross profit, which shall be determined by deducting costs from gross revenue, or to incomes.

The gross revenue comprises the income of a foreign-invested enterprise from business activities and other incomes within the DPRK, as well as its income earned outside the DPRK.

Cost consists of:

1. In case of industrial sectors, costs of raw and other materials, fuel and power, wages, depreciation cost, expenses of purchase, development of new brands, overhead expenses of the factory and company, insurance premium and expenses of sale,

2. In case of agriculture, costs of seeds (including eggs and tree seedlings), fuel and power, wages, insurance premium, costs of feed, chemicals, quarantine service and veterinary medicine, expenses of other materials and irrigation, depreciation cost, purchasing costs of young domestic animals and materials, expenses of auxiliary sectors, overhead expenses of the workteam, other management fees and expenses of sale,

3. In case of the construction sector, costs of materials, wages, insurance premium, operation cost of construction machinery, depreciation cost, costs of fuel and power, and overhead expenses of the business,

4. In case of transportation, costs of materials, fuel and power, wages, insurance premium, depreciation cost and overhead expenses,

5. In case of commercial sectors, the purchasing cost of commodities and costs of circulation (transportation, storage, packaging, waste of containers and their repair, natural decrease of commodities, fuel and electricity used for operation, wages, expenses of procedures for marketing abroad, furniture and office units, heating, lighting, water, secretarial work, telecommunications, and costs of travel, advertising, public relations, labour protection, cultural and recreational facilities, interests on loans, insurance premium and other costs), and

6. In case of service sectors, purchasing costs of raw materials for foodstuffs and circulation costs.

Other expenditures include losses caused by changes in exchange rates,

non-performing loans caused by corporate bankruptcy, and costs of re-processing and re-packaging for the marketing of commodities which are accumulated due to narrow access to markets.

**Article 19.** For the business which takes more than one year in undertaking a construction project, assembling or installation work, or in processing or manufacturing a heavy machine and equipment, enterprise income tax shall be imposed in each financial year on the remainder after deduction of expenditures from the revenue created according to the amount of work performed during the same year.

**Article 20.** The rates of enterprise income tax shall be:

1. 25per cent of the taxable income of a foreign-invested business (20 per cent in case of a business funded by an overseas Korean holding the citizenship of the DPRK),

2. 14per cent of the taxable income of a foreign-invested business operating in the Rason economic and trade zone (10 per cent in case of a business funded by an overseas Korean with the citizenship of the DPRK),

3. 10per cent of the taxable income of a foreign-invested business engaged in the State-encouraged sectors--high technology, development of underground resources, infrastructure construction, scientific research and technological development (hereinafter called the priority sectors), and

4. 20per cent of the amount of other incomes of a foreign-invested business (10per cent inside the Rason economic and trade zone).

**Article 21.** Enterprise income tax shall be calculated by applying the rate set either to the taxable income or to the amount of income.

**Article 22.** An estimated amount of enterprise income tax shall be paid for each quarter and the full amount shall be settled at the end of the year.

Where it is impossible to calculate the exact figures for any quarterly taxable income, the estimated amount equivalent to 25 per cent of the income tax paid for the previous year shall be paid. In case of the business of a seasonal character, the estimated amount may be paid at the end of the year, regardless of the quarter.

**Article 23.** Enterprise income tax shall be paid within 15 days of the first month of the following quarter. Prior to tax payment, a foreign-invested business shall submit the tax returns and financial statements to the taxation institution.

The enterprise income tax return shall state the name of its bank, number of its account, its taxable income, tax rates, the amount of tax to be paid and so on.

The financial statement shall consist of a balance sheet, cost accounts, sales profit accounts, profit distribution accounts, a statement of fulfilled quotas of payment to the State, profit and loss accounts, overhead expenses accounts, depreciation accounts and so on.

**Article 24.** A foreign-invested business shall, within 2 months from the end of each financial year, submit the enterprise income tax returns for the

year and the year's financial statements audited by an office concerned to the taxation institution, before paying enterprise income tax for the year.

The annual settlement of the income tax shall be made through either a refund of the overpaid amount or an additional payment of the shortfall.

**Article 25.** In case of dissolution due to the termination of an enterprise, decision by a court or due to unavoidable reasons such as natural disasters, the foreign-invested business shall, within 20 days of the declaration of dissolution, have 50 per cent of the payable enterprise income tax retained by the taxation institution as a guarantee for tax and, within 15 days of the decision of the liquidation plan, pay the enterprise income tax.

The tax security can be used for the payment of tax.

In case of merger or break-up, the foreign-invested business shall settle accounts of the enterprise income earned till then and pay enterprise income tax within 20 days of the declaration of the event.

Enterprise income tax outstanding to be paid by a foreign-invested business that is dissolved, integrated or separated shall have priority over its other liabilities.

**Article 26.** Payment of enterprise income tax may be made by withholding.

The withholder shall, within 15 days from the payment of its earnings, pay enterprise income tax with an enterprise withholding tax return.

The enterprise withholding tax return shall state the name of its bank, number of account, items of the payment, amount of the payment, tax rates, amount of tax to be paid and so on.

**Article 27.** Enterprise income tax on the other incomes of a foreign enterprise shall be withheld and paid, together with the enterprise withholding tax return, by the withholding organ within 15 days from the creation of the incomes.

**Article 28.** Enterprise income tax on the income earned by a branch of a foreign-invested enterprise shall be paid by the head office through consolidation.

In case enterprise income tax rates to be applied to the head office and branches of a foreign-invested business vary due to differences in categories of business and locations, these different rates shall be applied respectively.

The gross revenue of a foreign-invested business shall not include the incomes of its branches.

Where enterprise income tax on the income earned by establishing a branch outside the territory of the DPRK has been paid in the country concerned, it may be deducted.

In case the amount of enterprise income tax paid by it abroad is equivalent to or less than the sum calculated on the basis of the tax rates stipulated in these regulations, the amount which has been actually paid shall be deducted, and in case the amount paid is greater than the amount calculated, the surplus shall not be deducted.

**Article 29.** Preferential treatment accorded to a foreign-invested business shall be as follows:

1. Tax may not be imposed on the dividends earned by a foreign-invested enterprise through business activities inside the DPRK,

2. In case the government of a foreign country or an international financial organization grants loans to the government of the DPRK or a State bank, or in case a foreign-invested bank gives loans to a bank or an enterprise of the DPRK on favourable terms such as low interest rates (lower than the LIBOR) and the return period of at least 10 years including a grace period, the enterprise income tax on the interest on the loan may be exempted,

3. The foreign-invested business which operates for at least 10 years either in the priority sectors or in the manufacturing sector inside the Rason economic and trade zone may receive immunity from enterprise income tax for 3 years from the first profit-making year and reduction of up to 50 per cent during the 2 ensuing years,

4. The foreign-invested business which is engaged in service sectors in the Rason economic and trade zone and continues its operation for at least 10 years may receive immunity from enterprise income tax for 1 year from the first profit-making year and reduction of up to 50 per cent during the 2 ensuing years.

Enterprise income tax may be exempted or reduced on an income earned by a financial business through offshore banking transactions, and

5. For a foreign-invested business that makes a total investment of at least 60,000,000 *won* in infrastructure construction projects such as railways, roads, telecommunications, airports and seaports inside the Rason economic and trade zone, enterprise income tax may be exempted for 4 years from the first profit-making year and reduced up to 50 per cent during the 3 ensuing years.

**Article 30.** In case a foreign investor reinvests his legal profits from business to increase his registered capital inside the territory of the DPRK or establishes another foreign-invested enterprise and runs it for more than 5 years, 100 per cent (in the infrastructure construction sectors) or 50 per cent (in the other sectors) of the enterprise income tax which has been paid on the reinvested portion of the profit may be refunded or deducted from the enterprise income tax to be paid next time.

In this case, a relevant application shall be submitted to the taxation institution, with the document stating the amount of reinvestment and the period of operation confirmed by the business screening organ.

In case the reinvested capital is withdrawn within 5 years of the start of operation, the enterprise income tax which has been refunded shall become payable.

**Article 31.** The period of enterprise income tax exemption or reduction shall be calculated in a continuous way from the first profit-making year.

**Article 32.** In case of a loss, a foreign-invested business can carry

forward its loss to the next year, and, if it fails to do so, it can continue to carry it forward every year provided that the period shall not exceed 4 years.

**Article 33.** A foreign-invested business wishing to have its enterprise income tax exempted or reduced shall submit a relevant application to the taxation institution for review and approval.

The application shall state the title and address of the business, categories of business, the year in which profit has been made, the amount of total investment, the name of its bank, the number of its account and so on, and be accompanied with a document confirmed by the relevant business screening organ.

**Article 34.** In case the foreign-invested business which has been granted the exemption or reduction of enterprise income tax withdraws or is dissolved within 10 years of the grant, or in case it fails to make due investment or is engaged only in the service business instead of the licensed manufacturing business, it shall repay the enterprise income tax which has been exempted or reduced.

### **Chapter 3. Personal Income Tax**

**Article 35.** Any foreign individual who earns income inside the territory of the DPRK shall pay personal income tax.

A foreign individual who stays or resides for more than 1 year inside the DPRK shall pay tax also on his income earned outside the DPRK.

In case of temporary exits during stay or residence, these days shall be included in the period of the stay or residence.

**Article 36.** Income on which personal income tax is payable comprises labour remuneration, incomes from interest, dividends, the lease of fixed assets, the sale of property, the licensing of intellectual property rights and technical know-how, management-related service and from donation, as well as other personal incomes.

Labour remuneration comprises wages, bonus, bounty, allowance and incomes from such work as lecture, address, writing, translation, designing, drawing, installation, embroidery, sculpture, painting, creation work, art performance, accounting, sports, medical service and consultation; interest means interest on deposits and credits; and dividends comprise income from the distribution of profits and so on.

Incomes from the lease of fixed assets and the sale of property mean incomes from the lease or sale of such property as buildings, machinery, equipment, vehicles and vessels. Royalties from intellectual property rights and technical know-how comprise incomes earned by the owner of a patent, utility model, industrial design and trademark through their licensing or transfer, incomes from the furnishing of technical literature and knowledge, skills, qualifications or experiences which have not gone through formalities for obtaining patent rights or which have not been made public, and incomes



from the licensing of literature and art works such as novels, poems, painting, music, dance, film and drama.

Income from management-related service means income from the rendering of such service; income from donation comprises incomes from the donation of property and property rights including cash, property in kind, intellectual property rights and technical know-how.

**Article 37.** In case the income on which personal income tax is payable takes the form of property in kind or securities, the amount of income shall be considered to be equivalent to its purchasing price prevailing at the time of purchase.

**Article 38.** Personal income tax rates shall be as follows:

1. Tax on the income from remuneration shall be exempted if the monthly amount of income is lower than 1,000 *won*, and tax rate shall be 5-30 per cent of the amount of income if it exceeds 1,000 *won*,

2. In case of incomes from interest, dividends, the lease of fixed assets (after deduction of 20 per cent for the costs of labour and packing and commissions), royalties from intellectual property rights and technical know-how, and from management-related service, the tax rate shall be 20 per cent of the amount of incomes,

3. Tax rates on the income from the sale of property shall be 25 per cent of the amount of income, and

4. Tax on the income from donation shall be exempted if the amount of income is not greater than 10,000 *won*, and 2-15 per cent if it is greater than 10,000 *won*.

**Article 39.** Personal income tax shall be calculated by applying the respective rates on the incomes on which the tax is payable.

**Article 40.** Personal income tax shall be paid in the following manner:

1. Personal income tax on labour remuneration shall either be calculated each month and paid within 5 days after the pay of remuneration by the withholding organ, or be directly paid by the tax payer within 10 days after the day of remuneration,

2. Personal income tax on the income earned from the sale of property inside the DPRK by the tax payer living outside the DPRK shall be paid by the withholding organ, and personal income tax on the incomes earned from the sale of property and donation by the tax payer living inside the DPRK shall be paid directly by him within 10 days of the first month of the next quarter,

3. Personal income tax on the incomes earned from interest, dividends, the lease of fixed assets, royalties from intellectual property rights and technical know-how and from management-related service inside the DPRK by the person living outside the DPRK shall be paid by the withholding organ, but be paid directly by the person within 10 days of the first month of the next quarter if he is inside the DPRK, and

4. The withholder shall keep the papers of the calculated personal withholding tax.

**Article 41.** Personal income tax on the income earned by a foreign individual outside the DPRK shall be calculated quarterly and paid directly by him within the first month of the quarter after an income has been made.

In case a tax payer has already paid personal income tax outside the DPRK, he may apply for deduction within the limits of the amount of income tax calculated in these regulations.

The application for deduction shall state the relevant contents and be accompanied with the original of the tax return issued by the taxation institution of the country in question.

**Article 42.** A foreign investor or individual shall not pay personal income tax on the following incomes:

1. Incomes on which personal income tax is not payable in accordance with an agreement reached between the Government of the DPRK and the government of his country,

2. Interests on saving deposits and insurance compensation received from a financial institution of the DPRK,

3. Interests on deposits made by non-residents at banks which are engaged in offshore banking within the Rason economic and trade zone, and

4. Deducted or exempted sums approved by the taxation institution in case the foreigner receives wages in his country, not inside the DPRK.

#### **Chapter 4. Property Tax**

**Article 43.** A foreign individual shall pay property tax on buildings, vessels and airplanes which are owned by him inside the territory of the DPRK.

Buildings comprise houses, residential flats, villas and attached buildings, and vessels and airplanes comprise those for private use.

**Article 44.** Property tax shall be paid by the owner.

Even if the property in question has been leased or mortgaged, the property tax shall be paid by the owner.

In case the owner of the property is absent on the spot, the property tax shall be payable by its keeper or user.

**Article 45.** A foreign individual who owns a building, vessel or airplane inside the territory of the DPRK shall register the property with the taxation institution within 20 from the day of its purchase.

In case the person who has inherited property or to whom property has been donated is outside the territory of the DPRK, its owner or keeper shall register the property.

An application for property registration shall be submitted.

The application shall contain the name, nationality, citizenship and address of the applicant, the name of the property, its unit, quantity, floor space, initial value, the cost of overhauling, designed lifespan, the period during which it has been used, the year of construction (manufacturing), the price assessed and so on.

**Article 46.** The value of the property in registration shall be estimated by a price assessment institution and attested by a notary's office.

**Article 47.** The registered property shall be re-assessed as of January 1 of every year and, within the ensuing 30 days, be re-registered with the taxation institution at the price attested by a notary's office.

**Article 48.** In case the owner of or the registered value of the property has changed or in case the property has been scrapped, due procedures shall be completed for the change or the cancellation of the registration through the attestation by a notary's office within 20 days from that day.

**Article 49.** The tax base for property tax shall be the value of the property registered with the relevant taxation institution.

**Article 50.** Property tax rates shall be 1 per cent of the registered value of a building and 1.4 per cent of that of a ship or airplane.

**Article 51.** Property tax shall be calculated by applying the set rate to the registered value.

**Article 52.** Property tax shall be paid within 20 days of the first month of the next quarter.

In case it is impossible to pay property tax within the set period of time due to unavoidable circumstances, the payment may be postponed or made in addition to the payment for the next quarter with the consent of the relevant taxation institution.

**Article 53.** For a building purchased or built by a tax payer within the Rason economic and trade zone with his capital, the property tax shall be exempted for 5 years from the month of its purchase or completion.

## **Chapter 5. Inheritance Tax**

**Article 54.** A foreign individual who has inherited property located inside the territory of the DPRK shall pay inheritance tax.

In case a foreign individual residing inside the DPRK has inherited property located outside the DPRK, he shall also pay tax on it.

Properties inherited comprise such properties and property rights as personal and real estates, cash, securities, deposits, savings, insurance money, intellectual property rights and credits.

**Article 55.** The tax base for inheritance tax shall be the remaining value after deduction from the inherited property of its former holder's liabilities (including the cost of funeral ceremony covered by the inheritor, cost of preservation and management of the property incurred during the period of inheritance and notary fees related to inheritance), and the tax shall be calculated by applying the rate of 6-30 per cent of the remainder after deduction of the former holder's liabilities.

In case the former holder's liabilities are to be deducted, it shall be attested by the notary's office.

**Article 56.** The price of the property inherited shall be the local price of

the property at the time of inheritance.

In this case, its assessment shall be attested by an office concerned.

**Article 57.** Inheritance tax shall be paid in cash.

In case it is to be paid in kind for unavoidable circumstances, an application stating the reasons, the kind of property, its value and other necessary items shall be filed to the relevant taxation institution for approval.

In this case, the property in kind for the payment shall be part of the property inherited.

**Article 58.** The inheritor shall, within 30 days of inheritance of property, submit to the taxation institution the inheritance tax return stating the amount of inherited property, the amount of deduction, taxable amount, the amount of inheritance tax and other relevant items, accompanied with the application for inheritance tax deduction attested by an office concerned, and thereafter pay inheritance tax. (In case there are more than 2 inheritors of the same property, inheritance tax shall be paid separately by each for his own share.)

The application for inheritance tax deduction shall contain the name and address of the inheritor, items and amounts of deduction, and other items.

**Article 59.** In case the amount of inheritance tax exceeds 50,000 won, the payment may be staggered for 3 years by presenting an application to the relevant taxation institution.

## Chapter 6. Turnover Tax

**Article 60.** A foreign-invested business engaged in the production sectors shall pay turnover tax.

The production sectors comprise industry, agriculture and fishery.

**Article 61.** The tax base of turnover tax is the proceeds of sale of industrial products, agricultural and livestock produce and marine products.

**Article 62.** Turnover tax rates shall be 1-15 per cent of the proceeds of sale of produce (16-50per cent in case of the products on which the State places limitations or luxury articles).

Tax rates for detailed classification of items shall be set by the central financial supervisory organ on the basis of the rates for different categories of business.

**Article 63.** Turnover tax shall be calculated by applying the set rates to the proceeds of sale of different kinds of produce.

A foreign-invested business engaged both in the production and service sectors shall calculate turnover tax and business tax separately.

**Article 64.** A tax payer shall calculate turnover tax each month and pay it to the relevant taxation institution within 10 days of the next month.

The tax of a business engaged in the sector of a seasonal character may

be calculated and paid annually.

**Article 65.** In case a foreign-invested business operating in the production sector exports its products or sells them inside the territory of the DPRK as requested by the State, the turnover tax may be exempted.

**Article 66.** For a foreign-invested business engaged in the production sectors inside the Rason economic and trade zone, turnover tax shall be reduced by 50 per cent.

## **Chapter 7. Business tax**

**Article 67.** A foreign-invested business operating in the service sectors (including the construction industry) shall pay business tax.

**Article 68.** Business tax shall be based on the charges for service in the sectors of transport, power generation, commerce, trade, finance, insurance, tourism, advertising, hotel, restaurant, recreation and hygiene and public service, as well as incomes from the delivery of buildings in the construction sector, and the difference between interests on loans and interests on deposits.

**Article 69.** Business tax rates shall be as follows:

1. 2-4per cent of the incomes in the sectors of construction, transport and power generation,

2. 3-5per cent of the earnings in the sectors of finance and insurance, and

3. 4-10per cent of the incomes in the sectors of commerce, trade, hotel, restaurant, recreation and hygiene and public service. Tax rates for detailed classification of items shall be set by the central financial supervisory organ on the basis of the rates for different categories of business.

A foreign-invested business or a foreign individual engaged in several categories of service shall calculate business tax separately for each category.

**Article 70.** Business tax shall be calculated by applying the set rates to the monthly earnings of each category and be paid by the tax payer within 10 days of the next month.

**Article 71.** A foreign-invested business may be favoured with exemption from or reduction of business tax with the consent of the taxation institution in the following cases:

1. In case a foreign-invested business operating in the sector of construction, transport or power generation renders service for an institution or enterprise of the DPRK at the request of the State, or in case a foreign-invested bank gives a loan to a bank, institution or enterprise of the DPRK on favourable terms such as low interest rate and return period of at least 10 years including a grace period, business tax may be exempted or reduced,

2. In case a foreign-invested business undertakes infrastructure construction inside the Rason economic and trade zone, business tax may be exempted, and

3. In case a foreign-invested business is engaged in the service sectors (except commerce, restaurant and recreation) inside the Rason economic and trade zone, business tax may be reduced by 50 per cent.

## **Chapter 8. Local Taxes**

**Article 72.** A foreign-invested business and a foreign individual shall pay local taxes.

Local taxes shall be imposed also on a foreign individual engaged in economic transactions while residing outside the Rason economic and trade zone.

Local taxes include city management tax, tax on the use of vehicles and the like.

**Article 73.** Local taxes shall be imposed for the purpose of managing such public facilities as parks, roads and waste disposal system in the local area.

**Article 74.** The base of city management tax shall be the total amount of monthly wages in case of a foreign-invested business and the total amount of monthly income including labour remuneration, interests, dividends, proceeds of lease or sale of property in case of a foreign individual.

**Article 75.** City management tax shall be calculated and paid in the following manner:

1. A foreign-invested business shall pay 1 per cent of the total amount of monthly wages within 10 days of the next month, and

2. A foreign individual shall pay 1 per cent of his monthly income within 10 days of the next month, either by himself or by the withholding organ.

**Article 76.** The foreign-invested business and the foreign individual that own vehicle shall pay vehicle tax for its use.

Vehicle comprises car, bus, lorry, motorcycle and special vehicle.

Special vehicle comprises crane car, tanker, cement carrier, forklift, excavator, bulldozer, tractor and so on.

**Article 77.** A foreign-invested business and a foreign individual shall, within 30 days of purchasing a vehicle, submit an application for tax registration for the use of the vehicle to the relevant taxation institution.

The application for tax registration for the use of vehicle shall state the name, nationality, citizenship and address of the owner, the licence number and type of the vehicle, the number of seats or loading weight, the date of acquisition, and other relevant items.

**Article 78.** Vehicle tax shall be calculated by applying 20-220 won per vehicle or per seat and per ton of loading weight, and be paid by the owner within February of each year.

**Article 79.** In case the vehicle is not used continuously for more than 2

months, declaration may be made to the taxation institution to have the vehicle tax exempted for this period.

## Chapter 9. Sanction and Petition

**Article 80.** The taxation institution shall enforce strict supervision and control to prevent any deviations in the imposition, collection and payment of tax.

A foreign-invested business and a foreign individual shall present in time the documents and information as requested by the taxation institution and accord it every convenience.

**Article 81.** In case a foreign-invested business and a foreign individual fail to pay tax within the specified time limit, the taxation institution shall levy a penalty of 0.3 per cent per day of the overdue taxes beginning from the next day of the deadline for tax payment.

In case they fail to pay tax for 30 days after the deadline for tax payment, the taxation institution may hold property equivalent to the overdue taxes as collateral or force their banks to pay the overdue taxes.

**Article 82.** The taxation institution shall fine a foreign-invested business, a foreign individual and a withholding organ in the following cases:

1. Fines of up to 2,000 *won* in case of failure to complete tax procedures, or to submit income tax returns, income tax deduction returns, or financial statements in time,
2. Fines of up to twice the amount due for short payment or non-payment of taxes by a withholding organ, and
3. Fines of up to 4 times of the tax due in case of tax evasion.

**Article 83.** In case a foreign-invested business earns illegal income through profit-making activities outside of the licensed category of business, the income shall be confiscated.

**Article 84.** In case of violations of these regulations, penalties like business suspension or fining shall be levied, and, in extreme cases, criminal action shall be taken.

**Article 85.** The foreign-invested business or the foreign individual that has complaints or grievances regarding tax payment may present a petition within 30 days of the day on which the tax is paid.

The petition shall be presented to the organ superior to the institution that has collected the tax.

**Article 86.** A petition shall be settled within 30 days of its receipt.

The foreign-invested business and the foreign individual, who are dissatisfied with the settlement of the petition, may bring the case to the relevant court within 10 days after the settlement.