

# THE LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA ON FOREIGN-INVESTED BUSINESS AND FOREIGN INDIVIDUAL TAX

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## Chapter 1. Fundamentals

**Article 1.** The Law of the Democratic People's Republic of Korea on Foreign-Invested Business and Foreign Individual Tax is promulgated for the purpose of ensuring equality in taxation on, and accurate tax payments by, foreign-invested business and foreign individuals.

**Article 2.** A foreign-invested business or foreign individual shall, for tax purposes, be registered with the financial organization in the area of its location or of his residence.

Should a foreign-invested business be set up, merged, break up or be dissolved, the enterprise shall complete proceedings for its registration, change in statue or winding up of tax within 20 days of the date of the registration of the event.

Foreign-invested business shall include any contractual joint venture, equity joint venture or wholly foreign-owned enterprise, which is a corporate body of the DPRK, and any foreign enterprise, that is not a corporate body of the DPRK.

**Article 3.** The accounting procedures for a foreign-invested business shall be in accordance with the accounting rules and regulations of the DPRK for foreign-invested enterprises. Documents on financial accounting shall be kept for a period of 5 years. Such period may be extended, if necessary.

**Article 4.** Taxes to be paid by a foreign-invested business and foreign individual shall be calculated in Korean *won*, and paid directly by the tax payer or shall be deducted and paid by an entity withholding incomes.

**Article 5.** The unified guidance on tax payments made by foreign-invested business or foreign individuals shall be conducted by the central financial guidance organization.

**Article 6.** This law applies to any foreign-invested business and foreign individual doing business or earning income within the territory of the DPRK.

This law is also applicable to any Korean compatriot residing outside the territory of the DPRK who is doing business or earning incomes in the territory of the DPRK.

**Article 7.** If any tax-related agreement concluded between the Government of the DPRK and the government of a foreign investor or foreign individual contains tax provisions that differ from those of this law, a foreign-invested business or foreign individual may pay taxes in accordance with such an agreement.

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

**Article 8.** A foreign-invested business shall pay income tax on sales revenue, income from transfer of construction works, income from freight charge and fees and its other earnings derived from business activities in the territory of the DPRK, as well as on such other incomes earned in the DPRK as interests, income from dividends, proceeds from the lease of fixed assets, proceeds from the sale of assets, royalties on intellectual property right and technical know-how, management fees and income from donation.

A foreign-invested enterprise shall also pay enterprise income tax on incomes earned through its branches, agencies, representative or subsidiaries established outside the territory of the DPRK.

**Article 9.** The income tax rate for foreign-invested businesses shall be 25 per cent of net profit in other parts of the country and 14 per cent in the Rason economic and trade zone.

The enterprise income tax rate in preferential sectors such as state-of-the-art technology, natural resources development, infrastructure construction, scientific research and technical development shall be 10 per cent.

**Article 10.** Should a foreign enterprise earn other incomes such as income from dividends, interests, rent, royalties or other sources in the territory of the DPRK, such incomes shall be taxable at the rate of 20 per cent in other parts of the country and 10 per cent in the Rason economic and trade zone.

**Article 11.** Enterprise 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 and power, labour, depreciation, goods purchased, workshop and corporation management, premium for insurance and sales, and other expenses from the gross income, for the period from January 1 to December 31 of each year.

**Article 12.** A foreign-invested business shall file with the financial institution in its location quarterly estimated income tax returns together with financial statements within 15 days from the end of each quarter, and an annual income tax returns with annual financial statements within 2 months from the end of each year.

**Article 13.** An estimated enterprise income tax shall be paid for each quarter and the full amount shall be settled at the end of each year.

The estimated payment shall be made within 15 days from the end of

each quarter and final annual settlement within 3 months from the end of each year through refund in case of overpayment or additional payment in case of shortfall.

In case of the dissolution of an enterprise, the enterprise concerned shall establish a bond for tax payment in favour of the financial institution in its area within 20 days from the date of the official declaration of its dissolution and shall pay income tax within 15 days from the date on which liquidation is completed.

Should an enterprise be merged or broken up, the enterprise shall consolidate its income as of the date of such effect and pay income tax to the financial institution of its location within 20 days from the date of the declaration of the merge or break-up.

**Article 14.** Income tax on other incomes earned by a foreign enterprise shall be reported and paid by the enterprise or the institution withholding income to the financial institution in its area, within 15 days after such incomes have been earned.

**Article 15.** Enterprise income tax shall not be paid or shall be reduced in the following cases:

1. When a foreign government or an international financial organization grants credit to the Government of the DPRK or to a State bank, or a foreign bank grants a loan under favourable terms to a bank or enterprise in the DPRK, comes from interest payments on such credit or loans shall be exempt from come tax,

2. Foreign-invested businesses in a priority sector or in the production Rason economic and trade zone may be entitled to full exemption the to be withdrawn or dissolved before the end of 10 years, the amount from enterprise income tax for 3 years from the first profitable year and to a reduction of up to 50 per cent for the following 2 years, provided that it will be operated for a duration of more than 10 years,

If it is to be withdrawn or dissolved before the end of 10 years, the amount of income tax exempted or deducted shall be collected,

3. A foreign-invested business in the service sectors in the Rason economic and trade zone may be entitled to full exemption from enterprise income tax for 1 year after the first profit-making year and to a reduction of up to 50 per cent for the following 2 years provided that it is operated for a period of more than 10 years, and

4. A foreign-invested business engaged in infrastructure development, such as railways and roads, communications, airports and ports, in the Rason economic and trade zone with a total investment of at least 4,500,000,000 *won* may be granted full exemption from enterprise income tax for 4 years after the first profit-making year and a deduction of up to 50 per cent for the following 3 years.

**Article 16.** Should a foreign investor reinvest profits from his business within the territory of the DPRK and operate his enterprise for more than 5

years, 50 per cent of the income tax paid on the reinvested amount may be refunded, and the full amount of income tax paid on the amount reinvested in infrastructure development. If the reinvested amount is withdrawn before the end of 5 years, the income tax refunded shall be repaid.

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

**Article 17.** Any foreign individual earning income within the territory of the DPRK shall pay personal income tax.

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

**Article 18.** Personal income tax shall be levied on:

1. Income from remuneration for work,
2. Income from interest payments,
3. Income from dividends,
4. Income from lease of fixed assets,
5. Proceeds from the sale of assets,
6. Royalties from intellectual property right and technical know-how,
7. Management fees, and
8. Income from donation.

**Article 19.** Personal income tax shall be charged at the following rate:

1. The income tax rate for the remuneration for work shall be 5-30 per cent, except where monthly income is less than 75,000 *won*, which shall be exempt from individual income tax,

2. The income tax rate for income from interest payments, income from dividends, income from lease of fixed assets, royalties from intellectual property right and technical know-how, and management fees shall be 20 per cent,

3. The tax rate for income from donation shall be 2-15 per cent, except where the income is less than 750,000 *won*, which shall be exempt from individual income tax, and

4. The personal income tax rate for the income from the sale of assets shall be 25 per cent.

**Article 20.** The personal income tax on remuneration for work shall be calculated by applying the tax rate stipulated for the monthly income.

**Article 21.** Personal income tax on dividends, proceeds from the sale of assets, royalties from intellectual property right and technical know-how, management fees and income from donation shall be calculated by applying the rate prescribed to the income concerned.

**Article 22.** Personal income tax on interest shall be calculated by applying the prescribed rate against the interest earned from bank deposits.

**Article 23.** Personal income tax on incomes from lease of fixed assets shall be calculated by applying the prescribed rate to the amount of income

after deducting 20 per cent from the incomes for such costs as labour, packing and commission.

**Article 24.** Personal income tax shall be paid as follows:

1. Personal income tax on income from remuneration for work shall be deducted and paid to the financial institution in the area of location by an entity withholding such income within 5 days or within 10 days by the person receiving the income to the financial institution in the area of residence,

2. Personal income tax on proceeds from the sale of assets and income from donation shall be reported and paid within 10 days from the end of each quarter by the person receiving the income to the financial institution in the area of residence,

3. Personal income tax on income from interest payments, income from dividends, income from lease of fixed assets, royalties from intellectual property right and technical know-how, and management fees shall be deducted and paid by the entity paying the income or shall be declared and paid by the person receiving the income to the appropriate financial organization within 10 days of the end of each quarter, and

4. No personal income tax shall be levied on interest from savings deposits in a bank of the DPRK and deposits in offshore banking unit in the Rason economic and trade zone.

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

**Article 25.** A foreign individual shall pay property tax on buildings, vessels or aircraft owned by him in the territory of the DPRK.

Buildings owned in the Rason economic and trade zone shall be exempt from the payment of property tax for a period of 5 years.

**Article 26.** A foreign individual shall register his property with the financial institution in the area of his residence, as follows:

1. The property shall be registered at an assessed value within 20 days from its acquisition,

2. In case of a change in the ownership 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 registered again by the end of each February, and

4. When property is written off, a notice of withdrawal from the register shall be given within 20 days.

**Article 27.** Property tax shall be levied on the value of the property registered with the financial institution in the area of the owner's residence.

**Article 28.** The property tax rate shall be 1-1.4 per cent of the value of the property.

**Article 29.** Property tax shall be calculated from the month following the registration of the property by applying the prescribed rate against the value registered with the financial institution in the area of the owner's

residence.

**Article 30.** Property tax shall be paid by an owner of property to the financial organization in the area of his residence within 20 days after the end of each quarter.

## **Chapter 5. Inheritance Tax**

**Article 31.** When property in the territory of the DPRK is inherited by a foreign individual, he shall pay inheritance tax. When any property outside the territory of the DPRK is inherited by a foreign individual resident in the territory of the DPRK, he shall also pay inheritance tax.

**Article 32.** Inheritance tax shall be levied on the remaining value of the property inherited, after all outstanding debts relating to it are settled.

**Article 33.** The value of the property inherited shall be assessed as the value of the property at the time of inheritance.

**Article 34.** The rate of inheritance tax shall be 6-30 per cent of the inheritance cash.

**Article 35.** Inheritance tax shall be calculated by applying the appropriate tax rate.

**Article 36.** An inheritor shall file and pay inheritance tax to the financial organization in the area of the inheritor's residence within 3 months of the date of inheritance.

Should the tax payable for inherited property be more than 3,750,000 *won*, the tax payment may be made in installments, on the agreement of the financial organization in the area of the inheritor's residence.

## **Chapter 6. Turnover Tax**

**Article 37.** A foreign-invested business of the production sector shall pay turnover tax.

**Article 38.** Turnover tax shall be levied on product sales revenue.

**Article 39.** The rate of turnover tax shall be 1-15 per cent of product sales revenue. The rate of turnover tax on luxury goods shall be 16-50 per cent of sales revenue.

**Article 40.** Turnover tax shall be calculated by applying the rate against the sales revenue for the products.

In case a foreign-invested business engages both in production and in service, turnover tax and business tax shall be calculated respectively.

**Article 41.** Turnover tax shall be paid by the distributor to the financial institution in the local area within 10 days after the end of each month.

**Article 42.** Turnover tax shall be exempted or reduced in the following cases:

1. Export goods shall be exempt from turnover tax. Export goods restricted by the State for export shall be subject to turnover tax as prescribed

separately, and

2. Turnover tax shall be reduced by 50 per cent in the Rason economic and trade zone.

## **Chapter 7. Business Tax**

**Article 43.** A foreign-invested business in the service sector shall pay business tax. A foreign-invested business in the construction sector shall also pay business tax.

**Article 44.** Business tax shall be levied on the income from service in such sectors as transport, power, commerce, trade, banking, insurance, tourism, advertisement, hotel, public catering, recreation and welfare facilities and income from the transfer of construction works in the construction sector.

**Article 45.** The rate of business tax shall be 2-10 per cent of the relevant income.

**Article 46.** Business tax shall be calculated by applying the prescribed rates to the incomes by category of business. In case a foreign-invested business is engaged in several categories of business, business tax shall be calculated by each category of business.

**Article 47.** A foreign-invested business shall calculate business tax every month and pay to the financial institution of its location within 10 days of the end of each month.

**Article 48.** Business tax shall be reduced by 50 per cent in the Rason economic and trade zone except in the sectors of commerce, public catering and recreation.

## **Chapter 8. Local Taxes**

**Article 49.** A foreign-invested business and a foreign resident shall pay local taxes to the financial institution in the area of operation or residence.

Local taxes shall include city management tax and vehicle tax.

**Article 50.** 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 51.** The base for city management tax shall be the total amount of wage and salary payments by an enterprise in case of a foreign-invested business and the monthly income of an individual in case of a foreign resident.

**Article 52.** 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 per cent of the total amount of wage and salary payments by an enterprise and paid each month to the financial institution in the area of its operation within 10 days after the end of each month, and

2. City management tax on a foreign resident shall be calculated each month at the rate of 1 per cent of the monthly income and deducted and paid by an entity withholding such income or by the foreign resident to the appropriate financial institution within 10 days after the end of each month.

**Article 53.** A foreign-invested business and a foreign individual shall pay a vehicle tax for the use of a vehicle.

**Article 54.** A foreign-invested business and a foreign individual shall register vehicles with the financial institution in the area of operation or residence within 30 days after gaining ownership of the vehicles.

**Article 55.** The amount of vehicle tax shall be 1,500-15,000 *won*.

**Article 56.** Vehicle tax shall be paid by the user of the vehicle before the end of February of each year to the financial institution in the area of operation or residence.

When a vehicle is not in use, the vehicle tax may not have to be paid for the duration of the period of non-use, provided that it has been reported to the financial institution in the area.

## **Chapter 9. Sanction and Appeal**

**Article 57.** Should a foreign-invested business or a foreign individual fail to pay taxes within the specified time limit, the financial institution shall levy a penalty of 0.3per cent every day on the overdue, beginning the day after the specified date for the tax payment.

**Article 58.** The financial institution shall impose fine on any foreign-invested business, foreign individual or withholding entity in the following cases:

1. Fines of up to 150,000 *won* for any failure to complete a tax procedure in time, or submit income tax returns, deducted income tax returns and financial accounting statements,
2. Fines of up to twice the amount due for short payment or nonpayment of taxes by an entity withholding taxes, and
3. Fines of up to 4 times of the taxes due, in cases of tax evasion.

**Article 59.** Any severe breach of this law shall be subject to administrative or criminal prosecution.

**Article 60.** Should a foreign-invested business or a foreign individual have ground for complaint or grievance in connection with tax payment, he may file an appeal or a lawsuit within 30 days from the date on which he had paid the tax.

The appeal shall be presented to the financial institution immediately superior to the financial institution to which the tax in question has been paid, and a lawsuit shall be filed with the court in the area of operation or residence.

**Article 61.** A financial institution that has received an appeal shall examine and settle the case within 30 days from the date of its receipt.



In case of disagreement with the settlement by the financial institution concerned, the case may be submitted to the court in area of operation or residence within 10 days from the date on which the appeal has been settled.