

## **Preciseness Emphasized for the Tax Investigation of Special Economic Zones**

North Korea is continuing to put forward new laws for the special economic zones (SEZs) such as Rajin-Sonbong and Hwangumpyong Island. Recently, North Korea announced special guidelines for the tax investigations of foreign businesses in the zones.

North Korea's Academy of Social Science Newsletter Volume 4 (published on November 2011) released an article titled, "Suggestions to Improve Tax Investigations in the Special Economic Zone," which included detailed instructions for the policy improvement for tax investigation for SEZs. Here, particular emphasis was placed on the enhancement of the tax investigation system -- to be accurate and rational -- for the foreign investment companies.

The article explained, "Based on the principles of equality and reciprocity for the construction of powerful economic state, the tax investigation system in the SEZ must be improved especially at the present time when SEZs are being constructed and expanded to increase economic trade with other nations."

It also stressed tax officials must be equipped with, "comprehensive knowledge and experience who accurately understand the entire process of business management. They must be capable of creating new tax investigation methods and be able to discern the various forms of tax evasions."

For the qualifications of the tax officials, the article recommended that the officials be selected based on their knowledge and experience; ability to develop techniques for tax investigation; awareness of rules and regulations of tax laws and bylaws, and regulations of rights and responsibilities of taxpayers; and capability of conducting research on foreign tax investigation policies.

The Academy of Social Science is a government agency of the DPRK, and the recent article on the tax investigation reflects that the government has already begun the process of implementing the tax investigation guidelines and laws in the SEZs.

The article emphasized establishing a tax investigation system acceptable to foreign companies. One can construe this as North Korea's effort to attract more businesses to the SEZ, which is currently suffering from poor performance.

In addition, North Korea is believed to be placing weight on the tax investigation based on its past experiences with the South Korean companies in the Kaesong Industrial Complex (KIC). In the past, the officials of the Central Special Direct General Bureau toured the industrial districts in China and showed keen interests in the tax management.

On December 8, 2011, the KCNA reported that the Standing Committee of the Supreme People's Assembly (SPA) has adopted the Economic Zone Act for Hwanggumpyong and Wihwa Islands. The law was revised and supplemented to include the Free Economic and Trade Act of Rajin-Sonbong. However, the details of these laws were not disclosed and some experts are predicting that these laws are likely identical to the Chinese laws in China's flourishing SEZs.

However, on January 11, 2012, Yonhap News Agency of South Korea reported that China

rejected the new Special Economic Zone Act of the DPRK because it is “not business-friendly.” The news reported, “China said the law was not business-friendly, telling North Korea that the law had some problems regarding taxes, accounting, remittance of profits and stability of investment.” It is reported that North Korea is working on the revision of these laws and likely for a new special zone act to be passed by the Standing Committee of the DPRK’s Supreme People’s Assembly (SPA).