



*From the MixCache.com library*

SAMPLE COPY

# Understanding how the North Korean Tax System Works

MixCache.com

SAMPLE COPY

## Table of Contents

- **Introduction**
- **Chapter 1** The Origins of Taxation in North Korea
- **Chapter 2** The Abolition of Direct Taxes: Fact and Myth
- **Chapter 3** Defining “Taxation” in a Socialist Economy
- **Chapter 4** Agricultural Tax-in-Kind and Its Legacy
- **Chapter 5** Enterprise Contributions and State-Owned Revenues
- **Chapter 6** Turnover Taxes: The Backbone of State Revenue
- **Chapter 7** “Socialist Economic Management Income”
- **Chapter 8** The Structure of State, Provincial, and Local Collections
- **Chapter 9** Non-Tax Burdens (Sewoe Budam): A Closer Look
- **Chapter 10** The Role of Organizational Life in Revenue Collection
- **Chapter 11** Compulsory Labor and Material Donations
- **Chapter 12** Public Shaming and Social Pressure: Enforcement Tactics
- **Chapter 13** Revenue from Markets (Jangmadang)
- **Chapter 14** Taxes and Fees on Private Enterprise
- **Chapter 15** Special Economic Zones and Foreign Companies
- **Chapter 16** The Management of Hard Currency Earnings
- **Chapter 17** Military and Party Economic Activities
- **Chapter 18** Fiscal Segmentation and Political Capitalism
- **Chapter 19** Budgeting and Revenue Reporting in North Korea
- **Chapter 20** The Role of Currency and Price Controls
- **Chapter 21** Comparisons with Other Socialist Tax Systems
- **Chapter 22** The Impact of Informal and Hidden Taxes on Citizens
- **Chapter 23** Efforts at Fiscal Reform and Public Concerns
- **Chapter 24** International Perspectives on North Korean Revenue Extraction
- **Chapter 25** The Future of Taxation and Revenue Collection in North Korea

## Introduction

North Korea is often described as a country unlike any other, and its approach to state revenue collection and taxation is no exception. The Democratic People's Republic of Korea (DPRK) claims to be the world's only tax-free nation, boasting of the abolition of all direct taxes in 1974 and commemorating this purported milestone with an official "Tax Abolition Day." To the outside observer, this assertion appears both remarkable and perplexing, especially considering the intricate systems of taxation that define most modern economies.

However, the reality beneath North Korea's tax-free narrative is far more complex. While personal income taxes and other direct levies were formally discontinued decades ago, the state continues to extract revenue through a robust, multifaceted set of practices that serve the function of taxation in all but name. This distinctive system includes indirect taxes on consumption, demand-driven contributions from state enterprises, a wide array of "non-tax burdens" imposed on individuals, revenue from market activity, and mandatory labor and donations. The words used may differ from those found elsewhere, but the essential nature of resource extraction remains.

The journey to North Korea's modern revenue system traces its roots to the immediate postwar era, when a more conventional structure of personal and agricultural taxation was in place. Over decades, as the economy shifted toward full socialist control with state ownership of industry and collective farming, the need for direct personal taxation diminished. Instead, the state developed methods of collecting revenue directly from the productive activities of large state-controlled entities, alongside less formal but equally binding means of requiring contributions from ordinary citizens.

Life in North Korea today is shaped by the presence of these unofficial levies and the ever-present expectation of mandatory labor or goods donation. While these are not technically described as taxes in domestic discourse, their effect is very similar—if not more burdensome—than formalized taxes seen elsewhere. Citizens may be required to supply specific items, donate a portion of their wages or production, or contribute time and labor without any official recognition of these acts as taxable events. The distinction between tax and non-tax in the everyday experience of the average North Korean is, in many cases, blurred beyond recognition.

With the emergence and expansion of unofficial markets (jangmadang) since the mid-1990s, the government has added yet more layers to its revenue strategy. By levying fees and taxes on market transactions and extracting a portion of foreign currency earnings, especially within special economic zones, the state has adapted to evolving economic realities while maintaining rigid control over the nation's financial

flows. At the same time, powerful factions within the regime—including military and party organizations—have found ways to independently secure resources, contributing to a complicated web of fiscal interests that influences policymaking at the highest levels.

This book seeks to unravel the myths and realities of the North Korean “tax” system. Through detailed analysis of its historical evolution, present-day practices, and the lived experience of those inside the country, readers will gain an understanding of the various mechanisms the state uses to finance itself. We will also draw comparisons to other socialist economies, consider international perspectives, and reflect on the challenges and potential futures facing revenue collection in the DPRK. In doing so, we aim to shed light on a subject that, though shrouded in official secrecy and propaganda, reveals much about how North Korea functions—and what its citizens must navigate each day.

SAMPLE COPY

## **CHAPTER ONE: The Origins of Taxation in North Korea**

Before North Korea declared itself a tax-free paradise, a claim that still echoes through state propaganda today, the country operated a more conventional system of taxation, particularly in the years immediately following the Korean War armistice in 1953. This early period, while brief in the grand sweep of North Korean history, provides essential context for understanding the radical shift that would occur later. It was a time when the state was still consolidating its power and transforming a mixed economy, left over from colonial rule and the devastation of war, into a centrally planned socialist system.

In the late 1940s, even before the full onset of the Korean War, northern Korea had a nascent system that included personal income tax. This reflected the economic reality of the time, which still contained elements of private enterprise and individual economic activity alongside burgeoning state control. As the state began its rapid push towards industrialization and nationalization, the importance of individual income tax as a revenue source began to wane relatively quickly.

For those working in factories and offices during this period, income tax existed with varying rates. While initially a significant contributor to state coffers in the immediate post-liberation period, accounting for a substantial portion of state revenue in 1946, its share decreased sharply as the state's grip on the economy tightened. This was a direct consequence of the state taking control of industries and production. By the mid-1950s, individual income tax constituted a much smaller percentage of state revenue, a trend that would continue until its eventual abolition.

Alongside the taxation of individual income, an agricultural tax-in-kind was a critical component of the early revenue system. Introduced in 1947, this tax required farmers to hand over a fixed portion of their harvest, typically grain, to the state. This method of revenue collection was common in agrarian societies and provided the state with essential food resources. Initially set at a rate of 25% of the total produce, the agricultural tax-in-kind was a tangible burden on the peasantry.

The implementation of the agricultural tax-in-kind was intrinsically linked to the land reform that took place in March 1946. While land was distributed to farmers, giving them tillage rights, the state effectively became the new landlord, requiring a significant portion of the yield as tax. This system, while framed as a benefit compared to the previous landlord-tenant relationships, placed peasants under significant state control regarding their produce.

As the state progressed with the collectivization of agriculture, which began in the late 1940s and accelerated significantly from the mid-1950s onwards, the nature of agricultural revenue collection started to change. By the late 1950s, most farmers were organized into agricultural cooperatives. This shift fundamentally altered the relationship between the state and the producers.

With collectivization largely completed by 1966, the agricultural tax-in-kind was formally abolished. This abolition was presented as a welfare benefit for the farmers, a sign of the state's benevolence. However, by this time, the state had direct control over agricultural production through the collectives, rendering a separate tax on individual harvests less crucial for revenue extraction. The state could, and did, secure the necessary agricultural output through its management of the collective farms.

During this period of transition, other forms of state revenue were gaining prominence. While not the focus of this chapter, it is important to note that sources such as turnover taxes on consumption and deductions from the profits of state enterprises were already contributing significantly to the state budget long before the formal abolition of direct taxes. These mechanisms were more aligned with the economic model of a centrally planned socialist state where the means of production were largely owned and controlled by the government.

By the time the Supreme People's Assembly officially abolished personal income tax and all other direct taxes on individuals and households in 1974, these taxes had already dwindled to a very small percentage of total state revenue. The move was thus largely symbolic, a declaration of a "tax-free" state that reflected an economic reality where the government primarily derived its funds from the state-controlled economy rather than from taxing individual citizens directly.

The formal abolition of direct taxation in 1974 was celebrated as a historic event, marking North Korea as the world's first purportedly tax-free country. Propaganda hailed it as the realization of a long-held desire of the Korean people to live without the burden of taxes, which were characterized as a remnant of the old, exploitative society. This narrative, while powerful domestically, masked the underlying reality of how the state continued to finance itself through alternative means inherent in a command economy.

The journey from a system with recognizable income and agricultural taxes to one that formally eschewed direct taxation was a gradual process, mirroring the state's increasing control over the economy and the lives of its citizens. As the state became the primary employer and owner of productive assets, the need to tax individual income diminished, replaced by mechanisms that extracted value at the point of production or through consumption within the state-controlled system. This historical evolution set the stage for the unique and often opaque methods of revenue

generation that characterize North Korea today.

SAMPLE COPY

---

*This is a sample preview. Purchase the book to read the full content.*

Visit [MixCache.com](https://MixCache.com) to purchase the complete book.

SAMPLE COPY