BDO | 성현회계법인

Setoff of foreign exchange

We will discuss a method to settle receivable and payable that occur between a Korean resident (domestic corporation or branch of foreign corporation) and a non-resident (overseas head-office or 3rd party foreign company).

1. Definition of Setoff

Transaction where a resident is engaged in international transactions of import/export, service provision, borrowing and lending, capital transactions etc. and agrees to setoff receivables and payables and only pays (or gets paid) the amount of net difference to (from) the non-resident at a certain time.

2. Reporting requirements

1) The duty will be completed by reporting to a designated foreign exchange bank that the transaction is taking place.

2) Exceptions to reporting

- In the case that the resident wants to setoff one party's amount of receivable or payable that is less than 5,000 USD.
- In the case that one party desires to setoff import proceeds with export proceeds related to counter trade and processing trade
- In the case that one party desires to setoff the product’s import-export amounts against the broker or agency fees accompanying import-export transactions
- In the case of setoff between two residents for foreign currency denominated receivable or payable

3) Required documents

- Report form for payment etc. (Foreign exchange transaction rule form number 5-1)
- Parties’ agreement regarding the setoff (indicates receivable/payable amounts)
- Supporting documents for receivable/payable that are subject to setoff (applicable agreement by transaction, invoices etc.)

4) Other

- The President of Bank of Korea or the Commissioner of designated foreign exchange bank who was notified of setoffs must notify the details of such setoffs to the Director of Tax Office or Director of Customs Office by the end of the first month of the next semi-annual period.
- Person who executes the setoff must keep all related supporting documents for 5 years.