



Finance Act 1993

1993 CHAPTER 34

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER II

EXCHANGE GAINS AND LOSSES

Accrual of gains and losses

125 Accrual on qualifying assets and liabilities

- (1) Subsection (2) below applies where a qualifying company holds a qualifying asset and there is a difference between—
 - (a) the local currency equivalent, at the translation time with which an accrual period as regards the asset begins, of the basic valuation of the asset, and
 - (b) the local currency equivalent, at the translation time with which the accrual period ends, of the basic valuation of the asset.
- (2) There is as regards the asset an exchange difference for the accrual period, and—
 - (a) if the difference represents an increase over the period, an initial exchange gain of an amount equal to the difference accrues to the company as regards the asset for the period;
 - (b) if the difference represents a decrease over the period, an initial exchange loss of an amount equal to the difference accrues to the company as regards the asset for the period.
- (3) Subsection (4) below applies where a qualifying company owes a qualifying liability and there is a difference between—
 - (a) the local currency equivalent, at the translation time with which an accrual period as regards the liability begins, of the basic valuation of the liability, and

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- (b) the local currency equivalent, at the translation time with which the accrual period ends, of the basic valuation of the liability.
- (4) There is as regards the liability an exchange difference for the accrual period, and—
- (a) if the difference represents a decrease over the period, an initial exchange gain of an amount equal to the difference accrues to the company as regards the liability for the period;
 - (b) if the difference represents an increase over the period, an initial exchange loss of an amount equal to the difference accrues to the company as regards the liability for the period.

126 Accrual on currency contracts

- (1) This section applies where a qualifying company enters into a contract (a currency contract) under which—
- (a) it becomes entitled to a right and subject to a duty to receive payment at a specified time of a specified amount of one currency (the first currency), and
 - (b) it becomes entitled to a right and subject to a duty to pay in exchange and at the same time a specified amount of another currency (the second currency).
- (2) Subsection (3) below applies if there is a difference between—
- (a) the local currency equivalent, at the translation time with which an accrual period as regards the contract begins, of the amount of the first currency, and
 - (b) the local currency equivalent, at the translation time with which the accrual period ends, of the amount of the first currency.
- (3) There is as regards the contract an exchange difference for the accrual period, and—
- (a) if the difference represents an increase over the period, an initial exchange gain of an amount equal to the difference accrues to the company as regards the contract for the period;
 - (b) if the difference represents a decrease over the period, an initial exchange loss of an amount equal to the difference accrues to the company as regards the contract for the period.
- (4) Subsection (5) below applies if there is a difference between—
- (a) the local currency equivalent, at the translation time with which an accrual period as regards the contract begins, of the amount of the second currency, and
 - (b) the local currency equivalent, at the translation time with which the accrual period ends, of the amount of the second currency.
- (5) There is as regards the contract an exchange difference for the accrual period, and—
- (a) if the difference represents a decrease over the period, an initial exchange gain of an amount equal to the difference accrues to the company as regards the contract for the period;
 - (b) if the difference represents an increase over the period, an initial exchange loss of an amount equal to the difference accrues to the company as regards the contract for the period.

127 Accrual on debts whose amounts vary

- (1) In a case where—

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- (a) a qualifying company holds an asset consisting of a right to settlement under a qualifying debt or owes a liability consisting of a duty to settle under such a debt, and
- (b) the nominal amount of the debt outstanding varies during an accrual period (whether because of an increase or a decrease or both),

the following provisions of this section shall apply for the period and section 125 above shall not.

(2) In such a case—

- (a) take the local currency equivalent, at the translation time with which the accrual period begins, of the nominal amount of the debt then outstanding;
- (b) take the local currency equivalent, at each time (if any) immediately after the nominal amount of the debt outstanding increases in the accrual period, of the amount by which it then increases;
- (c) take the local currency equivalent, at each time (if any) immediately after the nominal amount of the debt outstanding decreases in the accrual period, of the amount by which it then decreases;
- (d) take the figure found under paragraph (a) above, add each figure found under paragraph (b) above, subtract each figure found under paragraph (c) above, and call the resulting figure the first amount;
- (e) take the local currency equivalent, at the translation time with which the accrual period ends, of the nominal amount of the debt then outstanding, and call the figure so found the second amount.

(3) Where the qualifying company has a right to settlement under the debt the following provisions apply in relation to the asset consisting of the right—

- (a) if the second amount exceeds the first an initial exchange gain of an amount equal to the difference between them accrues to the company as regards the asset for the accrual period;
- (b) if the second amount is less than the first an initial exchange loss of an amount equal to the difference between them accrues to the company as regards the asset for the accrual period.

(4) Where the qualifying company has a duty to settle under the debt the following provisions apply in relation to the liability consisting of the duty—

- (a) if the second amount is less than the first an initial exchange gain of an amount equal to the difference between them accrues to the company as regards the liability for the accrual period;
- (b) if the second amount exceeds the first an initial exchange loss of an amount equal to the difference between them accrues to the company as regards the liability for the accrual period.

(5) If the first amount has a negative value, for the purposes of this section the second amount (however small its value) shall be taken to exceed the first amount (however large its value).

(6) Subsection (7) below modifies the preceding provisions of this section in their application to an asset or liability where there is a difference between—

- (a) the basic valuation of the asset or liability, and
- (b) the nominal amount of the debt outstanding at the translation time with which the accrual period begins.

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(7) In such a case—

- (a) the reference in subsection (2)(a) above to the nominal amount of the debt outstanding shall be taken to be a reference to the basic valuation of the asset or liability;
- (b) the reference in subsection (2)(c) above to the amount by which the nominal amount of the debt outstanding decreases shall be taken to be a reference to the amount found under subsection (8) below;
- (c) the reference in subsection (2)(e) above to the nominal amount of the debt outstanding shall be taken to be a reference to the amount found under subsection (10) below.

(8) The amount referred to in subsection (7)(b) above is the amount given by the formula—

$$A \times \frac{B}{C}$$

(9) For the purposes of subsection (8) above—

- A is the basic valuation of the asset or liability;
- B is the amount by which, at the time of the decrease mentioned in subsection (2) (c) above, the nominal amount of the debt outstanding then decreases;
- C is the nominal amount of the debt outstanding at the translation time with which the accrual period begins.

(10) The amount referred to in subsection (7)(c) above is the amount given by the formula—

$$D + E - F$$

(11) For the purposes of subsection (10) above—

- D is the basic valuation of the asset or liability;
- E is the amount (if any) by which the nominal amount of the debt outstanding has at any time increased in the accrual period or, if it has increased more than once, the aggregate of such amounts;
- F is the amount (if any) found under subsection (8) above or, if the nominal amount of the debt outstanding has decreased more than once in the accrual period, the aggregate of the amounts so found.