**BEL 300 STUDY NOTES**

**LA 6: FOREIGN EXCHANGE (FOREX)**

1. **INTRODUCTION**

* Most TP’s are influenced by fluctuations in currency
* Normal tax treatment of FOREX gains and losses relating to “exchange items” is governed by the provisions of s24l
* Gains = include in TI
* Losses = deduct from TI
* IRRESPECTIVE if realised/unrealised or if capital/revenue in nature

1. **CALCULATION OF GAINS & LOSSES ON FOREX TX’s**

* STEPS

|  |  |  |
| --- | --- | --- |
|  | **Step** | **What it entails** |
| **1** | **PERSON? TO WHO** | Applicable to:   1. Any **CO** 2. Any **trust** carrying on a **trade** 3. Any **natural person** who holds certain exchange items as **trading stock** 4. **Natural person / trust** who is a party to the following exchange items  * FOREX contract * Foreign currency option contract |
| **2** | **EXCHANGE ITEM** | Amount in **foreign currency**  **EXCHANGE DIFFERENCE IS CALCULATED ON EXCHANGE ITEMS**   * Unit of currency (money) * Loan / advance / debt * FEC: agreement where person agrees with another to exchange an amount of currency for another currency at some future date @ specified exchange rate * Foreign currency option contract (FCOC): agreement ito person acquires / grants the R to buy from/sell to another person a certain amount of a nominated foreign currency on/before a future expiry date @ specified exchange rate   Affected FEC & FCOC = serve as hedge |
| **3** | **TX, TRANSLATION, REALISATION DATES** |  |
| **4** | **RULING EXCHANGE RATES ON THESE DATES** | |  |  |  |  | | --- | --- | --- | --- | | **Exchange item** | **Transaction date** | **Translation date** | **Realisation date** | | **Unit of currency** | Spot rate | Spot rate | Spot rate | | **Loan/ advance/ Debt**  **(EXCEPTION: for reimbursement of loan other than spot rate)** | Spot Rate | Spot rate | Spot rate | | **FEC** | Fwd rate | Market related fwd rate | Spot rate on date realised | | **FCOC** | Nil | MV on translation date | MV on realisation date | |
| **5** | **COST & NATURE OF TX** | * Revenue or capital? * Converted cost is deductible ito s11(a) * If capital in nature: capital allowances may be claimed on the converted cost |
| **6** | **CALCULATE EXCHANGE GAIN / LOSS FOR THE YEAR** | |  |  | | --- | --- | | **Exchange item X Difference between ruling exchange**  **rate on** | | |  | TX date & Realisation date  TX date & TX Date  Translation date & realisation date | |
| **7** | **INCLUDE / (DEDUCT) EXCHANGE GAIN/(LOSS) FROM TI** |  |

*SILKE EG 22.1; 22.2; 22.3*

1. **FEC**

* Agreement ito one person agrees with another to exchange an amount of currency for another currency at some future date at a specified exchange rate
* Forward exchange contract is the same as Foreign Exchange contract
* TP’s usually use FECs to hedge themselves against unfavourable exchange rate fluctuations

+ to avoid the risk associated with currency fluctuations

* FEC constitutes a SEPARATE EXCHANGE ITEM

*SILKE EG 22.4*

1. **AFFECTED CONTRACTS**

* An affected contract is a FEC or FCOC
* Entered into by a person during any YOA
* To serve as hedge iro
  + A loan / advance / debt NOT incurred or accrued yet
  + IRO
    - Acquiring of asset
    - Financing of exp.
    - Disposal of asset
    - Supply of service
* FOR FEC / FCOC on TRANSLATION date, use rate on TRANSACTION DATE
  + Thus: no difference on translation date
  + Take into account on realisation
* NOTE: Where FEC entered into to hedge debt = the CTR and DEBT constitute TWO SEPARATE EXCHANGE ITEMS (THEREFORE: Calculate exchange differences in relation to both items at the translation and realisation dates)

*SILKE 22.5*

1. **DEFERRAL OF ECHANGE GAIN / LOSS {s24l(7)}**

* **Loan / advance / debt** utilised iro
* Acquisition, installation, erection / construction of any **MACHINERY**, PLANT, IMPLEMENT, UTENSIL, **BUILDING** OR IMPROVEMENT TO BUILDING

**OR**

* Devising, developing, creation, production, acquisition, restoration of any **INVENTION, PATENT, DESIGN, TM, ©,** or similar property/knowledge ito **s11(gA) & (gB)**
* **Exchange loss or gain**
* **DEFERRED UNTIL YOA** in which asset is **BROUGHT INTO USE** for the purpose of person’s trade (or commissioner satisfied that the loan will no longer be incurred / utilised as contemplated OR asset will not be brought into use for trade purpose)

*SILKE EG 22.7*