

Part 1: Currency

Overview

1. The Chapter contains a basic rule about the currency in which companies calculate and express their income and chargeable gains (see clause 2) followed by four special rules (clauses 3 to 6) which apply in certain cases.
2. The currency provisions are intended to be convergent with generally accepted accounting practice (“GAAP”). In particular, they are intended to be convergent with Statement of Standard Accounting Practice 20 (“SSAP 20”), Financial Reporting Standard 23 (“FRS 23”) and International Accounting Standard 21 (“IAS 21”).
3. References in the commentary for this Chapter to a company’s “presentation currency” are to the currency in which the company prepares its accounts. This meaning is consistent with the GAAP definition (see IAS 21).

Chapter 1: Currency

Clause 1: Introduction to Chapter

4. *Subsection (1)* of this clause introduces the Chapter.
5. *Subsection (2)* sets out two definitions which apply for the purposes of the Chapter. These are based on section 92E of FA 1993.
6. References in the Chapter to a company’s “accounts” are to be read in accordance with subsection (2).
7. *Subsection (3)* defines “functional currency” in a manner consistent with the GAAP definition.

Clause 2: Basic rule: sterling to be used for calculating and expressing income and chargeable gains

8. This clause states the basic rule for the preparation of company tax returns. It also introduces the four special rules, which detail how a company is to comply with the basic rule in certain cases. It is based on section 92(1) and (2) of FA 1993.
9. The basic rule applies to all companies. The special rules are of particular importance to multinational companies.

Clause 3: UK resident company operating in sterling and preparing accounts in another currency

10. This clause sets out the first special rule. It is based on section 92A of FA 1993.
11. This special rule applies to a UK resident company whose presentation currency is non-sterling and whose functional currency is sterling (see *subsection (1)*), and which has prepared its accounts in accordance with GAAP.

12. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be calculated in sterling (which in this case is the functional currency) as if this were the company's presentation currency: see *subsection (2)*.

Clause 4: UK resident company operating in currency other than sterling and preparing accounts in another currency

13. This clause sets out the second special rule. It is based on section 92B of FA 1993.

14. This special rule applies to a UK resident company whose functional currency is non-sterling (see *subsection (1)(b)* and *(c)*), whose presentation currency is different to the functional currency and which has prepared its accounts in accordance with GAAP. It is immaterial whether the presentation currency is sterling or non-sterling.

15. When this special rule applies, the company's profits or losses (adjusted to comply with corporation tax rules) must be calculated in the functional currency as if this were the presentation currency; the resulting amount of those profits or losses must then be translated from the functional currency into sterling (see *subsection (2)*).

Clause 5: UK resident company preparing accounts in currency other than sterling

16. This clause sets out the third special rule. It is based on section 92C(1), (3) and (4) of FA 1993.

17. This special rule applies to a UK resident company whose presentation currency (or "accounts currency", as in this clause) is non-sterling but which is not subject to the special rule in either clause 3 or 4 (see *subsection (1)*). This rule will apply, for example, if the company's functional currency is the same as its presentation currency.

18. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be translated from the presentation currency into sterling (see *subsection (2)*).

Clause 6: Non-UK resident company preparing return of accounts in currency other than sterling

19. This clause sets out the fourth special rule. It is based on section 92C(2), (3) and (4), and section 92E(2) of FA 1993.

20. This special rule applies to a non-UK resident company which trades in the UK through a permanent establishment, and which in the preparation of its return of accounts for the permanent establishment has used a presentation currency (or "accounts currency", as in this clause) which is not sterling (see *subsection (1)(b)*).

21. The expression “return of accounts” is defined in *subsection (4)*. A non-UK resident company which trades in the UK through a permanent establishment must make a return of accounts for so much of its profits as is attributable to the permanent establishment. This special rule applies to the return of accounts.

22. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be translated from the presentation currency into sterling (see *subsection (2)*).

Clause 7: Translating amounts into equivalent in different currency

23. This clause sets out the method for translating an amount from a non-sterling currency into sterling, or vice versa. It is based on section 92D of FA 1993.