

## CHAPTER 4 Income tax and corporation tax: treatment of certain losses and certain capital allowances

Foreign currency: tax treatment of capital allowances and trading losses of a company. CTA76 s14A; FA94 s56(b) 402.—(1) (a) In this section—

“functional currency” means—

(i) in relation to a company resident in the State, the currency of the primary economic environment in which the company operates, and

(ii) in relation to a company not resident in the State, the currency of the primary economic environment in which the company carries on trading activities in the State,

but, where the profit and loss account of a company for any period of account has been prepared in terms of the currency of the State, that currency shall be the functional currency of the company for that period;

“profit and loss account” and “rate of exchange” have the same meanings respectively as in section 79;

“representative rate of exchange” means a rate of exchange of a currency for another currency equal to the mid-market rate at close of business recorded by the Central Bank of Ireland, or by a similar institution of another State, for those 2 currencies.

(b) For the purposes of this section, the currency of the primary economic environment of a company shall be determined—

(i) in the case of a company resident in the State, with reference to the currency in which—

(I) revenues and expenses of the company are primarily generated, and

(II) the company primarily borrows and lends, and

(ii) in the case of a company not so resident which carries on trading activities in the State, with reference to the currency in which—

(I) revenues and expenses of those activities are primarily generated, and

(II) the company primarily borrows and lends for the purposes of those activities.

(c) For the purposes of this section, the day on which any expenditure is incurred shall be taken to be the day on which the sum in question becomes payable.

(2) (a) Subject to paragraph (b), the amount (which may be nil) of any allowance or charge to be made for any accounting period—

(i) in taxing a trade of a company, and

(ii) by reference to capital expenditure incurred by the company on or after the 1st day of January, 1994,

shall be—

(I) computed in terms of the functional currency of the company by reference to amounts expressed in that currency, and

(II) given effect, in accordance with section 307 (2)(a), by being treated as a trading expense or receipt, as the case may be, of the trade in computing the trading income or loss, expressed in that functional currency, of the trade for that accounting period.

(b) (i) For the purposes of the computation of an allowance or charge to be made for an accounting period (in this paragraph referred to as “the first-mentioned period”) by reference to capital expenditure incurred by a company on or after the 1st day of January, 1994, and

(ii) without prejudice to any allowance made by reference to that expenditure for an accounting period earlier than the first-mentioned period,

where that expenditure was incurred, or an allowance referable to that expenditure was computed, in terms of a currency other than the functional currency of the company for the first-mentioned period, then, that expenditure or allowance, as the case may be, shall be expressed in terms of that functional currency by reference to a representative rate of exchange of that functional currency for the other currency for the day on which that expenditure was incurred.

(3) (a) Subject to paragraph (b), for the purposes of sections 396 and 397, the amount (which may be nil) of any set-off due to a company against income or profits of an accounting period in respect of a loss from a trade incurred by the company in an accounting period shall—

(i) be computed in terms of the company's functional currency by reference to amounts expressed in that currency, and

(ii) then be expressed in terms of the currency of the State by reference to the rate of exchange which—

(I) is used to express in terms of the currency of the State the amount of the income from the trade for the accounting period in which the loss is to be set off, or

(II) would be so used if there were such income.

(b) (i) For the purposes of the computation of any set-off due to a company against income or profits of an accounting period (in this paragraph referred to as “the first-mentioned period”) in respect of a loss from a trade incurred by the company in an accounting period, and

(ii) without prejudice to any set-off made against the income or profits of an accounting period earlier than the first-mentioned period by reference to that loss,

where that loss, or any set-off referable to that loss, was computed in terms of a currency other than the functional currency of the company for the first-mentioned period, then, that loss or set-off, as the case may be, shall be expressed in terms of that functional currency by reference to a rate of exchange of that functional currency for the other currency, being an average of representative rates of exchange of that functional currency for the other currency during the accounting period in which the loss was incurred.