HMRC - IPT04750 - Risks Relating To Exchange Rate Losses

The Finance Act 1994, Schedule 7A paragraph 14(1) exempts a contract if:

(a) it relates only to loss resulting from a change in the rate at which the price for a supply which is or may be made by the insured may be exchanged for another currency; and

(b) the conditions in sub-paragraph (2) below are satisfied.

The conditions in sub-paragraph 14(2) are that:

1. the insured is a person carrying on business in the United Kingdom; 2. the contract of insurance concerns a contract to make a relevant supply of goods, or a supply of services, or both, to an overseas customer (whether or not the contract to make the supply is one into which the insured has entered, or one for which they have tendered or intend to tender); and 3. the period of cover for the risk expires no later than the date by which the whole of the price for the supply is to be paid or, where the contract has not been entered into, would be required to be paid.

Thus the exemption is aimed at premiums paid by exporters who, when tying themselves into a contract price, also make themselves vulnerable to exchange rate fluctuation. The insured must be supplying services, or a relevant supply of goods, to an overseas customer. The definition of a relevant supply of goods is at IPT04730 and the definition of overseas customer is at IPT04760.

Treatment of losses resulting from fluctuations in the exchange rate in relation to goods imported into the UK

Paragraph 14(3)(b) of Schedule 7A, includes within the exemption a contract of insurance which relates to exchange rate losses but relates to:

… loss relating from a change in the rate at which the price of goods which the insured imports into the United Kingdom for the purpose of enabling him to make the supply concerned may be exchanged for another currency …

The exemption applies provided that the type of loss described at 14(3)(b) is covered under a contract which also covers losses resulting from exchange rate fluctuations related to export transactions described in 14(1)(a) and the goods imported are to enable the exporter to make their supply of exported goods.

For example, a UK company agrees to sell machinery to a customer in the USA for an agreed price. Parts for the machinery are imported into the UK. The machinery is assembled using the imported parts and subsequently exported to the USA. Provided the UK company takes out a contract of insurance to cover itself against exchange rate losses, relating to the import of the parts and the export of the machine, then the insurance contract would be exempt.

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