

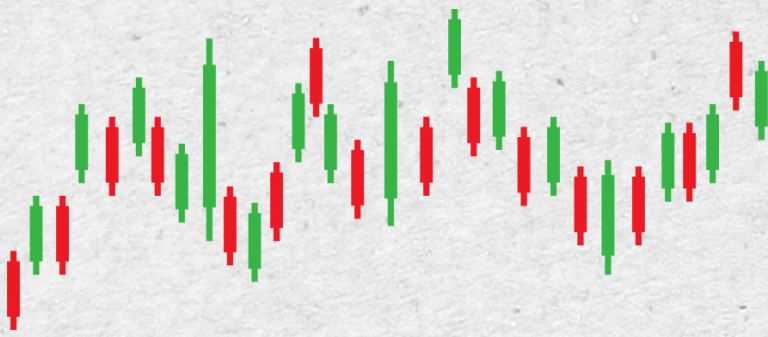
# TAX AND FOREIGN EXCHANGES

The 2 sections governing exchange items:

1. Section 25D - Governs expense / income items
2. Section 24I - Governs the exchange loss / gain from an exchange item.

## General:

1. Always apply specific rules first before general rules.
2. The specific rules covers:
  - Foreign tax rebates and deductions.
  - Exchange differences on exchange items
  - Hedging Instruments
  - Affected Contracts



## General Translation Rules:

1. Non - Natural persons carrying on a trade = Spot rate on date of transaction.
2. Natural person = Either spot / average rate.
3. Permanent Establishment outside SA = Average rate

## Hedging Instruments:

1. FEC's:
  - Transaction date = Forward rate under FEC.
  - Translation date = market related forward rate for remaining period of FEC.
  - Realisation date = Spot rate on that date
2. Options:
  - Transaction date = RO rate
  - Translation date = MV of Contract / Foreign Currency amount in contract.
  - Realization date = MV of Contract / Foreign currency amount in contract.



## Affected FECs:

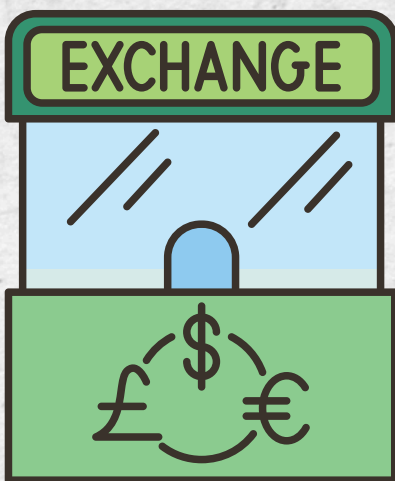
- Arises in consequence of an agreement entered into in the ordinary course of trade.
1. Transaction date = Forward Rate on contract.
  2. Translation date = Forward rate on contract.
  3. Realization date = Spot rate on that date

## Affected Foreign Currency Option Contracts:

1. Transaction date = RO
2. Translation date = Premium / Foreign Currency amount in contract.
3. Realization date = MV of Contract / Foreign currency amount in contract.



# 4 STEPS OF EXCHANGE DIFFERENCES ON EXCHANGE ITEMS



## 1. Identify the exchange item:

An amount in a foreign currency:

- That is a unit of currency acquired /
- owing by/to a person in respect of a debt payable to them/
- owed by a person in respect of a FEC/
- Where a person has the right / contingent obligation to buy/sell in terms of an option

## 2. Determine the ruling exchange rates:

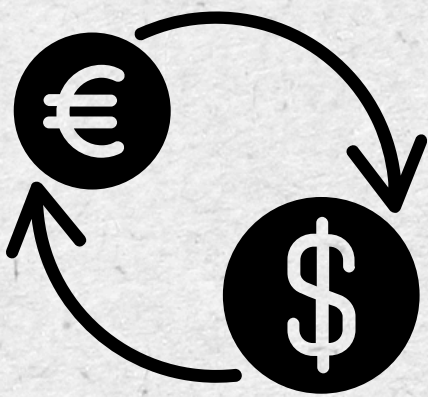
The specific translation rules as discussed before applies. Here the trick lies in identifying the dates.

### 1. Transaction Dates:

- Foreign Currency - Acquisition date.
- Debt owing by - Date debt incurred.
- Debt owing to - Date debt accrued.
- FEC - Date entered.
- Foreign options contract - Date entered.

2. Translation Date - End of year of assessment

3. Realization Date - Item disposed / realized



## 3. Calculate the foreign exchange difference:

The difference is always calculated as the difference between the **transaction date** and the **translation / realization date**:

- First YoA = Translation Date - Transaction date
- 2nd YoA = Translation Date 1 - Translation Date 2
- Realization date = Realization date - Translation Date 2

## 4. Determine if deferment applies:

### 1. Acquisition of Assets:

- Building / 11(gC) asset - Only bring in exchange difference once asset is brought into use.

### 2. Group Companies:

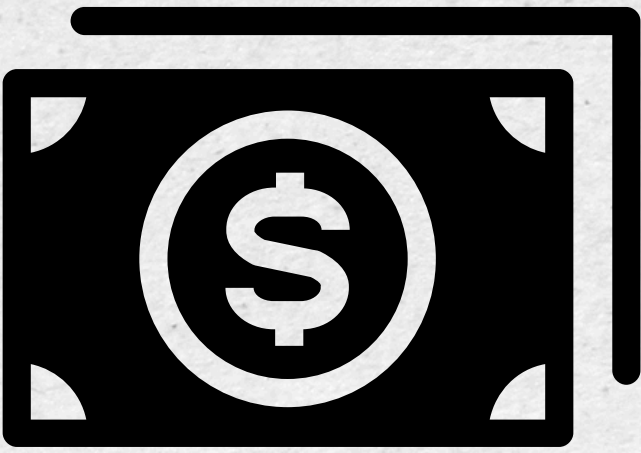
- Defer until realization / conditions no longer applies:
- Connected person / same group companies
- No hedging instrument taken
- Not a current asset / liability
- Not funded by 3rd party debt.



## Key notes on connected person / group company deferment:

- When a difference is deferred, but the conditions for deferment is no longer met then the exchange difference to be calculated is:
- The difference between the rate at the end of the 1st YOA and transaction date rate.

# SUNDRY PROVISIONS



## Anti - Avoidance rule:

- A foreign exchange difference cannot be deducted from income if a foreign currency option was entered with the sole purpose to reduce tax.

## Disposal and acquisition of assets:

- Apply specific rules set out in para 43.
- 1. Natural persons: Base Cost and Proceeds in same foreign currency.
- Determine CGT in foreign currency and apply average rate for YOA.
- 2. Other instances:
- Base Cost is translated at spot rate on date expenditure is incurred.
- Proceeds is translated on date the disposal is made / average rate for YOA

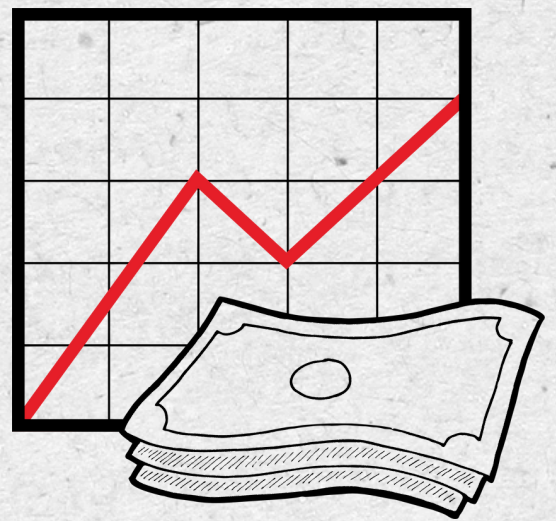


## Individual Investment Allowances:

1. Single Discretionary allowance:
  - R1 million per calendar year.
  - RSA residents over 18 years.
2. Foreign Capital Allowance:
  - Limited to R10 million per calendar year.
  - Only for SA residents over 18 years

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