TD 92/108 - Income tax: foreign income: application of currency conversion rules to foreign exchange gains and losses of a controlled foreign company (CFC).

Taxation Determination

Income tax: foreign income: application of currency conversion rules to foreign exchange gains and losses of a controlled foreign company (CFC).

1. Foreign exchange gains and losses of a CFC may be calculated by reference to the currency in which it generally transacts business and keeps accounts. The net gain or loss would then be translated into Australian currency on the basis of the rules provided in section 391 of the *Income Tax Assessment Act 1936*.

Example:

(i) On 1/1/91, a CFC in country X borrows $US1m. On that date, country X's exchange rate is 100 florins to $US1.

(ii) The CFC keeps its accounts in the currency of country X, i.e., florins.

(iii) On 1/4/92, the $US1m loan is repaid at an exchange rate of 90 florins.

(iv) This results in an exchange gain of 10,000,000 florins.

(v) The exchange gain of 10,000,000 florins is converted into Australian dollars using the relevant rate of exchange in section 391.

Commissioner of Taxation
01/07/92

FOI INDEX DETAIL: Reference No. I 1212751

Subject Ref: CFCs; foreign exchange gains and losses; cuurency conversion

Legislative Ref: ITAA 391

ATO Ref: 92/3745-3

ISSN 1038 - 3158