



## **Statement of Practice (SP 10/12)**

### **Taxation of Foreign Exchange Differences**

1. Section 6 of the Income Tax Act lays down the general principles for the conversion of income, expenditure or losses from a foreign currency to Mauritius currency. However, the Act does not specifically provide for the principles governing the tax treatment to be given to any gain or loss arising from fluctuations in conversion rates. The practice is therefore to follow generally accepted accountancy principles.

2. In accordance with the rulings given in TR 33 and TR 78, exchange differences arising from the conversion or translation of foreign currencies should be taken into account for tax purposes as well. The exchange difference, whether arising on actual conversion or translation (i.e. whether realised or unrealised) should be accounted for in the tax computation.

3. Exchange gains or losses are neither taxable nor allowable if they are of a capital nature. Whether a borrowing/loan in foreign currency is of a capital or revenue nature is a question of law to be decided on a case to case basis with reference to the facts of the case and case law.

In general, loans and their repayments are on capital account. However, borrowing made by finance companies in the ordinary course of their business to provide funds for on-lending to customers and borrowings undertaken by trading companies in the course of purchasing trade stock are exceptions to this general rule.

4. After representations made by various stakeholders, it has been decided to allow an option to taxpayers to elect to be taxed only when gains are realised. Similarly, losses will be allowed only when those losses are realised. Exchange differences on capital items will continue to be excluded from tax computation.

5. The option under paragraph 4 will be irrevocable. The option will have to be exercised in the return for the assessment year 2013 or, in the case of a new taxpayer, on the submission of its first return of income, by filling in the appropriate field in the tax form.

**27 December 2012**