TR 78

Facts

V Ltd is a private limited company incorporated in Mauritius and has the activity of running a hotel in the island and offers its services to T, a tour operator in Italy. T is the sole proprietor of V Ltd and sends tourists to this company; so that the latter's turnover is mostly made up of amounts invoiced to the tour operator.

V Ltd has two bank accounts, one held in the Euro currency and the other in the Mauritian currency (MRU). Invoices are issued by V Ltd to T in Euro, and all payments by the latter for amounts invoiced by the company are made in Euro and subsequently transferred to the MRU account as and when needed. Therefore, on account of the fact that payments are received in Euro, exchange gains and losses arise to the company.

Point in issue

At what point in time is gain or loss on exchange realized by the company:

a) when the amounts invoiced by V Ltd are settled by T and credited in the Euro account?, Or
b) when the amounts in the Euro account are transferred by the company to the Mauritian Rupee account?

Ruling

On the basis of facts given, the gain or loss on exchange arising as a result of the fluctuation in the rate of exchange is, in accordance with the provisions of Section 6 (3)(a) of the Income Tax Act, deemed to be realized by V Ltd on the date on which the amount invoiced to T is settled by the latter.

Where the amount invoiced is remitted in an income year other than the income year in which the transaction occurs, apart from accounting for the gain or loss on exchange at the date of settlement as stated above, any difference on exchange arising as a result of the fluctuation in the rate of exchange between the date of the invoice and the end of the income year in which the invoice is issued, should also be taken into account for income tax purposes by virtue of Section 6 (3) (b) of the Act.

Please note that any gain or loss on exchange arising on transfer of the amount from the Euro account to the MRU account should also be recognized and accounted for in the income tax return in respect of the year in which the transfer is made.

The treatment set out in the foregoing paragraphs is also in accordance with the principles laid down by IAS 21.