

CORPORATION TAX ACT 2010

EXPLANATORY NOTES

INTRODUCTION

Part 2: Calculation of liability in respect of profits

Chapter 4: Currency

Overview

45. This Chapter contains a basic rule about the currency in which companies calculate and express their income and chargeable gains (see section 5) followed by four special rules (sections 6 to 9) which apply in certain cases, and rules dealing with how to convert losses carried backwards or forwards. It is based on sections 92 to 92E of FA 1993.
46. References in this Chapter to a company's "functional currency" are to the currency that is most commonly used in the general economic and business environment in which the company operates – so for a company operating primarily in the UK the "functional currency" is sterling.
47. [Schedule 2](#) contains rules that cover circumstances where a company elects that changes made by FA 2009 should only apply to accounting periods beginning on or after the date on which FA 2009 received Royal Assent, instead of on or after 29 December 2007.

Section 5: Basic rule: sterling to be used

48. This section states the basic rule for the preparation of company tax returns. It also provides signposts to the four special rules, which detail how a company is to comply with the basic rule in certain cases. It is based on section 92 of FA 1993.

Section 6: UK resident company operating in sterling and preparing accounts in another currency

49. This section sets out the first special rule. It is based on section 92A of FA 1993.
50. This special rule applies to a UK resident company that prepares its accounts in a currency other than sterling and whose functional currency is sterling (see *subsection (1)*), and which has prepared its accounts in accordance with GAAP.
51. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be calculated in sterling.

Section 7: UK resident company operating in currency other than sterling and preparing accounts in another currency

52. This section sets out the second special rule. It is based on section 92B of FA 1993.
53. This special rule applies to a UK resident company whose functional currency is not sterling (see *subsection (1)(b)* and *(c)*), that prepares its accounts in a currency that is different from its functional currency and which has prepared its accounts in accordance

*These notes refer to the Corporation Tax Act 2010
(c.4) which received Royal Assent on 3 March 2010*

with GAAP. It is immaterial whether the currency used to prepare the accounts is sterling or another currency.

54. When this special rule applies, the company's profits or losses (adjusted to comply with corporation tax rules) must be calculated in the functional currency. The resulting amount of those profits or losses must then be translated from the functional currency into sterling (see *subsection (2)*).

Section 8: UK resident company preparing accounts in currency other than sterling

55. This section sets out the third special rule. It is based on section 92C of FA 1993.
56. This special rule applies to a UK resident company whose accounts currency is not sterling, but which is not subject to the special rule in either section 6 or section 7. This rule applies, for example, if the company's functional currency is the same as the currency used to prepare the accounts.
57. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be translated from the accounts currency into sterling.

Section 9: Non-UK resident company preparing return of accounts in currency other than sterling

58. This section sets out the fourth special rule. It is based on sections 92C and 92E of FA 1993.
59. This special rule applies to a non-UK resident company which trades in the United Kingdom through a permanent establishment, and which in the preparation of its return of accounts for the permanent establishment has prepared its accounts in a currency which is not sterling.
60. When this special rule applies, profits or losses (adjusted to comply with corporation tax rules) must be translated from the accounts currency into sterling.

Section 10: The equivalent in another currency of a sterling amount

61. This section provides the method of determining the "appropriate exchange rate" to be used for conversion of sterling amounts into another currency where required by section 7, 8 or 9. It is based on sections 92B, 92C and 92E of FA 1993.

Section 11: Sterling equivalents: basic rule

62. This section sets out the method for translating an amount from a non-sterling currency into sterling where required by section 7, 8 or 9. It is based on sections 92D and 92E of FA 1993.
63. This section is subject to special rules dealing with losses carried forwards or backwards.

Section 12: Sterling equivalents: carried-back amounts

64. This section sets out how a loss is to be converted into sterling from another currency in order to establish the sterling amount of a carried-back loss. It is based on section 92DA of FA 1993.

Section 13: Sterling equivalents: carried-forward amounts

65. This section sets out how a loss is to be converted into sterling from another currency in order to establish the sterling value of a loss carried forward to a later period. It is based on section 92DB of FA 1993.

Section 14: Carried-back amounts

66. This section applies where a company accounts in sterling or identifies sterling as its functional currency, but carries back a loss to an accounting period where it computed its profits and losses for tax purposes in a currency other than sterling. It is based on section 92DC of FA 1993.

Section 15: Carried-forward amounts

67. This section applies where a company accounts in sterling or identifies sterling as its functional currency, but carries forward a loss to an accounting period where it computes its profits and losses for tax purposes in a currency other than sterling. It is based on section 92DD of FA 1993.

Section 16: Sections 13(2) and 15(5): profit against which carried-forward amount to be set

68. This section provides interpretation of what is meant by the profit in a later period against which a loss is to be set off. It is based on section 92DE(3) and (4) of FA 1993.

Section 17: Interpretation of Chapter

69. This section provides interpretation of a number of terms used in the Chapter. It is based on sections 92DE and 92E of FA 1993.