



# Finance Act 1993

## 1993 CHAPTER 34

### PART II

#### INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

### CHAPTER II

#### EXCHANGE GAINS AND LOSSES

##### *Accrual of gains and losses*

#### **127 Accrual on debts whose amounts vary**

(1) In a case where—

- (a) a qualifying company holds an asset consisting of a right to settlement under a qualifying debt or owes a liability consisting of a duty to settle under such a debt, and
- (b) the nominal amount of the debt outstanding varies during an accrual period (whether because of an increase or a decrease or both),

the following provisions of this section shall apply for the period and section 125 above shall not.

(2) In such a case—

- (a) take the local currency equivalent, at the translation time with which the accrual period begins, of the nominal amount of the debt then outstanding;
- (b) take the local currency equivalent, at each time (if any) immediately after the nominal amount of the debt outstanding increases in the accrual period, of the amount by which it then increases;
- (c) take the local currency equivalent, at each time (if any) immediately after the nominal amount of the debt outstanding decreases in the accrual period, of the amount by which it then decreases;

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- (d) take the figure found under paragraph (a) above, add each figure found under paragraph (b) above, subtract each figure found under paragraph (c) above, and call the resulting figure the first amount;
  - (e) take the local currency equivalent, at the translation time with which the accrual period ends, of the nominal amount of the debt then outstanding, and call the figure so found the second amount.
- (3) Where the qualifying company has a right to settlement under the debt the following provisions apply in relation to the asset consisting of the right—
- (a) if the second amount exceeds the first an initial exchange gain of an amount equal to the difference between them accrues to the company as regards the asset for the accrual period;
  - (b) if the second amount is less than the first an initial exchange loss of an amount equal to the difference between them accrues to the company as regards the asset for the accrual period.
- (4) Where the qualifying company has a duty to settle under the debt the following provisions apply in relation to the liability consisting of the duty—
- (a) if the second amount is less than the first an initial exchange gain of an amount equal to the difference between them accrues to the company as regards the liability for the accrual period;
  - (b) if the second amount exceeds the first an initial exchange loss of an amount equal to the difference between them accrues to the company as regards the liability for the accrual period.
- (5) If the first amount has a negative value, for the purposes of this section the second amount (however small its value) shall be taken to exceed the first amount (however large its value).
- (6) Subsection (7) below modifies the preceding provisions of this section in their application to an asset or liability where there is a difference between—
- (a) the basic valuation of the asset or liability, and
  - (b) the nominal amount of the debt outstanding at the translation time with which the accrual period begins.
- (7) In such a case—
- (a) the reference in subsection (2)(a) above to the nominal amount of the debt outstanding shall be taken to be a reference to the basic valuation of the asset or liability;
  - (b) the reference in subsection (2)(c) above to the amount by which the nominal amount of the debt outstanding decreases shall be taken to be a reference to the amount found under subsection (8) below;
  - (c) the reference in subsection (2)(e) above to the nominal amount of the debt outstanding shall be taken to be a reference to the amount found under subsection (10) below.
- (8) The amount referred to in subsection (7)(b) above is the amount given by the formula—

$$A \times \frac{B}{C}$$

- (9) For the purposes of subsection (8) above—

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A is the basic valuation of the asset or liability;

B is the amount by which, at the time of the decrease mentioned in subsection (2) (c) above, the nominal amount of the debt outstanding then decreases;

C is the nominal amount of the debt outstanding at the translation time with which the accrual period begins.

(10) The amount referred to in subsection (7)(c) above is the amount given by the formula—

$$D + E - F$$

(11) For the purposes of subsection (10) above—

D is the basic valuation of the asset or liability;

E is the amount (if any) by which the nominal amount of the debt outstanding has at any time increased in the accrual period or, if it has increased more than once, the aggregate of such amounts;

F is the amount (if any) found under subsection (8) above or, if the nominal amount of the debt outstanding has decreased more than once in the accrual period, the aggregate of the amounts so found.