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National Treasury
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PRETORIA
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BY E-MAIL: 'Charles.Makola@Treasury.gov.za'

Dear Sir

CALL FOR COMMENT: AMENDMENTS TO FOREIGN CURRENCY RULES: HYPER-INFLATIONARY CURRENCY AND FOREIGN OPERATIONS USING MULTIPLE REPORTING CURRENCIES

We refer to your e-mail dated 15 March 2010. Please find the SAICA National Tax Committee’s comments enclosed.

1. **Reporting currency of a taxpayer is not South African Rands ("Rands")**

   The Income Tax Act No. 58 of 1962 ("the Act") does not deal with an scenario where the **reporting currency** of a South African taxpayer is not in Rands but in a foreign currency e.g. United States Dollars ("USD"). We have illustrated this by way of a practical example below:

   **Example 1**

   A company or group companies might report in foreign currency for various reasons such as dual listing or difference between country of incorporation and tax residency or due to the operations forming part of global deals.

   It could happen that the company does not prepare annual financial statements in South African Rands (International Financial Reporting Standards allow for such situations). As the Act does not provide for the scenario where the **reporting currency** of a taxpayer is not in Rands, technically the gross income and expenses which make up taxable income of the company must be converted to Rands at the spot rate when the income accrues or the expenditure is incurred.

   In practice, following the principles above is very difficult especially in a multiple transaction environment. The practical solution, also favoured by other jurisdictions like the UK, is to define the reporting currency as the functional currency, thus allowing the taxpayer to calculate the company’s tax liability in the functional
currency and to convert the liability at the average exchange rate for the year of assessment.

2. **Administrative burden**  
The Act does not cater for the concept of ‘functional currency’, which may be different from ZAR for a South African entity. For example, the functional currency restates assets (purchased in ZAR) to closing spot rate at each balance sheet date, including balance sheet items which are not exchange items as defined in section 241. This distorts the income statement amounts and may require significant tax adjustments. In addition, it requires South African taxpayers to keep two sets of accounting records – one in ZAR and one in its functional currency – which is administratively burdensome.

Please do not hesitate to contact me should you wish to discuss the above.

Yours faithfully

Muneer Hassan CA(SA)  
**PROJECT DIRECTOR: TAX**  
The South African Institute of Chartered Accountants

cc: Mr. Keith Engel  
Mr. Cecil Morden