

Foreign currency gains / losses arising otherwise than in the course of a trade (S.541A)

Part 19-01-14A

This document should be read in conjunction with section 541A of the Taxes Consolidation Act 1997

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Introduction

Section 28 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides that Capital Gains Tax (“CGT”) is charged in respect of chargeable gains accruing to a person on the disposal of assets. Under Section 532 TCA 1997 any currency other than the euro is an asset for the purposes of CGT. Accordingly, a chargeable gain / allowable loss can arise to a person buying and selling foreign currency otherwise than in the course of trade. That gain / loss is computed by reference to the corresponding euro value of the purchase price and the sale proceeds.

14a.1 Cash Holding

On the introduction of the euro, a holding in cash of a currency of another euro-participating State became a holding of euro. As no disposal took place at that time, neither a chargeable gain nor an allowable loss arose on that occasion in relation to this asset.

14a.2 Bank accounts

Where foreign currency is held in a bank account, the asset is the debt denominated in foreign currency owed by the bank. On the disposal of this asset a gain or loss can arise, again computed in terms of the euro cost of acquiring the asset and the euro value of the disposal proceeds.

On 1 January 1999, where an account had previously been in the currency of another euro-participating State, it became denominated in euro. In other words, the euro event caused a bank account denominated in the currency of another euro-participating State to be denominated in euro. Any gain or loss inherent in the asset (the debt) crystallised at that time. Section 541A TCA 1997 sets out the tax treatment of a bank account denominated in a foreign currency which on 1 January 1999 became a bank account denominated in euro. The exchange gains or losses which arose on the disposal of that account on 31 December 1998 were deemed to arise on that day.

However, while a capital loss could be utilised immediately, any capital gain arising is not liable to CGT until the account is disposed of i.e. the funds are withdrawn from the account. The part disposal rules apply where there is a partial withdrawal of funds from the account.

Section 44 Finance Act 2013 substituted “the currency of the State” for “Irish currency” in section 541A(1) TCA 1997 as the concept of Irish currency does not exist following the introduction of the euro on 1 January 1999.