FOREIGN EXCHANGE AND FOREIGN AFFILIATES: CONTINUING PROBLEMS AND POSSIBLE SOLUTIONS

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The proper tax treatment of foreign exchange gains and losses of a foreign affiliate is an important issue to Canadian multinationals and their tax planners, but one that is difficult to resolve. The authors of this article discuss the basic tax treatment of foreign exchange realizations under the existing foreign affiliate rules, as amended by the 2004 technical amendments. They identify problems that remain with respect to the interpretation of the rules in the specific context of foreign affiliates and debt settlement, hedging transactions, and the redemption of foreign-currency denominated shares. Finally, the authors suggest further technical amendments that might be made to resolve these problems.

KEYWORDS: DEBT ■ FOREIGN AFFILIATES ■ FOREIGN EXCHANGE ■ HEDGING

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