

TECHNICAL

Direct Taxation

LHDNM -- GUIDELINES ON TAX TREATMENT RELATED TO THE IMPLEMENTATION OF MFRS 121 (OR OTHER SIMILAR STANDARDS)

The Inland Revenue Board of Malaysia (LHDNM) has recently uploaded the [Guidelines on Tax Treatment Related to the Implementation of MFRS 121 \(or Other Similar Standards\)](#) (Guideline) dated 24 July 2015.

This Guideline is issued for the purpose of providing an explanation on the tax treatment related to the implementation of Malaysian Financial Reporting Standard 121 ([MFRS 121](#)) or any other accounting standards with regards to the impact of foreign currency translation. No effective date is mentioned in the Guideline.

According to the Guidelines, there are 3 different kinds of payment methods in business when entities adopt MFRS 121 in their transaction namely –

- a) Business that uses RM currency unit as mode of transaction;
- b) Business that uses neither RM currency unit nor functional currency unit as mode of transaction; and
- c) Business that uses functional currency unit as mode of transaction.

The tax treatment of each of the above payment methods is listed in the table below.

Payment methods in business when entities adopt MFRS 121 in their transaction	Tax Treatment
<p>Business that uses RM currency unit as mode of transaction. (Refer to Para 3.4)</p>	<ul style="list-style-type: none"> Foreign exchange differences are considered as realised when RM currency is physically converted into or exchanged for the functional currency. (Refer to Para 3.4.2) When RM denominated transaction is translated into functional currency and functional currency to RM presentation currency¹, any difference will be treated as translation of gains or losses. The translation of gains or losses will neither be taxable as income nor deductible as tax deduction or incurred as qualifying expenditure (QE) under the Income Tax Act 1967 (ITA). (Refer to Para 3.4.3) <p>¹ The exchange rates at the time of the transactions and at the time of reporting or settlement of the transactions may be different. As a result, foreign exchange differences are charged to profit and loss account and tax adjustment is required.</p> <ul style="list-style-type: none"> For every purchase of asset denominated in RM, the actual cost of the asset is to be used as QE under ITA. (Refer to Para 3.4.4) For every purchase of inventories or sale transactions and any income and expenses denominated in RM, the actual cost will be used for tax purposes. (Refer to Para 3.4.5) <p>(Example 2 & 3)</p>

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<p>Business that uses neither RM currency unit nor functional currency unit as mode of transaction. (Refer to Para 3.5)</p>	<ul style="list-style-type: none"> • Notwithstanding the requirement under MFRS 121 for using foreign currencies, any entity is required to record the spot exchange rate between the non-RM currency and the RM currency at the date of the transaction in order to determine the RM exchange value for tax purposes. (Refer to Para 3.5.1) • Foreign exchange differences are considered as realised when the RM currency is physically converted into or exchanged for the other foreign currencies or functional currencies. (Refer to Para 3.5.2) • When foreign currency denominated transaction is translated into functional currency and functional currency to RM presentation currency², any difference will be treated as translation of gains or losses. The translation of gains or losses will neither be taxable as income nor deductible as tax deduction or incurred as QE under ITA. (Refer to Para 3.5.3) <p>² The exchange rates at the time of the transactions and at the time of presentation of the transactions may be different. Tax adjustment is required.</p> <ul style="list-style-type: none"> • For every purchase of asset denominated in foreign currencies, the spot exchange rate between the foreign currencies and the RM currency at the date of the transaction is to be applied to determine the QE under ITA. (Refer to Para 3.5.4) • For every purchase of inventories or sale transaction and any income and expenses denominated in foreign currencies, the spot exchange rate between the foreign currencies and the RM currency at the date of the transaction is to be applied to determine the exchange value of actual cost or income under ITA. (Refer to Para 3.5.5) <p>(Example 4)</p>
<p>Business that uses functional currency unit as mode of transaction. (Refer to Para 3.6)</p>	<ul style="list-style-type: none"> • The entity is required to record the spot exchange rate between the functional currency and the RM currency at the date of the transaction in order to determine the RM currency for tax purposes. (Refer to Para 3.6.2) • Foreign exchange differences are considered as realised when the RM currency is physically converted into or exchanged for the functional currency. (Refer to Para 3.6.3) • When functional currency denominated transaction is translated into RM currency³, any difference will be treated as translation of gains or losses. The translation of gains or losses will neither be taxable nor deductible as tax deduction or incurred as QE under ITA. (Refer to Para 3.6.4) <p>³ The exchange rates at the time of the transactions and at the time of presentation of the transactions may be different. Tax adjustment is required.</p> <ul style="list-style-type: none"> • For every purchase of asset denominated in functional currency, the spot exchange rate between the functional currency and the RM currency at the date of the transaction is

Payment methods in business when entities adopt MFRS 121 in their transaction	Tax Treatment
	<p>to be applied to determine the QE under ITA. <i>(Refer to Para 3.6.5)</i></p> <ul style="list-style-type: none"> For every purchase of inventories or sale transaction and any income and expenses denominated in RM, the spot exchange rate between the functional currency and the RM currency at the date of the transaction is to be applied to determine the exchange value of actual cost or income under ITA. <i>(Refer to Para 3.6.6)</i> <p>(Example 5)</p>

Members may view the Guidelines at the [Institute website](#) and the [LHDNM website](#).

You may write to the Institute at technical@ctim.org.my or secretariat@ctim.org.my in respect of any suggestions, concern or comments you may have on the [Guidelines](#) so that we may raise them to the LHDNM.

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