

PRACTICE NOTE NO. 1/2023

EXPLANATION RELATING TO TAX TREATMENT ON FOREIGN EXCHANGE GAINS AND LOSSES FOR CHARGEABLE PERSON UNDER THE PETROLEUM (INCOME TAX) ACT 1967 (PITA)

1. This Practice Note is issued to explain the tax treatment on foreign exchange gains and losses arising from transactions in foreign currencies under the PITA.
2. Foreign exchange gains and losses occur when there is a transaction in a foreign currency compared to Ringgit Malaysia (RM) on two different dates.
3. The tax treatment in relation to foreign exchange gains and losses is explained in –
 - a) Guidelines on Tax Treatment Related to the Implementation of MFRS 121 (or Other Similar Standards)(Revised) published on 16 May 2019 (MFRS 121 Guidelines). These guidelines apply to all business activities in Malaysia that have adopted MFRS 121 for accounting purposes.
 - b) Public Ruling (PR) 12/2019 Tax Treatment of Foreign Exchange Gains and Losses. This PR is published based on the provisions under the Income Tax Act 1967 (ITA).
4. The principles used in determining foreign exchange tax treatment as explained in PR 12/2019 and the MFRS 121 Guidelines are applicable to Chargeable Person under PITA.

Therefore, the tax treatment for Chargeable Person under the PITA is as follows:

- a) For gains or losses from foreign exchange transactions in petroleum operations that are revenue in nature and are realised, such gains or losses shall be subject to tax or allowed as a deduction under subsection 15(1) of the PITA.
- b) For gains or losses from foreign exchange transactions in petroleum operations that are revenue in nature and are unrealised, such gains or losses shall neither be subject to tax nor allowed as deduction under subsection 15(1) of the PITA until they are realised.
- c) For gains or losses from foreign exchange transactions in petroleum operations that are capital in nature whether realised or unrealised, such gains or losses shall neither be subject to tax nor allowed as a deduction under subsection 15(1) of the PITA.

- d) Foreign exchange gains or losses arising from the translation of the functional currency to the presentation currency in the financial statements for accounting purposes, such gains or losses shall neither be subject to tax nor allowed as a deduction under subsection 15(1) of the PITA.
5. A transaction in petroleum operations is considered realised when the settlement payment is made. If the amount is settled in a foreign currency through a foreign currency account, the currency in question does not need to be physically converted for the transaction to be considered as realised. In other words, realisation does not necessarily occur in a situation of physical exchange. The definition of realised stated in PR 12/2019 also applies to Chargeable Person under the PITA.
6. This Practice Note must be read together with the MFRS 121 Guidelines published on 16 May 2019 which can be downloaded from the official portal of the Inland Revenue Board Malaysia at www.hasil.gov.my.

**Director General of Inland Revenue
Inland Revenue Board of Malaysia**

DATE OF PUBLICATION : 15 JUNE 2023