

Government of the Republic of the Union of Myanmar

Ministry of Planning, Finance and Industry

Internal Revenue Department

Practice Statement No. 1 /2020

Nay Pyi Taw

(14th February, 2020)

Accounting for exchange rate differences – Income and Expenditure

1. IRD, in exercise of the power conferred by Section (51) (c) of Income Tax Law, hereby issues this practice statement in order to clearly state that taxpayers operating under the SAS system may choose to follow International Accounting Standard “IAS” 21 or Myanmar Accounting Standard “MAS” 21 for calculating exchange differences on income and expenditure items, subject to the qualification that unrealized gains and losses are not assessable/ deductible for income tax purposes.

What this Practice Statement is about

2. This Practice Statement tells you how IRD for income tax purposes will accept the methodologies of “IAS” 21 or “MAS” 21 by SAS taxpayers who have chosen these accounting standard methodologies for the conversion of income and expenses into Myanmar Kyat.

3. These accounting standards address two situations:

- (a) Where a business operating in Myanmar uses Myanmar kyat as its Functional currency and needs to convert any foreign currency transactions into Myanmar Kyat, and
- (b) Where the business has a foreign currency as its Functional Currency, and it needs to convert its financial accounts into Myanmar Kyat.

Who this Practice Statement applies to:

4. This Practice Statement applies to SAS taxpayers who choose to use the methodologies as outlined in “IAS” 21 and “MAS” 21 for calculating exchange differences on income and expenditure items.

The law:

5. The relevant laws are as follows:

(a) Income Tax Law

(1) Section 11(a) – Income Tax Law – Income Tax shall be payable by

any person under the head Business in respect of income derived from business.

- (2) Section 3 (f) – Income received means income received or deemed to be received, or income accrued or arisen or deemed to have accrued or arisen.

(b) The Income Tax Rules:

- (1) Section 8(a) – Where a person receives income or pays expenses in a foreign currency that income or those expenses shall be converted into kyat.
- (2) Section 8(c) – If there is only a single transaction in a year the transaction is converted at the spot rate on date of receipt of that income. If there are multiple transactions the income is converted at the average of the spot rates on the dates of receipt of that income. Expenses are to be treated in a similar fashion.

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Business with Myanmar currency as its Functional Currency

6. Businesses who choose to follow the methodology as outlined in “IAS” 21 and “MAS” 21 must initially recognise foreign currency transactions in its Functional Currency at the spot rate on the date of the transaction, and any difference between that rate and the amount on settlement to be recognized as an exchange gain or loss.

7. Monetary amounts not settled at balance date are re-valued at the closing rate on balance date. However notwithstanding the accounting standards recognize any gain or loss in the Profit and Loss account unrealized gains and losses are not assessable/ deductible under Myanmar Tax Laws.

8. The following examples are given to help understanding of this Practice Statement.

Example 1

Facts: Company “A” enters contracts to buy goods for \$USD 50,000 on 20 January 2019 and \$USD 50,000 20 February 2019. They recognize payables at the official exchange spot rate of 1200 (60,000,000 kyat) for the 20 January 2019 transaction and the official exchange spot rate of 1230 (61,500,000 kyat) for the 20 February

transaction. On the 20 March 2019 company "A" makes payment of the \$US 100,000 payable for both contracts, however the exchange rate has deteriorated to a spot rate of 1250 and to settle the amount costs 125,000,000 kyat.

Application of this Practice Statement: Company "A" can claim this loss in calculating its assessable incomes for tax accounting. The exchange loss has been realised. The additional 3,500,000 kyat is a realized exchange loss is deductible for income tax purposes.

Equivalent MMK for 50,000 USD = $50,000 \times 1,200$ = 60,000,000 MMK
on January 20, 2019

Equivalent MMK for 50,000 USD = $50,000 \times 1,230$ = 61,500,000 MMK
on February 20, 2019

= 121,500,000 MMK

Equivalent MMK for 100,000 USD = $100,000 \times 1,250$ = 125,000,000 MMK
on March 20, 2019

The loss = 3,500,000 MMK

Example 2

Facts: The same facts as example one except the payment is not made prior to end of assessment year for tax 31 March 2019. The reference official exchange spot rate at 31 March 2019 is 1,260 for the revaluation of the payable.

Application of this Practice Statement: Company "A" cannot claim this loss in calculating its assessable incomes for tax accounting. The exchange loss has not been realised. The additional 4,500,000 kyat is an unrealized exchange loss is not deductible for income tax purposes.

Equivalent MMK for 50,000 USD = $50,000 \times 1,200$ = 60,000,000 MMK
on January 20, 2019

Equivalent MMK for 50,000 USD = $50,000 \times 1,230$ = 61,500,000 MMK
on February 20, 2019

= 121,500,000 MMK

Equivalent MMK for 100,000 USD = $100,000 \times 1,260$ = 126,000,000 MMK
on March 31, 2019

The loss = 4,500,000 MMK

Business with a foreign currency as its Functional Currency

9. Businesses who choose to follow the methodology as outlined in "IAS" 21 and "MAS" 21 which allow businesses to translate foreign currency accounts into a Presentation Currency (in this case Myanmar kyat) must follow the following. Translation of income and expenditure items are generally translated at the exchange rates on the dates of the transactions, however for practical reasons the use of an annual average rate is permitted unless there have been significant currency fluctuations.

10. The following examples are given to help understanding of this Practice Statement-

Example 3

Facts: The same facts as example one except the taxpayer has chosen to use an average exchange rate for the year. The official average rate for the year is 1230 year ended 31 March 2019.

Application of this Practice Statement: Company " A " can claim the payment of 123,000,000 in the calculation of the Cost of Goods sold. There is no exchange gain or loss when using the average exchange rate for the year.

Equivalent MMK for 50,000 USD = $50,000 \times 1,230$ = 61,500,000 MMK
on January 20, 2019

Equivalent MMK for 50,000 USD = $50,000 \times 1,230$ = 61,500,000 MMK
on February 20, 2019

= 123,000,000 MMK

Equivalent MMK for 100,000 USD = $100,000 \times 1,230$ = 123,000,000 MMK
on March 20, 2019

11. SAS taxpayers can still choose to use the methodology as outlined in the Income Tax Rules Chapter VI section 8(c) in calculating the exchange differences on income and expenditure items.

12. This Practice Statement is hereby signed and issued.

(Min Htut)

Director General

Letter No. 1(2)/ odg-1/ ird /2020 (1933)

Date: 14th , February , 2020

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