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ADVISORY ON TAX TREATMENT OF FOREIGN CURRENCY TRANSACTIONS

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Tax Treatment of Foreign Currency Transactions Under Philippine Financial Reporting Standards

OVERVIEW OF PFRS AND TAX TREATMENT

Particulars	PFRS	Tax Treatment
Initial measurement of foreign currency transactions	Recorded in the entity's functional currency using the spot rate of exchange at transaction date	Translated into Philippine Peso using the prevailing interbank reference rate on the date of transaction
Unrealized gain or loss on remeasurement of monetary assets and liabilities denominated in foreign currency	Recognized in profit or loss	Results to a temporary difference and deferred tax accounting to reconcile accounting net income to taxable net income
Unrealized gain or loss on remeasurement of non-monetary items carried at fair value currency transaction	Recognized in profit or loss or other comprehensive income depending on the treatment of the changes in the fair value of the item itself	Not considered in the determination of the taxable income
Realized gain or loss on settlement of a foreign currency transaction	Recognized in profit or loss	Forex gains/losses arising from closed and completed transactions are considered as taxable income or deductible expense for income tax purposes

DETAILED PFRS TREATMENT

	Treatment
Initial measurement	Recorded using the rate of exchange on the date of the transaction; Use of average rate is permitted as long as they are a reasonable approximation of the actual
Subsequent measurement	At each reporting date: ☑ **Monetary amounts** – Reported using the closing rate; Unrealized gain or loss is generally recognized in profit or loss ☑ **Non-monetary amounts carried at historical costs** – Measured using the historical exchange rate at the date of the transaction; Not remeasured at reporting date ☑ **Non-monetary amounts carried at fair value** – Translated using the exchange rates at the date the fair value is measured; Unrealized gain or loss is recognized in the financial statements in the same way the change in fair value is recognized
Settlement	The difference between the carrying amount and the consideration is recognized immediately in profit or loss

DETAILED TAX TREATMENT

As to measurement

Foreign currency transactions shall be converted into functional currency using the exchange rate at the time an asset, liability, income, and expense are recognized and measured/remeasured.

As to exchange rate

The spot rate on the date of transaction shall be used. However, the taxpayer has the preference to adopt which spot rate to be used (*e.g.* open, close, high, low, weighted average, etc.) in the beginning of the year as long as consistently adopted both in financial accounting purposes and tax purposes. Monthly average exchange rates are not permitted.

If there are no published rates available (*e.g.* weekends, holidays, etc.), the latest closing spot rate on the business date immediately preceding the date of transaction shall be used.

To standardize the use of foreign exchange (FX) rates, the following rules shall be prescribed:

- The Banker's Association of the Philippines (BAP) published rates shall be used as basis for the spot rate of exchange. *Note:* BAP publishes USD/PHP rates only.

- Spot rate on other available exchange rates (*e.g.* Bangko Sentral ng Pilipinas, Bloomberg, Reuters, etc.) shall be used, in case use of the BAP rates is impractical or not feasible, subject to the following conditions:
  - Submit to the RDO, LTDO, or LTS a notarized sworn statement within 30 days prior to the start of the taxable year stating:
    - Source of the FX rates to be used;
    - Reason for using such FX rates other than BAP published rates; and
    - Statement allowing the BIR during audit to have access on the day-to-day FX rates used.
  - Source of the FX rates must be available for presentation and submission together with other supporting documents during BIR audit.

- Election of FX rates is irrevocable and must be used consistently for at least one taxable year. However, if the taxpayer used the BAP published rates and subsequently incurred foreign currency transactions other than in USD, the taxpayer shall summarize certain information on its foreign currency transactions which must be available during the BIR audit.

- In case of subsequent change in FX rates used, a new notice shall be submitted.

- Failure to notify the BIR on the use of FX rates other than BAP published rates will subject the taxpayer to:
  - First and second offenses – Administrative penalties under Section 255 of the Tax Code, as amended;
  - Subsequent offenses – Considered as willful failure and is not subject to compromise.

- The actual FX rates as published or listed shall be used, including the number of decimal places. In case of limitations in the taxpayer's accounting system, the maximum number of decimal places allowed by the system may be used subject to the submission of a written notification on the system limitation to the BIR.

As to FX difference

- Realized gain or loss from FX transactions is subject to income tax.
- Unrealized gain or loss from FX transactions are not considered as income or loss for tax purposes. Also, deferred tax accounting should be applied.
- Realized and unrealized gains/losses must be accounted separately. Similarly, gains and losses are not to be offset against each other but must be presented in gross amounts.
- Automatic reversal of unrealized FX differences to realized FX gains or losses in the succeeding year not arising from closed and completed transactions are strictly prohibited.
- FX gains shall be reported as part of "Other Taxable Income" while FX losses shall be presented as part of "Ordinary Allowable Itemized Deductions." For FX losses, the rules on income tax deductibility shall likewise apply.

Source:
BIR Revenue Memorandum Circular No. 12-2024