



Tax & Legal – News Alert



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Changes to the taxation of foreign exchange gains and losses

The Draft Taxation Laws Amendment Bill 2025 (“2025 DTLAB”) proposes changes to the provisions of section 24I of the Income Tax Act that provide for the taxation of ‘exchange differences’ (foreign exchange gains and losses). More specifically, the 2025 DTLAB sets out amendments to section 24I(10A) that allows for the deferral of otherwise taxable exchange differences until the debt is realised.

Background

In its current form, section 24I(10A) allows a taxpayer to defer the recognition of ‘exchange differences’ arising from ‘exchange items’ in the form of debts incurred by or payable to a taxpayer in a foreign currency, provided that all of the following requirements are met:

- At the end of the year of assessment, the taxpayer and the other party to the debt are either ‘connected persons’ or form part of the same ‘group of companies’ for purposes of the Income Tax Act,
- The debt is not hedged by any forward exchange contract or foreign currency option contract,
- The debt or any portion thereof does not represent a current asset or current liability for IFRS purposes for the taxpayer’s financial statements, and
- The debt is not directly or indirectly funded by debt owed to a person who does not form part of the same ‘group of companies’ or is not a ‘connected person’ in relation to either the taxpayer or to the other party to the debt.

Debts not recognised in the financial statements

The 2025 DTLAB proposes an amendment to the third requirement in section 24(10A) and would require that the debt “*or any portion thereof does not represent for that person an asset other than a current asset or liability other than a current liability for the purposes of financial reporting pursuant to IFRS*”.

The intention is that where a debt is no longer reflected in the financial statements of the taxpayer, the exchange differences in relation to the debt should no longer be deferred.

An exchange item, impaired but still legally collectable is an example of where this will find application. A myriad of complexities arise when considering the practical application of this amendment.

The proposed amendment would come into operation on 1 January 2026 and applies in respect of years of assessment ending on or after that date.

Part realisation of exchange items

The 2025 DTLAB proposes a further amendment that will require that taxpayers include a formula driven amount of any exchange difference where an exchange item is realised in part.

The proposed amendment would come into operation on 1 January 2026 and applies in respect of years of assessment ending on or after that date.

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