# Accounting News Flash

January 2017

## PSAK 70 – Accounting for Assets and Liabilities of Tax Amnesty

PSAK 70 sets out the accounting for assets and liabilities arising from tax amnesty, and it is to be applied by entities that, as a result of participating in Tax Amnesty program as so defined in the Tax Amnesty Law, recognize assets and/or liabilities in their financial statements[1].

### PSAK 70 allows 2 policy options:

**1. "Normal accounting treatment"**

Entities apply existing requirements in SAK in determining whether assets and/or liabilities declared as part of Tax Amnesty meet the definition of assets/liabilities in SAK, and if so measure those assets and/or liabilities, both initially and subsequently, and present and disclose them in accordance with existing requirements in SAK.

Entities electing this option follow existing requirements under PSAK 25 to conclude if the previously unrecognized assets and liabilities indicate errors in prior period financial statements, determine the period-specific or cumulative effects of the errors (to the extent applicable), and restate comparative figures.

**2. "Optional exemption"**

Entities electing this option are provided with the following exemptions:

a. No need to restate prior year financial statements. The assets or liabilities declared as a result of Tax Amnesty are considered as non-monetary capital contribution from or distribution to equity holders. Consequently,

   i. they are recognized by the time the entity obtained Approval Letter from the tax authorities (or after 10 working days upon submission of Tax Amnesty application letter and the tax authorities has not issued the Approval Letter), and

   ii. the net amount of assets and liabilities are adjusted to equity, and is presented as part of "additional paid-in capital" line item.

b. On Day 1, initially measure the assets and liabilities based on its "nominal value" i.e. the amounts as included in the Approval Letter, subject to definition and recognition criteria of assets and liabilities under SAK. These amounts are considered as "deemed costs", and serve as the basis for subsequent measurement. Regardless of the "nominal value" measurement, entities adjust the amounts declared in Approval Letter, and thus affect the recognition/measurement on Day 1 for the following:

   i. Assets/liabilities that do not meet the definition and recognition criteria under SAK. For example, internally generated intangible assets (e.g. trademark).

   ii. Liabilities should be accounted in full (100%), to the extent that it reflects contractual obligation, directly attributable to the acquisition of the respective assets declared, that had not been settled at the date of Tax Amnesty Approval Letter.

---

[1] PSAK 70 is also applicable for entities preparing the financial statements under SAK ETAP, subject to existing accounting requirements (e.g. recognition, measurement) under SAK ETAP.

c. Subsequently measure the assets/liabilities in accordance with existing requirements under SAK, on the basis of the amount recognized at initial recognition. For example property, plant and equipments under cost model are to be subsequently measured at acquisition cost (i.e. deemed cost) less accumulated depreciation/amortization and accumulated impairment.

Entities applying the "optional exemption" may need to consider the following:

a. The use of "nominal value" as the basis for measurement on Day 1 might be inconsistent with basis of measurement under SAK for similar assets and liabilities, thus PSAK 70 requires separate presentation under line items "Tax Amnesty Assets" and "Tax Amnesty Liabilities" in the statement of financial position. These line items are to be classified as non-current assets or long term-liabilities, unless if the entities have valid basis to present current/short-term portion separately from non-current/long-term portion. "Tax Amnesty Assets" and "Tax Amnesty Liabilities" cannot be offset.

b. Reclassification out of such line items is allowed if the entities re-measure assets and liabilities at fair value (as defined in PSAK 68) as at Tax Amnesty Approval Date. By doing so, the entities re-establish initial measurement of assets and liabilities on a basis consistent with SAK. The difference as a result of the re-measurement is adjusted to "additional paid-in capital", and that the re-established amounts are used as the basis for subsequent measurement (e.g. new basis for depreciation/amortization) of the assets/liabilities. This re-measurement is optional, and might be applied on an item-by-item basis. No restriction as to when the entity apply such re-measurement option. However, once it is applied, the entities retrospectively account for the impact of subsequent measurement of the assets/liabilities in prior periods/years, up to date of Tax Amnesty Approval.

c. While the re-measurement as described in point b) is optional, PSAK 70 requires mandatory re-measurement in case if the assets declared (i.e. investment in other entities) led to control over other entities. For example, if an entity declared additional 51% of ownership interest in other entity (while it previously had recognized 15% of ownership interest in that entity), and concluded that it had control (as defined in PSAK 65) over that entity. In this case, PSAK 70 requires the entity, during the re-measurement period (i.e. up to 31 December 2017), to re-measure asset and liabilities at fair value (for business combinations within scope of PSAK 22) or at book value (for business combinations amongst entities under common control within scope of PSAK 38) as at Tax Amnesty Approval Date. The difference as a result of the re-measurement is adjusted to "additional paid-in capital", and that the re-established amounts are used as the basis for subsequent measurement (e.g. new basis for depreciation/ amortization) of the assets/liabilities. Once applying the re-measurement, the entity is required to apply consolidation procedures as set-out in PSAK 65 (at the latest by 1 January 2018). During the period from the date of Tax Amnesty Approval up to the initial application of consolidation procedures, the entity is required to measure its investment under cost method.

Re-measurement as described in point b) and c) above triggers reclassification out of "Tax Amnesty Assets/Liabilities" line item. Financial statements of the immediately preceding period is restated, only if the date of that preceding period is after the date of Tax Amnesty approval.

Entities applying the "optional exemption" is required to disclose the date of Tax Amnesty approval, the amounts of assets recognized as "Tax Amnesty Assets" as per the Approval letter, and the amount of "Tax Amnesty Liability" (i.e. full amount, not capped). In addition, they are also required to disclose the accounting policy and accounting estimates used and the details of carrying amount of "Tax Amnesty Assets and Liabilities" that had significant impact to the financial statements.

Apart from accounting policy options, PSAK 70 clarifies the following:

- Clearance levy does not meet the definition of "income tax" under PSAK 46, as it is not based on taxable profits. The accounting treatment follows PSAK 57, such that it is recognized in profit or loss at the date of Tax Amnesty Approval (i.e. for practicality reason, it is recognized at the same date as the recognition of the assets/liabilities arising from tax amnesty). Given that it is out-scoped from PSAK 46, it shall not be presented as part of "income tax expense" line item in the profit or loss.
- Claims for tax refunds that had been recognized prior to the date of Tax Amnesty approval shall be derecognized, and the impact is recognized in profit or loss at the date of Tax Amnesty Approval. The impact is presented as part of "income tax expense" line item, only if it relates to claim of previous years' income tax, as so defined in PSAK 46.
- Similarly, provision for tax exposures that had been recognized prior to the date of Tax Amnesty approval shall be reversed, and the impact is recognized in profit or loss at the date of Tax Amnesty Approval. The impact is presented as part of "income tax expense" line item, only if it relates to provision for previous years' income tax, as so defined in PSAK 46.

Given the salient features of each option, entities may need to carefully assess the implications of accounting policy options offered by PSAK 70.

# Contact us

**Siddharta Widjaja & Rekan**
**Registered Public Accountants**
33rd Floor Wisma GKBI
28, Jl. Jend Sudirman
Jakarta 10210
Indonesia
**T :** +62 (0) 21 574 2333 / 2888
**F :** +62 (0) 21 574 1777 / 2777

**Budi Susanto**
**Partner**
Budi.Susanto@kpmg.co.id

**Indra Wijaya**
**Director**
Indra.Wijaya@kpmg.co.id

**kpmg.com/id**