

Tax News Flash

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Updated regulations on tax depreciation and the amortization of assets

The Minister of Finance recently issued updated regulations on the depreciation of tangible assets and/or the amortization of intangible assets in regulation No. 72 Year 2023 (“PMK-72”) dated 13 July 2023 which then became effective on 17 July 2023.

PMK-72 contains new and updated provisions regarding the depreciation of permanent buildings, the amortization of intangible assets with a useful life of more than 20 years, the capitalized repair costs of tangible assets, insurance compensation from the transfer or withdrawal of assets covered by insurance, the amortization of software, the depreciation and amortization of assets in certain business fields, and the procedure for obtaining approval from the Indonesian Tax Office (ITO). Some provisions are basically compilations of previous regulations.

PMK-72 also revokes the following regulations:

- PMK No. 248/PMK.03/2008 which previously established the amortization of expenditures to acquire intangible assets and the amortization of other expenditures in certain business fields.
- PMK 249/PMK.03/2008 which was later amended with PMK No. 126/PMK.011/2012 regarding the depreciation of expenditures to acquire tangible assets owned and used in certain business fields; and
- PMK No. 96/PMK.03/2009 that stipulated the types of assets included in the group of non-building tangible assets for depreciation purposes.

Some of the key points of PMK-72 are as follows:

Depreciation of tangible assets that have never been used or have not yet been used in production

PMK-72 specifically stipulates when depreciation starts for tangible assets that have never been used or have not yet been used in production, i.e. depreciation starts in the month when the assets are used to obtain, collect, and maintain income, or in the month when the assets concerned “start to produce” (but approval from the ITO must be available). “Start to produce” here refers to when the tangible assets start production commercially without consideration of when income is received or earned.

Permanent buildings and intangible assets with a useful life of more than 20 years

Taxpayers who own permanent buildings that have a useful life of more than 20 years can choose to depreciate such property either using the actual useful life (as long as it is applied consistently), i.e. 20 years or more. This option is also applicable to intangible assets with a useful life of more than 20 years, i.e. if they are in Group 4 or are based on the actual useful life in the taxpayer’s bookkeeping. A notification to the ITO must be submitted by taxpayers no later than 30 April 2024 for the assets that are owned and used prior to the 2022 fiscal year. After submission of the notification, the depreciation or amortization calculation for the remaining actual useful life starting from fiscal year 2022 is calculated based on the fiscal net book value (NBV) at the end of 2021.

Capitalization of repair costs

In PMK-72, the capitalization of repair costs for tangible assets have now been specifically stipulated. These repair costs have been added to the fiscal NBV of the related fixed assets under the following rules:

- If the repair cost does not increase/add to the useful life of the tangible assets, the updated NBV is depreciated for the remaining fiscal useful life
- If the repair cost increases the useful life of the tangible assets, the updated NBV is depreciated for the remaining fiscal useful life plus any additional useful life acquired because of the repair within the maximum useful life of that asset's category (in the asset's group), except for permanent buildings that use the actual useful life.

PMK-72 defines capitalization as any expenditures incurred after the initial acquisition that provide future economic benefits in the form of additional capacity, production quality, improved performance standards or that can extend the useful life of the asset.

Routine maintenance costs performed once or more than once a year, (e.g., car spare parts replaced during regular service) cannot be capitalized.

The capitalized repair costs start to depreciate in the month of disbursement or in the month in which the repair process is completed.

Tax treatment on the compensation from the transfer or withdrawal of assets that is covered by insurance

If there is a transfer or withdrawal of assets that is covered by insurance, the following rules apply:

- the NBV amount of assets transferred or withdrawn is recorded as a loss; and
- the total selling price and/or insurance compensation received is recognized as taxable income, in the year in which the asset was withdrawn.

If insurance compensation can only be precisely determined in the future period, the losses are booked as expenses in the fiscal year in which the insurance compensation was received with the ITO's approval.

In the event that the asset was sold or transferred before receiving insurance compensation, the loss from the remaining fiscal NBV of the assets must first be netted off against the selling price.

Amortization of software

PMK-72 groups software acquisition costs into 2 categories:

- Special application software:
 - Software that is specifically designed to automate administrative systems, or certain jobs and business activities (e.g., applications in banking, capital markets, hotels, hospitals, or aviation industries).
 - The cost is expensed through amortization under Group 1 (4 years of useful life).
 - If future upgrade costs are incurred, the cost should be added to the fiscal NBV and be amortized under Group 1 starting the month the upgrade was made.
- General application software:
 - The cost to acquire and upgrade the capacity of the software in the form of general application software which are owned and used for obtaining, collecting, and maintaining income is recognized as a routine operating expense and expensed in the current year.
 - If the cost is included in the hardware acquisition cost, then it is computed in the depreciation of the related hardware.

Depreciation and amortization of assets in certain industries

For tax depreciation purposes, the tangible assets in certain industries are grouped into two categories:

1. Assets that can reproduce after being planted for more than 1 year:
 - Forestry and perennial plantations: Group 4
 - Livestock: Group 2
 - Depreciation starts in the month of commercial production, i.e. the month that sales start (through the straight-line method).
2. Livestock that can reproduce after being raised for up to 1 year (e.g., hens or ducks):
 - If the useful life of an asset is ≤ 1 year: it can be expensed at once
 - If the useful life of an asset is 1-4 years: it can be depreciated during useful life
 - Depreciation starts in the year of the disbursement of the assets.

The amortization of intangible assets and other costs which are owned and used in certain business fields start in the month of disbursement or in the month of commercial production/the month sales start.

Transitional provisions

- Applications that were completely submitted before PMK-72 became effective will be processed according to previous regulations.
- Incomplete applications that have been submitted by 16 July 2023 will be processed according to the provisions in PMK-72.
- For tangible assets (non-building) that have been depreciated according to the useful life of Group 1, Group 2, Group 3 and/or Group 4 based on PMK-96, the useful life of the depreciation remains valid until the useful life expires. However, for non-building tangible assets, acquired prior to fiscal year 2023, that are not listed in the Appendix of PMK-96 and are not issued with a decision letter determining their useful life but are listed in the Appendix of PMK-72, the following rules apply:
 - If the depreciation has not exceeded the useful life of Group 2 (8 years) as stipulated in PMK-72, the remaining fiscal useful life at the end of 2022 is adjusted to the Group's useful life as stated in PMK-72. The 2022 fiscal NBV ending balance is then depreciated according to the adjusted useful life.
 - If the asset has been depreciated more than the useful life of Group 2 (8 years) as stipulated in PMK-72, the 2022 NBV ending balance will be fully depreciated in 2023.

Updated listing of assets

Additional types of non-building tangible assets in the Appendix of PMK-72:

Group	Type of business	Type of assets
1	All businesses	Laptops and other electronic devices
2	The tobacco processing industry	Machines that produce processed tobacco products, such as tobacco chopping machines, cigarette rolling machines, and all similar products.

KPMG notes:

- Companies may need to review their non-building tangible assets acquired before 2023 that are not listed in the Appendix of PMK-96 and are not issued with a decision letter determining the useful life but are listed in the Appendix of PMK-72 in order to follow prevailing tax regulations.
- Companies need to submit a notification to the ITO no later than 30 April 2024 if they choose to depreciate or amortize their permanent buildings/intangible assets owned and used prior to the 2022 fiscal year according to the actual useful life in their bookkeeping.

Please reach out to your KPMG contacts for any further guidance you may require in respect to this regulation.

Contact us

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