



Tax News Flash

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New regulation on the deductibility of the allowance for doubtful accounts

Our Finance Minister recently issued Regulation No. 74 Year 2024 (“PMK-74”) on 18 October 2024 to amend the previous regulations on the deductibility of the allowance for doubtful accounts for corporate tax payable computations¹. PMK-74 was also issued to align tax treatments with financial accounting standards (currently regulated by PSAK 109) on this matter.

Under the HPP Law² and Government Regulation No. 55 Year 2022, banks, finance lease companies, consumer financing companies, factoring companies and other financing entities can deduct the allowance for doubtful accounts in accordance with the applicable financial accounting standards. These deductions, however, are subject to certain limitations after coordinating with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*).

PMK-74 states that tax deductible write-offs can be made using two approaches:

- The receivable is written-off directly when it becomes uncollectible (the direct method), or
- The write-off is made through an allowance or provision (the indirect method).

Both approaches must comply with the laws and regulations governing receivables that are clearly uncollectible and deductible from gross income.

The amount of the allowance for doubtful accounts that is deductible is calculated from the ending balance of the allowance for doubtful accounts minus the initial balance. The initial balance is the beginning balance of the allowance for doubtful accounts minus any write-offs made during the current fiscal year.

Eligible entities

PMK-74 specifies the entities that are eligible for this provision. They can be engaged in either conventional or Sharia-based financing activities if they are registered with the OJK. These entities, as listed below, are permitted to claim deductions to the allowance for doubtful accounts for corporate tax purposes:

1. banks including commercial banks and rural banks;
2. financial leases companies with optional rights that carry out business activities for financial leases;
3. consumer financing companies;
4. factoring companies; and
5. other financial institutions, including multi-finance, venture capital, pawnshops, and other state-owned financing companies.

¹ PMK 81/PMK.03/2009 as amended by PMK 219/PMK.011/2012 (“PMK-81”)

² The Harmonization of Tax Regulations Law No. 7/2021

Limitations on calculating the allowance for doubtful accounts

Under PMK-74, certain limitations apply to the calculation of the allowance for doubtful accounts balance at year-end:

1. Limitations for taxpayers that categorize the quality of their receivables using the staging method (for taxpayers that are required to apply PSAK 109):

Stage	Maximum percentage ³
1 - Stage 1 - Performing	1.4%
2 - Stage 2 - Underperforming	23%
3 - Stage 3 - Credit impaired	71%

2. Limitations for taxpayers that classify their receivables using the collectability method (for taxpayers that are not required to apply PSAK 109):

Collectability	Percentage
1 - Current	0%/0.5%/1%
2 - Special Attention	3%/5%
3 - Substandard	10%/15%
4 - Doubtful	50%
5 - Non-performing	100%

Application and types of collateral

Under the staging method, collateral is no longer deducted from receivables when calculating the allowance for doubtful accounts. However, for the collectability method, collateral must still be deducted at 100% for liquid collateral and at 75% for other collateral. The collateral value should be based on the OJK report (if the taxpayer has collateral reporting obligations with the OJK). PMK-74 also sets the types of collateral that can be deducted and the carrying value of the credits for Sharia financing.

The purpose of the fiscal calculation

Previously, under PMK-81, taxpayers needed to compare the total amount of the commercial allowance for doubtful accounts with the total amount of the fiscal allowance for doubtful accounts to determine the tax correction. However, under PMK-74, the tax-deductible allowance is either the commercial allowance or the tax limit, whichever is lower, and is determined by each sub-category under the applicable method. This applies to taxpayers calculating the allowance for doubtful accounts using either the staging or collectability methods.

Example 1. The staging method

Stage	Loan amount	Allowance for doubtful accounts (commercial)	% Limit	Maximum limit amount	Allowance for doubtful accounts (fiscal)
	a	b	c	d = a x c	e
1	860,000	12,900	1.40	12,040	12,040
2	85,000	8,500	23.00	19,550	8,500
3	20,000	18,000	71.00	14,200	14,200
				Total	34,740

³ Refers to the Appendix A of PMK-74

Example 2. The collectability method

Collectability	Shariah loan	Allowance for doubtful accounts (commercial)	Collateral	Nett receivable	% Limit	Maximum limit amount	Allowance for doubtful accounts (fiscal)
	a	b	c	d = a - c	e	f = d x e	g
1	1,400,000	5,500	-	1,400,000	1	14,000	5,500
2	55,000	1,000	33,000	22,000	5	1,100	1,000
3	3,000	500	18,000	1,200	15	180	180
4	200	200	120	80	50	40	40
5	2,000	2,000	1,200	800	100	800	800
						Total	7,520

For tax purposes, the deductible allowance for doubtful accounts is calculated using the movement in the ending balance of the allowance for doubtful accounts, as shown in the example above, and the beginning balance, adjusted for any write-offs made during the current fiscal year as a deduction.

The difference between the expenses in the commercial and fiscal allowance for doubtful accounts will lead to a fiscal adjustment, which may be either positive or negative.

Write-off nominative list

The regulation introduces a new format for the write-off nominative list, including an additional column for the type of write-off and for supporting documents. Taxpayers must classify and attach the following four types of supporting documents:

- legal filing documents
- written agreements
- publications
- debtor's acknowledgments

Transitioning provisions

The existing banks, *Bank Perkreditan Rakyat* (rural banks) and *Bank Pembiayaan Rakyat Syariah*, that have not been converted into *Bank Perekonomian Rakyat* or *Bank Perekonomian Rakyat Syariah* can calculate their bad-debt provision using PMK-74.

For the fiscal year 2024 calculation for the allowance for doubtful accounts:

- Taxpayers must recalculate the beginning balance of their bad-debt provision using PMK-74.
- The difference between the 2024 fiscal year beginning balance, calculated using PMK-74, and the 2023 ending balance, calculated under the previous regulation, will be treated as follows:
 - If the 2024 beginning balance is higher than the 2023 ending balance, the difference can be deducted in the 2024 and/or 2025 fiscal year.
 - If the 2024 beginning balance is lower than the 2023 ending balance, the difference will be taxable in the 2024 fiscal year.

KPMG notes:

The adjustment to the beginning balance for the fiscal bad-debt provision under PMK-74 may result in an overpayment on the annual corporate income tax ("CIT") return for the first year(s). Taxpayers should carefully assess whether the overpayment should be allocated to one fiscal year or spread over two fiscal years.

In addition to completing the write-off nominative list, taxpayers must also ensure that supporting documents for the write-offs are available and attached to the CIT return to avoid the write-offs being denied by the tax office for its deductibility.

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