Fixed Assets Revaluation Tax Incentives - Further guidelines

Tax News Flash

Following our publication in November 2015 regarding the New Fixed Asset Revaluation Tax Incentives, the Government issued a revised regulation which became effective on 15 October 2015. It accommodates input from business and professional associations, relaxing the requirements to transfer or sell revalued assets without penalties and the adding the requirement to include the revaluation increment in the notes to the financial statements.

On 21 December 2015 the Minister of Finance issued Regulation No. 233/PMK.03/2015 (PMK-233/2015) which is a revision of Regulation No. 191/PMK.03/2015 (PMK-191/2015) dated 15 October 2015.

Please refer to our November 2015 Tax News Flash regarding PMK-191/2015.

The revisions under PMK-233/2015 are effective on 15 October 2015, the effective date of PMK-191/2015, and are as follows:

A. Type of assets that can be revalued

In addition to the requirement that the tangible assets to be revalued must be located in Indonesia and are used to obtain, collect and maintain taxable income, the tangible assets must have a useful life of more than 1 year.

B. Transfer or sale of revalued assets

Revalued assets in Groups 1 and 2 cannot be sold or transferred until 3 years after their revaluation (previously permitted after they were fully depreciated);

Revalued assets in Groups 3 and 4 cannot be sold or transferred until 5 years after their revaluation (previously permitted after 10 years); and

Revalued land and buildings can not be sold or transferred until 1 year after their revaluation (previously permitted after 10 years).

If the assets are transferred or sold earlier than those periods, the revaluation increase, i.e. the difference between the new asset values (after revaluation) and the tax book values at the time of the revaluation will be taxed at the highest income tax rates (corporate taxpayers at 25% and personal taxpayers at 30%). The final income tax paid at the time of the revaluation can be used as a reduction of this tax payable.

C. Accounting perspectives of revaluation increase

Please note that the revaluation increment for tax purposes is the difference between the new asset values after revaluation and their tax book values at the time the revaluation was made.

For accounting and financial statement purposes, the revaluation increment is the difference between the new asset values after revaluation and their commercial net book values at the time the revaluation was made, less the final tax paid at the time of the revaluation.

The revised regulation states only that the revaluation increment must be included in the financial statements. It was previously required that the revaluation increment must be recorded in the statement of financial position under an equity account named "revaluation surplus of fixed assets dated …".

D. Assets revaluation by State Owned Enterprises

For State Owned Enterprises, their assets can be appraised by a government appraiser under the Director General of State Assets of the Ministry of Finance.

KPMG Comments

The revisions made accommodate input from businesses and professional associations.

Under PMK-233/2015 the periods for transferring or selling revalued assets without tax penalties are much more relaxed, which may require revised modeling to reassess the economic impact of utilizing tax revaluations.

The revised wording of article 9(1) in PMK-233/2015 appears to indicate that fixed asset revaluations made solely for tax purposes (and not for financial reporting purposes) require corporate taxpayers to include information regarding the tax revaluation increment in the notes to their financial statements. If a company applies the fixed assets revaluation solely for tax purposes, the Debt to Equity Ratio position will not be affected.

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