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The Impact of Indonesian Accounting Standard (PSAK 46 Revised 2013) to the Presentation of Final Taxation on Listed Construction and Real Estate Companies on the Indonesian Stock Exchange 2015–2016

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***Abstract*—This study analyzes the impact of changes in Indonesian Accounting Standard 46 (PSAK 46): Income Tax (revised in 2013) on final tax presentations in financial statements. This study used construction and real estate companies listed on the Indonesian Stock Exchange for the book period 2014–2016. The result shows six classifications of final tax presentation among companies. Also, the result of average tests of financial ratios comprising effective tax rates (ETRs), cash ETR, and operating profit margins indicates that the variety of final tax presentations have a significant impact on these three ratios. The result of such diversity in final tax presentations creates a lack of ability to compare financial statements.**

Keywords—PSAK 46, construction and real estate companies, income tax, effective tax rates, final tax presentation

I. Introduction

Indonesian Accounting Standard 46 (PSAK 46) has been revised twice since its introduction in 1997 (effective in 2001). PSAK 46 informs accounting standards for corporate income tax. This standard regulates the recognition of deferred tax assets and liabilities, the recognition of current taxes and the presentation of assets, liabilities, and income tax expenses. In 2010, PSAK 46 was revised in an attempt to refine its scope. Additions were made to include some tax accounting treatments, disclosures, and the presentation of current and deferred tax that had previously been excluded.

On April 29, 2014, the Financial Accounting Standards Board approved the second revision of SFAS 46 by adopting the IAS 12 Income Taxes as a whole. This new revision of PSAK 46 became effective after January 1, 2015. The most interesting difference about this revision is the abolition of the final income tax setting from the scope of PSAK 46 [1]. This triggers the existence of differences in the presentation of final income tax expenses in the financial statements of a company because the absence of this rule would mean different treatment for each company.

PSAK 46 adopted IAS 12 as a whole and this is now used as the basis for final income tax treatment in PSAK 46. This basis states that the income tax derived from gross income is not under the scope of PSAK 46. Consequently, some companies will present final returns based on subjective judgment of the treatment of expenses.

The purposes of this research is, first, to analyze the final income tax presentation in the financial statements of construction and property companies following the revision of PSAK 46 [2]. Secondly, to understand the factors that influence a company’s decision-making when determining its final tax presentation and finally, to analyze the impact of the comparability (or lack thereof) of the financial statements of construction and property companies after final income tax is eliminated from the scope of PSAK 46 [2].

This research is expected to assist stakeholders, such as the government and regulators, in evaluating the standards that need to be adjusted to tax practices in Indonesia so as to minimize the inconsistency in presenting the final tax burden in a company's financial statements.

II. Literature Review

According to Martani et. al. [3], accounting standards provide guidance in the preparation of financial statements to make inter-entity financial statements become globally accepted. Accounting standards aim to facilitate management in preparing financial statements, because a guideline provides provisions of the way the preparation. According to the IFRS conceptual framework, the purpose of financial statements is to provide information regarding the financial position, performance, and changes in financial position so as to benefit economic decision-making.

In the financial accounting book based on SFAS [3], accounting standards aim to ensure that financial statements prepared by a company have qualitative characteristics of being informatively comprehensible, relevant, material, and reliable. On the basis of these qualitative characteristics, the financial accounting standard (SAK) is defined as a guideline in preparing financial statements that can be

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accepted and used in general and are globally accepted. IFRS convergence is related to the increasing complexity in the accounting system and now requires higher levels of assessment/ interpretation and better commitment of management at various levels within the company. This is also characterized by the shift from accounting to taxation and a significant increase in the amount of disclosure [4].

Harmonization of different accounting standards from different countries will increase the comparability of financial statements so that investors can make investment decisions more easily and quickly based on financial statements [5].

The convergence of PSAK to IFRS can improve the quality of financial accounting standards (SAK), increase the credibility and usefulness of financial statements, improve the comparability of financial reporting, improve financial transparency, and the efficiency of financial reporting.

In the 2013 revision, PSAK 46 adopted IAS 12 as a whole. In PSAK 46, there is a basis for conclusion where it is complementary but not part of PSAK 46. The scope of the basis of this conclusion states that the income tax is the tax calculated based on the tax regulation, which is levied on the taxable income of the entity. Meanwhile, the final income tax in accordance with the provisions of taxation in Indonesia is imposed on the gross value, that is, on the amount of money received. This tax is still levied even if the entity incurs losses. Therefore, the final income tax in accordance with the provisions of taxation in Indonesia is not included in the scope of PSAK 46 because it is not regulated in IAS 12 Income Taxes.

According to Surono [6], the cash effective tax rate (ETR) can be used as a measuring tool in tax avoidance at public companies listed on the Indonesia Stock Exchange. In addition, the cash ETRs can also be used as one component when measuring the tax aggressiveness of a company.

According to Syamsuddin [7], the operating profit margin (OPM) describes the pure amount actually obtained from the results of the company's operations by ignoring the financial obligations in the form of interest and tax obligations. OPM is a profitability ratio that can be used as a performance management tool [8].

III. Methods

The methodology used in this study is a content analysis of the financial statements of construction and real estate companies from 2014 to 2016. The analysis is conducted in several stages. First, the collection of a company's final tax return and then classify from each different presentation on the company.

Second, the identifying of the Public Accounting Firm (PAF) responsible for auditing the company, with classification of Big Four and non-big four firms and signing partners for the period 2014–2016. Thirdly, the conducting of unstructured interviews with company representatives and PAFs selected to obtain information about the factors that influence management decisions in determining the final tax treatment in the company's financial statements.

Finally,, application of the average difference test of ETR, cash ETR and operating profit margin as an indicator of measurement of change in the final tax presentation before and after revised PSAK 46 [2]. The average difference test was performed using STATA 12 with Wilcoxon rank-sum test measurements on non-parametric tests.

IV. Results

Currently, there are 63 construction and real estate companies listed on the Indonesian Stock Exchange. Of these 63 companies, 52 have been registered prior to 2104. The study did not select the companies listed after 2014 so that 2014 financial statements could be compared, since PSAK 46 [2] effectively took effect after January 1, 2015.

This study also collected data on PAF audits of companies for 2014, 2015, and 2016. The PAFs' ratings were divided into two categories–Big Four and non-big four. The signing partner (public accountant) of each PAF is also noted because each partner has a different style of presentation.

A. Classification

The results found six classifications of final tax presentation in the comprehensive income statements. The following describe each classification:

- One line for all expenses: the company incorporates all expenses in one presentation. It does not differentiate between operating expenses and other expenses.
- Operating expense: the company presents the final tax expense as part of its operating expenses.
- Other expense: the company presents the final tax expense as part of other expenses.
- Net of revenue: the company presents the final income tax expense after revenues so that net revenue will be determined after final tax deduction.
- One line above earning before tax: the company presents its final income tax expenses after earnings before tax but presents it separately to its current tax expense.
- Current tax expense: the company presents the final income tax expense as part of the company's current tax expense;. some companies present in detail in the income statement but others only present income tax expense in the statements of income but on notes to the financial statements will be presented in detail between current tax expense, final tax expense and deferred tax expense.

Based on these classifications, as many as 35% of the total sample of 52 companies in 2015 and 38% of the total sample of 52 companies in 2016 presented their final tax bills as a separate line in all expenses of both operational and other expenses. Table 1 below shows details of the final tax presentation of the construction and real estate companies.

From Table I it can be concluded that PAFs prefer two classifications: one line in all expenses and operating expenses. However, nine companies in 2015 and five in

2016 chose to present their final tax assessments as part of the current income tax and these companies were all audited by Big Four PAFs.

TABLE I. TOTAL COMPANIES BASED ON CLASSIFICATION OF FINAL TAX PRESENTATION

Presentations	2016	PAFs		2015	PAFs	
		Big Four	Non Big Four		Big Four	Non Big Four
One line in all expenses	20	7	13	18	7	11
Operating expense	13	-	13	13	-	13
Net off revenue	3	-	3	3		3
Other expense	4	-	4	3	-	3
One line above EBT	7	4	3	6	4	2
Current tax expense	5	-	5	9	-	9
Total Companies	52			52		

Source: Financial Statements of Construction & Real estate Companies 2015–2016

The data processed in this study indicates that different PAFs may treat final corporate tax presentations differently. However, this does not apply in absolute terms, since there are also companies that have different PAFs and PAs from 2015 to 2016 but their final tax presentations remain in the same classification.

B. *Interviews*

This study comprises brief interviews with two speakers– a representative from a company, Pembangunan Perumahan (Persero) Tbk, which engages Hertanto as its PAF, and one with RSM Amir Abadi Jusuf, a PAF that deals with final tax differently on several of the construction and property companies being audited.

Management decisions in the presentations and disclosures always refer to PSAK, in this case PSAK 46 for the presentation of income tax. Similarly, the public accountant will apply similar guidelines, where the auditor has to present the financial statements in accordance with the latest applicable PSAK. However, PT PP, which retains the final tax presentation as a current tax has its own practices for final tax presentation.

According to a statement from the relevant Public Accountant:

"PSAK does not specifically regulate the final tax rate. However, the management of PT PP, based on SOEs and taxes, assumes that if the final tax is presented not separate from the income tax expense, the analysis of the SOEs and the tax office will be easier rather than when presented as a direct expense."

The results of the interviews conducted in this study found two main factors that influence management decisions in determining the basis of the final income tax presentation:

- Special conditions affecting company policy in the preparation of financial statements, particularly when it comes to valuation. In this particular instance, where the company will conduct a merger or will be acquired by another company, with one measure of valuation being the operating profit margin or EBITDA (Earnings before Interest Taxes Depreciation and Amortization) so that final income tax is presented among other expenses. There are also conditions in which the final tax presentation is influenced by how the company's performance appraisal indicators and directors' compensation is treated.

  A statement by the RSM AAJ Public Accountant notes that: "*Companies usually have an annual target that will be an indicator of the determination of compensation earned by employees and directors if the target is achieved*."

  Therefore, given this, stipulation, companies will prefer to treat final tax as another expense, assuming profit targets are assessed by reference to operating profits. Heranto, representing PT PP, also stated that the final tax presentation in a particular classification is intended for ease of tax burden analysis, especially in SOE-based companies.

- Management also recognizes that the revised PSAK 46 [2] has become the basis for the elimination of special arrangements relating to the presentation of final income tax. A partner in the RSM AAJ public accountancy firm stated that: "Management will usually approve the classification of the presentation proposed by the auditor as long as it does not have a significant impact on the profitability ratios of the company whose indicator is in the comprehensive income statement." This is the reason why a company might choose to present its final taxation as a deduction of income: management will prefer to reflect a company's net revenue. "The reliability and quality of financial statements can be accounted for as long as there is disclosure that can help users of the financial statements know how the final income tax is presented," was the public accountant's response when asked whether the final tax presentation of the different reliability of the financial statements can still be maintained.

One could also conclude from the interviews that the final tax presentations are diverse because every public accountant in a PAF has a dedicated template for preparing a company's financial statements, as long as the presentation is in accordance with the applicable standard and is approved by management.

C. *Effective Tax Rate*

The ETR in this study is GAAP ETR, which is ETR obtained from the tax burden (i.e., current tax expense and deferred tax expense) divided by profit before tax. In addition, among the 52 samples ETRs of significantly different grades were disseminated to maintain the sample's ability to imply the impact of varying ETR comparability. Thus, the ETR selected in this study is only worth between 0 and 100 percent.

Table II shows the average comparison of ETR rates for 2013 and 2014, before and after the revision of PSAK 46 for the period 2015 and 2016.

Table II shows that firms presenting final taxes on the component of the current tax burden have a higher ETR rate than firms presenting the final tax not included in the components of the company's current tax burden. The ETR levels in 2013 and 2014 are definitely larger than in 2015 and 2016because in the data obtained in the years 2013 and 2014, all final tax presentations are included in the components of the current corporate tax expense, in accordance with the statements in PSAK 46 [1].

The average difference test results indicate that the final tax presentation significantly affects the company's ETR level before and after the revision of PSAK 46 [2] with prob> z = 0.000. The impact of the comparability of financial statements at the ETR level can lead to the perception by those who study financial statements that a low ETR reflects a low corporate income tax liability, since the final significant tax burden is not included in the final tax burden component.

TABLE II. AVERAGE COMPARISON OF ETR LEVELS FOR THE YEARS 2013–2016

Classification	Average Level of ETR			
	2016	2015	2014	2013
Not included as current tax	4.11%	4.05%	26.49%	25.68%
Included as current tax	17.47%	11.57%		

Source: Financial Statements of Construction & Real Estate Companies 2013–2016

Therefore, adequate disclosure of the tax treatment of construction and property companies subject to final taxes is required to ensure that users of financial statements will obtain clear information on the tax obligations of the company.

D. Cash ETR

The study found that the company was inconsistent in the presentation of its final tax. Some companies that present the final tax burden are not included in the current component of the tax expense, in which the final statements of payment cash-flows are still combined with income tax payments. It is supposed, in this scenario, that a company will make two cash-related disclosures—one paid for the final tax and another in cash paid for income taxes—because according to the definition set forth in PSAK 46, the final tax is not an income tax.

From the total sample used in this study, there are only 13 companies that present a separate final tax payment with an income tax component, amounting to only 25% of the total sample. This income tax payment is the basis for measuring the company's ETR cash rate, which is then measured for its effects before and after the revised 2013 PSAK 46.

As with the ETR, this study does not consider the ETR cash rate is too significant, so that will be used only cash ETR with 1–100% scale.

Table III shows the average rate of the company's ETR cash with the presentation of final tax payments separately from the cash paid on income taxes by those companies that combine the two presentations.

From Table III it can be concluded that the ETR cash rate is higher in companies that present cash paid for income tax than those that do not separate it, with cash paid for final tax. This is because cash essentially used for income tax only as its component of measurement, so for a company that does not separate the income tax payment purely from profit before tax is imposed with progressive tax rate with final tax, ETR cash rate will be bigger than that perform a separate presentation. The results of the average difference test show that the presentation of cash paid for income tax and cash paid for final tax significantly influenced the company's ETR cash rate in 2015 and 2016 since the revised PSAK 46 [2] with prob> z = 0.000.

Ideally, a company's tax treatment should be consistent. In order to achieve this objective, a regulation or guideline clearly governing the final tax presentation in each part of the financial statements is required. This will greatly assist the management and auditor in preparing financial reports that are informative and reliable for users of financial statements.

TABLE III. COMPARISON OF AVERAGE LEVEL ON CASH ETR FOR THE YEAR 2014–2016

Classification	Average Level of Cash ETR		
	2016	2015	2014
Separate presentation in cash flow	2.32%	4.46%	24.23%
Non-separate presentation in cash flow	32.22%	32.74%	

Source: Financial Statements of Construction & Real Estate Companies 2014–2016

E. Operating Profit Margin

Table IV describes how the average operating profit margins among the construction and property companies before and after the revision of PSAK 46 [2] raises some classification questions regarding final tax presentation. As previously described, there is a final tax presentation in operating expenses that will affect the operating profit margin, based on the amount of operating profit compared to total sales.

A comparison is made to see if there are significant differences in firms that present final taxes as part of operating expenses as against those companies that present final taxes not included in the operating expense component.

Operating profit margins are expected to be higher when the final tax presentation is exclusive of operating expenses. The results show that ratios will differ in each classification because as well as profitability, total revenues will also affect outcome.

The analysis performed shows that the size of the firm that classifies the final tax presentation on the operating expense is greater than the company with other classifications. The average total corporate earnings as well as the company's total average operating income are shown in Table V. The obtained data shows that, specifically for this ratio, it cannot be generalized because companies have different levels of ability. There are other factors influencing the low OPM the company's ability to earn higher revenues, but also to reduce the increase in operating expenses so that the level of ratios obtained in accordance with management expectations.

TABLE IV. COMPARISON OF AVERAGE LEVEL IN OPM FOR THE YEARS 2014–2016

Presentation of Final Tax	Average Level of OPM		
	2016	2015	2014
Included in operating expense	34.12%	35.50%	36.51%
Excluded from operating expense	25.31%	25.52%	27.73%

Source: Financial Statements of Construction & Real Estate Companies 2014–2016

TABLE V. AVERAGE OF TOTAL REVENUE AND OPERATING MARGIN FOR THE YEARS 2014–2016

Average Revenue	**2016***	**2015***	**2014***
Included in operating expense	19,499,305,177	18,663,653,010	16,395,680,055
Excluded from operating expense	3,359,905,495	2,999,852,305	4,233,254,955
Average Operating Profit	**2016***	**2015***	**2014***
Included in operating expense	7,105,487,124	7,100,723,588	6,621,732,236
Excluded from operating expense	691,264,495	653,063,136	611,067,234

*in thousand IDR

Source: Financial Statements of Construction & Real Estate Companies 2014–2016

This study performed an average difference test on the operating profit margin, along with data processing where the classification is distinguished between companies that presented final tax on operating expenses and companies that presented final tax excluding operating expenses. The result of the average difference test shows that this ratio is relatively different—the impact is still significant enough to measure the level of operating profit margin of the company with prob> z = 0.0209.

The above implication shows that in terms of operating profit margin, guidance on final corporate tax presentation is required in the preparation of financial statements. This is important because it has an influence, or impact, on the components of a company's financial ratios. Specific arrangements regarding final tax presentation can also assist users of financial statements in the decision-making process. Another aspect of concern would be the stipulation regarding regulations relating to final tax presentation, namely that management cannot modify financial statements as needed so that conflicts of interest can be prevented.

V. CONCLUSIONS

The research indicates that construction and property companies used six (6) distinct classifications for final tax presentation in 2015 and 2016 after the revision of PSAK 46 on Income Tax [2]. The revised PSAK 46 states that final tax is excluded from the scope of the PSAK on the basis that it is not an income tax according to taxation principles.

The absence of specific arrangements creates anomalies in the final presentations of construction and property companies' taxes in 2015 and 2016. The final tax presentation classification is divided into two parts—five classifications presented in accordance with PSAK 46, which are: one line in all expenses, operating expense, other expense, net of revenue, and one line above EBT and the presentation that treats final tax as part of current tax, which is not in accordance with the statement in PSAK 46.

The interviews conducted indicate the factors that influence the management and public accountant in determining final tax presentations, which refer to the applicable accounting rules—in this case, PSAK 46. However, for a company that retains the final tax presentation included in the current tax, it has its own reasons regarding ease of tax analysis. It can be concluded from the interview results that, in addition to referring to the applicable PSAK, the final tax presentation is also based on the conditions and needs of the company and management policies related to the achievement of targets and executive compensation.

The Public Accountant believes that the reliability and quality of information in the financial statements can be accounted for as long as there is disclosure that can help users of the financial statements view how final taxation is treated.

The average difference test results indicate that the final tax presentation has a significant impact on financial ratios, especially ETR, cash ETR, and operating profit margins. Therefore, it is safe to conclude that the diversity of final tax presentation on financial statements may have an impact when comparing the profitability of various companies and their taxation policies. Users of financial statements should observe due diligence.

The implication arising from this study is that the revised 2013 PSAK 46 has increased the diversity of final tax presentation in the financial statements of construction and property companies for 2015–2016. The diversity of this presentation causes the ratios of financial statements (especially those tested in this study - ETR, cash ETR, and OPM) to diverge. To obtain relevant and informative income tax information, investors should be careful while assessing a company's financial statements.

Implying that the regulator (in this case, DSAK together with OJK) should be able to review existing standards with a view to establish specific guidelines on the methodology for final tax presentation in financial statements of companies that have final tax or pertinent issues such as technical bulletins, which complement PSAK 46. In addition, with the guidance or regulation of final tax, the management of the company cannot modify the presentation according to the needs and the level of urgency of the company.

This research only uses a sample of construction and real estate companies. This means companies of various sizes and operations are included. Companies with significantly different sizes will produce lopsided or inconsistent test results, which produced some samples with extreme ratios during the average difference test. In addition, a company could be experiencing a large profit or loss based on a snapshot of time, which could skew findings.

Therefore, subsequent research is required using case studies involving companies identified as relatively similar, so as to produce more detailed analysis. Subsequent research might also analyze other corporate sectors that have final taxes, such as shipping companies or securities firms, so that studies on the impact of this revised PSAK 46 can provide valuable feedback for regulators.

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