

Analysis of Current Tax Incentives in 2015

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This research examines the implications and impacts of companies asset revaluation policies in response to tax incentives in 2015. This research adopts a descriptive and narrative approach. The results show that there an increased number of companies opted for assets revaluation policy because of the incentives. Companies that adopt an assets revaluation policy provide more accurate information related to the value of their fixed assets and investment properties. Method of disclosure of asset revaluation differs depending on the revaluation type chosen. The impacts of these assets revaluations are increasing a company's equity, reductions in companies' leverage ratios, deferred tax effects.

Keywords: Assets Revaluation, Revaluation Type, Fixed Assets, Tax Incentives, Deferred Tax.

1. INTRODUCTION

Fixed asset revaluation refers to the definition contained in the Statement of Financial Accounting Standard (SFAS) 16 revised 2015: Fixed Assets. This states that the revaluation model is one of the measurement method that can be used after the initial recognition of the value of property, land, and equipment. Revaluation should be carried out regularly in order to ensure that the amount of fixed assets is not materially different from fair value at the end of the accounting year. If a company adopts a revaluation model as its accounting policy, then it should be applied to all fixed assets in the same category¹. Revaluation reserve from fixed assets should be recognized with other comprehensive income.

If the assets being revalued are investment properties, then SFAS 13 Amendment 2015: Investment Property should be used as the reference for the fair value measurement model. In addition, it is stated that this re-measurement must be carried out consistently every year. Revaluation reserve from investment property must be recognized directly in the income statement.

The rules for fixed asset revaluation for tax purposes in Indonesia are described in the Minister of Finance Regulation (PMK) No. 79, 2008. Revaluation for tax purposes must be approved by the Directorate General of Taxes (DJP), and the valuation of fixed assets must be carried out by an independent valuer. The surplus from revaluation should be recorded as equity under the account name "the excess of company's fixed assets revaluation dated ...". This surplus is subject to a 10 percent final tax rate. The company can first revalue its fixed assets five years from their first valuation.

Incentives can motivate companies to revalue their assets². One of the tax incentives in Indonesia is PMK No. 191 and revised PMK No. 233 of 2015 on revaluation of property, plant and equipment for tax purposes, which is valid only from year 2015 to 2016. The purpose of the issuance of this regulation was to encourage companies to utilize revaluation incentives by reducing revaluation tax rates between 3 and 6 percent³, from its base rate of 10 percent as imposed³ in PMK No. 79 of 2008.

The Indonesian Financial Accounting Standards Board published Technical Bulletin 11 to bridge the gap between SFASs and tax rules related to asset revaluation. It is treated as a guide for companies that apply fixed asset revaluation for tax or accounting purposes in connection with the issuance of PMK No. 191 and No. 233. According to Technical Bulletin 11, a company may choose to revalue its fixed assets for accounting, taxation, or both accounting and taxation. These asset revaluation choices form the basis of this study.

Research conducted by Piera⁴ on listed companies in the Swiss Stock Exchange explained that firms tend to choose the revaluation model when their leverage level is higher than companies that choose the cost model. In other words, the motives underlying the company choosing to revalue assets are likely to be the economic advantage obtained in order to achieve a better credit rating. This research seeks to prove that asset revaluation motivation is influenced by tax incentives. The research questions for this study are: (1) what are the implications of asset revaluation incentives to the companies, and (2) what are the accounting policy choices available for companies in carrying out asset revaluation? This research uses a descriptive narrative method to analyze the implications of asset revaluation incentives for companies and the accounting policy choices available to companies in carrying out asset revaluation.

2. LITERATURE REVIEW

The revaluation of assets is closely related to the concept of value relevance, which in accounting is characterized as the quality of accounting information presented⁵ when presenting the financial statements. Value relevance theory assumes that the market values of assets reflect all required information⁵. Value relevance is also described as the ability of financial statements to explain market value⁶. Value relevance in accounting disclosure is considered as a useful basic determinant of information⁷.

According to Article 44, paragraph 1m of the Income Tax Law, the excess of fixed assets revaluation is treated as a tax object, as it is an additional economic resource obtained by the company⁸. The tax rate is determined by the regulations administered by the Minister of Finance, in this case PMK No. 79, 2008. Companies require approval from the Directorate General of Taxation to revalue their fixed assets for tax purposes, pursuant to the regulated procedure⁹. There are several important points contained in PMK No. 79, 2008 relating to fixed asset revaluation rules; for instance, all corporate taxpayers with permanent establishments (except those companies that prepare their accounts in English and foreign currency denominations) can revalue all their tangible assets in Indonesia. Fixed asset revaluation surplus will be taxed as final tax at a rate of 10 percent. The useful life of revalued fixed assets is reset to the beginning thus attracting a smaller fiscal depreciation charge as compared with accounting expenses. The new depreciation charge will start from the revaluation date.

PMK No. 191, 2015 added some additional rules for fixed asset revaluation for the 2015 to 2016 period. Corporate taxpayers preparing their accounts in foreign language and foreign currency denomination can now utilize these tax incentives. Individual taxpayers who prepare accounts can also use revaluation. The final tax rate for fixed asset revaluation dropped from 10 percent to 3 percent for the period October 2015 to December 2015, increased to 4 percent from January 2016 to June 2016, and to 6 percent from July 2016 to December 2016. Companies can revalue all or part of their fixed assets within the same categories. PMK No. 233 2015 added a revision for disclosure of the revaluation value, which it stated that companies should disclose the excess of revaluation in their financial statements.

According to SFAS 16 (2015), if a company opts for a revaluation model, the change should be prospective. The fair value of its property, plant and equipment is presented at the value of revaluation less any accumulated depreciation and impairment losses after the date of revaluation. The company may opt to revalue certain fixed asset categories which have significant differences between their book values and fair values.

SFAS 16 (2015) also stated that revaluation should be carried out regularly in order to make sure the value of fixed assets is not materially different from the fair value. Fixed assets for which the value may fluctuate significantly should be revalued every year. After the revaluation date, these revalued fixed assets still continue have remaining useful economic lives against which to charge their depreciation.

SFAS 13 (2015) states that if a company uses a fair value model, then investment property is measured based on its market value. Companies are encouraged to use an independent and professionally qualified valuer with relevant practical experience for the category of investment property being assessed. The value of the revalued investment property is not depreciated, however it will be annually assessed to ensure its carrying amount is in line with market conditions at the Balance Sheet date. The gain or loss through revaluation of such investment properties is immediately recognized in the Income Statement.

Technical Bulletin 11 gives guidelines for companies on the application of PMK No. 191 and PMK No. 233 tax rules of 2015 and SFAS16: Fixed Assets, depending on whether they chooses to revalue assets according to tax rules, accounting rules, or both accounting and tax rules. According to Technical Bulletin 11, if a company revalues its assets according to tax rules, then the applicable rules are PMK No.191 and PMK No. 233, 2015, whereby a company can revalue all or part of its fixed assets in the same category and the useful life of assets will be reset to the beginning. These revalued fixed assets can be revalued again after five years from first revaluation date by an independent valuer, with approval from the Directorate General of Tax.

3. RESEARCH METHODOLOGY

This research uses descriptive and narrative methods. The descriptive method can use either statistical or non-statistical data. The research objects of this research are the financial statements of companies in 2015 listed in the Indonesia Stock Exchange. The sampling technique used is purposive sampling which chooses research objects for the specific purpose of answering the research questions¹⁰.

The population of this research is all 525 companies listed in the Indonesia Stock Exchange in 2015. The method adopted for sample selection is purposive sampling, which filters the data in accordance with certain criteria related to the research questions. These criteria include companies listed in the Indonesia

Stock Exchange in 2015, with financial statements available to be downloaded, and with complete financial statement data related to asset revaluation information being available.

Table.1. Population and Sample Selection

Remarks	Number of
Companies listed in Indonesia Stock Exchange (2015)	525
Avilability of financial statements to be downloaded	400
Having information related to assets revaluation	115

Of the 525 listed companies, only 400 companies have financial statements available for download. The first sampling comprised 400 companies used to answer the first research question. The second sampling comprised 115 companies used to answer the second research question. These collected samples are divided into nine categories of industry. An analysis is performed based on specific parameters that have been adjusted to answer all research questions, such as analyzing the tax incentive implications of fixed asset revaluation. The samples are divided into companies that adopted and did not adopt revaluation policies, in order to assess how tax incentive regulations influence companies' decisions about the type of revaluation policy they adopt to revalue their assets in the various categories of industry. In addition, all companies adopting revaluation policies are classified according to their choice of a tax, accounting or tax and accounting basis for the revaluation. Then we further analyze and assess the impacts of these three types of revaluation policies on: (1) different types of fixed assets, (2) revaluation value, (3) depreciation expense, (4) disclosure of revaluation, (5) deferred tax impacts, and (6) disclosure of final tax revaluation payment are then further analyzed and assessed.

4. RESULTS AND DISCUSSION

Asset revaluation incentives through tax rules^{11,3} are present if the company revalues assets under tax regulations with discount rate starting at 3 percent to 6 percent. The determination of the rate is based on the time the application to revalue is submitted by the company to the Directorate General of Taxes. In other words, companies will acquire revaluation incentives if they use taxation rules as the basis for revaluing their assets.

Table.2. Companies Which Revalued and Did Not Revalued Asset Categorized by Industry

Industrial Categories	Accounting	Tax Accounting	Tax Total	Revaluation
Consumer Goods	2	1	4	7
Financial	7	20	9	36
Basic Chemical Industry	3	5	8	16
Trade, Service, Investment	5	7	2	14
Utility, Infrastructure, Transportation	7	2	3	12
Other Industry	1	3	1	5
Property, Real Estate, Building Construction	5	3	3	11
Agriculture	4	4	2	10
Mining	3	1	0	4
Total Companies	36	47	32	115
Percentage	31.30%	40.87%	27.83%	100.00%

Based on the information presented in table 2 it can be seen that the industry that used the revaluation model most frequently is the financial industry. The large participation of companies in this sector is due to the fewer types and amounts of fixed assets and investment properties owned, allowing the assessment to be carried out more quickly and easily. The least number of revaluations is seen in the mining industry. The large and scattered assets of companies in this sector are obstacles to conducting revaluations.

The property, real estate, and construction sector contains six companies that chose to take advantage of incentives incentives by using the final tax revaluation basis. Of these six companies, three used the tax revaluation basis, while the other three used the tax and accounting basis.

When the company has been subjected to final tax, there is no benefit in taxation if the company takes revaluation incentives, since expenses incurred on a fiscal basis are not recognized. The only factor that can explain why companies in this category revalue their assets is that other sources of revenue have significant value but are not included in the final tax scope. Thus, companies can utilize the revaluation

incentive as a future income tax deduction instrument.

Technical Bulletin 11 provides guidance on the procedures for the implementation of PMK No. 191 and PMK No. 233 2015 and PSAK 16: Fixed Assets regarding whether a company chooses to revalue its assets according to the taxation, accounting, or tax and accounting basis. The tax rules must be followed if the company chooses a revaluation for taxation. PSAK 16: Fixed Asset rules will be applied if a company chooses revaluation for accounting purposes. With regard to the final tax consequences of the revaluation, Technical Bulletin 11 explains that its treatment follows PSAK 46 revision 2014: Income Tax.

For example, PT Eka Sari Lorena Transport, Tbk, has used the revaluation method for its fixed assets since 2011. The company, which is engaged in the infrastructure, utilities, and transportation sector, revalued its fixed assets of land, buildings, bus fleets, operational vehicles, and workshop equipment. Other fixed asset categories such as office inventory and the renovation of fixed leasehold buildings are stated at cost. This selection is made because the difference is significant if measured at fair value. The company has decided to revalue every three years if the change in fair value is not significant, and annually if it is significant. The fair value earned in 2015 was Rp 220.753 million with a revaluation surplus of Rp 3,376 million derived from the revaluation of property and equipment in 2013. The amount is recognized as other comprehensive income and accumulates in the equity section.

Under PSAK 16 revision 2015, the useful lives of a revalued fixed assets continues from the valuation, while the depreciation becomes smaller because it based on the new fair value. The implication is that there are basic differences in tax depreciation that still use the acquisition value, resulting in temporary differences arising from the revaluation of fixed assets. According to PSAK 46, revision 2014, deferred tax liabilities will arise from temporary differences that causes the commercial profit to be greater than the fiscal profit. The company recognized deferred tax liability arising from the revaluation of property, plant, and revaluation equipment amounting to Rp 766 million, because of higher tax payments due in the future. This value is less than the deferred tax amount that would be obtained from the revaluation surplus. The conclusion is that the company is inconsistent in applying the PSAK 46 rule.

PT Bank Central Asia Tbk was the first private bank to receive approval from the Directorate General of Taxes for the tax revaluation of its fixed land assets. The tax regulations state that revaluation is considered to be completed if the company has received an approval letter and if it is performed by public appraisal. PT Bank Central Asia, Tbk, obtained approval on January 7, 2016.

The final tax revaluation is in the scope of PSAK 46 2014 concerning income tax, because the tax is charged on the basis of profit or surplus value of the revalued asset. However, the company record it as an administrative and public expense. This indicates that the company has not fully applied PSAK 46 revision 2014 in the presentation of its financial statements.

The fiscal book value of land after revaluation is Rp 8,160,263 million. The resulting tax revaluation value amounted to Rp 6,241,290 million. The company revaluation is for tax purposes only, thus the amount is not recorded in the financial statements, and are only disclosed in terms of value. The final income tax rate to be paid by the company due to the revaluation is 3 percent of the revaluation amount or Rp 187,239 million.

In accounting terms, there are no long-term effects arising from the revaluation of land other than the final revaluation tax payment. The land is not depreciated, so there is no timing difference. The implication is that no deferred tax asset arises, so the company does not receive any additional benefit in future income tax deductions from the revaluation process.

For tax and accounting purposes, PT Indo Acidatama, Tbk, has selected the revaluation model as a measurement of investment properties and fixed assets of land and buildings. Investment properties are recognized based on the fair value model at initial recognition. Land and buildings are measured by the revaluation model after initial recognition. The fair value of investment property and fixed assets in 2015 is Rp 75.498 million. The negative accounting revaluation surplus of minus Rp 22 million is derived from a decrease in the fair value of investment properties whose measurements are carried out annually in accordance with PSAK 13, revision 2015. The decrease in fair value is recognized immediately in the statements of income for the year.

To obtain tax incentives, in 2015 the company conducted fixed asset valuations of machinery group assets. The company chose this asset group because it had the largest book value compared to its other fixed asset groups. The revalued tax surplus amounted to Rp 47,500 million. The final revaluation tax paid by the company, amounting to Rp 1.425 million, is temporarily recorded under tax advances until the company receives an approval from the Directorate General of Taxes. The company recognized deferred tax liabilities amounting to Rp 1.744 million derived from a fixed asset revaluation surplus in 2013 and a revaluation surplus for investment property in 2014. Deferred tax assets arising from tax assessment for machinery have not been recognized by the company until the tax revaluation is

completed.

5. CONCLUSION

Asset revaluation incentives provided by the government through PMK No. 191 and PMK No. 233 increased the number of companies using the revaluation model. This can be seen from the number of companies that used revaluation to access incentives, being 77 of 115 companies listed in 2015. The initial implementation of revaluation incentives increased state revenue from tax sector to Rp 3.445 billion from companies whose shares are listed on the Indonesia Stock Exchange.

The most important consideration for a company in choosing its revaluation accounting policy is the presentation of relevant information related to the value of fixed assets and investment properties in its financial statements. Companies tend to apply revaluation only to the fixed asset groups with the largest composition and which have a significant difference in value. In relation to tax revaluation, companies tend to choose land as the object of revaluation. The implication is that the long-term benefits of the revaluation incentive cannot be utilized. In addition, most companies did not complete the asset revaluation process until the end of 2015 because they had not received approval from the Directorate General of Taxes. A company's consideration in choosing accounting and tax policies is to take advantage of asset revaluation incentives while improving leverage ratios, in order to increase the sources of funding from loans from the banking sector.

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