

# Economic Policy Model Based on Asset Revaluation: An Empirical Evidence on Banking and Financial Sector in Indonesia

Nurmala Ahmar, M. Nadjib Usman, Diyah Pujiati

STIE Perbanas Surabaya

Jl. Ngiden semolo34 – 36 surabaya

nurmala@perbanas.ac.id

**Abstract** - In October 2015 issued Minister of Finance Regulation (PMK) number 191 / PMK.010 / 2015 on the revaluation of fixed assets for tax purposes and December 2015 made changes through the PMK 233 / PMK.03 / 2015. On the other hand, the International Financial Reporting Standards (IFRS) have regulated fair value-based valuations and are fully adopted in Indonesia since 2012. This study aims to provide empirical evidence of the effectiveness of economic policies based on asset revaluation in the financial and banking industries listed in Indonesia. Empirical evidences examine the difference in the amount and value of asset revaluation in the period 2012 to December 2015. The sample is all the firms that are classified in the financial industry and banking and the data can be accessed completely. The results show that there is a significant increase in the number of issuers and the value of asset revaluation in the financial industry as a whole, especially banking. The results of this study at once prove that the economic policy based on revaluation of assets is effective in the financial industry and banking. Future research can also provide empirical evidence of economic and non-economic motivation related to corporate revaluation policies and their consequences both in the financial industry and banking and other industries. The results of the study are expected to contribute to the making of similar policies by the government, for example by extending the period of tax discounts or other economic policies.

**Index Terms** - *assets revaluation, economic policy, banking and financial institution.*

## I. INTRODUCTION

The binding Economic Policy Package during 2015 is a government effort to stabilize the economic condition of Indonesia. Up to February 2016 has been issued 10 policy packages. The Economic Policy V package deals with tax regulations for asset revaluation. The Government announces a package of economic policies V on October 22, 2015. Three dimensions. And price changes, deregulation in sharia banking. This policy is issued because there are still many companies that have not revalued assets due to changes, both due to inflation and depreciation of the rupiah. Also need adjustments to improve the company's financial performance through asset revaluation ([www.ekon.go.id](http://www.ekon.go.id), 2015). The reason the government has not many companies doing asset revaluation requires empirical evidence. This research investigates revaluation of assets conducted by public

companies outside financial institutions and banks in Indonesia during 2012-2015. This is important as. For SFAS 16 adopted from PSAK 16 adopted from IAS 16.

The fixed asset valuation regulation is stipulated in the Minister of Finance Regulation (PMK) number 191 / PMK.010 / 2015 on the revaluation of fixed assets for tax purposes for applications filed in 2015 and 2016. The FMD is effective on 20 October 2015. Compared to the pre-existing provisions, this PMK offers incentives that are more attractive in terms of tax rates and mechanisms for submission. The taxpayer may revise the asset for tax purposes by obtaining special treatment if the application is submitted to the Director General of Taxes since such regulation comes into force until 31 December 2016.

Special treatment shall be granted to the taxpayer in the form of the final income tax: (a) 3% (three percent), for applications filed since October 20, 2015 s.d. December 31, 2015; (B) 4% (four percent), for applications filed since 1 January 2016 s.d. June 30, 2016; Or (c) 6% (six percent), for applications filed since 1 July 2016 s.d. December 31, 2016. The tariffs are levied against the excess of the fixed asset value of the revalued asset or the result of the revalued assessment by the taxpayer above the original book value of the fiscal balance. Based on these provisions, further investigation is required in the presentation of the financial statements of 2015 and 2016. This research is the foundation of empirical evidence for further research related to the revaluation of assets after the implementation of IFRS and PMK number 191 / PMK.010 / 2015.

The company undertakes an asset revaluation motivated by several reason s. Piter ([www.pemeriksaanpajak.com](http://www.pemeriksaanpajak.com), November, 2015) suggests the reason for the asset revaluation is as follows.

1. Increase the book value of the company, on the other side of the company's capital structure will also increase making it easier for companies to raise funds from outside, either through balance sheet or share sales.
2. improve the accuracy of the calculation of income and costs in order to better reflect the actual performance of the company in the earnings results.
3. In order for the balance sheet the company shows the true position of the company's wealth

This research is expected to contribute to government services, issuers, and academics. Inclusion to the government (specifically the ministry of finance) in the form. For the Financial Services Authority (OJK) that has the task of implementing the regulation and supervision of the financial services activities in the banking sector, capital market sector and non-bank financial industry sector. The results of the research are important information because OJK can guarantee the overall status of asset revaluation For issuers, research results are expected to be a trigger for revaluing assets for those who have not done yet, since the revaluation database can be accessed by the public through a web database created in this study. For academicians, the results of this study are expected to be used as a reference because the results of this study presents a portrait of asset revaluation since the implementation of IFRS in the financial sector and banking..

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Many companies are motivated to revalue assets to increase the value of the company, but it does not happen in Indonesia. Asset revaluation can boost stock prices [27]. [29] [4] [20]. Increasing profitability when firms in China are listing on the New York Stock Exchange when adopting IFRS in presenting their financial statements [13][19]. Large companies are increasingly likely to revalue assets [7].

disclosed the tax consequences related to asset revaluation as follows [21]. Some general provisions of revaluation under the tax rules can be summarized as follows:

A. The revaluation is performed on all of the Company's fixed assets including land with ownership status or use rights.

1. The revaluation shall be based on market value or the fair value of fixed assets as determined by an appraisal company or an appraisal expert licensed by the Government. If the revaluation results do not reflect the actual conditions that can be determined by the DJP.
2. Revaluation increment is subject to final tax of 10%.
3. The revaluation of fixed assets can not be made before the expiry of five years from the latest revaluation.
4. The revaluation result will affect the carrying amount of the asset and become the basis for fiscal depreciation.
5. A revaluation that does not get DJP approval for revaluation of fixed assets, then the revaluation value determined can not be used as a basis for fiscal depreciation.
6. Companies that sell their revalued assets before the depreciation expire (groups 1 and 2) or before 10 years from the date of revaluation (other group) will be subject to a final tax increase of 10% ( $25\% - 10\% = 15\%$ ) Multiplied by the asset revaluation gain.

The consequence of the burden borne by the company is thought to be the cause of the low number of issuers that do the asset revaluation. In addition to the burden of valuation services, the tax burden borne by the issuer / taxpayer is very large, while in real terms the increase in value only on paper, not the increase in real value. Revaluation of plant assets, fixed assets by assessors has a higher level of trust than

management judgment [6]. Companies in Indonesia that the emergence of deferred tax is a real liability for the consequences of asset revaluation activities [12].

Empirical evidence that there was an increase in audit costs during the asset revaluation compared to the previous period [30]. This study did not observe whether the displacement occurred. On average, the number of issuers audited by KAP Non-Big-4 is absolute (18 issuers) compared to Big 4 Firm (13 issuers). Improved audit costs with revaluation activities are no excuse for fear of asset revaluation as the agency costs incurred on the contract between the issuer and its auditor associated with fair value will be offset by a gain on fair value.

Reveals the economic motive for the revaluation of assets in companies in Switzerland that export products abroad [23]. Similarly, [14]. Another motif expressed by this research is the desire of the issuer to get investment opportunities. The results of this study imply that the revaluation can be a tool to increase the confidence and perceptions of investors and creditors on the financial health of the company so as to increase the capacity of the company. The study also found, although during the investigation the risk level decreased, the interest rate became lower in companies that did the asset revaluation by increasing the value of its assets.

Information on asset revaluation activities presented in foreign currency is expected to have better qualitative characteristics [15]. Presentation of financial statements with fair value of land, fixed assets are more similar to cost. Predictive value, value of feedback, timeliness, neutrality, credible, comparable, and consistent representation become advantages in terms of qualitative characteristics of financial statements.

Controversy over the reassessment of assets has been debated for a long time. Argues that changes in the value of money should be in accordance with changes in asset values, especially for fixed assets [22]. The UK has been applying its current cost accounting (CCA) since 1983. Debt is positively correlated with revaluation and negatively correlated with current disclosures. CCA disclosure is positively correlated with the level of profitability and fixed asset intensity, but not correlated with asset revaluation [18]. Asset revaluation negatively affects the company's upcoming performance, stock prices, and stock returns [20]. The decision to reassess the assets was found to have a negative impact on corporate governance indexes in Brazil during 1998-2004 and negatively correlated with debt. These findings indicate that asset revaluation is only done to improve the company's equity, it indicates the existence of motivation of opportunistic management in doing asset revaluation. Examines the relevance of the value of land and building assessments known and disclosed to a large sample of Australian firms from 1993 to 1997 [1]. Unlike previous research, this study controlled cyclical risks and impacts and found no difference between the recognition and disclosure of revaluation. The study also found weak evidence of the relevance of revaluation value of both land and building assets. In fact, the revaluation of [24] and [8] on these assets had an impact on income decline. This

is due to an increase in depreciation expense. The impact of revaluation also lowers corporate income taxes because of lower profits. A study of 76 companies on the Indonesia Stock Exchange provides evidence that there is no difference in the quality of accounting information and relevance values before being compared after IFRS implementation. The research period is 2010-2013. Unfortunately, this study has not included an element of asset revaluation in assessing the quality of accounting information.

Scottish State imposed a revaluation of assets in the healthcare industry since 1989. The enforcement is in the industrial accounting system with consideration to create a dynamic management system and to facilitate managers to know the possible costs of their assets, obsolete assets and encourage the modernization of facilities and Medical equipment [2]. Link between asset revaluation and investor sentiment to be a debate among professionals [4]. If excessive optimism drives prices above their intrinsic values, a high sentiment period should be followed by a low return, as market prices return to fundamental values. Using investor sentiment survey data, we provide evidence that investor sentiment affects asset valuation. Market price errors implied by the independent valuation model are positively related to sentiment. Future gains over the multi-year period are negatively related to sentiment. These results can be reinforced by including other variables that can affect stock returns. These results support the findings of [29].

Prove that firms with high levels of risk tend to increase assets during revaluation [5]. It shows that the company chooses not to acknowledge the good news unless it is supported by high market performance and industry standards. Greece has adopted IFRS since 2005 on a mandatory basis. The impact of IFRS implementation proves the lower earnings management behavior, accounting information has higher relevance value, and the timing of loss recognition becomes more appropriate. The research was conducted in 2001 to 2008. Research also proved that when the control variables (size, risk, profitability, growth) were included in the model, the results were unchanged [9].

Some of these findings may serve as a basis for later researchers regarding the impact of asset revaluation. The year 2015 has important events related to asset revaluation. Economic Policy Package V President Joko Widodo related to asset revaluation is expected to become an important moment for the movement of issuers to conduct asset revaluation. Based on an investigation of previous research conducted, although IFRS has allowed asset valuation, but on average only found no more than 10% of issuers to conduct asset revaluation.

### III. RESEARCH METHODS

This research is a quantitative research using secondary data. Sources of data are obtained from the published financial statements at [www.idx.co.id](http://www.idx.co.id). The sample of this research is listed in Indonesia Stock Exchange which is categorized into financial industry sector and banking sector. Sampling method is done by purposive sampling, where the sample is chosen

based on certain criteria. The first criterion is to include the financial industry and banking industry. Second, the sample performs and presents asset revaluation in the financial statements at the end of fiscal year 2015. The tests were conducted using the Mann Whitney U-test to test the magnitude of the difference in the value of asset revaluation.

### IV. ANALYSIS AND DISCUSSION

Based on the number of samples tested as many as 364 data years during 2012 to 2016 the number of companies in the financial services sector that did the asset revaluation of 5.43%. The findings suggest that the potential for asset revaluation for the financial services sector remains wide open. It also means that the potential for tax revenues from asset revaluation is enormous. By 2015, the number of companies that have not revalued assets is 90.2%.

TABLE 1:  
PRESENTATION OF FINANCIAL ASSETS SECTOR ASSETS REVALUATION FOR 2012-2015

Activity	Status	Year (%)			
		2012	2013	2014	2015
Asset Revaluation	No	96.80	96.60	94.70	90.20
	Yes	3.20	3.40	5.30	9.80

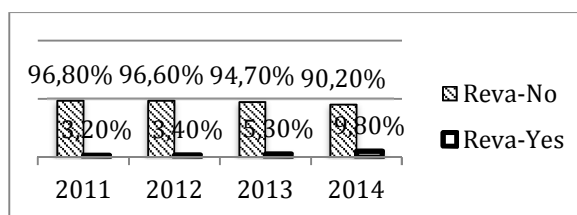


Figure 1: Comparison of Number of Companies by Asset Revaluation Status

Different asset value revaluation results on other comprehensive income in the company also showed a significant increase, especially in the banking sector and financial institutions. The overall difference test showed a significant difference.

TABLE 2  
TEST RESULTS OF ASSET REVALUATION VALUE DURING 2012-2015

No	Sub-sectors	Asset Rev
1	Financial Institution (All Data)	0.002
2	Banking	0.013
3	Financial Institution	0.103
4	Asuransi	0.383

### V. CONCLUSION

Revaluation of assets has not been done by many companies in Indonesia even until the implementation of IFRS mandatory as of December 2012. The results of investigations conducted during the period 2012 to 2014. The sample research is 434 issuers in the non-financial industry and banking sector. The result of the research gives the finding that 7,1% of listed companies do asset revaluation and 92,9% have not revalued asset. Of these 3% are audited by KAP (Public Accounting Firm) affiliated with Big 4 and 4.1% are

not. The number of issuers that revalued assets and presented their financial statements in rupiah amounted to 5.3% and in US dollars 1.8%. The results of this study indicate that the number of issuers that do the asset revaluation is very small.

The findings of this research proved that the economic policy of asset revaluation tax relief proved to be effective. The value of asset revaluation increased significantly. The number of companies that revalued assets also increased significantly. Research in other industrial sectors needs to be done to strengthen the proof of the effectiveness of the economic policy. Future research can also test the impact of asset revaluation and the variables that are able to motivate asset revaluation decisions. This research also recommends that the economic policy related to asset revaluation is extended because of potential tax revenue for large countries. Tariff relief does not stop until 2016. The economic policy of asset revaluation can be applied mandatory to public companies and leads to private companies. It is important to do so that the company's assets are presented fairly.

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