Fixed Asset Revaluation: Things to Consider

As part of the Indonesian Government’s fifth stimulus package, the Minister of Finance (“MoF”) issued Regulation No. 191/PMK.010/2015 (“PMK 191”) regarding fixed asset revaluation on 22 October 2015. Under the existing regulation (Regulation No. 79/PMK.03/2008 or “PMK 79”), entities were subject to 10% final tax on the revaluation difference when they revalued fixed asset. Under PMK 191, this tax will be reduced to:

- 3% in 2015
- 4% in the first half of 2016
- 6% in the second half of 2016

This regulation serves as a temporary special treatment for 2015 and 2016 only and therefore, effectively the requirements of PMK 79 are being “frozen” for this period and will be applicable again from 2017.

This new tax incentive is expected to be of benefit to companies through increasing the tax depreciable value of asset, thereby reducing future tax payments. The increase in profitability should be of benefit to the economy as a whole.
What has changed from PMK 79?

Besides the reduction of final tax rate, PMK 191 also provides some flexibility on the fixed asset revaluation, which includes:

- **Additional eligible parties**

  PMK 191 adds several eligible parties who were not previously qualified for this facility under PMK 79. These are (1) entities which maintain English bookkeeping and USD currency; and (2) entities which have not yet passed five years since the last time they revalued their fixed asset under PMK 79.

- **Selection of fixed asset to be revalued**

  Entities can now choose which fixed asset they want to revalue and conduct a partial or whole fixed asset revaluation under PMK 191. This allows entities to choose specific fixed asset to be revalued to achieve the optimum tax benefits.

- **Revaluation by a licensed appraiser**

  Under PMK 79, entities can only apply for this facility if the fixed asset revaluation has been carried out by a licensed appraiser. PMK 191 allows entities who have not had the fixed asset revaluation carried out by a licensed appraiser to apply for this facility with a certain grace period to fulfil all the requirements.

However, similar to its predecessor, PMK 191 requires entities to reflect the revaluation difference in the equity section of the accounting balance sheet. This requirement implies that entities would also need to apply fixed asset revaluation for accounting purposes when utilising this new tax incentive.

It is important for entities to fully consider the accounting implication before making the decision to carry out the fixed asset revaluation for tax purposes.

Accounting requirements affecting fixed asset are addressed in the Indonesian Financial Accounting Standard (PSAK) 16, Property, Plant and Equipment.

Under PSAK 16, measurement of fixed asset subsequent to initial recognition can be based on cost (cost model) or fair value (revaluation model).

The revaluation model requires fixed asset to be carried at a revalued amount, being fair value at the date of revaluation, less any subsequent accumulated depreciation. Revaluation difference is recorded in Other Comprehensive Income (“OCI”) within the equity section of the balance sheet under the heading of revaluation reserve.

Notwithstanding the similarity in treatment outlined above, it should be noted that fixed asset revaluation under PMK 191 has some conflicting principles with PSAK 16, among others:

- **Frequency of revaluations**

  Revaluation under PMK 191 is intended to be a one-time exercise. Under PSAK 16, revaluations should be carried out with sufficient regularity. Annual revaluation may be needed where there are significant and volatile movements in values.

- **Selection of fixed asset to be revalued**

  As highlighted earlier, PMK 191 allows entities to selectively identify or “cherry pick” which fixed asset they want to revalue. Meanwhile for accounting purposes, while fixed asset revaluations do not have to be applied to all assets, to prevent selective revaluations, PSAK 16 requires all items within a class of fixed asset to be revalued simultaneously. A class of fixed asset is a grouping of assets that are of a similar nature and use in an entity’s operations. For parent entities, determination of the class of fixed asset should be performed at the consolidation level.
Ask the important questions now

Entities need to carefully plan their responses to the issuance of PMK 191. The decision of whether or not to utilise the tax incentives from PMK 191 should consider the short- and long-term commercial and financial reporting impacts.

Some important questions that entities will perhaps need to ask themselves in the decision making process might be:

- Which fixed asset should be revalued to achieve an optimum tax benefit?
- What aspects need to be considered to align the fixed asset revaluation for accounting and tax purposes?
- What are the impacts of revaluation on the financial structure (e.g. debt to equity ratio), performance and ability to pay dividends in the current and future years?
- How to capitalise the revaluation difference if needed?
- What needs to be prepared from the accounting information system standpoint to be ready to maintain the accounting and tax records of the revalued assets?

By addressing these questions early, entities may be able to weigh the costs and benefits from the implementation of PMK 191 and increase their ability to choose the best commercial decision.

Contact us

PwC is committed to helping entities navigate today’s accounting and tax issues. Our local and global network of specialized accounting and tax resources can help you tackle a wide range of accounting and tax needs.
This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

PwC Indonesia is comprised of KAP Tanudiredja, Wibisana, Rintis & Rekan, PT Prima Wahana Caraka, PT PricewaterhouseCoopers Indonesia Advisory and PT PricewaterhouseCoopers Consulting Indonesia each of which is a separate legal entity and all of which together constitute the Indonesian member firm of the PwC global network, which is collectively referred to as PwC Indonesia.

© 2015 KAP Tanudiredja, Wibisana, Rintis & Rekan. All rights reserved. PwC refers to the Indonesia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.