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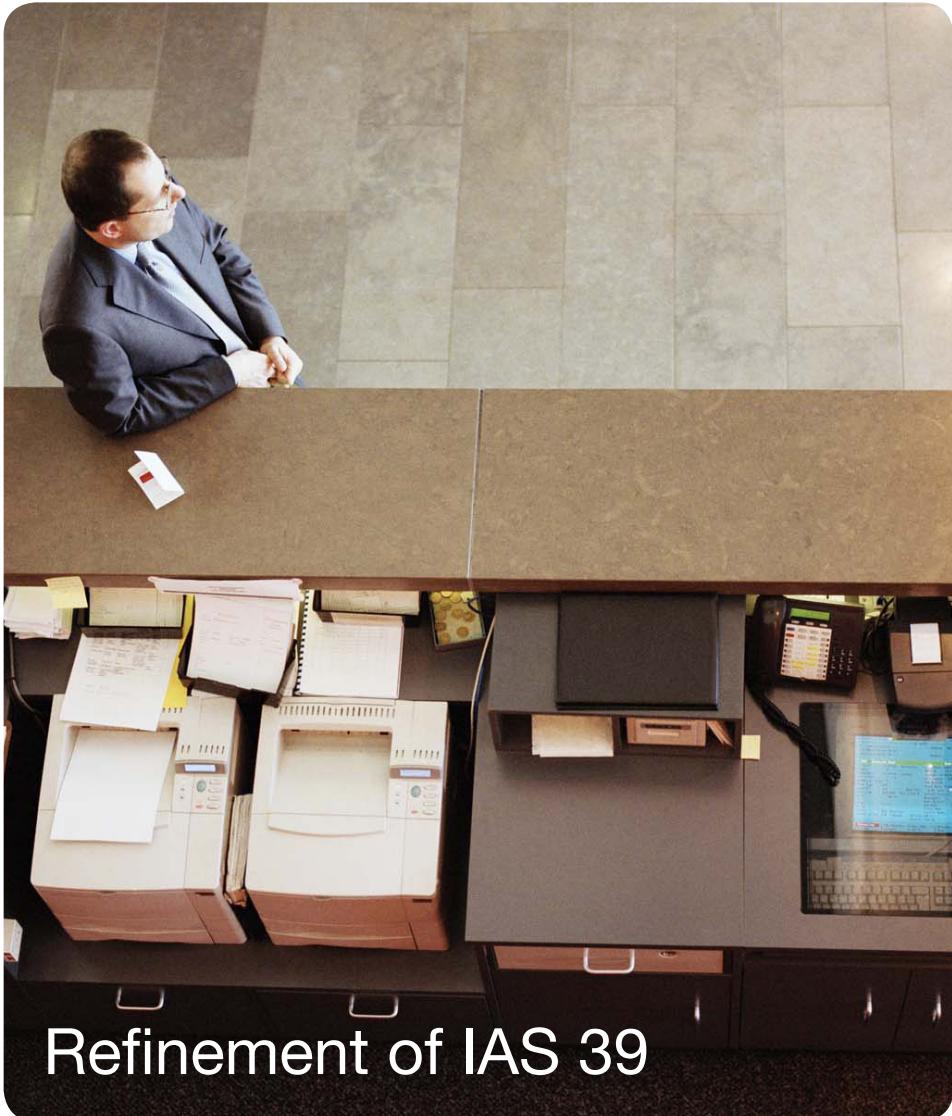
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Refinement of IAS 39

The International Accounting Standard Board (IASB) has accelerated its comprehensive project to modify the current IAS 39. The board has listened to practitioners in recent time in regards to the key issues arising from the financial crisis. This project has several objectives, including providing information that improves "decision usefulness" and to reduce complexity

and focusing on classification and measurement of financial instruments, including impairment. There are a number of issues that the Board are considering, amongst others are the issue discussed below.

The issue that the Board is considering is the two measurement categories:

- fair value through profit and loss; and
- a second measurement basis (i.e. amortised costs or current value measurement method).

Amortised cost is currently widely used for loans and receivables and many financial liabilities and is generally well understood. The alternative method of current value measurement involves a discounted cash flow model that reflects current economic condition, but not such factors as liquidity risk and market imperfections. Investors may consider this model as more decision useful as it reflects current inputs in the measurement process.

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Further, if the selected method is amortised cost, then an impairment model needs to be considered. Possible methods which are under consideration include the incurred loss model, expected loss model, and fair value.

- **The incurred loss model.**

This does not seem to be the preferred model since it tends to overstate revenue prior to a loss event and that the timing of loss recognition is too late.

- **The expected loss model.**

This received the most attention during recent IASB meeting. Interest revenue is recognized on a basis that considers expected credit losses but does not give rise to a credit loss recognized in profit or loss on initial recognition of the financial asset.

- **The fair value model.**

This requires accounting at fair value through profit and loss once there is decline in fair value below the amortised costs.



The issue above provides the most debate from the practitioners in particular the application during financial crisis and also convergence with US GAAP. The next few months will be very challenging for IASB to conclude on these matters. At the moment, Indonesian Institute of Accountant (DSAK – IAI) have not formally responded on this matter and the implication to the Indonesian accounting standards. ■

Preparing IT Expenses for the Economic Upturn

Kees Poelman

In many companies, IT costs have become a substantial part of the total costs. As managing the business in an economic downturn often comes down to cutting the costs, organisations will look for ways to carve out some IT costs as well.

Introduction

It's the hidden costs that will sink you. In the battle against exploding IT expenses, that means: people cost--and the opportunity costs, measured in time wasted and productivity lost. That's what will break you. The price of new PCs may be lower than ever. But today labour costs account for over 70% of a corporation's total cost of ownership (TCO) of IT. If your organisation is anything like a big multinational, you could be spending upwards of USD 100 a day to support each desktop computer -- including indirect costs such as the time it takes a technician to make a house call for an ailing PC, be waylaid by three other employees with

computer glitches of their own, and diagnose and resolve the problem. That's not even counting the hidden costs of lost productivity while employees try to resolve problems themselves before calling the help desk. Today's big challenge is to cut the cost of computing and maximise the value derived from IT operations. TCO, the cost of purchasing, installing, operating, maintaining and servicing computer systems, is an increasingly frequent target of those efforts. The problem is that TCO can be like an iceberg with most of its mass submerged.

Costs and opportunities

Since Gartner Group's analysis ever started with the real cost of the average networked PC, the TCO universe has revolved primarily around the desktop. After all, the desktop tends to be a place where lots of things are added and removed all the time. Others, however, have expanded the TCO concept to a more comprehensive view of the enterprise, covering all operational areas, providing them with the opportunity to control costs and improve value, not only to reduce staff needed to manage IT systems, but also allow them to be more responsive with clients.

Controversy

While the concept of TCO has certainly caught on in the IT industry, some believe it is controversial, and go that far to suggest: "If you're getting business benefits from what it is you are spending, then why would you lower it?"

Building on this logic, some focus their attention on service levels delivered to end users. If you find you are spending a lot of money relative to your competitors, but you are delivering best-in-class service that allows your users to concentrate on their jobs rather than technology, you might not want to change a thing. If, on the other hand, costs are high and service levels are low, you probably have to choose between lowering the former and raising the latter.

Some others are attempting not to displace TCO analysis but to augment it with the other side of the cost-benefit coin, in order to come up with a measure of business value, which can help companies improve service, reduce risks, and retain a core set of IT professionals.



Measurement

Gartner Group's Software Products Division is dubious that anyone has yet devised a metric for IT's business value, although many claim that they are working on it. According to Gartner, the key will be to look beyond total cost of ownership of the technology to the total cost of operation of the application of that technology. Once that has been quantified, Gartner says, you can examine the contribution of that application to the business. And it can contribute in a number of distinct ways: It can reduce costs in the business operation (not just the IT operation); accelerate revenue collection, expand the market, and even offer a new product.

Application in practice – an example

By using a strategic combination of technology and policy, companies can reduce their TCO. Many companies have configured all workstations identically and ensured that all user-specific data is stored on the server. When a PC user runs into problems, IS simply sends out another machine, hooks it up, and takes the wounded PC out to repair.

Those who have embraced an effective desktop, or even enterprise, management strategy, went through a rigorous process of analysis, evaluation, and planning before they could see some payoff. Although their experiences vary widely and the solutions they chose may not work for everybody, some rules of thumb apply:

1. Assess (continually)

The first step toward a managed IT environment, and a managed TCO, is a thorough initial assessment: determine what you are spending on IT and what cost categories it falls into.

- Inventory the assets - hardware and software - that are in place.
- Find out what users are doing with the systems - how much they use particular applications and how much self-support they do; and, if possible,
- Gauge user satisfaction with tools and support.

2. Standardise

If your inventory reveals that you are supporting a variety of uniquely configured PCs, your next step will be clear: Standardize.

- Choose a very limited number of hardware platforms for all employees. Over the next few years, as you will replace PCs, standardise as much as possible on fixed environments.
- Decide upon a fixed set of applications at the desktop. IS should mandate any necessary exceptions, rather than allowing every single employee to fully customise their own working environment. This immediately lowers costs, because now you are supporting a smaller subset of technology.

3. Manage

This brings us to the TCO toolbox. You can now, depending on your objectives, go out and find software for constructing an IT data repository; detecting and inoculating viruses; metering software usage; consolidating alarms from all systems; remotely diagnosing system problems; electronically distributing software; remotely configuring workstations; enabling users to "roam" from one workstation to another; scheduling jobs; automating certain help desk processes; managing networks, mobile workstations, desktops, applications, servers, services, events, and assets.

Some of these technologies have obvious and overwhelming payoffs. Electronic software distribution (ESD), for example, can transform the rollout of an upgrade from a year-long project into a trivial task: the IT department flips a switch, and installs an application for thousands of users, if required. And a management system that offers a single view of your resources clearly saves labour and time. ■

Allowable Provisions

On 22 April 2009 Minister of Finance (MoF) issued a new regulation (No. 81/PMK.03/2009) regarding allowable provisions for tax purposes. The regulation took effect retrospectively starting 1 January 2009. This new regulation replaces the previous regulation, (MoF regulation No. 80/KMK.04/1995 as amended by MoF regulation No. 83/PMK.03/2006).

We note that there are some changes in the new regulation compared to the previous regulations and some areas still need to be clarified with the Director General of Taxes (DGT)

Set out below are some of the main changes as a result of the new regulation and potential areas to be clarified with the DGT.

a. Banks

Changes in the new regulation:

- The deductible provision is now covering all 'receivables', and not just 'loans' as in the previous regulation.
- The deductible provision for receivables under "Collectibility 1" excludes the provision for central bank certificate (SBI) and state securities (SUN).
- Calculation of provision for receivables under "Collectibility 2" is now taking into account the deduction of collateral value.
- The collateral value is now 100% for cash collateral and 75% (or based on an appraisal report) for other type of collaterals.
- The clause which requires the provision calculation to be audited by a Public Accountant is no longer included in the new regulation.
- Similar guidelines are also applicable for Syariah banks.

Potential areas to be clarified:

- The definition of 'receivables' may be broader than loans. However, there is still a lack of clarity as to whether the receivable is meant to cover all productive assets as outlined under the central bank (BI) regulation, i.e. including off balance sheet items. Also, where a bank has a receivable



apart from the productive assets, e.g. inter-company receivables, it is unclear whether the inter-company receivables can also be included in the calculation of deductible provisions as the inter-company receivables may not have any Collectibility status.

- There are no transition guidelines for the beginning balance of non-loan assets, i.e. whether using zero balance (as banks never had provisions on the non-loan assets for tax purposes) or using the commercial beginning balance.

b. Multi finance companies

Changes in the new regulation:

- The deductible provision is now extended not only to finance leases with an option, but also to factoring and consumer finance businesses.
- The provision for the factoring and consumer finance business is set at a maximum of 5% of the average beginning balance and ending balance of the receivables.
- For companies engaged in finance lease, consumer finance, and factoring businesses in combination, the amount of provisions is calculated separately based on the receivable portfolio for each type of business.

c. Life insurance companies

Changes in the new regulation:

- The new regulation revokes the 2006 amendment on life insurance premium reserve provisions and goes back to the position under the original 1995 rules.
- The change is reflected in Article 14(3) in the new regulation which states that "In the event a claim payment to the insured occurs then

such amount shall be imposed on the estimate premium reserve". In contrast, under the 2006 regulation, this clause previously stated "The decrease of final balance compared to the balance at the beginning of the year of the premium reserve shall constitute income in the related year. Claim which is paid/payable shall constitute cost in the related year".

Potential issues

There is a potential risk that the tax office may disallow the deductibility of claim expenses in the existence of a premium reserve balance as the clause in the new regulation can be literally interpreted that premium reserve must be fully utilised before a claim expense can be made.

d. Others

The new regulation also covers the deductibility of provisions for certain financial institutions, i.e. Financing Cooperative (Koperasi Simpan Pinjam), Loan Guarantor institutions (LPS), and PT Permodalan Nasional Madani (Persero). ■

Allowable bad debt write-off

The Minister of Finance issued a regulation on the allowable bad debt write-off for tax purposes (No. 105/PMK.03/2009). The regulation was dated 10 June 2009 but took effect retroactively from 1 January 2009. The regulation is intended to give more guidance to taxpayers in respect of bad debt write-off as referred to in the income tax law provision.

Set out below are the key requirements for allowable bad debt write-off for tax purposes:

- a. The bad debt is related to normal business transactions in line with the taxpayer's business operation;
- b. The bad debt write-off has been taxable on the debtor side;
- c. The bad debt is not the result of transactions with related parties;
- d. The taxpayer submits a list of bad debt write-off to the tax office in a certain format;
- e. The collection case of the bad debt write-off has been filed with the district court or the relevant government body, or there is a loan forgiveness

agreement between the debtor and creditor, or an announcement has been made in a publication, or the debtor acknowledges that the loan has been written off.

A more lenient requirement is available for small debtors with accumulated debt up to Rp 100 million, i.e. requirement 'e' above is not applicable.

The requirements above are more rigid than we anticipated and there is still uncertainty in some areas. For example, exactly what the scope of 'normal business transactions' is and who provides the evidence that the bad debt write-off has been taxable on the debtor side (i.e., the creditor or the tax office) is not clear. To give more certainties, a further clarification from the tax office is expected in the near future. ■

Capital gains on transfer of assets in Indonesia

On 22 April 2009 the MoF issued regulation No. 82/PMK.03/2009 regarding the application of Article 26 withholding tax on transfers of assets in Indonesia. This regulation is only relevant to the transactions between non-resident asset sellers and resident buyers.

Subject to the application of a tax treaty, the capital gain on transfer of assets is taxed at 20% of estimated net income from asset transfers. The estimated net income is deemed to be 25% of the asset selling price. Therefore, the effective Article 26 withholding tax on the capital gain is 5% of the asset selling price. A tax exemption is available for a transaction amount up to IDR 10,000,000.

The scope of this regulation specifically covers luxury jewellery, diamonds, gold, luxury watch, antiques goods, paintings, cars, motorcycles, yachts, and/or cerises light aircrafts. As only specific assets are covered by the regulation, a question as to whether or not transfer of assets other than those mentioned in the regulation may be considered exempt from Article 26 withholding tax. Further clarification on this matter from the DGT is expected. ■



Further developments in Islamic Finance



As part of implementing regulation of Article 31D of Income Tax Law, on 3 March 2009 the Government of Indonesia issued tax regulation No. 25/2009 regarding income tax treatment for *Syariah* businesses. Included in the scope of *Syariah* businesses are *Syariah* banking, *Syariah* insurance, *Syariah* pawnshops, *Syariah* financing, and other business activities based on *Syariah* principles.

In principal, there is no difference between income tax treatment for *Syariah* and non-*Syariah* (i.e. conventional) businesses. In other words, all provisions under Income Tax Law are principally applicable for *Syariah* businesses.

The income tax treatment of *Syariah* businesses covers:

- income;
- expenses (e.g. third parties' rights to the income allocation, margins, losses from sharing transactions);
- withholding taxes, including:
 - third parties' rights to the income allocation;
 - bonuses;
 - margins; and
 - other income based on *Syariah* principle.

Unfortunately the regulation does not address procedure how income tax is imposed for *Syariah* businesses. Therefore, it is expected that for the DGT will issue further implementing regulations on *Syariah* businesses. ■

Code of conduct The way we do business*

Putting our values in action

Excellence

Delivering what we promise and adding value beyond what is expected.

We achieve excellence through **innovation, learning and agility**.

Teamwork

The best solutions come from working together with colleagues and clients.

Effective teamwork requires **relationships, respects and sharing**.

Leadership

Leading with clients, leading with people and thought leadership.

Leadership demands **courage, vision and integrity**.

This summary is not intended as professional advice. It is suggested to always consult with your usual PwC contact.

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