

# Accounting Technical Alert

June 2020

## Accounting impact on reduction of tax rate as a result of the issuance Perpu 1/2020

On 31 March 2020, the government issued Perpu 1/2020 ("the Regulation"), which articulated its policy on maintaining the stability of state finances and the financial system in light of the Covid-19 pandemic and other threats that might endanger the national economy. Through establishing the Policy for the State Finance ("APBN") and the Policy for Financial Sectors, the Regulation provides the government's assessment of the impact of the Covid-19 pandemic on Indonesia's economic stability. One of the most notable clauses is that on the reduction of the tax rate, which is applicable for fiscal year 2020. The Regulation was effective immediately when announced on 31 March 2020. The regulation has been approved by *Dewan Perwakilan Rakyat* ("DPR" or Parliament) on May 2020 to change its status from Perpu to be UU.

### When is the enacted or substantially enacted date of the new tax rate?

Consistent with the effective date written in the body of the Regulation, the Regulation is enacted as it is issued on 31 March 2020, regardless the fact that it still need to get DPR's further approval to change it from Perpu to be UU. This is because, based on Art.7 and Art.11 of Law 12/2011, the Perpu has the same hierarchy level with UU. The difference is only Perpu is a temporary act/regulation which are usually issued

by the Government following a critical condition faced by the Nation, whilst UU is a permanent act. The further approval of DPR is needed to change the status of Perpu to be UU, which means to change the nature from temporary act to be a permanent act.

### What is the impact on the financial statements?

The change in the tax rate resulting from the Regulation is applied prospectively; as a result, there will be no impact on current tax assets and liabilities for fiscal year 2019. However, deferred tax balances are likely to be affected. This is because deferred tax assets and liabilities must be measured at the tax rates that are expected to apply to the period in which the asset is realised or the liability is settled.

### *Whether this condition is an adjusting or a non-adjusting event for financial statements year ended 31 December 2019*

In line with PSAK 8 para 22(h) as well as PSAK 46 para 47-48, the event is a non-adjusting post balance sheet date event. As a result, the new tax rate would not impact the measurement of deferred tax assets and liabilities for the year 31 December 2019.

*Impact on financial reporters whose fiscal year differs from the calendar year*

As mentioned in the tax regulation, fiscal year is determined based on the number of months included in the related year. If the year includes six months or more fiscal period, that year becomes the fiscal year. For example, if a financial reporter has a fiscal year starting on 1 April 2019 and ending on 31 March 2020, the fiscal year for this reporter will be FY2019. As a result, the measurement of current income tax assets and liabilities will use the old tax rate, however since the Regulation has been enacted since 31 March 2020, deferred tax assets and liabilities for 31 March 2020 will be measured using the new rate.

For those entities whose fiscal year ended in January/February 2020, the change in tax rate should be treated as a non-adjusting post balance sheet date event in accordance with PSAK 8 para 22(h) as well as PSAK 46 para 47-48. As a result, the new tax rate would not impact the measurement of deferred tax assets and liabilities for the year ended January 2020 or February 2020. This view is consistent with PSAK 46 para 47 that tax rate used to measure tax assets and liabilities is the tax rate that has been enacted at the balance sheet date.

*Impact on financial reporters whose fiscal year equals the calendar year but who are now preparing financial statements for Q1 2020*

Unlike the financial reporter whose fiscal year differs from the calendar year, the financial reporters who falls into this category should measure both their current and deferred income tax assets and liabilities using the new tax rate as stipulated in the Regulation when preparing their Q1 2020 financial statements. The impact of the change in tax rate should be recognised in profit or loss, except to the extent that it is attributable to a gain or loss that is or has been recognised outside of profit or loss as required by PSAK 46 para 60. The impact of the change in tax rate should be fully recognised at the enacted date of the new tax rate without amortising the impact throughout the fiscal year.

A deferred tax asset or liability might have been recognised following a change in accounting policy or implementation of the new accounting standards. The fact that deferred tax was charged to the component of opening equity affected does not mean that subsequent changes in tax rates will also be recognised in equity. Instead, management needs to determine where the items on which the deferred tax arose would have been recognised if the new policy had applied in the earlier periods (backwards tracing). As a result, the old tax rate should be used for any temporary difference existing before 1 January 2020 although it will be reversed at the newly enacted tax rates in 31 March 2020. Again, this is consistent with the principles of PSAK 46 para 47 that tax rate that is used for measurements of tax assets and liabilities is the tax rate that has been enacted at the balance sheet date.

*Information to be disclosed in financial statements for the year ended 31 December 2019*

If financial reporters have not issued their financial statements for the year ended 31 December 2019, as required by PSAK 8 para 21 – 22, and if the impact is material, the disclosure about the change in the tax rate should be added to the financial statements. The disclosure should not only provide descriptive information about the nature but also should provide an estimation of the financial effects resulting from such a change in the tax rate.

For more accounting guidance on change in tax rate, please refer to following links:

[MoA FAQ 14.63.1](#)

[MoA FAQ 9.14.1](#)

[MoA FAQ 14.160.4](#)

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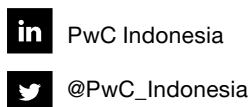
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