

Depreciation and
Amortisation rules – an
update ^{P1}

Depreciation and Amortisation rules – an update

On 17 July 2023, the Minister of Finance (MoF) issued PMK-72¹ regarding the depreciation of tangible assets and amortisation of intangible assets. PMK-72 serves as an implementing regulation of GR-55².

Some of the provisions stipulated in PMK-72 have already been stipulated in previous tax regulations. This TaxFlash will only highlight the key changes stipulated in PMK-72.

Repair costs of tangible assets

The repair costs of tangible assets are added to the fiscal Net Book Value (NBV) of the assets (to become an “adjusted NBV amount”) and expensed through depreciation. If the repair costs:

- do not increase the useful life of the asset – the adjusted fiscal NBV amount is depreciated for a period of the original remaining useful life;
- increase the useful life of the asset – the adjusted NBV amount is depreciated for a period of the original remaining useful life plus the additional useful life, with a maximum of the useful life of that asset category. This excludes assets that use the actual useful life, which can be depreciated using the actual useful life.

The repair costs start to be depreciated in the month of disbursement or the month when the repair process is completed.

However, not all repair costs can be capitalised into the NBV of the asset. Capitalisation only applies to expenditure incurred after initial acquisition that provides future economic benefits in the form of additional capacity, production quality, improved performance standards or that can extend the useful life of the asset.

An expenditure is not categorised as a capitalised repair cost if it substitutes a routine maintenance performed once or more than once a year, e.g. car spare parts replacements during a regular service.

¹ MoF Regulation No.72 Year 2023 (PMK-72) dated and effective from 17 July 2023

² Government Regulation No.55 Year 2022 (GR-55) dated and effective from 20 December 2022 (see [TaxFlash No.26/2022](#) for more details)

Assets with useful life of more than 20 years

The HPP Law³ provides an option for a permanent building or other intangible asset that has a useful life of more than 20 years to be depreciated following the actual useful life based on the taxpayer's bookkeeping.

According to GR-55, if these assets are owned and used prior to Fiscal Year (FY) 2022 and have been depreciated/amortised based on a useful life of 20 years, the taxpayer needs to submit a notification to the Directorate General of Taxes (DGT) by the end of FY 2022 to apply this option. However, PMK-72 provides leniency that the submission of the notification can be made by 30 April 2024.

After submitting this notification, the depreciation/amortisation calculation starting FY 2022 for the remaining actual useful life is calculated based on the fiscal NBV at the end of FY 2021.

Insurance reimbursement

If there is a transfer or withdrawal of assets that is covered by an insurance payment, the following provisions should apply:

- a) the remaining fiscal NBV of the assets is booked as a loss; and
- b) the selling price and/or insurance payment amount is booked as income, in the year in which the asset is withdrawn.

If the insurance payment can only be determined in the future period, the loss is booked in the year in which the insurance payment is received. This requires DGT approval that must be requested by the taxpayer.

If the asset has been sold prior to receiving the insurance payment, the selling price must first be netted off against the loss from the remaining fiscal NBV book.

Acquisition cost to acquire software

PMK-72 mainly adopted the rules on the software acquisition cost which has been previously stipulated in KEP-316⁴. In summary, the rules are as follows:

- The costs for special application programmes (e.g. applications in banking, capital markets, hotels, hospitals, or aviation) which have useful life of more than one year are expensed through amortisation, where future upgrade costs are added to the fiscal NBV.
- The costs for general application programmes are expensed in the current year.
- If the cost of a general application programme is included in a hardware acquisition cost, then it is included as a depreciation base of the hardware.

Depreciation of tangible assets in certain business fields

PMK-72 largely adopted the rules on certain types of business fields, i.e. forestry, perennials (*tanaman keras*) plantation, and livestock, that have been stipulated in PMK-126⁵.

PMK-72 now also includes livestock that can reproduce after being raised for up to one year (previously only for more than one year). The cost is:

³ Harmonisation of Tax Regulations (*Harmonisasi Peraturan Perpajakan/HPP*) Law No.7 Year 2021 dated and effective from 29 October 2021

⁴ DGT Decree No.KEP-316/PJ./2002 (KEP-316) dated 17 June 2002 and effective from FY 2002

⁵ MoF Regulation No.126/PMK.011/2012 (PMK-126) dated and effective from 7 August 2012. PMK-126 serves as an amendment to MoF Regulation No.249/PMK.03/2008 dated 31 December 2008 and effective from 1 January 2009

- fully expensed in the current year if the useful life is less than one year;
- depreciated using a straight-line method if the useful life is more than one year, up to four years.

Updated listing of assets

PMK-72 adds machinery for the tobacco processing industry under asset category 2 and provides slight elaboration on the type of assets in category 1.

Transitional provisions

The transitional provisions stipulated in PMK-72 are as follows:

- a) The ongoing completed applications will be processed in accordance with the provisions of the previous tax regulation.
- b) The ongoing incomplete applications that have been submitted by 16 July 2023 will be processed using PMK-72.
- c) The existing assets (other than building) continue to be depreciated based on the useful life under PMK-96⁶. This excludes assets acquired before FY 2023 that are not listed in the attachment to PMK-96 and which have not received a decision on useful life determination, for which the following provisions apply:
 - ✓ If it has not been depreciated for more than eight years, the depreciation is carried out according to the adjusted useful life based on PMK-72; or
 - ✓ If it has been depreciated for more than eight years, the FY 2022 fiscal NBV is fully depreciated in FY 2023.

⁶ MoF Regulation No.96/PMK.03/2009 (PMK-96) dated 15 May 2009 and effective from 1 January 2009

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