

July 2023

Tax Update

Tax Update: Minister of Finance Regulation Number 72 of 2023 regarding the Depreciation of Tangible Assets and/or Amortization of Intangible Assets.

Recent Provisions on Depreciation and Amortization

The government has issued Minister of Finance Regulation Number 72 of 2023 (MoFR 72/2023) regarding the Depreciation of Tangible Assets and/or Amortization of Intangible Assets. The purpose of enacting MoFR 72/2023 is to enhance legal certainty, fairness, and facilitate the calculation of depreciation of tangible assets and/or amortization of intangible assets for taxation purposes, as well as to implement the provisions of Article 21 paragraph (10) and Article 22 paragraph (5) of Government Regulation Number 55 of 2022¹.

¹ Government Regulation Number 55 of 2022 regarding Adjustments to Regulations in the Field of Income Tax, is effective starting from December 20, 2022

MoFR 72/2023 replaces Minister of Finance Regulation Number 96/PMK.03/2009 (MoFR 96/2009)² which since 2009, has been established as a guideline for Taxpayers in implementing the provisions of tangible assets depreciation. MoFR 72/2023 is also a codification that consolidates the provisions from the previous regulations, namely Minister of Finance Regulation Number 248/PMK.03/2008³ and Minister of Finance Regulation Number 126/PMK.011/2012⁴ to become one integrated regulation.

When comparing the types of assets specified in each category in MoFR 96/2009 and MoFR 72/2023, it can be seen that essentially, the categorized types of assets remain similar. However, in MoFR 72/2023, there is an addition of a fixed asset group for the tobacco processing industry under Group 2. The assets included in this group are machines used in the production/processing of tobacco products, such as tobacco cutting machines, cigarette rolling machines, and similar machinery.

The codification structure of regulations in MoFR 72/2023 is as follows:

1. Depreciation of Tangible Assets
2. Non-Building Tangible Assets
3. Procedure for Requesting Determination of Useful Life Group
4. Depreciation of Improvements to Tangible Assets
5. Amortization of Intangible Assets
6. Depreciation and Amortization of Assets with a Useful Life of More than 20 Years
7. Procedure for Notifying Depreciation and Amortization Methods
8. Amortization of Software

² Minister of Finance Regulation Number 96/PMK.03/2009 regarding the types of Assets Included in the Tangible Non-Building Assets Group for Depreciation Purposes

³ Minister of Finance Regulation Number 248/PMK.03/2008 regarding Amortization of Intangible Assets Expenditure and Other Expenditures for Certain Business Sectors

⁴ Minister of Finance Regulation Number 126/PMK.011/2012 regarding Amendment to the Minister of Finance Regulation No. 249/PMK.03/2008 regarding Depreciation of Expenditures for Acquiring Tangible Assets Owned and Used in Certain Business Sectors

Depreciation of Tangible Assets

Depreciation of tangible assets excluding land, including purchases, establishment, additions, improvements, or changes to assets owned and used to generate, collect, and maintain income with a useful life of more than 1 year, is conducted in equal amounts over the predetermined useful life. Additionally, for tangible assets other than buildings, depreciation can also be conducted on a declining balance basis over the useful life using the depreciation rate on the book value, and at the end of the useful life, the remaining book value must be fully depreciated.

Depreciation of tangible assets commences from the month of expenditure incurred to acquire the tangible assets. Depreciation can also begin from the month the assets are used to generate, collect, and maintain income or from the month the assets start producing income, with the approval of the Director General of Taxes (DGT).

There are no changes related to the useful life and depreciation rates of tangible assets from the previous provisions, as can be seen from the following table:

Group of Tangible Assets		Useful Life	Depreciation Rate	
			Straight Line	Declining Balance
I	Non-Building			
	Group 1	4 years	25%	50%
	Group 2	8 years	12,5%	25%

	Group 3	16 years	6,25%	12,5%
	Group 4	20 years	5%	10%
II	Building			
	Permanent	20 years	5%	
	Non-Permanent	10 years	10%	

Type of Tangible Assets Other Than Buildings

For depreciation purposes, the useful life of tangible assets other than buildings is grouped into Group 1, Group 2, Group 3, and Group 4. However, if the type of asset is not listed in the Appendix of MoFR 72/2023, taxpayers must use the useful life in Group 3.

However, if the taxpayer does not use the useful life in Group 3, they must submit a request to the DGT to obtain approval of the useful life in Group 1, 2, or 4.

Procedure for Requesting Determination of Useful Life Group

Taxpayers with Central Taxpayer Status can submit a request for an approval of the useful life group to the DGT either directly, through an expedition, or electronically, provided that the taxpayer has already submitted the Annual Income Tax Return for the last 2 Tax Years and the Value Added Tax Return for the last 3 Tax Periods, has no outstanding tax debts, and is not under investigation for tax-related criminal offenses.

The application must include at least the following information:

1. Taxpayer's identity;

2. Name of tangible assets;
3. Acquisition date;
4. Acquisition value;
5. Useful life according to a taxpayer; and
6. Depreciation group according to a taxpayer

The application must be submitted no later than 1 month after the end of the Tax Year in which the tangible asset was acquired.

Depreciation of Improvements to Tangible Assets

The cost of improvements to tangible assets owned and used to generate, collect, and maintain income, with a useful life of more than 1 year, is charged through depreciation. The cost of improvements is added to the fiscal book value of the tangible assets.

If the improvement does not extend the useful life of the tangible asset, the depreciation calculation is done based on the remaining fiscal useful life of the tangible asset. However, if the improvement extends the useful life, the depreciation calculation is done as follows:

- a. Depreciation is calculated based on the remaining fiscal useful life of the tangible asset, added with the additional useful life resulting from the improvement; and
- b. For taxpayers who depreciate based on the actual useful life.

Depreciation begins in the month when the expenditure for the improvement of tangible assets is incurred, except for tangible assets that are still undergoing the improvement process, where depreciation commences in the month when the improvement of the tangible asset is completed.

Amortization of Intangible Assets

Amortization of intangible assets and other expenses, including the costs of extending rights to buildings, business rights, use rights, and donations, with a useful life of more than 1 year and used to generate, collect, and maintain income, is conducted in equal amounts or declining balance over the useful life, calculated by applying the amortization rate to the expenses or the book value, and at the end of the useful life, the remaining value is fully amortized.

Amortization begins in the month when the expenditure is incurred, except for certain business sectors.

There are no changes related to the useful life and amortization rates of intangible assets from the previous provisions, as can be seen from the following table:

Group of Intangible Assets	Useful Life	Amortization Rate	
		Straight Line	Declining Balance
Group 1	4 years	25%	50%
Group 2	8 years	12,5%	25%
Group 3	16 years	6,25%	12,5%
Group 4	20 years	5%	10%

Certain Business Sectors

Certain business sectors include:

Forestry	Plantation of Hardwood Crops	Livestock Farming
Forestry, forest areas, and forest products in which the vegetation can produce multiple times and only yield after being planted for more than 1 year.	Plantation of crops in which the vegetation can produce multiple times and only yield after being planted for more than 1 year.	a. Livestock farming, in which the animals can produce multiple times and only yield after being raised for more than 1 year; or b. Livestock farming, in which the animals can produce multiple times and have already yielded after being raised for less than or up to 1 year.

Depreciation and Amortization of Assets with a Useful Life of More than 20 Years

Depreciation

MoFR 72/2023 explains the depreciation of permanent buildings with a useful life of more than 20 years. The depreciation can be carried out using the following two methods:

1. Performing depreciation with equal amounts over 20 years. This means the depreciation value will be evenly divided over a 20-year period without considering the actual useful life.

2. Depreciating permanent buildings based on their actual useful life according to the accounting records.

In the event that taxpayers own and use permanent buildings before Tax Year 2022 and have already depreciated them based on a 20-year useful life, they can choose to depreciate based on the actual useful life by submitting a notification to the DGT no later than the end of Tax Year 2022.

Amortization

MoFR 72/2023 also explains about the amortization of intangible assets with a useful life of more than 20 years. The amortization can be carried out using the following two methods:

1. Following the useful life of intangible assets that fall under Group 4. This means the amortization value will be evenly divided over a specific period during the useful life of intangible assets in Group 4, which is 20 years.
2. Performing amortization based on the actual useful life according to the accounting records.

Similar to depreciation, for taxpayers who own and use intangible assets before Tax Year 2022 and have already amortized them based on a 20-year useful life, they can choose to amortize based on the actual useful life by submitting a notification to the DGT no later than the end of Tax Year 2022.

Procedure for Notifying Depreciation and Amortization Methods

For taxpayers who choose to depreciate/amortize based on the actual useful life according to the accounting records and have not yet submitted a notification to the DGT, they are given an opportunity to submit the notification until the deadline of April 30, 2024.

Subsequently, for taxpayers who have sent the notification, the calculation of depreciation and amortization will start from Tax Year 2022. The depreciation and amortization will be carried out with equal amounts in each remaining period of the

actual useful life according to the accounting records and will be based on the fiscal book value at the end of Tax Year 2021.

Central Taxpayers who choose to depreciate or amortize based on the actual useful life, must submit the notification electronically through the application or system provided by the DGT. However, if the application or system is inaccessible, the notification can be submitted in writing through the Head of the registered Tax Office. The notification must include at least:

- a. Taxpayer's identity;
- b. Name of tangible assets (for depreciation) or name of the intangible asset (for amortization);
- c. Acquisition date or completion date of the improvement;
- d. Acquisition value;
- e. Useful life according to a taxpayer; and
- f. Building location (for depreciation) or origin of the asset acquisition (for amortization).

Amortization of Software

Depreciation related to software is now regulated in MoFR 72/2023, which was previously only governed by the Director General of Taxes Decree Number KEP-316/PJ./2002⁵. The cost of acquiring Special Application Software, owned and used to generate, collect, and maintain income, with a useful life of more than 1 year, is allocated through the amortization of intangible assets in Group 1. The Special Application Software can include application programs for banking, capital markets, hospitality, hospitals, or aviation.

Regarding expenditures for obtaining and enhancing the resource capacity of software resources in the form of General Application Programs that are owned and used to generate, invoice, and maintain revenue, they are recognized as expenses or routine operational costs charged entirely in the respective year. However, if the

⁵ Director General of Taxes Decree Number KEP-316/PJ./2002 regarding the Income Tax Treatment of Expenditures/Costs for Acquiring Computer Software

General Application Program includes the purchase price of hardware, then the allocation of expenditures to acquire that General Application Program is combined with the depreciation of that hardware.

Transitional Provisions

Upon the enactment of MoFR 72/2023, for tangible assets other than buildings that have been depreciated according to the useful life of Group 1, 2, 3, and/or 4 based on MoFR 96/2009, the depreciation useful life shall remain applicable until the end of its useful life.



Points to consider

Uncertainty regarding the classification of certain assets in the MoFR Annex often raises doubts for many parties. Incorrect asset classification can lead to disputes and subsequently be corrected by the Tax Auditor. Although it has been explained that if the type of asset is not listed in the MoFR 72/2023 Annex, it can use the useful life in Group 3, in case of doubt, it is better for taxpayers to submit a request to the DGT to obtain approval of the useful life group to ensure the proper grouping of assets and prevent potential Tax Auditor corrections. By doing so, the potential for future disputes can be avoided by following the procedures in accordance with the applicable provisions.

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