PROVISIONS ON DEPRECIATION AND/OR AMORTIZATION FOR TAXATION UNDER THE LATEST REGULATION *PMK* 72/2023

*Don't forget, IGTax Fellows, that for tax purposes (calculating taxable income), there are provisions in depreciating tangible assets and/or amortizing intangible assets, for assets owned with a useful life of more than 1 (one) year and used in the context of earning (*mendapatkan*), collecting (*menagih*) and maintaining (*memelihara*) income (*3M*), namely the regulation relating to the useful life and depreciation/amortization methods determined for each group of assets. The provision was last specifically regulated by Minister of Finance Regulation (*PMK*) Number 72 Year 2023 on Depreciation of Tangible Assets and/or Amortization of Intangible Assets which is a derivative regulation of *PP* (government regulation) 55/2022 and Income Tax Law as most recently amended by the Tax Regulations Harmonization Law. What are the updated provisions? Let's take a look at the review in this edition.*

A. Depreciation of Tangible Assets

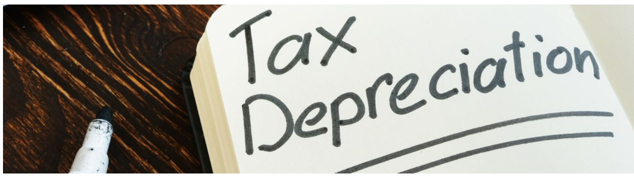
Expenditures for the purchase, construction, addition, repair, or alteration of tangible assets **except land are depreciated** in equal portions (**straight-line method**) over the useful life of the asset, or for tangible assests **other than buildings can also be** carried out in decreasing portions (**declining balance method**) which are calculated by applying the depreciation rate to the remaining book value of the assets and at the end of its useful life the remaining book value of the assets is depreciated outright, provided that it is done in **a consistent manner**.

1. Non-Building Tangible Assets

Non-building tangible assets in fiscal depreciation are grouped by their useful lives and depreciation rates as follows:

Non-Building Tangible Assets Group	Defined Useful Life	Straight-Line Method Depreciation Rate	Declining Balance Method Depreciation Rate
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%

The types of assets in each group of non-building tangible assets are **listed in the Appendix to the *PMK***. Types of non-building tangible assets **that are not listed** in the *PMK* Appendix for depreciation use the useful



life in **Group 3**, to be able to use the **useful life in other groups**, taxpayers must **submit an application to the Director General of Taxes** to obtain a stipulation and the stipulation of the Director General of Taxes will consider the group of the closest useful life of the asset's actual useful life.

Depreciation of non-building tangible assets **begins in the month in which the expenditure is incurred** to acquire the assets, with the following exceptions:

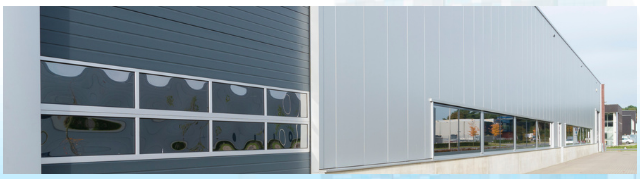
- for an asset that is still in the working process, **starting in the month of completion of the work** on the asset
- for an asset that has never been used or has not produced, **starting in the month the asset is used for *3M* or when the asset starts producing**, namely when it starts producing without considering when the income is received or earned, by **submitting an application to the Director General of Taxes** to obtain approval and stipulation of the start of depreciation in which the Director General of Taxes' stipulation will consider the month when the asset is used for *3M* or the asset starts producing
- for assets owned and used in certain business fields

2. Building Tangible Assets

Expenditures to acquire tangible assets in the form of building are depreciated in equal portions (**straight-line method**) over the useful life. Building tangible assets in fiscal depreciation are grouped by their useful lives and depreciation rates as follows:

Building Tangible Assets Group	Defined Useful Life	Straight-Line Method Depreciation Rate
Permanent	20 years	5%
Non-permanent	10 years	10%

For permanent buildings that have a useful life exceeding 20 (twenty) years, the depreciation can be carried out with a useful life of **20 (twenty) years or in accordance with the actual useful life** based on the taxpayer's bookkeeping, provided that it is carried out in **a consistent manner**. For permanent buildings owned and used before Fiscal Year 2022 and depreciated with a useful life of 20 (twenty) years, may take the option of conducting depreciation according to the actual useful life, by **submitting a notification to the Director General of Taxes** no later than 30 April 2024 for those who have not submitted it until the end of Fiscal Year 2022, for the depreciation starting Fiscal Year 2022 over the remaining actual useful life based on the residual value of the fiscal book at the end of Fiscal Year 2021.



Improvements to Tangible Assets

The cost of repairs to tangible assets is added to the remaining fiscal book value of the asset and charged through depreciation, so that the calculation of depreciation shall be the sum of the cost of repairs and the remaining fiscal book value of the asset concerned. Depreciation **begins in the month of expenditure for repairs, or in the month of completion of repair work** if the asset is still in repair work process.

For repairs that increase the useful life of tangible assets, depreciation is carried out according to the **remaining fiscal useful life of the asset plus the additional useful life due to repairs**, at most according to the useful life of the tangible assets group, except for permanent buildings the depreciation of which is carried out according to the actual useful life. For improvements that do not increase the useful life, depreciation is carried out according to the remaining fiscal useful life of the asset concerned.

Insurance Reimbursement and Transfer or Withdrawal

With regard to tangible assets that receive insurance reimbursement and are transferred or withdrawn, the amount of **insurance reimbursement and/or selling price shall be recorded or recognized as income**, and the amount of **fiscal residual book value** (at the end of the month in which the event underlying the insurance reimbursement occurred) of the transferred or withdrawn asset shall be **charged as loss, in the year in which the asset is withdrawn**. If the asset is sold or transferred prior to the receipt of the insurance reimbursement, the amount of the remaining fiscal book value of the asset charged as a loss is first calculated with the selling price of the transfer of the asset.

If the amount of insurance reimbursement can only be known with certainty at a later date, the amount of the remaining fiscal book value of the asset shall be **recorded as an expense in the tax year in which the insurance reimbursement proceeds are received**, by **applying for the approval of the Director General of Taxes** and the Director General of Taxes' approval shall take into consideration the tax year in which the insurance reimbursement is received.

B. Amortization of Intangible Assets

Expenditures to acquire intangible assets, and other expenditures including the cost of renewal of building use rights, business use rights, use rights, and goodwill, are amortized in equal portions (**straight-line**

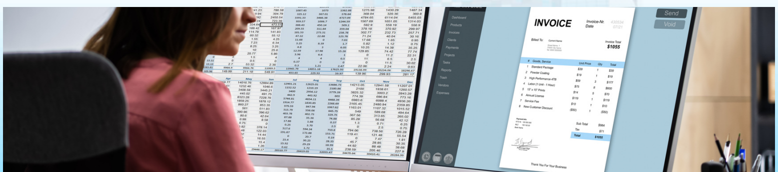
method) or in decreasing portions (**declining balance method**) over the useful life, provided that it is done in **a consistent manner**. Intangible assets in fiscal amortization are grouped by their useful lives and amortization rates as follows:

Intangible Assets Group	Defined Useful Life	Straight-Line Method Amortization Rate	Declining Balance Method Amortization Rate
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%

For intangible assets that have a useful life exceeding 20 (twenty) years, the amortization can be carried out with a useful life of **20 (twenty) years or in accordance with the actual useful life** based on the taxpayer's bookkeeping provided that it is carried out in **a consistent manner**. For intangible assets owned and used before Fiscal Year 2022 and amortized with a useful life of 20 (twenty) years, may take the option to amortize according to the actual useful life, by **submitting a notification to the Director General of Taxes** no later than 30 April 2024 for those who have not submitted it until the end of Fiscal Year 2022, for the amortization starting Fiscal Year 2022 over the remaining actual useful life based on the residual value of the fiscal book at the end of Fiscal Year 2021. Amortization **begins in the month in which the expenditure is made**, except for certain business fields.

Intangible Assets in the Form of Software

Expenditures to acquire and improve the capacity of software resources in



the form of **general application programs** are recognized as expenditures or routine operating costs **charged outright** in the year concerned. If the general application program is **included in the purchase price of the hardware**, the expenditure for acquiring the general application program is **taken into account in the depreciation of the hardware**.

Expenditures to acquire software in the form of **special application programs** are expensed **through amortization** of intangible assets in **Group 1**. Special application programs may be in the form of application programs in the fields of banking, capital markets, hospitality, hospitals, or aviation. If an **increase in resource capacity** is made, the expenditure is **added to the remaining fiscal book value** of the special application program concerned, then the sum is amortized in Group 1 **starting from the month of the capacity increase**.

C. Certain Business Fields

Certain business fields that are exempted from the provisions of depreciation of tangible assets and/or amortization of intangible assets are as follows.

1. Tangible assets that just produce after being planted or maintained for more than 1 (one) year, which are owned and used in the field of business:

a. **Forestry**, namely the business sector of forests, forest areas, and forest products whose plants can produce multiple times and only produce after being planted for more than 1 (one) year
Grouped in **group 4** in accordance with the useful life of non-building tangible assets
Tangible assets that are owned and used and constitute main commodities, namely forestry plants

b. Plantation of perennials, namely a plantation business whose plants can produce multiple times and only produce after being planted for more than 1 (one) year
Grouped in **group 4** in accordance with the useful life of non-building tangible assets
Tangible assets that are owned and used and constitute main commodities, namely perennials including spices and refreshment plants

c. Livestock farming, namely a field of livestock business where livestock can produce multiple times and only produces after being raised for more than 1 (one) year
Grouped in **group 2** in accordance with the useful life of non-building tangible assets
Tangible assets that are owned and used and constitute main commodity, namely livestock including stud livestock

Taxpayers can use **another group of useful life** by considering the actual useful life, by **submitting an application to the Director General of Taxes to obtain stipulation** of another group of useful life and the Director General of Taxes' stipulation will consider the group of useful life closest to the actual useful life.

Expenditures to acquire the abovementioned tangible assets are depreciated in equal portions (**straight-line method**) over the useful life of the asset concerned. Such expenditures include the cost of purchasing seedlings as well as for raising and maintaining them, excluding labor-related costs. Depreciation **begins in the month of commercial production** of the tangible asset, **i.e. the month in which sales begin**.

2. Tangible assets that have produced after being maintained for less than or up to 1 (one) year, which are owned and used in the field of business:

Livestock farming, namely a business in which livestock can produce multiple times and has produced after being raised for less than or up to 1 (one) year
Tangible assets that are owned and used and constitute main commodities can be laying hens and laying ducks

Expenditures to acquire tangible assets that have a useful life of less than or up to 1 (one) year are **charged outright**, while for a useful life of more than 1 (one) year, depreciation is carried out in equal portions (**straight-line method**) over a useful life of up to 4 (four) years. The expenditure includes the cost of purchasing seedlings as well as for raising and maintaining them, excluding labor-related costs. Depreciation **begins in the year in which expenditures are made** to acquire tangible assets.

Amortization of expenditures to acquire intangible assets and other expenditures for certain business fields **begins in the month in which the expenditure is incurred** or **in the month of commercial production which is the month when sales begin**.

Calculation of depreciation and amortization, loss expensing and income recognition, shall be carried out in accordance with the **examples as contained in the Appendix of the *PMK***.

This is what can be summarized from the renewal of depreciation and/or amortization provisions in taxation that we need to understand, we hope it would be useful to all.

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