

Accounting News Flash

PSAK 70: “Accounting for Tax Amnesty Assets and Liabilities”



On 19 September 2016, the Indonesia Financial Accounting Standards Board (DSAK IAI) issued PSAK 70: ‘Accounting for Tax Amnesty Assets and Liabilities’ (PSAK 70). The objective of the issuance of the standard is to provide specific accounting treatment related to the application of the Tax Amnesty Law. PSAK 70 is also applicable by non-publicly accountable entities that chose to adopt the *Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik* (SAK ETAP). This publication aims to summarize the PSAK 70.

Key Provisions

The PSAK 70 provides accounting policy choices for an entity who recognizes assets and liabilities in accordance with the provisions of the Tax Amnesty Law based on its Declaration Letter for Tax Amnesty (*Surat Pernyataan Harta untuk Pengampunan Pajak/SPHPP*) (“Tax Amnesty assets and liabilities”). The alternative accounting options are:

- To use the existing applicable standards under Indonesia Financial Accounting Standards (“IFAS”) (General Approach); or
- To use the specific provisions in paragraphs 10-23 of the PSAK 70 (Optional Approach).

The key differences between the two alternatives are related to the measurement, presentation, and disclosures of the assets and liabilities. Whichever alternative is chosen by an entity, it has to be consistently applied to all Tax Amnesty assets and liabilities.

General Approach

Upon issuance of the Tax Amnesty Approval (*Surat Keterangan Pengampunan Pajak/SKPP*), an entity shall record the Tax Amnesty assets and liabilities on its statement of financial position as follows:

- Apply the recognition criteria of the relevant IFAS
- Measure, present and disclose relevant information in accordance with IFAS

Optional Approach

The recognition criteria of the existing relevant accounting standards shall be applied to the Tax Amnesty assets and liabilities in a similar way to the General Approach. PSAK 70 provides specific exemptions, alternatives, and certain requirements in terms of the measurement, presentation, and disclosures of the tax amnesty assets and liabilities as follows:

Initial measurement and accounting for the redemption money

The Tax Amnesty assets shall be measured at the amount reported in the SKPP (as *deemed cost*). Any related Tax Amnesty liability shall be measured at the amount of cash or cash equivalents that will settle the contractual obligation related to the acquisition of the Tax Amnesty assets. Any difference between amounts initially recognized for the Tax Amnesty assets and the related Tax Amnesty liabilities shall be recorded in equity as Additional Paid-In Capital (APIC). The APIC shall not be recycled to profit or loss or re-classed to retained earnings subsequently.

The redemption money (i.e. the amount of tax paid in accordance with Tax Amnesty Law) shall be charged directly to profit or loss in the period when the SKPP was received.

Impact on related balances and/or accounts

As stated in the Tax Amnesty Law, the receipt of SKPP will result, among other things, in waivers of tax due and tax administrative sanctions (in the form of interest and penalties) and discontinuation of any ongoing tax audit for all tax obligations for the fiscal periods up to the end of the latest fiscal year. In consequences, any balance that relates to tax disputes (e.g. claims for tax refunds, provision for any uncertain tax positions, deferred tax related to tax loss carry forward, etc.) shall be written off. The outstanding balance shall be adjusted through the profit or loss in the period when the SKPP was received.

Subsequent measurement

After the initial recognition date, the measurement shall comply with IFAS. For example, if an entity declared in its SPHPP that it owns a building in South Jakarta, the building will be subsequently measured in accordance with PSAK 16: 'Fixed Assets'. If the entity chooses to adopt a revaluation model for the same class of fixed assets for which the building belongs, the building has to be measured at fair value subsequently.

Optional re-measurement

The Tax Amnesty Law allows the Tax Amnesty assets and liabilities to be measured at self-assessed fair values. In most cases, such an amount may not be the same as the fair value measured in accordance with IFAS. Under the Optional Approach, an entity is required to use a similar amount to that reported in the SKPP as its deemed cost for the Tax Amnesty assets and liabilities' initial measurement.

Subsequently, an entity is *allowed to re-measure* those Tax Amnesty assets and liabilities to their fair value, based on the requirements in IFAS as at the SKPP date (i.e. the initial measurement date). Any difference arising from the re-measurement amount and amount initially recognized shall be adjusted to APIC.

Example 1:

Entity X declared that it owns land and buildings in South Jakarta. Based on management's self-assessment, the fair value was CU 1,000 and such an amount was reported in the SKPP. Entity X obtained the SKPP on 30 September 2016.

On 30 March 2017, Entity X chooses to re-measure its land and buildings. If management determines the fair value in accordance with IFAS provisions, the declared assets' fair value as at 30 September 2016 should have been CU 1,500. The difference between the initially recognized amounts and the re-measured amount, CU 500, is charged to APIC. As result of this re-measurement, Entity X has to restate its prior period financial statements please see Example 3 below.

Mandatory re-measurement

An entity shall assess whether the recognition of Tax Amnesty assets and liabilities results in control over an investee in accordance with PSAK 65: 'Consolidated Financial Statements'. If such an assessment concludes that it results in obtaining control over an investee, *re-measurement of Tax Amnesty assets and liabilities as at the SKPP date is mandatory*. The entity may perform the re-measurement after the SKPP date until 31 December 2017. The re-measurement basis shall comply with PSAK 22: 'Business Combination' or PSAK 38: 'Business Combination of Entities under Common Control' requirements. Once the re-measurement is performed, the consolidation procedures under PSAK 65 shall be applied. Any difference arising from the re-measurement amount and the amount initially recognized shall be adjusted to APIC.

During the period from the SKPP date until the re-measurement is made, the investment in the subsidiary shall be recognized using the cost method.

Example 2:

Entity X declared that it owns 80% of ownership in Entity Z. Entity X has never reported any ownership in Entity Z in its prior period financial statements. As a result of the declaration, management concluded that Entity X has control over Entity Z and all parties involved are not under common control. The declaration was made in 30 September 2016.

On 31 December 2017, the Entity X re-measures its previous declared ownership to its fair value as at 30 September 2016 based on IFAS. Before the re-measurement is performed, Entity X measured its ownership of Entity Z using the cost method (the amount reported in the SKPP). Any difference between the re-measured amount and such cost is charged to APIC. On its 31 December 2017 financial statements, Entity Z was consolidated with Entity X.

Presentation and disclosure

The Tax Amnesty assets and liabilities shall be presented separately (i.e. different line items for assets and for liabilities) from other assets and liabilities.

Tax Amnesty assets and liabilities may be reclassified out from the separate line items and presented together with similar line items of assets/liabilities if the optional or mandatory re-measurements are carried out. Tax Amnesty assets and liabilities shall not be offset to each other.

If re-measurement is performed, the entity shall restate its preceding period's financial statements if the date of such financial statements is after the SKPP date.

Example 3:

Using Example 1 above, on its 31 December 2016 financial statements, Entity X presents the declared land and building in line item "Tax Amnesty Assets" in its balance sheet.

Entity X re-measures the declared assets on 30 March 2017 to measure the declared assets at fair value on the SKPP date. On its 31 December 2017 balance sheet, the declared assets are re-classified from "Tax Amnesty Assets" to the line item where the same class of assets is reported (e.g. Fixed Assets). In the same balance sheet, Entity X restated the comparative figures (i.e. 31 December 2016) to reflect such re-measurement.

At the minimum, the standard requires the reporting entity to disclose the following in its financial statements:

- a. Date of SKPP
- b. Amount recognized as Tax Amnesty assets based on SKPP
- c. Amount of related liability

Generally, PSAK 70 allows judgements to be made in determining and selecting relevant and reliable information to be disclosed in the financial statements as required by IFAS.

Effective date and transitional provisions

The standard becomes effective from the date of enactment of the Tax Amnesty Law.

For entities that apply the General Approach, the provisions under paragraphs 41-53 of PSAK 25: 'Accounting Policies, Change in Estimates and Errors' shall be applied.

For entities that apply the Optional Approach, the application of the provisions is prospective, and restatement of the prior period financial statements is not required.

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