

Reg. 72/PMK/2023

One-stop regulation about noncurrent assets depreciation and amortization for tax

The Minister of Finance (MOF) issued Reg. 72/PMK/2023 (PMK 72) on 13 Jul. 2023 regarding the all-about noncurrent assets depreciation and amortization for tax, which came into force on 17 Jul. 2023. Replacing Reg. 96/PMK.03/2009 (PMK 96) and cancelling a few others, PMK 72 appears to serve as a one-stop regulation governing all the things about this matter previously addressed in several regulations. MOF Decree No. 521/KMK.04/2000 regarding noncurrent tangible assets depreciation for companies engaged in production sharing contracts, though, is left intact.

Default assets grouping is unchanged. Non-buildings assets, tangible or intangible, are classified based on their useful life into four groups while buildings assets into two. A pair of depreciation or amortization rate is specified for each non-building asset group, for the straight-line method (SLM) and the double-declining balance method (DDBM). For building assets only the SLM is applicable (Box 1).

Noncurrent assets grouping for tax depreciation/amortization			1
Noncurrent asset groups	Useful life (years)	Depreciation/amortization rate	
		Straigh-line method	Double-declining balance method
Non Building assets*)			
Group 1	4	25.00%	50.00%
Group 2	8	12.50%	25.00%
Group 3	16	6.25%	12.50%
Group 4	20	5.00%	10.00%
Building assets			
Permanen	20	5.00%	N/A
Non-permanen	10	10.00%	N/A

*) Applicable for tangible and intangible assets

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Business area-based tangible asset grouping For tax depreciation					
No.	Business areas	Group 1	Group 2	Group 3	Group 4
1	All kinds of business	✓	✓		
2	Agriculture, plantation, animal husbandry, fishery	✓	✓		
3	Food and beverage industry	✓	✓		
4	Tobacco processing industry	✓	✓		
5	Machine industry		✓	✓	
6	Timber, forestry		✓		
7	Construction		✓		✓
8	Transportation and warehousing		✓	✓	✓
9	Telecommunication		✓	✓	
10	Semi conductor industry	✓	✓		
11	Deep Water Mooring Equipment Rental Services	✓	✓		
12	Cellular telecommunication services	✓	✓		
13	Mining other oil and gas			✓	
14	Spinning, weaving and dyeing			✓	
15	Timber, forestry			✓	
16	Chemical industry			✓	

classify and depreciate the asset differently. An application letter should be submitted to the DGT for this purpose. If agreed, the DGT will stipulate the useful life of the asset and the appropriate group for fiscal depreciation.

Proper classification of an asset, though, cannot be based exclusively on its useful life. PMK 72 provides a matrix containing 16 “business areas” each pointing the group to which a tangible asset of a business area should belong and thereby the appropriate depreciation rate (Box 2). An asset which cannot find a match in the matrix should be classified into Group 3.

Those who are concerned with the “forced classification”, e.g. because the asset’s useful life is unmatched with group-3 assets, will need to get approval from the Director General of Taxation (DGT) to

Classification of intangible assets is more lenient in that there is no rigid matrix like the one for tangible assets. Assets are to be classified into the specified groups in accordance with their closest useful life. Those with a useful life of more than 20 years can be amortized based on their actual useful life. (See discussion below).

With a few exceptions, depreciation and amortization should start from the month the asset is acquired. Care should be taken, though, that starting depreciation or amortization from other than the month of acquisition may need specific approval from the DGT.

A few highlights about PMK 72 are set out below.

Permanent buildings and intangible assets with a useful life of more than 20 years

Instead of following the default rule, permanent buildings with a useful life of more than 20 years may be depreciated in accordance with their actual useful life following the bookkeeping. Needless to say, consistency should be maintained.

For permanent buildings acquired before 2022 which had been depreciated on the basis of 20- year useful life in accordance with the default rule, PMK 72 allows to change the depreciation basis to the actual useful one. To do so, a written notification should be submitted to the DGT by the end of 2022. Those who failed to submit the notification by then are given a chance to submit the notification by 30 April 2024.

Irrespective of when the notification is submitted, depreciation based on the actual useful life for the assets acquired before 2022 should start from fiscal year 2022. The annual depreciation rate could vary, depending on the remaining useful life at the end of 2021 fiscal year. The updated depreciation rate should be applied to the then remaining book value of the buildings.

Similar leniency is applicable for intangible noncurrent assets with a useful life of more than 20 years. Taxpayers should follow the same procedure to amortize the assets on that basis. However, unlike buildings which must be depreciated with the SLM, intangible assets can be amortized, as an option, by the DDBM. Needless to say, consistency must be maintained.

Assets improvement

The amount spent for a tangible asset improvement must be capitalized to the asset concerned and expensed by way of depreciation. An updated depreciation base will result from an asset improvement, consisting of the remaining book value just before the improvement and the amount spent for the improvement.

An asset improvement may or may not extend the useful life of the asset. If it does, the remaining useful life should be updated to reflect the extension. The updated depreciation base should be depreciated for the extended useful life, maximum for the useful life of a newly acquired asset of the same group, starting from the month the improvement is done.

If the improvement does not extend the asset useful life of the asset, the updated depreciation base should be depreciated during the remaining useful life of the asset.

Amounts spent for computer software

PMK 72 distinguishes general application software from specific application software. The amount spent for the former, unless constituting part of the hardware acquisition cost, should be expensed as incurred as a routine expense. If it is part of the hardware acquisition cost, it should be expensed by way of depreciation together with the hardware.

The amount spent for specific application software should be capitalized as a group-1 asset and expensed by way of amortization. Specific application software in PMK 72 refers to the software used in the areas of banking, capital market, hotels, hospitals, and aviation.

In case an amount is spent to enhance specific application software, it should be added to the remaining book balance of the software and expensed by way of amortization together with the carried over book balance as a group-1 asset like the underlying software.

Assets owned and used in certain designated business areas

Default asset grouping does not apply to tangible assets owned and used in certain designated business areas, i.e. forestry, hard plantation, and husbandry. Assets falling within this category with a useful life of more than a year of should be expensed by way of amortization by the SLM, without regard to the asset grouping. Those with less than a year should be expensed as incurred.

Seeding is crucial for the creation and development of noncurrent assets in those designated business areas. The amounts spent for seeds and seeds growing and caring, should therefore be capitalized into assets and expensed by way of depreciation except for those with a useful life of less than a year. In any case, labor-related costs should never be capitalized into assets, but instead be expensed as incurred.

Depreciation of the assets falling within this category should start from the month of commercial production, i.e. the month when sales of the relevant products have commenced.

Approval to deviate from the default rule

As aforesaid, in line with the legislative provisions, for certain cases, PMK 72 allows depreciating or amortizing noncurrent assets for tax differently from the default rule. DGT's approval or notification is required for this purpose.

PMK 72 discusses the procedures to get the approval and to submit the notification to the DGT for this purpose.

Please contact us to get more insight.

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