



Tax Newsletter

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Tax depreciation and amortization

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What is new?

The Indonesian Minister of Finance recently launched regulation No. 72 Year 2023 (“MoFR 72/2023”) concerning depreciation of tangible assets and amortization of intangible assets. The regulation was issued on 13 July 2023 with enactment on 17 July 2023.

MoFR 72/2023 introduces broader tax depreciation on permanent building and intangible assets with the economic useful life each exceeds 20 years; assets repair; and depreciation of tangible assets utilized under the industry of poultry farming which poultries already produce in less than or up to one year of farming.

The new tax depreciation rule adds certain assets into the tax depreciation list. It adds laptops and other electronic devices into Group One Tangible Assets other than Building. It also adds machines utilized in the tobacco processing industry including tobacco chopping machines, cigarette rolling machines, and the likes, into Group Two Tangible Assets other than Building.

The regulation revokes MoFR 96/2009 concerning the same subject, MoFR 249/2008 as last amended by MoFR 126/2012 concerning depreciation of tangible assets utilized under certain industries, namely forestry, plantation, and livestock farming.

Key highlights of tax depreciation and amortization

MoFR 72/2023 is released as an implementation rule of HPP Law and GR 55/2022 with regards to depreciation of tangible assets and amortization of intangible assets. Most of the past regulations remain in MoFR 72/2023 nevertheless several highlights are noted below.

Permanent building and intangible assets with the economic useful life each exceeds 20 years

Under GR 55/2022 and MoFR 72/2023, depreciation of permanent building and intangible asset under group four can use the actual useful life which exceeds 20 years as the basis of depreciation, to the extent the fact is as reflected in the accounting record and is applied consistently. In the past, the useful life of permanent building and intangible assets group four were capped at 20 years.

A notification to the DGT is required at the latest of 30 April 2024 for the on-going depreciated assets to enable the use of the new useful life as the basis of the depreciation retroactively since FY2022.

Notification to the DGT by way of electronic submission through DGT’s application. Alternatively by direct submission or by post, through expedition or courier service company in the event the DGT’s application is not accessible.

Assets repair

Repair on tangible assets that enhance the useful life of the respective assets is depreciated based on the extended useful life, however the cumulative useful life (i.e. the remaining tax

useful life plus the extended useful life due to the repair) shall not exceed the overall tax useful life under the respective group asset. In the past, no such clarification was in place.

Software

Software in the form of general application program is expensed as incurred, unless it is blended into hardware which will be depreciated. Software in the form of custom application program falls under Group One Intangible Asset implies 4 years of amortization.

Livestock and poultry farming industry with production in less than or up to one year of farming.

Depreciation of tangible assets utilized under the industry of poultry farming, which poultries already produce in less than or up to one year of farming, is within 1 year to 4 years using the straight line method. In the event the economic useful life is less than 1 year, the amount is expensed as incurred. In the past, the poultry farming industry with production in less than 1 year was not specifically regulated.

Laptop and other electronic devices are included in Group One Tangible Assets other than Building

This implies 4 years of depreciation by straight line or double declining depreciation method.

Tobacco processing industry is included in Group Two Tangible Assets other than Building

Machines utilized in the tobacco processing industry including tobacco chopping machines, cigarette rolling machines, and the likes, are included in Group Two Tangible Assets other than Building. This implies 8 years of depreciation by straight line or double declining depreciation method.

DGT's approval

The DGT 's approval is required for the following assets' depreciation related requests:

- Change of group assets implies change of tax useful life – in the event not in accordance or not in the list of the group asset issued by the DGT.
- Change of timing of depreciation – in the event depreciation is deferred to periods after the expense incurs, or completion of constructed assets.
- Deferment of recognition of assets loss due to deferred income from insurance company.
- Change of tax useful life for certain industries.

The request to DGT is expected to be conducted by taxpayers at the latest one month after the respective year ends. The DGT will perform verification on the completeness of the documents as well as verification on the substance within 15 working days upon the receiving of taxpayer's request. Any lack of documents shall be completed by taxpayers within 10 working days. A decision letter by the tax authorities shall be issued within 10 working days. Request to the DGT is submitted by way of: direct submission; by post, through expedition or courier service company with official receipt; or electronic submission.

Timing of depreciation, tax useful life, depreciation method and type of assets newly added by MoFR 72/2023

Assets	Newly added by MoFR 72/2023	Useful life	Depreciation method	Timing of depreciation
Tangible assets				
Group One	Laptops and other electronic devices	4 years	SL or DDB	<ul style="list-style-type: none"> • By the month the expense incurs • By the completion of constructed assets • By the month the asset is used in obtaining, collecting and maintaining income, or by the month the commencement of production.
Group Two	Tobacco processing industry	8 years		
Group Three	-	16 years		
Group Four	-	20 years		
Permanent Building	-	20 years or more ¹	SL	
Non-permanent building	-	10 years		
Tangible assets repair	-	the extended useful life however the cumulative useful life shall not exceed that of the group asset	Follow the basis of the underlying asset	Follow the basis of the underlying asset
Certain industries:				
Forestry	-	20 years	SL	By the month of commercial production as indicated by sales
Plantation	-	20 years		
Livestock and poultry:				
- Production after 1 year farming		8 years		
	- Production in less than or up to 1 year farming	1 year to 4 years		By the month the expense incurs

¹ Based on the economic useful life as indicated by the accounting record and to the extent being applied consistently. For on-going depreciated assets, a notification to the DGT is required at the latest 30 April 2024 for the change of tax useful life and the new depreciation will apply retroactive since FY2022.

Assets	Newly added by MoFR 72/2023	Useful life	Depreciation method	Timing of depreciation
Intangible assets				
Group One	-	4 years ²	SL or DDB	By the month the expense incurs For certain industries: -By the month the expense incurs, or -By the month of commercial production as indicated by sales.
Group Two	-	8 years		
Group Three	-	16 years		
Group Four	-	20 years or more ¹		

Requirements

Taxpayers who would like to lodge request to the DGT for the changes above shall satisfy the following requirements:

- Already file the corporate income tax return for the last 2 years, and VAT returns for the last 3 years,
- No outstanding tax liability, or have obtained tax authorities' approval for installment tax payments, and
- Not under the process of tax crime and/or money laundering because of tax crime indication, investigation, or prosecution.

Transition rule

The on-going assets depreciation requests to the DGT with complete documents would be processed under MoFR 96/2009 whilst the incomplete requests would apply MoFR 72/2023.

The on-going depreciated tangible assets other than building will be based on MoFR 96/2009 until the end of their tax useful life. Whilst the on-going depreciated tangible assets other than building which type of assets were not stipulated in MoFR 96/2009 nor the taxpayer obtained any decision letter from the tax authorities in the past with regards to the tax useful life, however the assets are in the list of MoFR 72/2023, such assets will be treated by the conditions below:

² For software in the form of general application program, amount is fully expensed, unless the program is blended in the hardware which will be depreciated.

- For tangible assets other than building with less than 8 years' depreciation, the tax useful life by end of FY2022 will be adjusted to the useful life of the respective asset group as defined under MoFR 72/2023
- For tangible assets other than building with more than 8 years' depreciation, the tax book value by end of FY2022 will be fully expensed in FY2023

The content of this newsletter is for the purpose of general guidance on matters of interest and is not meant as advice. The implementation and impact of laws/regulations can vary widely based on the specific facts involved. Readers are advised to consult their tax advisors before making any business decisions.

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