

PMK 72 YEAR 2023

The regulations update on Depreciation and Amortization of Assets has been issued

Effective from July 17, 2023

Background

The government through the Minister of Finance (MoF) has issued a new regulation, PMK-72 Year 2023. PMK-72 concerning the renewal of provisions regarding depreciation and amortization. PMK-72 is effective from July 17, 2023 and consists of 8 chapters and 35 articles.

Depreciation of Permanent Buildings with a Useful Life of More than 20 Years

Depreciation of Permanent Buildings with a Useful Life of More than 20 Years is grouped into two,

1. permanent buildings with a useful life of 20 years, and
2. non-permanent buildings with a useful life of 10 years.

Referring to the changes in the HPP Law, taxpayers who have building assets with a useful life of more than 20 years can choose depreciation with the actual useful life.

PMK-72 explains that taxpayers can depreciate their building assets in accordance with the actual useful life by making a maximum notification until April 30, 2024, then the remaining actual benefits begin for the 2022 tax year. Then, PMK-72 regulates that the provisions for submitting the notification can be done in two ways

- Directly to the Tax Office by filling out a special form, or
- Online through DGT Online with the feature "Depreciation and Amortization".

Depreciation on Repair Costs

PMK-72 confirms that the cost of improvements to tangible assets with a useful life of more than one year is expensed through depreciation. The depreciation cost is added to the remaining fiscal book value of tangible assets. As for if the repair costs do not increase the useful life, it is carried out in accordance with the remaining fiscal useful life of tangible assets. Conversely, if the repairs increase the useful life, depreciation is carried out according to the remaining useful life plus the additional useful life due to repairs, and at most according to the useful life of the tangible property group.

The depreciation of assets that are being improved according to PMK-72 includes:

A. Capitalized Repair Costs

Capitalized improvement costs are in line with the future economic benefits provided, which can be in the form of capacity, quality of products, improved standards or that can extend the useful life. For example, a charcoal briquet manufacturer has a manual molding machine. The company wants to replace the molding machine with a modern hydraulic molding machine to increase production capacity. The expenditure for this increase in production capacity can be capitalized in the value of the press.

It should be underlined that not all repair costs can be capitalized into the asset value. An expense is not categorized as a repair cost

If an expense includes routine maintenance costs that are carried out 1 or more times each year, the expense cannot be categorized as capitalized repair costs. For example, a company-owned vehicle must undergo routine repairs every year. In the repair there is a replacement of spare parts, then the costs incurred are included in routine maintenance costs and are not capitalized in the value of the vehicle.

B. Provisions for Fiscal Depreciation of Improved Assets

It can be in the form of improvements that increase the useful life of the asset or improvements that do not increase the useful life of the asset. Article 7 paragraph (3) of PMK-72 states that in the event that the improvement does not increase the useful life of the asset, depreciation is carried out on the basis of the remaining fiscal book value plus capitalized costs, in accordance with the remaining fiscal benefits of the tangible assets.

PMK-72 also provides that if the improvement increases the useful life of an asset, depreciation is carried out in accordance with the remaining fiscal benefit plus the additional useful life due to the improvement, provided that the useful life is at most in accordance with the useful life of the related tangible asset group.

Insurance Reimbursement

Depreciation on assets that are transferred or withdrawn and receive insurance reimbursement is regulated in article 8 of PMK-72. It is also stated that the remaining fiscal book value of the transferred or withdrawn assets is charged as a loss. Then income can be recognized or recorded in the amount of the selling price and/or insurance reimbursement received or obtained.

Amortization of Intangible Assets with a Useful Life of More than 20 Years

As with the provisions for permanent buildings, taxpayers who own intangible assets with a useful life of more than 20 years can amortize in accordance with the actual useful life by notifying the use of the actual useful life, the notification must be made until April 30, 2024.





Software Amortization

Article 10 of PMK-72 regulates amortization for software expenditures with groups:

1. Special Application Programs

Programs that are specifically designed for the purposes of automation in administrative systems, work and certain business activities.

This program is amortized in accordance with the useful life of group 1 (4 years)

2. General Application Program

Programs used by general users to process various kinds of work using computers. The cost of general application expenditures is recognized as an operating expense and a routine expense charged at once in the current year.

Depreciation and Amortization for Certain Lines of Business

Certain business fields regulated in PMK-249/2008 are updated in the current PMK-72, consisting of forestry business fields, hard plantation business fields, and livestock business fields.

Types of Specific Business	Scoope of Bussiness Field	Earning Period
Forest	Forest areas, and forest resources whose plants can produce multiple times	1 year after being planted
Plantation	Plantations whose crops can produce multiple times	1 year after being planted
Farm	Farms that can produce multiple times	1 year after being raised
Farm	Farms that can produce multiple times	Less than or until 1 year after being raised

Types of plant/livestock assets (biological assets) are grouped into two, namely:

- those that have just produced after being planted/maintained for more than 1 year; and
- those that have produced after being planted/maintained for less than or up to 1 year.

Type of business as a specific line of business:

1. Depreciation of Plants/Livestock that Produce After 1 Year

Tangible assets with a useful life of more than 1 year that are used in certain fields of business are depreciated according to their useful life in accordance with article 13 of PMK-72.

Including:

Types of Biological Assets	Assets Group	Useful Period
Forest	4	20 Years
Plantation	4	20 Years
Farm	2	8 Years

The useful life used is in accordance with the classification of non-building fixed assets. Taxpayers can use the actual useful life, by submitting an application in advance.

Expenditures for the acquisition of assets that form the basis of depreciation include the acquisition value, including the cost of purchasing seedlings and the cost of raising and maintaining seedlings.

Such expenses do not include labor-related costs. Depreciation begins in the month of commercial production, which is the month sales begin, and uses the straight-line method in accordance with article 14 of PMK-72.

2. Depreciation of Livestock that Produce within 1 Year

This provision is a new arrangement from the previous regulation (PMK-249/2008). This provision applies to tangible assets in the form of livestock, which can be laying hens and laying ducks.

For these types of livestock, the taxpayer performs:

1. Lump sum expense if the useful life is less than or up to 1 year;
2. Depreciation for assets with a useful life of more than 1 year up to 4 years (using the straight-line method).

Depreciation begins in the year in which expenditures are made to acquire tangible assets. the cost of purchasing seedlings and the cost of raising and maintaining seedlings including expenditures that are taken into account.

3. Amortization of Intangible Assets

There are no specific rules regarding the types of intangible assets in a particular line of business. Article 19 of PMK-72 stipulates that amortization of expenditures to acquire intangible assets and other expenditures for the business sector begins in the month of the expenditure or in the month of commercial production. The month of commercial production is the month of sales.





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