

August 2023

Tax Update

Tax Update: Minister of Finance Regulation Number 79 of 2023 regarding Assessment Procedures for Tax Purposes

Determination of Taxable Object Values: Understanding Assessment Procedures for Taxes

The government has issued the Minister of Finance Regulation Number 79 of 2023 (MoFR 79/2023) regarding Assessment Procedures for Tax Purposes. The purpose of the issuance of MoFR 79/2023 is to ensure that the determination of the value of taxable objects such as Land and Buildings Tax, tangible assets, intangible assets, and businesses is carried out in accordance with the prevailing tax regulations. Additionally, it serves as an effort to uphold fairness and legal certainty in the assessment process related to Income Tax, Value Added Tax (VAT), Land and Building Tax, and Tax Collection through Compulsory Notices.

The guidelines for the implementation of Land and Buildings Tax assessments were previously regulated in Circular Letter No. SE-11/PJ/2022¹, Minister of Finance Regulation No. 234/PMK.03/2022² (MoFR 234/2022), and subsequently further detailed in MoFR 79/2023, including additional provisions related to the assessment of tangible assets, intangible assets, and businesses. MoFR 79/2023 will come into effect on September 23, 2023.

MoFR 79/2023 is a comprehensive guideline that provides a detailed explanation of how the Assessment is conducted for tax purposes. This Assessment emphasizes that in the context of taxation, Assessment is a process that must be carried out objectively and professionally, in accordance with the Assessment standards established based on the prevailing tax regulations. The Director General of Taxation (DGT) may conduct an Assessment to determine the value of Land and Building Tax objects for the purpose of determining the Taxable Value of Tax Objects and the value of tangible assets, intangible assets, and businesses.

Scope of Assessment for Taxation

Assessment to determine the value of Land and Building Tax objects for the purpose of determining the Sales Value of Taxable Object

This assessment can be conducted within the current tax year or in prior years and may be carried out through Office Assessment or Field Assessment. Office Assessment is performed through analyzing data on Land and Building Tax objects for the issuance of tax return payable, based on data and/or information provided by the taxpayer in the tax return.

¹ Circular Letter Number SE-11/PJ/2022 regarding the Guidelines for Implementing the Assessment of Taxable Objects for the Determination of the Taxable Value of Land and Building Tax Objects

² Minister of Finance Regulation Number 234/PMK.03/2022 concerning Amendments to MoF Regulation No. 186/PMK.03/2019 on the Classification of Taxable Objects and Procedures for Determining the Taxable Value of Land and Building Tax Objects

On the other hand, Field Assessment is carried out through activities that involve identifying, collecting, and analyzing data related to Land and Building Tax objects for the determination of Sales Value of Taxable Object in the implementation of supervision, examination, objection resolution, correction of incorrect Land and Building Tax assessments, preliminary evidence examination, and investigation. Field Assessment is conducted in accordance with criteria established by the DGT. The results of Field Assessment serve as the basis for calculating Land and Building Tax due in:

- a. Land and Building Tax Return payable based on object tax return by taxpayer during supervision;
- b. Land and Building Tax assessment letters during examination;
- c. Decision letters for reducing incorrect Land and Building Tax assessments in objection resolution for Land and Building Tax;
- d. Decision letters for reducing incorrect Land and Building Tax assessments in the resolution of incorrect Land and Building Tax assessment reduction requests;
- e. Calculation of state revenue losses during preliminary evidence examination;
- f. Calculation and recovery of state revenue losses during investigation.

Land and Building Tax object assessments conducted through both Office Assessment and Field Assessment refer to MoFR 234/2022 regarding the classification of taxable objects and procedures for determining Sales Value of Taxable Object Land and Building Tax.

Assessment to determine the value of tangible assets, intangible assets, and businesses

This assessment can be carried out for 1 (one) or multiple tax periods, parts of a tax year, or entire tax years, and can be conducted through Office Assessment or Field Assessment. Office Assessment can be performed as part of tax supervision, examination, mutual agreement procedures, transfer pricing agreements, objection resolution, tax assessment reduction or cancellation, tax collection, preliminary

evidence examination, and tax-related investigations. Meanwhile, Field Assessment can be conducted during tax examination, mutual agreement procedures, transfer pricing agreements, objection resolution, tax assessment reduction or cancellation, tax collection, preliminary evidence examination, and tax-related investigations.

The following is an Assessment to determine the value of tangible assets, intangible assets, and businesses, conducted for:

Tangible Assets	Intangible Assets	Business Assets
<p>real property and personal property, including:</p> <ul style="list-style-type: none"> a. land and/or water b. buildings c. machinery and/or equipment, including installations d. transportation equipment, heavy machinery, or vehicles e. building equipment and fixtures f. furniture, electronic devices, healthcare equipment, as well as laboratory and utility equipment g. communication devices and 	<p>intangible assets related to marketing, customers, art, company contracts, technology, research and development processes. Additionally, goodwill.</p>	<ul style="list-style-type: none"> a. business entities; b. participation in companies; c. financial instruments in public or private companies; and d. fairness of accounting entries contained in financial statements.

telecommunications equipment		
h. art and jewelry		
i. biological assets		

The value of tangible assets, intangible assets, and businesses obtained from such Assessment includes:

- a. consideration in the form of goods and/or benefits related to tangible and intangible assets;
- b. income from the transfer of land and/or building assets, construction services businesses, real estate businesses, and land and/or building rentals subject to final income tax;
- c. acquisition or selling price in case of property sales influenced by special relationships, which is the amount that should be expended or received;
- d. acquisition or selling price in case of property exchange, which is the amount that should be expended or received;
- e. acquisition or transfer value of assets in the context of liquidation, merger, consolidation, expansion, division, or business takeover, which is the amount that should be expended or received;
- f. asset transfer basis, which is the book value or the value set by the DGT or market value of the asset;
- g. acquisition price or book value of tangible assets affecting depreciation costs;
- h. acquisition price or book value of intangible assets affecting amortization costs;
- i. value for determining income, deductions, and capital as debt;
- j. transaction prices between parties with special relationships in agreements with taxpayers and cooperation with tax authorities in other countries;
- k. fair value of assets if there is a discrepancy between cost elements and income;
- l. fair market price for taxable items such as inventory and/or assets originally not intended for sale, which are still remaining at the time of company dissolution;
- m. sale price or replacement value calculated based on fair market price if influenced by special relationships;

- n. self-constructed activity value equal to the amount expended and/or paid for self-construction as the basis for taxation;
- o. market price for the delivery of taxable goods that are not intended for sale by the taxpayer's original purpose;
- p. the limit price for the sale of seized items at auction;
- q. the value of confiscated items;
- r. sale price for seized items exempted from auction sales.

The results of such assessment can be used as:

- a. the basis for calculating tax due during supervision and examination;
- b. the basis for determining a fair transfer pricing analysis and position determination in the process of mutual agreement and transfer pricing agreement;
- c. the basis for calculating tax due in decisions on objection resolutions and requests for reduction or cancellation of tax assessments;
- d. the basis for determining the value of tangible assets, confiscated items, limit prices, and sale prices for seized items exempted from auction sales during tax collection;
- e. the basis for calculating losses in state income during preliminary evidence examinations; and
- f. the basis for calculating and recovering losses in state income during investigations.

Assessment Order and Assessment Team

In conducting this Assessment, the DGT forms an assessment team that carries out the Assessment based on the Assessment Order issued by the DGT. In the event of a change in the assessment team listed in the Assessment Order, the DGT shall issue an amended Assessment Order. The DGT delegates its authority to issue Assessment Orders to units with responsibilities and functions in the field of Assessment. The

Assessment is carried out within a maximum period of 3 (three) months from the date of the issuance of the Assessment Order.

Assessment Procedures

The assessment is conducted through the following stages:

- a. Preparation of assessment materials;
- b. Collection of object data and supporting assessment data.;
- c. Analysis of object data and supporting assessment data.
- d. Application of the appropriate Assessment Approach for the assessed object;
- e. Compilation of the Assessment Report.

Preparation of assessment materials, includes:

- a. Gathering basic documents for the assessment assignment.
- b. Collecting assessment plan and program documents; and/or
- c. Preparing the necessary facilities and infrastructure for the implementation of the assessment.

Collection of object data and supporting assessment data

1. for the determination of the property tax object value in the framework of determining the Sales Value of Taxable Object, it includes the collection:
 - a. the data as stipulated in the object tax return.
 - b. other data, consisting of property bid or transaction data, unit prices of labor and building materials, selling prices of forest commodity, reference prices of mining products, selling prices of capture fisheries products, and/or selling prices of cultivated fisheries products.
2. for the determination of the tangible asset value, it includes the collection:
 - a. general data; social data, economic data, government policies, territory, and/or environment data.

- b. demand and supply data; sales data for similar objects, property availability data, development plans, rental rate data, occupancy rate data, community income level data, comparable property transaction data, bidding data, and/or comparable property industry data, bidding data, and/or related industry data for the Valuation Object.
 - c. valuation object data; transaction data or acquisition price data for the Valuation Object, object usage data, historical financial reports, sales or revenue data, rental price data, object operating costs, physical condition, and/or object specifications.
- 3. for the determination of the value of intangible assets and Appraisal for business valuation purposes, it includes the collection:
 - a. macro-economic data; economic prospects, inflation rate, risk-free interest rate, debt interest rate, country risk premium, credit default spread, currency exchange rate, gross domestic product, and/or economic growth.
 - b. industry sector data; systematic risk, market risk rate, comparable company data, similar account market data, industry sector growth, industry equity premium, industry royalty rate data, similar intangible asset transaction or bid data, industry debt equity ratio, income data from similar industries, and/or data on similar financial instrument market
 - c. valuation object data, which may include:
 - 1) ownership status data, historical financial statements, sales or revenue data, company contracts, company technology, human resources, prospective financial information, transaction data or acquisition price data for the Valuation Object, documents related to the utilization or use of intangible assets, financial statements of the Valuation Object entity and comparable entity, and/or details of direct and indirect costs, for intangible asset valuation; and
 - 2) financial reports, financial statement summaries, financial statement projections, historical financial statements, asset specification data for tested accounting values, corporate asset detail information, prospective financial information, company establishment and ownership change

data, stock transfer transactions and/or corporate actions, and/or evidence of ownership of financial instruments, for business valuation.

Data on the subject and supporting data for the Tax Office's Assessment are obtained from data and/or information that the Tax Office already possesses. Meanwhile, for Field Assessment, it can be obtained from Taxpayers and/or other parties. In the process of collecting data on the subject and supporting data for the Assessment, the Appraisal team, through the head of the unit responsible for Assessment, may request statements and/or data or information related to the subject of Assessment from other parties in accordance with the provisions of the applicable regulations.

Analysis of tax object data and supporting data for Assessment

The following is an analysis of tax object data and supporting data for Assessment to determine the value of property tax objects, tangible assets, intangible assets, and businesses, including:

Property Tax Object	Tangible Assets, Intangible Assets dan Businesses
<ul style="list-style-type: none">a. analysis of land surface data:b. analysis of earth body data; and/orc. analysis of building data.	<ul style="list-style-type: none">a. analysis of property market data and/or highest and best use analysis, for tangible asset valuation; andb. analysis of relevant macroeconomic data for the Valuation Object, industry sector analysis, financial statement analysis, financial projection analysis, and/or Valuation Object data analysis, for intangible

	asset valuation and business valuation, including the data acquisition sources.
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Application of Assessment Approaches Appropriate to the Valuation Object

This includes the determination and application of Assessment Approaches, taking into account the Valuation Object and/or the availability of relevant data, used to determine the value of property tax objects and the value of tangible assets, intangible assets, and businesses.

The Assessment Approach to determine the value of property tax objects in setting the Sales Value of Taxable Object has been mentioned in MoFR 234/2022, which involves comparing the price with other similar taxable objects located nearby, having the same function, and their selling prices are known. Furthermore, the Assessment Approach to determine the value of tangible and intangible assets includes the market approach, income approach, and cost approach. Additionally, the Assessment Approach to determine business value includes the market approach, income approach, and asset approach.

Market approach, in determining the value of tangible assets, intangible assets, and businesses, is performed by comparing the Valuation Object with other similar and comparable objects for which transaction or offering data are available, using market data comparison and multiplier method. Meanwhile, the market approach in determining business value employs market data comparison method, publicly traded company comparison method, merger and acquisition company comparison method, and prior transaction method.

Income approach, in determining the value of tangible assets, intangible assets, and businesses, involves converting the estimated economic benefits or income that the Valuation Object is expected to generate at a discounted rate. For the income approach method in determining the value of tangible assets, it utilizes the discounted cash flow method, income capitalization method, residual value method, and gross income multiplier method. On the other hand, for the income approach

method in determining the value of intangible assets, it uses the discounted cash flow method and excess earnings method. Additionally, for the income approach method in determining business value, it employs the discounted cash flow method and income capitalization method.

Cost approach, in determining the value of tangible assets and intangible assets, is performed by calculating the new reproduction cost or new replacement cost of the Valuation Object, and subtracting depreciation or obsolescence, using the new reproduction cost method and new replacement cost method.

Asset approach, in determining business value, is carried out by adjusting all assets and liabilities to their market value based on the value premise used in the Assessment to determine business value based on the historical financial statements of the Valuation Object. It utilizes the net asset adjustment method and excess earnings method.

Preparation of Assessment Working Papers and Assessment Reports is carried out by the Assessment team based on the implementation of activities. Assessment working papers serve as evidence that the activities have been carried out, the basis for the preparation of the Assessment Report, a source of data or information for the completion of the tasks and functions of the tax authority, and/or reference material for subsequent Assessments. Based on the Assessment working papers, the Assessment team prepares an Assessment Report for each Assessment Order. The Assessment Report must at least contain:

- a. assessment assignment;
- b. the date when the value is stated in the Assessment Report;
- c. information about the assessed object;
- d. taxpayer's identity;
- e. available data and/or information;
- f. Assessment Approach and Assessment Method used;
- g. value conclusions;
- h. Assessment Report date; an

- i. the signatures of the Assessment team.

In the event that a conclusion on the value of tangible assets, intangible assets, or a business is not obtained during the Assessment, and/or data and/or information from the Taxpayer and/or other parties, the Assessment team prepares an Assessment Report that terminates the Assessment without a value conclusion on the assessed object. The Assessment Report must at least contain:

- a. Assessment assignment;
- b. information about the assessed object;
- c. Taxpayer's identity;
- d. a description of the reasons for terminating the Assessment without a value conclusion on the assessed object;
- e. conclusions; and
- f. Assessment Report date; and
- g. the signatures of the Assessment team.

Assessment Assistance and/or Appraiser Assistance

If necessary, the head of the unit responsible for Assessment may request Assessment assistance and/or Appraiser assistance from other units responsible for Assessment to carry out the Assessment. Requests for Assessment assistance and/or Appraiser assistance must be accompanied by the background of the need for the Assessment, the Assessment objectives, and data and information related to the assessed object.

Transitional Provisions

When this Ministerial Regulation comes into effect, ongoing Assessments that have not been completed shall be conducted in accordance with the provisions of this Ministerial Regulation. This Ministerial Regulation shall come into effect 30 (thirty) days from the date of promulgation.

In MoFR 79/2023, Taxpayers have a significant connection because they are individuals or entities required to pay taxes based on the determined tax object value. Taxpayers must comply with the rules, follow the assessment procedures, report property values, and pay taxes as determined. This regulation directly affects tax obligations and tax calculations that must be paid by Taxpayers. On the other hand, the tax authority's connection with MoFR 79/2023 is in the implementation of assessments. The tax authority plays a central role in carrying out and overseeing the implementation of MoFR 79/2023, using it as a guide in tax management, ensuring Taxpayer compliance, and accurate tax collection in line with the determined tax object values.



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