

Procedures for Valuation for Tax Purposes

To provide greater justice and legal certainty in respect of the implementation of valuation in the fields of Income Tax, Value Added Tax, Land and Building Tax, and Tax Collection using Distress Warrants, on August 24, 2023, the Indonesian Minister of Finance issued Regulation Number 79/2023 (PMK 79/2023) concerning Procedures for Valuation for Tax Purposes.

Income Tax (PPH) is a tax imposed on each additional economic value received by Taxpayers. The income includes business, salary, gifts, honorarium, and so on.

Value Added Tax (VAT) is a tax imposed on the consumption of general taxable goods or services of goods and services by individual taxpayers or corporate taxpayers who have become Taxable Person for VAT Purposes (PKP).

Land and Building Tax (PBB) is a type of tax imposed on land and buildings due to profits or the socioeconomic position of a person or entity.

Based on Article 1 Paragraph 9 of Law Number 19/2000 concerning Tax Collection using Distress Warrants, tax collection is a series of actions so the tax bearer settles tax debt and pays tax collection costs.

Another consideration in the stipulation of PMK 79/2023 is to determine the value of tax objects of Land and Building Tax in order to determine the Sales Value of Taxable Objects (NJOP) as well as the value of tangible assets, intangible assets, and businesses as it is necessary to perform valuation based on valuation standards to implement statutory tax provisions. In accordance with PMK 79/2023, valuation for tax purposes is a series of activities to determine the value of a valuation object at stated periods which is performed objectively and professionally based on valuation standards to implement statutory tax provisions.

Based on Article 6 PMK 79/2023, in performing the Valuation, the Director General of Taxes establishes an Appraiser team based on the Valuation Warrant and is performed within a maximum period of 3 (three) months since the Valuation Warrant is stipulated. The office valuation is performed for issuance of notice of land and building tax (SPPT) and the field valuation is performed for the determination of NJOP in line with supervision, tax audit, resolving objections, deduction of incorrect PBB assessment, preliminary investigation, and tax investigation. As well as the valuation of tangible assets, intangible assets, and businesses is performed through supervision, tax audit, mutual agreement procedure (MAP), advance pricing agreement (APA), resolving objections, deduction or cancellation of tax assessments, tax collection, preliminary investigation, and tax investigation.

Based on Article 5 PMK 79/2023, the value of tangible assets, intangible assets, and businesses obtained from the valuation includes:

- a. the value of remunerations in the form of in-kind and/or fringe benefits;
- b. income from property transfer transactions for land and/or buildings, construction services businesses, real estate businesses, and land and/or building leases subject to final income tax;
- c. the acquisition price or selling price in the event of a sale and purchase of assets affected by an affiliation, namely the amount that should be incurred or received based on market price;
- d. the acquisition value or sales value in the event of a transfer of assets, namely the amount that should be incurred or received based on the market price;

- e. the acquisition value or transfer of assets in the context of liquidation, merger, consolidation, spin-off, split-off, or business acquisition, namely the amount that should be incurred or received based on the market price;
- f. the basis for the transfer of assets, namely the residual value or the value determined by the Director General of Taxes or the market value of assets;
- g. the acquisition price or residual value of tangible assets which affects the amount of depreciation costs;
- h. the acquisition price or residual value of intangible assets which affects the amount of amortisation costs;
- i. the value for re-determining the amount of income and deductibles as well as liabilities as capital;
- j. transaction prices between affiliated parties entering into an agreement with Taxpayers and cooperating with the tax authorities of other countries;
- k. the arm's length value of assets in the event of a discrepancy between the elements of costs and income;
- l. the arm's length market price for taxable goods in the form of inventories and/or assets which according to the original purpose, are not for sale and purchase, which are remaining upon the dissolution of the company;
- m. the selling price or consideration calculated based on the arm's length market price if affected by an affiliation;
- n. the value of independent construction amounting to costs incurred and/or paid for the independent construction as the tax base;
- o. the market price for supplies of taxable goods in the form of assets which according to the original purpose, are not for sale and purchase by taxable persons for VAT purposes;
- p. the limit price for the sales of confiscated goods at auction;
- q. the value of confiscated goods; and
- r. the selling price of confiscated goods whose sales are excluded from sales by auction.

Valuation results referred to above are used as:

- a. the calculation of basis of tax payable in the analysis or verification of tax compliance when supervision is performed;
- b. the calculation of basis of tax payable in the assessment of tax compliance when an audit is performed;
- c. the basis for the determination of arm's length transfer prices in the analysis and determination of negotiating positions when mutual agreement procedure is implemented;
- d. the basis for the determination of arm's length transfer prices in the analysis and determination of negotiating positions when an advance pricing agreement is implemented;
- e. the calculation of basis of tax payable in the decision on the resolution of objections;
- f. the calculation of basis of tax payable in decisions on the settlement of the application for a reduction or cancellation of tax assessments;
- g. the basis for the determination of the value of tangible assets collateral, the value of confiscated goods, limit price, and selling price of confiscated goods whose sales are excluded from sales by auctions when levying is performed;
- h. the calculation of basis of losses to state revenues when a preliminary investigation is performed; and
- i. the calculation of basis and recovery of losses to state revenues when an investigation is performed.