

# Fixed Asset Revaluation: Impact on Taxable Income

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Keywords: Fixed asset, revaluation, disclosure, compliance.

Abstract: The economic downturn at the end of 2015, made Indonesian Government issued economic policy regarding fixed asset revaluation, in order to boost economic condition. This policy believe could improve company's financial performance. The purpose of this study is to evaluate the impact of fixes asset revaluation on the taxable income and the fixed asset disclosure compliance. This research use descriptive method, with survey approach. Listed companies at Indonesia Stock exchange are used as the subject of this study. We are using purposive sampling method in selecting the sample. This study is using multiple linier regression analysis to analyze the data. We concluded that the fixed asset revaluation did increase the taxable income. As for fixed asset disclosure compliance, we found that 2 out of 16 disclosure criterions still need to be improved, in order to provide more complete information for the financial statement users.

## 1 INTRODUCTION

In the mid of 2015, the Indonesia's economic growth had been slower, so it was only reached 4.67 %. It was the lowest growth ever for the past six years. This unfovaroble condition, made Indonesian Government took a strategic movement, by launching another stimulus to boost economic growth. One of the stimulus, was the new tax incentives on revaluation of fixed assets.

Previously many companies reporting their fixed assets under historical cost, which pretty much, far below current market price. It because the asset is being reported undervalued, as it was acquired several years ago. At that time, company choose to report the asset using historical cost in order to avoid the tax being imposed on fixed asset growth, amounted 10 % from the capital gain.

This new tax incentives, is very interesting and provide benefit not only for the company itself but also for the government. At that time, the income tax realization was much less than the targeted one. It will provide opportunity for government to obtain additional income tax, so government programs to provide and support public welfare could be executed

Under this policy, the government waive 70 % of tax rate on the fixed asset growth, should the company interested in this policy and submit their proposal for fixed asset revaluation before the end of 2015. They only need to pay 3 % from the fixed

asset increasing amount. Having their asset reported under current market value will resulted in an increase on company's equity. This will affect companies's financial performance, as the increased equity will improve company's leverage, it will easier for company to obtain source of fund. All of these benefit, will be reflected in company's financial statement

The financial statement preparation of entity with public accountability, the listed and state owned companies in Indonesia should be based on Indonesian Statement of Financial Accounting Standard (*Pernyataan Standar Akuntansi Keuangan* or *PSAK*) and related regulation. It also regulate the requirement for financial statement disclosure aspect. Therefor it is also important, to evaluate the company's financial statement compliance, which is in this study limited to disclosure compliance.

It has been known that one of country's economic instrument is tax, as a source of income that support country development programs, for providing a better public service and welfare. Moreover tax could be use to cover budget deficit and to distribute income among society, which is the world economic problem nowadays (Dwi Sulastyawati, 2014: 125).

Debate on tax incentives point of view is still exist. It may consider as inequitable as they provide preferential treatment for particular sector or party. Tax incentives undermine fairness sense, because a heavier tax burden must be placed on other sectors

to raise a given tax revenue (Dale Chua, in Sutrisno et al, 2011: 2)

At one level, tax incentives are easy to identify. They are those special provisions that allow for exclusions, credits, preferential tax rates, or deferral of tax liability. Tax incentives can take many forms: tax holidays for a limited duration, current deductibility for certain types of expenditures, or reduced import tariffs or customs duties. At another level, it can be difficult to distinguish between provisions considered part of the general tax structure and those that provide special treatment. This distinction will become more important when countries become limited in their ability to adopt targeted tax incentives. For example, a country can provide a 10 % corporate tax rate for income from manufacturing. This low tax rate can be considered an attractive feature of the general tax structure as it applies to all taxpayers (domestic and foreign) or it can be seen as a special tax incentive (restricted to manufacturing) in the context of the entire tax system (Zolt & Schill, 2015:5)

In Oct 2015 Indonesian Government launched economic policy by reducing a tax rate, as a tax incentives on fixed asset revaluation, as stipulated in Minister of Finance Regulation number 191/PMK.10/2015. *PSAK No.16* stated that fixed assets are tangible assets, owned to be used in the production process or in providing goods or service to be rented to other parties, or for administrative purposes and is expected will provide benefit more than one accounting period. (SAK IAI, PSAK 16, 2015).

The valuation of fixed assets could be based on its historical cost or Fair value (SAK IAI, PSAK 16, 2015). In commercial practices, the implementation of valuing fixed asset based on its fair value, should be done according to the tax regulation authorised by Republik Indonesia Minister of Finance.

The revaluation of fixed asset is the adjustment of company's fixed assets value which had been used for generating income, as the value is no longer reflected the fair or market value. The purpose of asset revaluation is enabling company to calculate its income and expense more fairly, so it will reflect company's real value. The revaluation of fixed asset will ensure that the asset value on financial statement will reflect the real fair value and also will increase company's overall value (Kusmahargyo, 2015).

The preparation of company's financial statement, including its disclosure, must be made based on PSAK and related regulation. Disclosure became an important issue under IFRS and also

other accounting standard based on IFRS, including PSAK. The more disclosure made to investor, the more effective capital market. By providing mandatory disclosure, enabling company to list its share in the capital market, to increase its reputation and to minimize its cost of capital which will increase company's value (Meek, et al in Andian, 2016).

Study on the impact of Asset Revaluation on Financial Performance, conducted by Andian (2016) shown that asset revaluation has significant and negative impact on debt to asset ratio. Study by Zolt & Michael (2015) on tax incentives shown that tax incentives can play a useful role in encouraging, specifically both domestic and foreign investment. How useful they can be, and at what cost, depends on how well the tax incentive programmes are designed, implemented and monitored. Study on disclosure, revealed that the average mandatory disclosure level by manufacturing company in the first year of full adoption IFRS in Indonesia, is only 63% from all mandatory disclosures required by BapepamLK (Andian, 2016).

## 2 METHODS

This research aims to evaluate whether the asset revaluation has a significant impact on the company's taxable income and to analyze the fixed assets disclosure compliance based on PSAK 16.

We used both statistical and non-statistical analysis on this research. The statistical analysis use to study the asset revaluation impact on the taxable income, which involves variables:

- Fixed assets revaluation (as independent variable)
- The changes in company's taxable income (as dependent variable)

The measurement of each variable, is provided in table 1.

Table 1: The operational variable and measurement

Variable	Indicator	Measurement	Scale
Fixed asset revaluation (X)	The increasing of revaluation surplus compare with the original book value	$\frac{Rev_t}{Asset_{(t-1)}}$	Ratio

Table 1. Cont.

The taxable income after revaluation (Y)	Taxable income under fixed asset revaluation minus previous year taxable income ( $\Delta TI_t$ )	$\frac{TI_{(t)} - TI_{(t-1)}}{TI_{(t+)}}$	ratio
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To analyze the fixed asset disclosure compliance, we use non statistical analysis research, which will analyze and compare the required disclosure level with the existing ones. The required disclosure item based on PSAK 16 are provided in table 2.

Table 2: Fixed asset disclosure checklist

Number	Disclosure Item
1	Measurement base for determining the carrying amount (gross)
2	Depreciation method employed
3	Useful life or depreciation rate
4	Gross carrying amount and accumulated depreciation, at the beginning and ending of period
5	Reconciliation of fixed asset carrying amount addition, at the beginning and ending of period
6	Reconciliation of the carrying amount of asset held to be sold, at the beginning and ending of period
7	Reconciliation of the acquisition amount from business combination, at the beginning and ending of period
8	Reconciliation of any increase or decrease on carrying amount, due to revaluation at the beginning and ending of period
9	Reconciliation of impairment loss on income statement
10	Reconciliation of any reversal of impairment loss on income statement
11	Reconciliation of the accumulated depreciation, at the beginning and ending of period
12	Reconciliation of gain or loss on exchange rate due to financial statement translation, at the beginning and ending of period
13	The description and amount of restricted fixed asset and property as debt collateral
14	The amount of expenditure capitalised as asset under construction
15	The amount of contractual commitment to acquire fixed assets
16	The compensation amount from third party for any impaired, lost or disposed fixed asset

Researcher conducted analysis, by made disclosure checklist, enlisted 16 items of fixed assets that have to be disclosed, as stated in table 2. The checklist indicate whether the indicators fixed asset item disclosed or not disclosed. Researcher will give 1 if the items is disclosed, give 0 if items is not disclosed and give blank if the disclosure item is not applicable for certain company. Researcher will then

calculate disclosure score, by adding all of disclosure checklist items.

Research population is all companies listed in Indonesian Stock Exchange in 2015, with total 534 companies, which then reduced by 88 companies which did not publish financial statement in 2015, 47 companies which made fixed asset revaluation based on accounting, and 367 companies which did not participate in fixed asset revaluation for tax purposes until the end of 2015. At the end, we used 31 companies as research sample.

Hypotheses being tested in this study are:

Ho<sub>1</sub> :  $\beta_1 \leq 0$  " fixed asset revaluation does not positively influence the taxable income under revaluation"

Ha<sub>1</sub> :  $\beta_1 > 0$  " fixed asset revaluation positively influence the taxable income under revaluation"

Ho<sub>2</sub> :  $X_1 = Y_1$  "the company which had revaluation in 2015 does not disclose items as required by PSAK"

Ha<sub>2</sub> :  $X_1 \neq Y_1$  "the company which had revaluation in 2015 disclose items as required by PSAK"

This research is using simple linear regression analysis:

$$\Delta TI_{t-1(i)} = a + REV_{t(i)} + \epsilon$$

where as :

- $\Delta TI_{t-1(i)}$  = change in taxable income (t-1)
- $REV_{t(i)}$  = the revaluation surplus of fixed asset
- $\epsilon$  = Other variable, not being studied in this research
- a = Konstanta, Koefisien Regresi

### 3 RESULTS AND DISCUSSION

Based on the test, we found that the data has a normal distribution and passed the heteroscedasticity test.

Table 3: Simple linear regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	-4.965	1.617		-3.070	0.005
Rev	0.197	0.063	0.504	3.142	0.004

a. dependent variable: TI

From table 3, we found equation:

$$Y = -4,965 + 0,197X$$

Which implies:

- Constanta = -4.965. Shown that when asset revaluation amount is zero, the taxable income value is -4,965.
- The coefficient regression of taxable income (X) is 0.197, which shown the increase in fixed asset revaluation surplus will increase the taxable income amounted 0.197 %.

Based on calculation, we found that the coefficient determination ( $R^2$ ) is 25,4 %, which means that the fixed asset revaluation has 25,4 % contribution on the taxable income and the rest 74,6 % is contribution from other variable, which not being analyzed in this research, such as the sales increased.

Table 4: Hypothesis test

Model	Unstandardized Coefficients		Std Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	-4.965	1.617		-3.070	0.005
Rev	0.197	0.063	0.504	3.142	0.004

a. dependent variable: TI

From table 4, we can see that  $t_{count}$  is 3.142 which will be compared with the  $t_{table}$  amounted  $\pm 2.045$  from the t distribution table, with  $\alpha = 0.05$ ,  $df = n-k-1 = 31 - 1 - 1 = 29$ , for two tail test. We found that  $t_{count}$  3.142 is outside the  $t_{table}$  (-2.045 and 2.045), so we reject  $H_0$  which mean the fixed asset revaluation influence significantly the taxable income of companies conducted revaluation in 2015.

For evaluating the fixed assets disclosure compliance, researcher performed disclosure checklist analysis on each of 16 disclosure item, required by PSAK 16, as follow :

- a. Measurement base for determining the carrying amount (gross)
- Disclosure score = 31
  - Maximum score = 31
  - Disclosure compliance score =  $31/31 \times 100\% = 100\%$
  - Interval range = (maximum score – minimum score) : 5 = (100 % - 0 %) : 5 = 20%

Not Comply	Less Comply	Comply	Quite Comply	Fully Comply
0%	20%	40%	60%	80%

Figure 1: Continuum line compliance level measurement base

Disclosure compliance level for this item is excellent (100%), as all of companies has already implemented it

- b. Depreciation method employed
- Disclosure score = 30
  - Maximum score = 31
  - Disclosure compliance score =  $30/31 \times 100\% = 97\%$

Disclosure compliance level for this item is almost excellent (97%).

- c. Useful Life or depreciation rate
- Disclosure score = 30
  - Maximum score = 31
  - Disclosure compliance score =  $30/31 \times 100\% = 97\%$

Disclosure compliance level for this item is almost excellent (97%).

- d. Gross carrying amount and accumulated depreciation, at the beginning and ending of period
- Disclosure score = 31
  - Maximum score = 31
  - Disclosure compliance score =  $31/31 \times 100\% = 100\%$

Disclosure compliance level for this item is excellent (100%).

- e. Reconciliation of fixed asset carrying amount addition, at the beginning and ending of period)
- Disclosure score = 30
  - Maximum score = 31
  - Disclosure compliance score =  $31/31 \times 100\% = 97\%$

Disclosure compliance level for this item is almost excellent (97%).

- f. Reconciliation of the carrying amount of asset held to be sold, at the beginning and ending of period
- Disclosure score = 13
  - Maximum score = 17
  - Disclosure compliance score =  $13/17 \times 100\% = 76\%$

Disclosure compliance level for this item is quite comply (76%).

- g. Reconciliation of the acquisition amount from business combination, at the beginning and ending of period
- Disclosure score = 18
  - Maximum score = 22
  - Disclosure compliance score =  $18/22 \times 100\% = 82\%$

100% Disclosure compliance level for this item is almost comply (82%).

- h. Reconciliation of any increase or decrease on carrying amount, due to revaluation at the beginning and ending of period
- Disclosure score = 21
  - Maximum score = 31
  - Disclosure compliance score =  $21/31 \times 100\% = 68\%$
- i. Reconciliation of impairment loss on income statement
- Disclosure score = 15
  - Maximum score = 21
  - Disclosure compliance score =  $15/21 \times 100\% = 71\%$
- j. Reconciliation of any reversal of impairment loss on income statement
- Disclosure score = 6
  - Maximum score = 6
  - Disclosure compliance score =  $6/6 \times 100\% = 100\%$
- Disclosure compliance level for this item is excellent (100%).
- k. Reconciliation of the accumulated depreciation, at the beginning and ending of period
- Disclosure score = 30
  - Maximum score = 31
  - Disclosure compliance score =  $30/31 \times 100\% = 97\%$
- l. Reconciliation of gain or loss on exchange rate due to financial statement translation, at the beginning and ending of period
- Disclosure score = 23
  - Maximum score = 28
  - Disclosure compliance score =  $23/28 \times 100\% = 82\%$
- m. The description and amount of restricted fixed asset and property as debt collateral
- Disclosure score = 14
  - Maximum score = 26
  - Disclosure compliance score =  $14/26 \times 100\% = 54\%$
- Disclosure compliance level for this item is not good which is only 54%.
- n. The amount of expenditure capitalised as asset under construction
- Disclosure score = 20
  - Maximum score = 23
  - Disclosure compliance score =  $20/23 \times 100\% = 87\%$
- o. The amount of contractual commitment to acquire fixed assets
- Disclosure score = 10
  - Maximum score = 18
  - Disclosure compliance score =  $10/18 \times 100\% = 56\%$

Disclosure compliance level for this item is not good as it only 56%.

- p. The compensation amount from third party for any impaired, lost or disposed fixed asset
- Disclosure score = 2
  - Maximum score = 3
  - Disclosure compliance score =  $2/3 \times 100\% = 67\%$

Disclosure compliance level for this item is not too good, as its only 67%.

## 4 CONCLUSIONS

The researcher find the evidence that fixed asset revaluation has a significant influence on the company taxable income, with 24.5 % contributions. Therefore by taking this tax policy intensive, company will not only give benefit to the government, but it will also give benefit for the company as it will increase company's equity.

In overall, the compliance disclosure level has already in a very good or excellent condition, this study revealed certain fixed asset disclosure item, which still need to be improved. Disclosure item related with reconciliation of the carrying amount of asset held to be sold, disclosure item related with reconciliation of any increase or decrease on carrying amount due to revaluation, disclosure item related with reconciliation of impairment loss disclosure item related with description and amount of restricted fixed asset and property as debt collateral, disclosure item related with the amount of contractual commitment to acquire fixed asset, disclosure item related with compensation amount from third party for any impaired, lost or disposed fixed asset.

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