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The Application of Fiscal Corrections on Financial Statements for Tax Purpose in Indonesia

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Abstract:

Paper entitled "THE APPLICATION OF FISCAL CORRECTIONS ON FINANCIAL STATEMENTS FOR TAX PURPOSE IN INDONESIA". The purpose of this paper is to provide an explanation of the legal basis of the Taxation Regulation relating to Indonesian tax laws on financial statements. In this paper the reader is really given explanation about the application of Tax Regulation, with the difference of fiscal reconciliation. The basis that is deemed important in this taxation law is the Taxation Law no. 17 year 2000, which causes a fixed and time difference in the financial statements, which may affect the amount of tax payable by the company.

Key words: Accounting taxation, tax financial statements, Taxation Regulations in Indonesia

1. PRELIMINARY

Toward the end of the annual SPT reporting for corporate taxpayers, there are things that taxpayers should pay attention to in calculating the indebted tax in one tax year, ie whether what we report to our financial statements is in accordance with the tax laws or not. For that we must understand is in calculating the indebted tax is the type of income and expenses listed in the income statement of a business entity.

The types of income known in the tax calculation there are 3, namely: (1) Income tax object is not final; (2) Income of final tax object; and (3) Income is not a tax object. While the cost, in tax calculation is deductable expense (deductible expenses) and non deductable expense (non-deductible expenses).

Once we know the types of income and taxes, all we have to do is make a positive and negative fiscal adjustment which in its practice is better known as POSITIVE CORRECTION for positive fiscal adjustment and NEGATIVE CORRECTION for negative fiscal adjustment. These positive and negative terms are viewed from the perspective of the Directorate General of Taxation. With simple language, negative fiscal correction benefits taxpayers while positive correction is more favorable to the Directorate General of Taxation. Thus, if after a fiscal correction has occurred; (a) Commercial net income is greater than net income on a fiscal basis, then this is called a negative correction, (b) Commercial net income is less than fiscal net income, then this is called a positive correction, (c) The commercial cost is greater than the cost of the tax, the so-called positive correction, and (d) The commercial cost is less than the tax cost, so it is called a negative correction.

2. LITERATURE REVIEW

In practice to calculate the indebted tax, the taxation regulates in more detail to: (a) Income not subject to the final income tax, as stated in Article 4 paragraph 1 of the Minimum Income Tax Article 4 paragraph 2 and 3 of the Income Tax Law; (b) Income subject to final income tax, which is contained in Article 4 paragraph 2 of the Income Tax Law; and (c) Income is not a tax object contained in Article 4 paragraph 3 of Income Tax Law.

As for costs in the fiscal correction are the costs listed in Article 9 paragraph 1 of the Income Tax Law of 2008 which regulates the expenditure that is not deducted from gross income in determining the amount of taxable income for domestic taxpayers and permanent establishment. And for the deductible expenses referred to Article 6 paragraph 1 of the Income Tax Law which states that the taxable income for domestic taxpayers and permanent establishments is determined on the basis of gross income minus the costs of obtaining, collecting and maintaining income, but otherwise which may be deductible shall meet the criteria as follows: (1) The expenditure is directly related to the business activities in obtaining, collecting and maintaining income; (2) The breeding is supported by valid and adequate evidence; and (3) Such expenses should be reasonable if they involve a special relationship. If the criteria are not suitable then the problem can be corrected, so that our fiscal income is greater and the PPh owed is also getting bigger.

From the things above we can see and observe, whether our financial statements are in compliance with tax regulations or not. If not then required a positive or negative fiscal correction which with the correction, our financial statements called fiscal financial statements. The fiscal financial statements referred to are reports after the fiscal correction whose purpose is only to calculate the indebted tax not to correct commercial financial statements. And to report such correction on the annual SPT form can be grouped according to form 1771-I.

After we know the criteria of this fiscal correction, is expected when closing the financial statements, taxpayers can perform tax calculations correctly in accordance with the tax laws.

3. DISCUSSION ON APPLICATION OF FISCAL CRECTION IN INDONESIA

The legal basis of the fiscal correction is Law no. 36 Year 2008 on Income Tax (PPh) Types of Differences between Commercial and Fiscal Recognition In general there are two differences in recognition of both income and expense between commercial accounting and taxation (fiscal) that led to the occurrence of fiscal correction, namely:

1. Different Fixed (Permanent Different)

Fixed Differences is a distinction of recognition of both income and expenses between commercial accounting and the provisions of a permanent Income Tax Law means that the fiscal correction will not be taken into account with the taxable income of the subsequent tax year.

In the case of recognition of correction earnings due to differences occur due to:

Commercial accounting is income, whereas according to the Income Tax Law is not an income, for example dividends or shares of profits received or obtained by a limited liability company as a resident Taxpayer, cooperative, State-Owned Enterprise or Regional Government-Owned Enterprise, from capital participation in a business entity established and domiciled in Indonesia provided that dividends are derived from retained earnings reserves and shares ownership in the entity that provides a minimum dividend of 25% (Article 4 paragraph 3 of the Income Tax Law).

According to the commercial accounting is income, whereas according to the Income Tax has been subject to Final Income Tax, for example:

- Deposit and other Savings Interest
- Income in the form of a lottery prize
- Income from transactions of property transfers in the form of land and / or building,
- Income from construction and service business
- Income from land lease and / or building and so forth (Article 4 paragraph 2 of Income Tax Law)

In the case of recognition of cost / burden of correction due to differences occur because according to commercial accounting is a cost, whereas according to the Income Tax Act is not a cost that can reduce gross income, for example:

1. the cost of obtaining, collecting, and maintaining income;
2. which is not a tax object;
3. the tax imposition is final;
4. which is taxed according to the income counting norm
5. reimbursement or remuneration in respect of employment or services rendered in kind and enjoyment Income tax
6. administrative sanctions in the form of interest, fines, and increases and penal sanctions in the form of penalties relating to the implementation of legislation in the field of taxation.
7. other costs which according to the Income Tax Law can not be imposed (Article 9 paragraph 1 of the Income Tax Law)

The correction on the fixed difference of income will cause a negative correction means that income earned by commercial accounting but fiscally should be corrected either because it is not a tax object or because it has been imposed final income tax, will cause the taxable income will be reduced which will ultimately cause the tax payable will be more small.

Correction of the fixed cost difference will lead to a positive correction means the costs perceived by commercial accounting but fiscally should be corrected, will lead to taxable profits will increase which will ultimately lead to the tax payable will be greater.

2. Different Time

Time difference is the difference between the recognition of both income and cost between commercial accounting with provisions of Income Tax which is temporary means that the fiscal correction made will be calculated with taxable income tax years later.

In the case of recognition of correction earnings due to time difference due to:

Acceptance of cash base income for more than one year. In the commercial accounting of such income should be allocated in accordance with the acquisition period in accordance with the principle of matching cost with revenue. Whereas according to the Income Tax Law, the income must be recognized at the same time received.

In the case of correction cost recognition due to time difference due to:

Differences in depreciation method, which according to the Income Tax Act, the allowable depreciation method is only the straight-line method and the declining balance

Differences in inventory valuation methods, which according to the Income Tax method allow inventory valuation method only the average method and FIFO

Allowance for doubtful accounts, which under the Statute of Allowance for bad debts is prohibited except for certain businesses

A correction on the different earnings time will lead to a positive correction when earnings are received and will cause a negative correction in subsequent years. This positive correction will cause the taxable income to increase, while the negative correction in the following years will cause the taxable profits to be reduced.

Correction of the time difference in cost can cause positive correction or negative correction depending on the method used.

Type of Fiscal Correction

1. Positive Fiscal Correction

Fiscal Correction Positive That is fiscal correction that causes the addition of taxable income and income tax payable.

Types of Positive Fiscal Corrections include:

• Profit sharing by name and in any form such as dividends, including dividends paid by the insurer to the policyholder, and the distribution of the remaining business proceeds of the cooperative.

• Fees imposed or incurred for the personal benefit of shareholders, allies, or members.

• Establishment or fertilization of reserve funds except:

1. Reserves for bad debts for the business of banks and other business entities that disburse loans, leases with option rights, consumer financing companies and factoring companies.
2. Reserves for insurance businesses include social assistance reserves established by the Social Security Administering Body.
3. Guarantee Reserve for the Deposit Insurance Corporation.
4. Reserves for reclamation costs for mining business.
5. Reserve of replanting costs for forestry business.
6. Reserves covering costs and maintenance of industrial waste disposal sites for industrial waste processing businesses.

• Health insurance premiums, accident insurance, life insurance, dual-purpose insurance and scholarship insurance, paid by an individual Taxpayer, unless paid by the employer and the premium is calculated as income for the respective Taxpayer.

• Reimbursement or remuneration in respect of employment or services rendered in kind and enjoyment, except the provision of food and beverage to all employees and the replacement or reward in kind and enjoyment in certain areas and relating to the performance of work which is regulated by or based on Ministerial Regulation Finance.

• Amounts exceeding the fairness paid to shareholders or to related parties in return for the work performed.

• Granted property, aid or donation, and inheritance as referred to in Article 4 paragraph (3) a and b, except for the contribution as referred to in Article 6 paragraph (1) letter i to letter m and zakat received by amil zakat or amil zalcat institutions established or endorsed by government or religious contributions of a compulsory nature to a recognized religious believer in Indonesia accepted by a religious institution established or endorsed by the government, whose provisions are governed by or under a Government Regulation.

• Income tax.

• Expenses incurred or incurred for the personal benefit of a Taxpayer or dependent.

• Salaries paid to members of a partnership, firm, or limited-liability company whose capital is not divided into shares.

• Administrative sanctions in the form of interest, penalty, and increase and penal sanctions in the form of penalties relating to the implementation of legislation in the field of taxation

• Inventories in excess of amount based on the counting method established in Article 10 of Law No.36 Year 2008 on Income Tax.

• Depreciation in excess of amount based on the calculation method specified in Article 10 of Law No.36 Year 2008 on Income Tax.

• Deferred charges of recognition.

References: Article 4, Article 6 and Article 9 of Law no. 36 Year 2008 on Income Tax (PPh)

2. Negative Fiscal Correction

That is the correction that causes the reduction of taxable income and income tax payable.

Types of Negative Fiscal Corrections include:

1) Income that has been imposed with Final Income Tax:

• Income in the form of interest on deposits and other savings, interest on bonds and government bonds, and interest on deposits paid by cooperatives to members of individual cooperatives.

• Income is a lottery prize.

• Income from stock transactions and other securities, exchange-traded derivative transactions, and stock sale transactions or transfer of equity in the companies of their spouses received by venture capital firms.

• Income from property transfer transactions in the form of land and / or building, construction service business, real estate business, and land and / or building lease.

2) Income that is not a tax object, among others:

• Assistance or donation, including zakah which is received by an amil zakat entity or amil zakat institution established or endorsed by the government and received by an authorized zakat recipient or compulsory religious contribution to a recognized religious believer in Indonesia accepted by a religious institution established or endorsed by the government and received by eligible beneficiaries whose provisions are governed by or under the Government Regulations insofar as they have no relationship to the business, occupation, ownership or control of the parties concerned.

• Grants received by family inbreeding in one degree straight lineage, religious body, educational body, social body including foundation, cooperative, or private person running micro and small business, whose provisions are regulated with or based on Regulation of the Minister of Finance as long as there is no relationships with business, employment, ownership, or control of the parties concerned.

• Inheritance.

• Property includes cash deposits received by the entity in lieu of stock or in lieu of equity participation.

• Reimbursement or remuneration in respect of employment or services received or obtained in kind and / or enjoyment of a Taxpayer or Government, except that provided by a non-Taxpayer, a Taxpayer subject to final tax or Taxpayer using a special counting norm (deemed profit).

• Payments from insurance companies to private persons in connection with health insurance, accident insurance, life insurance, dual-use insurance, and scholarship insurance.

• dividends or shares of profits received or acquired by a limited liability company as a resident Taxpayer, cooperative, state-owned enterprise or a regional-owned enterprise, from capital participation in a business entity established and domiciled in Indonesia provided that:

1. Dividends are derived from retained earnings.
2. For a limited liability company, a state-owned enterprise and a regionally-owned enterprise receiving a dividend, the shareholding in the entity providing the dividends shall be at least 25% (twenty-five percent) of the total paid-in capital.

• Contributions received or obtained by pension funds whose establishment has been approved by the Minister of Finance, whether paid by employers or employees.

• Income from capital invested by pension fund as referred to in letter h, in certain fields stipulated by Decree of the Minister of Finance.

• Share of profits received or obtained by members of a limited-liability company whose capital is not divided into shares, partnerships, associations, firms and joint venture, including holders of units of collective investment contracts.

• Income earned or accrued by a venture capital company in the form of a profit share of a business partner body established and operating a business or activity in Indonesia, provided that the entity's entity:

1. Is a micro, small, medium, or business enterprise operating in business sectors which is regulated by or based on Regulation of the Minister of Finance.
2. The shares are not traded on the stock exchanges in Indonesia.

• Scholarships that meet certain requirements whose provisions are further stipulated by or based on the Regulation of the Minister of Finance.

• The remainder received or obtained by a non-profit body or institution engaged in education and / or research and development field, which has been registered with the agency in charge of it, reinvested in the form of facilities and infrastructure of educational and / or research and development activities, in a period of at most 4 (four) years since the acquisition of such remaining balance, which provisions are further stipulated by or based on the Regulation of the Minister of Finance.

• Assistance or compensation paid by the Social Security Administering Body to certain Taxpayers, whose provisions are further stipulated by or based on Regulation of the Minister of Finance.

• Inventories that are insufficient amount based on the counting method established in Article 10 of Law No.36 Year 2008 on Income Tax.

• Depreciation of less amount based on the calculation method established in Article 10 of Law No.36 Year 2008 on Income Tax.

Legal Basis: Article 4 of Law no. 36 Year 2008 on Income Tax (PPh)

4. DIFFERENT DEVELOPMENT OF FIXED ASSETS BY TAX AND ACCOUNTING

According to accounting can be used any method while according to taxes may only use 2 methods only straight line and balance down, even for buildings only allowed straight-line method.

Age of benefit under accounting is based on the discretion of temporary management according to the tax on the fixed age of the fixed asset based on the tax provisions, ie for non-building fixed assets divided into 4 groups with useful life ranging from goal 1 is 4, 8, 16 and 20 years while the building becomes 10 year for semi-permanent buildings and 20 years for permanent buildings.

Accounting, fixed assets (fixed assets) begin to be depreciated when the asset is ready for its intended use. By taxation, fixed assets begin to be depreciated in the month of expenditure (when acquired / purchased).

Details of Different Beda by SAK and Fiscal
No Type of Difference According to IFRS by Fiscal

1. Income of Income Income Income Income Income Tax is withheld on final Income Tax
2. Earnings Income Income outside business Enter in the tax object exceptions
3. Cost of Donation / Reward Fees (stated in profit / loss) Not reduce income
4. Gains from equity participation in IDX Non-income income Adds no income
5. Income from donations / grants Extraordinary income Does not increase income
6. Employee Benefits in the form of natura Income (for employees) and costs (for employers) Does not reduce income
7. Entertainment fees Can be included as a fee As a deductible expense if there is a nominative list, and vice versa.
8. Fines and interest taxes Non deductible expense

5. CONCLUSION

Given the difference between the profit (loss) according to the calculation of commercial accounting (based on Financial Accounting Standards) with fiscal accounting (based on Income Tax Law), before calculating the Income Tax payable, commercial profit / loss must be made fiscal corrections in accordance with Income Tax Law. The emergence of this paper to increase knowledge for tax purposes taxpayers do not need to make double bookkeeping, but enough to make one bookkeeping based on Financial Accounting Standards (SAK), and at the time of filling Annual Income Tax Return first must be done fiscal correction.

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