Indonesia:
New rules issued on bookkeeping in foreign language and currency

The Indonesian Minister of Finance issued a regulation on 2 February 2012 (PMK 24) that provides guidance on the procedures for maintaining books in a foreign language and in a currency other than the Indonesian rupiah for tax purposes. PMK 24 revises previous guidance issued in 2007.

The following taxpayers are included in the 2007 guidance as being eligible to maintain their books and records in a foreign language and currency:

- Companies that have foreign capital participation/investment;
- Permanent establishments of foreign companies;
- Taxpayers that have a foreign parent company;
- Companies that have entered into a general mining work contract or an oil and gas production sharing contract; and
- Entities that enter into collective investment contracts and issue U.S. dollar-denominated mutual funds.

PMK 24 adds another type of taxpayer to this list: an entity that prepares its financial statements in the U.S. dollar as its functional currency in accordance with Indonesia’s generally accepted financial accounting standards (i.e. PSAK 10).

According to PSAK 10, which was revised in 2010 and applies as from 1 January 2012, companies must record their foreign currency transactions using their functional currency and prepare their financial reports using their functional currency. Previously, companies could maintain their records and financial reports in rupiah, even though their functional currency was in a currency other than the Indonesian rupiah. The new rules under PSAK 10 define the functional currency as the currency of the primary economic environment in which the entity operates and mandate that the functional currency be determined based on a hierarchy of specified indicators, e.g. the currency that mainly influences the sales price, labor and material costs of the company, the currency in which funds from financing activities are generated, etc. The functional currency may be rupiah or any other currency as determined by the hierarchy of indicators.

The issuance of PMK-24 is an attempt to accommodate the requirements of PSAK 10 to the bookkeeping requirements for tax calculation purposes, although it does not resolve the issue of what happens if a company’s functional currency is other than the Indonesian rupiah or the U.S. dollar, the only two currencies that are permitted.

It is important to note that taxpayers falling within the scope of the category mentioned in PMK 24 whose fiscal year starts in January, February, March or April 2012 were required to submit an application to the Indonesian Directorate General of Taxation for approval to maintain their bookkeeping in U.S. dollars and in English within 30 days after the issuance of PMK 24. If the application was rejected or the taxpayer failed to comply with the 30-day deadline (and the application is therefore denied), there may be complications as to which currency the taxpayer should use both from a tax and an accounting perspective.

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