



WAKE UP CALL

RSM Indonesia **Newsletter**

QUARTER 4/2022

Welcome to issue 63 of Wake Up Call, RSM Indonesia's newsletter covering topics related to audit, tax and consulting.

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- Our Activities

DIRECT ENGAGEMENT: THE NEW ENGAGEMENT DIMENSION PROVIDED BY ADOPTION OF ISAE 3000 (REVISED)

BENNY ANDRIA, AUDIT PRACTICE

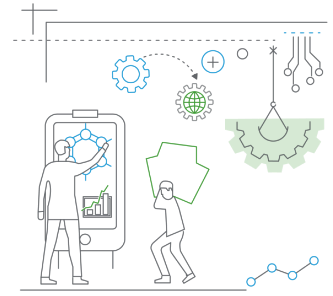
On 21 September 2022, the Public Accountant Professional Standards Board 1 (DSPAP1) of the Indonesian Institute of Certified Public Accountants has approved the issuance of Exposure Draft (ED) of *Standar Perikatan Asuransi 3000 (SPA3000)*, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", adopts the corresponding ISAE issued by the IAASB. Since this ED had been fully adopted from ISAE3000, it has potential issues of applicability, concerning with the Indonesian laws and ethical standards. DSPAP1 has conducted a public hearing and distributed the ED to obtain response from the stakeholders such as: practitioners, academician, regulator, and others. Currently, DSPAP1 is still in process to approve this ED become SPA3000 in accordance with a proper due process.

There is an interesting new thing to discuss when ISAE3000 adopted, it is called "direct engagement". Other than by level of assurance, type of engagement has new dimension which differ by who is making the measurement or evaluation of the underlying subject matter against the criteria. Same as the extant SPA3000, the ED remains recognized two levels of assurance are possible for engagements covered by the ISAE: reasonable assurance and limited assurance. On the other hand, the ED also introduced a new engagement dimension which covered both attestation engagements and direct engagements, which will be applied to the two levels of assurance engagement. The relationship of engagement dimension and level of assurance can be illustrated by Chart 1 below:

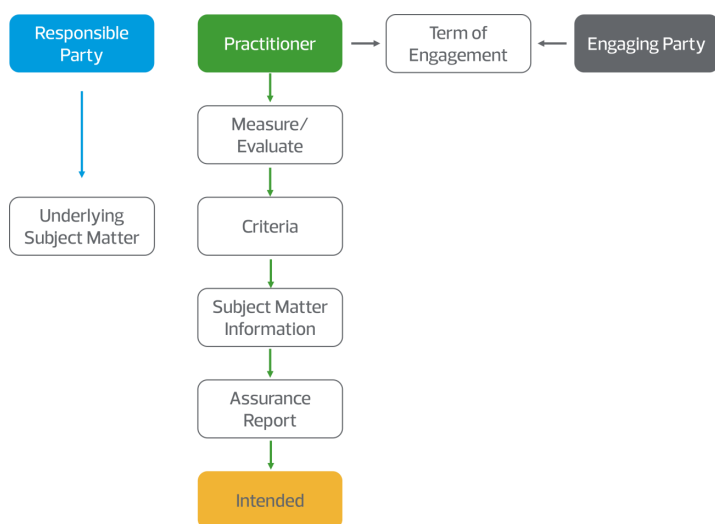
		Engagement Dimension	
Level of Assurance	Attestation Engagement Reasonable Assurance	Direct Engagement Reasonable Assurance	
	Attestation Engagement Limited Assurance	Direct Engagement Limited Assurance	

DIRECT ENGAGEMENT

A direct engagement is an assurance engagement in which the practitioner evaluates (or measures) the underlying subject matter against applicable criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users other than the responsible party, about the outcome of that evaluation (or measurement). In a direct engagement, the responsible party does not present the subject matter information. Instead the practitioner reports directly on the subject matter information and provides the intended users with an assurance report containing the subject matter information. The result of practitioner evaluates (or measures) the underlying subject matter against applicable criteria is called the subject matter information.



For instance, in an attestation engagement on sustainability, management (or management's expert) evaluates performance of the entity's sustainability (as the underlying subject matter) against applicable criteria. Then management prepares a statement about the outcome of that evaluation (as the subject matter information) and the practitioner will report on management's statement. For the same situation in a direct engagement, management provides the underlying subject matter but does not evaluate it, and the practitioner evaluates and reports on the subject matter information directly. Direct engagement cut involvement of the middle-man who evaluates (or measures) the underlying subject matter against applicable criteria. Relationships among three parties in direct engagement have been illustrated below in Chart 2.



- 1) Ethics and independence,
- 2) Capability and Competency,
- 3) Precondition

Since in direct engagement the practitioner is making evaluation (or measurement) the underlying subject matter against applicable criteria, not the other party, hence practitioner should have more capability and competency, preliminary knowledge on the underlying subject matter and applicable criteria.

In terms of ethics and independence requirements, the practitioner should pay more attention and hold discussions with respect to the concept of independence in direct engagements. The independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 900 of the Code of Ethics for Professional Accountants issued by the IESBA (IESBA Code), thus they do not to be addressed in ISAE3000.

WORK EFFORT NEEDED TO APPLY DIRECT ENGAGEMENT

Nonetheless, direct engagement is not guided specifically in ISAE3000. This ISAE contains requirements and application and other explanatory material specific to attestation engagements. However, it may also be applied to direct engagements, adapted and supplemented as necessary in engagement circumstances.

As well as in attestation engagement, in direct engagement the practitioner should perform acceptance or continuation procedures to ensure three things already satisfy:

For further information, please contact:
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TAXATION OF BENEFITS IN KIND – YEAR-END APPROACHES BUT UNCERTAINTY REMAINS

NICHOLAS J GRAHAM, TAX PRACTICE

Benefits in Kind (“BIK”) can be in the form of the provision of goods other than money (“*natura*”, such as food and drink) or the provision of facilities or services (“*kenikmatan*”, such as the use of a car). Prior to Law No 7/2021 on the Harmonization of Tax Regulations (“UU HPP”) BIK were not taxable income for an employee unless the employer wished to claim a deduction for the cost of providing the BIK or if that employer was not subject to profit-based income tax (e.g. a Final Taxed business or a KP3A or KPPA Representative Office).

The enactment of UU HPP changed that longstanding policy so that, effective 1 January 2022, all BIK are taxable income for an employee unless otherwise regulated.

Article 4(3)d of UU HPP provides a list of specific BIK that are not considered as income, such as:

- food and drink provided to all employees,
- BIK provided to employees in certain regions (i.e. remote areas), and
- BIK that must be provided to employees for their work (e.g. uniforms or COVID tests).

However, Article 4(3)d number 5 also states that certain other BIK might not be included as taxable income, based on type and/or amount, if so regulated.

The necessary regulation has not been issued until the date of drafting this article and uncertainty remains when the Government will issue the long awaited regulation to state whether any other BIK will not be included as taxable income.

In addition the Government needs to issue the required regulations to clarify which benefits in kind can be deducted from income, how the amount shall be determined (for both taxable income and deduc-

tions), and whether the employer has responsibility to withhold tax.

As a consequence, at present it would appear that employers might not be required to withhold tax in relation to BIK provided in 2022, however, employees are required to report the BIK as income in their annual Personal Income Tax Return. This would mean that employees must calculate and pay tax on the BIK. That is, the employee would bear the tax arising from the BIK provided by the employer even though the employee received no additional cash compensation to cover the tax.

To avoid this situation where the employee has a year-end tax “surprise”, many employers are including the BIK as an Article 21 object and are grossing up the BIK for the tax so that the employer fully bears the cost of the BIK.

However, the absence of the required regulations does create a grey area regarding:

- Whether the grossed-up BIK can be deducted by the employer from taxable income
- The basis for determining the value of the BIK (some information suggests that *natura* will be valued based on “market value” while *kenikmatan* will be valued based on the cost incurred by the employer to provide that facility/service)

It is hoped the regulations will be issued shortly (perhaps even before this article is printed) to remove the uncertainty for BIK provided during 2022 and provide a clear process for compliance in 2023.

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WHO WILL BENEFIT FROM ARTICLE 21 “SIMPLIFICATION”?

NICHOLAS J GRAHAM, TAX PRACTICE

In recent years the Indonesian Tax Authority (“ITA”) has taken steps to improve its systems so that compliance is easier and their compliance monitoring is more complete. This includes the implementation of the e-Faktur application for issuing ITA-validated Faktur Pajak, the Unified Withholding Tax Return (included e-Bupot) and replacing the NPWP with the NIK (for individuals).

The ITA are considering how to simplify the calculation of Article 21. According to their information, there are approximately 400 different scenarios for calculation of Article 21 across employees (permanent, non-permanent), non-employees, ex-employees, recipients of honoraria, etc.

In this regard, the ITA is considering the use of Tax Effective Rate (“TER”) tables to allow taxpayers (including employees) to quickly determine the tax to be withheld each month from the income paid for that month. It is proposed there will be several TER tables for permanent employees (with separate tables for the different marital/dependent status) and some TER tables for non-employees and daily employees.

Employers/users of services from individuals will then consult the relevant table and identify the TER based on the income due to be paid, and then withhold this from the payment. For example, if a permanent employee receives a gross salary of IDR 8 million for a month and is married with two dependents then the TER might be 2%. Accordingly IDR 160,000 should be deducted from the payment of that individual's salary.

This process would be followed for each month except for December, when a standard annual calculation would be performed to include year-to-date income from the employer, the PTKP, and other deductions such as Biaya Jabatan (Occupation

Support), Pension Contributions and official Religious Tithes/Donations.

In theory the TER tables will simplify the calculation of Article 21 and might help individuals, and especially employees, to understand the tax due on their monthly income. However, there are some potential complications, such as:

- What happens if the employee receives one-time or irregular additional income such as bonuses, THR and/or commissions?
- What if the employee has not provided their NPWP?
- What if the employee joins part way through the year?
- What if there is an over-payment of tax over the full 12 months?

Under the current regulations one-time or irregular income is not annualized and the tax for that income is determined after annualizing the regular income. For example, if the employee's monthly salary is IDR 8 million and the employee receives a bonus of IDR 5 million then the gross income (before considering PTKP and other deductions) will be IDR 8 million x 12 + IDR 5 million. That is, the one-time/irregular income will be taxed at the individual's marginal tax rate.

However, it is not clear if the TER system will have a mechanism for considering one-time/irregular income or if it requires such income to be added to the regular income, potentially pushing the total income into a higher TER. For example, instead of being subject to a TER of 2% for IDR 8 million, the individual might be subject to a TER of 5%. This has potential to create an over-payment of withholding tax when the annual full calculation is performed.

Currently, if an individual does not provide their NPWP, then the rate of withholding tax is increased (an uplift of 20% for employees and an uplift of 100% for most non-employees). At present the change from the NPWP to the NIK-as-taxpayer-ID is not yet mandatory until 2024. It is not clear if the proposed TER will have an adjustment factor or if there will no longer be a penalty if the NPWP/NIK is not provided.

If the TER tables assume 12 months of employment then there will be an over-withholding if an employee commences part way through the year.

And, if there is an over-payment of tax, what will be the mechanism for refunding this to the employee? From one perspective, it might be the employer simply adjusts the December salary to return the over-withholding. However, this assumes the employer can then easily utilize the over-payment without facing a tax audit.

Alternately, it might be the employee will be expected to claim the over-payment in their annual Personal Income Tax Return. If so, will this require a tax audit? What will be the process and time

period for this? In many other countries, personal tax refunds are automatically provided within days of lodging the Personal Income Tax Return and any tax audit will only occur if data-matching raises questions regarding the taxpayer's declarations.

These potential issues need to be addressed so that taxpayers benefit from the simplification rather than facing over-withholding of tax that can only be claimed after a time-consuming and costly tax audit.



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INDONESIA FACTS



LAKE SENTANI

Lake Sentani is a tropical, shallow, and at low-altitude open lake located at the northeast extremity of the Jayapura Regency in the Indonesian province of Papua, about 20 kilometres (12 mi) from the provincial capital, Jayapura City. It is located just to the south of the town of Sentani.

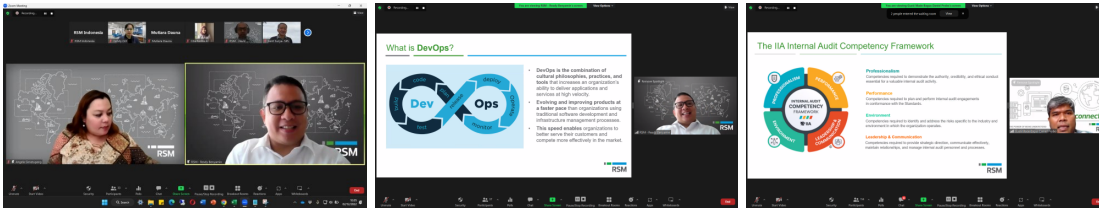
The lake, which is considered by the local population as the home of the rainbows, is part of the Cyclops Strick Nature Reserve and contains several endemic species of fish,

Lake Sentani lies at the foot of the Mesozoic mafic and ultramafic rocks of the Cyclops ophiolite mountains in a fault-controlled depression at an elevation of 73 metres (240 ft) above sea level. Lake Sentani, the best studied of Irian Jaya lakes, is relatively stable and intact. It is widely believed to have evolved by the tectonic damming and uplift of an arm of the sea, but such a connection has not been demonstrated yet.

Source: Wikipedia

OUR ACTIVITIES

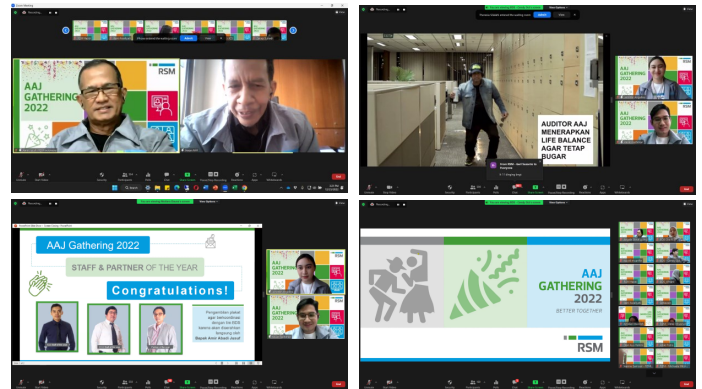
RSM Indonesia Webinar



We successfully conducted several Consulting webinars during the 4th quarter of this year. The webinars were delivered by our Senior Manager and Partners. More than 100 participants attended each webinar. [See you at our next events next year!](#)

AAJ Gathering 2022

We held our AAJ Gathering virtually just like last year. In the beginning of the event we still keep the tradition to listening to our National Anthem "Indonesia Raya", continued by speech from our Chief Executive Partner, Amir Abadi Jusuf. There are group videos and talent show video, giving doorprizes and grandprize and giving award to staff and partner of the year. We still get the feeling of togetherness through the virtual gathering.

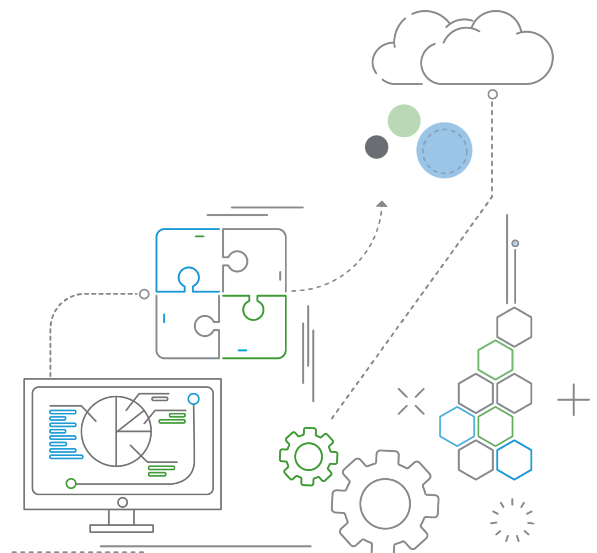


RSM Indonesia has been awarded ISO 27001

We are proud to share that we have received certification of ISO27001:2013.

BSI (British Standard Institution) has certified that we have operates an Information Security Management System which complies with the requirements of ISO/IEC 27001:2013 for following scopes:

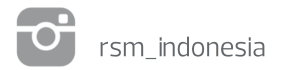
- Tax
- GRC Consulting
- Technology Risk Consulting
- Technology Consulting
- Business Services
- Corporate Finance & Transaction Support
- Accounting Advisory & General Consulting
- Internal Support Activities (Human Resources, Corporate Information Technology, General Administration)



Thank you
for reading



AUDIT
TAX
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