Analysis into the application of financial accounting standard statement no. 46 regarding income tax accounting

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Abstrak

<i>Taxation connects closely with accounting. Books of account form compulsory information for taxpayers who complete annual income tax returns in full and correctly and serves as evidence if tax officers conduct any inspection for the purpose of testing compliance with tax obligations. The amount of income which is arrived at according to the taxpayer's books of account on the basis of financial accounting will differ from that arrived at on the basis of tax regulations.

The author of this thesis attempts to describe the reasons for the need to apply FINANCIAL ACCOUNTING STANDARD STATEMENT No. 46 to commercial financial statements and the basic differences between financial statements for commercial and fiscal purposes, In addition, the author attempts to analyze the problems which arise in connection with the application above for the purpose of arriving at the amount of income tax taxpayers should pay, describe the efforts which are made by the Directorate General of Taxation to deal with the different ways the statement above is applied and discuss to what extent such efforts have been capable of achieving the goals concerned.

Based upon the theories postulated by economists and tax experts, the statement above contains three permitted methods to allocate income tax charges of a firm for a particular time period: deferred method, asset-liability method and net-of-tax method. The three methods are currently applied in financial statements.

The research for this thesis employs an analytical descriptive method for which data is gathered through libraries where books, regulations, scientific media are found, and in-depth interviews with the relevant parties, namely tax authorities, tax consultants and public accountants.

From discussions a conclusion is made that from the point of view of an accountant, accounts apply several methods to allocate revenues so that income tax charges are matched with the relevant revenues. The matching method may be applied directly and indirectly through the deferment of revenue recognition periods. In direct matching, income taxation is allocated by employing the net-oftax method. In matching through the deferment of revenue recognition periods, deferred method and liability methods are used. FINANCIAL ACCOUNTING STANDARD STATEMENT No. 46 which is issued by the Indonesian Society of Accountants employs the liability method which is also known as the asset liability method. The method has been selected upon considering its advantages and disadvantages. A direct benefit which a firm enjoys through the application of the statement is found in the preparation of its financial statement: this financial statement may serve as both a tax return which is known as a special tax return for tax interests which differ from those for commercial financial statements. A financial statement which is prepared on the

basis of Statement No. 46 above helps the Directorate General of Taxation in the application of the self-assessment system for tax calculations and reporting. Such a financial statement clearly reveals any temporary and permanent differences and their impact on current and subsequent years.

This represents the basic concept of the self-assessment method which requires taxpayers to reveal in full their tax charges and tax charges outstanding. In practice, financial statements which are prepared under Statement No. 46 contain recognized tax charges in detail by tax type, recognized tax liabilities as at the date of the balance sheet in question and any excess tax payments which may be refunded or re-compensated. Such financial statements also separate revenues which are not subject to withholding taxation. Annual tax returns are used to help detect the level of compliance by taxpayers with their tax liabilities. Through the self-assessment method above, taxpayers are entrusted with the calculation, depositing and reporting of their own tax obligations. In order to arrive at their tax-liable income, taxpayers must maintain good accounting records. Notwithstanding the fact that it has been optional to apply them since January 1, 1995, as set out in paragraph 77 of FINANCIAL ACCOUNTING STANDARD STATEMENT No. 16, deferred taxes are new to Indonesia and, therefore, unusual to it. Statement No. 46 above which has been issued by the Indonesian Society of Accountants refers to the asset-liability or balance sheet approach. It is expected that the application of this statement will produce accurate financial statements so that any taxation outstanding will be accurate as well.

In order to deal with the problems associated with the application of Statement No. 46, it is recommended that the Society above in conjunction with the Directorate General of Taxation make public the ways fiscal financial statements are prepared and presented in accordance with Statement No. 46 due to the fact that such financial statements reflect more openness on the part of taxpayers with respect to the calculation and payment of any income taxation outstanding and comply with the principles of the self-assessment method. In addition, tax officers shall be provided with training courses on income tax accounting so that disputes may be reduced.</i>