# Fiscal Correction Due to Tax Regulations: Case Study of Klaten Local Bank, Indonesia

**Indra Bastian,** Accounting Department, Gadjah Mada University, Indonesia

**Yuniati Anna Pratiwi,** Ministry of Finance, Indonesia

## Abstract

In order to mitigate a risk regulation in the form of possible losses, such as due to uncollectible loans, the Rural Bank (BPR) undertakes a policy of establishing a reserve fund on its earning assets. At the same time, the Bank Indonesia Regulation allows for the write-off of loans or credits granted on the basis of the length of the arrears and their collectability. In the practice, different interpretations between the banking industry and the tax authorities occur.

The case study conducted at the Local Bank of Klaten indicates that the tax audit result in 2015 requires a fiscal correction, because the local bank is charged on too high on write-off of accounts receivables and non-compliance with the requirements of Article 6 paragraph 1 letter h of the Income Tax Law. Upon such correction, BPR shall file an objection against the Underpayment Tax Assessment Letter of Incoming Tax (SKPKB PPh) which has been issued.

The result of the study shows the difference of interpretation related to the formation of reserve fund and write-off of bad debts of Rural Bank (BPR) in accordance with banking regulations and according to the Income Tax Law and its implementing regulations. By not recognizing the bad debts of banks that have been written off in accounting, fiscal correction is done through the process of tax audit. At the same time, the established reserve funds have been recognized by management as reserve accounts receivables, whereby tax audits assume that this is motivated to lower the value of taxes collected.

This study is expected to provide enlightenment to various parties about tax disputes that occur as well as acceptable solutions for all parties.

**Keywords:** Provision for Loan Losses (PPAP), write-off, bad debts, fiscal correction

## Introduction

Law Number 10 of 1998 on Amendment to Act Number 7 of 1992 concerning Banking, Rural Bank (BPR) requires all conventional and syariah banks, not providing payment traffic services. Furthermore, the regulations of Bank Indonesia and the Financial Services Authority are guided, in addition to the prevailing tax regulations in Indonesia. Directorate General of Taxation (DGT), as one of the agencies under the Ministry of Finance, has the duty to formulate and implement technical policies and standardization in the field of taxation. Through the policies and strategic plans that have been prepared, DGT seeks to provide guidelines for internal agencies and Taxpayers in implementing and complying with the provisions of taxation.

The involvement of the various agencies above raises implementation disputes for various implementing agencies, such as differences in interpretation of tax regulations with regulations relating to specific business sectors. This condition is one of causes of high tax disputes, as revealed in Table 1.

**Table 1 Tax Dispute Settlement in 2012-2016**

| No. | Verdict | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| 1 | Repeal | 75 | 81 | 95 | 178 | 1.352 | 1.781 |
| 2 | Not acceptable | 1.037 | 1.013 | 854 | 1.187 | 1.774 | 5.865 |
| 3 | Decline | 1.700 | 1.929 | 2.438 | 2.294 | 2.878 | 11.239 |
| 4 | Additional taxes that should be paid | 3 | 2 | 1 | 13 | 8 | 27 |
| 5 | Partially grant | 732 | 1.003 | 1.430 | 1.217 | 1.346 | 5.728 |
| 6 | Fully grant | 2.530 | 3.276 | 3.991 | 4.049 | 5.367 | 19.213 |
| 7 | Nullify | 476 | 73 | 37 | 94 | 127 | 807 |
| | Total | 6.553 | 7.377 | 8.846 | 9.032 | 12.852 | 44.659 |

Source: http://www.setpp.depkeu.go.id/statistik

**Table 2 Number of Tax Disputes File by Complain/Defendant in 2012-2016**

| No. | Complain/Defendant | Number of Incoming Files | | | | |
|---|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2015 | 2016 |
| 1 | Director General of Tax | 5.114 | 5.118 | 7.289 | 7.454 | 7.080 |
| 2 | Director General of Customs and Excise | 1.754 | 2.749 | 3.016 | 4.068 | 3.023 |
| 3 | Local Government | 485 | 462 | 561 | 964 | 50 |
| | Total | 7.353 | 8.339 | 10.866 | 12.486 | 10.153 |

Source: http://www.setpp.depkeu.go.id/statistik

In addition to the growing number of tax dispute cases, the number of Taxpayer complaints to the Taxation Supervisory Committee (KPP) also tends to increase. The objections and appeals of the Taxpayer are the most. Chairman of the Taxation Supervisory Committee, stated that based on complaints received, there are three subject areas in question. First, regulations and policies are often out of sync and potentially multiply interpretations and overlap. Second, organization and staffing, and the ability to communicate with Taxpayers is not good. In addition, there are fears of criminalization. Third, the system and procedures and the internal tax data bank is difficult to be accessed by tax officials. In addition, the implementation of *electronic invoices* has not been able to automatically create data collection systems (Setyowati, 2016).

In line with the first field of tax disputes, polemics or problems occurring between the DGT Regulations and Bank of Indonesia (BI) regulations is the establishment of reserve funds and bad debts that may be deducted as expenses. This difference will affect the determination of the taxable income of the bank between the tax authorities (fiscus) and the Taxpayer (BPR), as well as the possibility of a dispute after the tax audit.

## Accounting Regulation on Bad Debt

Fiscally, bad debts are the value arising from a fair transaction in accordance with the Taxpayer's business field (excluding accounts receivables arising from business transactions with parties that have special relationship), by which the Taxpayer has made the maximum billing effort but not made any results. Commercial charges on bad debt by Taxpayers are the object of fiscal reconciliation before determining taxable income. The allowance for doubtful accounts which have not been decided as bad debts shall not be made as deductible expenses in calculating taxable income (Wijaya, 2016).

In the Rural Bank (BPR) Accounting Manual, it is stated that the write off of credit is the administrative action of the Rural Bank (BPR) to write-off the bad credit from the balance sheet as much as the debtor's liabilities without removing the Rural Bank's claim rights to the debtor. While the removal of the credit collection right (remove the bill) is the act of Rural Bank (BPR) to remove the debtor's liabilities that cannot be completed. Meanwhile, in Kieso, Weygandt, and Warfield (2008) stated that there are two methods in determining the amount of bad debts, they are the *direct write-off method* and the *allowance method*. In a direct write-off method, records should be factual rather than estimated. No journal entries are created until a special account has been specified as uncollectible. The recording of bad debts is only possible if the debtor's accounts receivables are definitely not collectible. The direct write-off methods are usually applied to small companies with daily transactions, especially credit sales are rare. The disadvantage of this method is that the accounts receivables presented in the balance sheet will reflect the unfair circumstances because they are presented in gross amounts in order to violate generally accepted accounting principles. Or it can be said less able to compare costs with income in the period in question. The advantage of this method is the application is simple and easy to apply.

In the direct write-off method, losses are recorded when specific consumer accounts receivables are estimated to be uncollectible. It is often claimed the forecasts cannot be made until a certain accounting period ends, resulting *in improper matching of revenue and expenses*. In addition, in SFAS (Statements of Financial Accounting Standards) No. 5, it is stated that when the asset is damaged or the debt is uncollectible, an estimate of the estimated losses is made. Due to the existence of bad debts, most companies make estimates of bad debts (Mappedeceng, 2016).

The second method is allowance for bad debts (allowance method). The allowance method includes the uncollectible accounts receivable at the end of each period. This method provides better adjustments in the income statement and ensures that accounts receivables are recorded at their net realizable value (NRV) in the balance sheets. Net realizable value is the net amount expected to be received in cash. This does not include the amount that the company estimates will not be collectible. Therefore, the accounts receivables will be deducted by the estimated accounts receivables from uncollectible accounts receivables in the balance sheet. The allowance method is also called the indirect method. Proponents of this method believe that the expense of bad debts should be recorded in the same period as the sale to obtain an appropriate match on expenses and revenues, as well as to obtain the appropriate carrying amount of the business accounts receivable. Although by using estimates, but the percentage of bad debts can be known from past experience, market conditions, and analysis of outstanding balances. In large-scale companies, industry, trade, and service companies make allowance for accounts receivables that are expected to be uncollected. In this case, the actual losses experienced cannot be known with certainty. It is intended to provide accurate accounting records that are reflected in the financial statements.

**Table 3 The difference of methods in accounts receivable write-off recording**

| Explanation | Direct Method | Allowance Method |
|---|---|---|
| Recording of estimated of bad debts. | No Journal | Recorded based on estimates through journal:<br>Accounts receivable loss fee xxx<br>Accounts receivable loss reserve xxx |
| Accounts receivable write-off | Accounts receivable loss xxx<br>Business accounts receivable xxx | Accounts receivable loss reserve xxx<br>Business accounts receivable xxx |
| Statement of the ability of the debtor to pay the accounts receivables that already written off | Business accounts receivable xxx<br>Accounts receivable loss xxx | Business accounts receivable xxx<br>Accounts receivable loss reserve xxx |
| Receipt of payment of accounts receivables that have been written off | Cash xxx<br>Receivable loss xxx | Cash xxx<br>Business accounts receivable xxx |

Source: Pujianto (2012)

On the other hand, in accordance with Regulation of the Minister of Finance No. 20 /PMK.010/2015 on the Second Amendment to the Regulation of the Minister of Finance No. 105/PMK.03/2009 about Accounts Receivables that obviously cannot be collected may be deducted from Gross Income explained that which defined as real accounts receivables that cannot be collected are:

1. accounts receivables arising from reasonable business transactions in accordance with their line of business;
2. which is clearly cannot be collected even if the Taxpayer has made the maximum or final collection efforts;
3. excluding accounts receivables arising from business transactions with parties with special relationship with the Taxpayer.

In the Regulation of the Minister of Finance also mentioned that the Taxpayer may charge the cost of bad debts in calculating taxable income with the condition:

1. been charged as expense in the statement of commercial income statement;
2. the taxpayer must submit a list of bad debts to the Directorate General of Taxes, whether in hard copy (in attachment of SPT) and soft copy; and
3. the obviously uncollectible accounts receivables:
    a. has submitted its collection case to the District Court or government agency handling state accounts receivables; or
    b. there is a written agreement concerning the write-off of debt accounts receivables/debts between the creditor and the debtor concerned; or
    c. has been published in a public or special publication (may be an internal publication of the association or the like); or
    d. there is recognition from the debtor that the debt has been written off for a certain debt.

In Andriyan (2012) stated that in banking practice, banks will make efforts to rescue credit on credit portfolio classified as problem credits (non-performing credits, doubtful credits, and bad credits). Credit rescue efforts are conducted by banks using three consecutive ways, namely *rescheduling*, *reconditioning*, and *restructuring*. If the credit rescue efforts by way of restructuring remain unsuccessful and the credit portfolio remains stuck, then can take the way of the elimination of bad credit. The elimination of bad credit is commonly done by national banks as one way to reduce the level of non-performing loans (NPL ratio) to improve bank soundness. The removal of bad credits consists of two stages: write-off (conditional deletion) and remove the bill (absolute deletion). Remove the bills are generally only done by the bank if the portfolio of bad credits is very difficult to collect or because the cost of billing is very large. Although it has been removed, the portfolio of bad credit is still possible to collect so it is still possible to give money to the bank. Such income should still be included in the bank's bookkeeping in other income items.

According to Dahlan M. Sutalaksana in Andriyan (2012), write-off is defined as write-off. In the banking context, this term is usually intended to remove unproductive assets and bookkeeping accounts, such as bad debts, but the bank still has the right to collect the bad credits as much as possible. The write-off of bad credit by a bank can basically be done by the bank as long as the bank concerned is able to execute it, which has sufficient reserves. The main purpose of write-off of bad credits is primarily to improve the quality condition of bank earning assets. However, in its application, it is considered that there are various problems, especially concerning the provisions of taxation, the confidentiality of banks and various problems faced by banks, especially banks that have gone public.

Meanwhile, in the Regulation of the Minister of Finance No. 57/PMK.03/2010 concerning Amendment to PMK No. 105/PMK.03/2009 concerning Accounts Receivable that obviously cannot be collected that may be deducted from Gross Income, it is stated that accounts receivable that obviously cannot be collected are accounts receivables arising from reasonable business transactions in accordance with their line of business, which are clearly non-collectable even though the Taxpayer has made the maximum or final collection efforts.

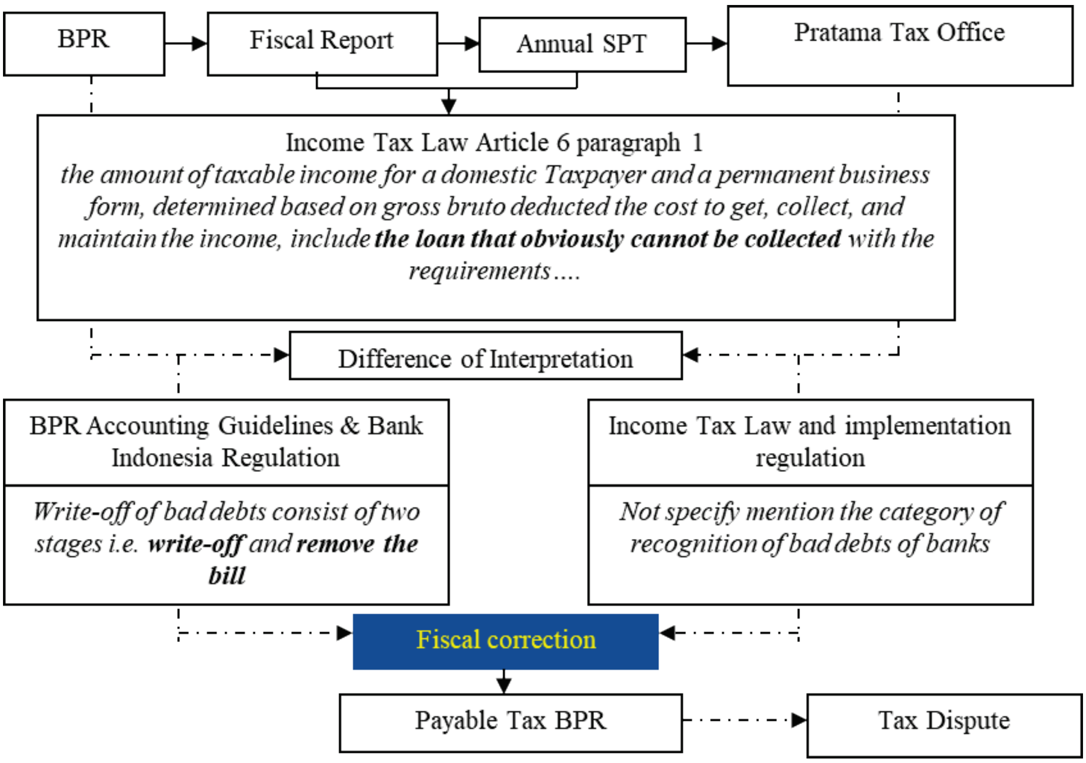
## Regulation on Reserve Funds

Establishment of a reserve fund or also known as Provision for Loan Losses (PPAP) in a Rural Bank (BPR) shall be guided by Bank Indonesia Regulation Number 13/26/PBI/2011 concerning Amendment to Bank Indonesia Regulation Number 8/19/PBI/2006 concerning Earning Assets Quality and Provision for Loan Losses of Rural Bank (BPR). Meanwhile, the fiscal formation of reserve fund is regulated in Article 9 paragraph 1 letter c of Law Number 36 of 2008 About Fourth Amendment of Law Number 7 of 1983 regarding Income Tax. This regulation states that to determine the amount of taxable income for a domestic Taxpayer and a permanent business form shall not be deducted from the establishment or accumulation of a reserve fund, except reserves for bad debts for the business of a bank and other entities that disburse credits, rent for business with option rights, consumer finance companies, and factoring companies. Then, the mechanism for the establishment of PPAP is also regulated in Regulation of the Minister of Finance No. 219/PMK.011/2012 on Amendment to Regulation of the Minister of Finance No. 81/PMK.03/2009 concerning the Formation or Fertilization of Reserve Funds that can be Deducted as Expenses.

As mentioned earlier, the current interpretive differences and the possibility of tax disputes are related to the establishment of reserve funds and the write-off of bad debts for the purposes of fiscal reporting among banks and taxation, particularly in rural banks. As has been known that one of the important elements in the business of Rural Bank (BPR) is the management of accounts receivables or placement of funds in the community which is the main source of income for Rural Bank (BPR). Bad debts or loss becomes the biggest risk in the management of accounts receivables. This requires preparation of funds in the allowance for write-off bad debts (Margono, 2014).

Basically, the establishment of PPAP based on taxation and banking regulations is not so different. However, problems arise in determining the balance of PPAP books at the end of the period according to the Taxpayer and the tax authorities (fiscus) when there is a write-off of accounts receivables. In the practice of Rural Bank (BPR), the balance of PPAP books is derived from the reduction of total PPAP in that period by writing off the credit. The difference occurs because in banking known as the write-off of credit and the elimination of credit claims, while in taxation there is only an accounts receivable term that clearly cannot be collected. When a Rural Bank (BPR) writes off credit, it does not remove the claim on the credit. Whereas in the Income Tax Law Article 6 paragraph (1) letter h stated that the accounts receivables that are clearly cannot be collected and can be charged as a cost is the result of the maximal or final efforts of the Taxpayer. In this case, to be able to recognize the cost of bad debts as a deductible of taxable income, one of the requirements that must be fulfilled is that the Taxpayer must submit a list of accounts receivables that cannot be collected to DGT (as an attachment in the Corporate's Annual Tax Return). The accounts receivable list must have been submitted to the District Court or government agency handling state accounts receivables, there is a written agreement concerning the write-off of accounts receivables between the creditor and the debtor, has been published in a public/special publication, or an acknowledgment from the debtor that the debt has been written off for the amount of certain debt. By not admitting to write off the credit as a deductible of taxable income and the non-compliance requirement of bad debts by Rural Bank (BPR), then this will be a correction for the tax officers (fiscus) on excess of PPAP formation and affect the increase of Rural Bank (BPR) taxable income.

**Figure 1 General Picture of Difference of Interpretation**



Basically, the provisions of Article 6 and Article 9 of Law Number 36 of 2008 regarding Income Tax have provided general guidance to taxpayers to conduct fiscal reconciliation. The two articles outlined the concept of deductible expenses and nondeductible expenses to calculate the value of taxable income for a domestic Taxpayer and a permanent business. However, one type of cost which in practice is enough to cause confusion in the field is bad debts (Wijaya, 2016).

The credit write-off is an administrative write-off, which is a written-off credit, but is not discontinued because it is still billed by the bank. In its application, there are various problems in the act of write-off the banking industry, especially in the case of taxation. This is seen in the case of tax disputes that occurred due to differences in interpretation between the Directorate General of Taxation and banking in interpreting the provisions of the Income Tax Law and its implementing regulations (Taufiqur-rakhman and Santoso, 2013)

## Regulatory Allowance for Losses or the Formation of a Reserve Fund

Based on the Rural Bank (BPR) Accounting Guidelines, provision for credit losses is established to cover possible losses arising in connection with the placement of funds into credit. The amount of allowance for possible losses on loans is determined by taking into account, among other things, the quality of loans and the value of available collateral, which are calculated, inter alia, on the basis of collateral type, collateral binding type, market price and any assessments made by independent evaluator.

Earning assets serve to earn the bank's main income and have a great risk. Potential losses due to poor collectability of these assets can lead to bankruptcy of the bank. Therefore, banks are required to establish Provision for Loan Losses (PPAP) in the form of general reserves and special reserves to cover possible losses. The established PPAP represents the estimated loss on the outstanding balance of the loan. In the financial statements, the PPAP should be included in the income statement as one of the charges by the bank in each financial reporting period (Rinanti 2013). A Rural Bank (BPR) is required to establish a minimum allowance for loan losses in accordance with the prevailing provisions and the allowance may be made at any time or at any financial statement date.

Based on Bank Indonesia Regulation Number 8/19/PBI/2006 concerning the Establishment of Provision for Loan Losses of Rural Banks, as amended by Bank Indonesia Regulation Number 13/26/PBI/2011, provision for loan losses, a PPAP is a reserve that must be established at a certain percentage of the outstanding balance based on the classification of the quality of earning assets.

Meanwhile, in Article 9 paragraph 3 of Law Number 36 of 2008 regarding Income Tax stated that to determine the amount of Taxable Income for domestic Taxpayer and permanent establishment shall not be deducted the formation or accumulation of reserve fund, except one of the reserves bad debts for businesses of banks and other business entities that disburse credits, leases with option rights, consumer financing companies and factoring companies. Fertilization of reserve funds shall also be regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 81/PMK.03/2009 concerning the Establishment or Fertilization of a Reserved Fund that may be deducted as an expense. The amount of accounts receivables used as the basis for establishing a reserve fund is the principal of loans granted by rural banks that perform conventional business activities.

## Regulation on Fiscal Correction

In Kesit (2010), it is stated that fiscal correction aims to adjust commercial profit (i.e. profits calculated according to Generally Accepted Accounting Principles) with the provisions of taxation so as to derive fiscal profit. The statements of income statement made by the company are financial statements prepared under the General Accounting Principles. Therefore, in order to calculate the amount of income tax payable, the company must make adjustments to its profit and loss account in accordance with the tax regulations and provisions. This adjustment step is done by searching different account items of treatment between accounting principles generally accepted with the provisions of the law of taxation law. These account items need fiscal correction.

In Herawati (2013) also mentioned that the differences in the recognition of income and expenses according to commercial and fiscal accounting, as well as differences in accounting policies can be grouped into two categories, namely fixed differences and temporary differences.

The permanent difference arises as a result of the difference in the recognition of expenses and income between commercial and tax/fiscal reporting. The consequences of this difference also result in commercial profit and fiscal profit as the basis for calculating the tax payable. The fixed difference usually arises because the tax laws require some things to be excluded from the calculation of taxable income. Meanwhile, the timing differences are referred to as the difference between the tax base of an asset or a liability and the carrying amount of the asset or liability resulting in a change in future fiscal profit. The time difference usually arises because of differences in methods used between taxes with accounting.

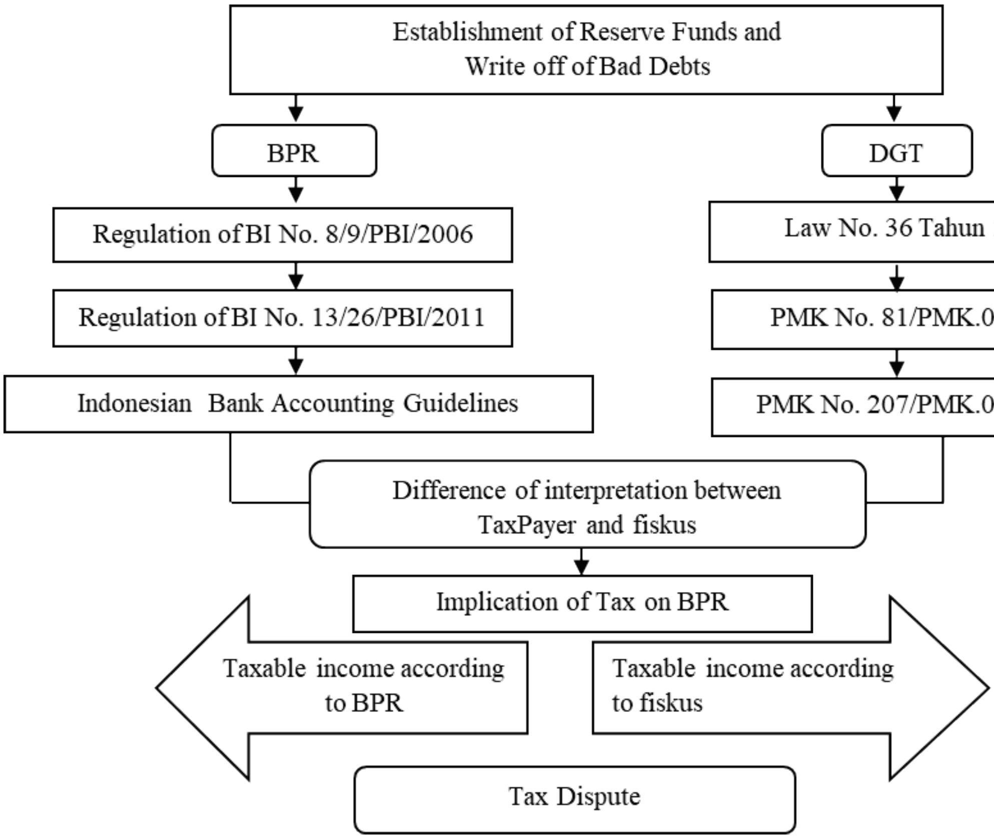
## Dispute Study on Bad Debts

Related to the polemic as described above also occurred in the Regional Company of BPR Bank Klaten. Regional Company (PD) BPR Bank Klaten is a banking company owned by the local government of Klaten Regency established based on Regional Regulation of Klaten Regency No. 12/Per/DPRD/51 on August 1, 1951. Products and services provided are credit, savings, and deposits. Regional Company (PD) BPR Klaten Bank is a conventional people's credit bank that publishes a publication financial report on the Financial Services Authority website. The published publications report contains balance sheets, profit and loss statements, commitments and contingencies, and other information reports. On the other hand, Regional Company (PD) BPR Klaten Bank is one unit of the banking sector which includes a registered taxpayer in the Tax Office *Pratama* Klaten.

From the results of the examination in 2015, fiscal correction is made because the BPR is too high to charge the elimination of accounts receivable and non-fulfillment of the requirements of Article 6 paragraph 1 letter h of the Income Tax Law. Upon correction, the BPR filed an objection against the Underpayment Tax Assessment Letter of Income Tax (SKPKB PPh) which has been issued. In this case, further impact if the BPR objected to the tax audit result that the BPR may be subject to additional sanctions in the form of a 50% fine of Article 25 paragraph 9 of the Law on General Tax Provisions and Procedures (UU KUP) of the tax amount based on the objection decision minus the tax already paid before filing the objection.

Framework of this case can be presented in the form of the following flow chart, Figure 2.

**Figure 2 Framework of Study Conceptual**




Based on the framework above, the question proposed in this case study.

1. How is the fiscal correction of the formation of reserve fund and the write-off of bad debts at Regional Company (PD) BPR Bank Klaten?
2. What issues triggered a tax dispute between BPR and the tax office regarding the establishment of reserve funds and write-off of bad debts in the banking sector?

Through case study, data collection was done by interview and documentation techniques. Interview method is done to certain participants. The parties interviewed are the parties directly involved in the research topic and have the authority to provide information. Documentation is done by studying data and information derived from documents relevant to the issue/topic of research. In this case, the researcher will focus on confirming the dispute and confirm the correction made by the tax auditor on tax reporting that has been reported by the BPR, especially regarding the establishment of reserve fund and bad debts.

## Confirmation 1: The Occurrence of Tax Dispute Between BPR and Tax Office

In accordance with Article 3 Paragraph 1 of Law Number 16 of 2009 concerning General Provisions and Tax Procedures, it is stated that every Taxpayer must fill out the Notice Letter correctly, completely and clearly, in Bahasa Indonesia using Latin letters, Arabic numerals, Rupiah, and sign and deliver it to the office of the Directorate General of Taxes where the Taxpayer is registered or confirmed or elsewhere determined by the Director General of Taxes. As a tax reporting obligation, Regional Company (PD) BPR Bank Klaten also reports the Annual Tax Return of Agency. Annual Income Tax Return for Taxpayers who are required to maintain bookkeeping should be accompanied by financial statements in the form of balance sheet and income statement and other information required to calculate taxable income.

In 2015, an examination by the tax office for the 2012 tax year on the Annual Tax Return has been reported by Regional Company (PD) BPR Bank Klaten. The examination of this BPR is done based on the proposal of *Account Representative* which has conducted analysis on the report of the work that has been submitted to Tax Service Office (KPP). From the examination it turns out that there are disputes between BPR and tax office, particularly related to the write-off of bad debts and the establishment of reserve funds at the end of the period. Calculation of taxable income by BPR and according to tax inspector (fiscus) there are significant differences. Fiscal correction is done because the Taxpayer is too high to charge the PPAP removal fee. In addition, the Taxpayer calculates the elimination cost of the accounts receivables that are not in accordance with the provisions of article 6 paragraph 1 letter h of the Income Tax Law. From the results of the examination, Tax Underpayment Assessment Letters (SKPKB) is issued. Regional Company (PD) BPR Klaten Bank then filed an appeal against Tax Underpayment Assessment Letters SKPKB which has been issued. Objections filed by the Taxpayer one of them because the materiality aspect caused.

### Confirmation 2: the occurrence of Fiscal Correction on the Establishment of Reserve Fund and Write-Off of Bad Debts

In accordance with the provisions of Article 12 of Bank Indonesia Regulation Number 8/19/PBI/2006 stated that BPR is required to establish a reserve fund or Provision for Loan Losses (PPAP) in the form of general PPAP and special PPAP. The establishment of this reserve fund in anticipation of uncollectible credits provided in the future. So it is from the tax laws. In Article 9 paragraph (1) letter c of the Income Tax Law and PMK Number 81/PMK.03/2009 stated that BPR are allowed to establish reserves for bad debts. In this case, the amount of accounts receivables used as the basis for forming a reserve fund is the principal of the loan granted by the BPR, which conducts conventional business activities.

Regional Company (PD) BPR Bank Klaten, as a Rural Bank (BPR), one of its businesses related to the provision of credit for the employee and public sector, also make the formation of reserves for uncollectible accounts receivables. Here is the calculation illustration for fiscal year 2012 reporting.

**Table 4 Calculation of Reserve on Credit Write-off of Regional Company (PD) BPR Bank Klaten in 2012 According to Regulation of BI No. 8/19/PBI/2006**

| Credit | Loan Principal | Collateral | PPAP Basic | % PPAP | PPAP |
|---|---|---|---|---|---|
| Current | 90.284.953.000 | - | 90.284.953.000 | 0,5% | 451.424.765 |
| Less Current | 1.955.493.000 | 1.466.619.750 | 488.873.250 | 10% | 48.887.325 |
| Doubt | 1.137.082.000 | 852.811.500 | 284.270.500 | 50% | 142.135.250 |
| Loss | 5.858.051.000 | 4.023.244.340 | 1.834.806.660 | 100% | 1.834.806.660 |
| **Total** | **99.235.579.000** | | | | **2.477.254.000** |

**Table 5 Calculation of Reserve on Credit Write-off in 2012 According to Regulation of Finance Minister No. 81/PMK.03/2009**

| Credit | Loan Principal | Collateral | PPAP Basic | % PPAP | PPAP |
|---|---|---|---|---|---|
| Current | 90.284.953.000 | - | 90.284.953.000 | 0,5% | 451.424.765 |
| Less Current | 1.955.493.000 | 1.466.619.750 | 488.873.250 | 10% | 48.887.325 |
| Doubt | 1.137.082.000 | 852.811.500 | 284.270.500 | 50% | 142.135.250 |
| Loss | 5.858.051.000 | 4.023.244.340 | 1.834.806.660 | 100% | 1.834.806.660 |
| **Total** | **99.235.579.000** | | | | **2.477.254.000** |

From the calculation above can be seen that for the establishment of reserve funds or Provision for Loan Losses (PPAP) by Rural Bank (BPR) and Tax Service Office (KPP) there is no difference. Based on Article 9 paragraph 1 letter c of Law Number 36 of 2008 regarding Income Tax, the tax provisions allow banks to establish reserves for potential risks in the future on bad debts. In other words, banks can use the *allowance method* to recognize the loss of accounts receivable, according to their respective risk levels.

In May 2012 Regional Company (PD) BPR Bank Klaten did write off of bad debts with details as follows.

**Table 6 Write-off of Bad Credits in 2012**

| No. | Description | Total |
|---|---|---|
| 1 | General Credit Sector (SKU) | 329.453.000 |
| 2 | Employess Credit Sector (SKK) | 1.600.000.000 |
| 3 | Daily Cash Office Credit Sector (KKH) | 320.000.000 |
| | Total | 2.249.453.000 |

Journal: Provision for earning assets 2.249.453.000

Credit granted 2.249.453.000

Credit write-off above done by Taxpayer in accordance with the Decision of the Board of Directors of Regional Company (PD) BPR Bank Klaten. Meanwhile, during the period of 2012, Regional Company (PD) BPR Bank Klaten has conducted the following formation of reserves.

| | | |
|---|---|---|
| Beginning balance of PPAP in 2012 | Rp | 4.690.891.000 |
| PPAP establishment | | 134.316.000 |
| Credit write-off | | (2.249.453.000) |
| PPAP establishment in 2012 | Rp | 2.575.754.000 |
| Provision of Reserves according to BI | | 2.477.254.000 |
| Excess of reserve establishment | Rp | 98.500.000 |

As previously stated, the correction of the examination is the imposition of high fees for eliminating accounts receivables and the calculation of the elimination cost of accounts receivables that are not in accordance with the provisions of Article 6 paragraph 1 letter h of the

Income Tax Law. Upon correction, it is stated that in fiscal case, write-off of Rp2.249.453.000,- cannot be entirely charged as deduction of reserves for bad debts due to non-compliance.

In the provisions of Article 6 paragraph (1) letter h of Income Tax Law, it is stated that the costs of accounts receivables that are clearly uncollectible are recognized as deductible of taxable income with the condition that:

1. have been charged as expenses in commercial income statement;
2. Taxpayer must submit a list of accounts receivables that cannot be collected to the Directorate General of Taxes; and
3. has submitted its collection case to the District Court or government agency handling state accounts receivables; or a written agreement concerning the write-off of accounts receivables/debt exemptions between the creditor and the debtor; or has been published in a public or special publication; or a recognition from the debtor that the debt has been written off for a certain amount.
4. the requirements referred to in number 3 shall not apply to the elimination of small debtor's bad debts as referred to in Article 4 paragraph (1) letter k of the Income Tax Law.

The write-off by Rural Bank (BPR) refers to one of them in the Rural Bank Accounting Guidelines Chapter IV point 7.2 regarding the Allowance for Loss and Termination of Acknowledgment. The section states that a Rural Bank (BPR) may perform write-off, which is an administrative measure to write-off a bad credit from the balance sheet at the expense of the debtor's liability without removing the collection right to the debtor. In fact some of the accounts receivable that have been written off are still paid by the debtor. Deposits received by debtors on credits that have been written off are recognized as other operating income.

On the other hand, the recognition of uncollectible accounts receivables that can be recognized as deductible of taxable income based on the explanation of Article 6 paragraph (1) letter h of the Income Tax Law must have been through the maximum or last billing effort. For the banking sector, the provision still creates multiple interpretations in the field, especially for tax reporting purposes. The Income Tax Law is only mentioned for bad debts. Meanwhile, in Bank Indonesia Regulation and Accounting Guidelines, BPR is known for two kinds of write-off of accounts receivables, namely write off and remove the bill. The unclear interpretation of bad debts in the taxation provisions resulted in correction from the examiner. This is because BPR acknowledges the write off as a deduction of costs in the determination of its taxable income. However, such recognition cannot meet the specified requirements.

If we look at the explanation section of Article 6 paragraph (1) letter h of the Income Tax Act above, the term bad debts in this taxation provision has been explained by the necessity through the last billing effort. This leads to the definition of "remove the bill" in the banking sector. As stated in the BPR Accounting Guidelines, the elimination of the credit collection (remove the bill) is the act of BPR removing the debtor's liability which cannot be resolved. Therefore, the existence of the provisions that multiple interpretations resulted in differences in calculations between the Taxpayer and the examiner. The following is presented in the calculation of PPAP by BPR and inspector.

**Table 7 Illustration of PPAP Calculation according to Taxpayer and Tax Inspector**

| Description | According to Taxpayer | | According to Inspector | |
|---|---|---|---|---|
| Opening Balance of PPAP in 2012 | Rp | 4.690.891.000 | Rp | 4.690.891.000 |
| PPAP Formation | Rp | 134.316.000 | Rp | 134.316.000 |
| Credit Write-off | Rp | (2.249.453.000) | Rp | (132.215.000) |
| PPAP Formation in 2012 | Rp | 2.575.754.000 | Rp | 4.692.992.000 |
| Provision of Reserves according to BI | Rp | 2.477.254.000 | Rp | 2.477.254.000 |
| Excess of reserve establishment | Rp | 98.500.000 | Rp | 2.215.738.000 |

The write-off of bad debts by new Taxpayers is just writing off the book and is not removing the bill. Therefore, according to the investigator, accounts receivable that can satisfy the criteria of accounts receivables that are clearly cannot be collected only to the debtor who has passed away and/or escaped Rp132.215.000,-

Correction of credit write-off:

| | | |
|---|---|---|
| According to Taxpayers | Rp | 2.249.453.000 |
| According to the inspector | Rp | 132.215.000 |
| Correction on write-off | Rp | 2.117.238.000 |

This correction causes the excess of PPAP formation during 2012 and the surplus is calculated as income which will increase the amount of tax payable of BPR. According to Regional Company (PD) BPR Klaten Bank, one thing that is not done by the inspector is to bring credit given on the debit side, then this credit also contains the risk and must be established PPAP of 100% because it has entered collectability of loss.

Here there is a difference in interpretation of Article 4 of Ministerial Regulation No. 81/PMK.03/2009 concerning the Formation or Fertilization of Reserved Funds that Can Be Deducted as Expense. The Article states that in the event that the amount of reserves for bad debts in whole or in part is not used to cover the losses, the excess amount of such reserves shall be calculated as income. From the provision above, there are still some interpretations. If until the end of 2012 there is no write-off of accounts receivables, then all reserves that have been established in 2012, both on fully paid and outstanding accounts receivables, must be returned or reversed into income. Despite the write-off of accounts receivable, but if the amount is more than the reserve, the rest must also be turned into income. In other words, there is the assumption that the end-of-year position, the balance of bad debts write-off reserves is always zero.

In the Rural Bank Accounting Guidelines it is also stated that the deposits received from the debtor on written off credits or deleted claims are recognized as other operating income. Basically, Regional Company (PD) BPR Bank Klaten agreed on it, but on credit account provided also must be corrected. According to the BPR, the correction of the write-off has affected the account in bookkeeping (the write-up journal), namely:

| | | |
|---|---|---|
| Provision for earning assets | 2.117.238.000 | |
| Credit granted | | 2.117.238.000 |

The non-recognition of the write-off (for reasons not meeting the requirements of Article 6 paragraph (1) letter h of the Income Tax Law) resulted in the absence of a write-off journal. BPR assumes that if correction is made, credit should also be corrected. Or it can be said to be returned as a credit that is still outstanding (have not been removed). Thus, the write-off of credit book recognition will affect account in bookkeeping, which is:

| | | |
|---|---|---|
| Credit granted | 2.117.238.000 | |
| Provision for earning assets | | 2.117.238.000 |

The consequences of the journal cancellation above are as follows:

1. Journal cancellation (credit) on the backup account of PPAP causes the excess of reserves formed from the intended, resulting in a positive correction of Rp2.117.238.000,-.
2. Journal cancellation (debit) on credit account granted by additional credit granted at the end of the year and there is a deficiency in the formation of credit risk reserve in 100% for collectability of loss. This raises a negative correction of Rp2.117.238.000,-.

If look at the provisions contained in the tax regulation and Bank Indonesia Regulation there is no statement that explains that at the end of the year there should be reversal of all unused reserves to remove bad debts. In addition, there is also no explanation for dismissing outstanding credits which of course also has an uncollected risk. Whereas both the provisions of taxation and banking both allow the BPR to make the formation of reserve funds in anticipation of uncollectible credit in the future.

In the Circular Letter of the Director General of Taxes No. SE-17/PJ.223/1984 concerning Reserves of Doubtful Accounts (Seri PPh Umum-01) the second point stated that:

"For the type of business of the bank, the losses from the actual accounts receivables suffered shall first be accounted for by the amount of allowance for write-off of the doubtful accounts receivables established at the beginning of the tax year. In the event that the amount of such reserves is insufficient, the remaining losses on the accounts receivables are all deducted from income to calculate the amount of taxable income. At the end of the year the formation of new reserves is also a factor in reducing taxable income ".

From explanation above can be illustrated in calculation as follow.

| Credit Write-off | |
|---|---|
| According to BPR | According to Inspector |
| Rp2.249.453.000 | Rp132.215.000 |
| Difference Rp2.117.238.000,-. | |

Cannot be charged as deduction of reserves for bad debts because they do not meet the requirements of Income Tax Law

| | | |
|---|---|---|
| PPAP Reserve | : Positive correction | = 2.117.238.000 |
| Credit Granted | : Negative correction | = 2.117.238.000 |

PPAP balance and credit provided, they are:

| | Before | After |
|---|---|---|
| Credit granted | 99.235.579.000 | 101.352.817.000 |
| PPAP | 2.477.254.000 | 4.594.492.000 |

Then the allowance for losses (reserve) in fiscal at the end of year become:

| Credit | Loans Principal | Collateral | PPAP Basic | % PPAP | PPAP |
|---|---|---|---|---|---|
| Current | 90.284.953.000 | - | 90.284.953.000 | 0,5% | 451.424.765 |
| Less Current | 1.955.493.000 | 1.466.619.750 | 488.873.250 | 10% | 48.887.325 |
| Doubt | 1.137.082.000 | 852.811.500 | 284.270.500 | 50% | 142.135.250 |
| Loss | 7.975.289.000 | 4.023.244.340 | 3.952.044.660 | 100% | 3.952.044.660 |
| **Total** | **101.352.817.000** | | | | **4.594.492.000** |

| Description | According to Taxpayer | Fiscal Correction |
|---|---|---|
| Opening Balance PPAP 2012 | Rp 4.690.891.000 | Rp 4.690.891.000 |
| PPAP Formation | Rp 134.316.000 | Rp 134.316.000 |
| Credit write-off | Rp (2.249.453.000) | Rp (132.215.000) |
| PPAP book balance | Rp 2.575.754.000 | Rp 4.692.992.000 |
| Supposed PPAP per 31 Dec 2012 | Rp 2.477.254.000 | Rp 4.594.492.000 |
| Excess of reserve formation | Rp 98.500.000 | Rp 98.500.000 |

From the calculation illustration above, it is known that if write-off is done and correction is also done on the establishment of PPAP by returning the deleted credit into the bad credit category, then the final calculation of the excess of reserve formation according to the Taxpayer and according to the tax authority/inspector (fiscus) will be the same.

However, to further examine the calculation above, the following illustrates the formation of a reserve fund or Provision for Loan Losses (PPAP) and the write-off of account receivables that can be charged on a fiscal by a BPR based on data analysis, tax audit module, and other related provisions.

**Period of 2016**

| | |
|---|---|
| Opening Balance: Credits granted | 100.000.000.000 |
| PPAP (*provision)* | 1.850.000.000 |
| Transaction occurring: | |
| Receipt of accounts receivable/credits (which have been written off) | 500.000.000 |
| Credit write-off | 700.000.000 |

Must meet the requirements of Law No.36 of 2008 and the rules of implementation:

a. It has been charged on commercial Lap L / R
b. Submit a list of bad debts to DGT
c. Submitted billing case to District Court; there is a written agreement; published; or recognition of the debtor
d. Exclusion letter c for other small debtor

Balance of credit granted and PPAP become:

| | | |
|---|---|---|
| Credit granted | : | 120.100.000.000 |
| Provision for loan losses | : | 1.650.000.000 |

**Table 8 Provision for losses in fiscal**

| Credit | Loans Principal | Collateral | PPAP Basic | % PPAP | PPAP |
|---|---|---|---|---|---|
| Current | 110.000.000.000 | - | 110.000.000.000 | 0,5% | 550.000.000 |
| Less Current | 4.000.000.000 | 2.500.000.000 | 1.500.000.000 | 10% | 150.000.000 |
| Doubt | 1.900.000.000 | 1.500.000.000 | 400.000.000 | 50% | 200.000.000 |
| Loss | 4.200.000.000 | 3.000.000.000 | 1.200.000.000 | 100% | 1.200.000.000 |
| **Total** | **120.100.000.000** | | | | **2.100.000.000** |

Reserve for accounts receivable write-off that can be charged in fiscal:

| | | |
|---|---|---|
| Opening Balance of PPAP | 1.850.000.000 | |
| Accounts receivable income that has been written off | 500.000.000 | |
| Write-off during the ongoing year | (700.000.000) | |
| | 1.650.000.000 | |
| PPAP-end year | 2.100.000.000 | |
| Lack of reserve | 450.000.000 | → *Dedutible expenses* |

In BPR condition is not doing write-off in ongoing year, then the calculation is:

| | |
|---|---|
| Opening Balance of PPAP | 1.850.000.000 |
| Accounts receivable income that has been written off | 500.000.000 |
| Write-off during the ongoing year | - |
| | 2.350.000.000 |
| PPAP- end year | 2.100.000.000 |
| Excess of reserve | 250.000.000 |

*Gain*

Under the provision of PMK Number 81/PMK.03/2009 (related to the establishment of a reserve fund) and PMK No. 207/PMK.010/2015 (related to write-off of an accounts receivable), if the credit write off of Rp700.000.000,- **did not meet** the requirements of Article 6 paragraph 1 letter h of the Income Tax Law, the tax treatment is as follows.

In the case that reserves of bad debts are not or are not entirely used to cover losses arising from accounts receivables that are clearly non-collectible, the excess amount is calculated as income, whereas in the case of insufficient reserves, the shortfall is calculated as a loss.

Due to the write-off of a credit of Rp700.000.000,- do not meet the requirements, it is returned to the fourth credit quality (loss). Under the Provision of PMK Number 81/PMK.03/2009 (related to the formation of a reserve fund) and PMK No. 207/PMK.010/2015 (related to write-off of accounts receivable), if write-off of Rp700.000.000,00 does not meet the requirements Article 6 paragraph 1 letter h of the Income Tax Law, then the tax treatment will be different. There are still some opinions related to tax treatment of the condition. According to BPR, due to the credit write-off of Rp700.000.000,00 does not meet the requirements, if it is returned to the quality of the fourth credit (loss), then fiscally, there is no write-off journals.

➔ fiscally no write-off journal

| | | |
|---|---|---|
| Provision for earning assets | 700.000.000 | |
| Credit granted | | 700.000.000 |

so that the balance of PPAP and credit provided, i.e.:

| | Before | After |
|---|---|---|
| Credit granted | 120.100.000.000 | 120.800.000.000 |
| PPAP | 1.650.000.000 | 2.350.000.000 |

Provision for losses (reserve) in fiscal at the end of the year become:

| Credit | Loans Principal | Collateral | PPAP Basic | % PPAP | PPAP |
|---|---|---|---|---|---|
| Current | 110.000.000.000 | - | 110.000.000.000 | 0,5% | 550.000.000 |
| Less Current | 4.000.000.000 | 2.500.000.000 | 1.500.000.000 | 10% | 150.000.000 |
| Doubt | 1.900.000.000 | 1.500.000.000 | 400.000.000 | 50% | 200.000.000 |
| Loss | 4.900.000.000 | 3.000.000.000 | 1.900.000.000 | 100% | 1.900.000.000 |
| **Total** | **120.800.000.000** | | | | **2.800.000.000** |

| | |
|---|---|
| Opening Balance of PPAP | 1.850.000.000 |
| Accounts receivable income that has been written off | 500.000.000 |
| Write-off during the ongoing year | - |
| | 2.350.000.000 |
| PPAP-end year | 2.800.000.000 |
| Lack of reserve | 450.000.000 |

--► *Dedutible expenses*

From the calculation above can be known that the amount of reserve that can be charged fiscally will be the same.

From the illustration, it can be seen that the amount of fiscally charged provision will be the same. Meanwhile, in the event of a fiscal correction to Regional Company (PD) BPR Bank Klaten on the write-off of accounts receivables, KPP's tax inspector basically refers to the provisions contained in the Conventional Banking Industrial Tax Inspection Module of 2012. It states that if calculations such as the above illustration are performed, then for the Taxpayer (BPR) as if there is no difference that the credit on the quality of loss or has been removed. The amount of fiscally charged provisions will be the same. For that reason, it should be noted that Fiscal Jurists do not see such things above the same tax treatment. Thus, in fiscal terms based on prevailing taxation provisions, Taxpayers should not comply with the 4 requirements for write off, the amounts removed should not be re-entered in the amount of credit in the quality of loss, but postponed until the fulfillment (to the next year).

However, what needs to be paid attention and further study is the write-off of bad debts is the timing differences. The point is that the amount of difference between the fiscal and commercial that occur will be automatically corrected in the next year period. This will create an opportunity for injustice to the BPR Taxpayer in the year for correction on the write-off of accounts receivables, compared to other BPR in the same condition, but not examined. Fiscal correction will cause the tax payable of the BPR to increase, in addition to administrative sanctions for underpaid taxes and the uncertainty of tax treatment of BPR.

## Learning:

Based on the previously described explanation, it can be seen how the fiscal correction raises a tax dispute between BPR and the tax office, especially the fiscal correction of the establishment of reserve funds and the write-off of bad debts of BPR.

From the study conducted, findings on the causes of the problem:

1. Taxpayers do not take advantage of KPP consultation facilities

In fulfillment of its tax obligations, the BPR as a Tax Payer is also required to understand the applicable tax provisions. This is particularly important in view of the development of the prevailing dynamic tax laws in line with the development of the business sectors become the tax object. Following the development of the regulation is expected to meet its tax reporting well.

Tax Service Office (KPP) Pratama in this case provide services to Taxpayers who still feel difficult or not understand related to a tax provision. All problems encountered in the case of the fulfillment of tax obligations can be consulted with the KPP, especially to *Account representative*. *Account representative* is a KPP Pratama employee who performs the supervision and excavation function of Taxpayer potential. Based on the Regulation of the Minister of Finance No. 206.2/PMK.01/2014 on the Organization and Working Procedures of

Vertical Institutions of the Directorate General of Taxation, AR has the task of supervising taxation obligations, preparing taxpayer profiles, performance analysis, data reconciliation in order to intensify and appeal to the Taxpayer.

In conducting supervision, Account Representative (AR) conducts a review and analysis of the Annual Tax Returns that have been reported by Taxpayers. If it is found that there be any discrepancies to the prevailing provisions then AR will submit a letter of appeal. With the letter submitted the appeal is expected Taxpayer also responds to the contents or aspects presented. However in the field, in fact sometimes taxpayers less respond to the appeal submitted. Only when there is a problem or polemic they feel less given a deep respect from the tax office.

2. Differences of interpretation among the tax authorities.

In conducting tax audits, the tax inspector functionality has a standard or guidance that becomes a reference in its implementation. With this standard, it is hoped that there will be uniform treatment of tax audit on the same problem, which is encountered by tax inspector in all KPP. But in reality there are still different treatment in the implementation of tax audit for the same aspect, especially related to the establishment of reserve funds and write-off of bad debts. The difference is due to the diverse interpretation of the tax provisions. Whereas it should be for the same provisions, the inspector's treatment of the problems faced must be the same.

In the case of Regional Company (PD) BPR related to the correction of write-off of bad debts is also found a variety of interpretations both between KPP's internal tax officers and the tax inspectors between KPP. This causes not uniformity of the inspector's treatment in making fiscal correction related to the formation of reserve funds and write-off of bad debts of BPR. The fact is that the dispute experienced by Regional Company (PD) BPR Bank Klaten does not occur in some other working areas of KPP. Whereas on the same examined aspect and tax inspector using the same reference rules or provisions.

Related to the fiscal correction of the formation of reserve funds and bad debts is still multiple interpretation against the provisions of Article 4 PMK No.81/PMK.03/2009. The article states that:

a. in the event that the amount of reserves for bad debts entirely or partially is not used to cover the losses, the amount of excess reserves is taken into account as income;

b. in the event that the amount of reserves for bad debts is used to cover the losses but not sufficient, the amount of the deficit is considered as a loss.

The existence of various interpretations of these provisions resulted in the occurrence of different tax treatment of the same case. This is because in Article 4 mentioned above has not stated clearly when is actually the BPR can do the backup. It is also related to when the reserve should be reversed or recognized income or loss.

3. Differences in interpretation between taxpayers and tax authorities on tax laws.

Understanding of the Taxpayer of the BPR against the prevailing taxation provisions is very important in fulfilling its tax obligations. By understanding the reference used, the BPR can apply the tax provisions correctly in its tax return. If in practice the BPR encounters any problems or something different from the banking regulations, it can be consulted immediately with the tax office so as to minimize the occurrence of the dispute.

In practice, there are sometimes differences in interpretation between taxpayers and tax authorities on a provision in order to fulfill the tax obligations. This difference of understanding can be on the same terms with different interpretations or each has guidelines in the relevant business sector but there are some differences that cause problems.

In addition, the lack of understanding of taxation provisions also influences the taxpayer compliance scene. Thertina (2016) mentions that the Directorate General of Taxation has highlighted the low level of compliance of Rural Banks (BPR) in reporting annual tax returns (SPT). The reason, of all taxpayers' BPR, only half of them are obedient. This condition is in contrast to commercial banks whose level of compliance has reached one hundred percent.

**Table 9 Rate of Tax Reporting of BPR in 2012-2016**

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Report | 899 | 943 | 951 | 971 | 1.007 |
| Not Report | 902 | 858 | 850 | 830 | 794 |

Source: http://katadata.co.id/berita/2016/11/09/ditjen-pajak-50-persen-bpr tak-lapor-pajak-tahun-lalu

From the data above can be seen that the level of compliance of BPR in fulfillment of tax obligations is still lacking. It is expected that the Taxpayer is more active to study the taxation provisions and consult with AR on everything related to its tax obligations.

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