

THE ROLE OF PUBLIC ACCOUNTANTS IN NAVIGATING BUSINESS PURPOSE TEST REQUIREMENTS FOR TAX-NEUTRAL CORPORATE CONSOLIDATIONS IN INDONESIA

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Received August 7, 2025; Accepted September 7, 2025

Available online October 7, 2025

ABSTRACT

Corporate restructuring of Limited Liability Companies (PT) in Indonesia—encompassing mergers, consolidations, expansions, and takeovers—carries significant implications for capital structure and taxation. This study examines the consolidation process, specifically focusing on the tax implications and the critical role of Public Accountants in fulfilling the 'Business Purpose Test' (BPT) requirements. Utilizing a normative juridical research method with a literature-based approach, the study finds that the Indonesian government mandates the BPT to ensure consolidations are driven by genuine business objectives rather than tax avoidance. The results demonstrate that Public Accountants are essential in providing the necessary assurance and documentation—such as audited and pro forma financial statements—required to secure government approval for using book value in asset transfers. The study provides strategic recommendations for the government, notaries, and corporations to enhance legal certainty and compliance during the consolidation process.

Keywords: Taxation, Business Consolidation, Limited Liability Company, Business Purpose Test, Public Accountant, Book Value.

INTRODUCTION

In the era of globalization and free markets, business competition between companies is intensifying. This situation requires companies to continually develop their strategies to survive, be competitive, or even grow. Companies need to develop an appropriate strategy to maintain their existence and improve their performance. One method for building a large and resilient enterprise is through mergers, consolidations, spin-offs, and takeovers—collectively referred to as corporate restructuring (Hamalia, 2016)

Corporate restructuring is a strategy that can help companies face poor performance, adopt new strategies, and achieve credibility in the capital markets. Restructuring is defined as the act of restructuring the structure, ownership, operations, or other structures of a company with the aim of making it more profitable and better according to current needs.

Restructuring is an activity to change a company's structure (Husnan, 2002). Therefore, restructuring can be defined as either becoming larger or leaner. In the first sense, acquisitions are also a means of restructuring. Companies that engage in vertical integration clearly restructure their businesses. This way, they can secure sources of raw materials or distribution of their products. Furthermore, restructuring can also be defined as an appropriate business strategy for underperforming companies.

Restructuring is an inbound process for company management, while the outbound outcomes of restructuring tend to differ from company to company. The diversity of these outbound outcomes depends on management's perception of the restructuring. Generally, several outcomes of restructuring implementation are presented, including the empowerment of idle capacity in production and operational processes for installed utilities, the rescheduling of short-term and long-term debt payments, the empowerment of potential target markets, and the maximization of the company's managerial functions.

According to Alan H. Seed, restructuring represents a substantial change in business strategy or financial structure for underperforming enterprises (Daryanto, 2000). Furthermore, the Polish Ministry of Privatization defines it as the adaptation of organizational and managerial functions to market conditions to increase operational effectiveness (Daryanto, 2000). Research by Weston (1986), there are 4 type of corporate business restructuring models

1. *Expansion* covering *Merger and acquisition, Tender Offers, Joint Ventures*.
2. *Sell-offs* covering *Spin-offs (Split-offs and split-ups) and Divestitures (Equity Carve outs)*
3. *Corporate Control*, covering *Premium Buy-back, Standstill agreement, Anti-take over Amendment and Proxy Contens*.
4. *Change in Ownership Structure*, covering *Exchange Offers, Share Repurchases, Going Private and Leverage Buy-out (LBO)*

Based on the four expansion models mentioned above, acquisitions are most frequently used by management in corporate restructuring. Generally, acquisitions involve the purchase of an existing company. The primary rationale for many acquisitions or business mergers is to create synergies, both financial and operational, that add value to the combined company. Theoretically, a combined business should generate higher revenues and/or lower operating costs (one plus one equals more than two). The value of a combined company should be greater than the value of the former companies operating independently. Therefore, synergies should be considered in quantitative terms, rather than qualitative ones, such as strategic considerations. Revenue improvements, such as cost savings, higher growth, and debt capacity, should be defined in measurable units. Companies should make changes that generate advantages compared to other companies.

From the various restructuring practices mentioned above, Gunadi (2001) further summarizes following restructuring methods and approaches commonly used in the business world:

1. Rescheduling is a method of extending the repayment period or rescheduling the debtor's debt. Rescheduling is carried out by changing the repayment period stipulated in the debt agreement.
2. Haircut is the granting of a discount or reduction in interest and/or debt payments. This method is used to prevent further losses if the debtor is unable to repay their debt.
3. Debt-to-asset swap is the transfer of a debtor's assets for the purpose of controlling them by the creditor. The assets held are only temporary, until they are purchased by another party and the proceeds are used to repay the debtor's debt.
4. Debt-to-equity swap involves converting debt into equity. This can be done if the creditor perceives the debtor to have good business value and prospects.

According to Scholes and Wolfson (1992) identifies four primary motives for acquisitions: increasing economic efficiency, strengthening management, transferring wealth among stakeholders, and obtaining tax benefits.

According to Moin (2003), the reasons why companies undertake mergers and acquisitions are:

1. To obtain quick cash flow because the product and market are already clear.
2. To obtain easier funding/financing because creditors have more confidence in established and well-established companies.
3. To acquire experienced employees.
4. To acquire established customers without having to start from scratch.
5. To acquire established operational and administrative systems.
6. To reduce the risk of business failure by eliminating the need to find new customers.
7. To save time entering new businesses.
8. To acquire infrastructure for faster growth.

Meanwhile, according to Beams and Jusuf (2004), the reasons for business mergers are

1. Cost advantage. It is often cheaper for a company to acquire needed facilities through a merger than through development. This is especially true during periods of inflation.
2. Lower risk. Purchasing an established product line and market is usually less risky than developing a new product and market. Business mergers are less risky, especially when the goal is diversification.
3. Fewer operating delays. Manufacturing facilities acquired through a business merger can be expected to be operational immediately and comply with environmental and other government regulations. Building a new company facility may incur some delays due to the need for government approvals to commence operations.
4. Avoidance of takeovers. Some companies merge to be acquired by other companies. Because smaller companies tend to be more vulnerable to takeovers, some employ an aggressive buyout strategy as the best defense against takeover attempts by other companies. Companies with high debt-to-equity ratios are generally less attractive takeover candidates.
5. Acquisition of intangible assets. Business combinations involve the combination of both intangible and tangible resources. Therefore, the acquisition of patents, mineral rights, customer databases, or management expertise may be the primary motivating factors for a business combination. Compared with other forms of business expansion, companies may choose business combinations for tax benefits, personal income tax and property tax benefits, and for personal reasons.

In terms of restructuring in Indonesia, there are several recognized terms, namely:

- a. A business merger, often known as a merger, is a legal act undertaken by one or more companies to merge with another existing company. This results in the assets and liabilities of the merging companies being transferred by law to the surviving company, and the legal entity status of the merging companies is subsequently terminated by law (UU PT No. 1 Chapter 9). Example: [Company X + Company Y = Company X or Company Y]
- b. A business merger or consolidation is a legal act where two or more companies merge by establishing a new entity that acquires all assets and liabilities, while the original companies are dissolved by law (UU PT No. 1 Chapter 10). Example: [Company X + Company Y = Company Z].
- c. Separation or spin-off is a legal act carried out by a Company to separate its business, resulting in all of the Company's assets and liabilities transferred by law to two or more Companies, or a portion of the Company's assets and liabilities transferred by law to one or more Companies. (UU PT No. 1 Chapter 12)

- d. Business takeover or acquisition is a legal act carried out by a legal entity or individual to acquire shares in a Company, resulting in the transfer of control over the Company (UU PT No. 1 Chapter 11).

It can be concluded that restructuring has a wide range of types. One example is the process of business mergers (consolidation), which is a corporate restructuring that has tax implications. Therefore, to ensure legal certainty regarding consolidation, tax regulations governing consolidation are necessary. The consolidation process also involves the role of a Public Accountant, as the deed regarding the consolidation must be audited and accompanied by an audit opinion.

LITERATURE REVIEW

Consolidation

Consolidation is one of the efforts made to form a legal relationship in order to create legality, it is also performed to achieve legal certainty as a reference for the implementation of legal functions. In the consolidation process, it is carried out to create legal certainty for a Limited Liability Company (PT), therefore, in order to create legal certainty in the consolidation, authentic written evidence is needed regarding the circumstances, events, or legal actions. Written reports or statements regarding the financial condition and activities of an entity are made by or under the responsibility of a Public Accountant. Today, a legal relationship and a Company require professional evidence regarding the financial conditions and accountability that occur between those who create a legal relationship. Public accountants are considered professional parties who are entrusted by the state to carry out public oversight functions (public trust) by providing Assurance services where the law requires or the public requires financial reports certified by an independent party (UU No 5 Chapter 3, 2011). Public Accountants are parties who have the authority to provide professional opinions (audit opinions) on the fairness of the presentation of financial reports based on statutory regulations. Everything reported and stated by a Public Accountant in his audit report is considered true as long as it is carried out in accordance with the Public Accountant Professional Standards (SPAP) and the Code of Professional Ethics.

Consolidation is an economic reality with tax implications. Therefore, a country needs a Tax Law that regulates such economic transactions. Indonesian tax laws do not specifically regulate the tax treatment of business mergers. Business mergers also have implications for tax regulations such as Income Tax (PPh), Land and Building Tax (BPHTB), and Value Added Tax (VAT). These provisions are also regulated by implementing regulations. Generally, the market value is used for the transfer of a business merger, but the government allows a limited liability company (PT) to use book value.

The Minister of Finance has issued several regulations regarding the use of book value, beginning with Ministerial Decree (KMK) Number 637/KMK.04/1994 and most recently with Ministerial Regulation (PMK) Number 56/PMK.010/2021. These regulations govern the types of reorganizations and taxpayers permitted to use book value, the formal and material requirements for consolidating entities, and the treatment of remaining loss compensation and tax credits from acquired companies. The latest regulation, PMK Number 56/PMK.010/2021, outlines the specific requirements taxpayers must fulfill to obtain permission to use book value, including essential business purpose requirements. To further detail these procedures, the Directorate General of Taxes issued Regulation Number PER-03/PJ/2021, which includes a comprehensive description of the Business Purpose Test (BPT) requirements.

During the consolidation process, a Public Accountant conducts an examination and assessment of the consolidated financial statements, involving both the merging and receiving parties and supported by financial documents that serve as the basis for the consolidated asset report. This examination is performed in accordance with Public Accountant Professional

Standards (SPAP) and applicable legal provisions, utilizing verified financial data. As professionals authorized to provide assurance services, Public Accountants are responsible for ensuring the fairness of consolidated financial information. Their role includes tracing the source of assets to verify that tax obligations have been settled and ensuring that assets are derived from the merging parties; any discrepancies must be disclosed in the audit report as material information with potential legal and tax consequences.

In the context of consolidation, the Business Purpose Test mandates that a transaction must have a business objective separate from any related tax benefits. As a judicial doctrine, the BPT consists of two primary elements that, if satisfied, prevent government scrutiny: (1) the acquisition must be motivated by a non-tax business purpose; and (2) the chosen method of acquisition must also be motivated by a non-tax business purpose.

Business Purpose Requirement

The business purpose requirement arose from case law surrounding government challenges to corporate reorganizations. Today, its use is broader—and not limited to corporate reorganizations. Corporate divisions are also scrutinized as tax-free reorganizations under the Business Purpose Test because they can easily be used in attempts to convert dividend distributions into capital gains distributions.

The Business Purpose Test, as a judicial doctrine, was a precursor to certain existing Code provisions that prohibit the use of a target company's net losses if the primary reason for the acquisition is to secure the benefit of the net losses or in other words, if there is only a tax reason for the acquisition. This set of rules prevents an acquiring company from utilizing pre-acquisition net operating losses to reduce taxable income on the return of the related consolidated group.

The policy behind these reorganization provisions is to allow the continuation of an ongoing business under a modified corporate form without any current tax impact. However, in the absence of a legitimate business purpose underlying the modification of the corporate form, the government may consider a tax violation and will inquire whether the modification was improperly used to generate tax-free sales or dividend distributions.

Complicating matters further is that strict literal compliance with the statutory provisions surrounding reorganization laws may not even be sufficient to achieve a tax-free reorganization. Courts have consistently required that the business purpose underlying the reorganization provisions be met. The IRS has used the business purpose test as a weapon to prohibit transactions deemed unlawful on several occasions.

In reality, whenever an exchange intended to be tax-free results in the exchange of materially different property, then there is a realization of profit or loss, and this must generally be recognized for tax purposes unless the tax-free exchange is “recognized” under applicable provisions. To qualify as a tax-exempt company, a reorganization must be driven by business circumstances—not merely a desire to lower the company's tax burden.

METHODOLOGY

This study employs doctrinal legal research, which is characterized by a critical and systematic examination of legal rules, principles, and doctrines. According to Abdulkadir Muhammad, doctrinal research focuses on the inventory of positive law, legal discovery in concrete cases, legal systematics, and the level of synchronization between various legal instruments. This method is further defined as an “internal” approach to law, where the researcher seeks to clarify and improve the existing legal system through the interpretation of norms (Vranken, 2010).

To address the legal issues analyzed in this article, two primary approaches are utilized: the statute approach and the conceptual approach. As stated by Peter Mahmud Marzuki (2017), the statute approach involves examining all laws and regulations relevant to the legal issue at

hand. Meanwhile, the conceptual approach departs from the evolving views and doctrines within legal science to provide a theoretical foundation for the analysis. This aligns with the doctrinal method's objective of seeking "coherence" within the legal system by analyzing the interrelationship between different rules and principles (Vranken, 2010).

The legal materials used in this research consist of primary and secondary sources:

1. Primary Legal Materials: These are authoritative sources derived from the statutory regulations within the Indonesian legal system, such as the Limited Liability Company Law and Minister of Finance Regulations.
2. Secondary Legal Materials: These provide interpretative support and are obtained from legal literature, research theses, dissertations, academic articles, legal journals, dictionaries, and relevant commentaries on court decisions.

In accordance with the standards of legal doctrinal research, these materials are synthesized to evaluate the current legal framework and provide a justified solution to the research problem (Vranken, 2010).

RESULTS

General Overview of the Use of Book Value in the Consolidation Process.

Consolidation, which literally means "to merge," is defined under Article 1, Paragraph 10 of Law No. 40 of 2007 concerning Limited Liability Companies. This legal act involves two or more companies merging to establish an entirely new entity. By operation of law, this new entity acquires all assets and liabilities of the merging companies, whose legal status is subsequently terminated (Harijanto, 2022).

The implementation of consolidation also impacts taxation, as consolidation will minimally impact tax revenues to the state. One example is the combination of the book values of two or more companies into a single book value. Regarding the use of Book Value, there are differing perceptions regarding its use in the consolidation process of limited liability companies according to tax regulations.

According to these regulations, the use of book value is permitted only if the consolidation includes the liquidation of the merging entities. If the consolidation process occurs without the legal liquidation of these companies, market value must be applied instead.

Regarding the use of book value, Article 28, Paragraph (1) of Law Number 28 of 2007 (the General Tax Provisions or "KUP" Law) mandates that individual taxpayers conducting business or independent work, as well as corporate taxpayers in Indonesia, maintain rigorous bookkeeping.

Under Article 1, Number 29 of the KUP Law, bookkeeping is defined as a systematic recording process to collect financial data and information—including assets, liabilities, capital, income, and expenses—culminating in the preparation of financial statements, specifically a balance sheet and a profit and loss statement for the tax year.

In the context of the KUP Law, bookkeeping is synonymous with accounting, representing the process of recording, classifying, and summarizing financial transactions to interpret their economic value. In this sense, value is an economic concept reflecting the financial relationship between goods and services and the market participants who trade them. It is important to note that value is an estimate of economic benefits at a specific point in time rather than an absolute fact.

Within this framework, two distinct valuation methods are utilized:

1. Market Value: The estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, wherein both parties act knowledgeably, prudently, and without compulsion.
2. Book Value: The historical cost of an asset, less any accumulated depreciation expenses incurred over its useful life.

Furthermore, Market Value for Existing Use refers to the market value of an asset based on its continued use in its current state, assuming it could be sold in an open market for that specific purpose, regardless of whether that use represents the asset's "highest and best use."

Definition of the Business Purpose Test

According to the IBFD International Tax Glossary (2015), the business purpose test is a criterion often used to determine whether a transaction should be prevented by anti-avoidance measures. This criterion is often associated with tax avoidance motives, but the extent of the burden of determining tax avoidance will be returned to the provisions of each country.

Generally, the business purpose test is one of the most fundamental elements. This is evident in the implementation in Spain, or the prohibition of artificial elements (inadequate transactions) in Germany (Taboda, 2016). Historically, the majority of European countries have long used the business purpose test doctrine as one of the assessment materials in applications for the use of book value for taxpayers transferring assets for mergers, consolidations, or business expansions. This provision can be found in the Regulation of the Minister of Finance Number 56/PMK.010/2021 concerning the Second Amendment to the Regulation of the Minister of Finance Number 52/PMK.010/2017 concerning the Use of Book Value for the Transfer and Acquisition of Assets in the Context of Mergers, Consolidations, Expansions, or Business Acquisitions (PMK 56/2021).

The taxpayers transferring assets, often wish to use the book value for business mergers, consolidations, or expansions to avoid tax. Therefore, a business purpose test is required to ensure that the use of the book value is intended solely for business development purposes. The business purpose test is mandatory for taxpayers conducting business mergers or expansions, whether within the same business sector or in dissimilar or different business sectors. There are three things to consider in the results of the business purpose test, especially for requests to use the book value.

First, the business merger or expansion aims to create strong business synergies, strengthen the capital structure, and is not conducted for tax avoidance. Second, information must be provided regarding fiscal and commercial losses or remaining losses, the main business sector, products or services produced, market segments, number of branches or networks, ownership composition, total assets, and corporate income tax payable. Third, specifically for business mergers, if the taxpayer receiving the transferred assets (surviving company) has a loss or remaining loss, this loss must be less than the loss or remaining loss of the taxpayer transferring the assets (transferor company) based on the remaining fiscal and commercial losses.

Tax Regulation Requirements for the Business Purpose Test

Pursuant to Article 3 paragraph (2) of PMK 56/2021, taxpayers submitting applications for consolidation must provide the following documentation:

1. A formal statement outlining the rationale and strategic objectives for the merger, consolidation, expansion, or takeover;
2. A declaration affirming that the transaction satisfies the Business Purpose Test (BPT) requirements as stipulated in Article 2 paragraph (2); and
3. A fiscal certificate issued by the Director General of Taxes for each domestic taxpayer and relevant Permanent Establishment involved.

The specific BPT requirements for taxpayers undergoing a business merger are regulated under Article 2 paragraph (2) of PMK 52/PMK.010/2017. These provisions mandate that:

1. Synergy and Capital: The primary objective of the merger must be the creation of robust business synergies and the strengthening of the capital structure, rather than the pursuit of tax avoidance.
2. Operational Continuity: The business activities of the transferor must remain operational until the effective date of the merger.

3. **Five-Year Continuity:** The transferee must continue the transferor's original business activities for at least five years post-merger. Furthermore, the transferee's own business activities must also persist for a minimum of five years following the effective date.
4. **Asset Retention:** Fixed assets acquired through the merger cannot be transferred by the receiving entity for at least two years, except when such transfers are intended to enhance corporate efficiency.

Furthermore, the Business Purpose Test must demonstrate that the restructuring is not motivated by tax evasion. Specifically, if the surviving company (transferee) carries fiscal or commercial losses, these losses must be proportionally smaller than the losses of the transferor company.

Compliance with these requirements is strictly supervised by the Head of the Regional Office of the Directorate General of Taxes. Under Article 3 of PER-03/PJ/2021, the BPT serves as a fundamental prerequisite for utilizing book value in asset transfers during consolidation. This test is formalized through a signed statement supported by a comprehensive documentation checklist. This checklist covers critical data points, including fiscal and commercial loss history, primary business sectors, product/service lines, market segments, branch networks, ownership structures, total asset valuations, and corporate income tax liabilities.

The tax implications of consolidation are as follows:

Table 1 Tax Implications of Consolidation and Its Regulations

TYPES OF TAX	RATES	TAXATION PROVISIONS
Income Tax on Capital Gains	0%	Articles 4 and 10 of Law Number 36 of 2008 concerning Income Tax
Basehold Property Tax (BPHTB)	2,5%	Law Number 1 of 2022 and Minister of Finance Regulation No. 91/PMK.03/2006, Article 1 letter b point (5) and Article 2 letter b.
Final Income Tax on the Transfer of Land and Buildings	2,5%	Regulation of the Minister of Finance of the Republic of Indonesia (PMK) PMK 261/PMK.03/2016
VAT on the Transfer of Taxable Goods	n/a	not including taxable goods as stipulated in Article 1A paragraph (2) letter d of Law Number 42 of 2009.

Source: Processed by the author

The Role of Public Accountants in Fulfilling Business Purpose Test Requirements for Taxation;

Accountants: Public Accountants are accountants licensed by the Minister of Finance to practice in a Public Accounting Firm. They provide various professional services in accordance with the Public Accounting Professional Standards (SPAP), including audit, attestation, accounting, review, and consulting services. Generally, audit activities fall under assurance engagements, which are professional engagements in which practitioners examine information or data and then provide an opinion aimed at increasing the level of user confidence in the information presented. Furthermore, according to Law Number 5 of 2011 concerning Public Accountants and Government Regulation Number 20 of 2015 concerning Public Accounting Practice, a Public Accountant is someone licensed by the Minister of Finance of the Republic of Indonesia to provide professional services in the field of accounting, including assurance services (audits, reviews, and other assurance services) as well as non-assurance services such as consulting and taxation. This profession has a strategic role in supporting transparency,

accountability, and efficiency of the national economy, because Public Accountants act as independent parties who assess the fairness and reliability of financial reports based on Public Accountant Professional Standards (SPAP).

A Public Accountant acting as an independent auditor will audit historical financial statements based on applicable auditing standards and provide an audit opinion on the fairness of the Limited Liability Company's financial statements. Prior to the merger, as stipulated in Article 123 of the Company Law, the Board of Directors will prepare a merger plan. The merger plan must contain the following:

1. The name and domicile of each company planning to merge;
2. The reasons and explanations of the Board of Directors of the companies planning to merge and the requirements for the merger;
3. Procedures for the valuation and conversion of shares of the merging company to shares of the surviving company; as explained in the share conversion procedure, the fair value of the shares of the merging company and the fair value of the shares of the surviving company are to determine the share exchange ratio for the share conversion.
4. Draft amendments to the articles of association of the surviving company, if any; in this case, a draft amendment to the articles of association is only required as part of the proposal if the merger results in a change to the articles of association.
5. Financial statements as referred to in Article 66 paragraph (2) letter a of the Company Law, covering the last 3 (three) financial years of each Company intending to merge;
6. Continuation or termination of the business activities of the Company intending to merge;
7. Pro forma balance sheet of the surviving Company in accordance with generally accepted accounting principles in Indonesia;
8. Procedure for resolving the status, rights, and obligations of the members of the Board of Directors, Board of Commissioners, and employees of the Company intending to merge;
9. Procedure for resolving the rights and obligations of the Company intending to merge with third parties;
10. Method of resolving the rights of shareholders who disagree with the Merger of Companies;
11. Names of the members of the Board of Directors and Board of Commissioners, as well as the salaries, honorariums, and allowances for the members of the Board of Directors and Board of Commissioners of the Company accepting the Merger;
12. Estimated timeframe for the Merger;
13. Report on the condition, developments, and results achieved by each Company undergoing the Merger;
14. The main activities of each Company undergoing the Merger and changes that occurred during the current financial year; and
15. Details of any issues arising during the current financial year that affect the activities of the Companies undergoing the Merger.

There are also consolidation steps frequently encountered in the community, namely:

1. Meeting Consolidation Requirements
2. Preparing a Merger Plan
3. Requesting approval from the GMS (General Meeting of Shareholders)
4. Drafting a Consolidation Deed with a Notary
5. Announcing the consolidation plan in a newspaper

The aforementioned plan must be outlined in a General Meeting of Shareholders (GMS). Public Accountants play a role in preparing consolidation requirements, particularly in the preparation and audit of consolidated financial statements, which serve as the basis for the assessment of a Limited Liability Company. In this process, Public Accountants are obligated to conduct audits with independence, integrity, and professional due care, and to ensure that

the financial statements are presented in accordance with standards. Therefore, during the consolidation process, Public Accountants are required to consider all matters related to consolidation requirements, including compliance with the Business Purpose Test for tax purposes. As per the obligations of Public Accountants in Article 28 paragraph (1) of Law Number 5 of 2011 concerning Public Accountants and Article 10 paragraph (1) of Government Regulation Number 20 of 2015 concerning Public Accountant Practices, which states that Public Accountants in carrying out their duties must act independently, honestly, objectively, not taking sides with any party, and protecting the public interest. This principle of prudence illustrates that Public Accountants must be careful and thorough in a consolidation process and ensure that all requirements have been fulfilled.

A consolidation process must go through the stages of the General Meeting of Shareholders (GMS). In the process of carrying out corporate actions, Public Accountants have several important roles, including auditing historical financial statements, assessing the fairness of consolidated financial statements, and preparing pro forma financial statements as a basis for decision-making in consolidation. In addition, Public Accountants also play a role in reviewing the elimination of reciprocal accounts between entities, ensuring compliance with Financial Accounting Standards (SAK), and assessing compliance with tax provisions within the framework of the Business Purpose Test. Furthermore, Public Accountants are also responsible for providing audit opinions that serve as the basis for validating the fairness of the consolidated entity's financial statements, as well as ensuring that the entire process has been carried out in accordance with applicable laws, accounting principles, and regulations.

The consolidation process is inevitably linked to processes prior to its effective date, one of which concerns tax matters. Regulation-03/PJ/2021 lists the supporting evidence required by Limited Liability Companies planning to merge, namely:

1. Photocopy of the Merger/Consolidation/Expansion/Acquisition Plan Document;
2. Photocopy of the announcement of the Merger/Consolidation/Expansion/Acquisition Plan (published in a nationally circulated Indonesian-language daily newspaper);
3. Photocopy of the Financial Statements audited by a Public Accounting Firm of the Taxpayer transferring assets and the Taxpayer receiving assets for the period ending one day before the Effective Date;
4. Photocopy of the Pro Forma Financial Statements as of the Effective Date of the Merger/Consolidation/Expansion/Acquisition, reviewed/assessed by an independent expert;
5. Organizational structure chart/scheme before and after the Merger/Consolidation/Expansion/Acquisition, including shareholder ownership composition;
6. Projected income and Income Tax payable before and after the Merger/Consolidation/Expansion/Acquisition;
7. Explanatory letter detailing the calculation of intercompany elimination accounts (reciprocal accounts) conducted in connection with the Merger/Consolidation/Expansion/Acquisition;
8. Photocopy of the Deed of Establishment and Articles of Association, including any amendments;
9. Photocopy of the Resolution of the last Extraordinary General Meeting of Shareholders (EGMS) related to the Merger/Consolidation/Expansion/Acquisition decision;
10. Photocopy of the Approval Letter, Merger/Consolidation/Expansion/Acquisition Permit Decree, or similar documents issued by the authorized agency;
11. Registration of Deed of Merger/Consolidation/Expansion/Acquisition of Business*) and Deed of Amendment to Articles of Association in the Company Register;
12. List of compensation for corporate taxpayers' income tax losses for the last 5 (five) years for each business entity, which must include at least the tax year, tax assessment number

and date, objection decisions, appeal decisions, judicial review decisions, and the amount of fiscal losses;

13. For domestic corporate taxpayers conducting business expansion whose resulting business entity receives additional capital from foreign investors of at least IDR 500,000,000,000.00 (Five Hundred Billion Rupiah): a. photocopy of the company's bank account; b. photocopy of the deed of establishment or amendment of the Taxpayer resulting from the business expansion, stating the amount of new investment from foreign investors; and c. statement of commitment to realize the foreign investment plan if the amount of foreign investment is not yet stated in the deed of establishment;
14. Photocopy of recommendation letter from the Minister who carries out government affairs in the field of development of State-Owned Enterprises (for State-Owned Enterprise Taxpayers who carry out business expansion that receives additional capital participation from the Republic of Indonesia as long as the expansion is carried out in connection with the formation of a holding company for State-Owned Enterprises).

Among the requirements mentioned above, several relate to Public Accountants, namely:

1. A photocopy of the Financial Statements audited by a Public Accounting Firm from the Taxpayer transferring assets and the Taxpayer receiving assets for the period ending one day before the Effective Date.
2. A photocopy of the Pro Forma Financial Statements as of the Effective Date of the Merger/Consolidation/Expansion/Acquisition, reviewed/assessed by an independent expert;
3. A letter of explanation detailing the calculation of the elimination of intercompany accounts (reciprocal accounts) conducted in connection with the Merger/Consolidation/Expansion/Acquisition.

Above requirements certainly require the role of a Public Accountant. Public Accountants are authorized to audit and review the financial statements of Limited Liability Companies. Public Accountants verify the fairness of the company's financial statements by issuing an independent audit report as the basis for their validity. Typically, for all merger processes, the directors or representatives of the PT will entrust this matter and ask for assistance from a public accountant for these documents in order to fulfill the requirements of the business purpose test.

Public Accountants are professionals licensed by the Minister of Finance to practice within a Public Accounting Firm. They provide a range of specialized services in accordance with Public Accountant Professional Standards (SPAP), including auditing, attestation, accounting, and consulting. Generally, audit activities are categorized as assurance engagements, wherein practitioners examine financial data to provide an opinion aimed at enhancing the confidence of stakeholders in the information presented.

According to Law Number 5 of 2011 and Government Regulation Number 20 of 2015, Public Accountants serve a strategic role in supporting national economic transparency and accountability. As independent third parties, they assess the fairness and reliability of financial reports. In a corporate merger or consolidation, a Public Accountant audits historical financial statements to provide an opinion on their fairness, ensuring that the valuation of the Limited Liability Company is accurate and objective.

Legal Requirements and the Merger Plan

Before a merger is finalized, Article 123 of the Company Law (Law No. 40 of 2007) mandates that the Board of Directors prepare a formal merger plan. This plan serves as the legal and financial roadmap for the transaction and must include:

1. The names and domiciles of the merging entities;
2. The strategic rationale and specific requirements for the merger;

3. Procedures for share valuation and conversion, including the determination of fair value to establish the share exchange ratio;
4. Draft amendments to the articles of association, if applicable;
5. Audited financial statements for the last three fiscal years;
6. A pro forma balance sheet of the surviving company, prepared in accordance with Indonesian Financial Accounting Standards (SAK);
7. Resolution plans for the rights and obligations of employees, directors, and third-party creditors.

In practice, the consolidation process involves meeting strict regulatory requirements, drafting a merger plan, obtaining approval from the General Meeting of Shareholders (GMS), and executing a consolidation deed before a Notary. Public Accountants are integral to this process, particularly in preparing and auditing the consolidated financial statements that form the basis for corporate assessment.

Pursuant to Article 28 of Law Number 5 of 2011, Public Accountants must act with independence, integrity, and professional due care. During a consolidation, they must also ensure compliance with the Business Purpose Test (BPT) for tax purposes. Their roles include:

1. Auditing Historical Data: Verifying the financial health of all merging parties.
2. Pro Forma Preparation: Creating projected financial statements to assist in executive decision-making.
3. Reciprocal Account Elimination: Reviewing the elimination of intercompany accounts to prevent double-counting of assets or liabilities.
4. Tax Compliance: Assessing whether the merger is driven by genuine business synergy rather than tax avoidance, as required by PER-03/PJ/2021.

Mandatory Documentation for Tax-Neutral Consolidations

To qualify for the use of book value in asset transfers, Regulation PER-03/PJ/2021 requires companies to submit comprehensive supporting evidence, including:

1. Audited financial statements for the period ending one day before the effective date;
2. Reviewed pro forma financial statements as of the effective date;
3. An explanatory letter detailing the calculation of intercompany (reciprocal) account eliminations;
4. Projected income and corporate tax liabilities post-merger;
5. Evidence of public announcement in a national newspaper.

Several of these requirements specifically necessitate the professional involvement of a Public Accountant. By verifying the fairness of these documents and issuing an independent audit report, the Public Accountant provides the necessary validity for the company to pass the Business Purpose Test and secure government approval for a tax-neutral consolidation.

CONCLUSIONS

Conclusion

1. The Nature of the Business Purpose Test (BPT): The Business Purpose Test serves as a mandatory evaluation framework established by the Directorate General of Taxes (DGT) to verify the eligibility of taxpayers seeking to use book value in tax-neutral corporate consolidations. The core objective of the BPT is to ensure that corporate restructuring—whether through mergers, expansions, or takeovers—is driven by genuine economic synergy and capital strengthening rather than being a vehicle for tax evasion. As emphasized by PMK 56/2021, the absence of a valid non-tax business purpose allows the tax authority to invalidate the use of book value, thereby treating the transaction as a transfer at market value, which carries significant tax liabilities.
2. The Strategic Role of the Public Accountant: Taxpayers heavily rely on the professional expertise of Public Accountants to fulfill the stringent documentation and assurance

requirements set forth in PMK 56/2021 and PER-03/PJ/2021. The Public Accountant acts as a critical intermediary who verifies the fairness of historical and pro forma financial statements, as well as the accuracy of intercompany account eliminations. Failure to provide complete or accurate documentation, as verified by an independent auditor, gives the DGT the legal right to reject the application for book value use. This underscores the accountant's responsibility to uphold the principles of independence and professional due care as mandated by Law No. 5 of 2011.

Recommendations

1. **Enhancing Public Awareness:** The Ministry of Finance and the DGT should intensify socialization efforts regarding PMK No. 56 of 2021. There is a need for targeted education for corporate taxpayers and tax consultants, as different business sectors face unique challenges in interpreting the technical nuances of consolidation-related tax regulations.
2. **Strengthening Legal Certainty:** To provide a more robust and binding legal foundation for the public, the government should consider establishing a Presidential Regulation specifically addressing the tax aspects of corporate restructuring. Such a regulation would provide greater legal hierarchy than a Ministerial Regulation, offering more detailed guidance on permitted consolidation forms and the specific tax implications of asset transfers, thereby minimizing disputes between taxpayers and the authority.
3. **Comprehensive Risk Assessment for Corporations:** Companies planning a consolidation must conduct a thorough risk assessment, particularly concerning potential interest costs and tax sanctions. Special attention should be paid to the liquidation of entities and the subsequent revocation of Taxpayer Identification Numbers (NPWP), which often triggers a final tax audit. Management must align their restructuring timeline with the statutory expiration dates for tax audits to avoid unforeseen liabilities.
4. **Proactive Advisory by Public Accountants:** Beyond providing audit opinions, Public Accountants are encouraged to adopt a more advisory role. This includes providing specialized counseling on tax compliance within the framework of PER-03/PJ/2021. By ensuring that a company's financial reporting is meticulously aligned with the BPT requirements from the early stages of a merger plan, Public Accountants can help mitigate the risk of rejection by the tax authorities and support the overall transparency of the national economy.

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