

Fair Value Estimation of Shares and Tax Liability Implications of the Debt-to-Equity Swap Plan Following the Implementation of Minister of Finance Regulation Number 79 of 2023: A Case Study of PT Sidomulyo Selaras Tbk.

Fachmi Pahala¹, Fajra Octrina^{2*}

School of Economics and Business, Telkom University

Corresponding Author: Fajra Octrina fajraoctrina@telkomuniversity.ac.id

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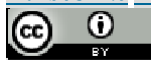
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ABSTRACT

This study aims to estimate the fair value of PT Sidomulyo Selaras Tbk. This research employs a quantitative, descriptive approach with a single-case study design. Share valuation is conducted using an income approach, specifically the discounted cash flow (DCF) method based on free cash flow to firm (FCFF), in accordance with the valuation object characteristics in Regulation 79/2023. The study uses secondary data from the company's annual reports, interim financial statements, corporate action disclosures, and supporting data for valuation-assumption preparation. The results show that the fair value of SDMU shares after DES is IDR 29 per share, which is lower than the planned conversion price of IDR 55 per share. In terms of financial structure, DES reduces liabilities and increases equity, thereby improving the company's capital structure as reflected in lower leverage ratios and higher current and quick ratios.

INTRODUCTION

Debt restructuring is a common strategic response for companies facing liquidity pressures, declining capital structure quality, and an increased risk of default. Financial distress is initially characterized by a company's inability to fulfill its obligations, both in the short term and long term (Kristanti et al., 2025). One widely used debt restructuring method is the debt-to-equity swap (DES), which converts debt into shares. Cepec and Grazl (2020) explain that debt-to-equity conversion is a legal instrument frequently utilized to alleviate financial pressure in companies approaching or experiencing insolvency, while Mulya et al. (2024) view DES as a form of debt restructuring into equity or capital structure. Chatterji et al. (2001) demonstrate that DES can improve financial stability and enhance a company's recovery prospects, although this type of transaction entails greater legal, regulatory, and governance complexity than conventional debt restructuring.

The benefits of DES are most frequently observed in improved liquidity and reduced balance sheet pressure. Zhang and Tong (2023) found that DES has a positive and significant impact on corporate financial performance by enhancing capital and ownership structures. This finding is consistent with Rahmawijaya et al. (2025), who showed that DES significantly increases the current ratio, although it does not have a significant effect on return on equity in the short term. These results indicate that DES functions more rapidly as a financial stabilization mechanism rather than as a driver of short-term profitability. Nonetheless, Akbar (2022) emphasized that the change in status from creditor to shareholder may also create governance challenges if the new shareholders lack adequate understanding of the company's business operations.

In the context of valuation, determining the fair value of shares is a crucial aspect in assessing the appropriateness of the conversion price in DES transactions. Damodaran (2012) states that share valuation is the initial step in determining the exercise price of conversion options, as this price must reflect the fair value of shares at the time the transaction takes place. Similarly, Pratt (2008) defines fair value as the value that forms the basis for the transfer of ownership between parties acting reasonably, without coercion, and with sufficient information.

From a tax perspective, DES transactions may give rise to income tax consequences for both the debtor and the creditor. Article 4 paragraph (1) letter k of the Income Tax Law stipulates that gains from debt relief constitute taxable income, while Article 10 paragraph (2) of the Income Tax Law emphasizes that exchange transactions must be valued at market price. In cases where transactions are conducted between related parties, Article 18 paragraph (3) of the Income Tax Law authorizes the Directorate General of Taxes to reassess the amount of income or deductions based on the arm's length principle and ordinary business practices.

The importance of fair value assessment in such transactions has become even more pronounced following the issuance of Minister of Finance Regulation Number 79 of 2023 concerning Procedures for Valuation for Tax Purposes. This regulation provides a valuation framework for businesses, shares, and other

financial instruments for tax purposes, including transactions without direct market prices. Against this background, this study analyzes the planned DES transaction at PT Sidomulyo Selaras Tbk. to address three main issues: determining the fair value of shares in accordance with Regulation 79/2023, the impact of the transaction on the company's capital structure, and the tax implications arising from differences between the book value of debt, the conversion price, and the fair value of shares.

THEORETICAL REVIEW

Within the framework of corporate finance, financing decisions are a component of a company's strategic decisions to maximize shareholder value through a combination of investment, capital structure, and profit distribution policies. Damodaran (2015) explains that corporate financial decisions cannot be separated from efforts to minimize the cost of capital and maintain funding flexibility, while Rumasukun (2024) emphasizes that the ultimate orientation remains on increasing entity value and shareholder returns.

The capital structure literature shows that there is no single formula that is always optimal for all companies. Modigliani and Miller (1958) argued that capital structure is irrelevant under perfect market conditions, but this assumption is weakened when taxes, bankruptcy costs, and information asymmetry are considered. Therefore, Myers (1984) and Shyam-Sunder and Myers (1999) view the choice between debt and equity as a decision highly influenced by firm conditions, information quality, and business life cycle stages. Financial restructuring is a fundamental change to a company's financial contracts to reduce fixed-obligation pressures and restore business continuity. Gilson (1997) and Hotchkiss et al. (2008) show that restructuring can be carried out through private renegotiation, rescheduling, reductions in principal or interest, and even the exchange of debt for more flexible instruments such as equity.

A debt-to-equity swap (DES) is one of the debt restructuring instruments companies use to reduce liability burdens and improve their capital structure when facing financial pressures. Erić and Stošić (2015) explain that DES is commonly applied to companies experiencing over-indebtedness, declining liquidity, and limited access to new debt, leading former creditors to become company shareholders. Cepec and Grazl (2020) state that debt-to-equity conversion is often used to alleviate financial pressure in firms approaching or experiencing insolvency, while Mulya et al. (2024) emphasize that DES is a part of debt restructuring into equity or capital structure. A high debt-to-equity ratio indicates that a company relies heavily on debt financing, which can result in a higher risk for the company when fulfilling its debt obligations and thus constitutes negative information for investors (Rubiyana & Kristanti, 2020). Furthermore, if the increase in debt is not accompanied by growth in assets and equity, the return on these two components will also tend to decline (Rahadian & Ramandhini, 2021), therefore, it can be concluded that high leverage increases the probability of a firm experiencing financial distress (Kristanti et al., 2019).

DES is viewed as a strategy that can help companies maintain business continuity by reducing obligations and strengthening the equity base.

Although DES offers strategic benefits, it is not free from risks. Chatterji et al. (2001) highlight DES's ability to improve balance sheet structure and a company's bargaining position, but also emphasize that this mechanism involves legal complexities and the risk that restructuring may only be temporary if the company's fundamental issues are not addressed. Akbar (2022) adds that the change in status from creditor to shareholder may pose governance challenges if the new shareholders do not sufficiently understand the debtor's business.

Empirical studies show that DES can improve a company's financial condition, particularly in liquidity and capital structure. Zhang and Tong (2023) found that DES implementation has a positive, significant impact on corporate financial performance. This finding is consistent with Rahmawijaya et al. (2025), which shows that DES significantly increases the current ratio, although its impact on return on equity is not significant. A higher Current Ratio indicates that a company is more capable of settling its short-term liabilities when demanded by suppliers (Enyi, 2018). Additionally, the current ratio also has a significant impact on firm value (Rifayani & Yunita, 2023).

From a business valuation perspective, share valuation is understood as part of the process of determining the estimated economic value of a company or an ownership interest therein. Determining the fair value of shares is a crucial aspect for assessing the appropriateness of the conversion price in DES transactions. Damodaran (2012) states that valuation is the initial step in determining the exercise price of conversion options because options are assets whose value is derived from the underlying asset. Similarly, Pratt (2008) defines fair value as the value that forms the basis for the transfer of ownership between parties acting reasonably, without coercion, and with sufficient information. KPMG (2024) also emphasizes that fair value is a market-based measurement, not merely an entity's internal intent. Therefore, a fair value assessment is necessary so that the conversion price in DES reflects the shares' true economic value.

The relevant method for this purpose is the income approach using *discounted cash flow* (DCF), particularly the *free cash flow to firm* (FCFF) model. According to Damodaran (2012), the DCF method is based on the present value concept, namely that an asset's value is determined by the present value of its expected future cash flows. Damodaran also explains that the FCFF approach is more appropriate for companies with high leverage or undergoing changes in capital structure, as it values the company from the perspective of all capital providers. The choice of this method in the present study also aligns with Regulation 79/2023, which designates DCF as a valuation method for financial instruments not traded on public markets.

From a tax perspective, DES transactions are not only a financial restructuring mechanism but may also result in income tax consequences. Article 4, paragraph (1), letter k of the Income Tax Law stipulates that gains from debt relief constitute taxable income. In addition, Article 10 paragraph (2) of the Income Tax Law states that exchange transactions, including debt-to-equity

conversions, must be valued at market price, while Article 18 paragraph (3) of the Income Tax Law grants the Directorate General of Taxes the authority to reassess income or deductions in related party transactions based on the arm's length principle and ordinary business practices (PKKU).

When DES is conducted between related parties, the relevance of the arm's length principle becomes even higher. Article 18 paragraph (3) of the Income Tax Law authorizes the Directorate General of Taxes to reassess the amount of income or deductions based on the arm's length principle in related-party transactions. The need for regulatory intervention is consistent with the perspective of Kristanti et al. (2024), who emphasize that one of the significant challenges lies in efforts to mitigate conflicts of interest that may arise when the board of directors, motivated by their substantial share ownership, makes decisions that affect corporate performance and shareholder value. Tang and Tian et al. (2022) show that dual ownership structures between debt and equity holders can alter financial incentives and open opportunities for more aggressive tax strategies, while Hutahaeen et al. (2025) highlight the importance of leverage regulation in controlling the fiscal aggressiveness of companies highly dependent on debt. Nadilah and Yulita (2025) indeed show that DES may be more tax-efficient than other restructuring methods, but this efficiency still requires an adequate fair value measurement so that the fiscal treatment reflects the economic substance of the transaction. Hidayat (2023) emphasizes that the gains from exchange transactions constitute taxable income, while Sobiech (2022) demonstrates that tax neutrality, or the emergence of tax liabilities in DES, is greatly influenced by the implementation structure and classification of the receivables being converted. This means that tax treatment is not solely determined by the label "debt-to-equity conversion," but by the substance of value and the transaction's mechanism.

The issuance of Regulation 79/2023 further underscores the importance of fair value assessment in DES transactions. This regulation serves as a foundation for the use of certain approaches and valuation methods in determining the fair value of shares for tax purposes. Thus, DES transactions need to be analyzed not only from the perspective of debt restructuring and changes in capital structure, but also from the standpoint of price fairness and the risk of fiscal correction. The novelty of this study lies in combining share valuation analysis under Regulation 79/2023 with the evaluation of the capital structure and the income tax implications of related-party DES transactions in the case of PT Sidomulyo Selaras Tbk.

METHODOLOGY

This research employs a descriptive-quantitative case study methodology with a single-case design focused on PT Sidomulyo Selaras Tbk. This approach was chosen because the study centers on a contemporary phenomenon—the debt-to-equity swap plan following the implementation of Regulation 79/2023—within the real-world context of a publicly listed company in Indonesia. The selection of a single-case study was based on the specific characteristics of the research object, namely the existence of a debt restructuring plan through

DES involving related parties. Accordingly, this study aims to gain an in-depth understanding of fair value determination, financial structure changes, and tax implications of the transaction.

Object and Data Sources

The research object is PT Sidomulyo Selaras Tbk., which was purposively selected because it meets several criteria relevant to the research objectives, namely: a publicly listed company with available financial statements, preparing for a DES transaction, possessing sufficient historical data for projection purposes, experiencing financial pressures that drive restructuring, and having a special relationship with the creditors involved in the transaction.

This study uses secondary data sourced from the annual reports of PT Sidomulyo Selaras Tbk. for the period 2019–2024, interim financial statements as of June 2025, corporate action disclosure documents, government bond data as a proxy for the risk-free rate, Indonesian GDP growth data as the basis for determining *stable growth*, *equity risk premium data*, *as well as industry beta* and *debt-to-equity ratio* data published by Damodaran.

Share Valuation Method

The share valuation in this study refers to Minister of Finance Regulation Number 79 of 2023 concerning Procedures for Valuation for Tax Purposes. Based on the characteristics of the research object, shares issued under DES, in accordance with International Financial Reporting Standards (IFRS 13) paragraph 73, are financial instruments without active market quotations and can thus be categorized as unobservable inputs (Level 3). PSAK 68 paragraph 74 also confirms that Level 3 inputs are unobservable. IFRS paragraph 38(c) explains that if observable prices are unavailable, valuation techniques are used to determine fair value. In relation to Regulation 79/2023, shares issued through DES at the time of conversion are classified as financial instruments not traded on the open market. Accordingly, the approach used is the income approach with the discounted cash flow method, as stipulated in Appendix II, section C of Regulation 79/2023, which designates the income approach for valuing businesses and financial instruments lacking direct market prices.

The model employed in the DCF method is free cash flow to the firm (FCFF). This model is chosen because FCFF is more appropriate for companies with high leverage or those undergoing changes in capital structure, as it values the company from the perspective of all capital providers, both creditors and shareholders.

The calculation stages begin with a recapitulation of historical financial statement data, including revenue, operating expenses, EBITDA, depreciation and amortization, EBIT, capital expenditures, and changes in net working capital. Based on these data, *free cash flow projections* for the valuation period are prepared. Subsequently, the cash flows are discounted at the weighted-average cost of capital to arrive at the firm's value. This firm value is then converted into equity value and divided by the number of outstanding shares to estimate the fair value per share.

Financial Impact Analysis

To assess the impact of DES implementation on the company's financial condition, this study compares the financial position before and after the transaction. The analysis is conducted by examining changes in the composition of liabilities and equity on the company's balance sheet as a result of the conversion of debt into shares.

In addition, this study employs financial ratios to evaluate changes in capital structure and corporate liquidity. The ratios analyzed include the *debt ratio*, *debt-to-equity ratio*, *current ratio*, and *quick ratio*. The use of these ratios aims to demonstrate whether the DES transaction can improve leverage and enhance the company's ability to meet its short-term obligations.

Tax Implication Analysis

The tax analysis is conducted by identifying the fiscal consequences arising from the differences between the book value of the converted debt, the conversion price of the shares, and the fair value of the shares as determined by the valuation. This analysis refers to the provisions of Article 4 paragraph (1) letter k, Article 10 paragraph (2), and Article 18 paragraph (3) of the Income Tax Law, as well as Regulation 79/2023, as the basis for determining fair value for tax purposes.

Through this approach, the study assesses the potential for income or fiscal loss for both the debtor and the creditor, especially given that the transaction is conducted between related parties. Thus, the analysis focuses not only on the financial fairness of the conversion price but also on the potential fiscal risk arising from discrepancies between the transaction value and the fair value of the shares.

RESULTS AND DISCUSSION

Determining the Fair Value of Shares

The determination of the fair value of PT Sidomulyo Selaras Tbk. shares in this study was carried out using an income approach with the discounted cash flow method based on free cash flow to the firm (FCFF). The selection of this method was based on the company's high leverage and ongoing changes in capital structure through the DES transaction, making the FCFF method the most appropriate for capturing the company's ability to generate free cash flow after restructuring.

The valuation process referred to the effective transaction date of October 17, 2025, as stated in the company's disclosure. The calculation steps began with preparing five-year revenue projections, followed by calculating terminal value. The main assumptions used include projected revenue growth, EBIT margin, risk-free rate, equity risk premium, beta, cost of equity, cost of debt, weighted average cost of capital (WACC), and terminal growth rate, as summarized in Table 1.1. The risk-free rate was determined from the average daily quotation for government bonds SUN FR0103 from January 2 to October 17, 2025. The equity risk premium was based on Aswath Damodaran's publication dated January 1, 2025, while beta and WACC were derived from SDMU's risk characteristics and post-DES capital

structure, in accordance with the valuation framework described by Damodaran (2012). These assumptions served as the basis for discounting free cash flows to the firm, calculating fair equity value and fair value per share, estimating operating profit, calculating free cash flow to the firm, determining WACC, and calculating terminal value to obtain the company's *enterprise value* and *equity value*.

Tabel 1. Summary of Assumptions Used

Unit	Value	Notes
Projection Period	5 years	
Revenue Growth Q2 2025	2,34%	
Revenue Growth 2026-2030	4,75% 4,11%	- Linear tapering approach
EBIT Margin	7,7%	Historical margin
Operating Expense	34%	% of historical revenue
Depreciation & Amortization	8.4%	% of historical revenue
Capital Expenditure	2.1%	% of historical revenue
Net Working Capital	33.6%	% of historical revenue
Risk Free Rate	6,70%	Average yield of FR0103 (2025)
Risk Premium	6,87%	Aswath Damodaran publication
Beta	0,859	<i>Levered Beta</i> SDMU
Country Default Spread	1,9%	Aswath Damodaran publication
Cost of Equity	14,49%	CAPM
Cost of Debt	6,48%	Average corporate prime lending rate after tax
WACC	12,40%	
Terminal Growth	4,11%	Average GDP and inflation growth Indonesia 2013-2024

Source: Processed by Author(2026)

This study used historical operating revenue data for SDMU from 2018–2024, as the interim 2025 revenue was not included in the historical revenue calculation since it did not cover a full year. The average growth rate of SDMU's operating revenue was calculated using three methods: arithmetic, geometric, and the log-linear regression model, with the following results:

Tabel 2. Historical Revenue Growth of SDMU 2018–2024

No	Year	Revenue (Rp)	Growth(%)
1	2018	102.990.754.237	
2	2019	106.273.588.474	3,19%

No	Year	Revenue (Rp)	Growth(%)
3	2020	89.009.501.417	-16,24%
4	2021	82.622.335.649	-7,18%
5	2022	86.372.396.655	4,54%
6	2023	91.827.508.707	6,32%
7	2024	94.951.646.430	3,40%
Full Period (2018-2024)			
Arithmetic Mean			-1,00%
Compound Annual Growth Rate (Geometric)			-1,35%
Log-linear Mean			-2,00%
Recovery Peiod (2021-2024)			
Arithmetic Mean			4,75%
Compound Annual Growth Rate (Geometric)			4,75%
Log-linear Mean			4,90%

Processed by Author(2026)

The historical revenue analysis for SDMU, as presented in Table 1.2, indicates a marked difference in patterns between the period before and during the COVID-19 pandemic and the period thereafter. Therefore, this study distinguishes growth rates into two groups: the full period of 2018–2024 and the recovery period of 2021–2024. The log-linear regression of $\ln(\text{revenue})$ against time for the full period yielded a slope coefficient of -0.020 (approximately -2% per year) with a relatively low R-square value (0.228), so this figure was primarily used as a conservative measure of long-term performance. Conversely, the log-linear regression for the recovery period 2021–2024 produced a slope coefficient of 0.04785 (4.9% per year) with an R-square of 0.988, indicating a more stable and representative growth trend for current operational conditions. Given the potential structural break caused by the pandemic, the growth rate during the recovery period served as the basis for the medium-term revenue growth assumption, while the full-period growth rate served as the lower bound in sensitivity analysis and conservative scenarios.

The 2025 financial statements are interim, with a cut-off in June 2025, so revenue projections need to be proportionally adjusted to determine the full-year performance. Based on the 2018–2024 financial statements, the average contribution of first-semester revenue to the full year is 51% , rounded to 50% . Subsequently, this estimate is adjusted for the effective six-month growth rate of approximately 2.34% , obtained from the square root of the annual growth rate of 4.75% .

The projection for full-year 2025 revenue is obtained using the following formula:

$$R_{2025} = (R_{2025Q1} \times 2) \times (1 + 4,75\%)^{(0.5)} \quad (1)$$

The initial revenue growth rate for the projection period is set at 4.75% per year, which is the compound annual growth rate (CAGR) during the recovery

phase of 2021–2024. Meanwhile, the terminal growth rate is set at 4.11% per year, based on the average real GDP growth and inflation in Indonesia for the period 2013–2024. To bridge these two values, this study applies a linear tapering approach over the four-year transition period of 2026–2029. The annual decline is calculated as the difference between the initial and terminal growth rates divided by the number of transition years, using the following formula:

$$\Delta g = \frac{g_{\text{terminal}} - g_{\text{geometrik}}}{N} = \frac{4,11\% - 4,75\%}{4} = -0,16\% \text{ (2)}$$

Based on equations (1) and (2) and the assumptions outlined in Table 1.1, the FCFF is calculated as follows:

Tabel 3. Calculation of Free Cash Flow to the Firm (FCFF) of SDMU

Items	2025 Full Year	2026	2027	2028	2029	2030
EBIT x (1- Tax Rate)	(5.589.515.604)	4.992.811.154	5.221.981.186	5.453.314.953	5.686.171.501	5.919.873.150
(+) D&A	7.560.654.738	7.010.455.333	7.332.235.233	7.657.053.254	7.984.009.428	8.312.152.215
(-) Capex	(1.632.443.081)	(1.709.984.127)	(1.788.472.399)	(1.867.701.726)	(1.947.452.590)	(2.027.492.891)
(-) Δ NWC	(3.491.229.416)	(1.264.963.694)	(1.280.416.225)	(1.292.505.418)	(1.301.013.488)	(1.305.735.223)
FCFF	(3.152.533.364)	9.028.318.666	9.485.327.796	9.950.161.063	10.421.714.851	10.898.797.252

Source : Processed by Author(2026)

Based on Table 1.4, SDMU's enterprise value after the valuation reached approximately IDR 96.27 billion. Before the debt conversion, the company's equity value was relatively very low due to a high net debt position, resulting in a fair share value of around IDR 4 per share. After implementing the DES, net debt decreased significantly, and equity value increased to approximately IDR 65.70 billion, resulting in a post-transaction fair share value of IDR 29 per share, as shown in Table 1.4.

Tabel 4. Summary of Valuation Results

Items	2025 (full year)	2026	2027	2028	2029	2030
FCFF	(3.152.533.364)	9.028.318.666	9.485.327.796	9.950.161.063	10.421.714.851	10.898.797.252
Terminal Value						136.763.568.314
Present Value of Cashflow	(2.804.647.440)	7.145.687.974	6.678.948.533	6.233.105.073	5.808.073.556	5.403.685.683
Enterprise Value	96.273.008.622					
Before Debt Conversion				After Debt Conversion		
Net Debt	91.737.990.329			30.387.354.829		

Non Controlling Interest	184.438.522		184.438.522
Equity Value	4.350.579.771		65.701.215.271
Shares Outstanding	1.135.225.000		2.250.691.100
Value per Share	4		29

Source : Processed by Author(2026)

Compared with the planned conversion price of IDR 55 per share, the appraised fair value of IDR 29 per share represents a significant difference. This comparison indicates that the planned conversion price does not fully reflect the shares' economic value, as shown in Table 1.4. From a fair value perspective, this situation suggests a potential misalignment between the transaction price and the estimated economic value of the shares calculated based on the company's projected future cash flows.

In the context of Regulation 79/2023, the findings in Table 1.4 are significant because shares resulting from DES are categorized as financial instruments not traded on public markets, so their valuation must be conducted using methods compatible with the Indonesian fiscal framework. Thus, the difference between the conversion price and the fair value of shares in Table 1.2 is relevant not only from a corporate finance perspective but also serves as an initial basis for assessing the transaction's fairness for tax purposes, especially since it is conducted between related parties.

Impact of DES on the Company's Financial Structure and Liquidity

The changes in the financial structure of PT Sidomulyo Selaras Tbk. before and after the implementation of DES are presented in Table 1.5, while the changes in key financial ratios are shown in Table 1.6. Both tables demonstrate that the DES transaction had a significant impact on the composition of the company's liabilities and equity, and that it improved several indicators of financial health.

Tabel 5. SDMU Balance Sheet Position Before and After DES

Items	Before DES	Adjustment DES	After DES
Total Assets	Rp130.878.131.122	Rp0	Rp130.878.131.122
Total liabilities	Rp109.685.236.117	- Rp61.350.635.500	Rp48.334.600.617
Total equities	Rp21.192.895.005	Rp61.350.635.500	Rp82.543.530.505
Interest bearing debt	Rp93.964.757.892	- Rp61.350.635.500	Rp32.614.122.392
Cash and equivalent	Rp2.226.767.563	Rp0	Rp2.226.767.563
Net debt	Rp91.737.990.329	- Rp61.350.635.500	Rp30.387.354.829

Source: Processed by Author(2026)

Based on Table 1.5, the implementation of DES led to a decrease in the company's liabilities because a portion of the obligations was converted into share capital. At the same time, the company's equity increased significantly as a result of the issuance of new shares in connection with the debt conversion. This change demonstrates that DES functions as a restructuring instrument that directly shifts the company's funding structure from debt-based to equity-based.

The impact of these changes is more clearly reflected in the financial ratios presented in Table 1.6. After implementing DES, the company's leverage ratio declined, indicating a lower reliance on debt-based financing compared to the period before restructuring. This reduction in leverage is important because SDMU previously faced a highly stressed capital structure, with high debt levels and limited equity capacity.

Tabel 6. SDMU Financial Ratios Before and After DES

Items	Before DES	After DES
DER	5,176	0,586
DAR	0,838	0,369
Equity Ratio	0,162	0,631
Current Ratio	0,301	0,959
Quick Ratio	0,230	0,731

Source : Processed by Author(2026)

In addition, Table 1.6 shows increases in the *current ratio* and *quick ratio* after the DES transaction. The increase in these two ratios indicates that the company's ability to meet short-term obligations improved following the restructuring. With reduced liability pressure and increased equity, the company gained more liquidity flexibility to conduct its operations.

The findings in Table 1.5 and Table 1.6 are consistent with the view that DES can be used as a mechanism for capital structure recovery in companies experiencing *financial distress*. Zhang and Tong (2023) showed that DES can improve corporate financial performance through better capital structure, while Rahmawijaya et al. (2025) found that DES's most significant impact lies in increasing the current ratio. Thus, the results for SDMU reinforce the argument that the main short-term benefits of DES are more evident in reducing leverage and improving liquidity rather than directly increasing profitability.

From a corporate finance perspective, the results in Table 1.5 and Table 1.6 indicate that restructuring through DES provides a tangible recapitalization effect for the company. The capital structure, which was previously heavily burdened by debt, became more balanced after a portion of the obligations was converted into shares. This condition not only improves the appearance of the company's balance sheet but also has the potential to enhance the company's financial flexibility in the medium term.

Nevertheless, these improvements in the financial structure do not automatically mean that all aspects of the transaction are optimal. Although Table 1.5 and Table 1.6 show improvements in the financial position after the DES, the valuation

results in Table 1.4 indicate that the planned conversion price remains above the appraised fair value of the shares. Therefore, the DES transaction at SDMU can be considered successful from a balance sheet restructuring perspective, but still leaves important price fairness issues that need further analysis from a tax perspective.

Tax Implications of the DES Transaction

The potential tax implications of the DES transaction at PT Sidomulyo Selaras Tbk. are presented in Table 1.7, while tax estimates under certain rate scenarios are shown in Table 1.8. Both tables demonstrate that differences between the book value of the converted debt, the conversion price of the shares, and the fair value of the shares may result in potential income tax liabilities, especially at the debtor level.

Tabel 7. Potential Corporate Income Tax from DES

Items	Nilai
New shares issued	1.115.466.100 saham
Fair value per share after DES (DCF method)	Rp 29 per saham
Fair value of shares received by creditors	Rp 32.562.210.942
Book value of converted debt	Rp61.350.635.500
Potential gain from debt relief	Rp28.788.424.558
Corporate income tax rate	22%
Estimated corporate income tax	Rp6.333.453.403

Source: Processed by Author(2026)

Tabel 8. Potential Corporate Income Tax from DES with 19% tariff

Items	Nilai
Potential gain from debt relief	Rp28.788.424.558
Corporate income tax rate	19%
Estimated corporate income tax	Rp5.469.800.666

Source : Processed by Author(2026)

Based on Table 1.7, there is a potential gain from debt relief arising from the difference between the book value of the debt and the appraised fair value of the shares. In this study, this difference is identified as the basis for potential income for the debtor, since debt with a certain book value is settled by issuing shares with a lower fair value. Substantively, this condition is consistent with the provisions of Article 4, paragraph (1), letter k of the Income Tax Law, which states that gains from debt relief constitute taxable income.

In addition, Table 1.7 shows that the tax issues in DES transactions cannot be separated from the market-value provisions in Article 10, paragraph (2), of the Income Tax Law. When the debt-to-equity conversion transaction is treated as part of an exchange, the value used as the basis for calculation should be the market price. In the context of this study, the valuation results in Table 1.2 become important because they provide an estimate of the fair value of shares that can be

used to assess whether the planned conversion price reflects the principle of fairness.

These implications are even more relevant because the DES transaction at SDMU involved related parties. Under such conditions, Article 18 paragraph (3) of the Income Tax Law authorizes the Directorate General of Taxes to reassess the amount of income or deductions based on the arm's length principle and ordinary business practices. Therefore, the difference between the conversion price and the fair value of shares, as shown in Table 1.2 and Table 1.5, can be viewed as a potential area for fiscal correction if the tax authorities determine that the transaction does not reflect the *arm's length principle*.

Furthermore, Table 1.8 shows that the estimated corporate income tax on the potential gain from debt relief amounts to approximately IDR 5.47 billion at a 19 percent rate if SDMU meets all the requirements as a publicly listed company eligible for a corporate income tax rate 3% lower than the general rate, as stipulated in Article 17 paragraph (2) letter (b) of the Law on Harmonization of Tax Regulations. Meanwhile, under the 22 percent rate scenario, the estimated corporate tax reaches approximately IDR 6.33 billion, as also discussed in the research findings. These figures indicate that the tax consequences of value differences in DES transactions are not only conceptual but also material in nominal terms.

From a fiscal analysis perspective, the results in Table 1.7 and Table 1.8 confirm that DES is not only a balance sheet restructuring instrument but also a transaction that requires careful consideration in determining the conversion price and fair value of shares. When the conversion price differs materially from the fair value, the company may face additional tax exposure if the transaction is reviewed or audited by the tax authorities. Thus, this study demonstrates that the application of Regulation 79/2023 plays an important role in providing a more objective valuation basis to mitigate the risk of fiscal correction in DES transactions between related parties.

CONCLUSIONS AND RECOMMENDATIONS

This study shows that the fair value of PT Sidomulyo Selaras Tbk. shares in the DES transaction plan, calculated using the income approach with the discounted cash flow-free cash flow to firm method, is IDR 29 per share. This value is below the planned conversion price of IDR 55 per share, suggesting the conversion price does not fully reflect the shares' fair value based on the company's projected future cash flows.

From financial structure perspective, DES implementation has been proven to reduce liabilities and increase equity, thereby improving SDMU's capital structure. These improvements are reflected in reduced leverage and increased current and quick ratios, demonstrating that DES functions effectively as a restructuring tool to enhance the company's liquidity and balance sheet health.

From tax perspective, the difference between the book value of the converted debt, the conversion price of the shares, and the fair value of the shares can give rise to income tax implications, especially for the debtor. In the context of transactions between related parties, this study underscores the importance of

determining the fair value of shares in accordance with Regulation 79/2023 as the basis for assessing the fairness of the transaction price and mitigating the risk of fiscal correction.

Recommendations

This research has practical implications for companies planning to restructure debt through DES, especially when transactions are conducted with related parties. The findings indicate that determining the conversion price should not only consider the need for balance sheet restructuring but must also be supported by an adequate estimate of fair share value to avoid issues of price fairness and the risk of fiscal correction.

For company management, these findings confirm that DES can be an effective instrument for reducing liabilities, increasing equity, and improving company liquidity. However, these benefits need to be balanced with careful valuation and tax planning, as differences between the book value of debt, conversion price, and fair value of shares can result in material income tax exposure.

For regulators and tax authorities, this study illustrates the importance of Regulation 79/2023 as an objective basis for evaluating the fairness of share transactions not traded on public markets. In the context of affiliate transactions, this regulation plays a crucial role in strengthening the application of the arm's length principle and reducing the potential for value distortion in the determination of conversion prices.

Academically, this study expands the discussion of DES by linking three dimensions that are often considered separately: financial restructuring, share valuation, and tax implications. Thus, this research shows that evaluating DES cannot be limited to improvements in capital structure alone; it must also take into account the fiscal consequences arising from differences in transaction value.

FURTHER STUDY

This study has several limitations that should be considered when interpreting the results.

1. This research uses a single case study design focused on PT Sidomulyo Selaras Tbk., so the results are contextual and not intended for statistical generalization to all companies undertaking DES.
2. The fair value estimate of shares was conducted using the discounted cash flow approach based on free cash flow to the firm, so the valuation results depend strongly on financial projection assumptions, the discount rate, and the terminal growth rate. Therefore, changes to these assumptions can yield different fair value estimates.
3. The tax analysis in this study focuses primarily on potential income tax implications at the debtor level. As a result, the tax consequences for creditors have not been explored in depth, even though this aspect is conceptually relevant to DES transactions.
4. This study uses secondary data and bases its analysis on the planned DES transaction as disclosed in the company's public information.

Therefore, the results reflect the conditions, assumptions, and transaction structure at the time of the research and may differ if there are future changes in financial conditions, valuation parameters, or the finalization of the transaction scheme.

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