

Aspects Concerning Taxes in the Evaluation Perspective. Romanian Case

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Abstract

The latest amendments in national legislation on aspects related to real estate tax assessment have created an entire debate among practitioners. So, conceived and structured on a complex issue, the paper intends to present some elements of accounting and taxation related to tax assessment respectively a case study representative of the theoretical part. The purpose of our research is part of establishing repercussions within the new legislation on taxes due to the state, and implicitly impact on the activity of economic entities.

Key words: evaluation, reevaluation, taxation

Jel code: M41, H32

1. Introduction

Starting from the fundamental purpose of accountancy, namely delivering information which should provide a trustworthy image of the financial position, of financial performance, and also changes in financial position, in order to use these information by both the internal and external users for substantiating some economical decisions, for improving the performance or strategies, for carrying out a property transfer, merging, communication towards fiscal unity – the entities, regardless of their juridical status of organization, see the necessity of measuring the possibilities, weaknesses and strengths.

Broadly, the evaluation is an analysis, an opinion or a conclusion referring to the nature, quality, value or usability of certain interests or aspects of a particular property, expressed by an impartial person, who is specialized in analyzing and evaluating properties. Limitary, evaluation is the process of estimation of a certain type of value, for a particular property, which is made at a special date and which is embodied in the evaluation report. (Anghel et al, 2010, p.16)

Evaluation can be ranged, according to diverse criteria but, depending on the purpose for which it is realized, evaluation can be: evaluation for purchasing or sale, evaluation for the minorities' actions for obtaining a correct compensation, for financial reporting, for taxing.

The bond between accounting and taxation is essential in elaborating some national accounting rules. In countries where tax regulations are independent of the accounting ones, the fiscal result is issued from applying specific rules, which are independent of the ones used in accountability. (Feleaga, 1999, p.169)

In the countries from Mainland Europe, taxation exerts an important influence upon both accountability and the evaluation rules of measuring, due to the fact that there is a close bondage between bookkeeping and taxation. For this reason the entities have the tendency to underestimate the profits, in order to minimize the corresponding contribution, for increasing damping and adjustments for the registered depreciations. (Roberts et al, 2005, p.254).

Designed and structured based on a complex problem, the present paper provides both the presentation of certain accountability elements and of taxation, which are related to tax assessments, and a study case which is representative for the theoretical part.

2. Methodology

Any research that tends to be scientific should have a purpose. The purpose of the present paper is the one of presenting theoretical and practical aspects, which are connected to the importance of tax assessment.

The work methodology is based upon theoretical research concerning concepts and regulations in this domain. For completing this paper one had studied The International Standards of Evaluation, papers from the financial accountability field which were written by famous researchers, one has analyzed the regulations for financial bookkeeping, thus, this being a qualitative research of exploratory type.

The empirical part of the paper is based on a case study through which we identified the main points of differentiation in the way of establishing the tax on buildings.

3. Aspects concerning the evaluation for taxation in national level

The developing of an entity's activity entails the existence of a technical-material base, within which the current assets have a very important economical role and have a significant weight factor. Current assets are assets items, which are detained for more than a year, being generators of future economical proceeds for the entity. (Matis Pop, 2010, p.144)

A relevant category for assets is represented by tangible assets, these being those tangible elements hold for being used in goods production or in service provision, with the purpose of being rented to third parties or for being used in administrative purposes, and which are expected to be used during different periods of time. (IFRS, IAS 16, 2012)

A result of the fact that tangible assets are used in a long-lasting manner, excepting the lands, they are decried and depreciated, due to physical or moral attrition, as well as to different economic, social and political factors, thus being required the adjustment of their value, in order to be recognized as close to reality as possible in the annual financial report, respectively for different reasons such as sale and taxation. This adjustment of the value of corporal tangible assets should be viewed according to two aspects:

- Permanent, conclusive, irreversible adjustments known as pay offs
- Temporary, reversible adjustments known as depreciation adjustment (Matis, Pop, 2010, p.144)

Generally speaking, economical evaluations, respectively reevaluation, have a final purpose in determining the market value of a property, asset or company, thus offering real information about the property or the asset in question.

Concerning the reevaluation of tangible assets, this implies to evaluate again, usually updating a preexistent value. (Todea, 2004, p.4)

Reevaluation of tangible assets, including buildings, is a subject which the contributors were always interested in, just considering the fiscal implications that may appear. Therefore, a great deal of attention should be paid to the way in which these operations are reflected for the establishment of chargeable value.

Reevaluation tax treatment is a quite complex and unpleasant one for the practitioners. Not just for a few times situations in which Tax Code is fallaciously interpreted, are met, generating in this way, differences concerning the income tax, building tax and moreover differences concerning the required interests and penalties.

The new Tax Code / Fiscal Code brought changes concerning the buildings' chargeable asset, thereby, if according to the old Tax Code the chargeable asset was represented by the accountant asset, namely by the acquisition cost, by the building or by the market value concerning reevaluation, at the moment the tax value is the value from 31st of December of the previous year to the one for which the contribution is owed.

The tax value can be: the last tax value which was last registered in tax authority records, the value resulted from a value report - made out by an authorized assessor, the final value of construction work - in the case of new buildings which were built during the previous fiscal year, the buildings' value which is resulted from the papers according to which the right of property is transferred – in the case of the buildings which were acquired during the previous fiscal year, in the case of the buildings which are financed based on a contract of financial leasing, the value resulted from an evaluation report made out by an authorized assessor and which is compiled on the evaluation standards of assets, the last being in force at the evaluation date – in case of the buildings for which the building contribution is required, the value which is inscribed in the owner of the building's accounting records and which must be transmitted as appropriate to the concessionaire, to the occupant, to the administrative holder. (Law no. 227/2015)

The updating of taxable value is made in each three years, following an evaluation report; otherwise the contribution share would be 5% (Law no.227 / 2015).

The cost approach consists in new cost estimation minus physical attrition and / or functional depreciation. The economical / external depreciation are not being taken into account. The assessor have to choose between the two types of new costs – replacement or reconstruction cost, and to frequently use one of these two while applying for this measure. Replacement cost is commonly recommended, but if this is not possible, reconstruction cost is being applied reasoning why this particular cost is taken into consideration. (GEV 500, 2015).

The income approach is applied only when the land of the real estate property, which includes the assessed building – is not included himself in the undivided share, and if the tax payer provided the assessor with information concerning the ground area corresponding to the building in case. The process of applying the income approach consists in two main stages: firstly, the market value and real estate estimation rating – including both the building which is the subject of evaluation, as well as the ground field related to the building; and secondly, allotting a market value to the real estate in the previous stage, between the value of the building itself and the ground field's value. The income approach is not applicable when there do not exist some comparable market information. (GEV 500, 2015).

The market approach is applicable only when the ground field corresponding to the real estate – from which the evaluated building for taxation is a part of, is not included in the undivided share and the tax payer provided the assessor with information concerning the surface of the ground field. The market approach is consisted in two stages: the first one is the market value estimation of the real estates, including both the building being the subject in matter to taxation, and the input of the ground field corresponding to the building; the second stage consists in allotting the market value which was obtained in the phase between the building valuation and the ground field valuation. (GEV 500, 2015)

From comparing the three types of approach, emerges the fact that the cost approach is the simplest and also the compulsory one, requiring less information as opposed to the other methods. The income approach, as well as the market one, requires certain piece of information which the entity might not have.

Starting from the three types of evaluation, the question of the result arises, whether if the value resulted from applying the cost approach is the least, will this be in the end chosen; and if from applying the other methods comes out a lower value, the result depends on the value resulted from cost and these values. If the difference is of maximum 10%, the lowest value will be selected, or otherwise the cost approach will be selected, due to the fact that this can be diminished by 10%. (GEV 500, 2015)

From comparing the old Tax Code to the new one, it comes out that the tax rate being applied to the taxation value is not different anymore depending to the owner, who could have been an individual or a legal entity, but it differs as it follows, depending on the destination of the building: for residential buildings a rate between 0,08%-0,2% is applied, and for non-residential ones a rate between 0,2%-1,3% in applied. (Law no. 227/2015).

The building's taxable value, delivered in RON, is determined by multiplying its built surface – delivered in square meters, by the corresponding taxable value, expressed in RON/square meters. The influencing factors are: the type of the building, namely building, extension building, basement, underground floor, attic, and the materials out of which the building is made,

respectively concrete, brick, wood, and also the building endowment with water, duct, heating and electrical facilities. (Law no. 227 / 2015)

At the same time the correction coefficient must be taken into account, because this is used for adjusting the building's taxable value according to the locality rank, and which varies from 0 to V, 0 being the one for which the greatest deal is paid, and the area in which the building is located which varies from A to D, the greatest deal of taxation being imposed for building which are situated in A areas, by multiplying the building's value determined in RON / square meter by the corresponding correction coefficient. The values which could be taken by the correction coefficient are pointed out in the Fiscal Code. (Law 27/2015).

4. Practical aspects determining the tax on buildings

Our case study is based on an economic entity which operates in the processing and selling PVC and wooden carpentry. According to statistics from the Trade Register Alba, the entity is situated in first half of the rankings according to Fiscal value of economic operators (Decision no. 359, 2015).

Thus the problem of taxation is an important concern for its business. She holds both buildings for the activities TESA staff and to achieve production.

In determining the amount of tax on buildings, respectful of current law (article 458 Tax Code), the entity will take into account that the building is owned by individuals - the owner of the company, and falls into the category of non-residential buildings. In this building, the entity develops its activity of manufacture. Is applied quota of 1.3% on the value of the building resulting from the act of transfer ownership of the buildings achieved in the last 5 years preceding the reference.

Thus:

As we can be seen from the accounting records, the building was bought four years ago, at a value of 147.980,64 Ron.

Building tax due: $147.980,64 \text{ Ron} * 1,3\% = 1.923,748 \text{ Ron}$

Owners must submit statement about building value until the end of the first quarter. Failure to submit the declaration and supporting documents in time will lead to a calculation of tax on buildings with a rate of 2% applied to the taxable value determined as residential buildings, which can lead to a value up to 10 times higher.

For the second building, the company will take into account for calculating the tax on buildings, its destination. The building is residential and is used for the activity of administrative and financial accounting.

For residential buildings and annex buildings owned by individuals, the tax is calculated by applying a rate of 0.1% on the taxable value of the building.

The taxable value of the building, expressed in RON shall be determined by multiplying the area conducted its built, expressed in square meters, with corresponding taxable value, expressed in Ron/ m².

The building has an area of 62 m². Accordance with the provisions of local taxable value is 1000 Euro / m².

Thus:

Taxable value: $1000 \text{ Ron/m}^2 * 62 \text{ m}^2 = 62.000 \text{ Ron}$

Building tax due: $62.000 \text{ Ron} * 0,1\% = 62 \text{ Ron}$

Do not must be submitted any statement for this property.

Therefore, the total tax on buildings owed by the entity which made our case study is:

Building tax = $1.923,748 \text{ Ron} + 62 \text{ Ron} = 1985,748 \text{ Ron}$

5. Conclusions

As tax repercussions of changing conditions in the assessment we have identified as the first aspect fact that the taxable value determined according to GEV 500 is not the same as market value and is not recorded in the financial statements, therefore if the entity decides to perform revaluation at market value of its elements for financial reporting accordance with current regulations, this will be recognized value in the financial statements.

As a result of the changes brought by the new Fiscal Code will be reached where the same building there will be two evaluation reports, with two different amounts, but both correct, according to the regulations have been met.

The paper allowed a SWOT analysis for the effects of changes to national legislation on taxation:

Threats:

- Ambiguous legal framework, sometimes confusing allows double reporting of the same building value because it will prepare two evaluation reports, one for tax and one for financial reporting
- The existence some of the ambiguities regarding the evaluation of buildings with mixed purpose that can explain only by doing.

Opportunities:

- Increasing state resources
- Data recorded at ANEVAR on taxation values can be accessed by interested parties
- Identification good practices at European level applicable in the country.

Weaknesses:

- Conditions for achieving increased fraud
- An owner who owns two identical buildings, whose value tax is identical, but the buildings are located in different places, different pay tax for each building, according to the quotas set for that locality.

Strengths: - Allow fair assessment of each activity for taxation

- Taxation will be based on the use of the building, regardless of whether the owner is a natural or legal person, leading to a uniform tax treatment
- Two identical buildings, even if they are located in different places, leading to the existence of taxable value identical.

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