

THE IMPACT OF PROPERTY ASSESSMENT FOR TAXATION IN ACCORDANCE WITH THE 2016 FISCAL CODE

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Abstract: Under the new Fiscal Code, valid for 2016, there was a need to assess the buildings used for carrying out economic activities. Thus, the taxation of buildings according to ownership was replaced by the taxation of buildings according to designation. Under these conditions, transitioning from an assessment performed with the method of comparison approach to an assessment performed through the method of cost approach, the result was lower tax values. Moreover, the study I have conducted shows the difference between the value of a sqm obtained from the comparison of market values in an apartment, a house, a commercial space or a warehouse and the value of a sqm obtained by applying the cost method. The obtained results make us think about a reality: if the value of a sqm obtained using the cost method is as much as it is at that point, than how do contractors justify the prices they request for their constructions? Let us hope that the market will reposition buildings prices.

Key-words: assessment, assets, comparison approach, cost approach, Fiscal Code

Introduction

The evaluation of tangible assets must be performed, according to Romanian legislation, at least once every three years for legal entities and at least once every five years for individuals, if the latter are conducting a business in their privately owned buildings.

While the provision concerning legal entities exists since a few years ago, starting with 2016, the Fiscal Code includes the provision related to individuals, and the method for tax calculation for individuals is stipulated in articles 457-459 of the Fiscal Code [1].

These new provisions of the Fiscal Code were aimed at changing the method for tax calculation so that, if by late 2014, property tax was calculated and paid, starting with 2015 the calculation and payment is performed depending on the destination of the building. Also, it is the first time when the physical depreciation is taken into account for the calculation of a building's taxable value. This is a good thing, because when the taxable value was being calculated at market prices, it did not take into account this depreciation, and buildings older than 30-40 years had the same tax regime as relatively new buildings, no older than 5 years.

2. Cost approach

According to the new provisions of the Fiscal Code, the taxable value of buildings is calculated through the cost approach method, with two methods, elaborated by and Matrix Rom SRL, both entities being agreed by both ANEVAR and the Ministry of Public Finances.

Cost approach is an evaluation method also provided in OMFP no. 1802/2014 [2] which, at point 266, par. (1) specifies that “a tangible asset recognized as an asset must be initially assessed at the cost or determined according to the evaluation rules of the present regulation, depending on the manner in which it enters the entity”.

Thus, the evaluation of tangible assets for tax purposes requires the document attesting the acquisition of the building. This document can be a Purchase and Sale Agreement, a building permit and a Reception Protocol, if the building was constructed or a Certificate of Inheritance. In my practice, I have come upon all previously listed property titles.

Also, all property titles have to be accompanied by a Real Estate Register excerpt which should indicate the ownership of the building. Until 2006, these Real Estate Register excerpts did not contain the broken down surfaces of the assessed buildings. That is why a 1.4 coefficient was provided, to be applied to the surface of the buildings to be assessed if it is impossible to perform measurements of the exterior surfaces of the buildings.

Although the value of this coefficient seems high and there is a concern that the taxable value would be increased, the taxpayers should not fear, because after applying the physical depreciation coefficient provided by GEV 500 of ANEVAR, the values are reasonable.

In this situation the Mayor Offices have collected more or less money for the budget, depending on the values determined by the evaluation reports. There were situations where the taxable values were higher than last year, which is not uncommon and these situation mostly occurred in the case of newly constructed building, which did not benefit from the physical depreciation coefficient.

3. Comparative study

Based on the results obtained from the evaluation reports, I can make a small comparative study between the values obtained as process/sqm, expressed in Euro, for apartments, houses and industrial warehouses, buildings which were the subject of evaluation reports in Cluj-Napoca.

Please find below the values thus obtained:

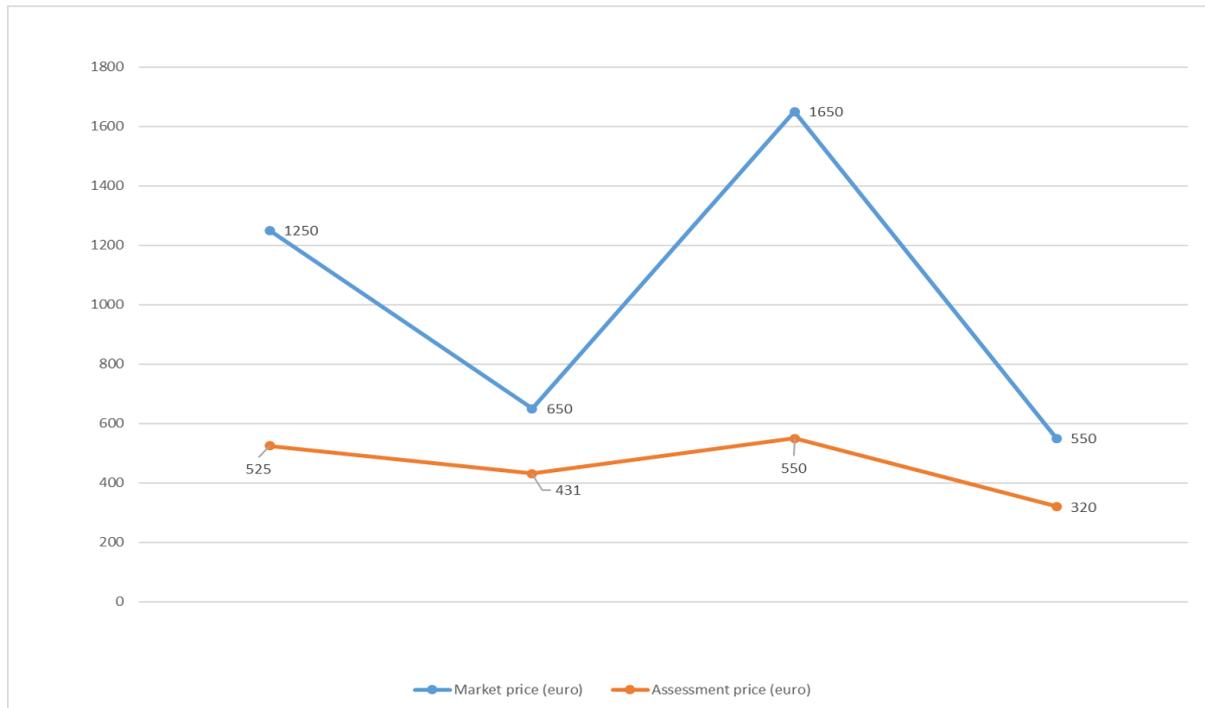


Figure 1. The value of the prices in the market as compared to the prices in the following evaluation

(Source: Processing of the author after the [4], [5] and [6])

As we can see, the values obtained from market information are significantly higher in the majority of the studied cases, in apartments, houses, commercial space and industrial warehouses.

In the case of apartments (column 1), we can say that the price difference is mainly given by the location of the apartments and secondly, the price difference is given by the interior finishes. To a lesser extent, this difference is also influenced by the level (floor) where the apartments taken into account for this comparative study are located.

In the case of houses (column 2), the first factor influencing their price is their size, the second factor is their positioning within the Cluj-Napoca neighborhoods, and the third factor is represented by the degree of finishing, which, like in the case of apartments, is higher in case of newer buildings.

In the case of commercial space (column 3), the difference is given in the main construction thereof, the difference appearing in the case of spaces in BCA compared with those constructed of brick, secondary and this difference occurs due to the surface and the facilities with utilities, the cost being higher in the case of commercial premises finishing with superior. And last but not least is the importance of their location.

In the case of industrial warehouses (column 4), the difference mainly resides in their method of construction, the difference occurring in the case of warehouses built from prefabricated panels, compared to the ones built from BCA, and secondarily, this difference is given by the surface and facilities, the cost being higher for warehouses also equipped with offices and not only spaces reserved for lockers.

4. Conclusions

At this time, we cannot make an assessment related to the value collected by the Mayor Offices after this calculation method for the taxation of buildings and that is why it was surprising when Prime Minister Dacian Cioloș made the following statement related to the modification of the taxation system for buildings. “There are talks about transitioning to taxation based on the market value of buildings by giving up on the current system, which is based on their location. The contradiction comes from the fact that the market value is significantly influenced by the location of the property, and currently the taxation system does not take into account the location of the building”. [7]

Let’s hope that this approach of buildings tax will not change so quickly and is allowed to be properly implemented, so that we may only talk about its change in a few years.

Bibliographical references

[1] Law no. 227/2015 on the amendment of the Fiscal Code I, published in the Official Gazette no. 688/10.09.2015

[2] Order of the Minister of Public Finances no. 1802/2014 the approval of accounting regulations for individual yearly financial statements and consolidated yearly financial statements, published in the Official Gazette no. 963/30.12.2014

[3] International Evaluation Standards 2015 elaborated by ANEVAR, Evaluation Guide GEV 500, www.anevar.ro/legislatie

[4] www.imobiliare.ro

[5] www.edil.ro

[6] www.weltimobiliare.ro

[7] Vascu Adrian, (2016), *Este posibil ca impozitul sa creasca desi valoarea impozabila scade*, Valoarea, Q1, pp. 8-11