Tax aspects on assessing the value of buildings in Romania using methodology derived from the implementation of the new tax code

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SUMMARY

This paper presents measurement principles of real estate using the provisions of the new Fiscal Code, ANEVAR new methodology imposed by GEV 500 Guide and a representative case study.The legal framework for the taxation of buildings consists of: Tax Code, Rules methodology of law enforcement 227/2015 regarding the Fiscal Code and Evaluation Guide 500 GEV - Assessment methodology for buildings No.3 / 2015.

The evaluation takes into account two criteria, namely the owner - the taxpayer and the use of the building (residential, non-residential and mixed). The taxable value is the estimated value type tax purposes non-residential buildings owned by individuals or legal entities and residential buildings owned by legal entities. The taxable value is not market value or fair value as defined types of value assessment standards in force, ie the Romanian legislation on accounting regulations consistent with European directives or other specific accounting regulations and International Standards on Auditing.

Assessment in order to determine the taxable value of the building can be performed only by an authorized specialized property valuation (EPI) or a corporate member, in which case the report must be prepared by one or more assessors EPI. Checking for tax assessment can be carried out in accordance with the EVS 400 - by the authorized assessor (VE).

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1. INTRODUCTION

Buildings' evaluation may be made by: cost, income or market value. The taxable amount does not include VAT.
To determine the taxable value can only be applied in the evaluation approach, given that there is insufficient information to apply other approaches being mandatory in this case the cost approach . In this situation, the assessor must specify in the assessment report which are not applying one or arguments the other two valuation approaches.
The **cost** approach is to estimate the cost of new deducted from physical wear and / or functional impairment, if applicable; not applicable economic depreciation / external. The evaluator must choose between the two types of newly- cost replacement cost and the cost of reconstruction - and to use any of these types consistently applying this approach. The assessor must ensure that all input data for the assessment is correlated with the type of cost used in the assessment (Săndulache G., Proca Gabriela, 2016), (Tax Code, 2015).

It noted that **replacement cost** is advisable to apply or where applicable, the cost of reconstruction presenting arguments related. Data entry of new cost are taken from credible sources or verified from two different sources but credible.

Physical impairment is a loss of utility caused by physical damage of an asset or its components, as a result of its age and under normal conditions of use, which translates into a loss of value estimated in accordance with the legal specifications (GEV 500, 2015).
Functional impairment is a loss of value caused by over-sizing, the route of impaired circulation interior of shortcomings that diminish comfort and if done approach not determined if the replacement cost method.

The **income approach** is applied only if the related land property, which includes building assessed tax rate is not undivided and if the taxpayer provided the assessor documentary information on building appropriate land area subject.
Steps are addressing the market value of the property that includes the building subject to tax intake and its adjacent land allocation market value of the property obtained between the value of the building and land value.
The method can be applied for assessing real estate and leased real property for which an active market rentals (minimum three comparable properties leased to date of the estimate of taxable value). If there is no market comparable method can not be applied

Market approach applies only if the related land property of which the building is assessed for taxation and undivided share taxpayer information available to the assessor on the ground

surface.
The method comprises two stages, namely the market value of the property subject to taxation which includes building and land properly intake, and the allocation of market value obtained in step between the value of the building and land value (GEV 500, 2015).
Land associated - buildings will be evaluated solely for the purpose of allocating property value assessment methodology in force.

The taxable value is a type of value estimated tax purposes and is the result of a building for tax assessment conducted on the basis of Standards ANEVAR - GEV 500. Is mentioned that the taxable value is not: market value, fair value, investment value or any other type of defined value in ANEVAR Evaluation standards, International Financial Reporting standards, National accounting standards or other professional referential, except for specific provisions GEV 500 "Determining the taxable value of a building ."

The assessor *concludes* taxable value implies a value selection of the three determined by applying multiple valuation approaches.

2. CASE STUDY - ESTIMATING THE VALUE OF TAXATION FOR COMMERCIAL BUILDING SITUATED IN JASSY, ROMANIA

2.1. General Aspects

This evaluation report is prepared at the request of the taxpayer, for the purpose of estimating the taxable value of owned buildings and it is forbidden to use the assessment report, in whole or in part, for any purpose. Consequently, expressly prohibited the use of taxable value resulting from application of 500 GEV,"Determining the taxable value of a building " for financial reporting purposes, the loan guarantee, sale or any other purpose except the building by the local authority taxation on the area where the taxpayer has a legal obligation of paying tax on buildings".

Identification of Buildings under Evaluation was done using the Declaration on buildings taxpayer.
Type of estimated value The taxable value is a type of the estimated value of buildings for tax purposes and for tax assessment result is undertaken on the basis of Standards ANEVAR - GEV 500 "Determining the taxable value of a building ".
The taxable value is not market value , the fair value, the amount of investment or any other type of value defined in Standards Assessment ANEVAR International Financial Reporting Standards, the accounting standards national or other referential professional, except for specific provisions GEV 500 "Determination taxable value of a building".
Checking for tax assessment can be made in accordance with the EVS 400 "verification assessment" only by an authorized check with a specialist Assessment ("VE"), proved by stamp verifier specializing EPI.

2.2. Data submission

- Commercial real estate, identified by cadastral number 392/1/p, consisting of: Commercial space with area of 122.49 sq m built area of 143.02 square meters located the expansion apartment building with GF + 10E .
- The property has not been abroad and is not subject to a bank guarantee.
- After Assessment Standards of ANEVAR edition in 2015, the property is in situated in a commercial properties group,the market segment of retail space store type and/offices located in extension to the block of flats in the middle area of Jassy municipality, zone Alexandru cel Bun (Figure 1).

Figure 1.

- Jassy is the county seat and the main urban city in N-E Romania. According to Census 2011, the city of Jassy counts 290.442 inhabitants and was thus the fourth largest city in Romania. Jassy Metropolitan area includes 13 neighboring localities, had a population of approximately 400,000 inhabitants. Real property is located as an extension to the apartment building in the municipality of Jassy, Voievozilor Street Market, no.9 bl.X6bis, neighborhood Alexandru cel Bun (Figures 2, 3).
- Urban character of the area:mixed (churches, banks, hypermarkets, block of flats, high school).
- Features of urban areas: electricity network, water network, natural gas network, sewerage network , district heating network).

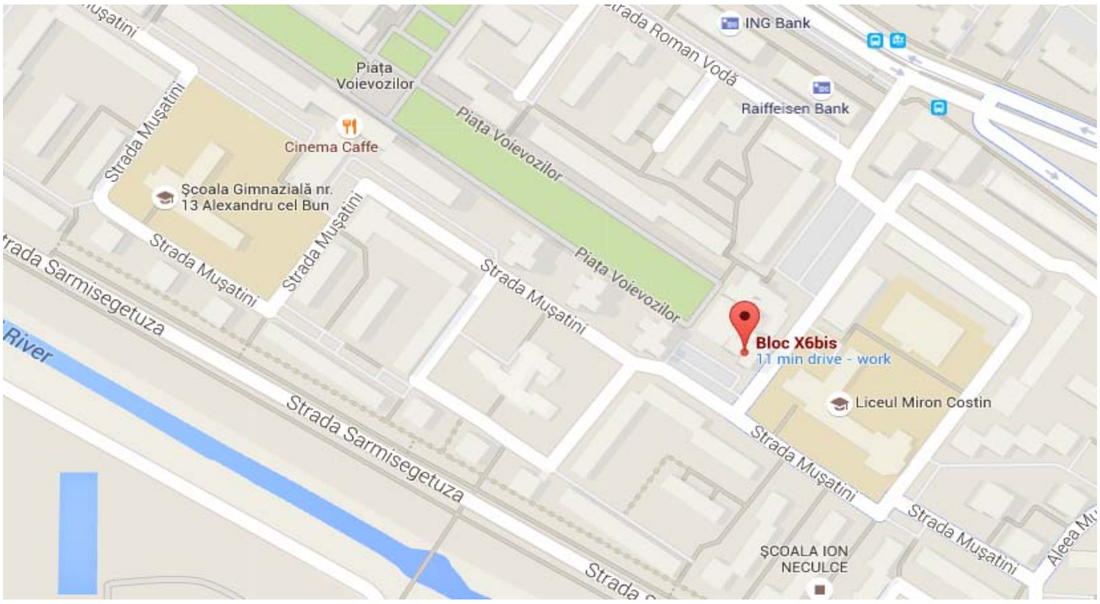

Figure 2

Figure 3

✧ Building Description

- ➢ Block of flats Description
- Height regimen: ground floor + 10 floors
- ➢ Infrastructure: Structural beams net and reinforced concrete slab;
- ➢ Structure: lamellar reinforced concrete frames with masonry infill
- ➢ exterior finishes: cement mortar with stone dust;

- Interior finishes: cement-lime mortar
- Facilities: lift, intercom.

✧ **Commercial Area Description**

- Cadastral identification: cad.no.392/1/p;
- Medium finishes;
- Usable surface:122,49 m^2
- Built surface: 143, 02 m^2;
- Partioning: offices, shop, toilet, hall, warehouses
- Installations: water - sewerage, electrical, air coinditioning, central heating using gaz
-

2.3. Market data area

Commercial real estate market. For 2015 were announced several extensions of existing retail chains with complementary spaces. However, a market that promises to be quite active in that year proved to be much poorer in terms of deliveries spaces. The availability of relatively high -street spaces generated a decrease in rents in this segment.

Application for similar property. Demand targeting ever smaller surfaces which, in turn, imply lower investment in landscaping. On the other hand, the current economic situation revived the business as grocers or repair firms, which are best small spaces. For the future, there are a large number of international retailers who have expressed interest in entering the market both directly and through franchise.

Market equilibrium. Tenants desire to get a better balance between quality space and occupancy costs generates relocations. This balance does not necessarily mean a reduction in occupancy costs. The relocations generated by optimizing the living space, more precisely, moving activities in one building, generated extensions of tenants, especially those who already owned large spaces.

Conclusions on market trends and real estate property. The essence of real estate investments has not changed in recent years, investors still wants to resell the buildings at a price higher than the acquisition, but the waiting period was extended. There are investors who buy hoping to sell in a year with profit. Therefore, the owners will opt to improve their situation rent, lease buildings entirely, because when they want to sell the buyer can offer better yield.

2.4. Assessment for tax

As are indicated by ANEVAR Standards Assessment edition 2015 properties valued group falls in commercial real estate. Given the type and topic specific area properties analysed, relevant and appropriate assessment approach is the **cost approach**.

The cost approach consists of estimating the cost of new of which will be deducted wear and/or impairment of functional, respectively.
Physical impairment is a loss of utility caused by physical deterioration of the asset or its components, the effect of his seniority in normal conditions and usage, which results in a loss of value being evaluated using No.2 Annex, GEV500.

Determination of normal depreciation (DFN) for the actual age (Vef) is done with the mathematical relationship (i)

$$D_{fn} = D_1 + \frac{D_2 - D_1}{V_2 - V_1} \cdot \left(V_{ef} - V_1\right) \qquad \text{(i)}$$

where:
D1 is the degree of physical impairment normal for age V1 ;
D2 is the degree of physical impairment V2 normal for age.

Having in view technical descriptors of built area we concluded that estimated value using a cost approach method is **256.110 LEI (56.556 EUR).**

3. CONCLUSIONS

Valuation methods proposed by ANEVAR to implement the provisions of the new Fiscal Code tries to encompass all the concrete situations of the real estate market, taxation values proposed having regard to all previous approaches and updates on the technical condition of the buildings (excepting seismic risk), site and area of cities' importance and in settlements.

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