

Economic Land and Real Estate Register-between existence and efficiency

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Abstract: *The Economic function of the Land and Real Estate Register underlines necessary technical elements for the computation of the real estate tax base and tax computation applied to the revenues obtained from real estate transactions. The specialized methodology is issued by the National Agency for Land and Real Estate Register and Real Estate Advertising (“ANCPI”), verified by the Ministry of Administration and Interior and the Ministry of Public Finance, approved by a Governmental Decision annually, up to the 1st of April, being applied in the next fiscal year.*

1. Legal framework

Article 10(2) from Law no.7/1996 of the Land and Real Estate Register and Real Estate Advertising up-dated and modified states:

“The Economic function of the Land and Real Estate Register underlines necessary technical elements for the computation of the real estate tax base and tax computation applied to the revenues obtained from real estate transactions“.

Law no 571/2003 regarding the Fiscal Code, the following modifications are stated:

Article 1- (1) Starting with 2008 the public administration authorities may establish the building tax and the land tax taking into consideration the building taxable value and the land tax presented in Title IX from law no.247/2005, or, there is the option to establish the building and land taxes taking into consideration the value of the buildings and land based on the offer and demand.

(2) The specialized methodology for the establishment of the buildings and land taxes based on offer and demand as well as the tax levels, will be approved by Governmental Decision until 1 April 2007 and afterwards, annually until the 1st of April applicable in the following fiscal year, being submitted to approval by the Minister of Public Finance and the Minister of Administration and Interior.

(3) In the fiscal year 2010, the public administration authorities will establish the building and land tax level taking into consideration the value of the buildings and land based on the offer and demand.

(4) The specialized methodology described at paragraph (2) will be issued by the ANCPI in collaboration with the central public authorities which produce and are responsible for the specific Information Systems for each activity field, and by consulting the representatives of the local authorities. The Methodology will be presented to the Minister of Administration and Interior and the Minister of Public Finance until 31 January 2007 and then until the 31 of January of each fiscal year.

Solutions

From the presentation of the two laws, we can conclude that, until nowadays, there was no clear technical support for the establishment of the real estate value in order to determine equitable tax levels in Romania.

Each administrative body has established taxes in a subjective way or by taking into consideration the budget interests from that moment.

There was no generalized methodology at administrative territory level which could be applied uniformly and which to allow the establishment of taxes linked as much as possible to the existence and functionality of the building.

Because of this, an interministerial commission was established within ANCPPI which will consider from a technical point of view the problem of the building solvency in the context of their economic existence.

This Commission has been operating since January 2005, has been developing its activity on a monthly basis and has official representatives from : The Public Finance Ministry, the Ministry Administration and Interior, the Ministry of Agriculture, Forests and Rural Development, the Ministry of Transport, Constructions and Tourism, the Ministry of Environment and Waters Management, University of Agronomical Sciences and Veterinary Medicine from Bucharest and Cluj-Napoca, the Academy of Silvicultural and Agriculture science, Bucharest Subway, the Ministry of Economy and Commerce, ANEVAR, Vulcană Băi Targoviște county, the Real Estate Chamber from Bucharest, Romania, the National Union of Real Estate Agents, the Association of real estate agents and real estate investors from Romania, the Revenues-budget Service, district 2, Bucharest, etc.

As a consequence of the activity of this commission, of the results obtained and of the international contacts of the management of the ANCPPI (Italy, Republic of Moldavia, Sweden, etc), from January 2006, the economic Land and Real Estate Register Service was introduced in the organizational chart of the Agency for which specialists were selected through examinations and today it is working.

The main task of this Service is to issue, together with the Commission mentioned above, a Regulation and a Methodology for real estate evaluation.

Evaluation methodologies for land within the built-up area and outside cities, with or without constructions, as well as urban real estate evaluation of all types of buildings.

The basic principle for the establishment of the methodology is their evaluation in the context of offer and demand concept in a functional market economy.

2. Project regarding the Unitary Method for the Real Estate Solvency

We are trying to establish a marking algorithm (solvency) for each real estate property based on the market value of these properties. The suggested method, the one regarding the establishing of the real estate's market value as well as the final result, i.e the marks for each property, is intended to be applied unitary, in the same way for all properties.

In practice, of course, there will be plenty situations when the method could not be applied, because of lack of information, which is normal for any evaluation method, or there will be situations which will be solved by adding the necessary information or by adding, in time, other classic techniques of evaluation.

2.1. Definition of Real Estate Solvency

By solvency action is defined the realization of the real estate property value through a marking algorithm.

We notice that the value of each type of real estate property may be established through a surface unit of measurement (per square meter) and this value can be defined on a 1 to 100 points scale.

Thus, 1 point is granted for the lowest value /square meter and 100 points for the highest value/square meter for the same type of property (the maximum and minimum values are determined from the study of the Real estate market and the analysis of the real estate database constituted for the application of the method described below.

In this way, a computation can be obtained of the value of the solvency point for the moment when these estimations were made.

The value of the solvency point and even the marking of each real estate property may be annually recomputed using the method suggested.

The marking which will define each real estate property (i.e the solvency value) may be used if a proportional taxation system will be implemented.

2.2. Definition of Real Estate Types and their Defining Elements

Any real estate property can be defined as a plot of land with fixed coordinates on which may exist:

- a construction;
- a plantation;
- a watery area;
- a forestry area.

Each of the above constitute types of real estates.

Land can be within the built-up area and outside cities.

The defining elements (and which can become comparative elements) should be proved by a legal document (i.e the surface and the widnes of a plot of land should be excerpted from a technical Land Register, the existence or non-existence of the sewerage near the property should be attested from the Plan of Real Estate Net, etc.)

2.3. Method of Solvency Realization

The method states the establishment of the real estate market value through statistical and comparative analysis of the real estate data bases created for this purpose.

This method can be applied by analysis of the data regarding the transacted real estate market value.

The values obtained (through statistical analysis) will be extrapolated for the real estate which were not transacted and to those which, probably, are not intended to be transacted and will be checked (by sampling on or demand) through other methods of evaluation and compared with values from the real estate market.

Later on, these values are transformed in solvency points according to each type of real estate.

The method of statistical analysis should be realized by a group of experts according to a consultancy contract and should take into consideration specific elements for the Romanian market, aside the specific statistic mathematical elements for the analyzed field. The Romanian market is a very dynamic market from the European Union adhesion point of view and has many distortions and disagreements between the market values and the ones obtained by using classical evaluation methods.

2.4. Real Estate Database and Means of Realization

The data bases will contain property identification elements of descriptive elements, the value of the property being excerpted from valid legal documents (such as : Technical Real Estate Register, Land Register, Plans of Urban Real Estates Net, etc)

Data bases will need to be organized in : General Real Estate Data Base (containing all real estate properties at national level and to which the result of the statistical analysis is applied, they are attributed values by comparison with the values of the real estates properties obtained by using the statistical analysis.)

These databases will probably belong and will be managed by the State, due to their dimensions and the existence of 'sensitive' elements.

Operational Data Bases (data which contain the transacted values and to which the statistical analysis is applied and which led to the establishment of the real estates market values).

Real Estate Market's Data Bases (data which represent the current offer on the real estate market and where the results of the statistical analysis should be found) ; these data bases allow the

verification of the results obtained through statistical analysis, as well as adding data where insufficient results exist for the realization of the statistical analysis.

All these data bases will be created by using the same structure in order to allow an electronic transfer between data bases as well as comparisons between them.

Because of their dimensions and complexity, these data bases could be realised through a public-private partnership.

The advantages of the above described methodology are:

- relative small costs (less than solvency realization through direct evaluation of each property by authorized experts, following classical methods).
- reduced implementation time compared to the classic evaluation methods.
- decreased level of subjective interpretation, the descriptive elements of the real estate properties being excerpted from valid legal documents.
- the inexistence of coefficients which values' could be interpreted by an evaluator and which could influence the results of the evaluation with a certain end.
- allows the anual reevaluation or at predetermined time intervals of the real estate properties, being in accordance with the dynamic of an economy in transition.
- allows some protection limits regarding the values of the properties so that the possibility of successful legal action against these values, introduced by the owners of the real estate properties, will be reduced
- contributes to the developments of an informatized society.

Up to now (march 2006) the Evaluation Methodology has the following chapters:

- The necessity of evaluation
- Definition of real estate market
- Types of real estate properties remaining to be up-dated
- Operational evaluation phases
- Evaluation methods for the three types of real estate properties : land within the built-up area, land outside cities and urban constructions.

This methodology defined by the Interministerial Commission will be presented to each economic Ministry or specialized institution which are interested in this field of property evaluation.

Each of these, will make the necessary observations which will be discussed and approved to be included in the Methodology of the Interministerial Commission also by the experts of the Economic Land and Real Estate Register from ANCPI.

The final form of the Methodology will be made official by a Guvernamnetal Decision published in the Official Monitor, being thus introduced in the legislative circuit.

In accordance with law 573/2003 modified, the „Evaluation Method” issued under ANCPI supervision will be presented, modified and up-dated annually by the Ministry of Administration and Interior and by the Minister of Public Finance up to 31 January 2007 and up to 31 January of each fiscal year.

Based on the specialized Methodology for the establishments of the buildings and land value, the Government will approve through a Decision, the tax levels until 1st of April of each fiscal year which will be applied in the following year.

We hope that by the issuance and the application of these Methodological Norms of the establishment of the real estate properties value taking into consideration the offer and demand will lead to the establishments of a fair and uniform level for all owners from Romania, disregarding the location of the properties.

We believe that there will be no more taxable discrepancies, this time, which lead to situations were some pay few money and other thousands or millions for the same type of property.

If there are other opinios, points of view or suggestions we will be gratefull if you would communicate them, and we will take them into consideration for sure.