TAX CONSIDERATIONS ON ASSESSING THE VALUE OF BUILDINGS USING METHODOLOGY DERIVED FROM THE IMPLEMENTATION OF THE NEW TAX CODE

Gabriel SĂNDULACHE, Lecturer, Technical University Gheorghe Asachi of Jassy, sandulacheg@gmail.com
Gabriela Ecaterina PROCA Assoc.Prof. Ph.Dr.Eng. Gabriela Ecaterina Proca, Technical University Gheorghe Asachi of Jassy, gabriela_proca@yahoo.com

***Abstract**: This paper presents measurement principles of real estate using the provisions of the new Fiscal Code, ANEVAR' new methodology imposed by GEV Guide 500 and a representative case study.*

***Keywords:** Fiscal Code, the taxable amount, physical impairment*

1. Introduction

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) [3].

2.The methodology for determining the taxable value

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 [1], [3].

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 [3].

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 (1) the market value of the property subject to taxation which includes building and land properly intake, and (2) the allocation of market value obtained in step (1) between the value of the building and land value.

Land associated - buildings will be evaluated solely for the purpose of allocating property value assessment methodology in force [3].

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.

3. Case study.

a.Living House with residential use located in Jassy (Photo1)

Photo1

a) Jassy - Ist rank;

b) Zone B in the village; Built area 108 m^2;

Structure - reinforced concrete frames, external brick walls;

c) Built in 1940.

d) 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 .

The taxable value of the property to residential use is subject to review according to assessor 181.440 lei.(ii)

$$\left(108m^2 \cdot 1000lei/m^2 \cdot 2{,}40\right) - \left(108m^2 \cdot 1000lei/m^2 \cdot 2{,}40 \cdot 30\%\right) = 181440lei \ \text{(ii)}$$

B. Garage, non residential use located in Jassy (Fig. 2)

Fig. 2

- used as vulcanizing shop;

- cadastral identification: not tabulated;
- height : ground;
- built area: 12 $m^{2;}$
- built in 1965;
- wood bearing structure with concrete foundations;
- electrical installations with lighting system.

Market activity - fluctuating trend of rising prices to increase market activity;

Commercial real estate market - Summary 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 in the hope that they will 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.

The taxable value of the property is under evaluation with non-residential use is according to the evaluator (iii).

$$(12m^2 \cdot 75lei / m^2 \cdot 2{,}4) - (12m^2 \cdot 75lei / m^2 \cdot 2{,}4 \cdot 30\%) = 1512lei \text{ (iii)}$$

4. 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.

5. References

1. Săndulache, Gabriel, Note de curs Evaluare imobiliară;
2. Codul Fiscal 2015;
3. *Ghid de evaluare a valorii de impozitare GEV 500/2015*.