TAX AND ACCOUNTING TREATMENT ON THE REVALUATION OF TANGIBLE ASSETS IN ROMANIA

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Abstract
According to the regulations in force, the revaluation is an alternative treatment to the cost method, tangible assets to be presented in accounting to the fair/reassessed value. In this paper we aim to capture the accounting treatment established under the laws in force in 2017.
We will present ways of determining the reassessment differences and their implications on determining the tax on buildings (only tangible assets as buildings).
We will also present the way to register the added value (reassessment surplus) or minus value (amortization on reassessment) and the treatment of the reassessment reserve (surplus from reassessment recorded in account the 105 "Reserve from reassessment") in accounting.
Comparing the laws in force and those of IAS 16, we conclude that the accounting treatment related to the revaluation of tangible assets is similar. There remain unusable for the entities that do not apply IFRS in Romania: permanent reassessment of the duration of use and amortization method.
Throughout the paper we will present the tax treatment of reassessment through corporate tax implications. Therefore, we will consider that the entities to which we refer are in the category of corporate tax payers and not in that of microenterprises. They no longer feel the influence of corporate tax because are taxed on income and not at the fiscal result (1% for those with at least 1 employee and 3% others).
The main findings focus on the issue of identifying the exact moment when the reassessment reserve is taxed and on what are included in items similar to income, corporate tax implications.

Keywords: tangible assets, reassessment, accounting treatment, tax treatment, reserve from reassessment
imobilizări corporale, reevaluare, tratament contabil, tratament fiscal, rezervă din reevaluare

JEL classification: M41,H25

1. Introduction
Starting from the axiom holding at least a tangible asset by most entities during their existence, we consider that the reassessment of the tangible assets is a topic of interest due to tax implications that may arise.
When an entity's accounting policy provides the use of the reassessment treatment for a category of tangible assets, it must be applied regularly, simultaneously to all the items in that category. Entities may opt for the treatment of reassessment of a single category (using the cost method for other categories), or for more. The most common categories of tangible assets (the term “assets group” was replaced with “category” from 01.01.2015) are lands, buildings and vehicles.
According to the regulations in force, the reassessment is an alternative treatment to the cost method [1], the assets following to be presented in accounting at the fair value determined by assessors, ANEVAR members.
The accounting treatment of the reassessment is reflected in the correct determination and registration of plus or minus value, including the aspects related to the transfer of reserve from reassessment to the reported result.
The buildings have, as noted above, a significant share in the categories of tangible assets. Whereas the amount of annual tax on buildings is determined by their value, in practice there are entities that choose the reassessment treatment of buildings to maintain a low tax. In practice it is observed that some of these entities violate the principles of avoiding selective reassessment and regularity (they separately and discontinuously reassess just a part of the assets belonging to the same category, thus reporting values stated at different dates in the financial statements), using the reassessment just to maintain a low index of council tax. We consider as being a positive aspect the fact that, at present, the directions of local taxes call for determining the annual council tax only from the assessor expert’s report (instead of trial balances). For small and micro enterprises, this translates into using the cost method for buildings (which is easier) in accounting and development of selective reassessment every three years only for determining the taxable base of tax for some buildings, such reassessments are not recorded in the books.
2. Accounting treatment specific to reassessment

There are two ways of determining the differences in the reassessment, the value of the items presented in the financial statements (net accounting value and reserve from reassessment) is the same regardless of the applied method (there are wide differences on the gross value of assets and accumulated amortization entered in the trial balance of the accounts) [1], namely:

- net updating method (most common in practice): the net accounting amount is determined by the elimination of the accumulated amortization on the reassessment date from the gross accounting amount of the asset. The difference from reassessment is determined as the difference between the fair value (reassessed) and the net accounting value. The fair/reassessed value becomes input value for the next period, replacing the cost of acquisition/production/contribution. Amortization for the period following the reassessment will determine the remaining amortization period according to this latter amount and is the same for the use of other methods;

- method to update the gross value: both the gross value for the reassessed asset and accumulated amortization at the reassessment date is recalculated (rather clumsy) based on an index (the ratio of the fair/reassessed value and the net accounting value). The difference from reassessment in this case is determined as the difference between the gross value update (surplus/growth for the improper index or minus value/depreciation for improper index) and update of the accumulated amortization. In this case, the credit balance of the account 105 (reassessments in plus) or total amounts for the account 655 (reassessments in minus) (including for the account 755, when reassessment is in addition, but follows a previous reassessment in minus) it is the same as for the method of net update. Until recently, this method generated for the entity, only in relation to buildings, difficulties related to the direction of local taxes in the determination of the taxable value of the reassessed buildings. Thus, based on the trial balance of accounts, DIT considered the taxable value as being in the updated gross value, instead of fair/reassessed value (obviously much lower), and thus calculated a higher council tax (sometimes, especially for the constructions found to the end of its service life, even extremely high). Currently, DIT sets out a taxable value of construction based on the authorized assessor’s assessment report (registered in ANEVAR Table) at the reassessed amount level.

The differences from reassessment determined during the reassessment of each item, calculated as the difference between fair value and net accounting amount, are called added value or minus value being recorded in the accounting as [1]:

1. **added value** must be registered:
   a. in the credit of the account 105 „Reserves from reassessments”, if previously was not found a minus value;
   b. in the account 755 „Income from the reassessment of tangible assets” (this account replaces the account7813 “Income from adjustments for impairment of assets” used up to 31.12.2014), if previously was found a minus value recorded in the account 655 “Expenses from the reassessment of tangible assets” (to the maximum level of previous expenditure) (the account 6813 “Operating expenses on adjustments for the impairment of tangible assets” was used up to 31.12.2014) and the eventual surplus will be recorded in the credit of the account 105 “Reserves from reassessments”.

2. **minus value** must be registered:
   a. in the account 655 „Expenses from the reassessment of tangible assets”, if previously was not found a minus value (when the account 105 presents no balance);
   b. in the debit of the account 105 „Reserves from reassessments”, where previously was found an added value and the eventual remaining shortfall is going to be registered in the account 655 will „Expenses from the reassessment of tangible assets”.

Subsequently, the treatment of the reserve from reassessment, i.e. the surplus from reassessment registered in the account 105:

- is fully and directly transferred to the reported result, respectively in the account 1175 (the account 1065 is used up to 31.12.2014, account which was replaced by 1175 starting with 01.01.2015), when the asset is derecognized (scraped, sold, transferred to stocks, donated etc.);
- or it is monthly transferred, proportionally with the amortization as the asset is used. In this situation, the amount of the monthly transferred surplus is actually the difference between the new amortization determined after the reassessment and initially calculated amortization based on the cost initial (the same result is obtained by dividing the surplus to the remaining amortization period).

Most legal provisions on the reassessment [1] are converged with the international stipulations, respectively with IFRS (they can be found within IAS 16) [4]. There remain still unusable for the entities in Romania that do not apply IFRS: permanent reassessment of the use period and amortization method [6].
3. The fiscal treatment of reassessment

Due to the successive amendments to the Tax Code, the tax treatment of reassessment is as complex as it is distasteful. Equally, these amendments can easily generate misinterpretations with serious implications on the result of the entities by erroneous taxation[7].

The fiscal treatments of reserve from reassessment (surplus) are presented in Table no. 1.

<table>
<thead>
<tr>
<th>Crt. no.</th>
<th>Period</th>
<th>Fiscal treatment</th>
<th>Other information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Previous to the date of 1.01.2004</td>
<td>The amortization expenses related to reserves from reassessment were considered deductible</td>
<td>There were considered non-deductible expenses only those related to the reassessment after the date of 01.01.2004</td>
</tr>
<tr>
<td>2.</td>
<td>1.01.2004-31.12.2006</td>
<td>The amortization expenses related to reserves from reassessment were considered non-deductible</td>
<td>The tax value includes: - reassessment made until 31.12.2013; - reassessment made after 1.01.2007; - the unamortized remaining part, highlighted in the balance at 31.12.2006 for the reassessments carried out within 01.01.2004-31.12.2006</td>
</tr>
<tr>
<td>3.</td>
<td>1.01.2007-30.04.2009</td>
<td>The amortization expenses related to reserves from reassessment were considered deductible</td>
<td>Reserve from reassessment related to reassessments carried out after 01.01.2004 are also considered taxable income starting with 01.05.2009</td>
</tr>
<tr>
<td>4.</td>
<td>1.05.2009- now</td>
<td>The amortization expenses related to reserves from reassessment were considered deductible</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rapcencu C & Stanciu L (2016), pp. 41 [5]

In addition, the following tax treatments on the reassessment of tangible assets refer to [1] - [2]:

- minus of value resulting from reassessment and reflected in the account 655 are considered non-deductible expenses starting with 01.01.2015. Where in the first reassessment is found minus value, the tax value of the asset does not change from the baseline. In this case, the accounting amortization will be lower than the tax one;
- the added value recorded in the account 755 to compensate the previous depreciation is non-taxable income (which is also logical given that the minus value is non-deductible expenditure);
- the reserve from reassessment is taxed on the amortization measure of the reassessed asset; for lands as they do not amortize, the reserve from assessment will be taxed on the eventual sale of the land;
- starting with 01.01.2015, when an asset that has been reassessed is taken off the book of assets, any reserve from the available reassessment (existing in the credit balance of the account 105) is considered performed gain, being transferred in the account 1175 ”Retained earnings are the surplus made from the reserve from reassessment” (previously, it was used the account 1065 “Reserves representing the surplus made from the reserve from reassessment”). Regardless if the asset is sold in gain or loss, the reserve from reassessment is transferred to the reported result, being considered similar to revenue;
- the reserve from reassessment is considered item similar to income and is included in the tax result related to each tax period (in proportion to the remaining amortization period);
- tax value of lands (non-amortizing assets) and of other amortizing assets cannot be lower than the acquisition cost. This means that if the reassessment of the assets which causes a decrease in their value below the acquisition cost (or the market value of those acquired free of charge or provided as contribution, as appropriate), the tax value equals the acquisition cost (or value market of those acquired free of charge or provided as contribution, as appropriate). In addition, the fiscal result of the sale of an asset is determined as the difference between the amount of concession and the tax value of the land (at least equal to the acquisition cost/ the entry heritage value);

În practică e esențial să se păstreze informații privind istoricul reevaluărilor pentru fiecare element în parte, având în vedere perioada îndelungată și mobilitatea celor cu sarcini privind evidența contabilă.

4. Conclusions

Where the administrators of entities consider that there would be achieved reliable and more relevant information, they can change, starting with next financial year taking that decision, the accounting policies on tangible
assets (they can pass the reassessment method to the cost one, or vice versa), the amendment is justified in the explanatory notes to the financial statements of the previous year of the change [3]. For example, if it is decided to return from the reassessment method to the cost method, and the reserve was transferred to the result reported on the amortization, the reassessment reserve is closed (balance of the account 105) by adjusting the asset value (reducing the asset value by crediting the account of tangible assets). If the reserve was to fully pass to derecognition of the asset, the following are recorded in the accounting policy change:

- transfer of the reserve from reassessment of the account 105, corresponding to the amounts amortized from the value of the asset after reassessment and by the end of the previous year of accounting policy change;
- reduction of the asset value with the reserve from the reassessment related to the value which was not amortized (with the amount remaining in the balance of the account 105 after the previous operation).

Passing from reassessment method to the cost method does not imply, as an exception, the use of the account 1173 “Retained earnings from the changes in accounting policies”, but the rules outlined above apply. Also, by changing the reassessment method to the cost one, the asset value cannot be lower than the initial value (acquisition/production/contribution cost) as it would lead to an under-estimation of it.

Following a reassessment downwards, the accounting amortization over the remaining period will be less than the initial/previous one.

Following a reassessment in addition, the accounting amortization over the remaining period will be higher than the initial/previous one (this additional deductible expense is compensated by the inclusion of the same difference in the category of similar income related to the reserve of reassessment).

For the fully amortized assets which can be further used in the entity, it is estimated a new value and a new economic use term by reassessment. In this case, the first reassessment can only be as plus (growth highlighted by the account 105).

For lands, there can be concluded that:

a) regardless of the result of reassessment (plus value or minus value), any entity owes tax on the difference between the sale price and the acquisition cost of the land. Basically, the excess shall be deemed as effectively made and is taxed at the time of sale;

b) lands purchased to build various buildings for sale are recorded in accounting to stocks (account 371 or account 301) and not to assets; Also, if on a land that was initially recognized as an asset there are going to be constructed buildings for sale, then that land is to be transferred to goods or raw materials (when the land is recognized in the value of construction intended for sale), depending on the provisions of the agreements for the sale of goods subject to the construction and sale.

The same rules on the reassessment of tangible assets are applied to investment property (land and buildings owned by 01.01.2015 in order to obtain rental income rather than for use or sale). If after the initial recognition as land and buildings from the category of tangible assets, they are reclassified to investment property (e.g., by concluding a tenancy agreement), the entity will transfer these assets and the related amortization (in case of buildings, for example, it is made the transfer from 212 “Construction” to 215 “Investment property” and from 2812 “Amortization of buildings” to 2815 “Amortization of property investments”).

Currently, the surplus transferred (either monthly or in full at capitalization) to the retained earnings (account 1175) may be distributed to the shareholders/associates as dividends. It is worth noting that the account 1175 contains the entire difference between the amortization determined after reassessment and the amortization initially calculated (either at derecognition or monthly, as appropriate) based on the initial cost, and the influence of the corporate tax is reflected in the account 121 “Profit and loss” through the account 691 “Expenses on corporate tax” (on every term to declare the corporate tax, the difference between the amortization calculated based on the fair value and the amortization related to value/initial cost is considered similar element, being taxed).

Until 31.12.2014 this was not possible because only after the capitalization of the asset, the surplus could be transferred from the reserve account (account 1065) in the account of retained earnings (account 117 “Reported result”) to cover the present accounting losses (not for distribution of dividends) or could be used to increase the capital (transfer in the account 1012 “Subscribed paid capital”).

In practice, entities must pay attention to choosing (based on the professional judgment) the transfer method of the reserve from reassessment/surplus (account 105) to the retained earnings (account 1175), either on the amortization or derecognition of the asset, also taking into account the possible results of any successive reassessments (increases followed by depreciations and so on; the transfer of the surplus to retained earnings together with the amortization can, on the one hand offer the possibility of distributing the dividends of the balance for the account 1175, but on the other hand, can decrease the credit balance of the account 105 in the extent that it no longer covers any subsequent depreciations, in which case they would turn to the account 655 - non-deductible expense).

In case of reorganization of entities (e.g., merger, division, etc.) an assessment of all balance items to determine the exchange rate is carried out, this does not represent reassessments within the meaning of the above.
5. Bibliography

[2] Law no. 227 of 08/09/2015 on Fiscal Code, with the subsequent amendments and additions until the date of 15.01.2017