REVALUATION OF TANGIBLE ASSETS FROM ACCOUNTING AND FISCAL PERSPECTIVES

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Abstract
Acknowledged by the accounting regulations conform to the European directives inside the alternative assessment norms, the revaluation of tangible assets is also accepted by the International Accounting Standards as an allowed alternative treatment. As there is a real interaction between accountancy and taxation, the present study aims to analyze the fiscal vision on the revaluation, the manner in which the above mentioned accepts the revaluation of tangible assets.
It is a known fact that the accounting information is used by the taxation as an object and a support in order to determine and to settle the assessments, the taxes and the contributions.
Still, the taxation authority reserves the rights to punctually impose some financial treatments distinct to the accounting rules. This also happens with the revaluation of tangible assets, and this is exactly what we emphasize in the present paper.

Keywords: *fair value, revaluation, historical cost, alternative evaluation rules, fiscal treatment of revaluation*

Introduction

Starting from the evidence that valuation represents an element of divergence between tax and accounting rules, we shall emphasize in the present work the differences regarding the approach to revaluation from a fiscal and accounting point of view, as well as the way in which taxation deals with the positive or negative results that appear as a result of revaluation of tangible assets.

The study is intended to be important through the pointing out of behavior contradictions of taxation, related to the recognition of accounting treatment regarding the revaluation of tangible assets.

In order to support the above-mentioned affirmations, we shall exemplify the accounting and fiscal treatment of revaluation through a case study.

In the first part of the work we shall try to justify the need to use the fair value in order to express the value of tangible assets in the context in which the accounting regulations corresponding to European Directives present as a criterion of recognition of fixed assets, the condition that these shall be used during a period greater than an year.[1]

The Fiscal Code stipulates also the same criterion of recognition[2] for tangible assets, for which it uses the notion of „physical capital".

In the second part of the work, we shall present the point of view of accountancy regarding the revaluation and in the third part, the revaluation seen through the light of taxation as well as the fact that taxation promotes contradictory rules in its steps to achieve the goal consisting in the calculation, collecting, setting up, payment tracking of taxes, rates and social contributions due by economic units to the State.

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[1] Order 3.055/2009 for approval of Accounting Regulations corresponding to European Directives, pct 92.
[2] Fiscal Code, Art. 24 alin (2), pct. c).

Historical cost versus fair value

The task of financial accountancy is related to the drawing up, presentation and publication of financial statements which offer information regarding the true and fair view of the analyzed entity. Due to its characteristics (relevance, simplicity, availability, intelligibility and unity), the monetary unit is the most efficient means through which can be presented economic information to users but also for taking rational decisions.

The monetary quantification of phenomena and accounting operations presents also drawbacks, since the currency is a means of exchange which "expresses a general buying power, given by the quantity of goods and services that can be bought at a given moment."[3] The buying power is yet different depending on the economic, political and social conditions of a country. What can we say about the true image of the financial situation of a company if this has fixed assets (lands for example) bought in 1995, in 1999, in 2007 and in 2010. Can their accounting value be cumulated without affecting the true image of accounting information?

In the above-mentioned work, prof. Feleaga sustains that "the currency doesn't represent a stable measure in time, as for example the meter" and "the simplification brought by monetary nominalism is recommended in the periods of stability of prices because it is objective and incontestable".

Nowadays, the buying power which reflects the value of currency varies over time. After many economies confronted in the last decade with high increases of prices, in the last period these have considerably decreased.

Being part of the category of alternative valuation rules, the valuation of tangible assets is one of the methods of attenuation of monetary nominalism drawbacks through the replacement of historical cost with fair value. Even if this cannot render a certain solution from the point of view of objectivity and neutrality, the fair value seems to allow the elaboration of financial situations which confer better information on the present and future performances of the enterprise.

The principle of historical costs consists in preserving at the level of balance sheet structure, the corrected entry values, if necessary, with the cumulated amortizations or adjustments for depreciation. This reflects the nominal value of the currency without taking into consideration the variations of its buying power.

The fair value, a value more often used in the accounting language and controversial in the terms of present economic crisis, is considered by prof. M. Ristea „ a hope, if not a panacea, to surpass the limits of other valuation bases used for drawing up of financial situations"[4].

As it is defined by the Accounting Regulations corresponding to European Directives, the fair value represents the sum for which the asset could be changed of one's own will between parts with the same knowledge in a transaction with an objective determinant price and is determined, as a rule, on the basis of market evidence data.

Accounting Treatment of Revaluation

Being part of the group of alternative evaluation rules, the revaluation of tangible assets is accepted by accounting regulations according to the European directives approved by the order of Ministry of Public Finances No 3055/29.10.2009, applicable by the date of 1st January 2010, according to which economical entities can choose the model based on the fair value, proceeding to the revaluation of tangible assets at the end of the financial exercise, so the revalued value is reflecting in the financial situations prepared for this exercise.

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[3] Feleaga, Nicolae, Feleaga, Liliana, Valuation Patterns and Rules in Financial Accountancy, in "Theoretic and Applied Economy"review

[4] Ristea, Mihai, A*ccounting Business*, Economic Tribune, Bucuresti, 2006, pag 55

According to this model, the initial accounting value is substituted by the revaluation value represented by:

- Fair value revaluation

- any previously accumulated amortization
- any cumulated loss of depreciation
= revaluated value

Revaluated value is a value based on market price.

Use of revaluation relay

Revaluation reserves based on the surplus of revaluation is capitalized through direct transfer, when this surplus represents an accomplished gain, using 1065 account "Reserves representing the surplus developed by revaluation reserves".

No part of the revaluation reserves cannot be distributed, neither direct nor indirect, **except for the case in which the revalued active has been valorificated**, situation in which the surplus of revaluation represents an effective realised earnings. It is understood that not only the sums reflected in 1065 account "Reserves representing the surplus developed by revaluation reserves", afferent to the sold or scrapped assets cam be distributed, **according to fiscal rules.**

Earnings are considered accomplished at emphasizing the active for which the revaluation reserve was developed. Part of the earnings can be accomplished when the active is used by the entity, case in which the value of the transferred reserve is:

- calculated amortization on the basis of revaluated accounting value

- calculated amortization on the basis of initial cost of active
= relay value transferred to relay.

Amortization after revaluation

In case the revaluation of an active is made, the resulted value of revaluation will replace the cost of acquisition/production or any other value attributed before the active. Amortization rules will apply to the active considering its value determined as a consequence for revaluation.

Fiscal Treatment of Revaluation

The Romanian taxation is characterized by instability and a great number of normative acts that regulate the economic activities and abounds in position changes from an accounting period to another or even during a fiscal year. The same hesitation is noticed also regarding the position of taxation as confronted to revaluation.

The Fiscal Code makes reference to revaluation in many sections. The first reference to revaluation of tangible assets is found in the definition that the Fiscal Code gives for **fiscal value**.

The Fiscal Code defines the **fiscal value** for amortizable fixed means and lands as being the entry cost, used for the calculus of fiscal amortization. In the **fiscal value are included also the accounting revaluations** made according to law. In case there are made revaluations of amortizable fixed assets, that determine a decrease of their value under the entry cost, the fiscal value of tangible amortizable assets remaining unamortized is recalculated **till the level of the one established on the basis of entry cost**. In the situation of revaluation of lands which determine a decrease of their value under the entry cost, the fiscal value is the entry cost.

The entry cost is represented by the „acquisition, production cost or the market value of fixed means obtained free of charge or constituted as contribution of capital at the date of entry in the tax payer's patrimony"[5] .

[5] Law no. 571 regarding Fiscal Code, approved of at 22nd of December 2003, with ulterior completions and modifications

In time, taxation had different positions as regards the revaluation of tangible assets. We shall present in the below table the perspective modifications of taxation regarding the revaluation:

Period	Fiscal treatment	Observations
Till 01.04.2004	Expenses with amortization related to reserves from revaluation were considered **deductible**	
Between 01.01.2004 and 31.12.2006	Expenses with amortization related to reserves from revaluation were considered **non- deductible**	Yet, expenses related to reserves from revaluation made before 01.01.2004 left **deductible.**
Between 01.01.2007 and 30.04.2009	Expenses with amortization related to reserves from revaluation were considered **deductible**	The fiscal value includes: - revaluations made before 01.01.2004; - revaluations made after 31.12.2006; - part left non-amortizable, made evident in the balance at 31.12.2006 for revaluations made during the period 01.01.2004 – 31.12.2006
From 01.01.2008	Expenses representing the value of depreciations of fixed assets in case in which it is registered a diminution of their value as a result of effectuation of a revaluation, are **non-deductible**	As a result, the extra value obtained after an ulterior revaluation, registered at incomes to compensate the previous depreciation is considered non-taxable income.
From 01.05.2009	Expenses with amortization related to reserves from revaluation were considered **deductible**	Reserves from revaluation related to revaluations made after 01.01.2004 are considered **taxable incomes (**this aspect is detailed further on**).**

The Directive no. 34/2009 introduces the next rule regarding the use of the reserve from revaluation, beginning with 01.05.2009:

The surplus from corporate fixed assets revaluation, which was previously deductible, is taxable at the moment of:

- Modification of reserve destination,
- Distribution of reserve by participants under any form,
- Liquidation, splitting, merger of tax payer or
- For any other reason, *inclusive when it is use for covering of accounting losses*.

For the calculus of taxable profit, these sums are elements similar to incomes. The registering and holding in own capitals, respectively reserve accounts or reported result, distinct analytics of reserves from revaluation is not considered modification of destination or distribution.

With the exception of:

Reserves from revaluation made after 1st of January 2004, which are deductible at the calculus of taxable profit through the fiscal amortization (or of expenses regarding the ceded and/or cancelled assets), **are taxable at the same time as the deduction of fiscal amortization (**at the moment of derecognizing of these tangible assets). *Rule introduced from 01.05.2009.*

This rule is not applied for:

- *Reserves representing the surplus realized from reserves from the revaluation of fixed assets, including lands, made after 1st of January 2004,* ***existing in balance in the account «1065»*** *at 30th of April 2009 inclusively, which were deductible at the calculus of taxable profit. These reserves are taxable at the modification of destination.*

- *Part from reserve from the revaluation made after 1st of January 2004, deductible at the calculus of taxable profit through fiscal amortization* ***till 30.04.2009****, and which wasn't capitalized. These reserves are taxable at the modification of destination.*

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Example:

A business corporation has in the book keeping a building bought in December 2002, with an entry value of 300.000 lei and a period of amortization of 20 years (with an accounting and fiscal purpose).

The corporation has revaluated the building as follows:

-on 31.12.2004 the revaluated value was of 288.000 lei;

-on 31.12.2007 at the fair value of 247.500 lei;

-on 31.12.2010 at the fair value of 168.000 lei.

At the end of June 2011, the corporation sells the building at the sale price of 155.000 lei

From an accounting point of view:

1. Book entries at:

Acquisition on December 2002:

212 = 404 300.000 lei

Amortization on year 2003 (300.000lei / 20 years = 15.000 lei/year):

681 = 281 15.000 lei

Amortization on year 2004 (300.000lei / 20 years = 15.000 lei/year):

681 = 281 15.000 lei

2. On 31.12.2004 the situation of asset is the following:

a) Before revaluation:

Entry value (accounting value) 300.000 lei

Amortization (2 years) 2003-2004 30.000 lei

Net accounting value before revaluation 270.000 lei

b) Revaluation booking from 31.12.2004 is made through the valuation based on net values, through the elimination of amortization previously registered:

Fair value on 31.12.2004 288.000 lei

Net accounting value 270.000 lei

Difference from revaluation 18.000 lei

Book entries:

Elimination of amortization:

281 = 212 30.000 lei

Registering of differences from revaluation:

212 = 105 18.000 lei

Registering of amortization for 2005, 2006, 2007 (288.000 lei / 18 years = 16.000 lei/year)

681 = 281 16.000 lei

3. On 31.12.2007 the situation of asset is the following:

a) Before revaluation:

Entry value (accounting value) 288.000 lei

Amortization (3 years) 2005-2007 48.000 lei

Net accounting value before revaluation 240.000 lei

b) Revaluation booking from 31.12.2007 is made through the valuation based on net values, through the elimination of amortization previously registered:

Fair value on 31.12.2007 247.500 lei

Net accounting value 240.000 lei

Difference from revaluation 7.500 lei

Book entries:

Elimination of amortization:
281 = 212 48.000 lei
Registering of differences from revaluation:
212 = 105 7.500 lei
Registering of amortization for 2008, 2009, 2010 (247.500 lei / 15 years = 16.500 lei/year)
681 = 281 16.500 lei

4. On 31.12.2010 the situation of asset is the following:
a) Before revaluation:
Accounting value 247.500 lei
Amortization (3 years) 2008-2010 49.500 lei
Net accounting value before revaluation 198.000 lei
b) Revaluation booking from 31.12.2010 is made through the valuation based on net values, through the elimination of amortization previously registered:
Fair value on 31.12.2010 168.000 lei
Net accounting value 198.000 lei
Difference from revaluation -30.000 lei
Book entries:
Elimination of amortization:
281 = 212 49.500 lei
Registering of differences from revaluation:
105 = 212 25.500 lei
681 = 212 4.500 lei
Registering of amortization for 2011 (168.000 lei / 12 years = 14.000 lei/year : 6 months = 7.000 lei/ month)
681 = 281 7.000 lei
Building salles
461 = 7583 155.000 lei
Downloading of the bookkeeping:

7000 281 = 212 168.000
161.000 6583

Accounts 212, 281 and 105

212 „Constructions”		
Explanations	**Debit**	**Credit**
Acquisition December 2002	300.000	
Cancel the amortization to 31.12.2004		30.000
Revaluation difference to 31.12.2004	18.000	
Balance to 31.12.2004	**288.000**	
Cancel the amortizations to 31.12.2007		48.000
Revaluation difference to 31.12.2007	7.500	
Balance to 31.12.2007	**247.500**	
Cancel the amortizations to 31.12.2010		49.500
Revaluation difference to 31.12.2010		30.000
Balance to 31.12.2010	**168.000**	

281” Depreciation of tangible assets”		
Explanations	**Debit**	**Credit**

Accumulated amortization until 31.12.2004		30.000
Cancel the amortizations to 31.12.2004	30.000	
Accumulated amortization until 31.12.2007		48.000
Cancel the amortizations to 31.12.2007	48.000	
Accumulated amortization until 31.12.2010		49.500
Cancel the amortizations to 31.12.2010	49.500	
105"Revaluation reserves"		
Explanations	**Debit**	**Credit**
Revaluation to 31.12.2004		18.000
Revaluation to 31.12.2007		7.500
Balance to 31.12.2007		**25.500**
Revaluation to 31.12.2010	25.500	
Balance to 31.12.2010		**0**

Fiscal treatment of amortization:

- for 2003 and 2004 the amortization is entirely deductible: 15.000 lei x 2 years = 30.000 lei
- for 2005, 2006: - the amortization is deductible without taking into consideration the revaluation: 15.000 lei x 2 years = 30.000 lei;

  - non-deductible amortization = (16.000 – 15.000) x 2 years = 2.000 lei
- for 2007 the amortization is entirely deductible: 16.000 lei x 1 year = 16.000 lei;
- for 2008, 2009, 2010 the amortization is entirely deductible: 16.500 lei x 3 years = 49.500 lei;
- after 01.05.2009 the reserve from revaluation becomes taxable and is taxable during the left period of life of the asset (13 years and 8 months) thus:

  - for the reserve related to revaluation made on 31.12.04, in amount of 16.000 lei (18.000 – 1.000 x 2 years; part from amortization which was non-deductible), the sum of 1170 lei will be taxable every year (16.000 lei / (13 x 12 + 8 months) x 12 months);

  - for the revaluation made on 31.12.2007 the reserve from revaluation in amount of 7.500 lei will be taxable at the modification of destination of the reserve;

  -for 2011 the amortization is deductible at the entry value (15.000 lei), and the expenses representing the value of depreciations are non-deductible (4.500 lei).

Fiscal Treatment of the Reserve from Revaluation:

If the building were sold on 31.12.2010, the reserve from revaluation would be in amount of 25.500 lei:

At the sale of the building, the reserve from revaluation will be conveyed to reserves from the reserves surplus from revaluation (1065). **It is not taxable.** If the destination of surplus from revaluation is modified subsequently (it will be used at the loss covering, for example), it will be considered income and will be taxable, less the amortization which wasn't deductible, respectively 2.000 lei:

23.500 lei x 16% = 3.760 lei

At the title IX, „Local Rates and Taxes", the taxation recognizes the revaluation and punishes the legal entities, which do not proceed to the revaluation of buildings, through the application of a superior tax rate. Thus, if the building tax due by legal entities is established within a rate comprised between 1,25% and 1,50%, this increases to a rate comprised between 5% and 10% applied at the inventory value of the building for legal entities which haven't made the revaluation in the last 3 years previous to the fiscal year of reference. From a fiscal point of view, the inventory value is represented by the entry value of the building in patrimony, registered in the accountancy of the owner.

Conclusions

The subject of the study joins the multitude of scientific approaches regarding the controversial fair value. As we showed at the beginning of the work, taking into consideration that tangible assets are possessed for a period that exceeds a year, to support the carrying out of the goal of financial situations, that is to present a true image of the financial position, performance and modification of financial position, we consider necessary the use of fair value in view of presentation in financial situations of tangible assets.

Taxation, which as a rule, doesn't know the fair value, makes an exception in case of revaluation, although in time, its position related to revaluation has often changed depending on fiscal interests.

Fiscal authority has perceived revaluation as a disadvantage for the State and tried to limit the fiscal consequences through the introduction of some restrictions. In this sense, the first normative acts in domain allow only for revaluation of lands and buildings, on the following reasons:

- it is allowed the revaluation of lands because these are not amortizable. Thus, the costs will not comprise a greater value regarding amortization and the value of fiscal result will not be reduced;
- at the revaluation of buildings, the effect of revaluation is dispersed on many fiscal periods, these having a greater period of amortization. On the other hand, the new accounting value constitutes a basis of calculus for the buildings tax, which makes that the eventual amortization rise which would diminish the profit tax, be compensated for additional resources obtained from local budgets.

The present accounting regulations allow for the revaluation of all categories of tangible assets as well as taxation. Although, economic entities proceed to the evaluation of buildings and lands but very seldom to the revaluation of other categories of tangible assets.

The taxation behavior regarding revaluation, sometimes having a character of fiscal facility, has been in a continuous change and it will not stop here. Through this behavior, the taxation accepts not only the fair value but, also the accounting principle of prudence.

The subject of this paper is very complex and it is not exhausted by the present work. We believe that the revaluation of tangible assets is interesting from other points of views too, such as the call to creative accounting in the economic entity's interest. Another track of research may be the way in which revaluation adjustments influence dividend policy.

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