

THE CORPORAL IMMOBILIZED ASSETS FROM ACCOUNTING AND FISCALITY POINT OF VIEW

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Abstract: In this article we have tried to synthetically present the different acceptances which can be found in specialty literature regarding the amortization of corporal immobilized assets, underlining the important aspects regarding this almost invariable process encountered in the activity of every organization, because of corporal immobilizations utilization and possession. Inevitably, we have presented also some important aspects, which appear to private amortization level by fiscal standards, taking in consideration the way of affecting the entity's result.

The acquirement of some corporal immobilizations implies financial fluxes consisting of integral and installment pays, which affect the enterprise treasury, but not in equal way also the expenses. For not producing an impact on financial performances and taking into consideration that corporal immobilizations are utilized by the entity in a durable manner, they will progressively affect the results, as registering the expenses during the acquirement year, by amortization.

The amortization, as it is defined by the International Accounting Standards, represents the systematical allotment (assignment), in the results account through the expenses, of the amortizable value of an asset along its utile life. The amortizable value is represented by the asset's cost (the acquisition cost or production cost) or any other value substituted to it (reevaluated value), less the residual one. In other words, the amortizable value of an immobilized asset is determined after the deduction of the residual value, of from its entrance cost.

The immobilization amortization may be analyzed under various aspects, therefore can be delimited their following significations:

a) the amortization as a assignment operation of the immobilizations' cost over the exercise's incomes.

According to exercises' independency principle, the exploitation cost regarding registered amortization in each exercise, has to affect the profit and loss account, during the utilization of asset's economic benefits, excepting the situation in which it is integrated in other asset's accounting value. For example, the amortization of a corporal immobilization used for the development activity can be comprised in the non-corporal immobilization accounting cost.

b) The amortization, as a rectifier element of the immobilization initial accounting value.

The correction is realized with the balance evaluation when proceeding to the diminution of the immobilized assets, for them to be presented in the financial situations to the accounting net value, which is desired to be close to the real one.

c) financially, the amortization represents the financial source for the acquisition of some new immobilizations.

d) fiscal amortization affects the taxable profit size, the taxable profit sum implicitly, due to state's budget.

For determining the amortization, according to IAS 16 "Corporal Immobilizations", three elements are essential that the entity must estimate for each element of the immobilizations, that is:

- a) duration of asset's utile or economic life;
- b) the utilized amortization method;
- c) the residual value at its end.

The utile life duration acquires two expressions:

1. the period of time during which the respective asset is expected to produce economic advantages for the entity;
2. the number of production units or of similar units which are expected to be obtained by the entity from asset's utilization.

The utile life of a corporal immobilization submitted to the amortization must be established by certain factors, that is:

- a) estimated utilization level, on the base of production capacity or of estimated physical production, to be obtained with the help of respective immobilization;
- b) the estimated physical worn out that is influenced by the exploitation clear conditions;
- c) the moral worn out following the improvements brought to the technological processes;
- d) the juridical regulations regarding the utilization possibility of the respective immobilizations (the expiration date of an afferent exploitation right, for example).

According to the same referential, the utile duration life and the residual value will be revised at least at each end of the financial year, for each element of corporal immobilizations, if the predicted duration is sensitively different of the anterior estimation. In this case, the expenses with the amortization correspondent to the exercise in course and future periods must be adjusted.

Related to residual value, for the entities' practice in our country, in the majority of cases, this is not insignificant or null because of the entity's disposition for using the assets during their entire physical life duration. However, there are situations in which the assets will have significant residual value when for some reasons the entity decides to stop using the assets during their entire physical life duration and takes measures for their revaluation.

There have been given a great number of definitions that visualize the amortization as an operation, process, money expression, technical phenomenon, etc. Thus, for what we concern, we are in the category of those, which consider the amortization as an objective, complex and relative process, through which moral and physical depreciation of the immobilizations is quantified, but political economic and fiscal elements of the state afferent to each period. That is why, its size is different toward moral and physical worn out rhythm in certain periods of economic cycle, but also toward the assets' contribution to the entity's incomes. This process is relatively objective because physical depreciation, particularly moral one, is the action's results of some factors mostly independent from the enterprise's wishes or possibilities. At the same time, the amortization is a complex process, which is continuously unrolled during immobilizations life duration and which include a chain of operations: the

determination of its value, of introducing in the products' cost, of price recuperation and affecting on legal destination.

Linked to this process appears the “payment” term, which is largely discussed in specialty literature. He is qualified as being identical to the amortization by some specialists, and others identifies it as a separate category, contradicting in some situations. The proper position it is that the payment is actually the sum of money of a given period, determined according to the amortization method or system practiced by the enterprise, for entrance value recovery of the immobilized assets.

The necessity of determination is motivated from a side by equity reasons, in the sense of reflecting in the obtained product cost because of immobilizations consumption, and from another side, the need of (re) building financing sources on which the renewal of outworn equipments is guaranteed.

Schematically, the role of the amortization in financial-economic activity is represented this way:

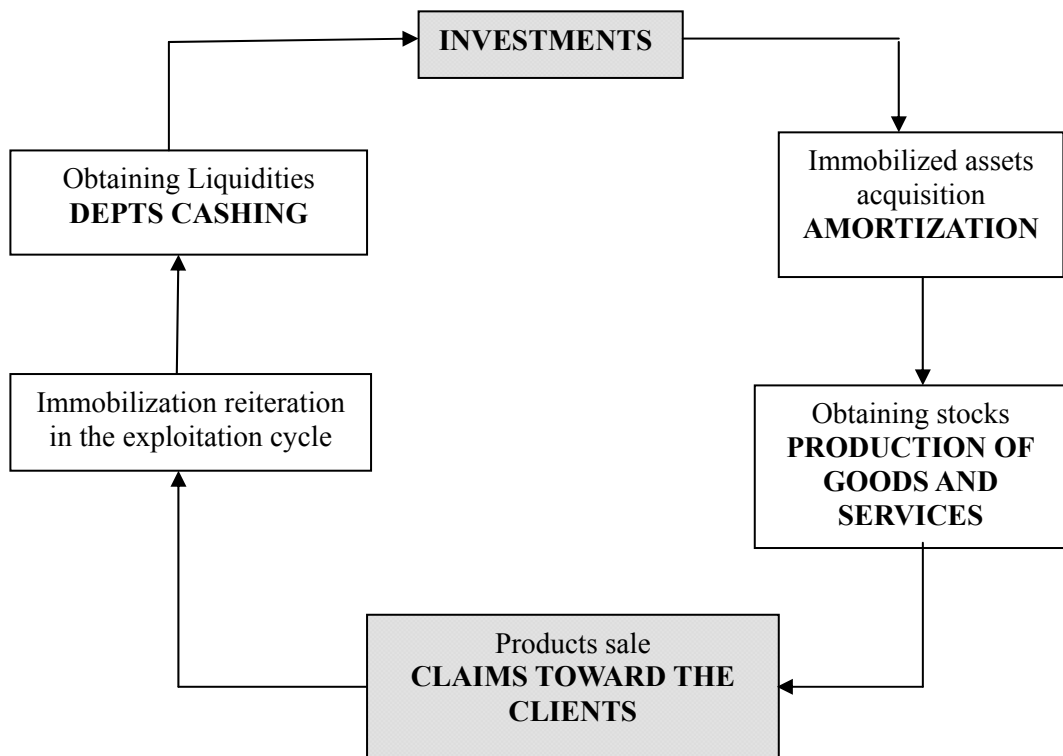


Fig. 1: The amortization role in enterprise's activity

It appears that the amortization accomplishes two important functions: cost and source function of the large and simple reproduction, in fact, contradictory functions. Thus, in the position of costs element, as well as microeconomic interests and macroeconomic ones claim its reduction; on the contrary when it is analyzed as a financial resource, both interests categories claims its increment. Although, for the cost function that it has, must be taken in consideration also the special character as cost charge of the payment. That is, the fact that in this position it does not represent a payment, but it leads to the flux building of initial investments.

The amortization training as a gradual recuperation modality of corporal immobilized assets entrance value took place initially as a resource insurance, the replacement of worn out ones, which had to be out of. Yet, the economic practice demonstrates that the payment helps not only for the realization of the simple reproduction of corporal immobilized assets, for identical replacements respectively, but also for large production, conclusion that can be sustained by at least two arguments.

Thus, the enterprise normal operation imposes the necessity of entrance amortization value of the amortizable immobilized assets that remains the same during the completely functioning period, if regulated reevaluation do not interfere. Yet, during the amortization period, the technical progress determines a modification of the replacement value, in the sense of its reduction following work productivity growth in the production branches of corporal immobilizations. Consequently, in the replacement plan, a larger amount of money than necessary to the identical replacement is recuperated, the difference allowing the realization of large reproduction.

The second argument is held by the way the payment is realized, the fact that the payment is not a static reserve; it is not cumulated, but is used for new assets' acquisition. So, on the afferent payment of the in-use corporal immobilizations, new ones are being acquired, which will operate with the first ones in parallel, increasing the production capacity.

The amortization, as a systematical allocation process of an asset depreciable value during its utile life, is the incidence result of many parameters, which we have specified at the beginning of this article. On establishing the dimension of these parameters, each enterprise has proper methods and criteria according to good's utility: the enterprise intention of good's utilization during its all utile life duration or its alienation after a certain period of time, taking or not in consideration a residual value, the reevaluations' incidence of the respective assets over the amortizable value, the choice of amortizable method, which is fit to consumption rhythm of economic benefits.

Together with all this elements, they are the result of proper policy adopted by every enterprise, it can be considered that the amortization is probably the most representative segment of the accounting practice where the creative book keeping manifests without equivoque; the renewal character brought by the International Accounting Standards and Financial Reporting is just this permission given to the enterprises in applying its self professional reasoning in terms of proper reality.

It could be issued the hypothesis that this treatment represents an extraordinary opportunity for the enterprises, which have and can apply their own instruments in assuring the competitively and market maintaining towards the concurrent, a certainty for countries in which book keeping is fiscally tax-relieving; although, for counties in which book keeping continues to be connected to fiscalty the lawman interferes with restrictions not easy to overcome.

Between the enterprise options regarding amortization modelling and the provisions of fiscal organisms appear differences with consequences over financial situations from current and future period.

In agreement with international norms predictions, the amortization utilized in determining the taxable profit may differentiate from the one utilized in determining the accounting profit for the following situations:

- the utile life duration of the immobilized asset is different from the fiscal duration attributed by the fiscal organisms;

- for the accounting amortization calculation, the enterprise has taken into consideration the residual value of the asset being estimated as significant, in exchange, according to fiscal regulations from the respective country it is not allowed the deduction of an eventual residual value to the amortization calculation;

- in the accounting amortization calculation, the enterprise chooses an amortization method which fiscally is not admitted.

The choosing of the accounting amortizable method for the immobilizations has to consider the way in which it estimates the generation of future economic benefits afferent to the respective assets. According to principle of permanence methods, the used amortizable method must be applied consequently from one exercise to another, excepting some modifications, which impose the application of another amortizable method.

The date of placing in operation, for the amortizable calculation, is differentiated by the fact that if the amortizable corporal immobilizations are independent, it requires installation or assembling and technological tests.

For the amortization calculation, each entity, at the beginning of the exercise, elaborates a provisional table named amortization plan, following the next elements:

- The accountable or entrance value of the existing immobilizations at December 31st of the precedent year, this represents the amortization calculation base. According to Romanian legislation regarding amortization, the amortization calculation base is the historical cost or the reevaluated value, without taking into consideration the residual value.

- The amortization duration, in terms of which the rational allocation of the immobilizations' amortizable value is made.

- The amortizable method (the amortization regime).

As it has just been mentioned, the amortization calculation, represents a problem with fiscal implications. The terms in which this problem is solved found their expression in the fiscal evaluating system of the amortizable corporal immobilizations, in utilized amortization regimes, as well as in the amortization deductibility degree to the taxable result determination.

In national legislation, fiscal amortization is calculated beginning with the following month of the one in which the amortizable corporal immobilized asset was put into operation. For investment expenses made at corporal immobilizations, granted, rented or taken into administration location by who made the investment, the fiscal amortization is calculated according to the initial period of the contact, regardless if this is subsequently prolonged, or on the remained normal utilization duration, according to taxpayer's option, starting with the following month of the investment ending.

In our country, the entities utilize for corporal immobilization amortization one of the following amortization regimes:

- linear amortization;

- digressive amortization;

- accelerated amortization

The linear system is most frequently used in units practice from our country, due to the simple calculation that it has and for the uniformity of the exercise's expenses, the system also standing at the base of other amortization methods. This system has the disadvantage that it does not permit the total recuperation of the immobilization entrance value, in the conditions of a rapid technical progress.

Particularities presented in the Fiscal Code, the transportation vehicles acquired after January 1st 2004 can be amortized also by the number of kilometers or the number of functioning hours written in the technical books. In this case, the amortization is determined by reporting the entrance value of the fix vehicle to the number of kilometers or number of functioning hours written in the technical books, thus, the result is the amortization/km or per functioning hour. The monthly amortization is determined through the multiplication of run kilometers number or the number of functioning hours effected with the amortization/km or per functioning hour in every month.

Regarding the vehicles that are used by the employees with leading functions and administrating of the juridical person, the expenses with the amortization are deductible, limited to a single vehicle afferent to each physical person with this kind of attributions.

For being fiscally deductible, the expenses with the vehicle park have to be justified with legal documents. In the case of amortizable corporal immobilizations acquired with unexpended utilization normal duration, for which the identification data are known (the put in motion date, the remained utilization normal duration), the recuperation of the entrance value it is made on the remained functioning normal duration. For the corporal immobilized assets that are acquired with the expired functioning normal duration or for those with unknown identification data the functioning normal duration is established by a technical commission or an independent technical expert.

The taxpayers that have invested in amortizable corporal immobilized assets and on their put in function date have deducted amortizable expenses representing 20% of their entrance value, according to the legal provisions in force until April the 30th 2005 inclusively, they have the obligation to keep these amortizable corporal immobilizations for at least half of their normal utilization duration.

If these provisions are not respected, the profit tax is recalculated and there are established interests and delay penalties from the application date of the respective facility. For amortizable corporal immobilized assets, the amortization deductions are determined without taken into consideration accounting amortization. For the assets with accounting value evidenced in the balance at December 31st 2003, the amortization is calculated according to the remained non - amortizable value, on the remained utilization normal duration, using amortizable methods applied until that date. The remained non-amortizable value, for the sold amortizable corporal immobilizations, is deductible at the taxable profit calculation in the situation these are capitalized by specialized institutions or organized auction according to the law.

According to the Fiscal Code, in the category of specialized institutions, are juridical persons who, according to their activity object mediate the alienation of immobile properties and other amortizable corporal immobilized assets, specialized departments found in the organizational structure of taxpayers and other institutions with similar activities. In addition, through fiscal value remained non-amortizable, for the case of sold amortizable corporal immobilizations, is understood the difference between the fiscal entrance value and fiscal amortization value, from which the resulted amounts are decreased following their capitalization. For determining the value remained non amortizable, in the case of amortizable corporal immobilized assets with accounting value evidenced in the balance at December 12th 2003, in the fiscal entrance value are included also the effected revaluations, according to the law, until that date.

In the case of cassation of an amortizable corporal immobilization with the entrance value non-entirely amortized, the expenses registered on this occasion are considered expenses effectuated for the realization of taxable incomes. In this sense, the 2 Decision of the Central Fiscal Commission (O.M.F.P. no.576/ April 16 2004-Official Monitory no. 376/ April 29 2004) says: „ in the aplication of previsions from 24th article, paragraph 15, Law no. 571/2003, the registered expenses following the cassation or cession of an amortizable corporal immobilized asset, calculated as a difference between their entrance fiscal value and fiscal amortization, according to a case, there are expenses effectuated for the realization of taxable incomes”.

After presenting the two types of amortizations, accounting and fiscal, we now propose to realize a parallel between them, for highlight the differences and for lining up more clearly the actual existing borders.

Taking into consideration, the duration, as first comparison criterion, we can mention that in the case of accounting amortization, this is established following a professional reasoning, by estimation of the period in which the asset’s utilization or keeping brings benefits to the enterprise, as for the fiscal amortization the duration is conventionally and centralised established without realizing the connection between incomes and expenses.

As for the second criterion, represented by the amortization method, we can observe that the selection of the accounting amortization regime is based on professional reasoning and it is the enterprise management competence; the fiscal amortization method is strictly differentiated by the law depending on the amortizable asset (buildings, equipments and tools, and other immobilized assets corporal and amortizable).

As final comparison criterion, we can remind that accounting amortization has as objective the accuracy determination of entity’s financial result, the consistency with the real evolution of asset’s value and the building of invested capital, while fiscal amortization is neutral towards accounting- financial result registered by the organization and it takes some risk regarding the rebuilt of employed capital.

In conclusion, we can observe that the division of the two type’s amortizations is perfectible, especially concerning the elements and content of fiscal amortization. We recommend the restructuration of national legislation in the direction of regulations’ liberalization, which have direct link with fiscal amortization: centralized usage duration, valuable limit regarding the integration in amortizable corporal immobilized assets.

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