COMPARATIVE STUDY ON ACCOUNTING AND FISCAL AMORTIZATION

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Abstract

Placed in the international trend, Romanian accounting had experienced various changes, especially as regards of progress on disconnection between accounting and fiscality. In the present, fiscal rules should not have any role in accounting decisions, because accounting rules are applied to produce accounting information that is useful in making decisions and to provide a "true and fair view" upon financial reality of the entity. However, the barrier in the habit of accounting to thinking for fiscal point of view all economic transactions remains insurmountable, yet. Starting from this perspective on disconnection between accounting and fiscality would mean that amortization recorded in the accounting, as a result of management policy, to be different from fiscality amortization, to calculate income tax. Although formally accepted, disconnect between accounting and fiscality continues to meet many difficulties. In this sense, it is usual in practice to use the same method of amortization for accounting purposes and for fiscal purposes to prevent complications of double track amortization and prevent wandering in the rules in this field. Accounting rule is deliberately eluded in favor of the fiscal rules. This is the reason we proposed to make in this paper a comparative study between norms and rules on accounting and fiscal amortization, paper in which we intend to show the benefits of applying accounting and fiscal rules separately.

Keywords: *true and fair view, fiscal amortization, linear amortization, disconnect between accounting and fiscality*

Introduction

In the engaged (integrated) relationship between accounting and fiscality is integrated recognition, measurement, amortisation, all these being subordinated to profit tax. In regard to the acceptance by fiscality of accounting rules and treatment in regarding items listed, occur three types of situations:

- fiscality accept tacit the accounting treatment;
- fiscality accept explicit the accounting treatment;
- fiscality defines its own behavior and its own treatment.

Situations in which fiscality defines its own behavior and its own treatment refer to taxation of profit, but also to those elements that converge to the taxation of profits.

One of the problems that develop asymmetries between accounting and fiscality, amortization, as a resource to rebuild equity, urges businesses to reflections in order to choose the best methods in accordance with the economic context in which they operate, but also with the strategy of the entity.

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State aims to reduce amortization costs for the income taxes to be as high. On short term higher fiscal incomes collected, in the long term this fact determines disequilibrium at the microeconomic level, which subsequently has macroeconomic effects. In terms of inflation it must not have tax interest; duration of use should be adjusted to finance fixed capital.

1. Symmetries and asymmetries on accounting and fiscality amortization

Amortization in accounting understanding

Assets that are subject to amortization are tangible and intangible assets. In the amortization study are important to define some elements in terms of European and international accounting rules. In this regard:

- *amortization* is the allocation of the depreciable amount of an fixed asset over the estimated life. Collection of the year amortization is deducted directly or indirectly from the result of that financial year;
- *useful life* is the period in which the entity expects to use a depreciable asset or the number of production units expected to be produced by functioning of the respective asset;
- *appreciation of useful life* of amortizable assets or a group of similar assets is generally based on physical depreciation estimated moral wear and legal or other limits imposed on asset. Durations useful life should be reviewed periodically, default rates of depreciation must be updated to the current and future periods.
- *The depreciable amount* of an asset subject to amortization is its historical cost or other value which replaced the historical cost from the financial statements, less estimated residual value; If it is considered a significant residual value, it is estimated at the time of recognition or on any further review. National accounting rules do not recognize the residual value of an amortizable asset.

Amounts related to amortization of assets shall be allocated on each financial year during the use of asset, as different methods. Whatever is the amortization method chosen, it must be used with consistency in the spirit of the principle of consistent methods, without being conditioned by the level of the company profitability, by the tax considerations or changing the economic strategy.

There must never lose sight of the fact that a change of accounting method have the effect of distortion of the image reflected by the financial statements and that the information offered by them may not be comparable from one year to another. Amortization method may be modified only when it is determined by an error in the estimation of consumption of the benefits for that fixed assets, and this must be mentioned in the notes to financial statements, together with the reason that led to changing the method of amortization.

Fiscal amortization

In the acceptation of the Fiscal Code, the concept of asset is used to define any property, which is held for use in the production or supply of goods or services, to be leased to third parties or for administrative purposes, if it has a normal duration more than one year and a value greater than the limit established by Government decision.

We can define amortization, in fiscal terms, as a recovery by deductions of acquisition, production, construction assembly or improvement assets costs from the result.

Fixed assets are differentiated in amortizable fixed assets and unamortized fixed assets. Fiscality defines amortizable fixed assets as any tangible assets that satisfying the following conditions:

a) is owned and used in the production, supply of goods or services to be leased to third parties or for administrative purposes;

b) has a tax value higher than the limit established by Government decision, the entry in the assets of the taxpayer;

c) has a normal duration of use more than one year.

In the Tax Code sense are considered amortizable fixed assets too:

a) investments to fixed assets subject to leases, lease, location management or other similar;

b) fixed assets partially put into operation, for which no registration forms as tangible were prepared. They are included in those groups in witch it will be recorded, with the value resulting from the sum of actual expenses occasioned for their implementation;

c) investments for uncovering in order to exploit the useful minerals, as well as openness and readiness work to underground and surface extraction;

d) investments to existing fixed assets, as further expenditures made to improve the initial technical parameters and leading to future economic benefits, by increasing the asset value;

e) investments from own resources, embodied in new goods, on the nature of public domain and in the development and modernization of public owned property;

f) fittings of land.

For tangible assets that are used in lots, sets or forming only one wing, lot or set, to determine amortization should consider the value of entire body lot or set. For parts in the structure of a tangible asset, of which normal period of use differs from the normal use of the asset result, the amortization shall be determined for each component.

From the perspective of accounting rules, from the tangible assets, only land are not amortized. In fiscal terms, in addition there are also other fixed assets which are not amortized as follows: land, including woodland, paintings and works of art, lakes , marshes and ponds which are not the result of an investment, public goods financed from the budget, any asset that does not lose their value over time due to use, according to the rules, own rest houses, housing protocol, vessels, aircraft, vessels cruising, other than those used for his income realization.

The evaluation base of accounting and tax amortization

From an accounting perspective, the amortizable value of an asset is historical cost or other value which replaced the historical cost, respectively the input value of the tangible assets. Therefore, the assessment base of amortization is represented by:

- *acquisition cost* for bought goods;
- *production cost* for goods produced in the entity;
- *contribution value* determined by an expert assessor for property obtained as a contribution to capital;
- *market value* or fair value for assets received free of charge or plus to the inventory found;
- in amortizable value are included the costs after putting into service of an asset when they improve operational status of the asset in comparation with the initially estimated performance of that asset ;
- amortizable value may be decreased if the utility of an asset or group of assets is permanently altered as a result of moral damage or wear;
- revalued value, in case of application for revaluation treatment.

From a fiscal perspective, the evaluation base for amortization consists of costs for acquisition, production, construction, assembly, installation or improvement of depreciable assets that are recovered in terms of tax by deducting amortization.

Fiscality uses as a evaluation basis, *fiscal value* represented by:

- acquisition cost,
- production cost,

- market value of assets gained free of charge or provided as contribution, the entry in the property taxpayer

Fiscal value includes accounting revaluations.

Accounting and fiscal policies for amortization

Amortization along with recognition and evaluation of amortizable assets is, in our opinion, the most bidder section on accounting methods and alternative treatments that give the possibility of accounting options, more or less correct, to serve the interest of the economic entity.

In this regard, we take into account:

- **useful life / normal operating period**;
- **amortization methods** ;
- **the borrowing costs** directly attributable to the acquisition, construction or production of a qualifying asset production, which may be included in the cost of that asset.

Useful life

From an **accounting** perspective, amortization period for an amortizable asset is called useful life or economic period. Amortization period should correspond with the useful life, which have be determined by reference to the future economic benefits expected to be obtained by use of amortizable assets.

In setting amortization of tangible assets are considered duration of economic use and conditions of use.

Most often choose amortization period is a matter of optimization ranging from accounting and fiscal interest, amortization enrolling between components of self-financing capacity of the entity.

Just as often there is no agreement between accounting and fiscal interest, the same happens when choosing the amortization period. Accounting may choose a different amortization period than fiscality does, at least in theory, although in practice not much happens.

More specifically, economic duration, and the normal amortization duration of fixed assets are estimated, not measured, depending on experience offered by the practice for amortizable asset categories. On the other hand, this period may be different from the physical life of assets.

Factors that determine the establishment of normal duration of use are:

- physical wear, which sets a limit for the duration of service;
- moral wear due to new technology which shortens the life of the asset before the exhaustion of physical life, and
- inadequacy of assets in relation to changes in the profile and increasing the capacity of the entity.

With regard to the freedom that accounting rules allow for setting service life, it is important to note that, if fully amortizated tangible can be more used, to reevaluation a new value is established and a new period of economic use, for the period estimated to still use.

Amortization period initially set may change if there is a significant change in the terms of use, the aging of a tangible or in other exceptional cases. This should be chosen independent of the fiscal arrangements in the field.

The normal operating period

In terms of taxation, the amortization period is called the normal operating period. Establish normal operating duration imposed an authorized control to temper the businesses policy to establish small duration of use, and amortization too.

In this sense, the amortization duration is fiscal period which may differ from the accounting and are governed by Decision no. 2139/2004 for approving the Catalogue for classification and normal operating duration of fixed assets.

This catalog includes the classification of fixed assets used in the economy and their normal operating period, corresponding to amortization times, in years, for the system of linear amortization.

The normal operating period is the period of use in which recovering by amortization, from fiscal point of view, the fiscal value of the assets. The catalog specifies that normal operation period is lower than the physical life of respectively asset and for each fixed asset are presented a system in years of beach between a minimum and maximum, with a choice of choose normal operation period between these limits.

We can say therefore that there is some flexibility in determining the normal operating period.

The normal operation period of the asset, determined as the range of years from the catalog, remain unchanged until full recovery of its input value or removed from function.

An overview of symmetry and asymmetry between accounting and fiscality regarding amortization, starting from the known fact that fiscality divides tangible assets in amortizable and unamortizable tangible assets, is shown in the table below:

Accounting amortization of fixed assets	**Fiscal amortization of fixed assets**
Tangible assets are assets that: - Are held by an entity for use in the production of goods or services to be leased to third parties or used for administrative purposes and - Are used for a period longer than one year.	Depreciable fixed assets are represented by any tangible which meets the following conditions: - Are owned and used in the production, supply of goods or services to be leased to third parties or for administrative purposes; - Have a fiscal value higher than the limit established by Government decision; - Have a duration of use more than one year. By exception, if an item of tangible asset has a fiscal value less than the limit established by Government decision, the taxpayer may choose to deduct costs or to recover these costs by amortization deductions.
The assessment base is: - acquisition cost for bought goods; - production cost for goods produced in the entity; - contribution value determined by an expert assessor for property obtained as a contribution to capital; - market value or fair	The assessment base is *fiscal value* represented by: - acquisition cost, - production cost, - market value of assets gained free of charge or provided as contribution, the entry in the property taxpayer Fiscal value includes accounting revaluations.

value for assets received free of charge or plus to the inventory found;	
The assessment base can change with: - including in amortization of value of the costs after putting into service of an asset when they improve operational status of the asset in comparation with the initially estimated performance of that asset ; - amortizable value may be decreased if the utility of an asset or group of assets is permanently altered as a result of moral damage or wear; - revalued value, in case of application for revaluation treatment.	The assessment base can change with: - the later costs will be included in asset cost, if this leading to higher economic benefits - Replacing the initial fiscal value with revalued value, only if it is not lower than the entry value.
Useful life is determined by economic life.	The normal operating period – from Catalog
Useful life can change: - After revaluation; - May be reviewed	The normal operating period can not be reviewed (change).
Not amortized: land	Not amortized: - Land, including forests; - Paintings and works of art; - Goodwill; - Lakes, ponds and lakes that are not the result of an investment; - Public goods financed from the budget; - Any asset that does not lose value over time due to use, according to the rules; - Own holiday homes, housing protocol, vessels, aircraft, cruise ships, other than those used for his income.
It amortized and: - investments for arrangement of lakes, ponds, land and other similar works.	It amortized and: Land arrangements, linear over a period of 10 years

It amortized: - Investments to tangible assets leased, on the lease duration. On expiry of the contract value of the made investment and the corresponding amortization gives to the property's owner	It amortized: - Costs of investments to fixed assets leased, rented or leased by the management who made the investment, during the contract or during normal use, as appropriate.
Amortization method: - The linear method; - Degressive method; - Accelerated method; - Method per unit of product.	Amortization method: - In case of construction applies linear amortization method; - In case of technological equipment, machinery, tools and plants, as well as computers and peripherals thereof, may opt for linear amortization method, degressive or accelerated; - In case of any depreciable asset, can opt for linear or degressive amortization method. - Per unit of product for exploitation of mineral substances useful; - Vehicles can be amortized and depending on the number of kilometers or number of operating hours provided in the manuals
It is necessary to use the same method of amortization for all assets of the same nature and having identical terms of use	It is necessary to use the same method of amortization for all assets of the same nature and having identical terms of use
It is also amortized - Development costs are amortized over the contract period or duration of use - Costs of setting up are amortized over a maximum period of five years, if the entity choose not to recognise them in period's costs. - Goodwill is amortized, usually within a period not exceeding five years. - Patents, licenses, trademarks, rights and other similar assets are amortized over their expected use by the entity holding them.	It is also amortized • using linear method during the contract period or useful life of: - Costs related to the acquisition of patents, copyrights, licenses, trade marks or factory - Other intangible assets recognized for accounting purposes, - Development costs which are recognized like intangible assets from accounting point of view • linear, over a period of three years - Cost of acquisition or production software. • Degressive or accelerated amortization method. - For invention patents

	Not amortized: - Costs of setting; - Goodwill,

As can be seen from the table, between accounting and fiscal treatment there are asymmetries at all levels: elements that are subject to amortization, amortization methods, the possibility of revision, revaluation. Perhaps for this reason, the accounting rules and fiscal rules come to meet the need of specialists with very clear specifications about amortization.

In the case of amortization there are the most differences between accounting and fiscal rules. Accountants must understand that this should not affect the true and fair view of the entity showed through financial statements. Knowing the symmetries and asymmetries of amortization, we can calculate and record amortization in accounting according to accounting rules, and in terms of taxation (in the register of fiscality) depending on fiscality rules. Also, the Income Tax Declaration (101) we have to declare separately accounting and fiscal amortization. Note that if is chosen to apply the fiscal rules for accounting too, is compulsory to complete the information about accounting and fiscal amortization in the Income Tax Declaration 101.

Conclusions

Financial statements should provide a true and fair view of the entity. We believe this is a great ideal in the context of the market is too complex to be captured by any accounting system, and the establishment (by choice) to amortization methods involve a high degree of subjectivity, the classification of this process into an accounting set of rules can be dangerous, or even impossible.

We consider that it is necessary awareness of the inherent accounting's limits by its nature and by the complexity of economic reality for which reflection aims to realize. In our opinion, economic entities have no reason to not apply accounting rules for financial statements and fiscal rules, other than accounting, in order to determine the taxable profit in the direction of amortization. Maybe just one of convenience, because the use of different methods for the two areas involves double work: accounting by accounting documents and fiscal evidence, into the Fiscal Register for amortization.

In conclusion, we can say that the national accounting regulations contain explicit provisions relating to amortizable assets mostly converging with IFRS and offer the possibility of detaching of the fiscality, perhaps in the greatest extent by comparison with other cases of this kind.

We hope that shown comparative analysis of accounting and fiscal amortization to be useful for accounting specialists in selecting of accounting policies on amortization.

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