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The 14th Economic International Conference: *Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges* | May 10-11, 2018 | Ștefan cel Mare University of Suceava, Romania

Tax and Income Tax on Buildings- Income Source for Local Budgets

Cristinel ICHIM¹

Abstract

In this article, we propose the study of the place and role we play in the local budgets of Romania "Tax and income tax on buildings". In the first part of the paper I made a presentation of imposed tax and tax on buildings, placing a special emphasis on how to calculate this mandatory tax in the case of residential and non-residential buildings.

The research continues with the quantitative analysis of the budget indicator "Income tax and tax on buildings" on the basis of the data available in the Statistical Yearbook of Romania and highlights the place occupied by such income within local public revenues in Romania. The analysis shows that the income tax and the tax on buildings occupy a very small share in the total local budget revenues (around 6%) which suggests that it is necessary to rethink the current building tax system that applies in our country.

Keywords:

Own revenues; taxes; building; local budget; tax on building.

1. Introduction

Local taxes and fees are income from local budgets, administrative-territorial units where taxpayers have their domicile, headquarters, work points or within the localities where the taxable goods are located. There are mutual influences between the local budget revenues and the local government economy, in the sense that the level of development of the local

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economy depends on its own revenues, and these in turn influence the local economy by ensuring economic and social actions [2].

Financial resources made up of local taxes and fees are used for public expenditures that are funded from local budgets. Information on local taxes is of public interest, local public administration authorities having the obligation to ensure free and unhindered access to them. Local taxpayers may be natural persons, as well as individuals who carry out economic activities on the basis of free enterprise or exercise any profession freely or individually or through association. Local taxpayers are also legal entities, respectively entities represented by legally registered natural persons, with distinct patrimony, for the purpose of carrying out an activity. Natural persons and legal entities as taxpayers have the obligation to contribute to local public expenditures through local taxes established by the local councils, by the General Council of The Municipality of Bucharest or by the county councils, within the limits and according to the law.

Local taxes and fees are revenues to local budgets of administrative-territorial units and are regulated by Law no. 227/2015 regarding the Fiscal Code, art. 453- 495 [4].

Local taxes are as follows:

- a) Building taxes;
- b) Land taxes;
- c) Transport tax;
- d) Entertainment tax;
- e) The fee for use of public advertising and publicity;
- f) The fee for issuing certificates, notices and authorizations;
- g) Special taxes;
- h) Other local taxes.

2. Aims of the Research

The issue of increasing local budget revenues should be a permanent concern of both central and local public authorities. The adoption of well-founded measures to achieve this desideratum can not be done without an analysis of the way in which local public revenues are achieved over a fixed period of time.

The research objectives of this paper are mainly two. The first objective is to study the place and role of the local budgets in Romania „Income tax and the tax on buildings” and the second objective is to identify and propose solutions for a significant increase in the revenues from the tax and the tax on buildings at local budgets in Romania.

3. Research Methods

This paper combines elements of fundamental research with those of applied research. Thus, in the framework of the fundamental research we analyzed the conceptual framework regarding the tax and the tax on buildings as well as its solving, finding and payment. Among the research methods specific to the fundamental research that we have used in this paper we mention: the registration, classification, measurement and comparison of all quantitative characteristics / data.

Within the scope of the applied research, the method used is the quantitative analysis of the “Income tax and the tax on buildings” budget indicator based on the data in the Romanian Statistical Yearbook 2007-2016 [6] in order to highlight the place this tax has in the local public revenues in Romania and then we can formulate some solutions to increase the revenues from this source to the local budgets.

4. Theoretical Considerations on Building Taxes

Building tax is an annual monetary contribution due to the local budget, commune, city or municipality by the persons owning buildings in which the building is located in Romania. Within Bucharest, the tax on buildings is due to the local budget of the sector in which the building is located.

In the case of public or private property buildings of the State or of the territorial administrative units that are leased, rented, administrated or utilized, any entity other than the public law is subject to a tax on buildings representing the tax burden on concessionaires, holders of the right of administration or use under similar conditions to building taxes. During the period when a building is charged, the building taxation is not due. If for a public or private property building of the state or of the administrative-territorial unit there is a tax on buildings and in the course of a year there are situations that determine the building taxation, the tax difference for the period over which the tax is due is compensated or returned to the taxpayer in the next fiscal year.

Building tax is a tax levied by most states in Europe, usually by local communities in the conditions of decentralization of public authority and strengthening of the role of local public administration. It is due by taxpayers, whether natural or legal, to buildings for which they have the right of administration, use, rental or concession, regardless of where they are located or their destination.

The Romanian tax code provides exemptions and reductions from the payment of taxes on buildings, which can be grouped in two categories, namely:

- a) Tax exemption on buildings by law (Article 456, paragraph 1);
- b) Tax exemptions and deductions on buildings at the disposal of the local council of the territorial administrative unit (Article 456 paragraph 2).

The exemption or reduction of the tax on buildings shall apply from January 1 of the year following that in which the person furnishes the supporting documents, except the building used as the home owned or co-owned by people with severe or accentuated disabilities and people in the first degree of disability, respectively of the legal representatives, during the care, supervision and maintenance of people with severe or accentuated disabilities, and people classified in the first degree of invalidity for whom the exemption operates from the first day of the month following that where the person submits the supporting documents.

Tax on buildings owned by natural and legal persons who are used for the provision of seasonal tourist services for a maximum of 6 months during a calendar year shall be reduced by 50%. The reduction applies in the fiscal year following the one in which this condition is met.

The calculation of the tax on buildings is made according to some rules provided by the Tax Code, differentiated for individuals and legal entities.

4.1. Calculation of the Tax Due on Residential Buildings owned by Natural Persons

For residential buildings and annex buildings owned by individuals, the building tax is calculated by applying a rate between 0.08% and 0.2% on the taxable value of the building. According to art. 16 par. 2 of the Law no. 273/2006 on local public finances "the local public administration authorities have the competence to set the levels of local taxes and duties, according to the law" [3]. Thus, in line with this legal provision the rate of tax on buildings is determined by a decision of the local council. At the level of the Municipality of Bucharest, this is the responsibility of the General Council of the Municipality of Bucharest.

The taxable amount of the building, expressed in RON, is determined by multiplying the built-up area of the building, expressed in square meters, by the corresponding taxable amount, expressed in RON / m², from the table provided in art. 457 paragraph 2 of the Fiscal Code [4].

In the case of a building that has exterior walls of different materials, the taxable value of the material with the highest weight is taken into

account for determining the taxable value of the building. The built-up area of a building is determined by summing up the areas of the sections of all levels of the building, including balconies, loggias or those located in the basement or at the attic, except for unoccupied backyard surfaces, uncovered stairways and terraces. If the outside dimensions of a building cannot actually be measured on the outline, then the built-up surface of the building is determined by multiplying the useful surface of the building by a conversion factor of 1.4.

The taxable value of the building is adjusted according to the rank of the locality and the area in which the building is located, by multiplying the determined value with the corresponding correction coefficient, provided in the table in art. 457, paragraph 6 of the Fiscal Code.

In the case of an apartment located in a block of flats with more than 3 levels and 8 apartments, the correction coefficient is reduced by 0.10.

Also, the taxable amount of the building is reduced according to the year of its completion, as follows:

- a) 50% for the building over the age of 100 years on 1 January of the reference year;
- b) 30% for the building between 50 and 100 years inclusive on 1 January of the reference year;
- c) 10% for the building between the ages of 30 and 50 inclusive, on January 1 of the reference year.

In the case of the building where major refurbishment works have been executed, the year of completion is updated from the fiscal point of view so that it is considered as the one in which the reception was completed at the end of the works. Major renovation is the complex action that involves mandatory interventions to the building's structural strength to ensure the fundamental requirement of mechanical strength and stability, through reconstruction, consolidation, upgrading, modification or expansion, as well as where appropriate, other works intervention to maintain over the entire lifetime of the building, the other fundamental requirements applicable to constructions, according to the law, aiming mainly to increase the energy performance and the architectural, ambient and functional quality of the building. The year of completion shall be updated provided that, upon completion of major renovation work, the value of the building increases by at least 50% of its value at the commencement date of the works.

4.2. Calculation of the Tax on Non-Residential Buildings owned by Natural Persons

For non-residential buildings owned by individuals, the building tax is calculated by applying a rate of between 0.2 and 1.3% on the value that can be:

- a) the amount resulting from an assessment report drawn up by an authorized assessor in the last 5 years prior to the reference year submitted to the local tax authority up to the first payment period in the reference year;
- b) the final value of construction works in the case of new buildings built during the last 5 years preceding the reference year;
- c) the value of the buildings resulting from the act transferring ownership in the case of buildings acquired during the last 5 years preceding the reference year.

The rate of tax on buildings is determined by a decision of the local council. At the level of the Municipality of Bucharest, this is the responsibility of the General Council of the Municipality of Bucharest. For non-residential buildings owned by individuals used for agricultural activities, the building tax is calculated by applying a 0,4% share of the taxable amount of the building. If the value of the building cannot be calculated according to the above provisions, the tax is calculated by applying the 2% rate to the taxable amount determined in accordance with the rules applicable to residential buildings owned by natural persons.

In the case of mixed-purpose buildings owned by natural persons, the tax is calculated by summing the tax calculated for the area used for residential purposes with the determined tax for the area used for non-residential purposes. If the address of the building is registered as tax domicile without economic activity, the tax is calculated as in the case of residential buildings owned by natural persons. If the areas used for residential purposes and those used for non-residential purposes cannot be separately identified, the following rules apply:

- a) If a building is registered as tax domicile without economic activity, the tax shall be calculated in accordance with the provisions applicable to the tax on residential buildings owned by natural persons;
- b) If a tax domicile at which the economic activity is registered at the address of the building and the utilities expenses are registered to the person carrying out the economic activity, the tax on the buildings is calculated according to the provisions applicable to the tax on the non-residential buildings owned by natural persons.

4.3. Calculation of the Tax on Buildings owned by Legal Entities

For residential buildings owned or held by legal entities, the building taxation is calculated by applying a rate between 0.08% and 0.2% of the taxable value of the building. For non-residential buildings owned or held by legal entities, the building tax is calculated by applying a rate between 0.2% and 1.3% inclusively, of the taxable value of the building.

For non-residential buildings owned or held by legal entities used for agricultural activities, the building tax is calculated by applying a 0.4% share of the taxable value of the building [4].

In the case of mixed-purpose buildings owned by legal entities, the tax is determined by adding together the tax calculated for the area used for residential purposes with the tax calculated for the area used for non-residential purposes.

In determining the tax on buildings, the taxable amount of buildings owned by legal entities is the value as of December 31 of the year preceding that for which the tax is due and may be:

- a) the last taxable amount recorded in the records of the fiscal authority;
- b) the value resulting from an assessment report drawn up by an authorized assessor in accordance with the valuation standards applicable at the valuation date;
- c) the final value of construction works in the case of new buildings built during the previous fiscal year;
- d) the value of the buildings resulting from the act of transferring ownership in the case of buildings acquired during the previous fiscal year;
- e) in the case of buildings financed under a finance lease, the value resulting from an assessment report drawn up by an approved assessor in accordance with the valuation standards applicable at the valuation date;
- f) in the case of buildings for which the building tax is due, the value entered in the account of the owner of the building and communicated to the concessionaire, the lessee, the holder of the right of administration or use, as the case may be.

The taxable amount of the building is updated every 3 years on the basis of a building valuation report prepared by an authorized assessor in accordance with the valuation standards applicable at the valuation date submitted to the local tax authority up to the first payment deadline of the reference year. If the owner of the building has not updated the taxable value of the building in the last 3 years prior to the reference year, the rate of building tax is 5%.

4.4. Settlement and Payment of Building Tax

The building tax is due for the entire fiscal year by the person who owns the building on December 31 of the previous fiscal year. In the case of the acquisition or construction of a building during the year, the owner of the building has to submit a statement to the local tax authority within whose territorial jurisdiction the building is located, within 30 days from the date of acquisition and owes the tax on buildings starting with January 1 of the following year. If the ownership of a building is transferred during a fiscal year, the tax will be due by the person who owns the building's property on 31 December of the fiscal year that preceding the year in which it is alienated.

The alienation of a building in any of the ways provided by law cannot be made until the owner of the property has extinguished any tax claims in dispute, except for the tax debts due to the local budget of a territorial administrative unit where the taxpayer's building is located or the taxpayer's domicile is located, with due dates that expire by the first day of the month following that in which the alienation takes place.

The building tax is paid annually, in two equal installments, until March 31 and September 30, inclusively. For the anticipated payment of tax on buildings due by the taxpayers for the whole year, up to 31 March of that year, a bonus of up to 10%, determined by a local council decision is granted. The tax on buildings, due to the same local budget by taxpayers, up to and including 50 lei, is paid in full until the first payment term.

In the case of concession, rental, administration or use contracts relating to periods of more than one month, the building tax is paid monthly by the 25th of the month following the month of the period of validity of the contract by the concessionaire, the lessee, the holder of the right of administration or use.

In the case of contracts relating to periods of less than one month, a legal entity governed by public law which conveys the right to concession, lease, administration or use collects the building tax from dealers, tenants, holders of the right of administration or use and a levy monthly until the 25th of the month following the month of the contract validity period.

5. Analysis of the Dynamics of the Taxes on Buildings within the Local Budgets in Romania

In order to highlight the place and importance of the financial resources from the taxes on buildings within the local budgets in Romania, we will analyse the evolution of the receipts and the weights these funds

occupy within the centralized budget of the territorial administrative units in Romania. This scientific approach will be made on the basis of the data available for this purpose in the Romanian Statistical Yearbook and which are presented in the table below.

Table no. 1 Evolution of receipts and tax on buildings in local budgets in Romania during 2007-2016

Million lei										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Revenue	36805,2	43629,1	43526,1	43922,2	44803,9	45419,3	48092,6	53666,2	61462,9	59518,1
Tax on buildings	1991,8	2288,1	2413,9	2664,9	2796,7	2823,4	2991,0	3158,1	3215,7	3229,4
Rate of tax on buildings in total local budget revenues (%)	5,41	5,24	5,54	6,06	6,24	6,21	6,21	5,88	5,23	5,42

Source: Processed Data from Romanian Statistical Yearbook 2008-2017 [5]

The data in the table shows that between 2007-2016 the incomes (in nominal terms) collected from the local budgets from the building tax increased constantly from 1991,8 million lei in 2007 to 3229,4 million lei in 2016, but the same share of this income category was maintained in the total local budget revenues (5-6%). It should be noted that in real expression the amplitude of the growth is much diminished from 1991.8 million lei in 2007 to 2377.3 million lei (value resulting from the application of the Consumer Price Index for this range of 135.84% according to the data available on <http://statistici.insse.ro/shop>). The chart below demonstrates that the tax on buildings occupy a very small share in the total local budget revenues.

Source: Processed Data from Romanian Statistical Yearbook 2008-2017 [5]

Figure no. 1 Evolution of total revenue and tax on buildings during the period 2007-2016 collected to local budgets in Romania

The data in table no. 3 shows that the highest share of the tax on buildings in the total local budget revenues in Romania was registered in 2011 (6.24%) and the lowest in 2015 (5.23%). We note that the implementation of the new Fiscal Code on 1 January 2016 has not led to a significant increase in this share (5.42%).

In our opinion, it is necessary to rethink the current system of taxation of buildings that has been applied for 25 years in our country. We believe that the taxation of buildings according to the market value of the building would be a solution in this respect, knowing that the market value of a dwelling is much higher than the taxable amount provided by the tax code. A first argument for adopting such a measure would be that the taxable amount used in the current building tax calculation formula is at best 25-35% of the market value. Thus, the real tax is not 0.1% -0.2%, but up to 0.03-0.04%, among the smallest in Europe.

Also, by keeping the tax base low, the state offers social protection to all owners without taking into account the income and the social category to which they belong. It is possible within the same locality as the owner of an expensive building to pay a lower tax than the owner of an inexpensive building. On the other hand, if the property tax were to increase, the premises for the reduction of taxes that directly affect the income of

individuals would be created. It comes to the fact that a person with a higher salary without properties contributes to the consolidated general budget with a very large amount compared to a low-income person who owns a very expensive property.

The taxation of real estate by market value also has the disadvantage that it would be burdensome for many citizens who, at the beginning of the 90s, bought their homes at ridiculous prices, and now, in the context of rising prices, the value of dwellings has nothing to do with their income.

A problem that needs to be solved in this context is how we determine the real value of a home, in the conditions of fluctuations in the real estate market. In our opinion, local authorities could assess properties after the grid used by public notaries to calculate commissions and fees. But this benchmark would be inaccurate because it is based on a minimum price, not an average price, so applying this grid is beneficial for some and disadvantages others.

6. Conclusions

In the literature [1] it is stated that from the point of view of the financial aspect of local autonomy, local taxes and duties are the most important sources of local budget revenues. Within them a special place is occupied by the building tax is a tax levied by most states in Europe, usually by local communities in the conditions of decentralization of public authority and strengthening of the role of local public administration. It is due by taxpayers, whether natural or legal, to buildings for which they have the right of administration, use, rental or concession, regardless their location or their destination. Amounts from the building taxes are part of the local budget's own revenues and also depend to a large extent on the degree of development of territorial administrative units.

The research shows that the taxes on buildings occupy a very low share in the total local budget revenues of about 5-6%, which suggests that it is necessary to rethink the current 25-year building tax system in our country. We consider that the taxation of buildings according to their market value would be a solution in this respect, knowing that the market value of a dwelling is much higher than the taxable amount provided by the tax code.

On the other hand, we find that local authorities in Romania prefer transfers from the state budget rather than increasing local revenues from higher taxes. Thus, the use of own resources from taxation, especially those from property taxation, is not fully exploited.

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