



# Tax Depreciation Analysis for Romanian Property Assets

## Background

Romania is a country in south-eastern Europe. It shares borders to the west with Serbia and Hungary, Ukraine and the Republic of Moldova to the northeast, and Bulgaria to the south.

Romania has a population of 22.3 million, the main language is Romanian and it joined the EU on 1 January 2007.

The largest and principal city is Bucharest with a population of over 1.9 million.

The currency is the Romanian Leu with the Euro expected to be adopted in 2014.

## Tax regime

The Romanian tax system is broadly similar to the UK system. There is a flat tax rate of 16% which applies to corporate 'profit tax', capital gains and income tax. In Romania, the fiscal year is the calendar year.

Tax payers are required to file and pay profits tax returns on a quarterly basis by the 25<sup>th</sup> of the month following the quarter. The definitive annual tax return should be filed by the 15 April of the following year.

## Tax on property

In addition to the main 'government taxes' there are also local taxes which apply to buildings. These include an annual building tax that ranges between 0.25% and 1.5% of the book value of the building. The building tax may increase up to 10% if the building has not been re-valued for three years. Landowners are liable to pay a tax on land that is calculated as a fixed amount per unit of surface area, depending on the location of the land. Building tax and land tax are payable in two equal instalments by 31 March and 30 September.

Local councils may grant exemptions from the payment of the building and land taxes to legal entities investing more than EUR 500,000 for a period of up to five years.

Depending on the circumstances, for buildings in the course of construction, a contribution to the Social House of Constructors could be payable to the local council. The amount payable is 0.5% of the construction budget.

## Buildings and tax depreciation

Tax depreciation or fiscal depreciation as it is known in Romania, is available for fixed assets and is used to reduce the amount of profits tax. There are three types of depreciation available and they apply to several different categories of fixed assets. The asset categories and depreciation options are as follows:

### Buildings

- Straight line depreciation

### Technological equipment, machines, tools, computers

- Straight line depreciation
- Declining balance depreciation
- Accelerated depreciation

### Any other depreciable fixed assets

- Straight line depreciation
- Declining balance depreciation



## Tax Depreciation Analysis for Romanian Property Assets

Fiscal depreciation is based upon the concept of 'useful lives' that are set out in Government Decision no. 2139/2004. Assets should be depreciated over a period of time that falls within the published range of useful lives.

Buildings of different types have differing useful lives, for example, retail buildings are deemed to have a life of between 40 and 60 years. A taxpayer can choose the length of time he wishes to depreciate the building over, so long as the period chosen falls within the published rules.

It is important to note that once the 'life' of an asset has been established, no changes may be made to it. Also, the accounts depreciation can differ from the tax depreciation.

Land is a non-depreciable asset but costs incurred with land improvement may be depreciated from a tax perspective (straight line depreciation for a period of 10 years).

Assets within the building have their own useful life and again Government Decision 2139/2004 details the different types of fixtures together with their useful life. For example, passenger and goods lifts can be depreciated over a period of between 5 to 12 years, fire alarms 12 to 18 years and security systems 8 to 12 years. Furniture and fittings have a life of between 2 and 15 years.

We conclude that there may be significant tax advantages in carrying out tax depreciation analysis for expenditure incurred on Romanian property.

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