THE FISCALITY INFLUENCE OVER THE DESIGN OF THE EVALUATION SYSTEM FOR TANGIBLE ASSETS

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Abstract: *Each year the entity's assets need to be evaluated in order to be presented in anual financial statements. The applied evaluation procedures / methods have major influences on the financial statements, so the design of the evaluation system is a determinative process. Within the evaluation system design evaluation procedures / methods are establised which the entity consistently uses. The objective of this paper is to present the influence of fiscality on the evaluation system design for tangible assets at economic entities in Romania and Hungary, through the 21 factors (items) fixed within the empirical research. For this empirical study we used a questionnaire – as research technique and we analyzed the input information by the help of descriptive statistics.*

Key words: *evaluation procedures / methods, fiscality, fiscal inspections, fiscal legislation, accounting legislation*

JED Classification: M41

INTRODUCTION

The best known definitions of fiscality are the following:

- Perception system of taxes and fees by tax institutions
- System of laws, regulations, provisions concerning the fixing and collecting taxes (http://dexonline.ro/definitie/fiscalitate).

A country's fiscal system is the complete setup of government revenue and expenditures and the way in which government agencies carry them out. This system is governed by fiscal policy, which comes from decisions made by the governing body. Businesses must understand a country's fiscal system to operate effectively within its borders (http://www.ehow.com/info_8532826_fiscal-system.html).

In the Romanian and Hungarian accounting conceptual framework two evaluation bases are defined, that may be used in the annual financial statements: *historical cost* is the cost of acquisition or production cost, as basic valuation rule and *revalued amount / fair value* as alternative rule, allowed for tangible assets, respectively for financial instruments.

OBJECTIVES AND HYPOTHESIS

The main objective of this empirical study is to analyze the influence of fiscality on the evaluation system design for tangible assets at economic entities in Romania and Hungary.

For this empirical study a questionnaire was used as research technique. In the questionnaire designed for accountants / economic directors and financial auditors 21 factors (items) were included, which could have influenced the evaluation system design for tangible assets at economic entities.

General hypothesis

H_1 Within the evaluation system design for tangible assets at economic entities in Romania and Hungary the efforts to influence the tangible asset value of economic entities (the fiscality influence) presented in the financial statements appear in a significant way.

Statistical hypothesis

H_0^1: The average of no more than three of the six factors (1, 7, 12, 14, 17, 19) are above the general average of factors.

H_1^1: The average of more than three of the six factors (1, 7, 12, 14, 17, 19) are above the general average of factors.

LITERATURE REVIEW

The relationship between accounting and fiscality is one of the most sensitive and controversial problems within national and international accounting and fiscal regulations, due to their different aims and objectives. While accounting, through the true and fair view, requests that useful information in decisions making to be presented to users of the entity's annual financial statements, the fiscality objective is to determinate the tax base in accordance with the entity actually fiscal situation and in accordance with the legislation in force. According to consecrated practices, the accounting information undergoes fiscal rules and most of the time it serves the state as preferential user of the financial information to the detriment of the other users (Dănescu et al., 2011).

The financial accounts are a starting point when drawing up the tax accounts in any jurisdiction. Although systems vary, it is important not to draw a too sharp line between different approaches or to be over-simplistic in the characterization of these systems. It is customary to divide European jurisdictions into those where there is dependence and those where there is independence (Freedman, 2008).

In 2001 an EU Commission staff working paper presented the following: "Generally, it is clear that there is no prospect of fully matching tax and financial accounting in the future… To the extent that tax accounting will develop independently from financial accounting, Member States will be obliged to find autonomous rules for tax accounting purposes. In looking for such rules there is an opening for co-ordination and co-operation to start with common base rules, instead of each of the Member States trying to pursue individual solutions."

Systems theory suggests that integration of the tax and accounting systems is not possible; they are separate "closed" systems which inevitably view things differently and this needs to be recognized in policy formulation (King & Thornhill, 2006 cited by Freedman, 2008).

Dănescu et al., (2011) mentions among the most relevant accounting policy options with effect on the assets value and on the accounting and implicitly tax result the following: choice of depreciation methods for tangible assets, revaluation of the tangible assets or keeping the historical cost of them, the capitalization of interest or recognition as current expenses.

We can also mention another accounting policy: the depreciable value of the tangible assets, which represents the difference between the entry value of the assets and its residual value with important effects on the value of assets presented in the financial statements and over the accounting result when the tangible assets have high value.

Accounting depreciation is the depreciation that is registered in accounting in the form of expenses determined according to regulations and accounting rules. Tax depreciation is the depreciation determined according to regulations and tax rules to replace the accounting depreciation in calculating the income tax. Fiscal amortization does no affect the company's performance; it only affects taxable mass and, implicitly, the calculation of profit taxes (Trif & Nagy, 2010; Man et al., 2011).

The separation of accountancy from fiscality regarding amortization represents an important step towards the elimination of fiscality out of accountancy. Because of its danger even the accounting professionals themselves introduced, out of indolence, fiscal norms in accountancy, thus allowing the pollution of accountancy by fiscal norms (Popescu, 2008 cited by Man et al., 2011, Trif & Nagy, 2010).

In accordance with the Tax Code in Romania, the entities need to revaluate the buildings every three years. However, there is no similar regulation in Hungary. Also, in Romania accounting legislation does not regulate the residual value of assets, so the depreciable amount is equal to the entry value of the asset. In Hungary the residual value is taken into account to estabilish the depreciable value of the tangible assets.

RESULTS AND DISCUSIONS

Verification of the hypothesis is based on the analysis of the respondents' answers regarding the factors influencing accounting policies related to tangible assets of the entities, separately for micro and small entities, medium entities and large entities.

Part 1 of the questionnaire for financial auditors and part 3 of the questionnaire for accountants / economic directors include 21 factors (items) which in our opinion influence the determination of the evaluation methods and procedures applicable to tangible assets. These are de following: 1. Reducing the tax obligations on profit tax (corporation tax, income tax); 2. The usefulness of information based on evaluation methods for the entity owners; 3. The usefulness of information based on evaluation methods for the entity creditors; 4. The use of evaluation procedures used by competitors or the entities with similar profile; 5. The system of the evaluation methods to be designed in accordance with the accounting legislation; 6. Evaluation methods proposed in specialized books, in articles published (Internet); 7. Unification of the evaluation procedures mentioned by the tax law and accounting legislation, using the evaluation procedures established by the tax legislation (especially in the case of depreciation); 8. By the evaluation methods the annual financial statements present a favorable image for the potential owners of the entity; 9. By the evaluation methods, the annual financial statements present a favorable image for the entity creditors; 10. The entity's management's specific needs of information 11. The owners' specific needs of information; 12. Decrease of tax obligations besides profit tax, decrease of other taxes (eg. taxes on the building); 13. The true and fair view obtained by applied evaluation methods to tangible assets to be considered reliable by the financial auditor (or by another independent specialist); 14. In the case of tax inspections the used evaluation methods to be considered adequate by the inspectors; 15. The tangible assets value to present their true and fair view in the financial statements; 16. The fear of the accounting personnel of changing / preserving the previous procedures; 17. Ensuring the maximum use of fiscal benefits; 18. Influencing the extractable income (dividends, bonus) from the entity to the entity owners, managers; 19. The evaluation methods are designed in accordance with tax legislation; 20. The entity's amount of debt affects the design of the evaluation system of tangible assets; 21. Designing the evaluation methods depends on the ratio of tangible assets and total assets.

The survey participants evaluated the influence of the factors on a scale from 1 to 7 (1 = no influence – 7 = major influence). The following factors were analyzed for acceptance of the hypothesis: 1. Reducing the tax obligations on profit tax (corporation tax, income tax); 7. Unification of the evaluation procedures mentioned by the tax law and accounting legislation, using the evaluation procedures established by the tax legislation (especially in the case of depreciation); 12. Reduction the tax obligations besides the profit tax, decrease of other taxes (eg. property/building tax); 14. In the case of tax inspections the applied evaluation methods to be considered adequate by the

inspectors; 17. Ensuring the maximum use of fiscal benefits and 19. The evaluation methods are designed in accordance with tax legislation.
The analysis of the responses started with the most representative numeric samples, 247 small and micro entities (ROMSE) in Romania, and 278 micro and small entities (HUMSE) in Hungary.
It can be noted that in the case of micro and small entities in Romania the average rating of the six factors of influence (1, 7, 12, 14, 17 and 19) is higher than the average of the evaluating factors, as well as in the case of the Hungarian sample, except the HUMSE 12 factor, which is less.
Within the ROMSE sample regarding the six evaluation factors the most frequent evaluation (mode) is 7, and in the case of HUMSE sample the most frequent evaluations (mode) are 7, 7, 6, 6, 4 and 2. We mention that the mean confidence intervals at 95% confidence interval regarding the six factors are the following:

- ROMSE 1 = [4,21 and 4,70]; ROMSE 7 = [5,28 and 5,67]; ROMSE 12 = [5,19 and 5,64]; ROMSE 14 = [4,71 and 5,24]; ROMSE 17 = [5,65 and 5,97] and ROMSE 19 = [5,72 and 6,01]
- HUMSE 1 = [3,14 and 3,54]; HUMSE 7 = [4,36 and 4,92]; HUMSE 12 = [3,41 and 3,94]; HUMSE 14 = [3,89 and 4,46]; HUMSE 17 = [4,04 and 4,62] and HUMSE 19 = [3,84 and 4,35], this means if the sampling is repeated within the same condition, then in 95 cases out of 100, these intervals would include the expected values.

Regarding the medium entities in Romania the average rating in case of the six factors of influence (1, 7, 12, 14, 17 and 19) is higher than the average of the evaluation factors. In Hungary the mean of three factors of influence (17, 7, 12) is higher than the average of the evaluation factors. Within the ROME sample in case of the six factors of influence the most frequent evaluation (mode) are 7, 7, 6, 6, 5 and 4, however in case of HUME sample the most frequent evaluation are 5, 5, 5, 4, 4 and 4.
There were responses regarding 75 large entities (ROLE) analyzed in Romania. The information related to the large entities (HULE) in Hungary was impossible to be analyzed because the number of responses was very low. Therefore, we found that at large entities in Romania the average rating of the six factors of influence (1, 7, 12, 14, 17 and 19) is higher than the mean of the evaluation factors, being equal with 4.05. A summary of the above can be found in Table no. 1.
Besides the answers given by accountants / economic directors of the micro, small, medium and large entities the answers reflecting the applied accounting policies as "self evaluation" were analyzed, in order to investigate the auditors' opinion regarding the 21 factors (items).
Before the descriptive analysis of the responses given by the financial auditors, a short presentation of the current legislation, related to the annual financial situation auditing should be made:

- ***Romania***: Order of Ministry of Public Finance no. 3055/2009 for approving accounting regulations in accordance with the European Directives → art. 3, alig. (1) "The legal entities which at the balance sheet date exceed two of the following three criteria, hereinafter size criteria: total assets 3,650,000 euro; net turnover 7,300,000 euro and the average number of employees during the financial year 50 ..."; art. 5, alig. (1) "Annual financial statements prepared by legal entities referred to art. 3, alig. (1) are audited according to the law." (*total assets ≈ 16,164,755 lei; net turnover ≈ 32,329,510 lei and the average number of employees during the financial year = 50*)
- ***Hungary***: Law 100/2000 about Accounting → art. 155, alig. 3 "not have an obligation to audit the annual financial statements under the following conditions: a) two consecutive years prior to the financial year for which financial statements are prepared, the average net turnover has not exceeded 200 million HUF (to 2011 was 100 million HUF, out of the 2014 the limit is 300

Table no. 1

The average and dispersion of the influence factors on the selection of accounting policies afferent to tangible assets at entities from Romania and Hungary from the point of view of the accountants / economic directors

	ROMSE			ROME			ROLE			HUMSE			HUME		
No.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.
1	19	5,87	1,12	17	6,08	0,83	12	5,84	1,04	1	4,87	2,21	9	5,57	1,24
2	17	5,81	1,23	19	5,67	0,99	17	5,55	1,34	7	4,64	2,35	17	5,17	0,62
3	7	5,57	1,56	12	5,62	1,56	8	5,39	0,88	16	4,33	2,42	11	5,14	0,60
4	12	5,41	1,81	14	4,88	1,90	19	5,26	1,15	17	4,33	2,46	7	5,06	0,24
5	14	4,97	2,09	7	4,75	1,61	14	4,90	1,76	15	4,32	2,38	12	5,06	0,73
6	5	4,87	1,95	5	4,55	1,91	20	4,71	1,22	14	4,18	2,42	2	5,03	0,45
7	15	4,66	2,19	8	4,50	1,35	5	4,61	2,03	19	4,09	2,16	4	5,03	0,38
8	9	4,56	1,98	9	4,46	1,90	9	4,55	1,82	5	3,96	1,83	15	5,03	0,51
9	8	4,49	1,98	1	4,46	1,26	1	4,48	1,12	9	3,82	2,12	8	4,94	0,34
10	1	4,45	1,97	20	4,41	1,60	7	4,42	1,63	11	3,76	2,33	3	4,86	1,00
11	11	4,26	1,96	11	4,13	1,82	13	3,84	1,44	20	3,74	2,22	14	4,31	0,90
12	10	4,08	1,93	10	3,83	1,73	18	3,84	0,90	12	3,68	2,24	5	4,29	0,75
13	13	3,63	2,02	3	3,66	2,04	11	3,74	1,32	6	3,67	2,07	10	4,29	0,86
14	3	3,43	1,73	15	3,63	1,94	15	3,74	1,79	18	3,56	2,00	13	4,29	0,93
15	2	3,40	1,59	18	3,57	1,55	3	3,58	2,17	8	3,56	2,42	19	4,23	0,81
16	20	3,32	1,79	13	3,11	1,78	10	3,21	1,34	10	3,54	2,19	6	4,09	0,74
17	18	3,21	1,94	2	2,88	1,51	2	3,16	1,16	2	3,34	1,67	1	4,06	0,42
18	6	3,17	1,95	6	2,88	1,44	21	2,81	2,12	21	3,32	2,24	18	4,06	1,08
19	16	2,81	1,74	16	2,70	1,32	6	2,68	1,52	13	3,28	2,41	20	4,06	1,08
20	21	2,37	1,68	21	2,58	1,98	16	2,55	0,96	3	3,14	1,60	16	4,03	0,66
21	4	2,06	1,42	4	2,17	2,17	4	2,16	1,49	4	2,34	1,66	21	4,03	0,86
	Total	**4,11**	**1,79**	**Total**	**4,02**	**1,59**	**Total**	**4,05**	**1,44**	**Total**	**3,79**	**2,16**	**Total**	**4,60**	**0,72**

million HUF), and b) two consecutive years prior financial year for which are prepared financial statements, the average number of employees does not exceed 50." (*net turnover ≈ 3,027,000 lei and the average number of employees during the financial year = 50*)

It can be drawn from the presented legislation that the obligatory conditions to audit the financial statements are different, existing important difference between the net turnovers. Therefore the audited financial statements of small and micro entities are less frequent in Romania than in Hungary. Most probably this is the reason for the difference concerning the auditors' answers regarding micro and small entities in Romania and Hungary.

It can be noted that in the case of micro and small entities in Romania the average rating of the six factors of influence (1, 7, 12, 14, 17 and 19) is higher than the mean of the evaluation factors, respectively in the case of Hungary the average rating of five factors of influence (1, 7, 12, 14, and 17) is higher than the mean of the evaluation factors.

In the case of medium entities in Romania and Hungary the average rating of four out of six factors of influence are higher than the mean of the evaluation factors, respectively in the case of large entities only three factors out of six is higher than the mean of the evaluation factors.

The analysis of the responses received from financial auditors shows that in Romania the factors of influence with the highest mean in all three types of entities (ROAMSE, ROAME and ROALE) are: 12. Reduction of tax obligations besides the profit tax, decrease of other taxes (eg. property/ building tax) and 17. Ensuring the maximum use of fiscal benefits.

However, in the Hungarian sample factor 14 is characterized by the highest mean among all three types of entities (HUAMSE, HUAME and HUALE). In case of micro and small entitites factor 17 "Ensuring the maximum use of fiscal benefits" and in case of medium and large entitites factor 7 "Unification of the evaluation procedures mentioned by the tax law and accounting legislation, using the evaluation procedures established by the tax legislation (especially in the case of depreciation) are on the second place. A summary of the above can be found in Table no. 2.

Validation of hypothesis

To validate the hypothesis the main information was included in the answers given by accountants / economic directors presenting "self evaluation"of the factors of influence regarding the applied accounting policies.

Also, in order to validate the hypothesis the answers received from financial auditors regarding independent evaluation of these factors (used accounting policies) were considered as complementary information.

Due to descriptive statistics we can conclude that based on the evaluation system design for tangible assets at all three economic entities in Romania (ROMSE, ROME and ROLE) and in Hungary (ROMSE) the average rating of the six factors (1, 7, 12, 14, 17 şi 19) are higher than the mean of evaluation factors, significantly influencing the tangible asset value of economic entities (the fiscality influence) presented in the financial statements. Thus, according to the research results the null hypothesis is rejected, the alternative hypothesis is accepted.

In the case of medium (HUME) and large (HUALE) entities in Hungary, the average rating of three out of six factors are higher than the mean of evaluation factors, which does not appear to significantly influence the tangible asset value of economic entities (the fiscality influence) presented in the financial statements. Thus, according to the research results the null hypothesis is accepted.

Table no. 2

The average and dispersion of the influence factors on the selection of accounting policies afferent to tangible assets at entities from Romania and Hungary from the point of view of the financial auditors

	ROAMSE			ROAME			ROALE			HUAMSE			HUAME			HUALE		
No.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.	No. factor	Ave.	Dis.
1	12	6,66	0,74	12	6,03	1,59	17	6,56	0,79	14	6,06	1,22	14	5,61	1,30	14	5,86	1,46
2	17	6,15	1,07	17	5,98	1,09	12	6,33	1,34	17	5,91	1,73	7	5,31	1,47	7	5,82	0,91
3	7	5,98	1,80	10	5,13	1,91	15	6,11	1,45	7	5,72	2,07	20	5,20	1,70	10	5,82	1,71
4	19	5,95	1,87	15	5,11	1,75	2	5,97	1,55	16	5,24	1,82	9	5,18	1,92	5	5,77	1,38
5	14	5,66	1,82	19	5,04	1,73	8	5,93	1,53	9	5,09	2,11	5	5,09	2,04	2	5,59	1,44
6	16	5,31	1,97	5	4,83	1,47	1	5,87	1,60	20	4,91	1,91	17	5,08	2,37	15	5,59	1,26
7	1	5,08	1,34	13	4,73	1,63	3	5,84	1,92	18	4,36	2,21	3	4,55	1,77	6	5,50	1,22
8	5	5,03	1,98	2	4,65	1,74	10	5,74	1,81	12	4,30	2,38	1	4,54	2,45	17	5,36	2,34
9	10	3,92	2,42	11	4,62	1,88	11	5,58	2,08	1	4,27	2,11	15	4,51	1,87	20	5,27	2,45
10	9	3,65	2,38	3	4,56	1,92	9	5,57	2,00	3	4,24	2,01	8	4,38	2,17	13	5,23	1,72
11	11	3,54	2,26	8	4,54	2,00	13	5,37	1,40	5	4,17	2,24	11	4,29	1,49	3	5,14	1,17
12	15	3,38	2,14	9	4,51	2,21	4	4,89	1,60	19	4,17	2,07	12	4,26	2,79	9	5,09	2,24
13	8	3,29	2,11	7	4,44	2,38	5	4,60	1,71	15	3,94	1,62	18	4,16	2,21	11	5,05	2,17
14	18	3,25	1,54	1	4,32	1,55	19	4,45	1,60	11	3,84	2,06	6	4,14	1,77	19	5,05	1,73
15	13	3,15	2,00	14	4,23	2,23	6	3,95	1,76	21	3,73	1,92	16	3,99	1,63	8	4,95	2,15
16	3	3,03	1,58	18	3,70	1,78	14	3,33	2,38	8	3,60	2,07	2	3,87	1,26	12	4,59	2,32
17	2	2,96	1,73	4	3,50	1,72	7	3,29	2,47	10	3,35	1,70	19	3,78	1,81	18	4,50	1,97
18	6	2,96	2,07	16	3,48	1,80	18	3,15	2,32	4	3,27	2,07	10	3,67	1,11	1	4,32	2,15
19	20	2,71	2,07	6	3,06	1,81	20	2,81	2,20	2	3,05	1,47	13	3,57	1,23	4	4,23	1,74
20	21	2,37	1,85	20	2,98	1,86	16	2,42	1,58	13	2,99	1,61	4	2,99	2,36	16	4,23	2,05
21	4	2,01	1,43	21	2,56	1,69	21	2,31	1,87	6	2,99	1,85	21	2,94	2,02	21	3,91	2,07
	Total	**4,10**	**1,82**	**Total**	**4,38**	**1,80**	**Total**	**4,77**	**1,76**	**Total**	**4,25**	**1,92**	**Total**	**4,34**	**1,85**	**Total**	**5,09**	**1,79**

CONCLUSIONS

According to the final statement the relationship between accounting and fiscality is one of the most sensitive and controversial problem treated in national and international accounting and fiscal regulations, due to the different objectives which they aim. Fiscal rules are often preferred over accounting rules, are prioritized, fact supported by the empirical research results.

Regarding the responses of the two Romania samples, it can be concluded that accountants / economic directors consider the effect of fiscality decisive in establishing accounting policies for the three types of entities, the mean of the six factors being higher than the average of the evaluation factors. Based on the answers of financial auditors it can be stated that only four factors at medium entities, respectively only three factors in case of large entities are higher than the average of the evaluation factors. In case of the Hungarian sample there is no interpretable difference between "self evaluation" and the independent evaluation of the factors of influence.

The research results demonstrate that within the design of the evaluation system for of tangible assets of economic entities in Romania (all three mentioned types) and of the micro and small entities in Hungary the value of tangible assets of the economic entities presented in the financial statements appears to be significantly influenced.

We conclude that fiscality plays an important role in determining the value of tangible assets.

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