

Equity or Net Asset Value – an Important Financial Indicator *by Adina Zdru, Tax Partner*

The term *net asset value* or *equity* often comes up in discussions regarding a company's financial position. But what exactly does it mean?

Definition, Calculation, Significance

When a company is founded, each shareholder must contribute to the share capital. This constitutes the company's initial assets. Over time, these assets evolve as a result of business activities and are reflected in the annual financial statements on both sides of the balance sheet – assets and liabilities – which must be equal in value.

Law No. 31/1990 on companies refers to the concept of *net assets* (*activ net* in Romanian), which are determined as the difference between total assets and total liabilities. The net asset value corresponds to the equity – that is, the capital accumulated in addition to the initial contribution, which would belong to the shareholders if the company were liquidated at a given point in time.

Equity therefore consists of the initial contribution and the capital elements generated by the company in the meantime – reserves, retained earnings or losses from previous years, the result of the current financial year, and similar items. It reflects the increase or decrease in the company's value since its incorporation.

A high net asset value indicates a solid financial position and sustainable profits. If the net asset value is low or even negative, this may point to ongoing losses, possible over-indebtedness, or a looming insolvency.

Thus, the net asset value is an important and easy-to-calculate indicator that underlies any further analysis of a company. For this reason, it is displayed on the first page of Romanian balance sheet forms.

The Romanian tax authority (ANAF) also uses this indicator as an important criterion when assessing the tax risks associated with a taxpayer.

Under-Capitalization Rules

According to Law No. 31/1990, if a company's net asset value falls below half of its subscribed share capital, an extraordinary general shareholders' meeting must be convened to decide whether the company should be dissolved.

If the shareholders' meeting does not decide on dissolution, measures must be taken either to restore the company's net assets to at least half of the share capital or to reduce the share capital by at least the amount of losses not covered by reserves.

Otherwise, any interested party may request the company's dissolution before the court. The court may grant the company a maximum period of six months to remedy the situation. Dissolution will not take place if, before the court's dissolution decision becomes effective, the net assets have been restored to at least half of the share capital.

Administrative Measures

There are no specific sanctions for failing to comply with this obligation. In practice, dissolutions initiated ex officio by the Trade Register due to insufficient equity are almost unheard of.

Given the large number of companies with low equity, measures were introduced a few years ago to encourage companies to increase their equity. Under these measures, companies benefited from a corporate tax deduction if their equity increased relative to the previous year. These measures remain applicable for financial years up to and including 2025.

In the current fiscal deficit reduction package, new sanctions have been introduced for non-compliance with the above obligations — for example, a prohibition on dividend distribution and the requirement to convert shareholder loans into share capital within two years. The fines can reach up to RON 300,000 (approximately EUR 60,000). However, these sanctions will only apply starting in 2027, based on financial statements for 2025.

Conclusion

The net asset value, or equity, is a key indicator of a company's financial health. Every business owner should review this indicator at least once a year, when approving the annual financial statements, and compare it with the share capital.

If equity falls below half of the share capital, the company's prospects should be reassessed and corrective measures taken. In the future, companies with persistent losses and/or undercapitalization are likely to face certain penalties and restrictions.

Contact and further information:



STALFORT Legal. Tax. Audit.
Bucharest – Bistrița – Sibiu

Office Bucharest:

T.: +40 – 21 – 301 03 53

F: +40 – 21 – 315 78 36

M: bukarest@stalfort.ro

www.stalfort.ro