Analele Universității din Oradea. Seria științe economice
TOM XXXIV, 1st Issue, July 2025

LIQUIDATION OF COMPANIES: ACCOUNTING, LEGAL AND FISCAL IMPLICATIONS IN THE CURRENT CONTEXT

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Abstract: *This article analyzes the corporate liquidation process in Romania, highlighting its legal, fiscal, and accounting dimensions. Triggered by rising insolvency rates following financial crises and economic instability, liquidation in Romania is governed by Law no. 31/1990 and Law no. 85/2014, aligned with EU Directive 2019/1023. The process unfolds through three stages: dissolution, liquidation, and deregistration. Special-purpose financial statements, regulated by Accounting Law no. 82/1991 and the MFP Ordinance 897/2015, must reflect the realizable value of assets and liabilities, moving away from the going concern principle. From a fiscal standpoint, liquidation imposes strict rules regarding the reintegration of reserves and provisions, taxation of asset distributions, and final corporate income tax obligations. Shareholder distributions are treated as investment income, subject to withholding tax for individuals. VAT adjustments are required for distributed assets if input VAT was initially deducted, ensuring neutrality in the tax system. The study also highlights macroeconomic factors influencing corporate failures, with a notable increase in insolvencies among both SMEs and larger companies in 2024. Official data reveal sectoral vulnerabilities in construction, retail, and manufacturing, and regional disparities with Bucharest and major counties registering the highest case numbers. Although preventive concordat procedures gained traction, their low success rate underlines persistent systemic weaknesses. The article emphasizes that liquidation accounting demands meticulous revaluation and classification of all patrimonial elements, careful recognition of revenues and expenses, and accurate distribution of net assets to shareholders. In bankruptcy scenarios, proceeds are distributed proportionally among creditors, with uncovered claims reflected as extraordinary accounting results. Romania's corporate liquidation system presents a unique blend of transitional legal frameworks, emerging market characteristics, and ongoing EU harmonization. The growing use of digital tools in liquidation procedures suggests modernization trends, but fiscal and regulatory compliance remains critical. This multidimensional analysis offers insights for improving business closure mechanisms, strengthening financial system resilience, and aligning national practices with European standards.*

Keywords: *Corporate insolvency; Fiscal implications, Accounting for liquidation.*

JEL Classification: *G33, M41, H25*.

1. Introduction

The process of corporate liquidation has garnered increasing attention in both academic and professional domains, particularly in the wake of recurring financial crises, the COVID-19 pandemic, and the resulting instability in global markets. The liquidation of companies—especially in emerging and post-transition economies such as Romania—presents a complex intersection of legal, accounting, and fiscal challenges. As insolvency and dissolution rates continue to rise, particularly among small and medium-sized enterprises (SMEs), a multidimensional understanding of liquidation becomes crucial for scholars, policymakers, and practitioners alike (Iuga, Cioca, & Hada, 2023).

In Romanian law, the liquidation of a company is generally structured in three formal stages: dissolution, liquidation, and deregistration (Nancu & Dănilă, 2022). The legal procedures governing these stages are delineated under Law no. 31/1990 on companies and Law no. 85/2014 on insolvency and pre-insolvency measures. The reasons for company dissolution may include expiration of the term of incorporation, fulfillment or impossibility of achieving the corporate purpose, judicial declaration of nullity, or insolvency as ruled by the competent court (Telicenu, 2019). In addition, the EU Directive 2019/1023 on preventive restructuring frameworks has introduced a more harmonized legal standard across member states. This directive emphasizes early intervention mechanisms and proposes streamlined processes for liquidation and debt restructuring (European Commission, 2019). Romania's legislative efforts in aligning with these standards offer valuable case studies in the ongoing harmonization of commercial law within the European Union (European Commission, 2019).

The accounting implications of corporate liquidation are governed primarily by Accounting Law no. 82/1991, which stipulates that companies must prepare special-purpose financial statements when initiating dissolution or liquidation. These statements are further regulated by the MFP Ordinance 897/2015, which lays out the methodological norms for mergers, splits, and liquidations. Companies may apply either the net asset method or the valuation method, depending on whether asset values are taken at book value or reassessed by certified evaluators (The Ministry of Public Finance, 2015).

Furthermore, IFRS regulations pose an added layer of complexity. Companies listed on regulated markets are required to conform to International Financial Reporting Standards (IFRS) as adopted by the EU. These standards impose stringent requirements regarding asset valuation, impairment recognition, and disclosure of contingent liabilities during liquidation, particularly when preparing consolidated financial statements.

A key distinction emphasized in the literature is between going concern and liquidation value. The latter often reflects a marked devaluation of corporate assets, especially under distress sale conditions.

Olabarrieta et al. (2021) provide empirical evidence showing how asset values tend to deteriorate once the liquidation decision is made, due to the disassociation of assets from their productive context.

From a fiscal perspective, liquidation often intersects with issues of tax deferral, loss transfer, and deductible restructuring costs. According to Dragos (2015), Romanian fiscal regulations—now consolidated under Law no. 227/2015 on the Fiscal Code—permit certain tax reliefs during corporate liquidation or restructuring, such as the transfer of accumulated losses, tax deferrals, and asset revaluation advantages. These benefits are conditioned on strict procedural compliance and reporting.

The MFP Ordinance 897/2015 also outlines that liquidation-related financial reports must be submitted both to the Ministry of Finance and the Commercial Register, reinforcing the link between fiscal reporting and legal compliance.

Corporate liquidation is not merely a firm-level phenomenon—it holds significant macroeconomic consequences. Anghel et al. (2020) identify interest rates and consumer demand as key predictors of corporate failure in both Romania and Spain. Their regression-based model demonstrates how macroeconomic volatility directly affects corporate solvency and long-term viability. In the Romanian case, industries such as construction, retail, and transport show particularly high vulnerability.

Startups present an additional layer of complexity. Bethlendi et al. (2024) emphasize that failure among early-stage firms is often caused by non-financial factors, such as flawed product-market fit, limited strategic foresight, and management inexperience. Their research, based on Central European data, underlines the fact that liquidation among startups is frequently not the result of poor financials but of fundamental strategic misalignments.

Compared to its European peers, Romania exhibits a higher rate of voluntary liquidations, often driven by shareholders' decisions rather than judicial procedures (Nancu & Dănilă, 2022). This trend contrasts with Western European systems, where insolvency courts play a more active role. The Romanian legal and economic environment thus presents a unique mix of transitional legal frameworks and emerging market vulnerabilities.

Moreover, the use of electronic platforms in commercial law, including the submission of liquidation documents via digital registers, suggests a trend toward modernization. These developments may help streamline processes and increase legal transparency, particularly if integrated with EU-wide regulatory initiatives.

According to official data published by the National Trade Register Office (ONRC), the year 2024 marked a substantial increase in the number of companies entering insolvency, reflecting ongoing economic challenges and structural pressures on the business environment. Between January 1 and December 31, 2024, a total of 7,274 insolvency proceedings were registered—an increase of over 9% compared to the same period in 2023 (Figure 1).

A particularly significant aspect is the 58% increase in the number of high-impact companies—defined as entities with assets exceeding one million euros—that entered insolvency: 141 such companies were recorded in 2024, up from 90 in the previous year (Ziarul Financiar, 2025). This trend highlights the growing exposure not only of SMEs but also of larger firms to systemic and cyclical risks.

Sectoral distribution shows upward trends in key economic branches: wholesale and retail trade recorded 1,902 insolvencies (+6.79%), construction registered 1,499 cases (+13.39%), and the manufacturing industry saw 852 cases (+7.17%). These data point to a concentration of vulnerabilities in sectors with significant contributions to GDP and employment.

At the regional level, the highest number of insolvency cases was reported in Bucharest (1,375), followed by Bihor (581), Cluj (529), and Timiș (424). The counties of Brașov (+46.39%), Botoșani (+36.84%), and Bacău (+35.78%) stood out with the most substantial percentage increases, signaling a marked deterioration in local economic conditions.

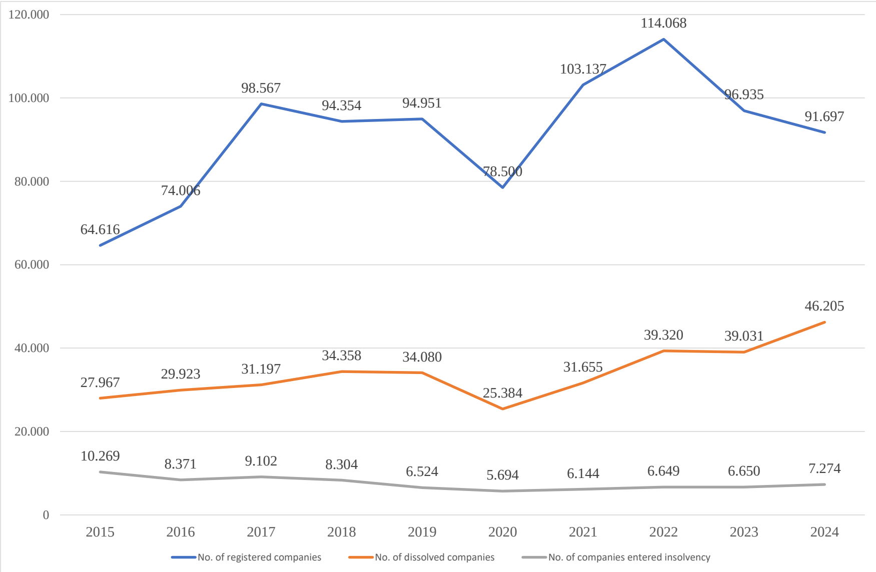

Figure 1. Evolution of the Number of Registered, Dissolved, and Insolvent Companies in Romania (2015–2024)
Source: Own processing according to www.onrc.ro.

Moreover, the preventive concordat procedure—regulated by Directive (EU) 2019/1023 and transposed into national legislation—has gained traction. In 2024, a total of 197 applications were filed, compared to 90 in 2023, representing a 118% increase. However, the low approval rate of these requests indicates persistent challenges in the timely and effective application of voluntary restructuring mechanisms.

These developments depict a context in which the financial fragility of Romanian companies—both large and small—requires strategic, integrated interventions aimed at strengthening preventive capacities, digitizing restructuring processes, and aligning legal tools with European best practices.

The literature on company liquidation reflects a multidisciplinary convergence of legal norms, accounting protocols, and fiscal policies. Romania offers a compelling case study due to its blend of national regulation, EU harmonization, and evolving business culture. Future research could focus on the long-term economic impacts of liquidation, especially its influence on entrepreneurship, employment, and financial system stability.

2. Fiscal Considerations Regarding the Liquidation of Legal Entities in Romania

The liquidation of a legal entity represents a complex process that encompasses legal and accounting dimensions, along with numerous fiscal implications. In Romania, the tax treatment applicable to such procedures is strictly regulated and characterized by specific rules regarding corporate income taxation, asset distribution, treatment of reserves and provisions, VAT, as well as investment income taxation for individuals involved.

Fiscal Year Duration in the Context of Liquidation. In the case of liquidation, the time span between the beginning of the calendar year following the initiation of the procedure and the actual closing of liquidation is considered a single fiscal year. This principle applies uniformly to the calculation of tax obligations and to the recovery of any fiscal losses carried forward from previous years. The objective of this provision is to ensure tax consistency and a coherent fiscal record throughout the liquidation period.

Reserves and Provisions. For entities undergoing liquidation, all previously established reserves and provisions that were previously treated as tax-deductible must be reintegrated into the taxable base at the time of liquidation. This reintegration is mandatory regardless of their original purpose and is treated as taxable income, except in cases where these elements are entirely transferred to another entity during a merger or demerger process. This rule aims to prevent artificial tax optimizations during liquidation by eliminating preferential treatments.

Tax Treatment of Liquidation-Derived Income. Income obtained from the liquidation of other entities may be considered non-taxable, provided certain conditions are met—most notably, that the beneficiary held a significant ownership stake in the liquidated entity for a minimum period of one year. This exemption applies irrespective of whether the liquidated entity was a Romanian resident or a resident of a country with which Romania has a double taxation treaty.

For individual shareholders, any cash or in-kind distributions received as a result of liquidation are treated as investment income. The portion exceeding the initial capital contribution is subject to final withholding tax, which must be retained and remitted by the liquidated entity. The taxable amount is calculated as the difference between the total distribution and the fiscal value of the shareholding.

Corporate Income Tax and Microenterprise Tax Obligations. Entities subject to the corporate income tax regime or the microenterprise tax regime have specific reporting and payment obligations during liquidation. Typically, such entities are exempted from the standard quarterly payment system and must instead compute and remit a one-time final tax payment corresponding to the liquidation period, before the deadline for submitting the final financial statements.

If liquidation is finalized within the same year it was initiated, the final tax return must be filed prior to the submission of the liquidation balance sheet, which marks the termination of the entity's fiscal existence. This approach ensures procedural clarity and consistency in fiscal closure.

Asset Distribution and VAT Implications. The distribution of assets to shareholders or associates during the liquidation process is treated, from a VAT perspective, as a taxable supply, insofar as VAT was initially deducted upon acquisition. This interpretation supports the principle of VAT neutrality and prevents the extraction of goods from the tax system without adjusting the initially claimed input VAT.

An important exception is the universal transfer of assets in the context of reorganizations such as mergers or demergers, where the legal successor inherits the fiscal rights and obligations of the dissolved entity and the transaction is outside the VAT scope.

Exclusion from Preferential Tax Regimes. Entities undergoing dissolution or liquidation procedures are excluded from benefiting from certain preferential tax regimes, such as fiscal consolidation for corporate income tax or payment deferrals. The rationale behind this restriction is to protect the integrity of the tax system and to prevent abuse while ensuring procedural transparency in dealings with tax authorities.

The Romanian tax regime applicable to entities under liquidation is characterized by rigor, equity, and normative clarity. The regulatory framework ensures the elimination of preferential treatments and promotes a coherent and consistent tax environment until the legal and economic extinction of the entity. Moreover, the current legal provisions protect the general fiscal interest and encourage compliant behavior in the business closure process.

3. Accounting Considerations in the Liquidation of Legal Entities

The liquidation of a legal entity marks a fundamental transition in financial reporting, shifting from the presumption of going concern to the recognition of an imminent termination of patrimonial existence. This transformation requires a distinct accounting approach, regulated separately from the entity’s normal course of business. Within this context, an in-depth analysis of the accounting aspects of liquidation becomes essential for fostering a rigorous professional conduct among accounting and auditing practitioners.

Conceptual Foundations of Liquidation Reporting. Once the decision to dissolve and liquidate an entity is formalized, financial reporting must depart from the going concern assumption. Financial statements prepared under these circumstances are classified as special-purpose reports, designed solely to reflect liquidation-related operations. At this stage, all patrimonial elements, regardless of their nature, must be revalued to reflect their realizable value, and assets and liabilities must be reclassified as current based on their maturity profile.

The reference date for preparing liquidation financial statements is established according to the dissolution resolutions adopted by the general meeting of shareholders or by the competent courts in cases of bankruptcy. These statements must subsequently be approved by the shareholders or associates and submitted to the fiscal authorities within the legally prescribed deadlines.

Accounting Treatment of the Liquidation Process. From an accounting perspective, the liquidation process encompasses a series of complex operations, including asset valuation and realization, settlement of liabilities, and final determination of financial results. The liquidator, acting as a temporary administrator of the entity’s assets, bears the responsibility for organizing the accounting operations and ensuring the integrity of financial reporting, including the preparation of trial balances and supporting documents reflecting all transactions during the liquidation period.

Assets must be realized at fair value, which should approximate market prices or estimated realizable values. Differences between the book value and the sale proceeds are recognized as revenues or expenses in the profit and loss account. Concurrently, necessary adjustments to provisions, inventories, and impaired receivables must be performed, with the corresponding accounts closed where appropriate.

Receipts from receivables and payments of financial obligations must be meticulously recorded, together with the recognition of ancillary revenues and expenses such as commercial discounts or early payment rebates. VAT adjustments are carried out for all supplies made during liquidation, and corporate income tax is calculated based on the financial results at the closure of the process.

Recognition and Distribution of Net Assets. Following the settlement of all liabilities and adjustments, the accounting records must reflect the net assets available for distribution to shareholders. These assets include reimbursed share capital, unallocated legal reserves, and any net profit resulting from liquidation. Distribution is carried out according to the company's bylaws and the shareholders' respective equity participation.

From an accounting standpoint, amounts distributed to shareholders must be separately recorded from gross amounts, with the applicable tax withheld when beneficiaries are individuals. This stage involves the final transfer of patrimonial rights and the closure of equity and temporary liability accounts.

Liquidation in the Context of Bankruptcy. When an entity's assets are insufficient to satisfy all admitted claims, liquidation is conducted under the specific rules governing insolvency proceedings. In such cases, proceeds from asset realization are distributed proportionally among creditors, while uncovered amounts are recognized as irreversible losses, either for creditors or shareholders, depending on the entity's legal structure.

These differences are recorded in accounting as extraordinary income resulting from the cancellation of outstanding debts when the court orders the closure of proceedings without full recovery. Conversely, if creditors opt for voluntary closure through additional capital contributions by shareholders, such amounts are recorded as temporary equity injections and subsequently settled according to the statutory priorities.

Accounting for the liquidation of a legal entity requires a procedural approach distinct from routine operations, characterized by specific journal entries, patrimonial revaluations, and reporting tailored to the final closure of activities. In this framework, accounting professionals are entrusted with ensuring transparency and accuracy in financial communication, to the benefit of all stakeholders—shareholders, creditors, tax authorities, and judicial bodies alike. Thus, accounting rigor becomes a vital instrument in guaranteeing a fair and legally compliant liquidation process, upholding the regulatory and ethical standards of the profession.

4. Conclusions

The liquidation of companies in Romania presents a complex interplay of legal, fiscal, and accounting elements, reflecting both national specificities and European harmonization trends. The analysis confirms that the liquidation process requires a clear departure from the going concern assumption, both in financial reporting and fiscal management. Legal regulations such as Law no. 31/1990, Law no. 85/2014, and the transposition of Directive (EU) 2019/1023 establish a structured, formal framework aimed at increasing transparency, creditor protection, and economic predictability.

From an accounting perspective, the preparation of special-purpose financial statements, the revaluation of assets at realizable values, and the settlement of liabilities are essential steps to ensure procedural rigor and stakeholder trust. Fiscal regulations emphasize the reintegration of reserves, the taxation of asset distributions, and the consistent treatment of VAT, contributing to a fair and transparent closure of fiscal obligations.

Macroeconomic data from 2024, showing a notable increase in insolvencies among SMEs and high-impact companies, underline the need for improved preventive mechanisms and the modernization of restructuring procedures. Sectoral and regional disparities suggest that structural economic vulnerabilities continue to influence business survival rates in Romania.

The trend towards digitalization in legal and fiscal reporting processes, while promising, still requires further integration to fully match best European practices. In this context, ensuring strict compliance with accounting and fiscal requirements remains critical for a smooth liquidation process.

Overall, this study highlights that liquidation is not merely an administrative procedure, but a multidimensional event with significant economic, legal, and financial implications. Strengthening institutional capacity, improving early intervention frameworks, and aligning national practices with EU standards are essential for enhancing business resilience and financial system stability in Romania.

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