



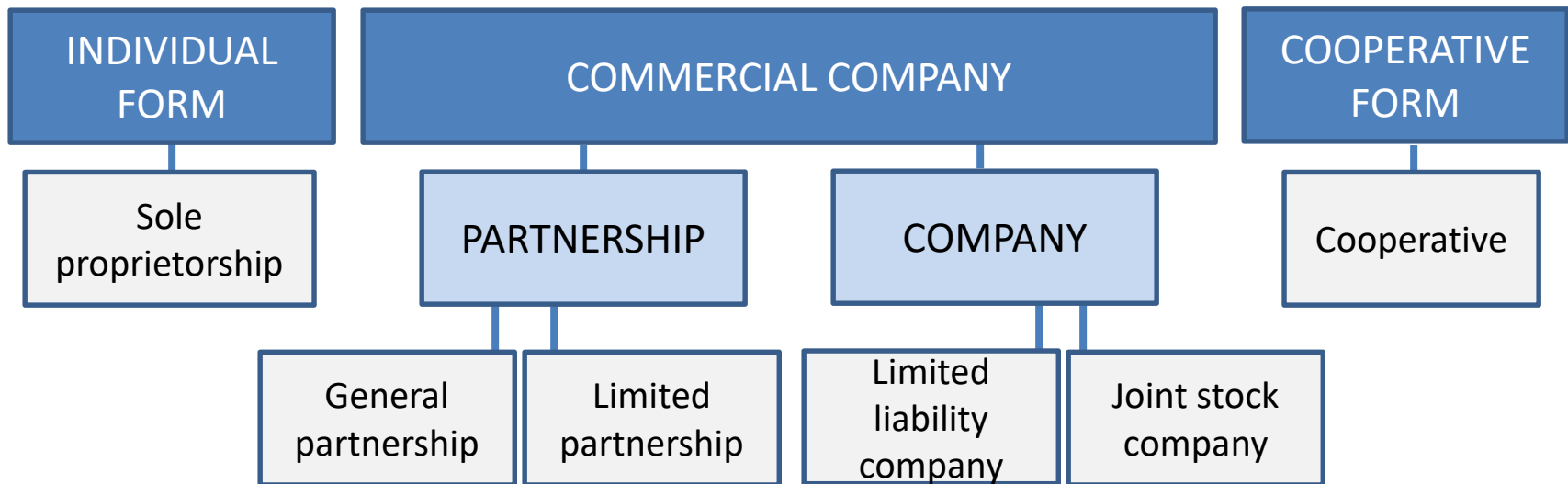
DOING BUSINESS IN SLOVAKIA

Martin Grančay, PhD.

Legal forms of business

- physical entity**: a person who does business
- legal entity**: a group of people having a legal personality created in order to do business

-legal forms of business in Slovakia:



Sole proprietorship

- the most frequent and easiest way of doing business
- owned and run by an individual person
- must register with the Trade Office
- the person has unlimited liability for all the debts of the company -> they are also subject to inheritance
- suitable mostly for businesses with low costs and annual revenue of up to 35 thousand euros
- mostly in services (tour guides, masseurs, hairdressers...) and construction
- information on sole proprietorships is available online:
The Trade Register of the Slovak Republic

Sole proprietorship

- www.zrsr.sk

Okresný úrad Bratislava
Číslo živnostenského registra: 110-234452

Obchodné meno

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IČO

Predmety podnikania

1. Sprostredkovateľská činnosť v oblasti služieb
Deň vzniku oprávnenia: 1.7.2014
2. Sprostredkovateľská činnosť v oblasti obchodu
Deň vzniku oprávnenia: 1.7.2014
3. Prekladateľské a tlmočnícke služby v anglickom a nemeckom jazyku
Deň vzniku oprávnenia: 13.8.2014
4. Reklamné a marketingové služby
Deň vzniku oprávnenia: 13.8.2014
5. Administratívne služby
Deň vzniku oprávnenia: 13.8.2014
6. Sprievodca cestovného ruchu
Deň vzniku oprávnenia: 1.3.2015
7. Počítačové služby a služby súvisiace s počítačovým spracovaním údajov
Deň vzniku oprávnenia: 1.2.2018

Sole proprietorship

-requirements:

- min. 18 years old
- legal capacity
- no criminal records
- registering with Trade Office

-registration is automatic and if all the documents are ok, the trade licence is valid from the day of application

-several obligations:

- registering with the Tax Office (payment of income tax; if annual turnover is over 50.000 euros, also VAT; providing bank account number)
- registering with the Social Security
- registering with a Health Insurance Provider
(all should be done automatically by the Trade Office)

Sole proprietorship

Pros	Cons
<ul style="list-style-type: none">• Easy and fast acquisition of trade license• No initial mandatory contribution (can start without money)• Very low cost to start business• Fast and independent decision making• The profit belongs to the individual businessman = no need to share• Very easy accounting – only tax records• No need to keep cost accounting (up to 20.000 euros a year)• In the first year no social security insurance is paid• Lower healthcare/social security contributions than employees	<ul style="list-style-type: none">• Unlimited liability with private property• Difficult to raise capital – dependency on own resources• Bad access to credit• High dependency on individual skills and experience• Often a „one man show“ – everything is done by the same individual• Healthcare/social security contributions depend on last year's profit (no matter what the profit is this year)• Lower pension, sick pay, unemployment benefits• Can't sell the business

General partnership

- belongs to the so-called personal companies
- at least 2 partners who run business under common name
- partners have unlimited liability for all the debts of the company
- must be registered with the **Business Register** of the Slovak Republic (www.orsr.sk)
- the partners sign a **Company agreement**:
 - rights and responsibilities of partners
 - contributions of partners
 - appointment of managers (can be all partners)
 - rules of profit sharing
- each partner can act in the name of company individually, unless the Company agreement states that partners must act jointly

General partnership

Pros	Cons
<ul style="list-style-type: none">• Shared use of resources• Division of labor• No initial mandatory contribution• High flexibility to react to changes on the market (if not too many partners)<ul style="list-style-type: none">– fast decision making• Fair profit sharing (based on the Company Agreement)	<ul style="list-style-type: none">• Unlimited liability with private property• Bad access to credit• Failures of one of the partners can affect the whole company• Possible conflicts in decision making (if there are too many partners)• Losses must be covered with the partners' own resources.• If one of the partners dies, the company has to be closed (unless there is some other arrangement in the Company Agreement; e.g. the partnership can be inherited)

Limited partnership

- belongs to the so-called personal companies, but is of mixed type (between general partnership and limited liability comp.)
- at least 2 partners, at least one of them has to be „general“ and at least one of them has to be „limited“

General partners: -unlimited liability for all the debts of the company; they are statutory bodies = they make business decisions; they act individually (if not decided otherwise)

Limited partners: -liability of the limited partners is limited to the amount of their unpaid mandatory contributions (set in the Company Agreement)

- initial mandatory contribution of 250 €
- do not manage the company, but have right to be informed
- profit sharing: 50 % for GPs and 50 % for LPs

Limited partnership

Pros	Cons
<ul style="list-style-type: none">• Low (limited partner) or no (general partner) initial mandatory contribution• Easy to establish• High flexibility to react to changes on the market (if not too many partners) – fast decision making• Increasing the contribution counters the problem of bad access to credit• Tax advantages – different tax rules for GPs and LPs	<ul style="list-style-type: none">• Difficult profit sharing among GPs and LPs• General partners have unlimited liability• Relatively bad access to credit• Failures of one of the partners can affect the whole company• Possible conflicts in decision making (if there are too many partners)• If a general partner dies, the company has to be closed (unless there is other arrangement in the Company Ageement)• If a limited partner dies, the company continues to exist

Limited liability company

- the most common type of commercial company in Slovakia
- between 1 and 50 partners
- it is a legal entity with a minimum amount of **registered capital** of 5.000 € (at least 750 € per partner)
- the owners are liable for the liabilities of the company only to the amount of their unpaid contribution to the registered capital**
- it is founded by signing a **Memorandum of Association** by its partners (business name, areas of activity, names of partners, registered capital, executive directors)
- it is incorporated (can start doing business) once it is registered in the Commercial Register

Limited liability company

-company bodies:

General Meeting: -supreme governing body, at least 1x a year
-a meeting of all the partners
-approves financial statements, decides on profit sharing, changes to the Memorandum of Association, increase/decrease of the registered capital, appoints executive directors and supervisory board, decides to dissolve the company...

Executive Director(s): -executive body; runs the company
-one or more people, usually from among partners

Supervisory Board: -controlling authority; it is optional
-controls executive directors, financial statements...
-at least 3 members who are not executive directors

Limited liability company

Pros	Cons
<ul style="list-style-type: none">• Relatively low registered capital• Low liability of partners (only to the amount of their registered capital)• Low number of partners (1+)• Relatively easy decision making• Partners are highly motivated to reach profit• Possibility of wider use of human potential• Better access to financial resources• Better access to credit• Possibility to have an independent supervisory board• Often bigger tax advantages than sole proprietorship• Share in the business can be inherited	<ul style="list-style-type: none">• Limited number of partners (50; the other types of commercial companies have no limit)• Partner's shares cannot be sold at the stock market• More complicated decision making than in partnership• A person cannot be a single partner in more than 3 LLCs• A partner cannot exit the company without approval of a court; often not without approval of a General Meeting either)• More complex accounting and tax duties than sole proprietorship

Joint stock company

- the most complex type of commercial company
- it is a legal entity with a minimum amount of **registered capital** of 25.000 € divided into a certain number of shares with a fixed face value
- shareholders are liable for debts of the company only to the level of their investment into the company**
- shareholders have no right to demand the return of their investment from the company
- it can be founded by one legal entity or 2+ founders signing a Memorandum; has to be incorporated by the Register
- strict division of ownership and management
- shareholders can only participate in decision making by voting at General Meetings

Joint stock company

- closed / private JSC: the shares are not traded on the market
 - open / public JSC: the shares are traded on the Securities market
- Shares:** units of ownership interest in a corporation or financial assets that provide for an equal distribution in any profits, if any are declared, in the form of dividends
- common shares vs. preferred shares
 - nominal value vs. market value



Joint stock company

-company bodies:

General Meeting: - supreme governing body, at least 1x a year
-a meeting of shareholders
-approves financial statements, decides on profit sharing, changes to the Memorandum of Association, increase/decrease of the registered capital, appoints the Boards, decides to dissolve the company...

Board of Directors: -statutory body
-elected by the GM for a maximum of 5 years
-acts in the company's name in accordance with guidelines approved by the general meeting

Supervisory Board: -controlling body; at least 3 members
-if the company has over 50 employees, at least one third is elected by them

Joint stock company

Pros	Cons
<ul style="list-style-type: none">• Number of shareholders is unlimited• Shareholders are liable only with their investment in shares• Shareholders are anonymous (unless there is only one)• Emission of shares can generate a large concentration of capital• Easy access to credit• Shares can be sold• Shares can be inherited• The competencies of the bodies are clearly defined• Members of both Boards have a ban on participating in competing activities	<ul style="list-style-type: none">• Incorporating the company is more difficult (time + money)• Minimum registered capital is relatively high• Requires a lot of personnel: high management margin• Often complicated decision making• Annual report must be published• Financial statements must be approved by an auditor• Shareholders focus on their profit, not on the development of the company• Possible risk of „hostile“ shareholders

Cooperative

- a community of an **unlimited number of members** established with the goal of doing business and/or fulfilling economic, social or other needs of its members
- members can enter or exit the cooperative anytime
- at least 5 individual members or at least 2 legal entities
- the cooperative is liable for any breach of its obligations to the full extent of its property. Members do not bear liability.
- minimum capital for the foundation is 1250 € - divided into membership fees
- bodies:
 - Members' meeting**
 - Board of directors**
 - Supervisory committee**

Cooperative

Pros	Cons
<ul style="list-style-type: none">• Unlimited entry and exit• Anonymity of members• The members are not liable for the liabilities of the cooperative• Members usually focus on reaching common goal and are supportive of the cooperative's actions• Low entry fee	<ul style="list-style-type: none">• Often lack of capital• Too many members = complicated decision making• Sometimes difficult communication• All the cooperative affairs are usually managed in a self-supporting way• Difficult access to new financial resources• Prejudices against this legal form

Other special forms

Association agreement: -created to pursue one or more mutual interests

- is not a separate legal entity, partners have independence

- consortium, cartel, concern*

Silent partnership: -a written contract between a silent partner and an entrepreneur, under which the silent partner invests in the entrepreneur's business in return for a share in the entrepreneur's profits

- the silent partner participates in the losses of the entrepreneur only to the extent of his investment

European Company (SE): -RC min. 120,000 €, more EU states

- does not have to be registered in every country of activity

European Coop. Society (SCE): -RC min. 30,000 €