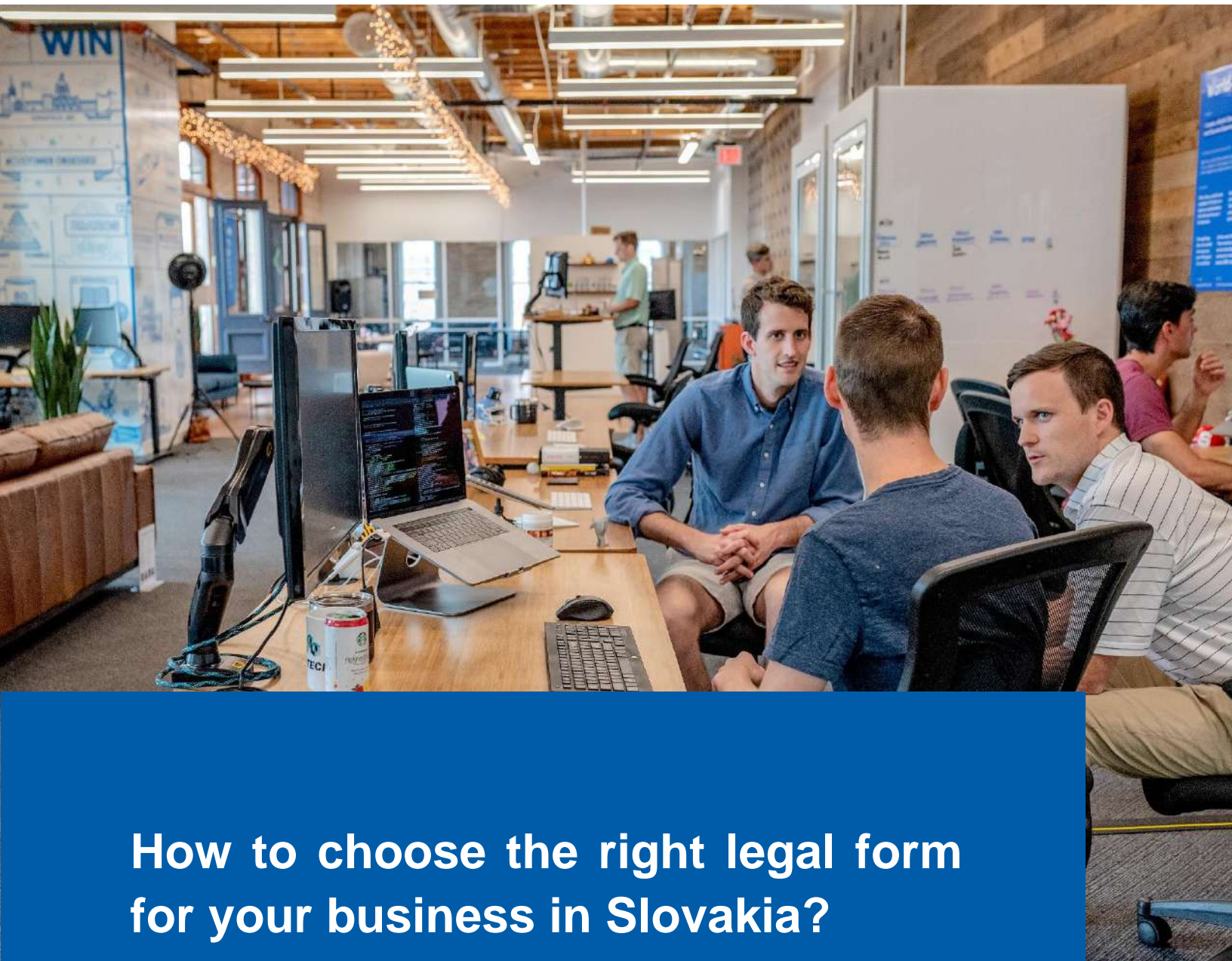


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News Flash

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**How to choose the right legal form
for your business in Slovakia?**

How to choose the right legal form for your business?

You strike upon an amazing idea and you think that this is exactly what people need and what can be your breakthrough. You work hard making your idea come true, so you start searching for potential investors. But then you run into a problem and you realise that if you want to become a successful entrepreneur, you need to think of the proper legal form for your business. There are many options, and each is different from the previous one. In our first one of the series of articles dedicated to start-up advisory, we will help you to choose the right legal form for your business.

Trade

Trade is a continuous activity carried out independently, in one's own name, under one's responsibility in order to gain a profit. In its essence, it is one of the simplest gateways to the world of business. Its establishment is relatively fast and undemanding. Since it is tied to a specific person, you need to set up the trade individually in case you want to participate in business with someone else.

The trade may be operated by any natural person who is:

- older than 18 years of age,
- eligible to legal actions in unlimited extent,
- impeccable, thus he/she had not been sentenced for an economic or property crime or for any other intentional crimes related to the object of the business.

If you decide to perform a business based on a trade license, you can choose from relatively extensive scale of free, craft or regulated trades, the list of which is published and regularly updated by the Ministry of the Interior of the Slovak Republic. In the case of a craft and regulated trade, it is also necessary to have a confirmation of professional competence. These types of trades are individually charged an administrative fee of EUR 7.50. In case of free trades, it is sufficient to meet the three basic conditions mentioned above and their notification is free of charge. The amount of these fees applies only in the case of electronic trade registration.

The disadvantage of this legal form of business and a relatively high risk for start-ups is that the self-employed person is responsible for the liabilities that arose from the business with all his assets. Therefore, if a start-up is ineffective, it can have quite severe economic consequences for you.

Commercial companies

An alternative to business based on trade license are commercial companies regulated by the Commercial Code. The Slovak legal system currently recognises five of them, namely:

- general partnership,
- limited partnership,
- limited liability company
- public limited company (joint-stock),
- simple joint-stock company.

General partnership (Public company)

A general partnership is a company in which at least two persons do business under a common business name and are responsible for the company's liabilities jointly and severally with all their assets. If a new partner joins the company, he is liable for company's liabilities incurred before his accession, therefore this legal form is not attractive to your potential investors who would certainly not be interested in bearing the risk.

It is also clear that if you want to do business by yourself, this legal form is not the accurate solution for you. In addition, as in the case of a trade, you would bear a significant property risk in the event of start-up failure, thus we do not recommend this form.

Limited partnership

A limited partnership is a company in which at least one or more partners are liable for company's liabilities up to the amount of their unpaid deposits entered in the Commercial Register (limited partners) and one or more partners are liable with all their assets (general partners). The minimum contribution of the limited partner is EUR 250. This company represents a hybrid version of general partnership company and limited liability company.

As it is clear from the above, it is again a form of a company in which at least two persons must participate at the outset, one of whom is liable for the company's liabilities with all his assets. This person is the one who is authorized to act on behalf of the company. Concerning this liability, we do not recommend this legal form either.

Limited liability company

Limited liability company is one of the most common legal forms of business in Slovakia. This is partly due to a fact, that the founder of the company may be a single natural person and partly because the founder is not liable for the company's liabilities if he has repaid his entire contribution to its registered capital. The registered capital is at least EUR 5,000 and the minimum contribution is EUR 750 (which is possible only if there are at least two partners, since the sum of the partner's contributions must be equal to the amount of the company's registered capital).

Limited liability company is also popular because the partners may relatively easily dispose of their business shares (the conditions are determined by the partners themselves in the articles of association), divide the shares and transfer the shares to new shareholders which is interesting for potential investors.

The general meeting decides on the company's affairs, while the articles of association determine the necessary quorum of votes for individual issues falling within its competence. The statutory body represents one or more managing directors

who may act individually or jointly. The supervisory board is established only if the articles of association so provide. However, in the case of limited liability company, its establishment is not common.

Joint stock company

A joint stock company is a company whose registered capital is divided into a certain number of shares with a certain nominal value. The company is liable for any breach of its obligations with all its assets. On the other hand, the shareholders are not liable for the company's obligations at all.

The joint stock company may be established by a single legal entity or by at least two natural persons. The memorandum of association is drawn up in the form of notarial record, therefore you must reckon with additional fees.

The establishment of the joint stock company requires registered capital in the minimum amount of EUR 25,000 and the process of creation is a bit more demanding than in the case of limited liability company. In addition to this, you must set aside at least another EUR 550 for the purposes of issuing the shares.

The general meeting of all shareholders decides on the company's affairs. The business management is entrusted to the board of directors which is elected for a period of 5 years and whose activities are supervised by the supervisory board, which must have at least 3 members.

Simple joint stock company

Relatively cheaper alternative to the joint stock company is a simple joint stock company. Its minimum registered capital is set by law at EUR 1. In this case, you must consider the already mentioned fees associated with the issues of shares, as well.

The simple joint stock company can be established even by a single shareholder. The memorandum of association is drawn up in the form of a notarial record. Its disadvantage is that

the shares can only have a book-entry form, i.e. the shareholder will not receive the paper share as in a normal joint stock company. This type of share is associated with more administratively demanding transfer to a new shareholder.

The general meeting decides on company's affairs. The statutory body is the board of directors and its term of office may be unlimited. Unlike a joint stock company, in the case of a simple joint stock company, the establishment of the supervisory board is voluntary.

Our recommendation

With regard to our experience and individual specifics of the mentioned forms of business, we recommend to our clients as a best solution a limited liability company, which in the case of start-ups proved to be advantageous in terms of speed and ease of establishment, fees associated with its establishment, the possibility of disposing of business shares and absence of liability of the shareholders for their liabilities.

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Contact

Simona Klučiarová

Senior Associate

E-Mail: Simona.Kluciarova@accace.com

Tel: +421 232 553 000



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