

Setting Up a Business in the Czech Republic



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Introduction

The Czech Republic's accession to the EU in 2004 put the regulation of business activities in line with European standards and EU legislation. Setting up a business in the Czech Republic has thus become much easier and more transparent.

Any business activity in the Czech Republic is generally subject to the issuance of a trade license (regulated by the Trade Licensing Act) or another specific permit (regulated by a number of specific acts), depending on the type of business activity.

Czech law generally provides that a foreign person may undertake business activities in the Czech Republic under the same conditions and to the same extent as Czech persons. Under the Czech Trade Licensing Act, a legal entity with its seat in another EU member state can temporarily provide its services within the territory of the Czech Republic based on the trade licenses issued in such member state. If this legal entity's activities become more regular and meet the legal definition of a business activity (i.e., continuous business activity carried out independently and aimed at generating a profit), it should either apply for the respective trade licenses or other permits in the Czech Republic and subsequently register its branch in the Czech Commercial Register or set up a subsidiary company in the Czech Republic.

Branch office

Under the Czech Commercial Code, a branch office is a registered organizational unit of a foreign or domestic legal entity and, as such, may engage in business activities only within the limits set by the founding company. Since a branch office is merely an organizational unit of the founding company it is not regarded as a separate legal entity and does not have its own legal capacity. The branch office must be registered in the Commercial Register and the founder must appoint a director of the branch office who acts on behalf of the founding company, but this is only in relation to matters concerning the branch office.

Legal forms of companies including European companies

Legal forms of companies are regulated in particular by the Czech Commercial Code. Under Czech law it is possible to set up six different forms of business companies, i.e. a general partnership, limited partnership, limited liability company, joint-stock company, European Company, and European Economic Interest Grouping.

A general partnership is a separate legal entity in which at least two natural persons undertake business activity under a common business name and bear a joint and several liability for the obligations of the company with all their property. A limited partnership is an entity where one or more partners are liable for the obligations of the company up to the amount of the unpaid parts of their contributions as registered in the Commercial Register (limited partners), and one or more partners are liable for the obligations of the company with all their property (general partners).

The limited liability company is the most common legal form for a business entity in the Czech Republic. This company is a separate legal entity whose registered capital is made up of contributions paid by its shareholders. These shareholders are liable for the obligations of the company up to the amount of their unpaid contribution to the company capital as registered in the Commercial Register. A limited liability company must have at least CZK 200,000 in registered capital, whereas the minimum contribution of each shareholder is CZK 20,000. The statutory body of the company is made up of one or more managing directors.

In a joint-stock company, the registered capital is divided into a certain number of shares with a specific nominal value. Shareholders of the company are not liable for the obligations of the company. The Board of Directors is the statutory body of the company, and it manages the company's business activities and acts on its behalf. A joint-stock company formed on the basis of a public offering of shares must have at least CZK 20,000,000 in registered capital. The amount of registered capital of a joint-stock company formed without a public offering must amount to at least CZK 2,000,000.

As a result of the implementation of EU regulations, Czech law also permits certain European companies to be set up here (i.e. a European Company and European Economic Interest Grouping). As of October 2009 there were 431 European companies registered within the EU, whereas more than 40% of them are registered in the Czech Republic.

Setting up a limited liability company

By far the most common form of a legal entity is the limited liability company. It is founded by a Memorandum of Association or a Deed of Foundation, in the case of a sole founder. These must both be concluded in the form of a notarial deed, which must contain the essentials as prescribed by law, such as the business name of the company, the first managing director(s), the amount of the registered capital, the scope of business and the registered seat. Once the company is duly founded, the shareholder(s) must pay the minimum prescribed amount of their contribution to the registered capital. Subsequently, the appointed managing director(s) must apply for the necessary trade licenses.

As soon as the above conditions have been fulfilled and the company obtains the respective trade licenses, the appointed managing director(s) may file a petition for registration of the company in the Commercial Register. If there are no errors in the petition for registration of the company in the Commercial Register, the company will be registered within five working days. The limited liability company comes into being as a separate legal entity at the moment of its registration in the Commercial Register. The average time needed to set up a business in the Czech Republic has been reduced to approximately 30 days.