Tech Ukraine

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GOING GLOBAL

How to set up for success in Central Eastern Europe:
A guide for tech entrepreneurs looking to expand into new markets

Welcome

We know that thinking about the legal aspects of opening or expanding your tech business into a foreign market can seem daunting. Often there is a lot of dense legal information to digest which can feel overwhelming – but not to worry!

We have created this factsheet to help you navigate the main legal aspects you will need to consider before you seek any legal advice. That way you'll be armed with some knowledge when you speak to a professional. It outlines the key things you need to think about when looking to expand into a new market, such as your corporate structure - whether to open a branch, establish a legal entity or acquire an existing company. It also provides an insight into topics such as funding, IP, employment, data protection and regulatory issues.

This factsheet covers Central Eastern Europe. There is also a factsheet that covers the US and key EU jurisdictions (UK, Germany, France, Italy, Poland and Spain). To receive that document, please use this form: GOING GLOBAL: Factsheet for Tech Start-ups (google.com)

The information in this factsheet is for general purposes and guidance only.

It is designed to provide a general overview of some important considerations when setting up for success in CEE as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

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Setting up for success in:

UKRAINE
BULGARIA
CZECH REP.
HUNGARY
ROMANIA
SLOVAKIA

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The homepage icon will bring you back to this page - from here you can **select which country to navigate to by clicking on the country from the list to the right.**

The contents icon takes you to the content page for the selected country. From the contents table you can use the links to click through the relevant chapters.

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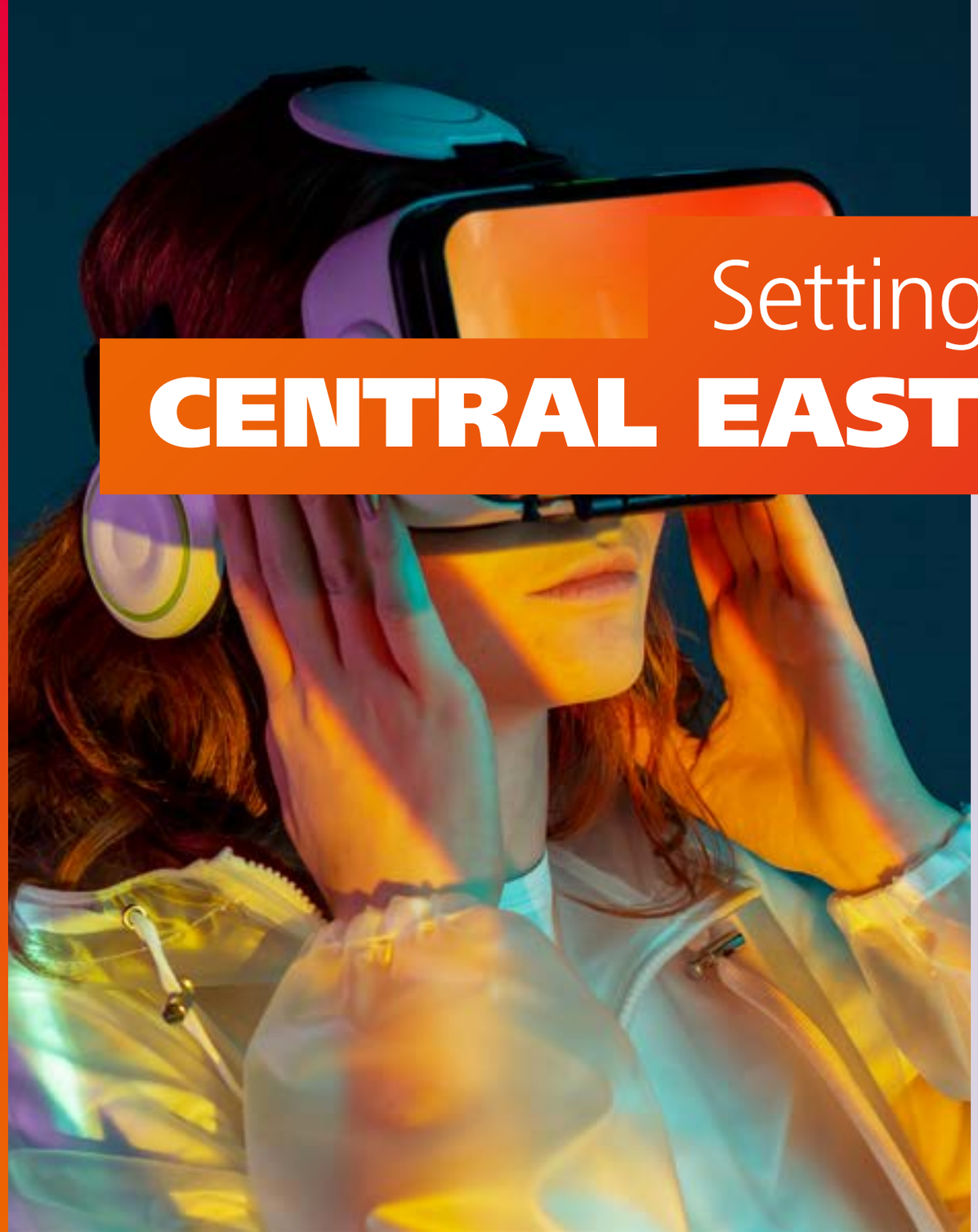


Setting up for success in CENTRAL EASTERN EUROPE

Welcome to Central Eastern Europe!
This section of the document will focus on key Central Eastern Europe (CEE) jurisdictions, including Ukraine.

When looking to expand into a new market, you will need to think about your corporate structure - whether to open a branch, establish a legal entity or acquire an existing company. You will also need to consider funding, IP, employment, data protection and regulatory issues.

Why CEE?

CEE is quickly gaining recognition as one of the world's most important rising technology ecosystems. A highly skilled workforce, government support, proximity to key markets, and a history of entrepreneurship are all factors that have led to a significant increase in funding to the region over the past several years.

Benefits of expanding into CEE include:

- Highly developed, highly skilled and cost-effective tech talent. The labour costs of workers who excel at in-demand software development and IT skills are much lower in CEE countries than in Western Europe, turning the region into an attractive investment destination.
- The region has a vibrant and dynamic early stage tech business ecosystem, with several hubs and accelerators that foster entrepreneurship, collaboration, and creativity.
- The diverse CEE market offers a variety of opportunities and challenges for tech businesses, as different countries have different levels of economic development, digitalization, and consumer preferences. The region has a strong digital infrastructure, with high internet penetration, broadband speed, mobile connectivity and integration of digital technology. Furthermore, the region is well connected to the rest of Europe and the world, with several transport and trade links and agreements that facilitate cross-border business operations.
- Finally it's a region that can be characterised by resilience – a quality that could make a difference when trying to grow your tech business.

Expanding your business into the CEE market requires preparation and careful planning - there are many factors to consider which can vary from country to country. The factsheets will provide you with some key information and guidance on the main legal aspects of establishing a tech business in 5 of the key CEE regions – Czech Republic, Romania, Slovakia, Bulgaria and Hungary. There is also a factsheet that focuses on the Ukraine and outlines the key legal points to consider if you are starting a business in your home country.

Setting up for success in UKRAINE

Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in Ukraine.
It focuses on certain aspects of the key legal factors to think through and is not intended to be a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in Ukraine.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes

1. Corporate considerations for setting up a business in Ukraine.

What entity you should use to set up your company

The main options available to Ukrainian tech businesses/start-ups looking to establish a corporate presence in Ukraine are: (1) limited liability company (LLC), (2) joint stock company (JSC), and (3) the representative office (branch).

In practice, the most effective solutions for tech start-ups in almost all cases are the limited liability company (LLC), or to remain working without corporate presence as private entrepreneur (PE; aka 'FOP'). The latter option is commonly chosen as a starting point for solo founders, with a small team and turnover. If the start-up has several founders, aimed at engagement of investor, valuable IP assets – LLC is the most preferable choice.

	LLC	PE
Legal identity	Legal entity	Individual with specific entrepreneur status
Registration	Mandatory in the state registry	
Fees	Free of charge	
Timing	1 business day (BD) upon filing documents	
Where to apply?	State registrars, including public and private notaries	
Online registration	Formally available but not popular	Yes
Ownership	One or several (unlimited number) of participants	Individual
Charter capital	Required (no minimum capitalisation requirement)	N/A
Constituent documents	Articles of association	N/A

	LLC	PE
Management	— general meeting of participants, — executive body (a sole director or a management board), — other governing bodies (e.g., supervisory board).	Individually by PE
Engagement of people	Employees, contractors (PEs), or gig-contractors (under Diia City)	Employees or other contractors (PEs)
Eligibility for Diia City	Yes (subject to eligibility requirements)	No
Taxation	See respective section below	
Liability	Shareholders (participants) are liable for the company's debts and liabilities only to the value of their contributions to the charter capital	Acts on his/her own behalf and is fully liable for his/her obligations
Sale of business / engagement of a new co-owner	Sale of shares (participatory interest in the company) or assets	Only sale of assets (not the business)
Close of business	Complicated and commonly long liquidation process	Relatively easy liquidation

2. Branch vs subsidiary – options for group expansion

If a tech business/start-up is supported by a foreign investor from the start, an available alternative for incorporation could be such foreign legal entity to establish its representative office (branch) in Ukraine to carry out activities on behalf of the foreign legal entity. A representative office is not a legal entity under Ukrainian law. There are two types of representative offices that can be established in Ukraine: commercial (a "permanent establishment"; the closest equivalent to 'branch') and non-commercial. The principal differences are the scope of activity (commercial or non-commercial) that the office can carry out, and the resulting (a) types of bank accounts it may open, and (b) its taxation regime.

The representative office is a less common business structure in Ukraine than an LLC, often characterised by vague regulations in the law and a lack of clear guidelines regarding status, permitted operations and other regulatory aspects.

	Representative office	LLC
Legal identity	Not a legal entity (it is the same legal entity as its foreign parent company)	A separate legal entity
Registration	Mandatory	Mandatory
Where to apply?	The Ministry of Economy and other authorities	State registrars, including public and private notaries
Timing	ca. 20 BDs	1 BD upon filing documents
Fee	One-time fee - EUR 70	Free of charge
Taxation	Representative offices that conduct commercial activities are recognised as permanent establishments and are generally taxed at the same rates as LLCs (although there are specific rules for determination of the taxable base).	See taxation section below

	Representative office	LLC
Manager	A sole director or a management board	The head (based on a power of attorney from the parent company)
Can it acquire properties, conclude contracts, conduct other business activity?	Yes, but only on behalf of the foreign parent company (and depending on the type: commercial or non-commercial)	Yes

3. Incorporation vs acquisition of a company

When a tech business or startup considers establishing a corporate presence, it can either incorporate a new company or acquire an existing one. The first option entails both time and costs to create a fresh start, whereas the second one enables a swift acquisition of an already operational entity, albeit with its existing history, which may include legal or other issues.

Steps to Take	Incorporation	Acquisition
Common preliminary steps	— Checking the company name in the state register. — Looking for a registered seat, agreeing on the use of the address as registered seat. — Defining the activity of the company.	— Due diligence of the target company. — Negotiating the conditions of the acquisition deal. — Deciding on the required changes to the company structure (management, new bank, etc.).
Step 1.	Preparing the documents for registration: — Foundation resolution — Charter — UBO structure — Other supporting documents	Preparing, negotiating, and signing the sale and purchase agreement (SPA).
Step 2.	Signing the documents before the state registrar, including state or private notary.	Preparing and signing the registration documents (change of ownership) before the state registrar, including state or private notary.
Step 3.	Registration of the company in the state register.	Registration of the new company owner in the state register.
Step 4.	Signing employment / civil law contract with the director.	Signing employment / civil law contract with the new director.
Step 5.	Obtaining e-signature for the director.	Obtaining e-signature for the new director.
Step 6.	Opening the bank account.	Other changes required for the new owner.

Steps to Take	Incorporation	Acquisition
Estimated timing and costs	1. Registration of the new company in the state register – 1 BD upon submission of documents. State fee – free of charge. Costs of state registrar (notary) - as agreed. 2. Obtaining e-signature – time and costs depending on the provider of such services. 3. Opening the bank account – depending on the bank (normally – 1 – 1.5 months).	Registration of the change of ownership in the state register – 1 BD upon submission of documents. State fee – free of charge. Costs of state registrar (notary) - as agreed.

Entering Diia City

Another important step for a tech business/start-up after getting a corporate presence (obtaining the legal entity by incorporating or acquiring it) is the registration as a resident of Diia City regime – a special tax and legal regime of the IT industry.

In order to be registered as a Diia City resident a company must:

- Be registered in Ukraine;
- Be active in one or several IT-related business activities listed in the Diia City Law, including:
  - *Software development;*
  - *Publishing video games and other software;*
  - *Providing IT products online;*
  - *IT educational services;*
  - *Data processing and relevant activities* (except for data hosting services);
  - *IT R&D services;*
  - *IT marketing and advertising services;* and
  - *Cybersport activities* (organisers of cybersport events, esports studios, etc).
- The amount of average monthly compensation for employees and gig-contractors (if engaged) must be at least the UAH equivalent of EUR 1,200.
- The monthly average number of employees and gig-contractors (if engaged) must be at least 9.
- The net profit gained from IT-related business activities must be at least 90% of the company's total net profit.

Startups are given a time of at least 1 year during which they must fulfil the general requirements for a Diia City resident.

4. Practical steps required to be undertaken when setting up a company

The sections below summarise some of the principal practical considerations, businesses need to address when establishing a new entity in Ukraine.

Choosing a company name

Formality	Basic Aspects
The name of an LLC must: — **start with the words "limited liability company",** — **be unique,** — **be in Ukrainian (can additionally be in English).**	The company name must differ from other registered companies' name in Ukraine. Before registering the company, you can check the uniqueness of the name at the official website of the state register: link.

Choosing the registered office (legal address)

Formality	Basic Aspects
The legal address of the company is indicated in the state register	The legal address of the company must be indicated in the state register when incorporating the company. This information is open to the public. No specific requirements to the documents which proves that the company is entitled to use the real estate as a legal address. The state registrar / notary does not request or verify such documents during incorporation. In practice, the company often concludes a lease/sub-lease agreement. It is important to have the access to the respective post box to be able to receive all the correspondence sent to the company at the registered legal address.

Corporate filings – including constitutional and accounting documents

Submission and confirmation of ultimate beneficiary owners (UBO) and ownership structure	The company must submit to the Ukrainian Companies Register the changes of information on the company's UBO and ownership structure within 30 business days from the occurrence of such changes (whereas the company's participants must inform the company on such changes within 5 business days from their occurrence). Additionally, the information on the company's UBO and ownership structure must be updated/confirmed simultaneously with any registration application to a state registrar (which will be required, for example, when appointing/dismissing the company's director, or restating company's charter). Deadline: 30 business days from occurrence of any changes
Holding an annual General Meeting of Participants (GMP) of the Company	As a general rule, the annual GMP shall be convened within 6 months after the end of the reporting period (31 December of each year). The agenda of such annual meeting shall include the decision on the net income distribution, on dividends' payment and their amount. Ukrainian law allows holding the GMP meeting either by physical presence of the participant, or by video conference which allows you to hear and see all the participants of the GMP.

VAT registration

A company must register for VAT when its local supplies exceed UAH 1 million (ca. EUR 25,000) in any 12-month period. Only registered VAT payers can claim input VAT, but any legal entity, individual entrepreneur or permanent establishment (PE) doing business in Ukraine may register as a VAT payer. In general, taxpayers not registered for VAT are exempt from accruing VAT on their local supplies. Accordingly, VAT registration is more relevant for start-ups that expect to work with the clients inside Ukraine. If the company if focused exclusively on foreign clients, VAT registration may be irrelevant. General VAT rate for local supplies is 20% and 0% for export.

5. Governance

Constitutional documents

In Ukraine, the typical constitutional document for a limited liability company (LLC), which is the most common business entity, is the Articles of Association. These serve as the company's bylaws, defining the rules for its operation and organization.

The Articles of Association must contain the information about: (1) full and shortened name of the company, (2) the company's governing bodies, their competence, their decision-making procedure, (3) the procedure for joining and leaving the company by the participants, and (4) accounting of company participatory interests in the accounting system. The participants are free to include any other peculiarities into the Articles of Association, which do not contradict the law.

The company may also choose to operate under the Model Articles of Association (standard document created by the government).

The participants of LLC are also allowed to conclude the Shareholders' Agreement, whereby they can agree to exercise their rights and powers in a certain way or refrain from exercising them. The Shareholders' Agreement is a relatively new mechanism and in practice is still not often applied by start-ups or pre-existing businesses.

Directors Duties and Liabilities

A director of an LLC company (or a member of the management board) is generally obliged to act in the interests of the company and not to exceed their powers. The directors may be held liable before the LLC for the damages caused to the company by their wilful actions or misconduct.

Other than liability to the company, a director can individually face administrative or even criminal liability for the breaches of the law in a directorship role. Administrative liability (typically, in the form of a fine) can arise for non-serious offences, such as improper regulatory or financial filings. Criminal liability (such as imprisonment) may arise for serious crimes such as tax evasion.

6. Employment considerations

Key models for contracts with team members in Ukraine

In Ukraine IT companies commonly engage personnel as either employees or independent contractors. If the company enters Diia City, it obtains the third alternative option - engage people as gig-specialists.

	Employees	Independent contractors	Gig-contractors
Description	Engagement under employment agreement (contract)	Engagement as formally independent from the company service providers under services agreements	Mix combining features of the independent contractor agreement with certain "employment-like" social benefits and protections
Practice of use	Frequent for admin staff Rarely used for developers	Most common	Most common among Diia City residents
Advantages	Safe in terms of legal risks	Cost effective (in terms of taxation) Flexibility of contractual terms	Combines the benefits of both options, including absence of legal risks of requalification, cost effective, and flexible
Pitfalls	High costs (tax driven) Outdated, rigid and very employee-protective labour law regime	Risk of requalification as employment and associated liability (in the IT sector such cases are very rare)	Only available to the residents of Diia City

Pay and benefits

Independent contractors are legally considered to be third-party independent service providers. The law does not set specific rules for independent contractors in respect of pay and benefits and the parties are flexible to agree on such in the services agreement.

	Employees	Gig-contractors
Remuneration	As agreed under the employment agreement above the minimum statutory wage	As agreed under the gig-contract (no minimum level requirements)
Extra payment	For work in weekends, nightwork, overtime, during the public holiday, etc	As agreed under the gig-contract
Mandatory allowances	For medical (sick) leave, maternity leave or other types of leave provided by law	For medical (sick) leave, maternity leave or other types of leave if agreed in the gig-contract
Discretionary bonuses	As agreed under the employment agreement	As agreed under the gig-contract
Medical/ Health insurance benefits	The employer makes payments of unified social contributions (USC) for the employee, which also include the payment for state medical/health insurance. Private medical/health insurance is not mandatory (although quite common in the IT industry).	Same as for employees
Pension	In Ukraine, the pension age is 60 for both women and men. The employer pays regular USC payments for the employee of 22% of the gross salary subject to certain caps, which also includes a payment for the state pension allowance. Private pension provision is not mandatory.	Same as for employees

Employees/independent contractors/gig-contractors, if engaged by the Ukrainian company, must be paid in the national currency (UAH).

Income tax and social security considerations

Below are the key taxation rates for the employees, independent contractors and gig-specialists (within or outside of Diia City regime).

	- Outside Diia City -		- Within Diia City -	
	Employees	**Independent contractors**	**Employees**	**Gig-contractors**
Income tax	18% (withheld from salary)	5% (paid by contractor)	5% (withheld from salary)	5% (withheld from remuneration)
Military levy	1.5% (withheld from salary)	N/A	1.5% (withheld from salary)	1.5% (withheld from remuneration)
Unified social contribution (USC)	22% of gross salary, subject to maximum cap (paid by employer at its own expense on top of salary)	22% of minimum salary (paid by contractor)	22% on minimum salary (paid by employer at its own expense on top of salary)	22% on minimum salary (paid by employer at its own expense on top of remuneration)
Total tax burden on net remuneration of EUR 1,500	EUR 772	EUR 120	EUR 145	EUR 145

Working conditions

Independent contractors are legally considered as independent services providers who independently decide on their working conditions and are not subject to the respective company's rules.

	Employees	Gig-contractors
Working hours	Any number of hours per day and week up to 8 and 40 hours respectively (irregular working hours regime is possible)	Any number of hours per day and week up to 8 and 40 hours respectively (irregular working hours regime is possible)
Annual leave	Minimum – 24 calendar days of paid leave	Minimum – 17 working days of paid leave
Sick leave	All employees who are unable to work due to sickness or other temporary disability (the fact must be certified by a registered medical practitioner) are entitled to paid sick leave for the entire period of their absence from work. The employer pays for the first 5 days of leave and the remainder of time is covered by the State Temporary Disability Fund.	Same as for employees
Public holidays	There are 12 public holidays a year, which are paid non-working days and are not included in the annual leave entitlement. Public holidays falling on weekends are moved to the following business day in lieu.	Same as for employees

Family-friendly rights

The family-friendly rights are primarily available only to specialists engaged as employees. Those engaged as gig-contractors are eligible only to maternity leave unless other rights are agreed in the gig-contract (the parties are free to specify such additional benefits in the contract). Independent contractors are not subject to family-friendly rights.

	Employees
Maternity leave	Maternity leave normally includes 126 paid calendar days ("CDs") of leave, 70 before the estimated due date of a child and 56 after a birth. Maternity leave is fully compensated at 100% of the employee's average salary by the State Social Security Fund.
Paternity leave	There is no paid paternity leave in Ukraine. However, fathers can take paid leave for the birth of a child for up to 14 CDs. Also, a father can take unpaid leave to care for a child until it reaches the age of 3, if the mother returns to work.
Compassionate leave	An employee is entitled to compassionate (bereavement) unpaid leave of up to 7 CDs (and the days required for travel to the place of funeral) for the death of an immediate family member.
Casual leave	In certain specific cases, e.g. marriage, an employer must provide an employee with unpaid leave of up to 30 CDs. An additional maximum of 15 CDs per year of unpaid leave can be agreed between the employer and employee (no limitation during martial law).
Other leave	An employee may be allowed additional paid or unpaid leave, e.g. when adopting a child or raising a disabled child.

Termination of employment

The parties to the service agreement with independent contractors are free to agree on the terms of its termination.

For employees the key rules for termination of employment are as follows:

	Grounds	Notice period
Mutual agreement	The parties are free to agree on mutual termination at any time with no required cause	No mandatory notice required
Employee	The employee may decide at his / her own discretion to terminate the employment for no cause	2 weeks
Company	— Staff redundancy; — An employee's systematic breaching of their job duties; — Failure of probation period or insufficient qualifications; — Recruitment by the army or mobilization; — Single material breach of job duties; — An employee's unjustified absence from the workplace for more than three consecutive hours during one; — Working day; and — In certain other cases.	Depending on the exact ground. The statutory minimum notice period is two months in the case of redundancy. In certain cases, e.g., where there has been a single material breach of employment duties, no notification is required.

During probation, an employer may terminate employment on three days' written notice if the employee is found to be unsuitable for the position.

Termination of an employee for cause in most cases is regarded as a disciplinary sanction and must be imposed following special procedures prescribed by law. Termination without cause in many cases is only allowed if the employee cannot be transferred to another position or job. Normally, termination for cause is quite difficult and a highly challengeable procedure. Therefore, it is recommended only if the employer has bulletproofed evidence of cause and properly follows all the necessary procedures.

Certain categories of employees cannot be terminated by an employer without their prior consent. These "protected" categories include: pregnant women, women with children under the age of 3, or under the age of 6 if a registered medical practitioner certifies that home care is necessary, single parents or the legal guardians of a child under the age of 14 or of a handicapped child. The law only allows the employment of "protected" employees to be terminated if the employer is liquidated without legal succession.

Termination is also not generally allowed while an employee is on annual or sick leave for both employees and gig-contractors.

For gig-contractors the key rules for termination relating to gig-contracts are as follows:

	Gig-Contract
Mutual agreement	The parties are free to agree on mutual termination at any time with no required cause or notice
End of fixed term	The gig-contract can be terminated by the expiry of its terms if it was concluded for the fixed-term
Gig-contractor	Unilaterally for no cause with 30 days' notice unless other rules are not specified in the gig-contract During the first 3 months of gig-contract – with 3 days' notice, unless the bigger term is specified in the gig-contract
Company	Unilaterally for no cause with 30 days' notice unless other rules are not specified in the gig-contract; the company may shorten the notice period by payment in lieu during the first 3 months of gig-contract – with 3 days' notice, unless the bigger term is specified in the gig-contract
Loss of Diia City resident status	A gig-contract is terminated automatically in the last day of the third calendar month following the month in which the Diia City resident status is lost
Other grounds under gig-contract	The parties are free to agree on other specific grounds and terms for termination of gig-contract (e.g., breach of confidentiality, non-compete or other obligations)

Collective rights/bargaining

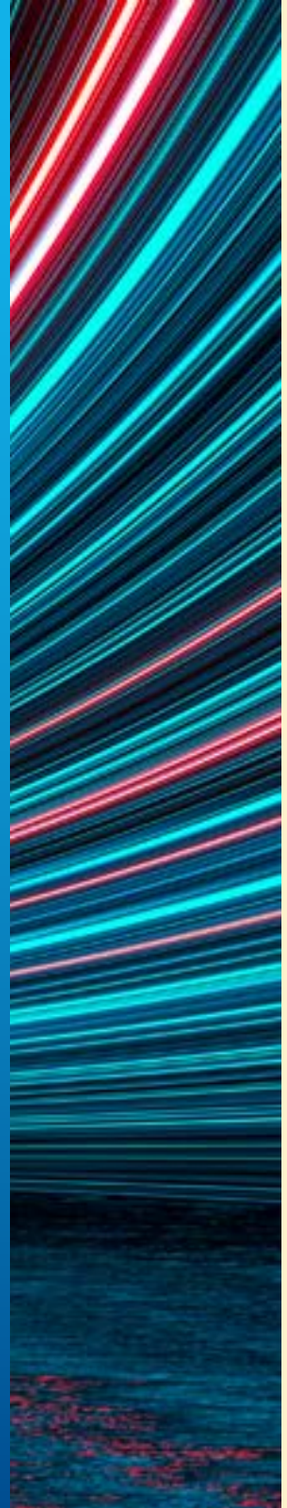
Collective rights are a prerogative of employment relations and not relevant to relations with independent contractors or gig-contractors.

Trade unions

Ukrainian law allows employees to freely establish a trade union in any company, as a representative body of employees at a company level. In practice, however, trade unions are commonly established only at big companies with many employees, and it can be almost never seen in small companies or start-ups or even in a big companies in the IT industry. Where a trade union operates within a company, it is also mandatory to consult with its representative about planned redundancies, on matters concerning forms and systems of payment for labour, as well as a company's internal work rules.

Collective bargaining agreements (CBAs)

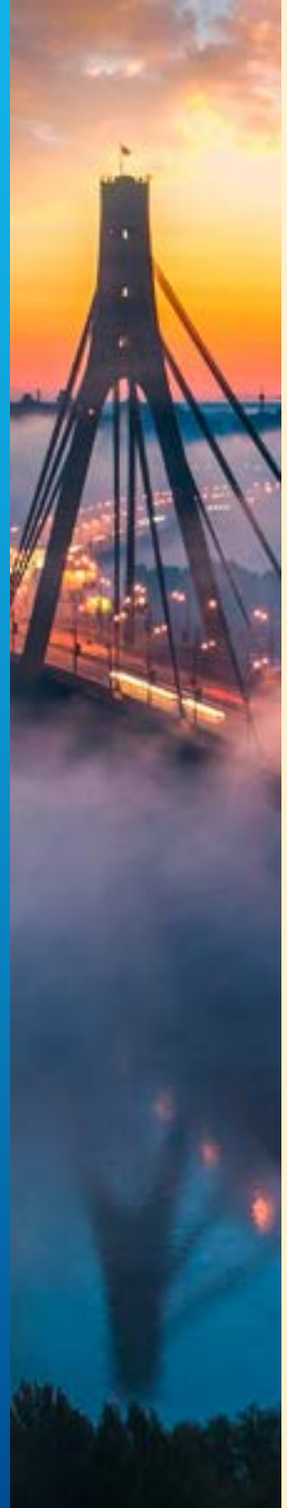
For employees, the law generally requires employers to negotiate on the conclusion of CBA with the relevant trade unions or other representatives of the employees' collective, if one of the parties (employer or employees) requests this. A CBA, if concluded, is mandatory for the employer and all its employees. In practice CBAs are normally concluded only by the large businesses employing big numbers of employees and are very uncommon for small companies and start-ups.



7. Incentivisation of early-state team and shareholder structure

In Ukraine tech businesses/start-ups are often seeking for an option to attract top talents and compete with larger companies that can afford higher salaries. The current Ukrainian legislation is currently undeveloped in terms of offering incentive plans in the form or share options. Although the new Diia City Law introduced the general possibility of such an option, its practical implementation is generally still not feasible.

As a result, the most common way for tech businesses/start-ups in this respect is to arrange such share option on a non-Ukrainian level (for example if the start-up has already a foreign investor, which is ready to provide the engaged talents with incentive plans directly) or to seek for non-share incentive such as, for example, future simple monetary bonuses.



8. Tax incentives / special regimes / grants

Below are the general tax rates currently in place in Ukraine:

	Rate and comments
Corporate Income Tax (CIT)	18% general rate
Withholding Tax (WHT)	15%, which may be decreased or eliminated by a double-tax treaty
Value Added Tax (VAT)	20% general, and 0% for exports
Personal Income Tax (PIT)	18% general, 5% on dividends from Ukrainian companies and 9% on dividends from non-resident companies
Military Levy	1.5% applied in addition to PIT on all income
Unified Social Contribution (USC): employer's contribution	22% applied to salaries, subject to a cap of 15 times the statutory minimum salary, which in August 2023 is UAH 100,500 (approx. EUR 2,600)
Unified Social Contribution (USC): employee's contribution	N/A

On 8 February 2022, Ukraine launched **Diia City**, a special legal and tax regime for eligible tech companies that offers exclusive legal, employment, and tax rules for companies registered as its residents (link to Diia City law).

Income taxation

The general CIT regime remains available for Diia City residents. At the same time, Diia City offers an alternative income tax regime available only to the residents of Diia City.

Under the special regime, instead of paying CIT on financial results, residents of Diia City can choose to pay tax on certain operations, including the distribution of profits and other listed operations (Taxable Operations) such as repaying investments to shareholders, investments abroad, paying interest, royalties, donations, and in certain cases, payments for goods and services, etc.

The tax rate applied to the Taxable Operations is 9%. The application of a special tax regime for residents of Diia City is voluntary. A company that opts for the special tax regime is entitled to opt out and return to payment of CIT on the general terms at any time, with such return being effective from the following financial year.

Payroll taxation

Personnel (employees and gig-contractors) of companies resident in Diia City are entitled to special reduced payroll tax rates including:

	Rate and comments
Personal Income Tax	5%
Military Levy	1.5%
Unified Social Contribution	22% of minimum statutory salary

9. Investors – considerations for capital raising

Foreign investors in Ukraine generally enjoy the same treatment as domestic investors, with some exceptions. Under Ukrainian law, any value injected by foreign investors into an investment target to generate profit or to achieve social goals is considered a foreign investment.

Foreign investments can take any form not prohibited by law, including:
— joint ventures with Ukrainian partners;
— the acquisition of shares or other equity interest in an existing Ukrainian company;
— the establishment of Ukrainian legal entities, representative offices, or branches; and/or
— the purchase of movable or immovable property, or other proprietary rights.

For tech start-ups in Ukraine the main source of funding currently remains self-funding, the funds of the founders and the income they receive. The options for attracting outside investments may include:

Incubators and accelerators

Incubators and accelerators are popular among the start-ups in Ukraine. They usually seek start-ups in an early, pre-seed stage, with no investors but potential for rapid growth and support them with product development, counselling, mentoring and other necessary resources (like shared office). The amounts of funding that can be obtained in such programs is on average from USD20k to USD200k, but in specific cases can be even higher.

Venture capital investments

Venture capital investments are relatively common in Ukraine among the start-ups as a method to engage significant funds typically in exchange for a share. The start-ups more often are looking for venture investors outside of Ukraine, although there are still several funds in Ukraine, which continue to be active even during the time of war (like TA Ventures, SMRK VC Fund, GEEK Ventures Digital Future, and others). From the legal standpoint such investment is a more formal procedure requiring formalising the investment in a form of an acquisition of interest in the company or otherwise.

Grants from the state or private companies

As an alternative option of financing, start-ups may look for grants, which are offered from time to time by the state of foreign companies. These grants are often provided as one-time payment, which can assist the start-up in getting a boost at the early stage. The existing state programs include the grants from the Ukrainian Startup Fund, the state fund which offers grants for specific projects. Since its launch in 2020 its has already supported more than 200 projects for the amount around USD 6.3m.

Currently Ukrainian Startup Fund offers, for example, the standard grant for up to USD 10k to any tech-start up as an acceleration program (link). During the war the fund is focused on military tech and post-war reconstruction. The fund offers a special grant for up to USD 35k for start-ups in the fields of defence, construction, cybersecurity, medicine, mental health support, and education (link).

Another example of support from the state is the announced program by the Ministry of Economy – eRobota (link), which offers non-refundable grant of up to UAH 250k (ca. EUR 6,200) for those who is just planning to start a business (this program is not tech-industry specific and is available for any sectors of economy).

Besides the state, today many international businesses are assisting Ukraine including by offering individual grant programs for Ukrainian start-ups. Such grants are often provided in the form of money or of free use of the services of these companies. Amazon Web Services (AWS) announced the grants for Ukrainians for the use of the AWS services (link).

10. IP – protecting the value of your company

Tech businesses/start-ups should take great care to protect their technology, processes, patents and other elements of company's intellectual property company's intellectual property.

Copyright and related rights

Any work of authorship, including musical, literary and audio-visual works, as well as and database or software, is protected by copyright. Copyright protection does not apply to ideas, theories, principles, methods, procedures, processes, systems, conceptions and discoveries.

A person who creates a work is considered its author and enjoys all rights that belong to them. These consist of proprietary rights, including the right to use and sell the work, and to prohibit the use of the work, and of moral rights, which include the right to be named as the work's author and to protect the integrity of the work.

Copyright protection arises automatically from the moment the work is created in a fixed form, and protection lasts for the life of the author plus 70 years. No registration, filing or other formalities are necessary in Ukraine.

The main rules regarding the ownership of IP rights to the objects created by employees / independent contractors / gig-contractors of the company and the transfer of such rights from the specialists to the company:

	Employees	Independent contractors	Gig-contractors
Personal non-proprietary IP rights	Are owned by the employee/gig-contractor/ independent contractor who creates respective object		
Proprietary IP rights	Proprietary IP rights to **computer programmes and databases** created within employment relations are owned by the employer unless otherwise provided in the employment agreement; Proprietary IP rights to **other IP objects** are owned jointly by the employee and the employer unless otherwise provided in the employment agreement.	Proprietary IP rights to an object created by an independent contractor in the performance of the contract are owned by a company unless otherwise provided in the contract.	Proprietary IP rights to an object created by a gig-contractor in the performance of the contract are owned by the company unless otherwise provided in the contract.

A company generally acquires proprietary IP rights from the moment of the creation of such object unless otherwise provided in the agreement with the specialist.

In practice it is strongly recommended for tech businesses/start-ups to have a sophisticated IP transfer clause in the agreement with the specialists to clearly identify the scope of IP deliverables created by the specialists, moment and evidence of transfer of such deliverables and relevant IP rights to the company, compensation, remedies, use of third-party rights and open-source code, and other peculiarities specific to the IT industry.

Trademarks

A trademark generally enjoys legal protection in Ukraine if it is registered. To get the trademark registered the company must file an application and supportive documents to the Ukrainian Trademark Office (link).

A trademark can consist of any words (other than those prohibited by law), letters, numerals, patterns, colours, or a combination of verbal and graphic elements. Online search database of the registered trademarks in Ukraine can be found here.

Trademark applications in Ukraine are subject to formal and substantive examination. In practice, it takes an average of 1.5 to 2 years to obtain a trademark registration in Ukraine.

The statutory fee for registration depends on the number of classes of goods and/or services under which the trademark will be registered. Multiple-class trademark registration is possible in Ukraine. Accordingly, the company shall consider the list of goods and/or services for the trademark and the respective classes to apply before the application.

A trademark registration certificate is valid for ten years from the day the application is filed and may be renewed every ten years by the trademark owner. When an application for a trademark is filed, any third party may oppose it by claiming that it does not conform with the registrability requirements.

Ukraine is a also signatory to the Paris Convention for Protection of Industrial Property (link) and the Madrid Agreement Concerning the International Registration of Marks (link), as well as certain other agreements, which allows to get the trademark protection on the international level.

Patents

Inventions and utility models can be legally protected in Ukraine if they do not contradict the public order, the principles of humanity and morality, and are patentable. The following inventions or utility models are patentable: — products such as devices, substances, strains and cell cultures of a plant or an animal — processes (methods), as well as new applications of known products or processes.

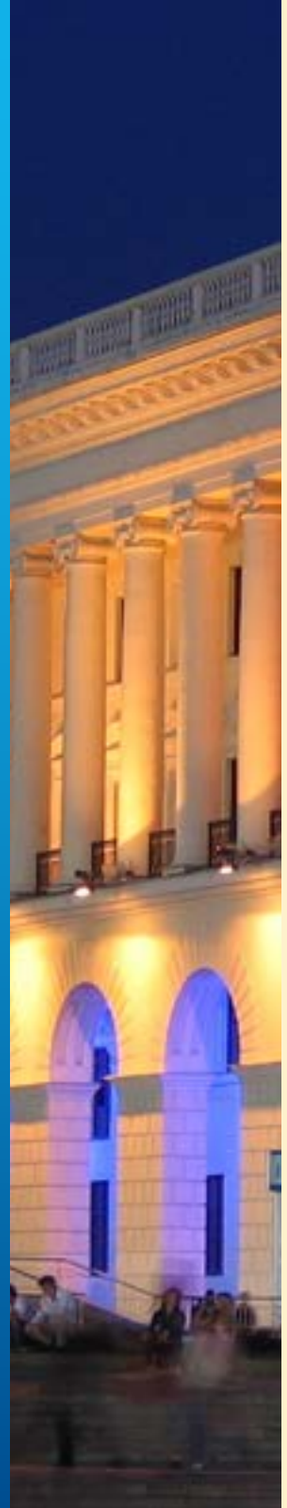
To be granted patent protection, an invention must meet the requirements of: (i) novelty; (ii) industrial applicability; and (iii) non-obviousness. A utility model must meet only the first two requirements.

Online search database for patents and utility models.

The Ukrainian patent application undergoes a substantive examination. Any third party may file an opposition to the application.

Patent protection begins on the day the grant of the patent is published, and it lasts for 20 years from the application filing date. Fees associated with filing a patent application in Ukraine depend on the different application criteria and complexity of the application. In practice, it may take an average of 3-5 years from filing up to grant a patent in Ukraine.

In addition, Ukraine is a party to many international agreements in the field of patents such as the Paris Convention, the Patent Cooperation Treaty, the Patent Law Treaty, the Agreement on Trade-Related Aspects of Intellectual Property Rights, and others.



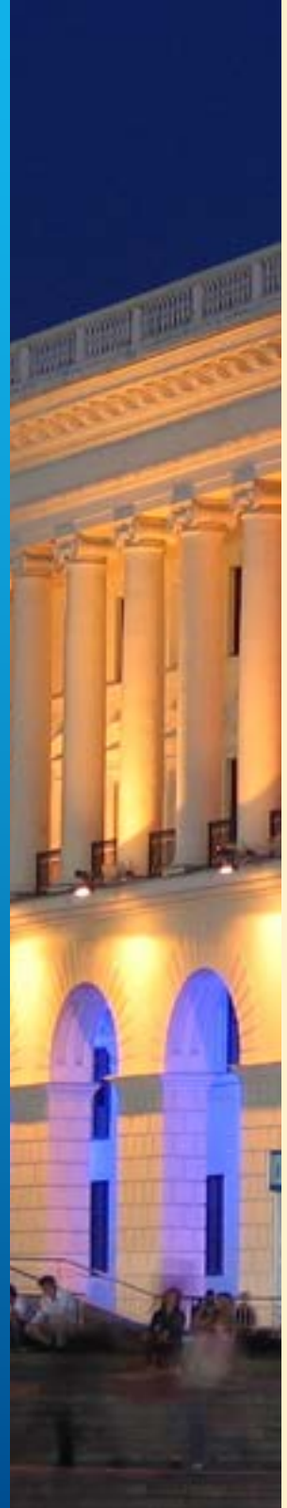
11. Regulatory – common compliance requirements

Mandatory financial reporting

Ukrainian accounting regulations classify all entities into four groups: extra-small, small, medium and large entities. Depending on this classification, additional financial reporting requirements may apply to a particular entity.

To be classified as a particular category, an entity should meet at least two out of three criteria as shown below (the numbers are taken as of the date of preparation of the annual financial statements for the year preceding the reporting year):

	Book value of assets	Net income from sales of products	Average number of employees
1. Extra-small enterprise:	up to EUR 350,000	up to EUR 700,000	up to 10 persons
2. Small enterprise:	up to EUR 4 million	up to EUR 8 million	up to 50 persons
3. Medium enterprise:	up to EUR 20 million	up to EUR 40 million	up to 250 persons
4. Large enterprise:	more than EUR 20 million	more than EUR 40 million	more than 250 persons



Name	Deadline	Description
Preparation of standalone financial statements	On a rolling basis	The company is obliged to maintain consistent accounting records and prepare periodic (annual and quarterly) financial statements. The company may rely on either Ukrainian local accounting standards or IFRS to do so. In addition to financial statements, the company is also obliged to prepare management report featuring financial and non-financial information concerning the entity's current state, business opportunities, main risks and probabilities (exemptions apply for small companies).
Filing and publication of financial statements	To be filed within deadlines set for filings of corporate tax returns To be published (if applicable) by 1 June of each year	Financial statements are filed to the state statistics and tax authorities together with quarterly and/or annual corporate tax returns (depending on whether the company is obliged to file returns on quarterly or annual basis). Large and medium privately-owned entities are also obliged to publish their annual financial statements on their website or webpage.
Mandatory audit of financial statements and publication thereof	To be published (if applicable) by 1 June of each year	Large and medium privately-owned entities are obliged to have their annual financial statements audited by an independent certified auditor and such audit report must be published on their website or webpage alongside the financial statements, where the documents will be publicly available for free.

Data Protection

The main legal act is the Law of Ukraine on Personal Data Protection (PDP Law). For more information, please see Annex 1.

Other

The following regulations may be relevant to tech start-ups:

— Sanctions Law No. 1644-VII (during the current martial law certain restriction apply to the sanctioned entities and Russian or Belarus entities, in terms of investments, commercial relations, financing, etc).
— Resolution of the National Bank of Ukraine no. 18 and other NBU resolutions implementing currency control and payment implications.

12. Industry Associations

There are several different and independent associations for tech start-ups in Ukraine such as:

Tech Ukraine (link)

IT Ukraine Association (link)

Ukrainian Startup Fund (link)

Annex 1 – Data Protection

Data Protection law	Main legal act - Law of Ukraine on Personal Data Protection (PDP Law)
To whom it applies	— **Data subjects**, who are natural persons whose personal data is processed. — **Data controllers**, who are natural persons or legal entities that determine: • the goals of the personal data processing; and • the amount and method of processing. — **Data processors**, which are natural persons or legal entities permitted by the data controller or under applicable laws to process personal data. — **Third parties**, who are any additional persons or entities that receive personal data from a data controller or data processor, for a specific purpose.
Geographical scope	PDP Law does not explicitly specify its jurisdictional scope. However, it may be interpreted to apply to all personal data processed in the territory of Ukraine and have extraterritorial application with respect to data transfers to and from Ukraine.
Grounds for processing of personal data	— consent of a data subject; — when authorisation is granted to the data controller by law exclusively for authorities to use the data; — when the processing is governed by an agreement to which the subject of the data is a party, or which is concluded for the benefit of that person; — when the data is processed to conclude an agreement with the subject, at his or her request; — when the processing is necessary to protect the person's vital interests; — when the processing is necessary to perform the data controller's legal obligations; and — when the processing is necessary to protect the legitimate interests of the data controller or third parties to which the personal data has been transferred, except for cases when the necessity to protect the subject's basic rights and freedoms overrides this interest. Consent is the most common legal ground for processing personal data in practice. It may be presented in writing or in any other form, including electronic, that shows proof of consent.

Main obligations and processing requirements	Data controllers must comply with the following obligations: — Personal data must be processed openly and transparently. — The means of processing personal data must correspond to the purpose of the processing. — Personal data must be protected from accidental loss, destruction, or unauthorised processing and access.
Data subject rights	PDP Law grants data subjects a broad scope of rights, including the right to: — Submit an objection to the processing of their personal data. — Access their own personal data. — Define certain restrictions and reservations with respect to any element of their data's processing. — Submit a justified request to rectify or delete personal data by any data controller or processor, if the data is processed illegally or is inaccurate in any respect. — Obtain information on the terms of third parties' access to their personal data, including information about third parties to whom their personal data are transferred. — Revoke consent to data processing.
Data Protection Officer	The processing of special risk data requires the prior appointment of a data protection officer. There are no requirements regarding qualifications or skills of this person, and the PDP Law contains only several functions, which are to be performed by the officer. Special risk data includes: racial or ethnic origin, political, religious, or philosophical beliefs, political party or trade union membership, health or sex life, biometric and genetic data, nationality, a person's location and routes of movement, information about a person suffering from violence or other abuse.
Notification	PDP Law does not require notification or registration before processing personal data. Data controllers or processors processing special risk data, however, must notify the Regulator within 30 days of commencement of processing of this data.

Transfers out of country	Personal data may be transferred only to countries that provide an adequate level of personal data protection, including: — European Economic Area (EEA) member states. — Countries ratifying the Strasbourg Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data 1981 (Strasbourg Data Processing Convention). Cross-border personal data transfers are only possible to the countries with non-adequate level of protection if one of the following conditions is satisfied: — The data subject grants express consent to the transfer. — The data controller and the data subject need to enter into or perform an agreement for the benefit of the data subject. — The data transfer is necessary to protect the vital interests of the relevant data subject. — The data transfer is necessary to protect the public interest or pursue legal remedies. — The data controller has provided relevant guarantees to protect the data subject's privacy.
Regulator	Human Rights Ombudsman (Уповноважений Верховної Ради України з прав людини) website: link

The information in this factsheet is for general purposes and guidance only.

The information in this factsheet is for general purposes and guidance only. It is designed to provide a general overview of some important considerations when setting up for success in Ukraine as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

Setting up for success in **BULGARIA**

Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in Bulgaria.
It focuses on certain of the key legal factors to think through and is not intended to a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in Bulgaria.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes

1. Corporate considerations for setting up a business in Bulgaria

What entity you should use to set up your company

The main options available to a foreign investor looking to establish a corporate presence in Bulgaria are to register or purchase a Bulgarian company or to establish a branch. The most popular forms of legal entities are the limited liability company ("**LLC**") and the joint stock company ("**JSC**"). These companies are preferred because of their limited liability. LLCs and JSCs may carry on any type of business activity permitted by law. Certain types of activities, such as insurance, banking, telecommunications, etc., require a special permit or license to operate. The shareholders of LLCs and JSCs may be both individuals and other legal entities. Both companies can be established as sole proprietorships by a single shareholder.

LLCs are the most common type of company in Bulgaria for small-scale business. They are suitable for smaller companies with a limited number of shareholders and a basic corporate structure.

Key Characteristics	LLC	JSC
Minimum capital	The minimum capital required for an LLC is BGN 2 (EUR 1).	The minimum capital required for a JSC is BGN 50,000 (ca, EUR 25,000).
Payment upon incorporation	Minimum capital prescribed by law or in case the company is registered with a higher capital - at least 70 per cent of the capital.	25 per cent of the nominal value or of the issue value of each share.

Key Characteristics	LLC	JSC
Management and Representation	1. General assembly of the shareholders. 2. Manager(s) - the manager may not be a shareholder. In case of a sole LLC the sole owner of the capital shall manage and represent the company personally or through a manager appointed by him.	1. General assembly of the shareholder. 2. One of the two possible types of management systems with relevant bodies: **One-tier system:** board of directors (3 to 9 members); the board of directors appoints (an) executive director(s) of the company (among the board members). Any restrictions of the executive directors' representative powers could not be opposed against third parties. The members of the board of directors may be dismissed at any time (before the expiration of their mandate) by the sole owner/General assembly. **Two-tier system:** managing board (3 to 9 members) and supervisory board (3 to 7 members). In a sole owner JSC, the sole owner of the capital decides on matters within the competence of the general assembly of the shareholders.

Key Characteristics	LLC	JSC
Capital Structure and Share Transfer	The capital of an LLC is comprised of shares, reflecting proportional participation in the capital of the company by the shareholders. Differences in the legal regime of the LLC shares and the JSC shares concern their material form, the minimum value, the regime for transfers and pledges, etc. (please see below). Shareholders may be furnished with certificates of participation reflecting their share of the capital, however, such certificates are not securities. The shareholders are registered with the shareholders book to be kept by the LLC. Each LLC share shall amount to not less than BGN 1. Shares can be transferred on the grounds of a notary certified agreement. The transfer must be registered with the Commercial Registry in order to have effect before third parties. The transfer of shares is freely made between shareholders. The transfer of shares to third parties shall be permitted upon the consent of the general assembly of shareholders with a majority of ¾. Shares and any receivables deriving therefrom (dividends, etc.) can be pledged. Pledge agreements are to be notarized and registered with the Commercial Register; where dividends are pledged along with shares, registration with the Central Pledge Register may be completed as well (if the shareholders are legal entities and not natural persons).	A JSC issues shares to its shareholders. Shares can be materialized or dematerialized (book-entry) shares. Dematerialized shares have to be registered with the Bulgarian Central Depository. The shares can be registered or bearer; ordinary or privileged. A JSC can acquire its own shares only under strictly prescribed conditions. Shareholders may be furnished with interim certificates for the period prior to the issuance of the materialized shares; the interim certificates are securities and can be transferred or pledged in the same way as materialized shares. However, interim certificates cannot be transferred prior to the incorporation of the company. The non-bearer shareholders are registered with the shareholders' book. The shares shall have the minimum nominal value equal to not less than BGN 1. The shares should have equal nominal value. Upon their transfer, registered materialized shares should be endorsed and the transfer should be entered with the shareholder's book. Non-registered (bearer) materialized shares are transferred by delivery. The transfer of dematerialized shares is to be registered with the Central Depository. Usually, the transfers of shares are not conditioned by the consent of the other shareholders but the statute might provide for a conditional transfer of the shares. Materialized shares can be pledged by special pledge endorsement and the pledge is to be entered with the book of shareholders. The non-registered (bearer) materialized shares are pledged by their delivery. Dematerialized shares are pledged by an entry of the pledge in the Central Depository. Where dividends are pledged along with the shares, registration with the Central Pledge Registry is needed as well.

Key Characteristics	LLC	JSC
Bonds	LLC cannot issue bonds.	Bonds may only be issued by a JSC. A decision to issue bonds shall be taken by the general assembly of the shareholders, which may authorise the board of directors or the management board, as the case may be, to do so. Bonds of the same issue at the same nominal value shall give rise to the same right of claim. Bonds shall be issued only after payment in full of their issue value. Bonds convertible into shares may be issued.
Revenue: disbursement and taxation	The company can distribute income (dividends). No difference in the taxation of income exists between LLC and JSC. Corporate income tax is paid based on the company's revenue. Shareholders pay tax on the dividends received.	The company can distribute dividends. No difference in the taxation of income exists between LLC and JSC. Corporate income tax is paid based on the company's revenue. Shareholders pay tax on the dividends received.
Reserve Fund	There is no obligation ex lege for an LLC to set up reserve funds. Additional monetary instalments could be resolved by the sole owner for covering financial losses or upon a temporary shortage of funds. Such funds shall not be a part of the LLC's capital. Interest could be provided to be paid over the instalments.	A JSC shall set up a reserve fund financed by (at least 1/10 of) the company's income, proceeds from the emission value of the shares and bonds, as well as other sources provided for by the statute or by the sole shareholder. Disbursements from the fund can be made only for covering losses for the current year or the previous year. If the reserve fund exceeds 1/10 (or more, if provided by the statute) of the capital amount, the excess funds could be used for the capital increase or distributed to the shareholders.
Public Company	LLC cannot be a Public Company (a listed company).	A JSC can become a Public Company under the Law on Public Offering of Securities. In such case the shares should be dematerialized, and no conditions shall exist for their transfer.

Variable capital company ("**VCC**") was introduced and the changes in the Commercial Act were promulgated at the beginning of August 2023. VCC comes as an alternative to the existing capital companies - LLC and JSC - combining some of their advantages and removing cumbersome requirements. In addition, VCC goes hand in hand with several key features that make it suitable for micro and small business start-ups, namely low initial capital and the absence of a requirement for its entry in the Commercial Register; flexibility in the selection of governing bodies; opportunities to attract investors and the easy offering of shares.

For corporate considerations and key characteristics of VCCs, see Annex 1.

2. Branch vs subsidiary – options for group expansion

In the table below we have highlighted the main differences between a limited liability company and a branch of foreign entity in Bulgaria

	LLC	Branch
Legal identity	It has its own legal personality and is independent of its foreign parent company.	Does not have its own legal personality
Minimum share capital	BGN 2 (< EUR 1)	No minimum capital requirements set forth by law, but the parent company must provide assets to the branch in an amount sufficient for its operations and to settle its debt. Any initial funds made available by the parent company to the branch could be recorded as endowment capital and reflected as such in the accounting records of the branch.
Minimum nominal value of shares	BGN 1	N/A
Form of share capital	Cash or in-kind contributions	N/A
Statutory corporate bodies	The statutory corporate bodies of an LLC are: — the Sole Shareholder or the General Meeting of Shareholders (depending on the number of shareholders); — the manager(s).	Branches are run by a Branch representative/head of the Branch, acting within the confines of the powers granted to him/her by the parent company of the Branch.
Minimum no. of shareholders	At least 1 (one) shareholder	The Branch is controlled by the parent company, there are no shareholders in a branch.

	LLC	Branch
Shareholder liability	The general rule under Bulgarian law is that a company is a distinct, autonomous legal entity, with its own legal identity, completely separate from the identity of its shareholders. This means that, as a principle, (i) the shareholders and the company are independent entities, with distinct patrimonies (i.e., rights and obligations) and (ii) the shareholders are not liable for the debts of the company, and vice versa. Based on the Bulgarian Commerce Act, the shareholders of an LLC shall be held liable for the company's debts only up to their contribution to the registered share capital	The parent company is liable for all obligations and liabilities acquired by the branch, without limitation. As the branch does not have separate legal personality/capacity of its own, all rights and obligations acquired by the branch are 'born' directly in the patrimony of the parent company.
Managers (in Bulgarian управител)	At least 1 (one) LLCs are typically managed by one or more managers (individuals or legal entities, Bulgarian or foreign) acting independently (and not as a board of directors). If a legal entity is appointed as a manager, such entity must nominate an individual as its representative.	Branches are run by a branch representative appointed by the parent company. The prerogatives of the head of the branch should be set out in the parent company resolution deciding on the establishment of the branch or in a separate Power of Attorney outlining the prerogatives and limits of authority of the branch representative.

	LLC	Branch
Statutory meetings of corporate bodies	**GMS meetings** The manager of an LLC must convene the GMS at least once a year, or as often as necessary. One or more shareholders representing at least 1/10 of the share capital, shall be entitled to demand in writing the calling of the GMS. If the manager does not convene the GMS within 2 weeks, the shareholders who have requested the calling, can convene the GMS instead. A GMS shall be convened by the manager immediately if the losses exceed ¼ of the capital as well as if the net value of the assets of the company drops below the registered capital. The GMS shall be convened by a written invitation mentioning the agenda, received by each shareholder at least seven days prior to the fixed date, unless otherwise provided in the Articles of Association (**AoA**).	The Head of the Branch acts pursuant to a power of attorney/mandate given to him/her by the parent company, for the term decided by the parent company.
Dividends	Dividends can be distributed to the shareholders pro rata with their participation in the share capital.	N/A
Tax / Financial year	The financial year of Bulgarian companies is the calendar year.	Same as for the LLC.

3. Incorporation vs acquisition of a company

Steps to Take	Incorporation	Acquisition
Common preliminary steps	— Check with the Commercial Register whether the chosen name of the company is not already used. In case it is not a reservation of the name can be made. — Choose a management seat and address of the company. — Perform initial check whether the intended activities of the company requires license/registration. — Prepare necessary authorizations to third parties to conduct the whole process for the incorporation. — Find a local accountant.	— Perform a due diligence of the company you intend to buy. — Negotiate the head of terms. — Decide internally prior the initiation of the whole process what would be the future corporate and shareholders structure.
Step 1	Prepare the set of documents required for the incorporation of the new company.	Prepare a draft of the Sales and Purchase Agreement ("**SPA**").
Step 2	Prepare up-to-date extract from the local commercial register where the mother company is incorporated (notarization and apostille might be required).	Negotiate with the other party the provisions of the SPA, price, warranties etc.
Step 3	Provide a notarization and apostille for the company documents that require such. Normally that is only the consent and signature declaration provided by the future manager/s.	Obtain a merger clearance certificate if such is required.
Step 4	Open a local bank account and obtain certificate for paid-in capital.	Obtain an approval from the relevant authority if such is needed.

Steps to Take	Incorporation	Acquisition
Step 5	Collect all signatures and documents required and file the documents to the Commercial Register. The filling could be done either personally in the premises of the Registry Agency or electronically (the last option is the most convenient and the state fee is 50% of the ordinary one).	Finalise the SPA and proceed with signing.
Step 6	Opt for VAT registration upon filing, if you intend to perform taxable supplies and you will reach the threshold for VAT registration which is BGN 100,00.	File the documents for the transfer of shares to the Commercial Register.
Estimated timing and costs	As from the moment of filing, irrespective of the type of company the process should take approx. 3 days (if all the documents are prepared correctly). The state fee for filing varies for the two most common form of companies: — For LLC is approx. EUR 30 — For JSC is approx. EUR 50	There is no clear estimation that can be provided due to the fact that mostly it will depend on the negotiation process and how long it will take to both parties to reach an agreement on the price, warranties etc. The registration of the shares transfer in the Commercial register will take approx. 3 days.

4. Practical steps required to be undertaken when setting up a business in Bulgaria

In addition to setting up a local bank account, appointing professional advisers and service providers such as accountants, lawyers, and company secretaries and taking out insurance (both as required by law and as may be prudent for your business activity, there will be a number of other practical steps you need to take. The sections below summarise some of the principal practical considerations that businesses need to address when establishing a new entity in Bulgaria.

Formality	Basic Aspects
Choosing a company name	
General requirements	In Bulgaria each company's name, in addition to the content required by law, may include an indication of the subject of activity, the participating persons, as well as a freely chosen supplement. The company's name must be truthful, not mislead, and must not be offensive to the public order and morals. The merchant shall write its company's name in Bulgarian. It may add an optional written version thereof in a foreign language. The company's name may not be identical or similar to a registered trademark, unless the merchant holds rights over the latter. The company's name of a branch shall include the business name of the merchant with the added text "branch." A company's name may be changed upon request by the merchant who has registered it. The name of the company should be also included in the AoA of the later.

Formality	Basic Aspects
Reservation of Company's name	There is an option for the reservation of company's name, against a small state fee.
Setting up a registered office	
Registered office and address	Company's registered office shall be the residential area, where the management of its business is located. Company's address shall be the address of the location of the management of its business. Similar to the company's name the address should be included in the AoA.
Corporate filings – including constitutional and accounting documents where applicable	
Filings to the Commercial Register	The documents for the incorporation of the company can be filled either on place in the Bulgarian Registry Agency, or electronically, which is the preferred and most convenient option in practice. This refers also to potential changes in the corporate structure, ultimate beneficial owners, address change etc. The state fees for electronic filing are twice lower than the ones in place.
Accounting and Tax obligations	
Accounting	The new company should keep accounting records and find a local services provider. It should also open a bank account in Bulgaria where the company capital should be distributed.
VAT registration	The registration threshold for VAT in Bulgaria is BGN 100,000. Once the company is registered for VAT is required to file on a monthly basis VAT return and ledgers.

Proceedings for obtaining authorisation to work in Bulgaria

New legal entities incorporated under the Bulgarian laws do not need a specific authorisation or registration to act as an employer.

5. Governance

Constitutional documents

The Articles of association of the company shall contain: the name of the entity; management seat and address; shareholders (for LLCs and wholly owned JSCs); capital (including in kind contributions if such are made); company structure (for JSC); and subject of activity of the entity.

Non mandatory provisions to be included in the articles of associations are: shares transfer restrictions; different type of shares.

Directors Duties and Liabilities

Duties

The Commercial Act provides for fiduciary duties of the registered managers of the company in the first place. In a limited liability company, the shareholders also have to a certain extent fiduciary duties as they are obliged to assist the activity of the company and to refrain from acting against the interests of the company. Fiduciary duties have also a procurator, commercial representative (agent).

The managers in LLCs are not allowed to engage in activities which are competitive to the company.

Liabilities

Pursuant to Art. 219 of the Bulgarian Penal Code, an official who does not take sufficient care in the management or preservation of the property entrusted to him or for the work assigned to him, and as a result of which there is significant damage, destruction or dissipation of the property or other significant damage to the enterprise or the economy, shall be punished with imprisonment for up to 6 years and a fine of up to BGN 5,000.

Under Art. 220 of the Bulgarian Penal Code an official who knowingly concluded an unprofitable transaction and this resulted in significant damage to the economy or to the establishment, enterprise, or organization that he represents, shall be punished with imprisonment from 1 to 6 years, and the court may order deprivation of certain rights.

Art. 227b of the Penal Code provides that a person who manages and represents the commercial company, if they have not requested the court to open bankruptcy proceedings with regards to the company within 30 days of the suspension of payments by the company, is punished with imprisonment of up to 3 years or a fine of up to BGN 5,000. Same applies to the persons who manage and represent the commercial company if they have not requested the court to open bankruptcy proceedings within 30 days of the suspension of payments.

The Penal Code also provides for penalties for persons who committed crimes in specific economic sectors (such as tax crimes, AML crimes, etc.).

6. Employment considerations

Key requirements for employment contracts in Bulgaria

The main legislative acts of relevance to employment are: the Labour Code ("**LC**"); the Social Insurance Code ("**SIC**"); the Health and Safety at Work Act ("**HSWA**"); the Labour Migration and Labour Mobility Act ("**LMLMA**"); the Foreigners in the Republic of Bulgaria Act ("**FRBA**") and the bylaws on their application.

Form and content of the employment contract

An employment contract must be in writing to be valid and compliant with the labour law.

The employment contract must contain the identification details of the parties and specify, as a minimum: (i) the place of work; (ii) the job title and nature of the work; (iii) the date of the contract's conclusion and the commencement date for performance of the contract; (iv) the duration of the employment contract: (v) the amount of basic and extended (if due) paid annual leave and the duration of additional paid annual leaves (if agreed); (vi) an equal notice period to be observed by both parties upon termination of the employment contract (for indefinite terms contract the notice period can be between 30 days and 3 months, and for fixed-term employment contracts – 3 months fixed, but not more than the remainder of the contractual term); (vii) the amounts of basic and supplementary labour remunerations, as well as the periodicity of payment; (viii) the duration of the working day or week. For some of these elements (such as place of work, termination notice, paid leave), if nothing is agreed, mandatory statutory provisions would apply.

Prior to starting job under the employment contract, the employer must serve the employee with a job description describing the obligations and the responsibilities for the position taken by the employee. The employer is also obliged to notify the relevant territorial directorate of the National Revenue Agency of the conclusion of the employment contract within 3 days of its conclusion. In the notification the employer must provide details of the essential elements of the contract (e.g., parties' details, term of the contract, amount of remuneration, etc.). A copy of the registered notification must be handed over to the employee prior to the actual commencement of employment. Amendments in the essential elements of the employment contract also require notification to the National Revenue Agency.

Employment of third-country nationals (i.e., citizens of countries other than EU/EEA member states and Switzerland) is, in common circumstances, subject prior permitting the access to the labour market in Bulgaria. There are different forms of permissions, such as: EU Blue Card, Unified Permission for Residence and Work, work permit, etc.

Duration of the employment contract

An employment contract can be either for a fixed term or for indefinite duration. The employment contract is deemed one for indefinite duration unless expressly agreed otherwise. Fixed-term contracts can generally be entered in the following cases:

— for a specific term which, normally can be agreed only for temporary or seasonal, or short-term activities of the employer, or with newly onboarded employees of companies which are under insolvency or liquidation proceedings. The term of this type of contract may not exceed 3 years;

— for completion of specific work – upon completion of the agreed work the employment contract shall be terminated;

— for replacement of an absent employee – upon return of the absent employee the employment contract shall be terminated.

Probationary period

A probationary period of up to 6 months may be agreed in the employment contract in favour of the either or both parties to the employment contract. Where a fixed-term employment contract is entered for a term which is less than 1 year, the probationary period may not exceed 1 month.

Reclassification of service contracts

Pursuant to the LC, the relations on the provision of labour force by natural persons must be regulated only as employment relations. Therefore, hiring natural persons as contractors is permissible only where the contract does not regulate providing of labour force. The Bulgarian labour law control authorities have the power to reclassify service contracts as employment contracts based on their sole assessment whether actual provision of labour force is agreed. Where a service contract is reclassified the control authorities would declare the existence of an employment relationship, possibly with a back date.

Remote work

The employer and the employee may agree that the work under the employment contract will be performed remotely (exclusively or in a hybrid model) from a place agreed between the parties. Under general conditions, remote work requires a written annex between the employer and the employee and including additional provisions concerning remote work in the company Internal Labour Regulation (a mandatory document for all employers which regulated in the general manner the labour relations and processed within the company).

Pay and benefits

Minimum wage

The national minimum wage for the next calendar year shall be determined by the Council of Ministers not later than 1 September of the current year and shall be 50% of the average gross wage for a period of 12 months. For 2023 the minimum salary in Bulgaria is BGN 780 (approx. EUR 400).

Unilateral wage increase by the employer is permitted. Prohibited is however unilateral wage decrease.

Additional remunerations and other benefits

Employees are entitled to statutory additional remunerations. The most common of them are: (i) additional remuneration for acquired length of service and professional experience – 0.6% of the employee's gross monthly base salary for each year of experience in the company, as well as for each of year of preceding labour and professional experience on a relevant (the same or similar) position; (ii) additional remuneration for overtime work; (iii) additional remuneration for night work.

Overtime work performed shall be paid with an increase not less than: (i) 50% for work on working days; (ii) 75% for work on weekends; (iii) 100% for work on public holidays; (iv) 50% for work at working time calculated on a weekly or longer basis.

For each night hour worked or part of it between 10:00 p.m. and 6:00 a.m., employees shall be paid additional remuneration for night work in the amount of not less than 0.15% of the minimum wage established for the country, but not less than one lev.

In addition, the employer may voluntarily grant to the employees other types of additional remunerations and bonuses. It is common to grant additional benefits to employees such as: additional medical insurance, sports card, food vouchers.

The organization of salaries (including base salary and additional remunerations) in the company is regulated in the company's Internal Salary Rules, which are a mandatory internal document for all employers.

Pension

Entitlement to a pension is acquired upon fulfilling age and length of contributory service thresholds, which are currently undergoing increase. As of 31 December 2016, the retirement age shall be increased, from the first day of each subsequent calendar year until 2037. For the period 2023 -2027 the required age and length of contributory service are:

	Women		Men	
Year of retirement	**Age**	**Length of services**	**Age**	**Length of services**
2023	62 years	36 years and 4 months	64 years and 6 months	39 years and 4 months
2024	62 years and 2 months	36 years and 6 months	64 years and 7 months	39 years and 6 months
2025	62 years and 4 months	36 years and 8 months	64 years and 8 months	39 years and 8 months
2026	62 years and 6 months	36 years and 10 months	64 years and 9 months	39 years and 10 months
2027	62 years and 8 months	37 years	64 years and 10 months	40 years

Income tax and social security considerations

Personal income tax

The employee's remuneration is subject to personal income tax of 10%. The employer must calculate, withhold, and pay the income tax over the employment remuneration monthly.

Social insurance

The Bulgarian state social and health security system consists of: (i) health insurance (compulsory state organised and voluntary private funds); (ii) state social insurance (which grants compensation, assistance and pensions in case of temporary inability to work, temporary reduced ability to work, invalidity, maternity, unemployment, old age, and death); (iii) additional compulsory pension insurance; and (iv) additional voluntary pension insurance. The National Insurance Institute and the National Health Insurance Fund are the social insurance providers. Social security contributions are levied by the National Revenue Agency.

The minimum and the maximum basis for contributions, rates, the level of compensation and assistance for insured events are determined annually. The maximal social insurance basis for 2023 is BGN 3,400 (approx. EUR 1,740). The contribution for the state health insurance is 8% of the gross salary. The other social contributions vary between ca. 23% and ca. 27%. The health and social security contributions are split between the employer and the employee. The employee's part is calculated, withheld from the employment remuneration and paid to the state budget by the employer.

Working conditions

Working Time

The standard working week consists of 40 working hours. The standard daily duration of the working time 8 hours. Where work in shifts applies, the duration of the shift may not exceed 12 hours.

Specific working time models can be established, such as flexible working time, open-ended working hours, work in shifts, part-time work, on-duty and on-call obligations.

Night work

The normal duration of the weekly working time at night for a five-day working week is up to 35 hours. The normal duration of the working time at night for a five-day working week is up to 7 hours per night. Night work is prohibited for certain categories of employees, such as employees who have not attained 18 years of age, pregnant female employees, and others.

Overtime work

The maximum number of overtime hours permitted are: (i) up to 150 hours per calendar year; (ii) 30 hours of day work, or 20 hours of night work per one calendar month; (iii) 6 hours of day work, or 4 hours of night work per one calendar week; (iv) 3 hours of day work, or 2 hours of night work per two successive working days. Overtime work is prohibited for certain categories of employees, such as employees who have not attained 18 years of age, pregnant female employees, and others.

Breaks

Employees are generally entitled to a break of at least 30 minutes daily to eat. This break is not included in the working time. In addition, the employer shall establish physiological regimes of work and rest. The rests which are part of these regimes are included in the working time.

Employees are entitled to a daily rest period of at least 12 hours. In the conditions of 5-day working week employees are entitled to a weekly rest period of at least 2 consecutive days. In principle, one of these rest days should be a Sunday. Under such circumstances the weekly a rest period is at least 48 hours. Where summarized calculation of working time applies, the weekly rest period may not be less than 36 hours.

Paid annual leave

The amount of basic paid annual leave shall be not less than 20 working days. Employees who work under specific conditions and life and health hazards which cannot be eliminated, restricted or reduced regardless of the measures taken, as well as employees working under open-ended working hours, are entitled to not less than 5 working days additional paid leave. Longer duration of the paid annual leave can be agreed in the individual employment contract or in a collective agreement.

Use of the paid annual leave may be explicitly postponed for the following calendar year by: (i) the employer - for important production reasons; (ii) the employee - by using an alternative type of leave or upon request with the consent of the employer. The right to use the paid annual leave shall be extinguished by prescription if it is not used within expiration of 2 years after the end of the year for which it was is due. If the paid annual leave was postponed the right to use it shall expire upon expiry of two years as of the end of the year, in which the reason not to use it ceases to exist.

Other types of paid leaves

Employees are entitled to additional days of paid leave in the event of marriage, blood donation, death of a close family member, for performance of specific public duties. Employees are also entitled to different types of education related leaves.

Sick leave

Employees are entitled to leave for temporary incapacity to work in certain cases, such as sickness, occupational disease, occupational accident, quarantine, need of childcare, etc. The employer owes payment of compensation to the employee for the first 3 working days of the temporary incapacity to work at the amount of 70% of employee's salary. If the temporary incapacity to work continues for more than 3 working days, compensation shall be due by the state social insurance in compliance with the specific requirements of the Social Insurance Code and the bylaws on its application.

Family-friendly rights – parental leaves

Female employees are entitled to 410 days paid maternity leave, which commences 45 days prior to the child's due date. During this period, the employee will receive monthly compensation from the state social insurance amounting to 90% of the social insurance income, calculated based on the instalments paid for the preceding 24 months. After the child attains 6 months, the maternity leave can be transferred to the father or a grandparent of the child.

Where the mother and father are married or living in the same household, the father shall be entitled to 15 days' childbirth leave from the date of discharge of the child from the health institution.

After the maternity leave of 410 days, female employees may use additional childcare leave for the period until the child becomes 2 years of age. For the period of this leave the employee will receive compensation from the state social insurance, currently amounting to BGN 780 (approx. EUR 400) per month. This leave can be instead used by the father or a grandparent of the child.

A female employee who has adopted a child aged up to 5 years shall be entitled to a leave for a period of 365 days as of the day when the child was delivered for adoption, but not later than the child's fifth birthday. When the child is adopted by spouses, with the consent of the female adopter the leave may be used by the male adopter or by one of the parents of any of the adopters.

After use of the above leaves, each of the parents (adopters), if working under an employment relationship and the child has not been placed in a fully public-financed child-care institution, shall be entitled upon request to use unpaid child-care leave in the amount of six months until the child's attainment of the age of 8 years. Each parent (adopter) may use up to 5 months of the other parent's (adopter's) leave, subject to the other parent's (adopter's) consent.

The father (the male adoptive parent) is entitled to parental leave of 2 months which can be used until the child reaches the age of 8. If he has taken part of the maternity leave for a period of less than two months, he is entitled to this leave for the duration of the difference between 2 months granted and the leave taken.

Termination of employment

The employment contract may be terminated by the employer only upon occurrence of specific exhaustive number of circumstances. Depending on the type of the circumstances the termination might be subject to prior notice. The employee may terminate the employment contract without prior notice upon occurrence specific circumstances, and with prior notice without any specific reason.

The employment contract is terminated without either party being obligated to give notice to the other party in specific cases, such as: (i) by mutual written consent of the parties; (ii) where a dismissal of the employee has been declared unlawful, or where the employee is reinstated to the previous work, but he/she fails to report to work with the deadlines specified by the law; (iii) upon expiry of the agreed term; (iv) by the completion of the agreed work; (v) upon return to work of the replaced employee, etc.

Termination by the employer without notice

The employer may terminate the employment contract without prior notice upon occurrence of specific circumstances, such as: the employee has been detained for execution of a sentence; disciplinary dismissal due to gross violation of the labour discipline, etc. The termination will be in writing.

Termination by the employer with notice

The employer may terminate the employment contract with prior notice upon occurrence of specific circumstances, such as: (i) upon closure of the company; (ii) upon closure of a separate part of the company; (iii) upon downsizing of personnel (redundancy); (iv) in case of lack of capacity of the employee to effectively perform the assigned labour duties; and others.

For the purposes of termination, the employee will be served with a written notice of the termination. If the notice period is not observed by either party, compensation at the amount of the employee's gross salary for the unobserved (part of the) notice period shall be due. Upon expiration of the notice period or earlier termination, a termination order will be issued by the employer and served to the employee.

Termination by the employee with notice

The employee may terminate the employment contract with prior written notice without a need to specify any reasons for this.

Termination by the employee without notice

Specific circumstances could entitle the employee to terminate the employment contract without prior notice, such as: (i) if the employer delays the payment of the labour remuneration or of a benefit or under social insurance and others; (ii) if the employee works under fixed-term employment contract for a specific period or for the replacement of an absent employee and starts work under indefinite-term employment contract; and others.

Protection against dismissal

Certain categories of employees enjoy protection against dismissal, such as: (i) pregnant employees; (ii) employees in advanced stage of in-vitro treatment; (iii) employees using some types of parental leaves; (iv) employees suffering from certain diseases; (v) employees using leave; etc. The protection may vary from prohibition for dismissal on some legal grounds to a requirement to obtain prior permission for the termination by certain authorities.

Protection against illegal termination of employment

Employees are entitled to contest the legality of the dismissal before the employer and to claim: (i) that the dismissal be pronounced unlawful and revoked; (ii) to be reinstated to work; (iii) to be paid compensation for the period of unemployment due to the dismissal (up to 6 months); (iv) correction of the grounds for the dismissal, as entered in the employee's record book or in other documents.

Collective rights/bargaining

Employees representation

Employees shall participate, through representatives elected by the general meeting of employees, in the discussion of, and addressing of enterprise management issues, in the cases provided for by the law.

There are different types of employees' representatives: (i) in all companies the employees may elect representatives who shall represent their common interests on issues of industrial and social-security relations before the employers or before the State bodies (including on topics such as mass dismissals); (ii) in companies employing at least 50 employees, as well as in organisationally and economically separate divisions of companies employing at least 20 workers and employees, the general assembly must elect from among its composition representatives for exercising the right to information and consultation on certain topics (such as changes in the economic situation of the company); (iii) representatives on health and safety.

Trade unions and collective agreements

Employees may, with no prior permission, to freely form, by their own choice, trade union organisations and to join and leave them on a voluntary basis, showing consideration for their statutes only.

Employment and social security matters can be regulated by collective agreement so far as these are matters not regulated by mandatory provisions of the law. The collective agreement may not contain clauses which are less favourable to the employees than the provisions of the law or of a collective agreement which is binding on the employer. Collective agreements may be concluded at company, municipal and industry level. A collective agreement must be made in writing and entered in the register of the regional directorate of the labour inspection.

Training obligations

All employees shall be instructed on the health and safety at work. The types of instructing on health and safety are: initial, at the workplace, periodic, daily, extraordinary.

The employer shall be obligated to ensure conditions for the maintenance and upgrading of the professional qualification of the employees for the effective performance of their obligations under the employment relationship in accordance with the requirements of the work performed and the future professional development. Where, by virtue of the law, a collective agreement or an agreement to the individual employment contract the employer is obliged to provide training to maintain and improve the professional qualifications of employees for the effective performance of their duties in accordance with the requirements of the work performed, the training time shall be counted as working time. Whenever possible, the training shall take place within the employee's established working hours. All costs related to the training shall be covered by the employer.

7. Incentivisation of early-state team and shareholder structure

In Bulgaria there is no statutory obligations or envisaged incentives to provide employees with share options, growth shares etc. In fact, such possibilities are only upon the discretion of the employer and the latter is not obliged anyhow to provide such.

The employer can grant share options for its employees only in JSCs, as the LLCs are required to have an internal voting before a new shareholder is admitted. Thus, such option plans are not feasible in cases of LLC.

In practice, such option plans are generally provided upon meeting certain previously agreed milestones by the employees. Once those milestones are met the employees would have the right to subscribe shares in the company.

8. Tax incentives / special regimes / grants

Bulgaria has one of the lowest flat corporate taxes of only 10%. The Bulgarian tax legislation provides for various tax incentives, such as:

- Up to 100% corporate income tax relief for manufacturers in underdeveloped regions.
- 100%-expense deduction allowed for intangible assets from R&D activity.
- Accelerated depreciation for new investments.
- Tax relief for initial investment in tangible production assets and manufacturing plants/facilities.
- Qualified investors are allowed to self-assess VAT (to a certain amount) on import instead of effectively paying it.
- Bulgaria has the shortest general VAT refund periods – practically three months.
- Qualified investors and exporters enjoy a shorter 30-day refund period.

Investors may obtain grants under a variety of funding instruments at national, bi-/multi-lateral or EU level for investments in:

- Production equipment.
- R&D and development of innovations, including new products, processes and business models.
- Energy efficiency, implementing renewable energy resources in the manufacturing process.
- Implementation of international standards of quality, safety, energy efficiency, etc.
- Human resources development – training and professional qualification of employees.
- Refund of expenses for transport of employees, investment in safety measures at the place of employment.
- Implementation of innovative models for increasing the productivity and protecting the environment.

Bulgarian businesses as entities established in the EU can also benefit from a wide variety of direct EU funds supporting innovation activities and ecological projects, transfer of good practices, know-how, as well as development and implementation of specific mechanisms and policies related to the respective economic activity.

Under the Investment Promotion Act and its Implementing Rules, investment projects are promoted depending on the size of the investment and the employment created.

Four types of certificates are issued:

- Class "A" (investment between €0.5 and €5 million and between at least of 20 and 150 new jobs – both depending on the sector).
- Class "B" (investment between €0.5 and €2.5 million and between at least of 10 and 100 new jobs – both depending on the sector).
- Class "C" (investments that are made within a single municipality and are no larger than the minimum size for a Class B investment).
- Priority Investment Project (investment between €7.5 and €50 million and between at least of 15 and 150 new jobs - both depending on the sector).

For the incentives associated with Class A, B, and C investments, along with Priority Investment Projects, see Annex 2.

Under the Recovery and Sustainability Plan and the new €500 million Competitiveness Programme, Bulgaria opened funding procedures for different economic sectors.

Restrictions and limits on foreign investors

There are no legal restrictions on foreign ownership or control of companies. With some exceptions, foreign companies are treated in the same way as domestic companies. As of July 2023, foreign investment is not otherwise reviewed or restricted. However, amendments to the Bulgarian Investment Promotion Act, which create a mechanism for FDI screening under Regulation (EU) 2019/452, are expected to be considered by Parliament soon. If approved, FDI worth more than EUR 1 million in critical sectors will be subject to screening.

9. Investors – considerations for capital raising

In Bulgaria, both incubators and accelerators are on the rise, targeting startups at various stages of development. Incubators usually focus on early-stage startups and aim to accelerate their profitability and success. Incubators provide startups with valuable resources such as free office space, equipment, mentors, a collaborative community, and networking opportunities with potential funding sources such as angel investors and venture capitals.

Accelerators, on the other hand, target companies whose business models and products are already established in the marketplace. They provide valuable resources, such as mentors, free co-working space, legal services to secure intellectual property, a collaborative ecosystem, and access to industry representatives and potential investors. Typically, accelerators invest in and take equity stakes in their companies to support their growth.

Bulgaria sees a widespread presence of venture capital investments in startups that show substantial growth potential, with investors seeking a share in the company. Currently, there are more than 13 venture capitals based in Bulgaria.

For startups in Bulgaria, there is also crowdfunding, a way to raise money from a large group of investors. This can be done through a variety of methods, including online crowdfunding, direct-to-consumer crowdfunding, or early-stage crowdfunding.

Convertible loans are also common in Bulgaria, where the loan is granted in exchange for the acquisition of shares in the company at a later stage.

Startup visa

A start-up visa is available for non-EU nationals who want to start a business with innovative technologies and expand R&D. The visa is valid for one year with the possibility of extension for another year. Entrepreneurs can apply for a Bulgarian start-up visa through an application form on the Ministry of Innovation and Growth's website in Bulgarian and English. A questionnaire has to be filled in which includes, among other details, the name of the company (if already registered), the business idea, target markets, potential or current investors, patents and customers.

10. IP – protecting the value of your company

Protecting IP is very important for every enterprise, especially for tech businesses. They need to protect their IP rights, such as:

- Their brands - by trademarks registration.
- Their software and other copyrighted works which are subject matter of copyright protection – by appropriate contracts with the developers and creators.
- Their inventions by patents or registration certificate for utility models.
- Their designs by industrial design registration.
- Trade secrets, know how.

The different types of IP rights ensure the following protection:

	Copyright	Trademark		
Type	**National**	**National**	**EU**	**International**
What can be protected?	Individual, original works in literature, art and science, software, database	Distinctive designations: word, sentence, figure, logo, picture, 3D figure, colour, signal, hologram, etc.		
Must be registered?	No	Yes	Yes	Yes
Territory of protection	National	National	EU 27 member states	The countries chosen (up to 130 countries)
Authority granting protection	-	National	EUIPO	WIPO
Duration of protection	70 years	10 years, extendable (unrestricted)		

	Patent			Design			Utility model
Type	**National**	**European**	**International**	**National**	**EU**	**International**	**National**
What can be protected?	Invention (Product or procedure) which is worldwide new, based on an inventive step and industrially applicable.			New and individual form of a product (design) - applies to the visible appearance of a product or part of a product determined by the characteristics of its shape, lines, design, ornamentation, colour combination			Invention (Product or procedure) which is worldwide new, based on an inventive step and industrially applicable.
Must be registered?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Territory of protection	National	39 European countries	The countries chosen (157 countries joined)	National	EU 27 member states	The countries chosen (90 countries joined)	National
Authority granting protection	National	EPO	WIPO	National	EUIPO	WIPO	National
Duration of protection	20 years (non-extendable)			10 years, extendable with 3x5 years (max. 25 years)			4 years, extendable with 2x3 years (max. 10 years)

Contractual terms:

If the company wants to obtain the IP rights of a solution from a third party, or sell the IP rights to a third party, the contracts need to contain at least the following special legal provisions on IP rights and liabilities:

- definition of the IP rights to be transferred or licensed;
- transfer of IP rights or at least a licence for the use of the IP with detailed description of what kind of IP rights are granted;
- warranty of title, chain of title which ensure that the solution is free of IP claims;
- indemnity clause for IP right infringements;
- liability clause for IP right infringements;
- payment clauses, fee of the transfer or licence of the IP rights;
- special termination rights;
- confidentiality clauses for protecting IP rights, know-how, trade secrets.

In Bulgaria the licensing of copyright is limited to 10 years. Currently there is a legislative proposal at the parliament to repeal this provision of the Copyright and Neighbouring Rights Act.

In case of employees creating software or database the copyright on the software or database belongs to the employer unless agreed otherwise.

With regard to other works protected by copyright and created by employees, the employer is entitled to use the work without the author's permission for its own purposes and within the scope of its usual activities.

Copyright is generally not transferable, except for copyright in commissioned works, which may vest in the principal if this is expressly agreed in the commission agreement.

11. Regulatory – common compliance requirements

General corporate filings

There are no specific compliance obligations for the local entities besides the basic ones provided in the Commercial Act such as to keep an accountancy, prepare its annual financial statements, conduct an annual general meeting of the shareholders approving the annual financial statements by 30 September of the following year, file relevant tax returns (if due), etc. Late filing (currently, after 30 September) of the annual financial statement would result in a financial sanction at the amount between 0.1% and 0.5% of the aggregate net annual income of the local entity, but not less than BGN 200.

Besides the above obligations any changes in the corporate structure should be reflected within 7 days in the Commercial register. For internal purposes the company can maintain any necessary registers of its corporate chart.

Statutory registers

According to the Tax and Social Security Procedure Code, the accounting and commercial information, as well as all other information and documents of importance for taxation and mandatory insurance contributions, are stored by the person in accordance with the procedure established in the Law on the National Archive Fund, in the following terms:

1. payroll - 50 years;
2. accounting registers and financial statements - 10 years;
3. documents for tax and insurance control - 5 years after the expiration of the limitation period for repayment of the public obligation to which they are related;
4. all other carriers - 5 years.

Data Protection

General requirements

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the "**GDPR**") is the main statutory instrument of general application that governs the processing of personal data. The Bulgarian Personal Data Protection Act further specifies the application of the GDPR provisions.

Processing of personal data is subject to compliance with the general principles of the GDPR: (i) lawfulness, fairness and transparency; (ii) purpose limitation; (iii) data minimisation; (iv) accuracy; (v) storage limitation; (vi) integrity and confidentiality; (vii) accountability. Based on these principles, the general requirements to the processing of personal datal include, among others:

- The obligation to identify appropriate legal grounds for the processing of personal data.
- The obligation to notify the data subjects of the processing of their personal data in compliance with Article 13 or 14 of the GDPR, and to observe the data subjects' rights pursuant to Articles 15 – 22 of the GDPR.
- The obligation to insure data protection by design and by default pursuant to Article 25 of the GDPR.
- The obligation to have data processing agreements at place between data controllers and data processors pursuant to Article 28 of the GDPR, and for joint controllers – to have joint controllers' agreements pursuant to Article 26 of the GDPR at place.
- The obligation to maintain records of processing activities pursuant to Article 30 of the GDPR – this obligation does not apply to organizations employing fewer than 250 persons unless the processing it carries out is likely to result in a risk to

the rights and freedoms of data subjects, the processing is not occasional, or the processing includes special categories of data or personal data relating to criminal convictions and offences.

- The obligation to implement appropriate technical and organizational measures to ensure a level of security of the personal data appropriate to the risk.
- The need to designate a data protection officer and the notification of the supervisory authority of the designation (if any).
- The obligation to ensure adequate level of personal data protection and the appropriate safeguards for the transfer of personal data outside the EU/EEA.
- The performance data protection impact assessment – the Bulgarian supervisory authority has adopted a List of processing operations requiring data protection impact assessment, which is available in English here: https://www.cpdp.bg/en/index.php?p=element&aid=1186.
- The need to notify the supervisory authority and data subjects of personal data breaches.

The Bulgarian supervisory authority on data protection is the Commission for Personal Data Protection.

For specific requirements associated with electronic communications and electronic commerce, see Annex 3.

12. Industry Associations

There are different independent associations in the telco sector and for tech businesses. The most popular and reputable are:

Bulgarian Entrepreneurial Association – BESCO – www.besco.bg

Alliance of the Technology Industry – ATI – www.ati.bg

Annex 1 – Key characteristics of VCCs

Key Characteristics	VCC
Minimum capital	1 cent is the minimum by which the company can be incorporated. However, the company can only reach a maximum capital of BGN 4 million. The variable capital company ("**VCC**") is also limited to 50 employees, if exceeded the company should be transformed to other type of company.
Payment upon incorporation	Payment is not required upon incorporation. The amount of capital at the end of the financial year and its change in relation to the previous financial year is determined by a decision of the regular annual general meeting convened to consider the annual financial report.
Management and Representation	1. General assembly of the shareholders. 2. Managing board or Manager(s) - the manager may not be a shareholder.
Capital Structure and Share Transfer	The capital of the company is variable and is not subject to entry in the commercial register. The company's capital is divided into shares. Shares of the same class have the same nominal value, which cannot be less than one cent. The transfer of company shares is carried out freely, unless otherwise agreed in the Articles of Association ("**AoA**"). The AoA can also envisage a restriction of the share transfer for certain timeframe.
Bonds	VCC cannot issue bonds.
Revenue: disbursement and taxation	The company can distribute income (dividends). No difference in the taxation of income exists between VCC, the limited liability company and the joint stock company. Corporate income tax is paid based on the company's revenue. Shareholders pay tax on the dividends received.
Reserve Fund	No obligation for VCC to maintain reserve fund
Public Company	VCC cannot be a Public Company (a listed company).

Annex 2 – Investment incentives

For Class A and Class B investments:

— Reduced administration times (for Class A and Class B);
— Individual administrative services (for Class A);
— Acquisition of ownership rights or limited property rights to properties without tender or competition (for Class A and Class B);
— Financial assistance for the construction of technical infrastructure elements (for Class A or for 2 Class B projects in an industrial zone);
— Financial assistance for vocational training for those who take up the new jobs (only for investments in high-tech activities or in municipalities with high unemployment - for Class A and Class B).

Priority investment projects are encouraged with additional incentives:

— Institutional support through the establishment of the inter-ministerial working group for administrative support;
— Public-private partnership with districts and municipalities, with organizations from the academic community, etc.;
— The granting of the right of use or ownership of real estate for priority projects may be done at prices lower than market prices (but not lower than the tax assessment) and with exemption from state fees in case of land use change;
— Possibility to receive free grants.

For Class C investments:

— Shortened timeframes for administrative services provided by the municipality on whose territory the investment takes place;
— Individual administrative services provided by the municipality in whose territory the investment is made;
— Acquisition of ownership rights or limited property rights on properties - private municipal property, without tender or competition (the measure applies in case it is not requested by an investor for a class ‘A’, class ‘B’ investment or for a priority investment project for the same property).

Annex 3 – Specific data protection requirements for electronic communications and electronic commerce

Electronic communications

Specific requirements to the data protection in the electronic communications sector are provided by the Electronic Communications Act, implementing, among others, Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications). Among others, under the Electronic Communications Act providers of electronic communication networks and services ("**ECNS providers**") are obliged not to disclose and disseminate communications and related traffic data, location data, as well as end-user data. The ECNS providers must store for at least 6 months period data created and processed in the course of their activity and which is necessary for: (i) tracing and identifying the source of the connection; (ii) identifying the direction of the connection; (iii) identifying the date, time and duration of the connection; (iv) identifying the type of connection; (v) identification of the end user's terminal device or that which purports to be his terminal device; (vi) establishing the identifier of the cells used.

Electronic commerce

The Electronic Commerce Act implements the provisions of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce')). The Electronic Commerce Act sets out the rules to: (i) direct marketing/unsolicited marketing communications (together with the Electronic Communications Act) – in the common case direct marketing to natural persons requires their explicit consent; (ii) the use of cookies – in principle, apart from absolutely necessary cookies, an explicit consent from the website visitor is required to store cookies on his/her terminal equipment; (iii) the requirements for exemption of liability for illegal activity and information of information society service providers – in general the absence of initiation of the of the activity and the absence of knowledge of it, exempts the provider from liability. As of 17 February 2024, Regulation (EU) 2022/2065 of the European Parliament and of the Council of 19 October 2022 on a Single Market For Digital Services and amending Directive 2000/31/EC (Digital Services Act) will apply.

The information in this factsheet is for general purposes and guidance only.

The information in this factsheet is for general purposes and guidance only. It is designed to provide a general overview of some important considerations when setting up for success in Bulgaria as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

Setting up for success in THE CZECH REPUBLIC

Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in the Czech Republic. It focuses on certain of the key legal factors to think through and is not intended to be a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in the Czech Republic.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes

1. Corporate considerations for setting up a business in the Czech Republic

What entity you should use to set up your company

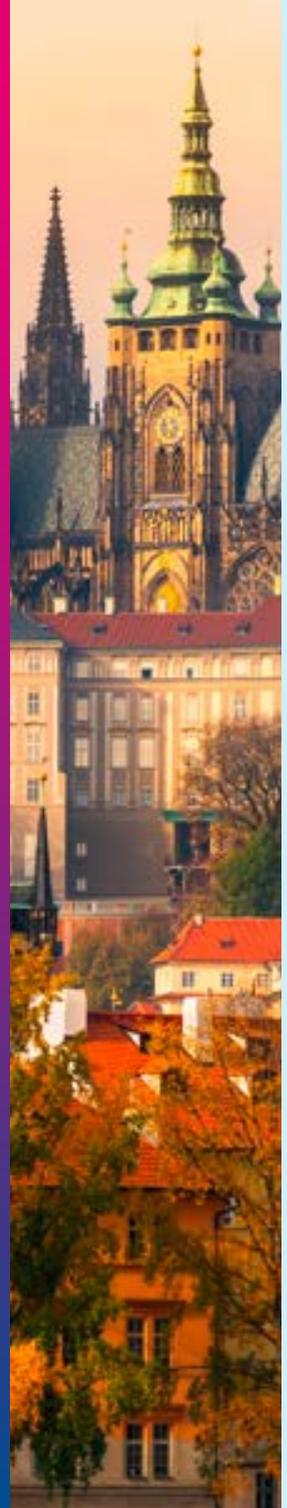
The main options available to a foreign investor looking to establish a corporate presence in the Czech Republic are: (i) to incorporate or acquire a Czech company; or (ii) to incorporate a branch. The main difference between these options is that a company has its own legal personality, while a branch rather forms an extended part of its foreign founder and does not have its own legal personality, which means that its activity and legal ability is directly linked to its foreign founder.

The most frequently chosen companies are: a limited liability company (společnost s ručením omezeným, abbreviated to s.r.o.) (the "**LLC**") and the joint-stock company (akciová společnost, abbreviated to a.s.) (the "**JSC**"). The main differences between them are as follows:

	LLC	JSC
Minimum share capital	Minimum registered capital is CZK 1 (approx. EUR 0.038), however LLCs are typically established with at least CZK 10,000 – 50,000 (approx. EUR 400 – 2,000), as registered capital which is too low may be viewed negatively by some business counterparties.	Minimum registered capital is CZK 2,000,000 (approx. EUR 82,000).
Payment upon incorporation	Before submitting the application for registration of the LLC in the Commercial Register, the entire deposit premium and at least 30% of each shareholder's monetary contribution must be paid.	Before submitting the application for registration of the JSC in the Commercial Register, each shareholder must pay their share premium and, in total, at least 30% of the nominal value of their subscribed shares within the period specified in the Articles of Association ("**AoA**") and into the bank account administered by a contribution administrator.
In-kind contributions	A valuation report of the in-kind contribution issued by an independent expert valuator is required.	A valuation report of the in-kind contribution issued by an independent expert valuator is required.

	LLC	JSC
Transfer of shares	Transfer of ownership interest to another existing shareholder is, as a default, not subject to any restrictions. Memorandum of Association ("**MoA**") of the LLC may (and often does) subject the transfer to another existing shareholder to prior consent of the general meeting or of another corporate body (e.g. supervisory board, if established). Transfer of ownership interest to a third party is subject to the prior consent of the general meeting.	Transferability of shares in JSC can be limited but never excluded. The AoA of the JSC may subject the transfer of shares to prior consent of the general meeting or of another corporate body (e.g. supervisory board).
Amendments to the MoA (LLC) or AoA (JSC)	MoA can be amended by an agreement of all shareholders; form of notarial deed is required for this agreement. If the MoA so stipulates (and often does), the MoA can be amended by a resolution of the general meeting. Such resolution requires a majority of two-thirds of the votes. In all cases, consent of those shareholders, whose rights or obligations are affected by the amendment, is also required.	A resolution of the general meeting in the form of a notarial deed is required. Such resolution requires a majority of two-thirds of the votes. In all cases, consent of those shareholders, whose rights or obligations are affected by the amendment, is also required.
Corporate bodies	a) General meeting; b) Executive director(s); and c) Supervisory board (its establishment is voluntary, with exception to certain types of companies where it is required by law – e.g. financial regulated entities).	**Monistic structure:** a) General meeting; b) Administrative board; OR **Dualistic structure:** a) General meeting; b) Board of Directors; and c) Supervisory board.

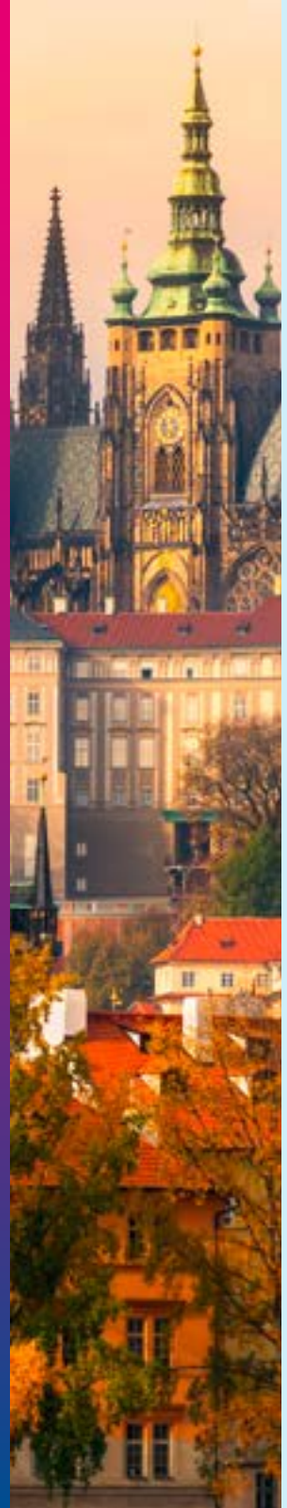
	LLC	JSC
Attendance and majorities at shareholders' meetings	Unless otherwise stipulated by the MoA, the general meeting is able to adopt resolutions if present shareholders have at least half of all votes. When assessing the general meeting's ability to adopt resolutions, the votes of the shareholders who cannot exercise voting rights are not taken into account. As a default, resolutions are adopted by a simple majority of votes. Depending on the content of the resolutions, some of them may require special and/or qualified majorities. These requirements can be additionally modified by the MoA.	The general meeting is able to adopt resolutions if present shareholders hold shares the nominal value of which or number exceeds 30% of the share capital, unless the AoA determine otherwise. When assessing the quorum of the general meeting, shares or issued interim certificates without voting rights are not taken into account (this does not apply if they temporarily acquire voting rights). As a default, resolutions are adopted by a simple majority of votes. Depending on the content of the resolutions, some of them require special and/or qualified majorities. These requirements can be additionally modified by the AoA.
Number of members of the management board	LLC appoints one or more executive directors (as its statutory representative(s)). Establishment of a supervisory board is optional (its establishment is voluntary, with exception to certain types of companies where it is required by law – e.g. financial regulated entities), there may be a sole member of the supervisory board.	There are no minimum requirements, i.e. there may be a sole member of the administrative board, board of directors or the supervisory board.
Term of the office of the member of the management board	a) Executive directors – the MoA may stipulate the maximum term of office of the executive directors, however, as a default, the term is indefinite until they are recalled. b) Supervisory board – If established, the term of office is 3 years unless MoA stipulates otherwise.	**Monistic structure:** a) Administrative board – Unless AoA stipulates otherwise, the term of office is 3 years; OR **Dualistic structure:** a) Board of directors – Unless AoA stipulates otherwise, the term of office is 3 years. b) Supervisory board – Unless AoA stipulates otherwise, the term of office is 3 years.



2. Branch vs subsidiary – options for group expansion

As mentioned, an alternative to incorporating one of the aforementioned companies, i.e. a subsidiary of a foreign parent company, is to incorporate a branch of a foreign founder. Below please find main differences between a branch and an LLC as an example of a subsidiary:

	Branch	Subsidiary (LLC)
Legal identity	It forms a part of the foreign founder and does not have its own legal personality.	It has its own legal personality and is independent of its foreign parent company.
Minimum share capital	There are no registered capital requirements.	Minimum registered capital is CZK 1 (approx. EUR 0.038), however LLCs are typically established with at least CZK 10,000 – 50,000 (approx. EUR 400 – 2,000), as registered capital which is too low may be viewed negatively by some business counterparties.
Form of the MoA	The founder's resolution on the establishment of a branch with the AoA of the foreign founder, together with a translation into Czech language should be submitted to the Commercial Register.	Notarial deed
Moment of establishment	Upon registration in the Commercial Register.	LLC is established upon execution of the MoA. LLC is incorporated, i.e. gains its full legal personality upon its registration in the Commercial Register.
Corporate bodies	Branch appoints one (and only one) branch manager.	LLC appoints one or more executive directors as its statutory representative(s). Establishment of supervisory board is optional.



	Branch	Subsidiary (LLC)
Representation	Branch is represented by the branch manager or by the statutory representatives of the founder (which are, however, often based outside of Czech Republic).	LLC is represented by one or more of its executive director(s), or by a proxy (in Czech: *prokura*) if appointed. The possibility to have more representatives/signatories in the Czech Republic may prove to be more practical (in comparison to a branch which can have only one branch manager).
Liability of the foreign parent company	A foreign founder is liable for the branch's activities.	Generally, if the contribution obligations are discharged, the shareholders are not liable for obligations of the company and the LLC bears its own liability.
Compliance obligations	Branch is subject to fewer corporate compliance obligations, e.g.: a) Branch is not subject to registration in the Czech UBO Register; and b) Filing of documentation with the Czech Commercial Register is, in general, limited to filing of the financial statements of the branch and of the founder (if so required by the founder's local law).	LLC is subject to various corporate compliance obligations such as: a) Registration of the LLC's UBO in the Czech UBO Register and obligation to keep such registration up-to-date; b) Approval of annual financial statements and financial results by the general meeting/sole shareholder of the LLC; and c) Preparation and filing of various documentation of the LLC with the Czech Commercial Register (such as financial statements, report on relations, decisions on the distribution of profit/settlement of loss, changes to the memorandum of association etc.).
Other points for consideration	Setting up and administration of a branch may be less costly as opposed to a LLC (for the reasons mentioned above). We note that there may be differences in income tax treatment which we recommend consulting with a tax advisor on.	

3. Incorporation vs acquisition of a company

In order to conduct business activity in the Czech Republic in a form of the LLC, you may incorporate a new company or acquire an existing one ("**SPV**"). The most significant differences are summarised below:

Steps to Take	Incorporation	Acquisition
Common preliminary steps	Preparation of power of attorney ("**PoA**") for the representative to adopt the MoA. The PoA must be signed with notarized signatures and apostille may be required depending on the place of signature. The MoA must be signed in a form of notarial deed. Separate procedural PoA must be provided for the representative to represent the founder in registration proceedings before the Commercial Register and UBO Register.	Preparation of the PoA for the representative to sign the Share Purchase Agreement ("**SPA**") and potential amendment to the MoA. The PoA must be signed with notarized signatures and apostille may be required depending on the place of signature. Separate procedural PoA must be provided for the representative to represent the founder in registration proceedings before the Commercial Register and UBO Register.
Step 1. Drafting the MoA	The MoA must be adopted by the founders before a Czech notary public in a form of a notarial deed.	As a result of the acquisition, the MoA must be amended to reflect the new shareholder and usually other amendments are required as a result of the transaction (e.g. scope of business activity, management change, manner of representation). Such amendment to the MoA must be adopted in form of a notarial deed.
Step 2. Appointing the management board members	At incorporation, first executive directors are appointed by the founder by including their appointment directly in the MoA of the LLC. Future recalls and appointments are made by a separate general meeting's resolution.	Generally, the executive directors of the SPV are dismissed on the date of acquisition of ownership interest in the SPV and new executive directors are appointed by the new shareholders by a general meeting's resolution.

Steps to Take	Incorporation	Acquisition
Step 3. Bank account	Prior to registration, the LLC has to open a bank account to become fully operational. It is a necessary step to transfer the cash contributions towards the LLC's registered share capital, if it exceeds CZK 20,000 (approx. EUR 820), and for enabling the LLC to conduct its day-to-day operations. Banks may, for the purposes of conducting their AML identification obligations, require completion of forms regarding corporate structure, UBO, scope of business activity, sources of funds, as well as providing certain documents (excerpts from commercial register, copies of IDs/ passports of UBOs, etc.).	The SPV usually already has a functional bank account. There may be additional requirements related to UBO documentation and KYC procedure. We recommend contacting the relevant bank prior to signing the SPA in order to agree in advance what documents have to be collected and provided in order to complete the KYC procedure.
Step 4. Payment of the registered capital to the bank account for the LLC	Shareholders pay their contributions to the share capital to the LLC's bank account, and/or transfer in-kind contribution to the LLC; all contributions are administered by an appointed contribution administrator prior to the LLC's incorporation. If the registered capital is below CZK 20,000 (approx. EUR 820), the contributions may be paid in cash to the hands of the appointed contribution administration.	N/A
Step 5. Registration in the Commercial Register	The application to the Commercial Register to have the LLC registered must be submitted within 6 months of the LLC's establishment. In practice, it is more common to request that the notary who drew up the notarial deed performs a direct registration.	The application to the Commercial Register to have the change in shareholding registered (together with any other relevant corporate changes) must be submitted without undue delay, generally within 15 days of the effectiveness of the transfer. In practice, it is more common to request that the notary who drew up the notarial deed performs a direct registration.
Step 6. UBO Register	The executive directors (or representative based on procedural PoA) must submit the application to have the LLC's UBOs registered within 30 days of its incorporation.	The executive directors (or representative based on procedural PoA) must submit the application to have the SPV's UBOs registered within 30 days of its acquisition.
Estimated timing and costs	The process of incorporation of the newly established LLC usually takes 4-6 weeks. The cost of incorporation of the LLC amounts to the contributions that have to be made to the share capital, notarisation and registration fees, plus potential costs of legal advice and notary fees.	The process of a simple acquisition of the SPV usually takes 3-4 weeks. The cost of incorporation of the LLC amounts to the purchase price for the SPV plus potential costs of legal advice. The purchaser also usually covers the cost of stamp duty and notary fees.

4. Practical steps required to be undertaken when setting up a business in the Czech Republic

In addition to setting up a local bank account, appointing professional advisers and service providers such as accountants, lawyers, and company secretaries and taking out insurance (both as required by law and as may be prudent for your business activity), there will be a number of other practical steps you need to take. The sections below summarise some of the principal practical considerations businesses need to address when establishing a new entity in the Czech Republic.

Choosing a company name

Formality	Basic Aspects
Procedure of choosing a company name	Prior to the execution of the MoA, the notary drawing up the notarial deed will run the proposed company name through the database of company names to confirm that the company name is sufficiently distinguishable from other businesses and that there is no risk of the company name being misleading or interchangeable. Once availability of the company name is confirmed, it is then included in the MoA. Then, it should be indicated in the application to the Commercial Register.
General rules of choosing a company name	A company's name should be sufficiently distinguishable from the business names of other entrepreneurs that conduct activity on the same market and may not be misleading in any manner.

Setting up a registered office

Formality	Basic Aspects
Establishing a seat in the Czech Republic	Each company is required to have its registered office in the Czech Republic. The seat has to be included in the MoA. Before the seat can be registered in the Commercial Register, the LLC must obtain a consent with the placement of seat issued (and signed) by the landlord. This consent must be signed with notarizes signatures and shall form an annex to the first application to the Commercial Register to have the LLC incorporated.
Lease agreement	A company usually signs a lease agreement for its premises in the Czech Republic.

Corporate filings – including constitutional and accounting documents where applicable

Formality	Basic Aspects
Filings to the Commercial Register	Each change to the company's information visible in the Commercial Register will trigger an obligation to update relevant information within 15 days of the triggering event by submitting an application to the Commercial Register. The application may be submitted electronically via company's databox or via databox of the company's attorney based on a procedural PoA.
Filings to the Collection of Deeds	Collection of Deeds forms a part of the Commercial Register and it is a digital and physical storage of documents required by law, e.g. financial statements, report on relations, decisions on the distribution of profit/settlement of loss, changes to the MoA, appointment and recall of members of corporate bodies, transformation projects etc. The submissions may be made electronically via company's databox or via databox of the company's attorney based on a procedural PoA.
Filings to the UBO Register	Each company is obliged to submit and then update information about its UBO to the electronic register established for that purpose – UBO Register. The submissions may be made electronically via company's databox or via databox of the company's attorney based on a procedural PoA. Alternatively, registration via notary is also possible and often recommended, as they are required to perform the filing within 3 business days (compared to the registry court which has no time limit).

5. Governance

Constitutional documents

Corporate governance is addressed in the LLC's MoA (AoA for JSC). However, in the event of incorporation of a company by more than one shareholder, such incorporation is sometimes preceded (or done simultaneously) by the conclusion of a so-called investment agreement or a shareholders' agreement ("**SHA**"). Essential matters determined by the SHA should be then reflected in the MoA as well as it is the most significant (and prevailing) document specifying the company's rules of operation.

The main difference between provisions that are included in the SHA and those included in the MoA is related to the fact that the MoA, unlike the SHA, would be publicly available (as it is published in the Collection of Deeds which is accessible to the general public, i.e. anyone may review them without any specific authorization). Thus, sensitive data should not be disclosed in the MoA.

Provisions that are usually included both in private shareholders' agreements and in the MoA are those related to corporate governance, such as: number of board members, rules of representation, shareholders' reserved matters, etc. In case of companies in which some more complex rules regarding transfer of shares are established (e.g. tag-along or drag-along rights), these are usually also reflected in the MoA. Moreover, some general provisions on financing are also sometimes included in the MoA, e.g. authorization of the general meeting to demand contribution outside registered capital from the shareholders or conditions and suggested procedure for the increase or decrease of registered share capital.

Directors Duties and Liabilities

LLC's executive directors (JSC's members of board of directors or administrative board) are required **to manage the business of the company and to represent the company before third parties** (i.e. in all court proceedings and out-of-court dealings of the company).

The executive directors:

— are obliged to perform his/her actions with a level of due commercial care that corresponds to the professional character of his/her function;
— cannot, without the consent of the general meeting, be involved in any entity which competes with the company, unless the MoA stipulates otherwise;
— are obliged to avoid conflicts of interest and are subject to a special disclosure obligation should such conflict of interest arise; and
— are subject to the duty of loyalty and as such should always act in favour and in the best interest of the company.

As a rule, each executive director constitutes a standalone statutory body, unless the MoA stipulates that they jointly constitute a collective body. As a default, each executive director is individually liable and may manage the company within the ordinary course of the company's business individually.

Liability of executive directors

Each executive director may be personally liable for the performance of his/her duties under civil and criminal liability.

Civil liability is liability for damages incurred as a result of breach of duty (e.g. breach of duty of loyalty, breach of obligation to act with due commercial care). An executive director is liable towards the company, and may be liable towards shareholders and third parties (in particular the company's creditors), as the case may be, under:

— general rules on liability (i.e. a person who culpably causes damage is obliged to compensate for such loss); and
— rules on liability set out in the Act No. 90/2012 Coll., Business Corporations Act, as amended (the "**BCA**"), i.e. the following conditions must be met: (i) the company must suffer damage, (ii) the damage must result from an act or omission of the executive director who breached their obligation stipulated by either the law or the MoA, and (iii) the executive director's act must be culpable and he/she must have failed to maintain the standards of due professional diligence.

If LLC's executive directors (or JSC's members of board of directors or administrative board) contributed to the company's bankruptcy by breaching his/her duties and if a decision has already been made in the insolvency proceedings on the method of solving the bankruptcy of the business corporation, the insolvency court shall, at the proposal of the insolvency administrator:

— decide on the obligation of such director to transfer to the insolvency estate the benefits obtained from their performance agreement (i.e. remuneration for office and other benefits), as well as any other benefit received from the company, up to a period of 2 years prior to the initiation of insolvency proceedings, if it is an insolvency proceeding initiated at the proposal of a third party; if it is not possible to surrender the benefits, the director may be asked to provide corresponding financial compensation instead, and
— if bankruptcy has been declared, the court may also decide that the directors are liable for the difference between the sum of the debts and the value of the company's assets; when determining the amount, the insolvency court will take into account in particular the extent to which the directors' breach of duty contributed to the insufficiency of assets.

LLC's executive directors (or JSC's members of board of directors or administrative board) may be criminally liable for various intentional acts or omissions. An offence is committed with intent if action or omission is done with the will to commit it, that is, a person is willing to commit the offence or, foreseeing the possibility of perpetrating it, chooses to do so. However, Czech law also penalises certain situations where an offence is committed unintentionally, i.e. by negligence.

Czech law recognises the criminal liability of companies as well and such liability can run in parallel with and independent of the criminal liability of incriminated individuals.

6. Employment considerations

Key requirements for employment contracts in the Czech Republic

An employee is a person who personally performs work in a relationship between a supervisor (employer) and subordinate (employee), on the employer's behalf and according to the employer's instructions.

The employment relationship is created by either:
— an employment contract between the employer and the employee; or
— by appointment (less common, reserved for top management).

Before concluding the employment contract, the employer must acquaint the employee with their rights and obligations under the employment contract, with working and remuneration conditions under which the employee will perform work and with obligations arising under legal regulations applicable to the work which the employee will perform.

The employment relationship commences on the date that was agreed as the date of commencement of work in the employment agreement. Before starting work, each new employee must undergo a medical examination, and complete initial Health & Safety (the "**H&S**") training.

The employment contract has to state at least:
— the type of work that the employee will perform;
— the place or places of work; and
— the date of commencement of work.

It is customary to include additional terms and conditions of the employment relationship (e.g. the duration of employment, the probationary period, the weekly working hours, etc.). If the employment contract does not contain certain information on the employee's rights and responsibilities (e.g. the length of annual vacation, the notice period, salary due date and pay date) under the employment relationship, the employer is obliged to inform the employee of this in writing in a separate document.

The employment contract must be executed in writing. However, failure to do so can be rectified subsequently. Due to lack of written form, the employment contract may be held invalid only if challenged before the date on which the employee starts performing work. Afterwards, the employment contract must be considered as valid but an employer who fails to conclude employment contracts in writing may be subject to a fine by the Labour Inspection Authority.

An employment contract may be signed for a fixed term or for indefinite period. If an employment contract does not indicate the duration, the employment is deemed to be for an indefinite period. There is only one type of employment contract, albeit the length of employment (fixed-term / indefinite) and the working hours (full-time/ part-time) may vary.

The parties can also agree on a probationary period. Probationary period must be agreed in writing not later than on the date of commencement of employment. The probationary period must not exceed 6 consecutive months in the case of managerial employees (employees who have at least one direct subordinate within the same legal entity) and 3 consecutive months in the case of other employees and once agreed, it cannot be subsequently extended (even if it is originally agreed for a period of less than 3/6 months) but it can be shortened if the parties agree. If the employment relationship is concluded for a fixed term, the probationary period may not be longer than half of the total duration of the employment relationship.

	Fixed-term	Indefinite period
Minimum contract duration	There is no minimum contract duration	There is no minimum contract duration
Maximum contract duration	3 years maximum, may be repeated twice at the most (maximum 3 + 3 + 3, i.e. 9 years). Extension of an employment relationship for a fixed term shall also be deemed to be repetition of the employment relationship.	There is no maximum contract duration.
Probationary period	3 / 6 consecutive months but maximum half of the total duration of the contract	6 consecutive months

In addition to an employment contract, a labour relationship can also be established by an agreement to complete a job and an agreement to perform work (together referred to as agreements on work performed outside the employment relationship). For more information on labour relationships, please see Annex 1.

Pay and benefits

The employer must pay base salary in a manner corresponding to the type of work and qualifications required for its performance. The Czech legal regulations determine the minimum salary to protect unqualified workers. The employer must ensure that all employees receive a salary at least equivalent to the minimum salary. The amount of the minimum salary is regulated by Government Decree No. 567/2006 Coll., as amended, and is officially published. As of 1 January 2023, the minimum salary in the Czech Republic amounts to CZK 17,300 (approx. € 713) per month, or CZK 103.80 (approx. € 4.3) per hour. The above Government Decree stipulates also the rates of guaranteed salary. The employer must ensure that employees working at more qualified positions receive at least a guaranteed salary. The decree divides the job roles into eight groups according to their qualification requirements, responsibility, and strenuousness. The lowest level of the guaranteed salary is equal to the minimum salary. Generally, the higher the rank, the higher the guaranteed salary that must be paid to the employee.

The employer can either determine an employee's salary unilaterally (typically in a salary statement) or both parties can agree on the amount of salary (typically in an employment contract). The base salary is typically agreed or determined either as a fixed monthly amount or an hourly wage. Employees who perform the same work or work of the same value should receive equal salary.

Czech law does not determine a coefficient or a similar instrument for regular salary increases. Regular salary increases are usually included in a collective agreement, if any. If there is no collective agreement that regulates salary increases specifically, this mechanism can be mutually agreed between an employer and an employee (although it is not very common). An employer can unilaterally decrease the salary only if the salary is determined unilaterally by the salary statement or by internal regulations.

It is common in the Czech Republic to grant the employee additional benefits such as: sports cards, contributions to voluntary pension insurance, meal vouchers, language courses, company car or social events.

Income tax and social security considerations

With respect to employees working under employment agreements, the employer is obliged to transfer to the respective authorities:
— state social security system contribution (31.3%);
— health insurance contribution (13.5%); and
— employee's income tax advance (progressive rate of 15% / 23%) calculated based on the gross salary of the respective employee.

Social Security System

The employer must register each employee with the Czech Social Security Administration within 8 days of the hiring date. The employer is obliged to transfer social security system contribution amounting to 31.3% of the employee's gross salary to the respective District Social Security Administration. The contribution consists of the employer's contribution and the employee's contribution and is payable monthly. The employer pays the social security system contribution amounting to 24.8% of the employee's gross salary, which consists of:
— pension insurance contribution (21.5%);
— sickness insurance contribution (2.1%); and
— contribution to the state employment policy (1.2%).

The employee pays the social security system contribution amounting to 6.5% of their gross salary, which the employer deducts from their gross salary.

Health insurance

The employer must notify commencement of employment to the employee's health insurance company (each employee may freely choose their health insurance company) within 8 days of the hiring date.

The employer is obliged to transfer health insurance contribution amounting to 13.5% of the employee's gross salary to the respective employee's health insurance company. The contribution consists of the employer's contribution and the employee's contribution is payable monthly.

The employer is obliged pays two-thirds of the health insurance contribution (approx. 9% of the employee's gross salary). The employee pays one-third of the health insurance contribution (approx. 4.5% of their gross salary), which is deducted from their gross salary.

Tax

The employer deducts 15% of earnings not exceeding the Czech average salary multiplied 4 times (CZK 161,296 (approx. EUR 6,646) per month for 2023) and 23% of earnings exceeding this amount from the employee's gross salary and transfer the income tax to the respective Tax Office.

Working conditions

The employer must create working conditions for due fulfilment of obligations by employees.

Working hours

The standard weekly working hours are 40 hours (may be shortened by a collective agreement or the employer's internal regulation). In case of multiple shift operations, the statutory weekly working hours are shorter (e.g. 37.5 hours per week for uninterrupted operations). By default, the weekly working hours are distributed into 5-day working week, however, the employer may distribute the working hours otherwise.

The employer schedules working hours unilaterally taking into consideration that the schedule must not contradict the principles of safe and health non-threatening work. The employer can schedule the working hours evenly or unevenly. An even distribution of working hours means that the employee works every day and week the same amount of hours (typically 8 hours per day, 40 hours per week), while an uneven distribution of working means that the full-time weekly working hours are not distributed evenly to individual weeks (e.g. the employee rotates long week of 50 hours per week with short weeks of 30 hours per week) but the average weekly working hours must not exceed the full-time weekly working hours for a period of 26 consecutive weeks (may be extended to 52 by a collective agreement).

Employers can also use a flexible distribution of working hours which includes periods of basic and optional working hours whose beginning and end are determined by the employer. During basic working hours the employee must be at the workplace while within the optional working hours the employees themselves can choose the beginning and the end of working hours.

The entire duration of the shift must not exceed 12 hours.

Rest periods and breaks

The working hours must be scheduled to allow employees to have at least 11 hours of rest time between the end of one shift and the beginning of the next in the course of 24 hours. In special cases, this uninterrupted rest period can be shortened to 8 hours (provided that the subsequent rest period is extended by the time for which the preceding rest period was reduced). A minor employee (15-18 years of age) must have at least 12 hours of rest time between the end of one shift and the beginning of the other in the course of 24 hours. In addition, employees must have at least 35 hours of uninterrupted rest once a week (7 consecutive days). Under specific circumstances, the uninterrupted rest may be reduced to 24 hours provided that the total uninterrupted weekly rest within 2 weeks period is at least 70 hours. In case of a minor employee, uninterrupted weekly rest periods may not be less than 48 hours.

Mandatory breaks for meal and rest that are provided during shifts are not included in the working hours and thus are not paid. An employee must be granted at least 30 minutes break for meal and rest after 6 hours of continuous work. This break may be divided into shorter increments, however, at least one of them must be at least 15 minutes. A minor employee (15 – 18 years of age) is granted the same break for meal

and rest after 4.5 hours of continuous work. Lunch and rest breaks are not allowed at the beginning or at the end of a shift. If the work cannot be interrupted, the employee must be provided with an appropriate period of time for meal and rest and this time is included in the working hours.

Overtime work

Employers may require employees to work overtime only exceptionally due to serious operational reasons. The employer may order overtime work of up to 8 hours per week and 150 hours per year. A total scope of overtime work (ordered by the employer and agreed with the employee) must not exceed 8 hours on average per week calculated over a period of no more than 26 consecutive weeks (52 consecutive weeks when collective agreement allows so). An employee is entitled to be paid their regular salary and a premium at the rate of at least 25% of the employee's average earnings for any overtime work hour unless the employee and the employer have agreed that the compensatory time off will be granted to the employee instead of the premium. If the employee's salary is agreed (and not determined unilaterally), the employer and the employee can also agree that the remuneration for potential overtime work in the extent set out by the Labour Code, is already reflected in the employee's salary/wage.

Work on public holidays and weekends, night work

For work during holidays an employee is granted either compensatory time off (paid in the amount of the employee's average earnings) in the scope of hours for which they worked on a public holiday or, instead and upon agreement, the employee can receive a premium at the rate of at least 100% of the employee's average earnings. In the case of night-work (work between 10 p.m. and 6 a.m.), work during weekends, an employee is entitled to a premium of at least 10% of the average earnings in addition to their regular salary.

Special premiums are provided for work in aggravated and health-damaging environment.

Vacation

The minimum annual vacation entitlement is 4 weeks (for full-time employees in the non-governmental sector). Nevertheless, it is common to provide 5 weeks of vacation as an employee benefit. Employees in the governmental sector are entitled to 5 weeks of holiday. Vacation for teachers and professors lasts for 8 weeks in a calendar year.

Sickness – temporary unfitness for work

The employer must excuse the absence of an employee who has been recognized as temporarily unfit for work by their doctor. The employee's doctor issues an electronic sick note through the electronic portal of the Czech Social Security Authority to excuse the employee from work due to their temporary incapacity.

An employee is entitled to compensation from their employer for the first 14 calendar days of incapacity. The amount of compensation is 60% of average daily earnings (calculated from the capped salary) of such employee and is payable entirely from the employer's funds. After these 14 days, the employee receives sickness benefit from the Czech Social Security Authority. The rates differ depending on the length of sick leave; in general 60% of the average earnings for days 15–30; 66% for days 31–60; 72% for days 61 onwards.

There is no statutory maximum duration of sick leave, however the employee is generally entitled to sickness benefit only until the 380th day of the sick leave. Then, the doctor may determine that the employee is disabled and, therefore, the employee will receive disability allowance.

Family-friendly rights

Czech labour law provides for rights related to pregnancy and parenthood, for example:

— the employer has to grant pregnant employees time-off from work (with the right to salary compensation) for medical examinations if these examinations cannot be carried out outside her working hours,
— pregnant and breastfeeding employees cannot work in harmful conditions,
— pregnant employees and employees taking parental leave have protection from certain types of unilateral termination.

There are several types of leave related to parenthood:

Type of leave	Amount of leave
Maternity leave	28 to 37 weeks (depends on number of children born in one birth) The mother can take 6-8 weeks before the planned date of birth.
Parental leave	For the mother after maternity leave and for the father from the birth of the child to the extent requested, but no longer than until the child reaches the age of 3.
Paternity leave	2 weeks within the first 6 weeks after birth.

For extra family-friendly rights, please see Annex 1.

Termination of employment

The employment relationship can be terminated in a number of ways, such as termination notice, mutual agreement, immediate termination (mainly for serious breaches of professional conduct), termination during the probationary period, death of the employee or at the end of a fix-term period. In addition, there are special criteria for the termination of employment for foreigners and stateless persons.

Termination of employment contracts, whether initiated by the employer, the employee or by mutual agreement, must be documented in writing and delivered to all relevant parties. It is advisable to deliver the notice of termination in person, as delivery by post may give rise to doubts as to its validity. Failure to comply with these requirements will render the dismissal invalid. In addition, consultation with the union (if applicable) is mandatory prior to any dismissal, regardless of the circumstances.

Probation period

During the probationary period, either the employer or the employee can terminate the contract without giving any reason. It's enough to give a simple written notice that the employment contract is ending, without having to explain why. The employment contract ends on the day the notice is given to the other party, unless a later date is specified in the notice. The only condition is that the employee is still in the probationary period at the time the contract ends. However, the employer cannot terminate the employment contract during the first 14 days of the employee's sick leave.

Termination notice by the employer

The unilateral termination of an employment contract by dismissal (termination notice) initiated by the employer is subject to the condition that such action can only be taken for legally established reasons as set out in the Labour Code. In addition, a minimum notice period of two months must be observed in such cases.

Termination notice by the employee

An employee has the option of unilaterally terminating an employment contract by giving notice. This notice can be given with or without stating the reason, subject to the statutory notice period of two months.

Termination with immediate effect

An employer may terminate an employment contract with immediate effect only on the basis of legal grounds specified in the Labour Code and within a period of two months from the date on which the employer becomes aware of such grounds, up to a maximum of one year from the date on which such grounds arise. It's important to note that an employer is prohibited from terminating the contract immediately if the employee is pregnant or on maternity/paternity leave.

Similarly, an employee may terminate an employment contract with immediate effect only on the grounds specified in the Labour Code. Such termination may take place within a period of two months from the date on which the employee learns of the reasons, but no later than one year from the date on which the reasons arise.

Fixed-term employment contracts

A fixed-term employment contract terminates when the specified timeframe agreed in relation to that contract has elapsed.

Collective rights/bargaining

According to Czech law, the employer has information and consultation obligations regarding certain matters (e.g. occupational health and safety measures, intended organizational changes, TUPE, etc.) towards employee representatives, i.e. trade unions, works councils or an employee representative for occupational health and safety protection. If there are no employee representatives, the employer fulfils these obligations directly towards employees. In specific cases, such as an adoption or change of a work regulation or unilateral termination of employment, a trade union's consent may be required. The works council and/or the employee representative for occupational health and safety may be elected to ensure the employee's rights to information and consultation only. On the contrary, the trade union rights powers and rights are broader. The trade union is the sole employee representative body entitled to conclude a collective bargaining agreement. For more information on collective rights/bargaining, please see Annex 1.

Training obligations

The employer is responsible for health and safety at work. This obligation applies with respect to all individuals who are present at the employer's workplace with the employer's knowledge, not only employees (e.g. independent contractors, supplier's staff, etc.). It is the employer's duty to safeguard the well-being and safety of employees by providing appropriate H&S conditions. Depending on the nature of the employee's duties, specific H&S regulations may apply. The employer must inform employees of potential health and life hazards that are relevant to their role at the workplace. It is the employer's duty to carry out a health and safety risk assessment and to implement measures to reduce the risks identified. The employer is also required to communicate the identified risks and protective measures to the employees, which may be done during initial health and safety training. The employer is also required to provide employees with initial and recurrent occupational safety and health training specific to their position.

Employees may also have an opportunity or obligation to improve their professional qualifications, either at the employer's initiative or with the employer's consent. Employees engaged in professional development are entitled to training leave or partial release from their regular work duties.

7. Incentivisation of early-stage team and shareholder structure

Employee equity incentive plans are usually offered at the level of a foreign parent company (often US) and governed by the foreign laws. Awards under these incentive plans are usually granted to the management and key employees of Czech subsidiaries. The most common forms of awards are restricted stock units, employee stock options, restricted shares, or phantom shares.

Offers of securities are generally subject to the requirements of the Prospectus Regulation (Regulation (EU) 1129/2017). However, employee equity awards are, subject to exceptions, generally interpreted as being 'non-transferable securities' that fall outside the scope of the Prospectus Regulation and therefore no prospectus or information document is usually required.

In case, however, a specific award is "transferable", the Prospectus Regulation applies unless one of the following exemptions apply:

— the offer is to fewer than 150 persons per EEA state; or
— the total consideration for the offer made in the EEA, when added to previous offers made in the last 12 months, is less than EUR €1 million.

If the above exemptions cannot be relied upon, there is a further exemption available for employee share schemes. This is available for all companies, wherever headquartered or listed. To come within the employee share scheme exemption, an information document must be provided to participants in the plan outlining the number and nature of the securities under award and the reason for the offer, but no filing or application with Czech authorities is required.

If a participant (employee) is required to pay a purchase price for the securities at any stage of the plan and the payment should be settled against the employee's salary, a special salary deduction agreement is necessary.

Generally, if the local Czech subsidiary bears the costs of the plan for its employees (due to the recharge between the parent company granting the awards and the local company), the local company is responsible to deduct the relevant tax and social security contributions from the Czech employees' income from the plan and make the payments to the public authorities on behalf of the employees. If the costs are born by the foreign parent company, the employees will be responsible for compliance with the tax and social security laws themselves.

It is nevertheless always recommended to discuss statutory requirements and implications of a particular employee equity incentive plan with legal and tax professionals.

8. Tax incentives / special regimes / grants

There are no specific tax regimes relating to start-ups comparing to other types of entrepreneurs. However, certain tax provisions may be more relevant for the start-ups. For example, according to Section 34 of the Income Tax Act 100% of research and development expenses can be deducted from the tax base. The same shall apply to losses incurred in the previous five years.

The corporate income tax rate is 19% for business companies, including start-ups.

We are not aware of any incentive schemes or grants specifically focused on start-ups or Ukrainians (other than social, employment or educational grants focused on their integration), however there is a number of incentive schemes on local and EU level that can be used by start-ups as well. For example, the Technology Agency of the Czech Republic supports research, experimental development and innovation, and regularly publishes incentive schemes that can be used by start-ups, such as the program TREND – Newcomers, where support is given mainly to projects developing new technologies and materials, increasing the level of automation and robotization and the use of digital technologies.

9. Investors – considerations for capital raising

The most common types of capital raising methods are the following:

Own equity of the founders

It is required at the beginning of the project so that its viability can be demonstrated to potential investors.

Convertible loans from investor(s)

Interest generally ranges from 5% to 10% per annum and the repayment period is between 12 and 24 months, depending on the specific circumstances of the case, the type of business and the length of time the company's investment is expected to last. The key provision of the agreement is the moment of conversion. Most convertible loans contain a clause whereby the automatic conversion of the loan into a stake in the company occurs at the time of the so-called qualifying investment round. This is a subsequent financing of the company with the participation of a new investor that meets certain predefined minimum parameters, such as a minimum investment amount raised or a minimum valuation achieved.

A number of active venture capital investors and crowdfunding platforms are available in the Czech Republic. No prior authorisation from authorities is required at the moment for the start-ups raising capital through these channels.

Bank loans

Some banks have specific programs for financing of startups, these loans tend to be less expensive that the convertible loans from venture capital investors, however banks tend to provide lower amounts and under more strict conditions that venture capital investors.

Bonds

Bonds with total issued face value below EUR 1 million do not require an approval from the Czech National Bank (CNB) but need to be registered with the CNB and obtain an International Securities Identification Number (ISIN). This limit is calculated over a period of twelve consecutive months, counting all public bond offers made within the European Union. The issuer may issue bonds only if the terms and conditions of issue have been made available to investors (e.g. on the issuer's website or at the issuer's registered office in the form of a brochure) no later than on the date of issuance. The issuer may offer the bonds itself or through third parties, subject to certain limitations.

In the Czech Republic, the allocation of the ISIN code is provided by the Central Securities Depository. A one-off fee is payable for the allocation of the ISIN in accordance with the valid price list of the Central Securities Depository. If an issuer is issuing its first bond issue, it must obtain a Legal Entity Identifier (LEI) before applying for an ISIN. The LEI must be renewed annually. Again, a fee is payable for both the allocation of the LEI and its renewal.

IPOs

Preparing capital financing for a company's growth through a public offering of shares in the Czech Republic on the PX Start stock market typically requires a four to eight month preparation process, depending on the readiness of the company. The PX Start stock market is designed primarily for small and medium-sized companies with a value of CZK 100 million or more that want to raise money for their development.

There are three main phases to entering the PX Start market. It starts with an assessment of whether going public makes sense for the company and includes an estimate of the market value of the company, a change in legal form (if necessary), the book entry of shares and the selection of advisors for the share subscription.

Second, the implementation phase consists mainly in the preparation of all documents including the documents necessary for the subscription of the company's shares, and in particular the signing of a memorandum on the admission of shares to the stock exchange, the creation of a prospectus and due diligence report, the analysis of the company, the setting of a strategy for the subscription of shares and the preparation of a roadshow.

In the third phase, the actual subscription of shares on the PX Start market consists of the following steps: application for admission to the market, marketing roadshow, subscription of shares (minimum subscription window of 14 days), end of subscription, and admission to the PX Start stock market.

10. IP – protecting the value of your company

General

The greatest value of tech businesses/start-ups lies in their innovative and creative solutions. Tech businesses/start-up founders should take great care to protect their technology, processes, patents and other elements that give them a leading position on the market. Elements of visual identity such as a brand, logo, domain name or slogan are also protected. Legal protection in this respect is provided in the Czech Republic by the Intellectual Property laws. Intellectual property rights in the Czech Republic are established and protected by a number of acts, including:

- Act No. 121/2000 Coll., on Copyright and Rights Related to Copyright, as amended (the "**Copyright Act**");
- Act No. 441/2003 Coll., on Trademarks, as amended;
- Act No. 527/1990 Coll., on Inventions and Rationalisation Proposals, as amended; and
- Act No. 221/2006 Coll., on Enforcement of Industrial Property Rights and on Amendments to Industrial Property Protection Acts, as amended, and others.

The creative efforts of a business entity are also protected under the provisions of Act No. 89/2012 Coll., the Civil Code which prevent unfair competition practices, e.g. misleading advertising, misleading identification of goods and services, creating a likelihood of confusion, free-riding on the reputation of an enterprise, product or services of another competitor, bribery, disparaging a competitor, comparative advertising, breach of trade secrets, unsolicited advertising, and/or threat to health and the environment. The Czech Republic is also a party to the main international treaties in the field of intellectual and industrial property protection, including the Berne Convention, the Paris Convention, the Madrid Protocol, the European Patent Convention, and TRIPS.

Importantly, the Czech Republic is also a member of the European Union. Therefore, business entities that intend to operate on the Czech market can also benefit in particular from the registration of Community designs (EU Regulation 6/2002) or European Union trademarks (EU Regulation 2017/1001), which have the effect of granting protection to their owners throughout the European Union.

Infringements of intellectual property rights can lead to both civil and criminal proceedings.

Copyright and related rights

The Copyright Act protects literary works and/or other artistic and scientific works that are the unique result of the author's creative activity and are expressed in any objectively perceptible form, including electronic form, permanently or temporarily, regardless of its scope, purpose or meaning.

A computer program, a photograph and a creation expressed by a process similar to a photograph, which are original in the sense that they are the author's own mental creation, are also considered a work.

The copyright holder is always an individual who holds certain personal and economic rights protected by the Copyright Act:

a) **Personal rights:**
   - right to decide on the publication of work;
   - right to claim authorship; and
   - right to the inviolability of his work.

Personal rights cannot be waived by the author; these rights are non-transferable and expire upon the death of the author.

b) **Economic rights:**
   - right to reproduce the work;
   - right to distribute/lease/borrow/exhibit the original or reproduction of the work; and
   - right to communicate the work to the public.

A company that intends to operate on the Czech market should be mindful of all intellectual property engaged and/or utilized as part of its operations and:

a) appropriately conclude relevant licence agreements, employment agreements and business agreements with the company's contractors to ensure that all intellectual property is properly licensed and/or assigned; and
b) make relevant registrations of intellectual property owned by the company (e.g. trademarks, patents, utility models) with the Czech Industrial Property Office to ensure its appropriate protection.

11. Regulatory – common compliance requirements

General corporate filings

Please refer to Section 4 – Corporate filings above.

Statutory registers

Apart from the internal obligation to maintain a list of shareholders, the following public registers must be maintained by Czech companies and kept up-to-date:

— Commercial Register and Collection of Deeds;
— Trade Licence Register; and
— UBO Register.

The above list contains the essential list of public registers that apply to all entities. Companies falling within the scope of any special regulation (e.g. in the financial regulated sector, energy or security) may be subject to further registry requirements.

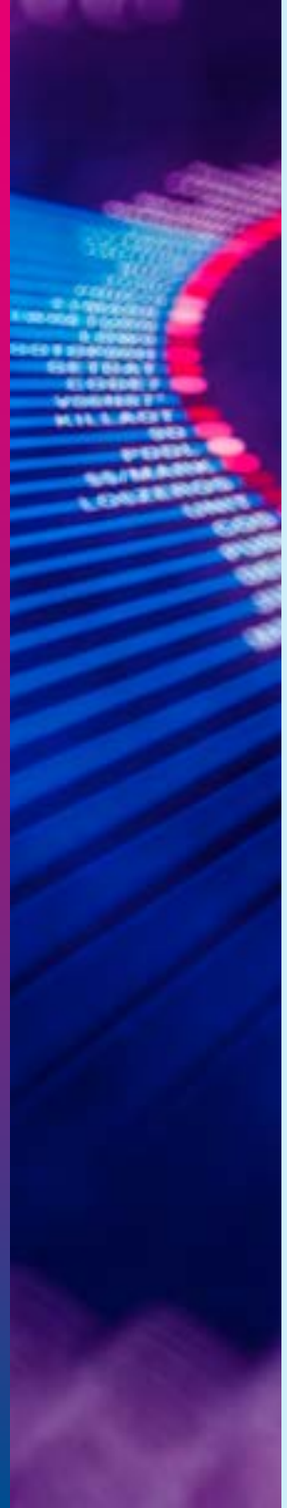
Data Protection

In addition to the usual business challenges of a start-up, such as product development, choosing the optimal operating model and securing funding, it is crucial to pay careful attention to the design of personal data processing procedures. Ensuring the correct handling of data is of paramount importance, especially when operating in the Czech Republic, where strict data protection obligations must be met. Since 2018, the General Data Protection Regulation (the "**GDPR**") has been an important law for protecting personal data in European Union countries and, to some extent, in countries outside the European Union. For more details (including on enforcement and fines), please see Annex 2.

Other

The following regulations may be relevant depending on the type of the entity that would be chosen and the sector in which it would operate:

— Act No. 143/2001 Coll., on the Protection of Competition, as amended;
— Act No. 256/2004 Coll., on Capital Market Business, as amended;
— Act No. 634/1992 Coll., Consumer Protection Act, as amended;
— Act No. 34/2021 Coll., on Screening of Foreign Investments, and others.



12. Industry Associations

There are several different and independent associations such as:

Association for Applied Research in IT – Cluster of leaders in IT & Digital Services, platform supporting the increase of the IT sector's share of Czech and EU GDP and accelerating the networking of IT and government – https://aavit.cz/en/

IT Cluster – Association of business entities and educational institutions in the field of information and communication technologies – https://itcluster.cz/

Electrical and Electronic Association of the Czech Republic – Leaders in the field of the digital transformation, automation, robotics and all other areas that can be collectively referred to as the Industry 4.0 – https://www.electroindustry.cz/

CZ.NIC – Operation of the register of domain names registered under the CZ domain, securing the operation of the top-level domain .CZ and education in the field of domain names – https://www.nic.cz/

Annex 1 - Employment Considerations

Labour Relationships

These agreements allow more flexible relationships than the regular employment contract because some provisions and requirements of the Act No. 262/2006 Coll, the Labour Code, as amended (the "**Labour Code**") do not apply to them (e.g. strict rules for termination of employment).

a) Under the **agreement to complete a job**, an employee cannot work for the same employer for more than 300 hours per calendar year. If the income under an agreement to complete a job does not exceed CZK 10,000 (approx. EUR 412), parties do not have to pay any social security and health insurance contributions (but the employee has to pay taxes).
b) Under an **agreement to perform work**, the average number of weekly working hours must not exceed one-half of the standard weekly working hours (in general, 40 hours per week are the standard weekly working hours). The average number of working hours is assessed for the entire period for which the agreement to perform work was concluded, up to a maximum of 52 weeks.

Extra Family-Friendly Rights

— A pregnant employee cannot work overtime or night time.
— An employer is obliged to transfer a pregnant employee, an employee who is breastfeeding, or an employee that is a mother to another job by the end of the ninth month after giving birth, if they cannot perform their current job.
— An employee raising a child under 8 years cannot be seconded on business trips without his/her consent.
— If an employee caring for a child under 15 years of age or a pregnant employee requests shorter working hours or any other suitable adjustment of the fixed weekly working time, the employer shall be obliged to comply with the request unless serious operational reasons prevent it.
— If an employee caring for a child under the age of 9 or a pregnant employee requests to work remotely, the employer may refuse, but must give reasons in writing.
— Employees are entitled to two half-hour breaks for breastfeeding until the child reaches one year old and then one half-hour break for breastfeeding for an additional three months.

Collective Rights/Bargaining

A trade union may represent the employees of a specific employer if: (i) its statutes allow the trade union to do so; and (ii) at least three members of the trade union are in an employment relationship with the employer. The trade union must prove fulfilment of these conditions to the employer.

The relations between the employers and one or more trade unions and the employees represented by the trade union(s) may be governed by the collective agreement to a greater benefit of the employees than the provisions in the Labour Code (or other legal regulations) provide, as long as it is not expressly forbidden to deviate from the provisions of the Labour Code. A collective agreement may, in particular, regulate the remuneration rights, working time rules and other rights in labour relations as well as rights or duties of the parties to such an agreement. However, it may not impose duties on individual employees. The employer must proceed with collective bargaining, if the trade union requests it. That said, it is not mandatory to conclude a collective agreement. However, the ultimate measure to resolve a dispute regarding conclusion of a collective agreement is a strike.

If there are multiple union organisations active at the employer, the employer must negotiate the conclusion of the collective agreement with all such trade unions. The employer must fulfil its obligations to all trade unions in cases concerning all employees or a major number of employees unless agreed otherwise. Each trade union represents its members. Employees who are not members of any trade union are represented by the trade union with the highest number of members.

To facilitate provision of information and consultation between the employer and employees, employees may elect a works council, which has at least three but not more than fifteen members, and/or representatives for occupational health and safety. A total number of such representatives for occupational health and safety depends on the number of employees and a risk factor of the types of work performed at the employer, but no more than one representative may be appointed per 10 employees.

Annex 2 – Data Protection

GDPR

GDPR applies to all companies that process personal data, including information such as names, home addresses, email addresses and even IP addresses, in connection with their business activities. Processing of personal data refers to any action or set of actions performed on personal data, whether by manual or automated means. These actions include collecting, recording, organising, structuring, storing and even retrieving the data.

The GDPR has not only significantly raised data protection standards, but has also raised social awareness of data protection. It appears that the most visible obligation of a data controller is to fulfil information obligations to the individuals whose personal data it processes, for example through information clauses or privacy notices. However, the GDPR imposes several other obligations on the data controller, including, for example, keeping records of data processing activities, tracking data breaches and notifying the supervisory authority of certain breaches involving personal data. Equally important is the process of enabling data subjects to exercise their rights, for example, the right to access their data and the right to request its erasure. Failure to respect these rights can lead to complaints from data subjects and result in fines. In addition, throughout the implementation and application of the GDPR, data controllers must adhere to the principles governing the processing of personal data, such as transparency, purpose limitation, data minimisation, accuracy, storage limitation, etc.

In the Czech Republic, the Personal Data Protection Act ("**DPA**") is also in force. The DPA sets out specific rules derived from the GDPR. For example, it defines protected interests, such as the defence or security interests of the Czech Republic. It states that children can give consent online when they reach the age of 15. The DPA also covers the processing of personal data for scientific, historical, statistical, journalistic, academic, artistic or literary purposes. It also applies to the processing of personal data for law enforcement or national defence purposes. Finally, the DPA establishes the Czech Data Protection Authority.

Failure to comply with the GDPR may result in significant fines, potentially up to EUR 20,000,000 or 4% of the total worldwide annual turnover of the group for the preceding financial year. Violations that could lead to such penalties include, for example, failing to demonstrate that a data subject has given consent to the processing of their personal data. Even a warning issued by the Czech DPA constitutes a form of sanction for the data controller, which may trigger further consequences, such as possible claims for damages by the data subject or the risk of more severe sanctions (including fines) if the non-compliance persists and an inspection takes place.

The CMS.Law GDPR Enforcement Tracker (available here) provides a comprehensive overview of fines and penalties imposed by data protection authorities within the EU. It offers valuable insights into the enforcement actions taken by authorities to ensure compliance with GDPR regulations. The Czech DPA's decision-making practice has shown an increase in its activity in relation to insufficient technical and organisational measures to ensure information security.

A set of general tips for the processing of personal data issued by the Czech DPA is available at this link (in Czech language only).

The information in this factsheet is for general purposes and guidance only. It is designed to provide a general overview of some important considerations when setting up for success in the Czech Republic as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

Setting up for success in HUNGARY

Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in Hungary.
It focuses on certain of the key legal factors to think through and is not intended to be a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in Hungary.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes

1. Corporate considerations for setting up a business in Hungary

What entity you should use to set up your company

The main options available to a foreign investor looking to establish a corporate presence in Hungary are:

Entity	Key Characteristics
Limited liability company (LLC) ***Korlátolt felelősségú társaság (Kft.)***	— Minimum registered capital: HUF 3 000 000 (approx. EUR 8 100) which can be cash, cash + in-kind contribution or fully in-kind contribution. — The members' liability for the obligations of the company is restricted to their shares. — Main decision-making body is the shareholders' meeting. — The company is governed by the managing director(s) with sole or joint representative rights. — The shares can be transferred, but transfer can be limited in the deed of foundation. — The seat must be in Hungary, the LLC can have a branch office in other countries. — The LLC can have a sole member or more members. In case of sole membership, the founder exercises the rights and responsibilities of the shareholders' meeting.
General partnership ***Közkereseti társaság (Kkt.)***	— No minimum registered capital requirement. — At least two members are needed. The members have secondary, joint, several and unlimited liability for the obligations of the company. — Main decision-making body is the shareholders' meeting. — The company is governed by the managing director(s) with sole or joint representative rights. — The shares can be transferred, but transfer can be limited in the deed of foundation. — The seat must be in Hungary, the company can have a branch office in other countries.

Entity	Key Characteristics
Limited partnership ***Betéti társaság (Bt.)***	— No minimum registered capital requirement. — At least two members are needed. The company must have at least one member with limited liability (limited partner) and one member with unlimited liability (general partner) for the obligations of the company. — The general partner has secondary, joint, several and unlimited liability for the obligations of the company, the limited partner has liability limited to their contribution to the capital of the company. — Main decision-making body is the shareholders' meeting. — The company is governed by the managing director(s) with sole or joint representative rights. — The shares can be transferred, but transfer can be limited in the deed of foundation. — The seat must be in Hungary, the company can have a branch office in other countries.
Private company limited by shares ***zártkörűen működő részvénytársaság (Zrt.)***	— The minimum registered share capital is HUF 5,000,000 (approx. EUR 13 500). — The company can have a sole shareholder (founder) or multiple shareholders. In case of sole membership, the founder exercises the rights and responsibilities of the shareholders' meeting. — The company can have a board of directors (at least 3 directors) or a chief executive officer (CEO). — The main decision-making body is the shareholders' meeting. — The shareholders are not liable for the obligations of the company. The shareholders' liability towards the company, as in case of the limited liability companies, covers merely their personal capital contributions. — The transfer of the shares can be restricted in the deed of foundation. — The company must issue shares. — The seat must be in Hungary, the company can have a branch office in other countries.

Entity	Key Characteristics
Public company limited by shares ***nyilvánosan működő részvénytársaság (Nyrt.)***	— The minimum registered share capital is HUF 20,000,000 (approx. EUR 54 000). — The company must have multiple shareholders. — The company can issue shares publicly. The shares are listed in stock exchange. — The company must have a board (at least 3 members). — The main decision-making body is the shareholders' meeting. — The shareholders are not liable for the obligations of the company. The shareholders' liability towards the company, as in case of the limited liability companies, covers merely their personal capital contributions. — The company must issue shares. — The seat must be in Hungary, the company can have a branch office in other countries.
Branch office ***fióktelep***	— A branch office is an organisational unit of a foreign company. — No minimum registered capital requirement. — A branch has no legal personality but has legal capacity to acquire rights and undertake obligations under its corporate name on behalf of the foreign parent company (for example, it can acquire properties, conclude contracts, sue or be sued). — Branch office is entitled to do profit-oriented business activity. — Establishing a branch is a suitable option for foreign investors intending to establish a Hungarian business presence. However, there is an ongoing legal dispute about the scope of the legal capacity of branches. — Branch must be registered with the Hungarian company court.
Representative office ***kereskedelmi képviselet***	— A foreign enterprise can open a representative office in Hungary which is the organisational unit of the foreign enterprise. — A representative office does not have a legal identity of its own. — The representative office is not allowed to conduct any profit oriented activity, it has the following tasks: agency, intermediary, preparation, conclusion of contracts, informing customers, communication. — No minimum registered capital requirement. — It must be registered with the Hungarian company registry.

2. Branch vs subsidiary – options for group expansion

	Branch	Subsidiary
Separated legal identity	No.	Yes (in case of LLC, PLC).
Minimum registered capital requirement	No.	Yes (in case of LLC, PLC).
Can engage in profit-oriented business activities?	Yes.	Yes.
Can it acquire properties, conclude contracts, sue or be sued?	Yes, but only under its corporate name on behalf of the foreign parent company.	Yes.
Governing body	Director (one or more).	Managing director (one or more). Shareholders' meeting.
Liability of parent company for the obligations of the branch/subsidiary	Several, unlimited and joint liability with the branch.	— In case of LLC and PLC, the parent company is not liable for the obligations of the company. The parent company's liability towards the company covers merely their personal capital contributions. — In case of General partnership, the parent company has unlimited liability. — In case of Limited partnership, one founder has unlimited liability, another founder has liability limited to their contribution to the capital of the company.

3. Incorporation vs acquisition of a company

Steps to Take	Incorporation	Acquisition
Common preliminary steps	— Checking the company name in company registry. — Checking the domain names in domain name registry. — Looking for a registered seat, agreeing on the use of the address as registered seat. — Defining the activity of the company. — Checking whether the given activity requires any authority licence. — Checking the validity of the ID documents (ID card, passport) — Looking for an accountant.	— Due diligence of the target company. — Negotiating the conditions of the acquisition deal. — Deciding on the company structure, board members, directors, CEOs, new seat, new bank, etc.
Step 1.	Preparing the company documents.	Preparing, negotiating, and signing the sale and purchase agreement (SPA).
Step 2.	Signing the company documents before a notary public or an attorney at law.	Preparing the company documents and signing them before a notary public or an attorney at law.
Step 3.	Submitting the company documents to the company court.	Submitting the company documents to the company court.
Step 4.	Registering the company in the Chambers of Industry and Commerce.	
Step 5.	Opening a bank account, engaging accountant, obtaining invoicing software/system.	
Step 6.	Registering with tax authorities, registering into the online invoicing system of the tax authority, preparing mandatory policies on accountancy.	
Step 7.	Opening company gateway for the CEO.	Opening company gateway for the new CEOs (if necessary).

Steps to Take	Incorporation	Acquisition
Estimated timing and costs	Depends on the type of company. General partnership, Limited partnership, Limited liability company and Private company limited by shares can be registered even within one working day by using deed of foundation templates (simplified procedure). In standard procedure the court will register the company within 15 working days. For minimum registered capital requirements see factsheet 1. **Procedural fees:** — General partnership, Limited partnership, LLC, PLC: HUF 100 000 (EUR 270) — Branch, representative office: HUF 50 000 (EUR 135) — Fees in simplified registration procedure: PLC – HUF 50 000 (EUR 135); in case of any other company types: free of charge. Costs of attorney at law/notary public (as agreed).	In normal procedure the court will register the changes within 15 working days. In simplified procedure this deadline is 1 working day. Procedural fees: HUF 15 000 (EUR 40). Costs of attorney at law/notary public (as agreed).

4. Practical steps required to be undertaken when setting up a company

In addition to setting up a local bank account, appointing professional advisers and service providers such as accountants, lawyers, and company secretaries and taking out insurance (both as required by law and as may be prudent for your business activity), there will be a number of other practical steps businesses need to take. The sections below summarise some of the principal practical considerations businesses need to address when establishing a new entity in Hungary.

Formality	Basic Aspects
Choosing a company name	
The company name must include a main name and a legal suffix or abbreviation to indicate the type of company (company format).	The main name must differ from other registered companies' name in Hungary. The main name may contain Hungarian or foreign words, abbreviations, numbers. Latin letters are obligatory. The company format must be in Hungarian. The name of the branch and representative office must include the name of the foreign company that established it. The company name can be reserved at the company court before the registration, the attorney at law or notary public is entitled to represent the company in this procedure. The court decides on the request within 1 working day. The request can be submitted electronically.

Formality	Basic Aspects
Setting up a registered office	
The registered office must be officially recorded in the company register.	The company must submit a document which proves that the company is entitled to use the real estate as a registered seat (statement from the landlord/owner, rental agreement, etc.). This document can be prepared electronically and must be submitted by a notary public or an attorney at law electronically to the company court. The company must designate the registered office by a company name sign on the door/gate/doorbell. The registered office can differ from the central decision-making location of the company, in this case this latter also must be registered with the company court.
Corporate filings – including constitutional and accounting documents where applicable	
The company documents must be submitted electronically to the company court by a notary public or an attorney at law.	The signers of the company documents (CEO, shareholders, members of the board, members of the supervisory board) must be identified and authenticated by a notary public or an attorney at law according to the AML rules. This can be a remote identification. The company documents can be signed by qualified electronic signature or on paper with remote identification and authentication.
Registering the company in the Chambers of Industry and Commerce	
The company must be registered with the Chambers of Industry and Commerce and the HUF 5 000 annual fee must be paid.	The registration can be done on paper by printing, completing, signing, and posting the form, or electronically by means of email by printing, signing, and scanning the form. Website: Online regisztráció - Budapesti Kereskedelmi és Iparkamara (bkik.hu) (only in Hungarian)
Opening a bank account, engaging accountant, and obtaining invoicing software/system	
The company must open a bank account in a Hungarian bank.	The bank account must be opened within 8 days from the date of the company registration. It varies from bank to bank whether it is possible to open a company bank account remotely through online AML identification, authentication, and without the need for physical presence. The company documents and the registration order of the company court usually must be uploaded electronically to the bank's system.

Formality	Basic Aspects
Engaging an accountant.	An accountant must be engaged right after the company registration. The contract with the accountant can be signed remotely with advanced or qualified electronic signature or on paper with wet-ink signature. It is highly recommended to authorise the accountant to represent the company before the tax authorities. In this case, the accountant can manage the tax authority registrations. The accountant can submit the form electronically.
Obtaining an invoicing software/ system or a physical account block.	The most widely used invoicing software/systems are typically available for remote electronic contracting. Additionally, accountants may have direct access to this software.
The CEO must have a company gateway in Hungary, because the authorities communicate through this gateway with the company and the CEO.	The registration for a company gateway can be initiated electronically and remotely. A valid e-mail address, username, password will be needed. Website: Cégkapu (gov.hu) (only in Hungarian) The CEO can open a company gateway only if they have a personal client gateway to the Hungarian government.
Registering with tax authorities and registering into the online invoicing system of the tax authority	
The company must register with the tax authority and with the local tax authority for local taxes.	The tax authority will register the company and issue the VAT (tax) ID number of the company during the company registration procedure. After the registration, the company may need to provide additional information to the tax authority. The accountant can handle these electronically if they have a power of attorney (authorisation) from the company.
The company must register with the central statistical office ("KSH") within 15 days from company registration.	The accountant can manage this registration electronically if they have a power of attorney from the company.
Obtaining an invoicing software/ system or a physical account block.	The most popular invoicing softwares/systems can be usually contracted remotely and electronically. The accountant may have a direct access to this software.
Registering with the online invoicing system of the tax authority.	The CEO can do it through their personal government gateway remotely and electronically. Username, password, and company data are necessary for the registration. https://onlineszamla.nav.gov.hu/ (only in Hungarian)

5. Governance

Constitutional documents

The deed of foundation **must contain** the following elements:

- Company name
- Registered seat
- Main activity of the company
- Name, address/seat of the founders
- Amount of the registered capital of the company
- Deliberations concerning the shareholders' cash/in-kind contributions, including the timing, methods, and manner of payment to the company
- Name(s) of the first CEO/members of the board of the company and the type of representation right (sole/joint)
- Name of the first auditor (if necessary)
- Names of first members of the supervisory board (if necessary)

The deed of foundation **may contain** the following elements:

- Restrictions on transfer of the shares
- Decision-making supervisory board
- Founder's control provisions
- Provisions on the right to, and payment of, dividends
- Special rights of the decision-making body, the CEO/board of directors, supervisory board
- Provisions on shareholders' meeting held electronically
- Special rights to different types of shares.

Directors Duties and Liabilities

Liability of directors:

1. Civil law liability towards third parties

In the event that the director, during the course of their directorial duties, causes damages to third parties, the company shall assume liability for such damages to the third party. In cases where the director's actions result in intentional damage, both the director and the company shall bear joint and several liability.

2. Civil law liability towards the company

The type and limitation of liability for directors is contingent upon the nature of their employment; whether it falls under an employment or civil law relationship.

In the case of an employment relationship, the director bears liability for damages resulting from the breach of duties arising from their employment, provided such damages are attributable to intentional or negligent actions. The director's liability is deemed unlimited, unless the contract specifies restrictions on liability towards the company.

3. Liability for wrongful trading

The director is liable for the damages caused by them as a result of wrongful trading. For further information on liability for wrongful trading, see Annex 1.

4. Criminal law liability

The director will be liable for any crime committed by them.

General duties of the directors:

— The director is responsible for making decisions regarding the daily operations of the company and acts as the company's representative before authorities and third parties.
— The director must carry out their tasks personally and must act in the best interest of the company.
— The director must provide information to the members of the company on the company and ensure that they can check the company documents.
— The director must apply the legal provisions, the deed of foundation and the decisions of the main decision-making body of the company. The shareholders cannot instruct the directors (except the founder in a sole membership company).
— The director must notify the company court of any changes in the company's registered data within 30 days.

6. Employment considerations

Key requirements for employment contracts in Hungary

Mandatory content of employment contracts:
- Name and personal data of the employee
- Name and data of the employer
- Job title
- Work location
- Base salary
- Duration of the employment
- Working time
- Starting date of the employment

Possible additional content of employment contracts:
- Probation period
- Use of company devices (phone, mobile phone, laptop, desktop, etc) for private purpose
- Use of company car
- Transfer of intellectual property rights to the employer
- Confidentiality
- Special termination rights, list of events/behaviours which cause extraordinary termination of the employment by the employer
- Extra holidays
- Special termination notice period
- Main and special duties of the employee
- Obligation for reporting additional employment relationships to the employer
- Data protection provisions
- List of internal policies to be applied for the employment relationship

Timing: The employment contract must be signed and concluded before the first working day of the employee.

Format: The employment contract must be in writing. Electronic contracting is allowed.

Mandatory information the employer must provide to the employee in a separate document: The employer shall inform the employee in writing within seven days from the date of commencement of the employment relationship about:
- the person exercising employer rights;
- the date of commencement and the content of the employment relationship;
- the workplace;
- the functions of the job;
- the daily working time, days of the week when work may be scheduled, the possible time of the beginning and ending of scheduled daily working time, the length of any overtime work, and the specific nature of the employer's activity (Section 90);
- payroll accounting, the frequency of payment of wages, and the day of payment;
- wages above the base wage and other benefits;
- number of days of leave, the way they are calculated and the rules of allocation;
- the provisions on the termination of the employment relationship, in particular the rules governing the periods of notice;
- the employer's training policy, the duration of time available for employees for attending training courses;
- the name of the authority to whom the employer pays taxes and contributions in connection with the employment; and
- whether a collective agreement applies to the employer.

Pay and benefits

National minimum wage (gross): HUF 232 000 (EUR 630) per month for employees working more than 36 hours per week (for 2023). If the given job needs upper secondary education, the minimum monthly wage is HUF 296 400 (EUR 800, for 2023).

National minimum pension entitlement: HUF 28 500 (EUR 78) per month.

Base salary: The base salary must be indicated in the employment contract.

Performance-based pay: The salary can be defined as base salary + performance-based salary. The performance requirements must be defined in advanced in writing. 100%performance-based salary without any base salary can be agreed only in the employment contract.

Additional payments:

— Additional fee must be paid for work on Sunday
— Additional fee must be paid for work on public holidays
— Additional fee must be paid for work between 18:00 pm and 6:00 am if the daily working time changes regularly
— Additional fee must be paid for work at night
— Additional fee must be paid for extraordinary working time ordered by the employer

Benefits and bonuses: Not mandatory – the employer can decide on them at their discretion. We do not suggest indicating them in the employment contract. Bonus policy can be issued.

Limitations on making decisions on salary: The employer can deduct any amount from the salary only based on legal provision, a final court judgment or with the agreement of the employee. The employee cannot waive the salary unilaterally.

Income tax and social security considerations

The employer must deduct the income tax and the social security contribution of the employee from the gross salary and must pay them to the government.

Working conditions

Working hours: The general rule for full working time is 8 working hours per day. However, it can be extended to 12 working hours if the employee is a relative of the owner or employer or if they have an on-call job. The working hours can be arranged within a working time framework, which cannot exceed 4 months or 16 weeks, with certain exceptions. Daily working hours must not exceed 12 hours, and weekly working hours must not exceed 48 working hours (or 24 and 72 hours for on-call jobs). Any extraordinary work mandated by the employer must be taken into account when calculating the maximum daily and weekly working hours.

Ordinary working hours can be ordered for Sunday only for employees working in the following sectors:

— if the employer generally operates on Sundays by the nature of its business, or in jobs normally performed on Sundays;
— in seasonal work;
— if working in continuous shifts;
— for employees working in shifts;
— in on-call jobs;
— for part-time employees working Saturdays and Sundays only;
— in connection with the provision of basic public services or trans frontier services, where it is necessary to work on that day owing to the nature of the service;
— in the case of work performed abroad; and
— at employers engaged in commercial activities covered by the Trade Act, and at providers of services auxiliary to commercial activities and providers of tourist services of a commercial nature.

Break-time: If the scheduled daily working time or the duration of overtime work exceeds six hours, twenty minutes of break-time shall be provided; exceeds nine hours, an additional twenty-five minutes of break-time shall be provided.

Holiday entitlement: The base paid holiday entitlement is 20 working days per year. Additional holiday must be provided based on the employee's age, the number of children they have, and for specific situations defined by the Labour Code, such as sick children, paternity leave (10 working days), and other qualifying circumstances.

Sick leave: Employers must ensure 15 working days paid sick leave per year.

Family-friendly rights

Paternity leave (paid): 10 extra holiday working days for fathers.

Additional holidays based on the number of the children must be granted.

Additional holidays for sick children must be granted.

Parental leave (paid): 44 working days annual holiday until the third birthday of the child must be granted to the parents.

Maternity leave (paid): 24 months maternity leave for the mother of the child: 4 weeks must be granted before the expected time of the childbirth.

Leave without pay: for care of a child (maximum 3 years) and for a sick family member (maximum 2 years).

Overtime work limitations:
Overtime work may not be ordered:
a) for an employee from the time her pregnancy is diagnosed until her child reaches three years of age;
b) for a single parent, until their child reaches three years of age; or
c) where the job carries any health risk or the employee is exposed to any health risk as established by the employer.

An employee caring for their child as a single parent may be required to work overtime only with their consent as from the time their child reaches three years of age up to the time when the child reaches four years of age.

Night work limitations:
Night work may not be scheduled:
a) for an employee from the time her pregnancy is diagnosed until her child reaches three years of age; or
b) for a single parent, until their child reaches three years of age.

Night work may be scheduled:
a) for a woman between her child's third and tenth birthday; or
b) for a single parent, between their child's third and tenth birthday, only upon the employee's written consent.

In the case of night work, the scheduled daily working time may not exceed eight hours if the job carries any health risk or the employee is exposed to any health risk as established by the employer.

Remote working: Employer and employees can agree that the employee works remotely fully or partially. The parties need to agree on remote working in the employment contract.

Limitation of termination of the employment:
The employer may not terminate the employment relationship by ordinary notice:
— during pregnancy;
— during maternity leave;
— during paternity leave;
— during parental leave;
— during a leave of absence taken without pay for caring for a child; and
— in the case of women, while receiving treatment related to a human reproduction procedure, for up to six months from the beginning of such treatment.

Termination of employment

Ordinary termination by the employee

The employee is entitled to terminate the employment relationship for an indefinite period of time without cause with ordinary termination any time in writing without any justification and with notice period determined by the Labour Code.

Employees are required to give reasons for terminating their fixed-term employment relationship. The reason given for termination may only be of such a nature as would render the maintaining of the employment relationship impossible or that would cause unreasonable hardship in light of their circumstances.

The employer may not terminate the employment relationship by ordinary notice:

— during pregnancy;
— during maternity leave;
— during paternity leave;
— during parental leave;
— during a leave of absence taken without pay for caring for a child;
— during any period of actual reserve military service;
— in the case of women, while receiving treatment related to a human reproduction procedure, for up to six months from the beginning of such treatment.

Extraordinary termination by the employee or the employer (without notice)

An employer or employee may terminate an employment relationship without notice if the other party:

— wilfully or by gross negligence commits a grave violation of any substantive obligations arising from the employment relationship; or
— otherwise engages in conduct that would render the employment relationship impossible.

The right of termination without notice may be exercised within a period of fifteen days of gaining knowledge of the relevant grounds, in any case within one year of the occurrence of such grounds, or in the event of a criminal offense up to the statute of limitation for criminal liability.

Termination with mutual agreement

The parties can agree on termination of the employment relationship mutually in writing any time.

Collective rights/bargaining

Electing a shop steward is mandatory if the employer has more than 15 employees.

Electing work council is mandatory if the employer has more than 50 employees.

Employers must consult the work council prior to passing a decision in respect of any plans for actions and adopting regulations affecting a large number of employees.

Employer's actions shall, in particular, mean:
- proposals for the employer's reorganisation, transformation, the conversion of a strategic business unit into an independent organisation;
- introducing production and investment programs, new technologies, or upgrading existing ones;
- processing and protection of personal data of employees;
- implementation of technical means for the surveillance of employees;
- measures for compliance with occupational safety and health requirements, and for the prevention of accidents at work and occupational diseases;
- the introduction and/or amendment of new work organisation methods and performance requirements;
- plans relating to training and education;
- appropriation of job assistance related subsidies;
- drawing up proposals for the rehabilitation of employees with health impairment and persons with reduced ability to work;
- laying down working arrangements;
- setting the principles for the remuneration of work;
- measures for the protection of the environment relating to the employer's operations;
- measures implemented with a view to enforcing the principle of equal treatment and for the promotion of equal opportunities;
- coordinating family life and work;
- other measures specified by employment regulations.

The work council is entitled to give opinions which the employer is not obliged to take into consideration.

Trade unions:
Trade unions shall be entitled:
- To conclude collective agreements
- To provide information to employees related to industrial relations or employment relationships.
- To request information from employers on all issues related to the economic interests and social welfare of employees in connection with their employment.
- To express their position and opinion to the employer concerning any employer actions (decisions), or the draft of such decision, and to initiate talks in connection with such actions.
- To represent their members before the employers or their interest groups concerning the employees' rights and obligations relating to their financial, social, as well as living and working conditions.
- To represent their members - under authorisation - before the court, the relevant authority and other organs with a view to protecting their economic interests and social welfare.
- To use the employer's premises after or during working hours, as agreed with the employer, for the purposes of interest representation activities.

Collective agreements:
The scope of collective agreements may cover:
- rights and obligations arising out of or in connection with employment relationships;
- conduct of the parties relating to the conclusion, implementation and termination of the collective agreement, and concerning the exercise of their rights and obligations.

Training obligations

The employer must ensure the following mandatory training for the employees:
- Work safety training annually.
- Fire safety training annually.

7. Incentivisation of early-stage team and shareholder structure

Incentivising the workforce when the company is in its early stages can be challenging. Cash resources are typically limited, meaning recruitment of new talent, and retaining and rewarding that talent, can all be difficult. Many companies use share options or other share-based incentives to help with this.

Employee shares:
The employer can grant employee shares to employees in private/public companies limited by shares.

Employee shares cannot exceed 15% of the total registered capital of the company. Employee shares can be issued free of charge or for a price lower than the nominal value of the share. The employee shares can grant a dividend preference right, in this case the employees can exercise this right after the holders of shares of a class with dividend preference attached.

Employee share option programs:
The employer grants a right of option for the company shares for the employees and board members of the company, based on which right the employee/board members are entitled to purchase the shares on a future date for a price defined by the company. The employee share option rights cannot be transferred or sold to third parties. The employees/board members do not need to pay any fee for the option right. If the employee/board member leaves the company before the date when the option right can be exercised, the employee/board member usually loses the option right. It is common that after exercising the option right, the employee/board member cannot freely sell the shares within a fixed term.

The employee share option program can be applied by limited liability companies and private/public companies limited by shares.

Employee share ownership program:
The shares are transferred to an organisation established for this purpose which is a separate legal entity from the employer managed by independent persons. The rights attached to the shares are exercised by this separate entity. The employees are the owners of this separate entity, they are entitled to payment, but they do not have any voting right. The entity must keep the shares at least for 24 months. The government support the employee share ownership program with tax incentives.

8. Tax incentives / special regimes / grants

There are no tax incentives/special regimes/grants provided specifically to tech and IT startups in Hungary.
However, there are other tax benefits which tech and IT startups or their investors can use:

Investment in an early-stage company:
A company is eligible to claim a tax base reduction (investment in an early-stage company) for three times the cost value of the holding (increment), limited to HUF 20 million per tax year - and per early-stage company - for a maximum of 4 tax years. Under the rule described, the tax base reduction is available if the investor acquires an interest in an early-stage enterprise, or acquires additional shares (increases the size of its holding) in the course of a capital increase in an early-stage enterprise.

Declared shareholding:
When investing through a business company, it is possible to take advantage of the opportunities offered by a notified shareholding. According to the rules on declared shareholdings, dividends received and capital gains on the sale of a shareholding (share, unit) may be tax-exempt, provided that the investor does not sell it for at least 1 year. A declared shareholding refers to a shareholding of 10 percent or more, acquired in a legal entity established under domestic law and in a foreign entity (other than a controlled foreign company), as well as any additional shareholding acquired (increase in the value of the shareholding), provided that the taxpayer notifies the tax authority of the acquisition of the shareholding (not including the increase in the value of the shareholding) within 75 days of the acquisition. Notification of a shareholding exceeding 10 percent is subject to the condition that the taxpayer has previously informed the tax authority of the acquisition of a shareholding of 10 percent or more.

Tax base relief for research and development:
The direct cost of research and development carried out in the company's own activities can be deducted from the tax base, effectively doubling the deduction for the costs involved (because if it is a recognised cost, it also reduces the pre-tax profit). A relief is also available for intra-group R&D services from a domestic company, subject to certain conditions. Additional benefits are available if the company carries out R&D activities jointly with a recognised research establishment (e.g. an institution of higher education, the Hungarian Academy of Sciences, a research institute operating as a central budgetary body).

Development tax credit for research and development activities:
A tax credit may be claimed for research and development investments of HUF 100 million or more in present value, if the project is an investment/start-up investment in a new economic activity. The conditions for the tax credit vary depending on whether the investment is carried out by a large enterprise or an SME and on the region in which the investment takes place.

Benefits related to intangible assets:
Gains from the sale of certain specific intangible assets, known as royalties, or from the contribution of these types of assets to another company or other types of use of these assets, reduce the corporate tax base if certain conditions are met.

9. Investors – considerations for capital raising

The investment landscape in Hungary shows that equity investments are commonly raised by Hungarian companies through various stages. The average deal size increased across various stages, indicating an increasing appetite for larger investments by Hungarian investors, especially in the start-up phase. The industry statistics reveal that most investments were initiated in the start-up stage, followed by the seed stage, but the investment amounts were more balanced across various stages. (https://www.hvca.hu/documents/HVCA_report_2022_final.pdf)

In Hungary, there is state support available in the form of regional aid for investments. The maximum regional aid intensity varies between 30% and 50%, with a possibility of further increase for SMEs. However, in Budapest, no regional aid can be granted. Large investments with eligible costs over EUR 50 million may have their intensity rate adjusted based on EU rules. In certain cases, European Commission notification and approval are required.

(https://www.pwc.com/hu/hu/kiadvanyok/assets/pdf/investinhungary2023.pdf)

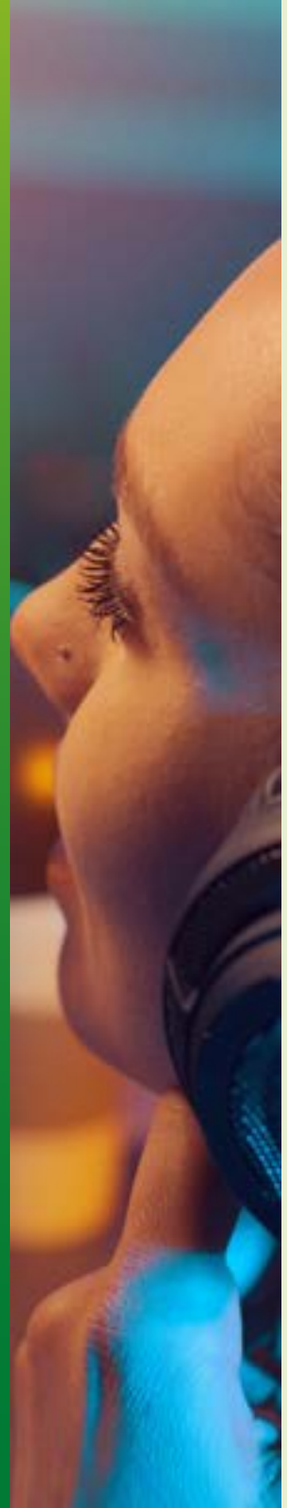
Additionally, angel investors are increasingly assuming a prominent role within the start-up investment landscape, alongside venture capitalists, crowdfunding, and grants (often funded by European Union resources).

Incubators and accelerators are also popular in Hungary. Incubators usually support startups in an early, pre-seed stage, during product development and provide counselling, mentoring, resources (shared office) and sharing contacts with the start-ups. Incubator programs are usually 6-12 months long

Accelerators provide a fixed term program for startups in pre-seed and seed phases in which they provide counselling, mentoring, contacts, office space and optional financing to the founders of the start-ups and help them to receive investments and other support.

Venture capital investments are also common in Hungary in startups with significant growth potential in exchange for a share and seat on the board. These kinds of investment firms require administrative measures and a more formal operation.

Crowdfunding is also available for startups in Hungary, usually start-ups in the pre-seed phase use this for financing their products.



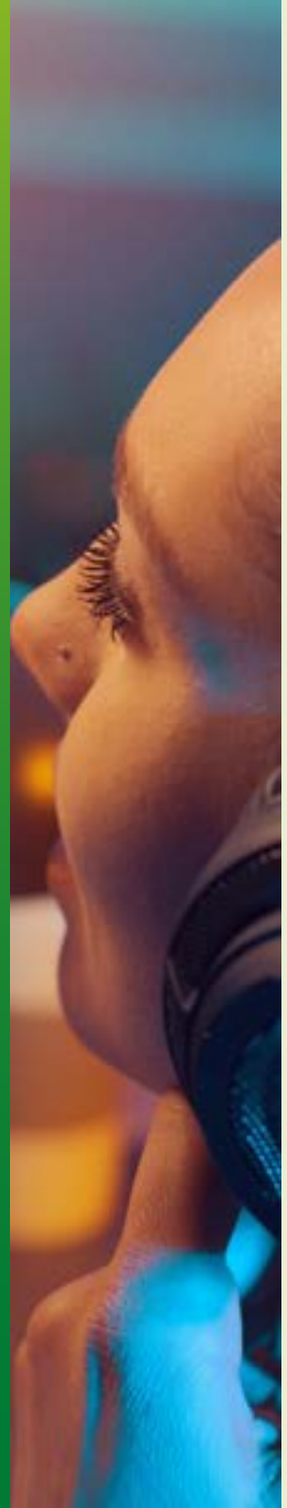
10. IP – protecting the value of your company

Protecting IP is very important for every enterprise, especially for tech businesses. They need to protect their IP rights, such as:

— Their brands with trademarks.
— Their software and other copyrighted works by copyrights.
— Their inventions by patents.
— Their smaller inventions by utility patents.
— Their designs by design protection.
— Trade secrets, know how.

The different types of IP rights ensure the following protection:

	Copyright	Trademark		
Type	**National**	**National**	**EU**	**International**
What can be protected?	Individual, original works in literature, art and science, software	Distinctive designations: word, sentence, figure, logo, picture, 3D figure, colour, signal, hologram, etc.		
Must be registered?	No	Yes	Yes	Yes
Territory of protection	National	National	EU 27 member states	The countries chosen (120 countries joined)
Authority granting protection	-	National	EUIPO	WIPO
Duration of protection	70 years	10 years, extendable (unrestricted)		



	Patent			Design			Utility patent
Type	**National**	**European**	**International**	**National**	**EU**	**International**	**National**
What can be protected?	Product or procedure which is worldwide new, based on an inventive step and industrially applicable			New and individual form of a product (design)			Part, structure of an object which is new, based on an inventive step and industrially applicable ("small patent")
Must be registered?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Territory of protection	National	38 European countries	The countries chosen (150 countries joined)	National	EU 27 member states	The countries chosen (90 countries joined)	National
Authority granting protection	National	EPO	WIPO	National	EUIPO	WIPO	National
Duration of protection	20 years (non-extendable)			5 years, extendable 4x			10 years

Contractual terms:
If the company wants to obtain the IP rights of a solution from a third party, or sell the IP rights to a third party, the contracts need to contain at least the following special legal provisions on IP rights and liabilities:
— definition of the IP rights to be transferred or licensed;
— transfer of IP rights or at least a licence for the use of the IP with detailed description of what kind of IP rights are granted;
— warranty of title, chain of title which ensure that the solution is free of IP claims;
— indemnity clause for IP right infringements;
— liability clause for IP right infringements;
— payment clauses, fee of the transfer or licence of the IP rights;
— special termination rights;
— confidentiality clauses for protecting IP rights, know-how, trade secrets.

In case of employees creating copyrighted works or other IP during their work, the employment contract needs to be completed with an IP right transfer clause based on which the employer will obtain all IP rights from the employee. It is also advisable to include a confidentiality clause into the agreement.

11. Regulatory – common compliance requirements

General corporate filings

Annual Account Filings:
Directors of the company must deliver for each financial year accounts and reports electronically.

When establishing the company, the directors of the company must submit the company documents and a request for registration to the company court.

Changes in the company data:
Directors of the company must submit the changes of the registered company data to the company court within 30 days. This covers changes in the name, registered seat, registered capital, branch offices, activity of the company, shareholders of the company, members of the supervisory board, directors, auditor, electronic mailing address of the company.

Statutory registers

The limited liability companies must keep records on their members which must include the names and addresses of the members, as well as details regarding the types, quantity and nominal value of shares owned by the members, alongside the registered capital of the company.

Private and public companies limited by shares must keep records on their shares including the names, addresses or seats of the shareholders, along with information regarding the type, quantity of shares held by each shareholder, and their ownership rate in the company. Financial institutions are subject to distinct regulations concerning the maintenance of share records.

Data Protection

Data protection laws set out essential standards for businesses that handle the personal data of individuals. Personal data includes any information relating to an identifiable individual. If your organisation is involved in the processing of any personal data (including of employees), it is crucial to assess your compliance with data protection law.

The current data protection regime in Hungary is mainly set out in the EU General Data Protection Regulation (EU GDPR) and the supplemental Data Protection Act.

The EU GDPR applies to organisations with a presence in the EU which process personal data, irrespective of where the processing occurs. It also extends to organisations outside the EU that provide goods and services to, or monitor the behaviour of, individuals within the EU. Compliance with the GDPR is mandatory for such entities.

Principles
The EU GDPR sets out seven key principles that must be followed when processing personal data: fairness, transparency, purpose limitation, minimisation, accuracy, accountability, storage, and security. These principles form the core of the EU GDPR's objectives, and adhering to their spirit is essential for ensuring sound data protection practices and compliance with the regulation.

Controllers and Processors
The EU GDPR distinguishes between organisations which act as controllers (which determine the purposes and means of processing personal data), and processors (which are responsible for processing personal data on behalf of a controller). Both controllers and processors have specific legal obligations imposed on them by the EU GDPR.

Conditions for Processing

The EU GDPR provides six bases upon which the processing of personal data can be considered lawful:

i. where the data subject agrees to the processing of their personal data (consent);
ii. where the processing is necessary for the performance of a contract with the data subject (contract);
iii. where the processing is necessary for compliance with a legal obligation (legal obligation);
iv. where the processing is for the purposes of protecting someone's life (vital interests);
v. where the processing is necessary for the exercise of official functions (public task); and
vi. where the processing is necessary for the legitimate interests of the controller or a third-party (legitimate interests).

As a general rule, the processing must be 'necessary' for a specific purpose.

Special Category & Criminal Offence Data

In addition to the conditions above, when processing special category data (such as health-related data) or criminal offence data, the EU GDPR provides additional conditions for processing.

Data Subject Rights

Data subjects have various rights in relation to their personal data under the EU GDPR, these are the right:

i. to be informed about the collection and use of their personal data;
ii. to access and receive a copy of their personal data;
iii. to rectify inaccurate or incomplete personal data;
iv. to request erasure of their personal data;
v. to restrict processing of their personal data;
vi. to data portability, allowing data subjects to re-use their personal data across various services; and
vii. to object to the processing of their personal data in certain circumstances.

The EU GDPR prescribes specific obligations upon businesses for responding to these data subject requests.

When personal data is obtained from a source other than the data subject directly, privacy information must still be provided to the data subject. The right to be informed is a fundamental transparency requirement under the EU GDPR, and privacy notices are regarded as best practice for fulfilling this requirement.

International Transfers

When personal data is transferred outside of the EU, individuals risk losing the protection of EU data protection laws. Accordingly, the EU GDPR also sets out specific requirements for when personal data can be transferred outside of the EU. An international transfer must be covered either by an adequacy decision, an appropriate safeguard or one of eight other permissible exceptions. In some instances, depending on the nature of the transfer, it will also be necessary to perform a Transfer Risk Assessment.

Other Considerations

The EU GDPR requires that appropriate technical and organisational measures must be in place to meet the accountability requirement (see "**Principles**" above). For example, you may need to conduct a data protection impact assessment (DPIA), employ a data protection officer (DPO), keep a registry of processing activities (RoPA), or conclude data processing agreements.

Other

Whistleblowing system:

Companies with more than 50 employees are required to create and operate a whistleblowing system in Hungary, appointing an impartial person or unit in its organisation for receiving and investigating whistleblowing reports submitted through the whistleblowing systems. These companies need to prepare and publish a whistleblowing policy.

12. Industry Associations

There are several industry associations and alliances in Hungary in the tech sector and in the subsectors such as telecommunication, media, fintech, innovation, engineering, proptech, smarthome, medtech, and IT professionals.

IVSZ – Alliance for the digital economy

IVSZ is the main Hungarian tech association with more than 400 members covering the ICT industry including IT, telecommunication, electronics and other digital market players. 41% of the members belong to the SME sector and 29% of the members are micro enterprises. IVSZ has several working groups such as fintech, proptech, AI, eHealth, IoT, cloud, data centers, regulatory, IT and cybersecurity. While IVSZ does not have direct regulatory authority over the tech industry, it plays an important role in shaping policy, influencing government decisions, and facilitating industry collaboration.

Hungarian AI Coalition

The Hungarian AI Coalition, established by the Ministry of Technology in collaboration with several AI industry market players, aims to propel Hungary to the European forefront in AI developments. The AI Coalition has 392 member organisations from various sectors, including business, research community, academia and government. As part of their efforts, they have formulated the Hungarian AI Strategy.

Annex 1 – Directors' liability for wrongful trading

General liability rule:
If the company is dissolved without succession, creditors may claim damages against the company's directors and officers for the amount of the outstanding amount of their claims, based on the rules concerning liability for non-contractual damages (as mentioned above) if the directors and officers have failed to take account of the interests of creditors after the company's insolvency. However, this provision does not apply in the event of winding-up.

In the event of successful enforcement of a creditor's claim, the chief executive officer is liable to satisfy the creditor's claim with all of their private assets. The detailed rules for these special procedures are laid down in the Bankruptcy Act and the Company Procedure Act.

Liability of the managing director of a company dissolved in winding-up proceedings (Bankruptcy Act)
The creditors of a company dissolved in liquidation proceedings can take direct action against a director who has acted in bad faith and has seriously infringed the interests of creditors. This involves a two-stage litigation structure, starting with a declaratory action and, if successful, followed by a residual action after the completion of the liquidation proceedings.

Declaratory proceedings
During the winding-up proceedings, a creditor or the liquidator on behalf of the debtor company has the option to initiate legal action before the court. The purpose of this action is to demonstrate that the directors of the company, within the three years preceding the start of the winding-up proceedings, neglected their duties in the best interests of the creditors after the occurrence of threatened insolvency. As a consequence of this failure, the assets of the company may have been diminished or the fulfilment of creditors' claims hindered in some way.

A person who has effectively exercised a decisive influence on the company's decisions (a so-called "shadow manager") is also considered to be a manager of the company.

A situation of threatened insolvency occurs when the company's directors foresaw, or could have reasonably foreseen, that the company would not be able to meet its debts when they fell due.

The director is exempted from liability if they prove that, after the occurrence of the situation threatening insolvency, they did not assume an unreasonable business risk in relation to the financial situation of the debtor company, and that they took all measures that could be expected of a person holding such position in the given situation in order to avoid or reduce the creditors' losses and to initiate measures of the debtor company's supreme body.

Proceeding for ordering the director to pay
Within a 90-day timeframe from the publication in the Official Gazette of the decision on the final closure of the winding-up proceedings, any creditor has the right to file a legal action. Through this action, they can request the court to order the former director of the debtor company to compensate the registered claim amount from the winding-up proceedings that remained unpaid. This compensation is based on the liability previously established in the declaratory action, and it covers the pecuniary loss caused up to the determined amount.

Liability of the managing director of a company dissolved in compulsory winding-up proceedings
If a company has been deleted from the commercial register by the court through compulsory winding-up proceedings, the liability falls upon the company's managing director, including any former managing director who was already deleted from the commercial register before the compulsory winding-up proceedings. They are liable for the loss incurred, up to the extent of unsatisfied creditors' claims, if they have not fulfilled their management duties with proper consideration for the interests of creditors after the situation of imminent insolvency, leading to a reduction in the company's assets or failure to satisfy creditors' claims.

The occurrence of a situation of threatened insolvency is the point in time from which the company's directors foresaw, or ought to have reasonably foreseen, that the company would not be able to satisfy its claims on the due date.

A director shall be exempted from liability if he proves that the situation threatening insolvency did not arise during their term of office as a director or as a result of their management activities and that, after the situation threatening insolvency had arisen, he took all the measures which a person holding such office could reasonably be expected to take in the circumstances to avoid or reduce the creditors' losses and to initiate action by the company's main decision-making body.

The information in this factsheet is for general purposes and guidance only.

It is designed to provide a general overview of some important considerations when setting up for success in Hungary as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

RO

Setting up for success in ROMANIA

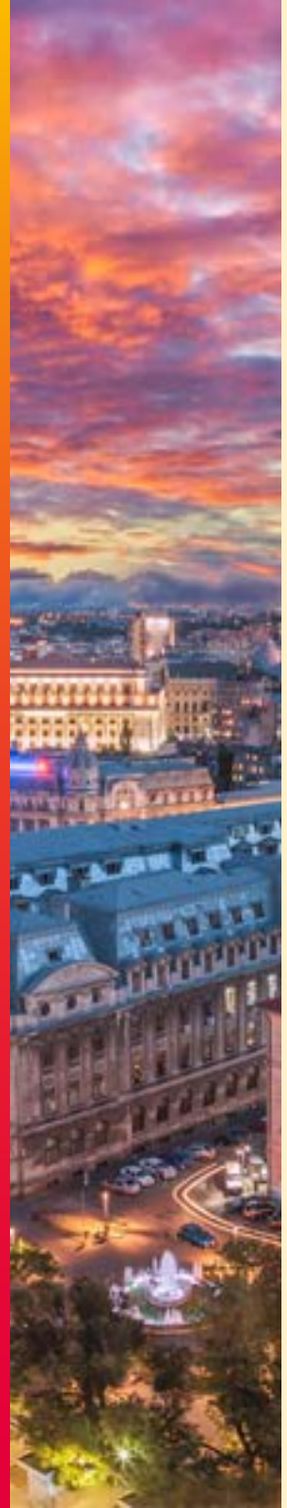
Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in Romania.
It focuses on certain of the key legal factors to think through and is not intended to be a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in Romania.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes



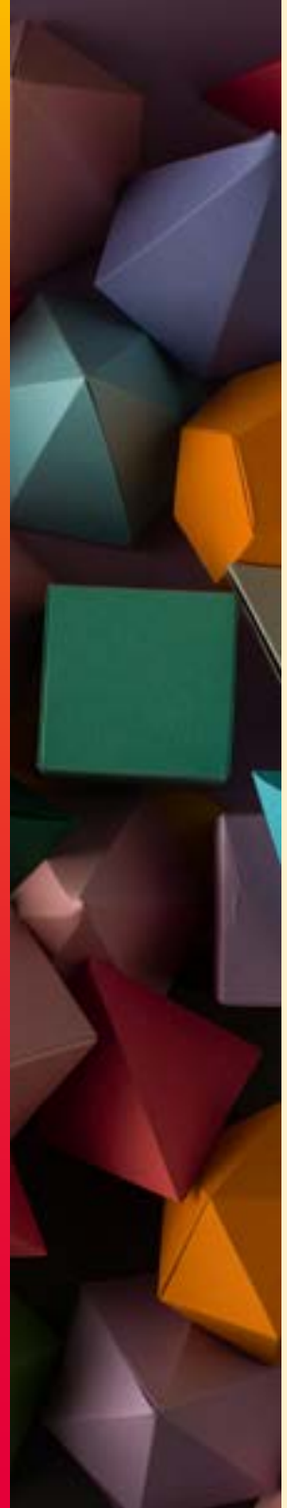
1. Corporate considerations for setting up a business in Romania

What entity you should use to set up your company

The main options available to a foreign investor looking to establish a corporate presence in Romania are:

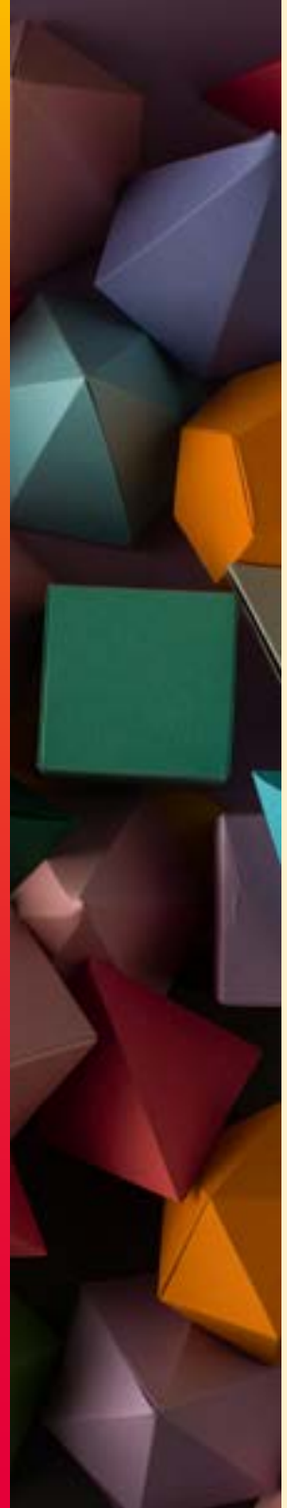
Entity	Key Characteristics
Limited liability company (SRL) **Romanian: *Societate cu răspundere limitată***	— SRL companies are governed by the managing director(s) with sole or joint representative rights. — Main decision-making body is the shareholders' meeting. — The SRL can have a sole member or more members. In case of sole membership, the founder exercises the rights and responsibilities of the shareholders' meeting. — SRLs are required to hold shareholders' meetings annually, to vote on certain items, such as approval of financial statements. — The members' liability for the obligations of the company is restricted to their shares. — The minimum registered capital in a SRL is 1 LEI (approx. 0.2 EUR) and must be paid upfront, entirely. — The company would have to set up a registered office in Romania. To this end, it must provide documents with respect to the ownership title/lease agreement for the headquarter/landlord property documents.
Joint stock company (SA) **Romanian: *Societate pe actiuni***	— SA companies may be managed by 1 or more directors with the possibility of management delegation. — The minimum number of shareholders is 2. — The minimum share capital for SA companies is LEI 90,000 (approx. EUR 18,000) and may be paid upfront, entirely, or in part, namely 30% upfront and the remaining 70% within 12 months from incorporation date. — Nominal shares are generally transferred through a statement made in the shareholders' registry, signed by both the assignor and the assignee. — SA shareholders are generally not liable for the debts of the company, having their liability typically limited to their contribution to the share capital of the company. — The company would have to set up a registered office in Romania. To this end, it must provide documents with respect to the ownership title/lease agreement for the headquarter/landlord property documents.

* SRL companies usually have a leaner corporate governance structure and may be owned by a sole shareholder, as opposed to SA companies which require at least two shareholders. Both types of companies may be set up by foreign natural persons or legal entities. That said, both options benefit from the limitation of shareholders' liability to the value of the share capital.



2. Branch vs subsidiary – options for group expansion

	Branch	Subsidiary
Separated legal entity	No	Yes
Minimum registered capital requirement	No	For SRL: Yes, minimum registered capital of LEI 1 (approx. EUR 0,2). For SA: Yes, minimum registered capital of LEI 90,000 (approx. EUR 18 000)
Can engage in profit-oriented business activities?	Yes	Yes
Can it acquire properties, conclude contracts, sue or be sued?	Yes, but only on behalf of the parent company	Yes
Governing body	Director	Director Shareholders' meeting
Liability of parent company for the obligations of the branch/subsidiary	Several, unlimited and joint liability with the branch.	Only in the limit of the capital contributions.



	Branch	Subsidiary
Taxation	Microenterprises – The income tax is 1% per total revenue. For a company to be classified as a micro-enterprise, some specific conditions have to be met, such as: the income does exceed the equivalent in lei of EUR 500,000; the company has at least one employee etc. Corporate income tax is 16% per profit. The VAT is generally 19%. Taxes and payroll contributions paid by employers for each employee: — Pension contribution = 25%*gross salary; — Health contribution = 10%*gross salary; — Payroll tax = 10%*taxable base; — Labour insurance contribution = 2.25%*gross salary.	The taxation regime is generally not different between a branch and a subsidiary.

3. Incorporation vs acquisition of a company

Steps to Take	Incorporation	Acquisition
Common preliminary steps	— Checking the company name in company registry. — Looking for a registered seat, agreeing on the use of the address as registered seat. — Defining the activity of the company. — Checking whether the given activity requires any authority licence. — Checking the validity of the ID documents (ID card, passport).	— Due diligence of the target company. — Negotiating the conditions of the acquisition deal. — Deciding on the company structure, board members, directors, CEOs, new seat, new bank, etc.
Step 1	Preparing the company documents.	Preparing, negotiating, and signing the sale and purchase agreement (SPA).
Step 2	Signing the company documents.	Preparing the company documents and signing them.
Step 3.	Submitting the company documents to the Trade Registry.	Submitting the company documents to the Trade Registry.
Step 4	Registering the company with the Trade Registry and with the tax authorities (via the same application).	Registering the share transfer with the Trade Registry.
Step 5	Opening a bank account, engaging accountant, obtaining invoicing software/system.	
Estimated timing and costs	The incorporation itself is completed in 3-5 business days after the complete documentation is filed with the Trade Registry (or, in case of any follow-up queries from the case handlers, within 2 business days after the documentation is deemed to be complete). For minimum registered capital requirements see factsheet 1. The statutory fees are in amount of RON 128 (approx. EUR 26). Costs of attorney at law (as agreed).	The registration is completed in 3-5 business days after the complete documentation is filed with the Trade Registry (or, in case of any follow-up queries from the case handlers, within 2 business days after the documentation is deemed to be complete). The statutory fees vary depending on the size of the documentation, but are in the range of RON 300 – RON 600 (approx. EUR 60 – EUR 120). Costs of attorney at law (as agreed).

4. Practical steps required to be undertaken when setting up a company in Romania

In addition to setting up a local bank account, appointing professional advisers and service providers such as accountants, lawyers, and company secretaries and taking out insurance (both as required by law and as may be prudent for your business activity, there will be a number of other practical steps you need to take. The sections below summarise some of the principal practical considerations businesses need to address when establishing a new entity in Romania.

Choosing a company name

Formality	Basic Aspects
Company Name Selection and Verification	The company name must be unique and can be checked and reserved at the Romanian National Trade Register Office. This can be done online at the ONRC's website (https://www.onrc.ro/index.php/en/). Certain words cannot be used in the company's name, i.e., it is prohibited to register a name containing words such as 'scientific', 'academy', 'academic', 'university', 'university', 'school', 'school' or their derivatives, as well as 'notary', 'executor', 'lawyer', 'legal adviser', 'legal consultancy' or words which are associated with professions involving the exercise of public authority. A company name may not be registered if it contains the words "national", "Romanian", "institute" or their derivatives or words or phrases characteristic of central public authorities and institutions if this is likely to create confusion with the name of a central or local public authority or institution. Latin letters are mandatory. The verification of the availability of the company name is carried out at the request of the interested party by the Trade Register Office, before the drawing up of the company's articles of association or, where applicable, its amendment. The company availability check and reservation can also be done via the online service portal.

Formality	Basic Aspects
Company Name Selection and Verification	For the purpose of reservation, the company name shall be subject to the operation of verifying the fulfilment of the conditions of availability and specificity with respect to the firms registered in the commercial register or reserved, as well as with respect to other conditions prescribed by law with respect to the company name. The name of a SA company shall consist of a proper name, such as to distinguish it from the name of other companies and shall be accompanied by the words "societate pe acțiuni" or "S.A.". The name of a SRL company shall consist of a proper name, to which may be added the name of one or more partners and shall be accompanied by the words "societate cu răspundere limitată" or "S.R.L.". The name of the branch consists of the name of the legal entity that opened it, the name of the place where its registered office is located, followed by the word "sucursală" and the name of the place where the branch is located. The name of the subsidiary of a legal person shall follow the rules laid down for the legal form in which that person is incorporated, to which the word "filială" may be added at the option of that registered legal person.

Setting up a registered office

Formality	Basic Aspects
Establishing a Registered Address	The company needs a registered address. This address will be used in all official documents and correspondence. The address can be a rented office space, or a domiciliation agreement can be used.
Authorisation to operate	An authorisation to operate is typically granted by registering in the commercial register a standard declaration on the company's own responsibility and related data, by which the applicant assumes responsibility for the lawfulness to carry out all the activities declared in the object of activity and the fulfilment of the conditions laid down by law for carrying them out, at the registered/professional office, at the branch offices or, where applicable, outside them.

Corporate filings – including constitutional and accounting documents where applicable

Formality	Basic Aspects
Filing Documents with the National Trade Register Office	Documents that need to be filed include: the company's Articles of Association, proof of the registered office, proof of company capital, and copies of the directors' ID cards. The process can be started online (https://portal.onrc.ro/), but the originals will have to be presented at the local trade register office.
Ongoing compliance	1. **Financial Statements:** a) Companies are required to prepare and submit annual financial statements to the Ministry of Public Finance. The format and specifics depend on the size of the company. b) The financial statements should be submitted annually, within 150 days from the end of the fiscal year. c) Depending on the size and type of the business, the statements may also require an audit by a certified auditor. 2. **Board Resolutions:** Any significant decision made by the company, including changes in company structure, capital, or other major activities, should be filed with the ONRC. 3. **Changes in Company Details:** Any changes in the company details, such as address, board members, share capital, or company name, must be reported and registered with the ONRC.

Proceedings for obtaining authorisation to work in Romania

Formality	Basic Aspects
Registering as an Employer	After the company is registered, it needs to register as an employer at the territorial labour authorities. This can be done online via the Electronic Register of Employees (https://reges.inspectiamuncii.ro/).
Register for VAT	If the company plans to exceed a threshold of 300,000 RON (approx. EUR 60,000) in a calendar year, it must register for VAT at the National Agency for Fiscal Administration (https://www.anaf.ro/).

5. Governance

Constitutional documents

In Romania, the typical constitutional document for a limited liability company (SRL), which is the most common business entity, is the Articles of Association. These serve as the company's bylaws, defining the rules for its operation and organization.

	Constitutional documents
Articles of Association	The Articles of Association should include information such as the company's purpose, name, registered office, details about share capital (minimum required is 1 RON (approx. EUR 0,2)), shareholders' rights and obligations, and rules for appointing directors and managers. The AoA should also detail how shareholders' meetings are held, the decision-making process, and how profits and losses are shared.
Shareholders' Agreements	These are private agreements between shareholders that can stipulate rights and obligations not outlined in the AoA, such as exit strategies, pre-emption rights, etc. However, such agreements cannot contradict the AoA or Romanian law.

The typical constitutional document for an SA company is also the Articles of Association. However, given the larger and more complex nature of SA companies, these documents may contain more detailed provisions.

For a list of what Articles of Association should include, please see Annex 1.

Directors Duties and Liabilities

In Romania, the directors of a SRL company have certain duties and liabilities.

	Duties
Directors' Duties	Directors must act in the best interest of the company, with care, and diligence. They should maintain confidentiality and avoid conflicts of interest. They're also required to comply with all statutory obligations and ensure the company meets its legal requirements.
Liabilities for Insolvent Trading	If the directors continue trading while the company is insolvent, and this leads to bankruptcy, they can be held personally liable. They could face civil or even criminal penalties if they knowingly led the company towards insolvency.

In SA companies, the board of directors or directorate, under the supervision of a supervisory board, holds the management responsibilities. Directors have a fiduciary duty to act in the best interest of the company and its shareholders, to act with care, diligence, and skill, and to avoid conflicts of interest. They are also required to comply with all statutory obligations.

More specifically, directors are jointly and severally liable to the company for:

a) the actual payments made by the members;
b) the actual existence of dividends paid;
c) the existence of the registers required by law and their correct keeping;
d) the exact fulfilment of the resolutions of general meetings;
e) the strict fulfilment of the duties imposed by the law and the memorandum and articles of association.

If the company is in a state of difficulty, the directors/managers shall have regard at least to the following:

a) the interests of creditors, equity holders and other interested parties;
b) the need to take reasonable and appropriate measures to avoid insolvency and to minimise losses to creditors, employees, equity holders and other stakeholders;
c) the need to avoid conduct, whether intentional or grossly negligent, that threatens the viability of the enterprise.

Liability claims against the directors shall also belong to the company's creditors, who shall be entitled to bring such claims only in the event of the opening of proceedings under Act No 64/1995 Coll. on the procedure of judicial reorganisation and bankruptcy, republished.

6. Employment considerations

Key requirements for employment contracts in Romania

Prior information of the employee

Before entering into an employment contract, the employer must inform the future employee about the following aspects:

a) identity of the parties;
b) the place of work or, in the absence of a fixed place of work, the possibility for the employee to carry out the activity in different places of work, and whether the distance between them is covered by the employer;
c) the headquarters of the employer;
d) the function held by the employee, as well as the job description;
e) the criteria for evaluating the professional activity of the employee;
f) the job-specific risks;
g) the date from which the contract produces its effects;
h) in case of a fixed-term employment contract or a temporary employment contract, their duration;
i) the duration of the annual leave to which the employee is entitled;
j) the conditions of the prior notices delivered by the parties and their duration;
k) the basic salary, other salary rights, highlighted separately, the periodicity of salary payment and the method of payment;
l) the normal duration of work (expressed in hours/day and/or hours/week), the conditions for performing and paying overtime, and if applicable, the methods of organizing work in shifts;
m) the duration and conditions of the trial period, if any;
n) if granted, provisions regarding the private medical insurance, contributions to the employee's optional pension or occupational pension, as well as the granting, at the employer's initiative, of any other rights, if they constitute advantages in money;
o) indication of the collective employment contract that regulates the working conditions of the employee;
p) the procedures regarding the use of the electronic signature, the advanced electronic signature and the qualified electronic signature;
q) the right and conditions regarding professional training offered by the employer.

Mandatory content of employment contracts

The elements indicated above at a) – n) should be also reflected in the employment contract.

In addition to the mandatory elements referred to above, the employer and the employee may include other contractual clauses such as a confidentiality clause, non-compete clauses, a mobility clause etc.

Format

The employment contract must be in writing, in Romanian language – bilingual versions are accepted. We note that the law provides a standard employment contract.

Electronic contracting is allowed.

Timing and other formalities

The employment contract should be registered in the electronic registry of the employee (in Romanian "REVISAL") by filling in specific information required by law, after the employment contract has been concluded and at the latest the day before the work commencement.

Before entering into an employment contract, the employer should also:

— check the professional and personal skills of the candidate;
— perform medical checks;
— check the right to work for foreign individuals - before entering the labour contract, the employer should make sure that all visas/permits necessary for a foreign individual to lawfully work in Romania have been obtained.

Foreign individuals (i.e. persons who are not from the EU, EEA or Switzerland) may enter in Romania if they previously obtained a short or long stay visa.

For work purposes, foreign individuals should obtain a long-stay visa for work which is available for 90 days. This work visa may be extended upon a request submitted in this respect at least 30 days before work visa expiration. Following such extension, the employee will receive a single permit (available for maximum 1 year) or the blue card for highly - qualified employees (available for maximum 2 years). Subsequent requests for extension of the stay-period may be submitted.

There are several exemptions from obtaining a visa, for instance:
— citizens of the states which entered into an agreement with Romania for visa waiver;
— citizens who have a long-stay visa or a residence permit issued by the Schengen states;

Please also note that before the foreign individual obtains his/her work visa, they should obtain a work permit in order to be able to hire them. Such work permit is granted to the company if certain legal requirements are met (e.g., the company has vacant positions which cannot be filled by Romanian citizens of EU Member States / EEA, the company has no unpaid obligations to the state and was not punished for undeclared work or illegal employment, etc.).

Pay and benefits

The Romanian legislation sets out the minimal gross base salary per country, which is RON 3,000 (approx. EUR 600) for 2023, corresponding to a normal working schedule (i.e., 40 hours per week).

The base salary, as well as any other salary rights (such as bonuses) must be indicated in the employment contract.

In addition to the base salary, the employees may also be entitled to:
— allowances (in form of bonuses) for work on weekends, nightwork, overtime and during the public holiday (if no days off are granted as per the law) – note that the minimum amount for these allowances is established under the law, except for work on the weekend.
— any other bonuses granted voluntarily by the employer (e.g., performance bonus, the 13th salary, etc.);
— daily allowance during the business trips and secondment;
— allowances for medical leave, maternity leave or other types of leave (please note that the amounts paid by the employer should be reimbursed by the state to a certain extent, depending on the type of leave).

Limitations on making decisions on salary

The employer can deduct any amount from the salary only in cases expressly provided by law, or in case of a final court judgment. The employee cannot waive the salary unilaterally.

Income tax and social security considerations

Under the Romanian tax law, the employee must pay the social insurance contribution (25%), the health insurance (10%) and income tax (10%). Please note that although the employee bears the cost of such salary taxes, their retention and payment lie with the employer. Employer should also pay the work insurance contribution (2,25%).

The total costs of the employer consist of: the net salary paid to the employee + the above salary taxes paid to the state.

Working conditions

Standard working hours per week

The regular working week for full time employees consists of 40 working hours per week and 8 working hours per day. Depending on the employer's activity, the working program may be structured differently as long as it complies with the provisions of the employment law. For employees under 18 years old, the length of the working time is 6 hours per day and 30 hours per week.

Rest periods

In cases where the working day exceeds 6 working hours, the employees are entitled to a meal break. When the working day exceeds 4 and a half working hours, the employees under 18 years of age shall be granted a meal break of at least 30 minutes.

An employee is entitled to a daily rest of at least 12 consecutive hours between two successive working days. In case of shift-type work, the break must not be less than 8 hours between shifts.

An employee is entitled to at least 2 consecutive days rest per week (Saturdays and Sundays). If there is a specific need for the employees to work during the weekend, then the employees must be given corresponding time off during the rest of the week and additional remuneration.

The minimum annual leave consists of 20 paid days per year. The law provides specific rules regarding the scheduling of the annual leave.

Overtime

Overtime is defined as any work time that exceeds the normal 40 weekly hours.

Overtime should be performed only at the employer's request and with the employee's consent.

The total number of working hours per week (including overtime) should not exceed 48 hours/week. However, there are certain exceptions when the limit of 48 hours/per week may be extended, expressly regulated under the law.

Overtime must be compensated with paid leave time granted in the next 90 days following the overtime. If free time is not granted, overtime will be paid by a bonus which shall not be lower than 75% of the base salary pro rata by reference to the number of overtime hours.

Working on weekends and public holidays

To be considered lawful, working during the two days of rest (usually Saturday and Sunday) and on public holidays must be justified by a special business need.

Employees that work during the weekend are entitled to corresponding time off granted within the same week and to a bonus. The law does not provide a minimum amount, however, this should be a reasonable sum.

Work on public holidays must be compensated by corresponding paid leave time, within a window of 30 days since the respective work was performed. If granting paid leave time is not possible, the employees benefit from a 100% increase in pay for the hours worked on legal holidays.

Night work

The "night work" is considered the work performed between 10pm and 6am.

An employee qualifies for night work if at least 3 hours of the work performed are within such timeframe, or if at least 30% of the work performed in the course of a month is within such timeframe.

The employees shall receive for night work: i) a work schedule 1 hour shorter than the normal length of the working day, without any decrease of pay; or ii) an extra pay (25% of the monthly salary).

Sick leave

Up to 183 days a year. It may be extended for certain types of illness, with the approval of the doctor.

The sick allowance is covered by the employer for the first 5 calendar days of the sickness leave and the rest of the sickness leave is covered by the state budget (note that the employer must pay the entire sick leave and then apply for the reimbursement of what is borne from the state budget).

Family-friendly rights

The law provides the following main rights:

- Maternity leave - 126 calendar days;
- Childcare leave - after the birth of the child and up to when the child reaches 2 years old, or 3 years old (in case of disabled child);
- Maternal risk leave - maximum 120 days, which may be granted in full or in portion, for periods of maximum 30/31 calendar days;
- Paternal leave- 10 working days, or 15 working days in case the employee follows a childcare specific course;
- Carer's leave (personal care or support to a relative or a person who lives in the same household as the employee for serious medical problems) - 5 working days in a calendar year;

— The care of a sick child - up to 45 days a year. This period can be extended for certain types of illness (e.g., infectious diseases);
— Unpaid leave for personal reasons - the number of days off is subject to the parties' agreement;
— Leave for extraordinary family events (such as marriage, funeral, birth of a child etc.) - the law does not impose a certain number of days. In practice, companies grant 1-2 days off per event.

Termination of employment

Termination of employment may occur as follows:
— Based on the parties' mutual agreement – no notice period to be observed.
— By law, in certain cases expressly provided by law, for example: (i) due to dissolution of the company, (ii) if the conditions regarding the retirement of the employee have been met, (iii) in case of the individual employment contract's nullity, (iv) at the expiration of the fixed-term employment contract etc.
— By the resignation of the employee - the employee is not obliged to offer reasons for the resignation. The notice period cannot be more than 20 working days for employees with non-management functions, and more than 45 working days for employees with management positions.
— By dismissal issued by the employer, in the following cases provided by law:

a) for reasons connected to the employee's person (i.e., employee's disciplinary misconduct, or employee's professional or medical inadequacy, or the employee is remanded in custody or placed under domicile arrest for more than 30 days); or

b) for reasons which are not connected to the employee's person (which occur for objective reasons, i.e., the removal of the position/job due to economic difficulties, technological transformations or activity reorganization).

In case of dismissal, the employer generally must observe a notice period of at least 20 working days, except for certain cases expressly provided for law, when no notice period is required.

Collective rights/bargaining

Representative structures

Employees may be represented by:
— **trade unions:** employees may form a trade union at the level of the company if the company has at least 10 hired employees. Please note that the law regulates more types of collective organizations functioning at sector level and national level.
— The concept of "work council" is not regulated under the Romanian legislation.
— **employees' representatives:** in companies with at least 10 employees, the employees may elect employees' representatives if there is no trade union formed.

Note that the formation of a trade union or election of the employees' representatives is not mandatory, but at the choice of the employees.

Briefly, the trade unions / employees' representatives have the following powers:
— the right to be consulted regarding the company decisions which may substantially affect the rights and interests of the employees (the law also provide specific cases when such consultation is mandatory);
— the right to be informed and/or consulted in relation to specific matters (e.g., TUPE transactions, collective redundancy etc.);
— right to negotiate and enter into a collective employment agreement.

Collective employment agreement

Collective negotiations shall be mandatory at company level, if the company hires at least 10 employees. Either the company or the employees can initiate the collective negotiations. Note that only the collective negotiation is mandatory, not the conclusion of the collective employment agreement itself.

Training obligations

The employer is obliged to ensure professional training for all employees once in 2 years - if hiring at least 21 employees, and once in 3 years if hiring less than 21 employees. The costs of such training are borne by the employer. Our interpretation of the law is that the employer is obliged to provide professional training for all employees, regardless of how many employees are hired, thus, the thresholds mentioned above determine only the frequency of such trainings (once in 2 or 3 years).

Additionally, the employer is obliged to organize periodical occupational health and safety (H&S) trainings, as per the rules mentioned in the law.

The employees may also request the employer leave for professional training. The employer will decide under which conditions such leave will be provided.

7. Incentivisation of early-state team and shareholder structure

Incentivising the workforce when the company is in its early stages can be challenging. Cash resources are typically limited, meaning recruitment of new talent, and retaining and rewarding that talent, can all be difficult. Many companies use share options or other share-based incentives to help with this.

The various ways to implement share-based incentives are typically divided in two main categories: actual stock plans and virtual stock plans.

Actual stock plans

The employer can grant actual stock options to employees and top management, based on which the beneficiaries are entitled to purchase stock on a future date for preferential price (e.g., free of charge or at nominal value). The exercise of the option may also be delayed until an exit of the founders from the company, case when the beneficiaries may be entitled to receive part of the proceeds.

The stock option plan may be implemented whenever a beneficiary exercises its options by either (i) transferring the relevant shares to the beneficiary from the company or the founders or (ii) issuing new shares to the beneficiary.

In joint-stock companies, the shares held by beneficiaries of the stock option plan may belong to a separate class of shares without voting rights.

The stock option plan usually sets out scenarios in which the beneficiaries may lose their options or stock (good leaver vs. bad leaver). It is common that after exercising the option right, the employee/ board member cannot freely sell the shares within a fixed term.

The employee stock option plan can be applied by both limited liability companies and joint-stock companies, but are more common for joint-stock companies.

Under Romanian law, stock option plans are tax neutral for the company in case certain conditions are met (e.g., a minimum vesting period of 1 year, the beneficiaries being employees, directors or officers of the company implementing the plan, etc.).

Virtual stock plans

The employer can grant virtual participation rights, without an actual transfer of ownership over stock, which may also entitle the beneficiaries to a remuneration right related to the increase in value of the actual stock (e.g., phantom stock plans).

Virtual stock plans are usually not tax neutral for the company under Romanian law.

8. Tax incentives / special regimes / grants

Romania has a number of tax incentives and special regimes aimed at supporting the growth of tech businesses / start-ups. Below are some of these schemes:

R&D Deduction

Companies involved in research and development can benefit from additional tax deductions. If the R&D activities are related to technology, they may be eligible for a deduction of 50% of the related expenses.

IT Employees Income Tax Exemption

Romania has an income tax exemption for IT employees. If certain conditions are met, software development employees are exempt from paying the 10% personal income tax.

From 1 January 2023, the 10% tax exemption on IT employees' income has been extended to high school graduates (with a baccalaureate degree) who are educated at accredited universities and have been employed by companies eligible for the tax relief. The exemption has also been extended to IT-workers in public institutions.

In the case of economic operators working in the field of software development, employees are exempt from tax on income from wages and salaries, as provided for in the Tax Code. But only if the following conditions of the recently published ministerial order are met cumulatively:

a) the posts on which the employees are employed correspond to the list of occupations mentioned in the order;
b) the employee's position is part of a specialised IT department, as indicated in the employer's organisation chart (such as: directorate, department, office, service, office, compartment or similar);
c) employees hold a degree awarded after completion of a long or short course of higher education or hold a degree awarded after completion of the first cycle of undergraduate studies, issued by an accredited higher education institution, or hold a baccalaureate degree and are attending an accredited higher education institution and actually perform one of the activities covered by the facility;
d) the employer has in the previous fiscal year and separately recorded in the analytical balance sheets income from the activity of creating computer programs for trading;
e) the annual income referred to in point d) has a value of at least the equivalent in RON of EUR 10,000 (calculated at the average monthly exchange rate communicated by the National Bank of Romania for each month in which the income was recorded) for each employee benefiting from the income tax exemption.

By exception, companies established during the tax year may benefit from the facility without meeting the condition in point d of the above list. But only in the year of establishment and the following tax year.

Start-Up Nation Romania

The Start-Up Nation Romania program provides substantial non-reimbursable funding for new businesses, including tech start-ups.

European Grants

Romania is a member of the EU and therefore start-ups in Romania can apply for various EU grants aimed at promoting research, development, and innovation.

9. Investors – considerations for capital raising

The investment landscape in Romania shows that equity investments are commonly raised by Romanian companies through various stages. The average deal size increased across various stages, indicating an increasing appetite for larger investments by Romanian investors, especially in the start-up phase.

According to a NBR report, internal financing resources represented by profit reinvestment or the sale of assets from the company's patrimony and loans from shareholders or capital increases are still the main source of financing for non-financial companies in Romania. The use of credit lines is slightly increasing compared to the previous year and the utilization rate of bank loans remains relatively stable. Depending on the size of the company, corporations turn to bank credit financing to a greater extent. Other sources of financing daily operations of the companies refer to financial or operational leasing, loans guaranteed by national credit guarantee funds or European funds, as well as financing programs from the state.

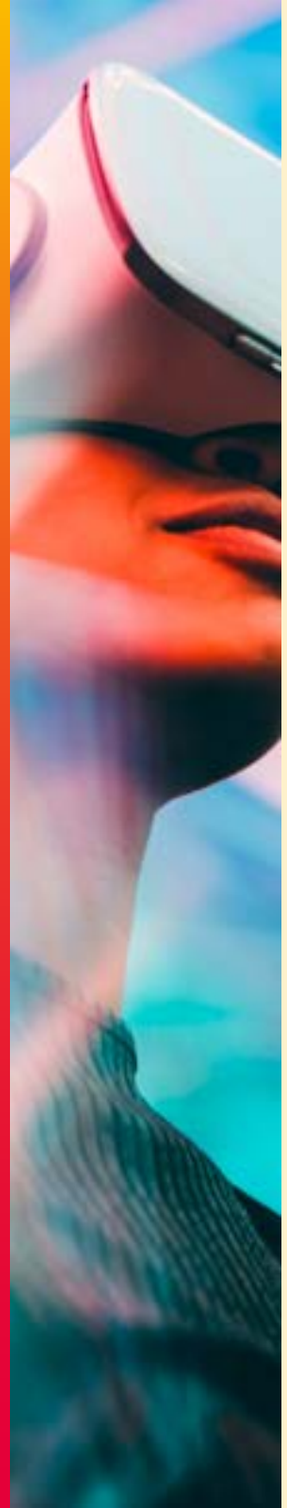
In Romania, the Ministry of Finance continues to support entrepreneurs and the entire SME sector in 2023 as well, by extending the application of the IMM INVEST PLUS state aid scheme until December 31, 2023. The programs are run through the National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM), the Romanian Counter-Guarantee Fund (FRC) and the Rural Credit Guarantee Fund (FGCR).

Additionally, angel investors are increasingly assuming a prominent role within the start-up investment landscape and their activity increase year by year, alongside venture capitalists, crowdfunding, and grants (often funded by European Union resources).

Incubators and accelerators are also popular in Romania. Incubators usually support startups in an early, pre-seed stage, during product development and provide counselling, mentoring, resources (shared office) and sharing contact with the start-ups. The Romanian Government supports the establishment of business incubators through specific measures: (i) Facilitating SME access to workspaces under the conditions of reduced rents and in flexible terms; (ii) Provision of utilities at reduced values and without initial connection fees; (iii) Provision of consulting services for the business plan, in areas such as marketing, accounting, legislation; (iv) Assistance for negotiating advantageous credit lines with local banks and other financial institutions. In support of the development of the business environment and start-ups in particular, Law no. 102/2016 on business incubators was issued.

Venture capital investments are also common in Romania in startups with significant growth potential in exchange for a share and seat on the board. This kind of investment firms require administrative measures and a more formal operation. In relative terms, venture capital still has a small share in the total capital markets, but their dynamics are becoming more and more important. However, venture capital investments on the Romanian market is rather poorly represented considering (i) the assumed risks, (ii) the lack of flexibility and managerial experience and (iii) the lack of specific legislative instruments.

Crowdfunding is also available for startups in Romania, usually start-ups in the pre-seed phase use this for financing their products. Crowdfunding has been regulated in Romania since 2022 (Law no. 244/2022) and the interest of players from the European market or local companies in providing or accessing crowdfunding services in Romania has gradually increased due to the adoption of EU Regulation 1503/2020 and related national legislation.

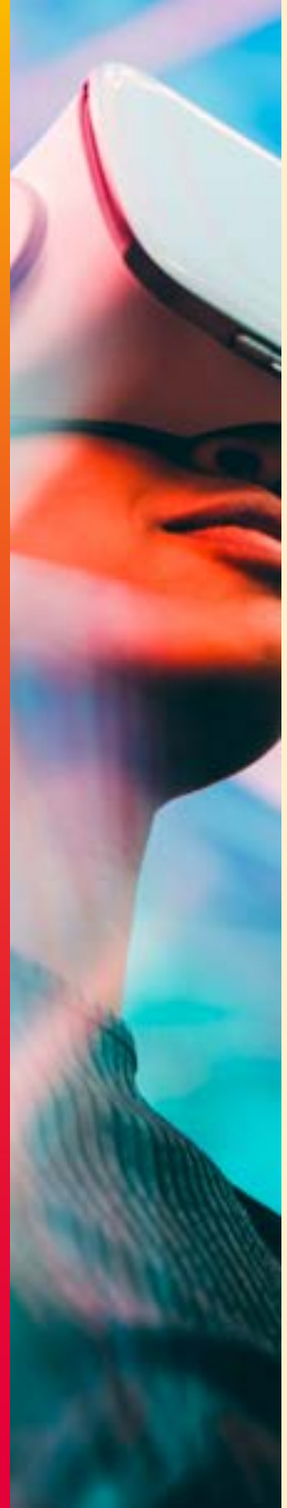


10. IP – protecting the value of your company

Intellectual property (IP) means all the exclusive rights granted to intellectual creations. As such, if they meet the conditions laid down by law:

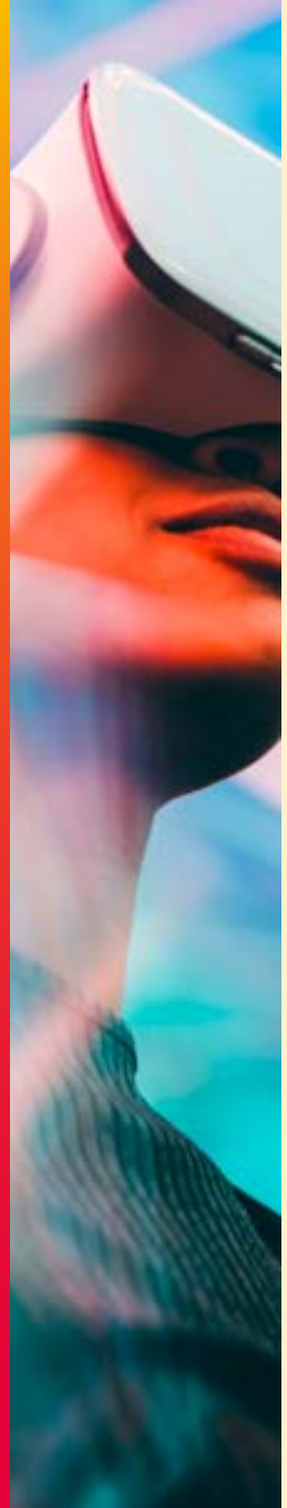
a) brands/logos can be protected by trademarks;
b) software, databases and any other intellectual creative works can be protected by copyright, sui generis rights and related rights;
c) inventions can be protected by patents or utility models;
d) the appearance of a product or part thereof can be protected by designs/models;
e) confidential information can be protected by trade secrets/know-how;
f) topographies of semiconductor products can also be protected by registration.

Protecting IP is very important for every enterprise, especially for tech startups.



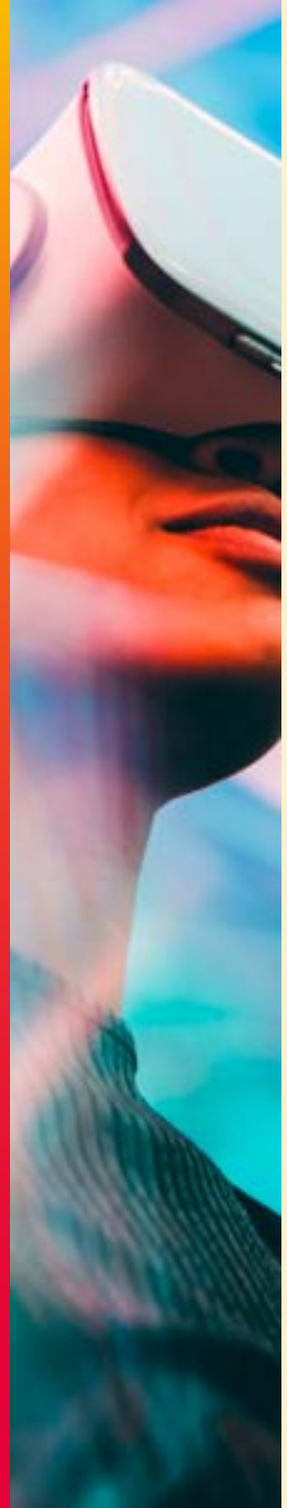
The different types of IP rights ensure the following protection:

	Copyright	Topographies of semiconductor products
Type	**National**	**National**
What can be protected?	Original works in literature, art and science and any other works of intellectual creation, such as: literary and journalistic writings and any other written or oral works; computer programs; scientific works such as scientific projects and documentation; musical compositions; dramatic or cinematographic works; works of graphic or plastic art; works of architecture etc.	Original topographies of semiconductor products. A topography of a semiconductor product is defined as a series of related images, however fixed or encoded, representing the three-dimensional configuration of the layers making up a semiconductor product, in which each image reproduces the design or part of the design of a surface of the semiconductor product at any stage of its manufacture. A Semiconductor product is the final or intermediate form of any product: — composed of a substrate comprising a layer of semiconductor material; and — consisting of one or more layers of conductive, insulating or semiconductive materials, the layers being arranged in a predetermined three-dimensional configuration; and — intended to perform, whether or not solely, an electronic function.
Must be registered?	No As a general rule, the person under whose name the work was first made known to the public shall be presumed to be the author until proven otherwise. Also, there is an optional registration procedure for certain types of works, with the national Copyright Office (ORDA).	Yes



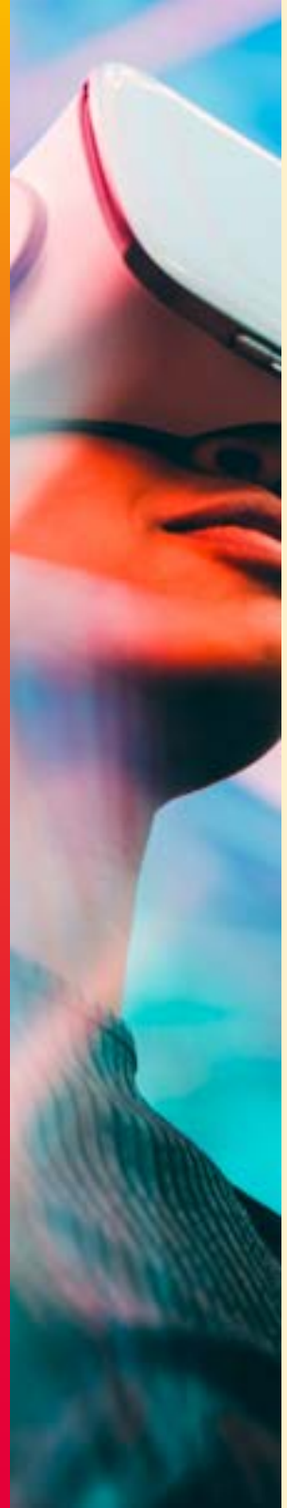
	Copyright	Topographies of semiconductor products
Type	**National**	**National**
Territory of protection	National	National
Authority granting protection		Romanian Office for Inventions and Trademarks (OSIM)
Duration of protection	— author's life and 70 years after the author's death (for economic rights) – this is the general rule for copyrights' duration; — author's life (for some moral rights); — indefinitely (for other moral rights); — 70 years from publication (or creation, if no publication occurs during the 70 years) for collective works and works published anonymously, or under a pseudonym; — 70 years after the last co-author's death for works created in collaboration; — 25 years from publication for works first published after expiry of copyright.	10 years (after the end of the year in which the topography was first commercially exploited in the world or after the end of the year in which the regulatory deposit was established).

	Patent			Utility model
Type	**National**	**European**	**International**	**National**
What can be protected?	Product or procedure which is worldwide new, based on an inventive step and industrially applicable			Any technical invention, provided that it is new, goes beyond mere professional skill and is susceptible of industrial application.
Must be registered?	Yes	Yes	Yes	Yes
Territory of protection	National	39 countries	The countries chosen (157 countries)	National
Authority granting protection	OSIM	EPO	WIPO	OSIM



	Patent			Utility model
Type	**National**	**European**	**International**	**National**
Duration of protection	20 years (non-extendable)			6 years, renewable 2 times for additional periods of 2 years (maximum 10 years of protection)

	Trademark			Design/model		
Type	**National**	**European**	**International**	**National**	**EU**	**International**
What can be protected?	Any sign, such as words, personal names, designs, letters, numerals, colours, figurative elements, the shape of the product or product packaging or sounds, provided that such signs are capable to: 1. distinguish the goods or services of one company from those of other companies; and 2. be represented in the Trademarks Register in such a way as to enable the competent authorities and the public to establish clearly and precisely the subject-matter of the protection conferred on the owner.			The new and individual appearance of a product or part of a product.		
Must be registered?	Yes	Yes	Yes	Yes	Yes	Yes
Territory of protection	National	EU 27 member states	The countries chosen (~120 countries)	National	EU 27 member states	The countries chosen (~90 countries)
Authority granting protection	OSIM	EUIPO	WIPO	OSIM	EUIPO	WIPO
Duration of protection	10 years, extendable (unlimited)			10 years, extendable 3 times for additional periods of 5 years (maximum 25 years of protection)	5 years, extendable 4 times (maximum 25 years of protection)	



Contractual terms

If the company wants to obtain the IP rights of a work from a third party, or transfer the IP rights to a third party, the contracts need to contain at least the following special legal provisions on IP rights and liabilities:

— definition/identification/description of the IP rights to be transferred or licensed and their subject matter of protection;
— transfer of IP rights – whether assignment of license for the use of the IP – with detailed description of what kind of IP rights are granted;
— character of the transfer: exclusive or non-exclusive; extent of the transfer;
— duration of the transfer and territory in which the transfer has effects;
— ways of use for each of the IP rights that are granted;
— remuneration in exchange of the IP rights.

Additionally, the agreement should contain the following legal provisions:

— warranty of title, chain of title which ensure that the work is free of IP claims;
— indemnity clause and liability clause for IP right infringements;
— special termination rights;
— confidentiality clauses for protecting IP rights, know-how, trade secrets.

In case of agreement concluded with employees, please know that, under Romanian IP laws (regarding copyright, patents, etc.), except for the cases where there is an assignment of the IP rights by virtue of law, **there must be an express assignment wording in the contracts**. With specific view to copyright, the Romanian Copyright Law is even more restrictive: firstly, it regulates the assignment of copyright and the minimum provisions of the assignment contract, subject to the right of the concerned party to request the termination of the contract; secondly, it includes the prohibition of the assignment of "all future works", any such assignment being considered null and void.

The cases in which the IP rights are assigned by virtue of law are exceptional. They are assigned by virtue of law to the employer:

— the copyright over computer programs;
— work inventions resulting from the exercise of the inventor's work duties expressly entrusted to him in the individual employment contract and in the job description or laid down in other acts binding on the inventor which provide for an inventive task.

These presumptions only work in employment relationships. Therefore, when engaging with collaborators/third party contractors, express assignment wording must be included in the contracts in order to secure the ownership of the company over the works resulting from that collaboration (even for computer programs or work inventions resulting from the exercise of the inventor's work duties).

11. Regulatory – common compliance requirements

General corporate filings

Annual Account Filings:
Directors of the company must deliver for each financial year accounts and reports electronically.

Changes in the company data:
Directors of the company must submit the changes of the registered company data to the company court within 30 days. This covers changes in the name, registered seat, registered capital, branch offices, activity of the company, shareholders of the company, members of the supervisory board, directors, auditor, etc.

Statutory registers

Limited liability companies must keep a shareholders' registry which must include the names and addresses of the shareholders, as well as details regarding the quantity and nominal value of shares owned by the shareholders.

Joint-stock companies must keep a shareholders' registry which must include the names and addresses of the shareholders, along with information regarding the type, quantity of shares held by each shareholder. Listed companies are subject to distinct regulations concerning the maintenance of share records. In case of joint-stock companies, the ownership right over the shares is transferred upon the signing by the buyer and the purchaser of the relevant entry in the shareholders' registry of the company, unless the articles of association of said company provide otherwise.

Data Protection

Romania, being a member of the European Union, adheres to the EU General Data Protection Regulation (GDPR), which is the primary law regulating how companies protect EU citizens' personal data.

In Romania, the National Supervisory Authority For Personal Data Processing (ANSPDCP) oversees data protection. They provide guidance and resources for businesses and individuals, which you can find on their official website (http://dataprotection.ro/?page=1_L&lang=en).

Other

Financial Services Regulation

If your business involves financial services, it will be subject to regulation by the National Bank of Romania (BNR) and/or the Financial Supervisory Authority (ASF).

Consumer Protection

The National Authority for Consumer Protection (ANPC) in Romania ensures that businesses comply with consumer rights laws. This includes regulations on product safety, pricing, advertising, and more.

Foreign Investment Requirements

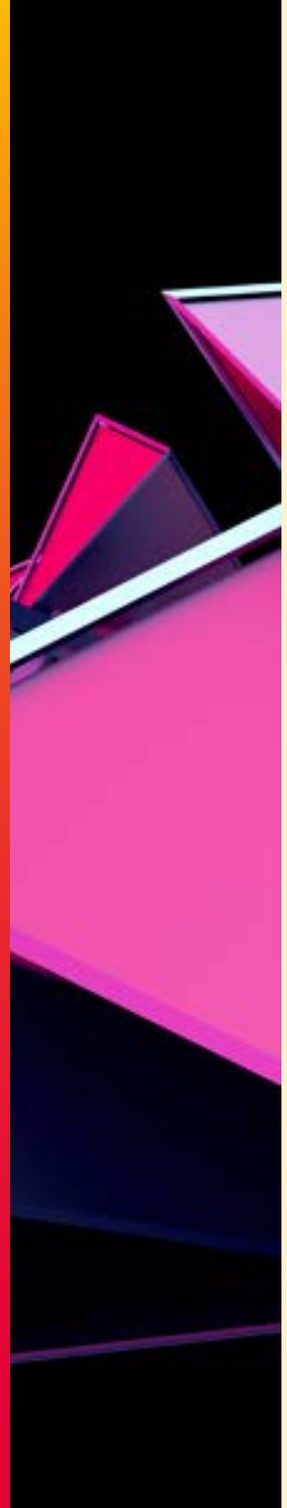
Romania generally welcomes foreign investment, and in many sectors, there are no restrictions on foreign ownership of companies. However, in certain regulated sectors (such as defense or energy), there may be limits on foreign ownership or additional approval processes.

Anti-Bribery and Corruption Laws

Romania has robust anti-bribery and corruption laws. The National Anticorruption Directorate (DNA) oversees these laws. Companies are expected to have measures in place to prevent bribery and corruption. Violations can result in severe penalties, including hefty fines and imprisonment.

Modern Slavery Laws

As a member of the European Union, Romania is subject to EU laws and regulations against forced labor and human trafficking. Businesses are expected to take steps to ensure that their supply chains are free from forced labor.



12. Industry Associations

There are several associations in Romania that represent and promote the tech industry. Below are a couple of the most prominent ones:

ANIS (Employers' Association of the Software and Services Industry)	ANIS represents the interests of IT companies in Romania and has been an active contributor to the country's digital economy. Their goal is to support and promote the software and IT services sector. ANIS members include both Romanian and foreign companies. More information can be found on their official website (http://www.anis.ro/).
ARIES (Romanian Association for Electronic Industry and Software)	ARIES is the largest and most influential organization representing the Romanian IT industry. It promotes cooperation between member organizations, supports innovation, and fosters internationalization. ARIES represents around 350 companies, both local and foreign, that are involved in various IT sectors including software development, digital communications, and electronic components manufacturing. More information can be found on their official website (https://aries.ro/en/).

Annex 1: Governance – Articles of Association

In general, the Articles of Association shall contain:

a) particulars identifying the partners; in the case of a limited partnership, the limited partners shall also be indicated;
b) the form, name and registered office;
c) the object of the partnership's activity, specifying its field and principal activity;
d) the subscribed share capital, stating the contribution of each partner, whether in cash or in kind, the value of the contribution in kind and the method of valuation; in the case of limited liability companies, the number and nominal value of the shares and the number of shares allotted to each partner for his contribution;
   – the method of adopting resolutions of the general meeting of members, with all members voting, if, because of the parity of the share capital, an absolute majority cannot be established;
e) the members who represent and manage the company or the non-associated directors, their identification data, their term of office, the powers conferred on them and whether they are to exercise them jointly or separately;
   – in the case of limited liability companies, if auditors or financial auditors are appointed, the identification data of the first auditors or financial auditors respectively;
f) each member's share of profits and losses;
   – where applicable, where the law so provides, the identification of the beneficial owners and the manner in which control of the company is exercised;
g) the secondary offices - branches, agencies, representative offices or other such establishments without legal personality - where they are set up at the same time as the company, or the conditions for their subsequent establishment if such establishment is contemplated;
h) the duration of the company;
i) manner of winding up and liquidation of the company; the arrangements for meeting liabilities or settling them in agreement with creditors in the event of dissolution without liquidation, where the members agree on the distribution and liquidation of the company's assets.

The information in this factsheet is for general purposes and guidance only.

It is designed to provide a general overview of some important considerations when setting up for success in Romania as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.

Setting up for success in SLOVAKIA

Introduction

This factsheet is intended to provide a high-level summary of some of the primary considerations for launching a tech business in Slovakia. It focuses on certain of the key legal factors to think through and is not intended to be a comprehensive or definitive resource. It is meant to give you a general overview of some important aspects of setting up for success in Slovakia.

You should do further research and seek professional legal advice before making any decisions that may affect your business.

Table of Contents

Annexes

1. Corporate considerations for setting up a business in Slovakia

What entity you should use to set up your company

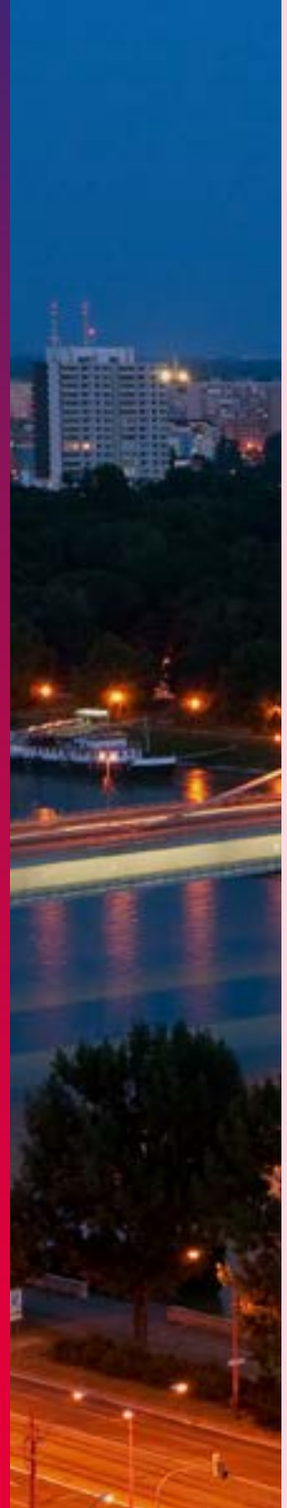
The main options available to a foreign investor looking to establish a corporate presence in Slovakia are:

Type of Entity	Key Characteristics
Limited liability company (LLC) ***Spoločnosť s ručením obmedzeným* (s.r.o.)**	**Registered capital:** minimum EUR 5,000.00 (which can be cash, cash + in-kind contribution or fully in-kind contribution) **Liability of shareholder:** A shareholder is liable up to the amount of the unpaid contribution the registered capital. A company with sole shareholder cannot be the single founder or single shareholder of another company. **Number of shareholders:** 1 - 50 **Company bodies:** General Meeting – the main decision-making body. Executive director(s) – the governing body of the company, with sole or joint representative rights. Supervisory Board – optional; Three members minimum. The shares (ownership interest) can be transferred, but the transfer can be limited in the company formation documents. The seat must be in Slovakia, the company can have a branch office in other countries.

Type of Entity	Key Characteristics
Joint stock company ***Akciová spoločnosť*** **(a.s.)**	**Registered capital:** minimum EUR 25,000.00 (which can be cash, cash + in-kind contribution or fully in-kind contribution). A shareholder is not liable for the company's obligations. **Number of shareholders:** At last, one shareholder. **Company bodies:** General Meeting – the main decision-making body. Board of Directors – the governing body of the company, with sole or joint representative rights. Supervisory Board – optional (if more than 50 employees then mandatory; employees elect 1/3 of the supervisory board); Three members minimum. The shares can be transferred, but the transfer can be limited in the company formation documents. The seat must be in Slovakia, the company can have a branch office in other countries. The company must issue shares. Based on the resolution of the company's general meeting, the company may list its shares on the stock exchange.

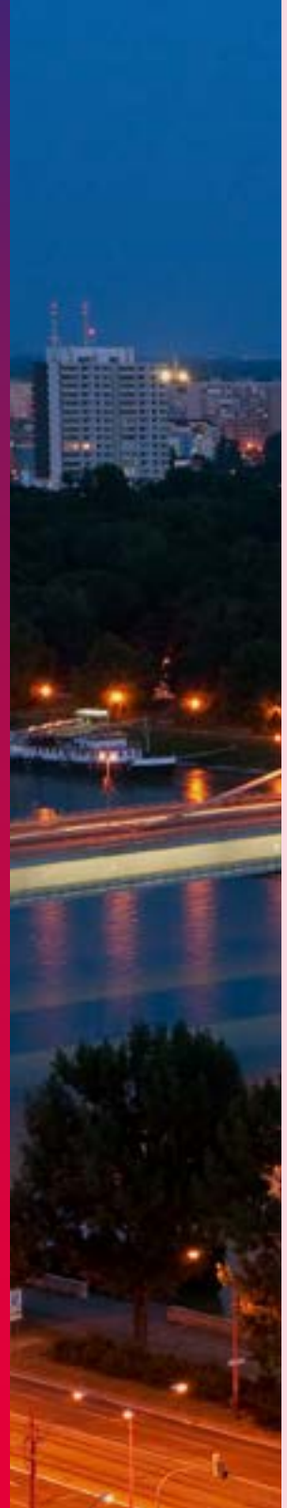
Type of Entity	Key Characteristics
Simple joint stock company ***Jednoduchá spoločnosť na akcie*** **(j.s.a.)**	Sub-type of the Joint-stock company. **Registered capital:** minimum EUR 1.00 **Liability of shareholder:** A shareholder is not liable for the company's obligations. **Number of shareholders:** At last, one shareholder. **Company bodies:** General Meeting – the main decision-making body. Board of Directors – the governing body of the company, with sole or joint representative rights. One member minimum. Supervisory Board – optional; Three members minimum. The shares can be transferred, but the transfer can be limited in the company formation documents. The seat must be in Slovakia, the company can have a branch office in other countries.
General partnership ***Verejná obchodná spoločnosť*** **(v.o.s.)**	No minimum registered capital requirement. The general partner has secondary, joint, several and unlimited liability for the obligations of the company. The company must have two or more members. Each member is entitled to act on behalf of the company. The ownership interest can be transferred, but the transfer can be limited in the company formation documents. The seat must be in Slovakia, the company can have a branch office in other countries.

Type of Entity	Key Characteristics
Limited partnership ***Komanditná spoločnosť* (k.s.)**	The minimum registered capital is EUR 250 (per limited partner) which can be cash, cash + in-kind contribution or fully in-kind contribution. **Number of partners:** At last, one limited partner and one general partner. The general partner has secondary, joint, several and unlimited liability for the obligations of the company, the limited partner has liability limited up to their unpaid contribution to the registered capital of the company. Only the general partner(s) are entitled to act on behalf of the company. Decision-making is done by the general partners and limited partners by a majority of votes. The ownership interest can be transferred, but transfer can be limited in the company formation documents. The seat must be in Slovakia, the company can have a branch office in other countries.
Branch of the foreign company ***organizačná zložka***	A branch of the foreign company is an organisational unit of a foreign company. No minimum registered capital requirement. A branch has no own legal capacity but has legal capacity to acquire rights and undertake obligations under on behalf of the foreign company (for example, it can acquire properties, conclude contracts, sue or be sued). Branch office is entitled to do conduct business activity. Establishing a branch is a suitable option for foreign investors intending to establish a Slovak presence. Branch must be registered with the Commercial Register. Head of branch and directors of the foreign company are entitled to act on behalf of the branch.



2. Branch vs subsidiary – options for group expansion

	Branch	Subsidiary
Separated legal identity	No, no own legal capacity but has the legal capacity to acquire rights and undertake obligations under on behalf of the foreign company (for example, it can acquire properties, conclude contracts, sue or be sued).	Yes.
Minimum registered capital requirement	No.	Yes, in case of an LLC, Joint Stock Company, Simple Joint Stock Company, Limited Partnership
Can engage in profit-oriented business activities?	Yes.	Yes.
Can it acquire properties, conclude contracts, sue or be sued?	Yes, but only on behalf of the foreign parent company.	Yes.
Governing body	Same as the foreign founder and Head of the branch entitled to act on behalf of the branch.	General Meeting – the main decision-making body. Executive director(s) – the governing body of the company, with sole or joint representative rights.

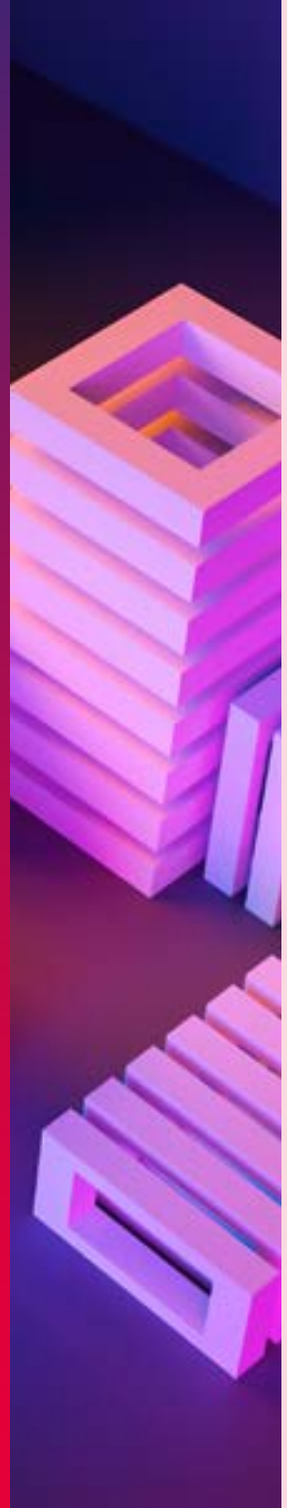


	Branch	Subsidiary
Liability of parent company for the obligations of the branch/subsidiary	Several, unlimited and joint liability with the branch.	In case of LLC and Joint Stock Company, Simple Joint Stock Company, the parent company is not liable for the obligations of the company. In case of General Partnership, the parent company has unlimited liability. In case of Limited Partnership, one founder has unlimited liability, another founder has liability limited to their contribution to the capital of the company.
Taxation	**Corporate Income Tax** Depending on a double taxation treaty concluded between the Slovak Republic as the state where the branch is registered and the state of the seat of the branch's founder. If the DTT provides that the income derived from Slovakia may be taxed therein, it will also be necessary to analyse the relevant local regulations of both jurisdictions and the tax may then be reduced by the amount of tax already paid in other jurisdiction. In case the DTT provides that the income derived from Slovakia shall be only taxed in Slovakia or only in other (home) jurisdiction the respective rules shall apply. VAT 20%	**Corporate Income tax** — 15% from revenues up to EUR 49,790 achieved for the relevant tax period; — 21% from revenues above EUR 49,790 achieved for the relevant tax period; — withhold 35% from dividend received from foreign company; — 21% from transfer of the undertaking or assets to abroad. VAT 20%

3. Incorporation vs acquisition of a company

Steps to Take	Incorporation	Acquisition
Common preliminary steps	Checking the company name in the company registry. Checking the domain names in the domain name registry. Looking for a registered seat, agreeing on the use of the address as a registered seat. Defining the activity of the company. Deciding on the company structure, board members, directors, CEOs, new seat, new bank account, etc.	Due diligence of the target company. Negotiating the conditions of the acquisition deal. Deciding on the company structure, board members, directors, CEOs, new seat, new bank account, etc.
Step 1	Drafting company formation documents on the establishment of a company under Slovak law.	Preparing, negotiating, and signing the sale and purchase agreement (SPA).
Step 2	Signing the company formation documents before a notary public.	Preparing the company documents and signing them (notarisation can be required).
Step 3	Submitting the company documents to the Trade License Office, Tax Authority and Court. Registration for Income Tax.	Submitting the company documents to the Commercial Register for registration of the changes.
Step 4	Opening a bank account, engaging an accountant, obtaining invoicing software/system.	

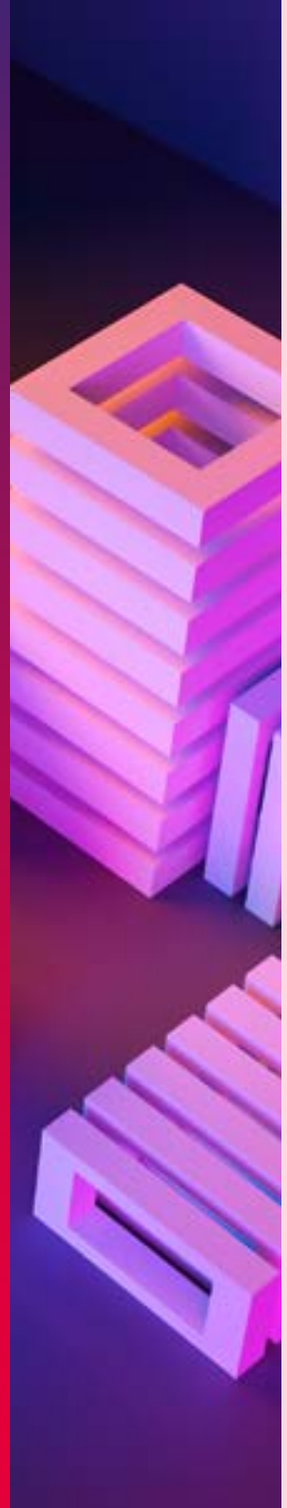
Steps to Take	Incorporation	Acquisition
Estimated timing and costs	Depends on the type of company. General partnership, Limited partnership, Limited liability company, Joint Stock Company and Simple Joint Stock Company will be registered by the court within 15 working days. **Costs:** The one-time court fee for registration with the Commercial Register is EUR 188 for Joint Stock Companies and EUR 150 for other types of companies. The notarization fee depends on the country, but for Slovakia up to EUR 4 per signature. Fee for official translation by a certified Slovak translator to the Slovak language is EUR 25 – 35 per page, if required. Costs of attorney at law (as agreed depending on the structure of the new company)/ notary public.	The court will register the changes within 15 working days. Procedural fees: EUR 35. Costs of attorney at law/notary public (as agreed).



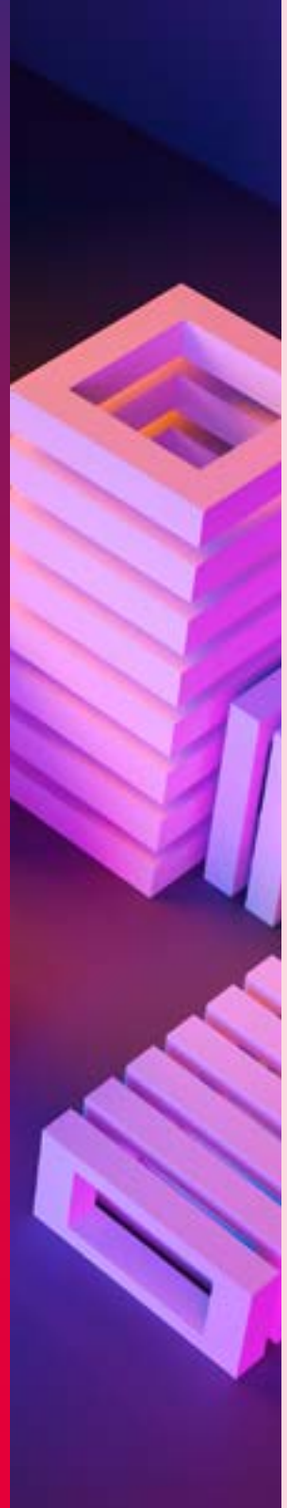
4. Practical steps required to be undertaken when setting up a company in Slovakia

In addition to setting up a local bank account, appointing professional advisers and service providers such as accountants, lawyers, and company secretaries and taking out insurance (both as required by law and as may be prudent for your business activity, there will be a number of other practical steps you need to take. The sections below summarise some of the principal practical considerations businesses need to address when establishing a new entity in Slovakia.

Formality	Basic Aspects
Choosing a company name	
The name of the company must include a suffix indicating the legal form (GP, LP, LLC, JSC, SJSC).	The main name must differ from other registered companies' names in Slovakia. The main name may contain Slovak or foreign words, abbreviations, and numbers. Latin letters are obligatory. The company format must be in Slovak (suffix).
The business name must not be interchangeable with the business name of another company and must not give a misleading impression of the entrepreneur or the subject matter of the business.	Certain suffixes or words are reserved for certain types of businesses. E.g. client (SW company) build an SW synthesising knowledge bank from the vast amount of information and wanted to use the name Knowledge bank. This was not possible, because only entities holding a banking license under Slovak law can use Slovak or other language variations of the word "bank" in the company name. The name of the branch and representative office must include the name of the foreign company that established it. The company name cannot be reserved at the company court before registration



Formality	Basic Aspects
Setting up a registered office	
The registered office must be officially recorded in the company register.	The company's registered office must be in the territory of the Slovak Republic. If a company is not the owner of the building in which the seat is located consent of the property owner is required for registration of the seat with the Commercial Register. This document can be prepared electronically but the owner's signature must be notarised. Then the consent is submitted electronically to the Commercial Register. The company must designate the registered office by a sign with the company name on the door/gate/doorbell. The registered office can differ from the central decision-making location of the company, in this case, this latter also must be registered with the company court.
Corporate filings – including constitutional and accounting documents where applicable	
Commercial Register and UBO	The company's registered office must be in the territory of the Slovak Republic. If a company is not the owner of the building in which the seat is located consent of the property owner is required for registration of the seat with the Commercial Register. This document can be prepared electronically but the owner's signature must be notarised. Then the consent is submitted electronically to the Commercial Register. The company must designate the registered office by a sign with the company name on the door/gate/doorbell. The registered office can differ from the central decision-making location of the company, in this case, this latter also must be registered with the company court.
Register of Financial Statements	After the end of FY company must file the Financial Statement and tax return with the Financial Administration and publicly available Register of Financial Statements.



Formality	Basic Aspects
Register of Public Sector Partners	A company contracting with the state and receiving remuneration for goods or services provided to the state or state companies must be registered with the publicly available Register of Public Sector Partners where the whole structure of the company and UBOs are registered.
Accessing company's electronic mailbox.	
Official electronic mailbox of the company.	National Agency for Network and Electronic Services sets up an electronic mailbox for every company from the date of the company's establishment. State authorities and courts use the electronic mailbox for communication with the company. Companies are obliged to check the electronic mailbox and to communicate with state authorities via the electronic mailbox. Access to the mailbox is automatically granted to executive directors of the company. The mailbox is accessed via government web page with the Slovak ID card or ID card issued by a national state under eIDAS regulation. Official information for foreign statutory representative https://www.slovensko.sk/en/electronic-mailbox/foreign-entity

Proceedings for obtaining authorisation to work in Slovakia

There is no need for a company to have employees. However, if a company employs an individual then the company is obliged to register in the register of employers kept by the Social Insurance Company no later than on the day preceding the day on which the employer starts to employ at least one employee (link for Social Insurance Company web page).

5. Governance

Constitutional documents

Company Type	Inevitable parts of company formation documents
Limited liability company	— business name and registered seat; — identification of the members amount of the share and contribution to the registered capital; — subject of business activity (scope of business); — amount of registered capital; — identification of company's first executive directors and the manner of executing legal acts on behalf of the company; — identification of members of the first supervisory board (if established) — identification of the contributions administrator; — benefits provided to persons participating in the company's incorporation or in any activities aimed at obtaining a licence to conduct its activity; — the estimated amount of the company's costs connected with its foundation and incorporation.

Company Type	Inevitable parts of company formation documents
Joint stock company	If a company is to be founded based on a call to subscribe shares (establishment of the company based on the call to subscribe shares is not practical for start-ups): — business name and registered seat; — identification of the shareholders and their share and contribution to the registered capital (in case of in-kind contribution the value of it); — subject of business activity (scope of business); — the number of shares, their nominal value, form and format; if shares of various types are to be issued, their title and a description of the rights attached to them and restriction of transfer if in place; — the nominal value and share premium for which the company issues the shares, — the number of shares subscribed by individual founders, — the estimated amount of the company's costs connected with its foundation and incorporation. **Company must issue Articles Associations (Company's bylaws):** — business name and registered seat; — subject of business activity (scope of business); — the amount of registered capital and the manner of paying up the shares; — the manner of convening the general meeting, its powers and manner of decision-making, — the number of members of the board of directors, supervisory board or other bodies, as well as a definition of their powers and manner of decision-making; — the manner of convening the general meeting, its powers and manner of decision-making, — the amount of the initial reserve fund; — the manner of: • distributing profit; • increasing and reducing registered capital; • amending and changing the articles of association. — the consequences of breaching the obligation to pay subscribed shares in time.

Company Type	Inevitable parts of company formation documents
Simple joint stock company	— business name and registered seat; — identification of the shareholders and their share and contribution to the registered capital (in case of in-kind contribution the value of it); — subject of business activity (scope of business); — the number of shares, their nominal value, form and format; if shares of various types are to be issued, their title and a description of the rights attached to them and restriction of transfer if in place; — the nominal value and share premium for which the company issues the shares, — the number of shares subscribed by individual founders, — resolution on the approval of Articles of Associations (Company's bylaws); — appointment of the members of the company's bodies; — resolution on establishment of the company; Company must issue Articles of Associations (Company's bylaws) the inevitable parts are the same as in case of joint stock companies, however if the company issues shares of various types also the designation of the issued types of share, determination of the rights attached to the individual types of share and the method by which they are exercised.
General partnership	— the business name and registered seat; — identification of the members — subject of business activity (scope of business);
Limited partnership	— business name and registered seat; — identification of the members; and their designation as the general partners and the limited partners; — subject of business activity (scope of business); — amount of each limited partner's contribution to the registered capital (minimum is EUR 250).

Agreements between Shareholders or Members

Shareholders or members can enter into an agreement and agree on the mutual rights and obligations arising from their participation in the company. Typical parts of a shareholders' agreement are:

— Restrictions on transfer of the shares accompanied with standard Drag-along, Tag-along, and Shoot-out clauses
— Special decision-making on general meetings, board of directors and supervisory board;
— Exit strategy and rights of the investor(s)
— Different quorum on votes in key topics;
— Powers to appoint and remove members of the company's bodies;
— Shareholders' control provisions;
— Provisions on the right to and payment of dividends;
— Dispute settlement among shareholders, or shareholders and company.

Directors Duties and Liabilities

General director's duties

Each director has a duty to act with due care of a prudent businessperson, acquire a sufficient information for a decision to be made in due care. Each director has a fiduciary duty to promote and follow company's interest.

Directors must exercise their duties in compliance with applicable laws, the company's articles of association and bylaws, any instructions issued at shareholder meetings, and the obligations under their agreement.

Directors' duties are set out in the Commercial Code, which is supplemented by a number of other binding provisions. They include:

- making arrangements to properly maintain prescribed records and accounts
- monitoring on an ongoing basis the value of the company's equity and its debts to evaluate whether the company is in crisis (a director who finds out or taking all circumstances into account should have found out that the company is in crisis, is obliged in accordance with the requirements of professional care to do everything that any other reasonably careful person would do in a similar situation to overcome such crisis)
- maintaining a list of shareholders (if required by law)
- informing members, shareholders and the company's bodies about the company's affairs
- submitting annual financial statements, proposals for profit or loss distribution and annual reports to the general meeting for approval
- applying for proper registration of relevant facts with the Commercial Register; directors submit proposals for the registration of (and any changes to) the relevant data with the Commercial Register and are responsible for ensuring that the registered information is correct
- convening a general meeting on the basis stipulated in the Commercial Code
- submitting to the general meeting a report on the company's business affairs and assets at least once a year
- notifying and explaining obligations to the supervisory board (or in the case of a limited liability company, when a supervisory body is not established, to the general meeting) with regard to the main business plans and the development of the company's business and assets
- immediately informing the supervisory board of all facts that may impact on important company business or assets, and
- convening an extraordinary general meeting and submitting proposals for remedies if company losses exceed one third of its registered capital.
- Directors must exercise their range of powers with due managerial care and in accordance with the interests of the company and all its members or shareholders. Directors are obliged to obtain and take into account all available information regarding the decision and not to disclose confidential information and facts to third parties if such disclosure might be detrimental to the company, its partners or shareholders. A director may also not put his/her own interests, the interests of third parties or the interests of his/her partners before the interests of the company.

Liabilities

Directors can incur various potential liabilities as a consequence of a breach of their duties. These include, in particular, the following:

- liability for compensation of loss caused to the company (and subsequently to its creditors)
- criminal liability for certain criminal offences that can be attributed to the directors;
- personal liability for paying the penalty in the event of failing to file for bankruptcy;
- liability for returning the illegally repaid payments in the event of breach of the ban on repayment of contributions substituted for own resources if the company is or could get into crisis (in such a case the directors will become guarantors of the wrongfully disbursed payments by operation of the law).

Company in Financial Distress – for guidance on directors' duties when a company is in financial distress, see Annex 1.

6. Employment considerations

Key requirements for employment contracts in Slovakia:

Essentials of an Employment Contract	
Identification data of the employer and the employee	Employee: title, first and surname, permanent residence and date of birth; Employer: business name, registered office, company identification number.
The type of work and its brief specification	It is usually the job position (function) for which the employee is hired. The agreed type of work should correspond to the specific purpose of the work.
The place of work	Municipality, part of a municipality or otherwise designated place or places of work.
The date of commencement of work	The employment relationship is established on the day that was agreed upon as the day of starting work.
The salary conditions	A salary must not be lower than the minimum provided by the Labour Code. If the salary conditions are agreed in a collective agreement, it shall be sufficient refer to it in the contract of employment.
Other Contents of the Employment Contract **(optional)**	— Probation period — Use of company devices (phone, mobile phone, laptop, desktop, etc) for private purpose — Use of company car — Transfer of intellectual property rights to the employer — Confidentiality — Extra holidays — Special termination notice period — Main and special duties of the employee — Data protection provisions — List of internal policies to be applied for the employment relationship

Timing: The employment contract must be signed and concluded before the first working day of the employee. If not the employment is commenced when the employee starts to execute work for the employer.

Pay and benefits

Pay

A wage must not be lower than the minimum wage. Gross minimal wage: EUR 700/ month; EUR 4,023 per hour. The minimum wage is determined per specific position based on the degree of complexity of work (see table below) according to which an employee is entitled to higher minimal wage.

Degree of complexity of work	Minimum wage coefficient
1.	1.0
2.	1.2
3.	1.4
4.	1.6
5.	1.8
6.	2.0
Formula: Minimum wage (EUR 700) x respective coefficient	

Additional payments

— Compensation for overtime work - plus at least 25% of employee's average earnings;
— Compensation for holidays – plus at least 100% of employee's average earnings;
— Compensation for Saturday work – plus 50% of employee's average earnings;
— Compensation for Sunday work – plus at least 100% of employee's average earnings;
— Compensation for night Work – plus at least 40% of employee's average earnings.

Benefits and bonuses are not mandatory, the employer can decide on them at their discretion. We do not suggest indicating them in the employment contract.

Performance-based pay: The salary can be defined as base salary + performance-based salary. The performance requirements must be defined in the employment contract.

Limitations on making decisions on salary: The employer can deduct any amount from the salary only based on legal provision, a final court judgment or with the agreement of the employee.

Pension

Employee is entitled to an retirement if he/she has been insured by Social Insurance Company for at least 15 years (i.e. was working as sole entrepreneur or employee) and has reached retirement age.

In general, for people born in 1966 the retirement age is 64 years old. The specific per age group is available here;

The retirement age is the general retirement age for the relevant year reduced by:
— 6 months, if the insured has raised one child,
— 12 months if the insured raised two children,
— 18 months if the insured raised three or more children.

The minimum pension is EUR 334,30.

Income tax and social security considerations

Employer must deduct and pay the below indicated deductions from the employee's monthly wage and pay it to the respective institution (Social Insurance Company, Health Insurance (one of three), Financial Administration). Late payment are subject to default interest

This payroll issues are regularly outsourced to accountant or a payroll company.

Deduction	Employee	Employer
Health insurance	4%	10%
Social insurance	9.4%	25.2%
Income tax	19%	

Working conditions

Working hours

Regular shift: The general rule for full working time is 8 working hours per day. An employee's working time shall not be more than 40 hours per week.

Two-shift work pattern: An employee's working time shall not be more than 38 and 3/4 hours per week.

Three-shift or continuous work pattern: An employee's working time shall not be more than 37 and 1/2 hours per week.

Employee below 16 years of age: An employee's working time shall not be more than 30 hours per week.

Employee above 16 years of age: An employee's working time shall not be more than 37 and 1/2 hours per week.

The employee's average weekly working time, including any overtime work, shall not exceed 48 hours.

Overtime Work

An employer can order an employee a maximum of 150 overtime hours per year.

Holiday

General holiday entitlement shall be at least four weeks. Additional one week of holiday must be provided to an employee (i) who is older than 33 years of age; (ii) who begins or ceases to have permanent custody of a child.

Sick leave

An Employee is entitled for paid sick leave for maximum 52 weeks if recognised as temporarily unable to work by a physician.

First 10 days are paid by employer:
— 1 – 3 days 25% of the specially calculated base;
— 4 – 10 days 55% of the specially calculated base.

Day 11 to the end of 52 weeks are paid by the Social Insurance Company:
— 55% of the specially calculated base.

Family-friendly rights

Maternity leave

In connection with childbirth and care of the newly born child, a woman shall be entitled to leave of:
— 34 weeks under normal conditions and in the event of the birth of one child;
— 37 weeks in the case of a lonely woman;
— 43 weeks in case of a woman who gives birth to two or more children at the same time.

Paternity leave

In connection with childbirth and care of the newly born child, man shall be entitled to leave of:
— 28 weeks under normal conditions and in the event of the birth of one child;
— 31 weeks in the case of a lonely man;
— 37 weeks in case of birth of two or more children at the same time.

Parental leave

In order to improve childcare, the employer shall grant the woman or man at her or his request parental leave lasting until the day when the child reaches three years of age.

Where the long-term adverse health condition of the child requires special care, the employer shall grant the woman or man at her or his request parental leave until the day when the child reaches six years of age. Such leave shall be granted in the scope requested by the parent, normally, however, at least one month.

Remote work

Woman or a man permanently caring for a child under eight years may request remote work for the purposes of childcare. If employer does not comply with the request within a reasonable period, they must provide the employee with a written justification.

Change of working hours

If a pregnant woman, woman or a man permanently caring for a child under 15 years of age request shorter working hours or other appropriate adjustment of working time or, in justified cases, an earlier return to the original way of organising work, the employer is obliged to comply with their request, unless serious operational reasons prevent this.

The employer must give reasons in writing for refusing this request.

Entitlement for maternity allowance

Mother: Must be insured within Social Insurance Company for at least 270 days in the last two years before childbirth.

Entitlement starts from:

— the sixth week before the expected delivery date
— as early as the eighth week before the expected date of childbirth, if applied for between 8 and 6 weeks before that date
— if the birth occurs before the mother has claimed maternity pay, from the date of delivery

And usually lasts for 34th week after the allowance begins.

Other caregiver (e.g., usually the father): May also qualify for maternity allowance if insured for at least 270 days within the last two years prior to the date on which they apply for maternity allowance. The duration of the allowance varies based on specific circumstances:

— Father of the child: 2 weeks from recognition of maternity allowance.
— Caregiver: 28 from recognition of maternity allowance.
— Caregiver (single): 31 weeks f from recognition of maternity allowance.
— Caregiver with two or more children: 37 from recognition of maternity allowance.

Termination of employment

Agreement on Termination of Employment

The employment relationship can be terminated by mutual agreement between the employer and the employee.

— Effectiveness: as of date agreed in the agreement.
— Formal requirements:
  - Agreement must be in writing.
  - The reasons for the termination must be included in the agreement if requests by employee or if provided by the Labour Code.

Termination Notice

Employment may be terminated with notice either by the employer or the employee.

— Effectiveness: termination period starts as of the first day of the calendar month following delivery of the notice and the employment relationship end on the last day of the calendar month (according to the length of the notice period).
— Formal requirements: The notice must be (i) in writing; and (ii) delivered, otherwise it is null and void.

Employer's termination notice

An employer can terminate an employee by a notice from the following reasons:

— the employer or its part is being dissolved or relocated and the employee does not agree with the change of the agreed place of work;
— the employee has become redundant or does not meet the legal prerequisites for the performance of the agreed work;
— the employee is not able, due to medical conditions, to carry out work;
— the breach of the working discipline;
— the unsatisfactory performance of work tasks and has been required in writing by the employer to remedy the deficiencies within the last six months and the employee has failed to remedy them within a reasonable time.

Employee's termination notice
An employee can terminate the relationship by a notice for any reason.

Limitation of termination of the employment:
An employer cannot terminate employment during a protected period, that is:
— during sick leave;
— during carrying out an extraordinary duty in a crisis;
— during voluntary military training in the armed forces of the Slovak Republic;
— during pregnancy or on maternity (paternity and parental) leave;
— during term in a public office;
— any period during which an employee carrying out night work has been recognised as incapable of night work pursuant to medical opinion.

Termination of Employment with Immediate Effect
By Employer
An employer can terminate employment with immediate effect only in exceptional cases:
— if the employee was convicted for an intentional criminal offence; or
— for serious breach of work discipline.

By Employee
An employee may terminate employment with immediate effect if:
— if the employee is unable to further carry out work due to his/ her medical condition and the employer has not transferred him or her to different work suitable for them within 15 days from the submission of the medical statement;
— the employer is in delay with the payment of the wage, wage compensation, travel expense refunds or compensations more than 15 days;
— employee's life or health is at immediate risk.

Effectiveness
The employment is terminated immediately.

Formal requirements
The employer may terminate employment with immediate effect within a time limit of two months from the date it learnt of the reason for termination with immediate effect, however no later than one year after the date such reason arose.

Termination of Employment during the Probationary Period
In the probationary period the employer and employee may terminate employment for any reason or without giving a reason, unless further stipulated otherwise.

Formal requirements
The written notice of termination of employment should be delivered to the other party normally at least three days before the intended termination date of employment.

What to look out for
An employer may terminate the probationary employment of a pregnant woman, a mother up to the end of the ninth month after childbirth, a nursing woman and a man on paternity leave only in writing, in exceptional cases unrelated to pregnancy, maternity or the care of the new born child, and must duly justify the termination of the probationary employment in writing; otherwise, it shall be null and void.

Collective rights/bargaining

Work council and employee trustee
A works council may operate in an employer who employs at least 50 employees.

Employee trustee may operate in an employer who employs less than 50 and more than 3 employees.

The rights and obligations of the employee trustee are the same as those of the works council.

Trade union
The employer is obliged to allow the operation of a trade union in the workplace if his employees are members of that trade union.

A trade union organisation must inform the employer in writing on the commencement of its operation at the employer and submit thereto a list of members of the trade union body.

Forms of participation of employee representatives

Employees can participate, through their respective trade union, works council or employee trustee, in the establishment of fair and satisfactory working conditions:

— collective bargaining (can be executed only via trade union),
— by joint decision-making,
  - Certain actions under the Labour Code require the prior approval or agreement with the employee representatives, e.g: the issuing of work regulations and amendments thereto, holiday plan, dismissal or immediate termination of the employment relationship with a member of employee representatives
— by negotiation,
  - the employer should discuss in advance with the employees' representatives e.g. decisions which may lead to fundamental changes in the organisation of work or in contractual conditions, organisational changes;
— the right to information;
  - the employer needs to inform the employees' representatives about e.g. its economic and financial situation and of the expected development of its activities, transfer of rights and obligations under employment relationships, information on mass redundancies.
— inspection activity
  - the employee representatives can inspect compliance with labour law, including wage regulations and collective agreement obligations and inspection of the state of health and safety at work

Collective bargaining

The aim of collective bargaining is to conclude collective agreement which regulate working conditions, including e.g. wages, conditions of employment, relations between employers and employees.

An employment contract is null and void to the extent that it stipulates the employee's entitlements to a lesser extent than a collective agreement.

Training obligations

The employer is obliged to ensure that occupational health and safety and risk prevention are part of the education and training programme for all employees.

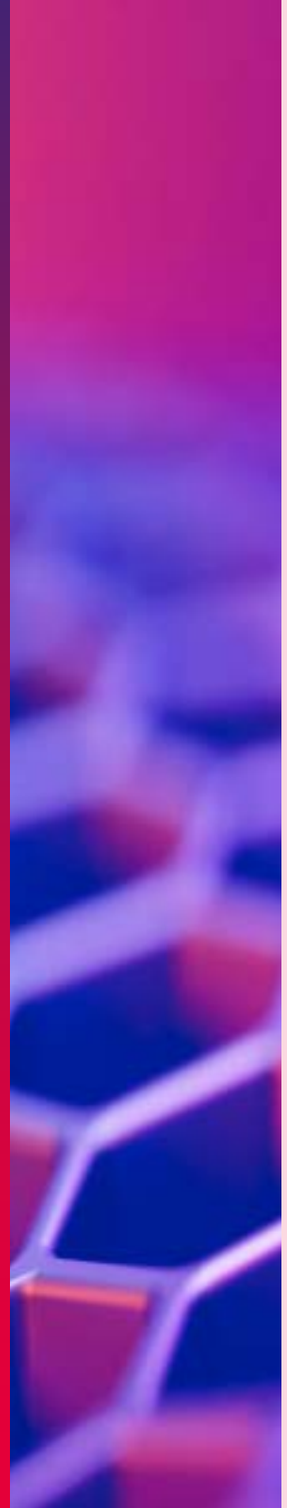
Ensuring the employee's qualifications

The employer arranges training or instruction for an employee who enters employment without qualifications in order for him or her to become qualified. After completing the training or instruction, the employer issues the employee a certificate of completion.

Re-training of an employee

An employer is obliged to re-train as necessary an employee who is transferred to a new workplace or a new type or method of work, particularly in the case of changes in the organisation or work or other rationalisation measures.

For immigration requirements for non-EU employees, see Annex 2.



7. Incentivisation of early-state team and shareholder structure

Incentivising the workforce when the company is in its early stages can be challenging. Cash resources are typically limited, meaning recruitment of new talent, and retaining and rewarding that talent, can all be difficult. Companies use employee stock ownership plans (ESOPs) or share the future profit of the company.

Currently, the procedure for granting share options is regulated in a very limited way, only for so-called “simple joint stock companies” (for employees or freelancers under specific conditions), and for joint stock companies (for employees on preferential terms). Slovak corporate law does not exclude (but also does not regulate) the acquisition of shares in other forms (profit share in LLCs).

For specific points to consider regarding ESOPs, see Annex 3.

8. Tax incentives / special regimes / grants

There are no tax incentives/special regimes provided specifically to tech and IT startups in Slovakia.

There are no special grants for to tech or IT startups, however the Slovak Investment Holding is a joint stock company 100% owned by the Slovak Guarantee and Development Bank. SIH's main objective is to support public and private investments in strategic sectors in Slovakia. SIH fulfils this goal through its core funds.

Slovak Investment Holding as a manager of the National Development Fund II. (the "**NDF II.**") implements direct venture capital investments under the Operational Programmes:

Integrated Infrastructure (OPII)
OPII funds are also used for investments in cooperation with state institutions, which have the task of supporting several infrastructure projects. This form of repayable financing is conditionally advantageous and abstracts from the need for an independent co-investor.

Integrated Regional Operational Programme (IROP)
The aim of IROP is to contribute to improving the quality of life and ensuring the sustainable provision of public services with an impact on balanced and sustainable territorial development, economy, territorial and social cohesion of regions, cities and municipalities. Investments in regional development projects should, in addition to creating an economy based on greater competitiveness, also help promote a high-femployment economy that ensures social and territorial cohesion at regional and sub-regional level.

Operational Programme Quality of Environment (OPQoE).
The aim of the OPQoE is the development of Slovakia in the field of sustainable and efficient use of natural resources, ensuring environmental protection, active adaptation to climate change and support for an energy-efficient low-carbon economy.

9. Investors – considerations for capital raising

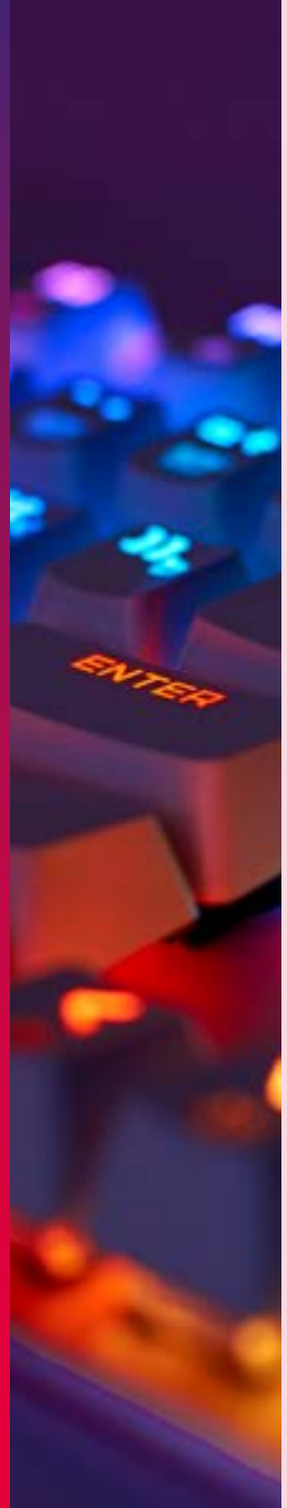
The Act on Regional Investment Aid provides for state aid schemes available in the form of regional aid for investments. The maximum regional aid intensity can be up to 50% depending on the type of investment intent and its location within Slovakia. Large investments with eligible costs over EUR 50 million may have their intensity rate adjusted based on EU rules. If certain thresholds are exceeded the European Commission notification and approval are required.

Venture capital investments are also common in Slovakia in startups with significant growth potential in exchange for a share in the company or interest. This kind of investment firm requires administrative measures and a more formal operation.

Alongside venture capitalists, crowdfunding, and grants (often funded by European Union resources), the angel investors community is growing in size in the start-up investment landscape. Incubators and accelerators are also popular in Slovakia. Incubators usually support startups in an early, pre-seed stage, during product development and provide counselling, mentoring, resources (shared office) and sharing contact with the start-ups. Accelerators provide a fixed-term program for startups in the pre-seed and seed phases in which they provide counselling, mentoring, contacts, office and optional financing to the founders of the start-ups and help them to receive investments and other support.

Regarding foreign investor screening please see Annex 3.

Crowdfunding is also available for startups in Slovakia, usually start-ups in the pre-seed phase use this for financing their products.



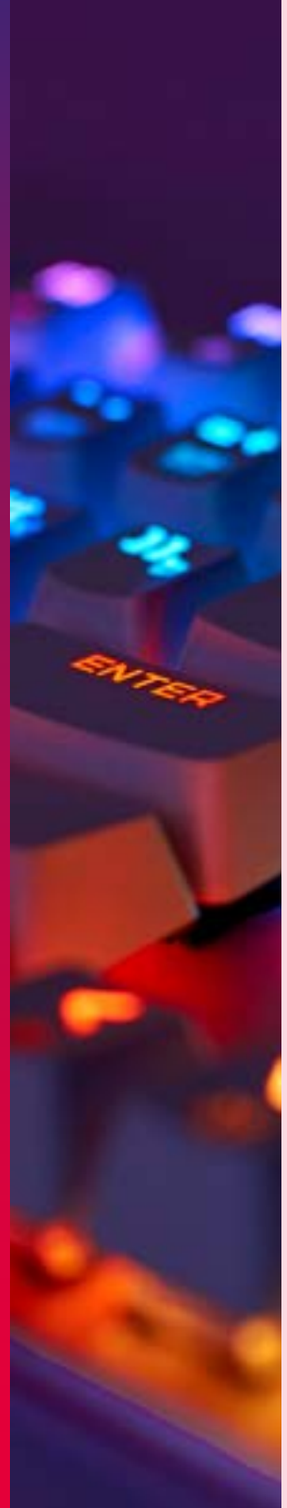
10. IP – protecting the value of your company

Protecting company´s IP is very important, especially for tech businesses. The Slovak law allows to protect the following IP rights, such as:

— Their brands with trademarks.
— Their software and other copyrighted works by copyrights.
— Their inventions by patents or utility models.
— Their designs by design protection.
— Trade secrets and know how by the provisions of the Commercial Code.

The different types of IP rights ensure the following protection:

	Copyright	Trademark		
Type	**National**	**National**	**EU**	**International**
What can be protected?	Individual and original works in literature, art and science, software, database	Distinctive designations: word, sentence, figure, logo, picture, 3D figure, colour, sound, hologram, combination of previous		
Must be registered?	No	Yes	Yes	Yes
Territory of protection	Slovakia	National	EU 27 member states	The countries chosen (120 countries joined)
Authority granting protection	-	National	EUIPO	WIPO
Duration of protection	During the author´s life plus 70 years after the author´s death.	10 years, extendable (unrestricted)		



	Patent			Design			Utility model
Type	**National**	**European**	**International**	**National**	**EU**	**International**	**National**
What can be protected?	Product or procedure which is worldwide new, which is result of an inventive activity and industrially applicable			New and individual form of a product (design)			Part, structure of an object which is new, which is result of an inventive activity and industrially applicable
Must be registered?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Territory of protection	National	38 European countries	The countries chosen (150 countries joined)	National	EU 27 member states	The countries chosen (90 countries joined)	National
Authority granting protection	National	EPO	WIPO	National	EUIPO	WIPO	National
Duration of protection	20 years (non-extendable)			5 years, extendable 4x (maximum protection period 25 years)			10 years

Contractual terms:
Acquiring, selling or pledging IP is a regular matter to be dealt with in tech businesses. Acts regulating specific types of IP (from copyright to utility models) introduce special provisions on licensing and transfer of a IP rights. Due the various specific of the respective legislation, in general if a company wants to acquire, sell or license IP rights to a third party, the contracts should contain at least the following special legal provisions on IP rights and liabilities:

— precise definition of the IP rights to be transferred or licensed;
— transfer of IP rights (where possible) or at least a license for the use of the IP with detailed description of what kind of IP rights are granted;
— warranty of title, chain of title which ensure that the solution is free of IP claims;
— indemnity clause for IP right infringements;
— liability clause for IP right infringements;
— payment clauses, fee of the transfer or license of the IP rights;
— special termination rights;
— confidentiality clauses for protecting IP rights, know-how, trade secrets.

In the case of employees creating copyrighted works or other IP during their employment, the employment contract should include an IP rights transfer clause based on which the employer will obtain IP rights from the employee. It is also advisable to include a confidentiality clause into the agreement.

11. Regulatory – common compliance requirements

General corporate filings

Changes in the company data:
When establishing the company, the first directors of the company must submit the company documents and a request for registration with the Commercial Register.

Directors of the company must submit the changes of the registered company data to the Commercial Register (and or Trade Register) within 30 days. This covers changes in the name, registered seat, registered capital, branch offices, business objects of the company, shareholders of the company and data about them, members of the supervisory board and directors and data about them, liens and pledges on shares.

Annual Account Filings:
Directors of the company prepare annual financial statements (or annual reports) for approval at the general meeting. Once approved financial statements must be filed with a tax office electronically. If the financial statement is not approved by the general meeting before filing the corporate income tax returns with the tax office, the approval of the statement must be delivered to the tax office separately.

The submitted financial statement is publicly available at the following link https://registeruz.sk/cruz-public/domain/accountingentity/simplesearch.

Special registers
Depending on the company's activities, the company may be subject to registration in special registers.

For information on the register of public sector partners, see Annex 4.

Statutory registers

The limited liability companies, joint stock companies and simple joint stock companies must keep a list of shareholders. In general, the list of shareholders should include identification of the shareholder and the amount, type and format of the owned shares. For LLCs, the list is kept within the company. For joint stock companies and simple joint stock companies, the list is registered and maintained by the Central Depository of Shares.

Data Protection

Data protection laws set out essential standards for businesses that handle the personal data of individuals. Personal data includes any information relating to an identifiable individual. If your organisation is or will be involved in the processing of any personal data (including of employees), it is crucial to assess your compliance with data protection law.

The current data protection regime in Slovakia is mainly set out in the EU General Data Protection Regulation (EU GDPR) and the supplemental Data Protection Act.

The EU GDPR applies to organisations with a presence in the EU which process personal data, irrespective of where the processing occurs. It also extends to organisations outside the EU that provide goods and services to, or monitor the behaviour of, individuals within the EU. Compliance with the GDPR is mandatory for such entities.

Principles

The EU GDPR sets out seven key principles that must be followed when processing personal data: fairness, transparency, purpose limitation, minimisation, accuracy, accountability, storage, and security. These principles form the core of the EU GDPR's objectives, and adhering to their spirit is essential for ensuring sound data protection practices and compliance with the regulation.

Controllers and Processors

The EU GDPR distinguishes between organisations which act as controllers (which determine the purposes and means of processing personal data), and processors (which are responsible for processing personal data on behalf of a controller). Both controllers and processors have specific legal obligations imposed on them by the EU GDPR.

Conditions for Processing

The EU GDPR provides six legal bases upon which the processing of personal data can be considered lawful:

1. consent of a data subject;
2. performance of a contract with the data subject (contract);
3. where the processing is necessary for compliance with a legal obligation (legal obligation);
4. where the processing is for the purposes of protecting someone's life (vital interests);
5. where the processing is necessary for the exercise of official functions (public task); and
6. where the processing is necessary for the legitimate interests of the controller or a third-party (legitimate interests).

As a general rule, the processing must be 'necessary' for a specific purpose.

Special Category & Criminal Offence Data

In addition to the conditions above, when processing special category data (such as health-related data) or criminal offence data, the EU GDPR provides additional conditions for processing.

Data Subject Rights

Data subjects have various rights in relation to their personal data under the EU GDPR, these are the right:

1. to be informed about the collection and use of their personal data;
2. to access and receive a copy of their personal data;
3. to rectify inaccurate or incomplete personal data;
4. to request erasure of their personal data;
5. to restrict processing of their personal data;
6. to data portability, allowing data subjects to re-use their personal data across various services; and
7. to object to the processing of their personal data in certain circumstances.

The EU GDPR prescribes specific obligations upon businesses for responding to these data subject requests.

When personal data is obtained from a source other than the data subject directly, privacy information must still be provided to the data subject. The right to be informed is a fundamental transparency requirement under the EU GDPR, and privacy notices are regarded as best practice for fulfilling this requirement.

International Transfers

When personal data is transferred outside of the EU, individuals risk losing the protection of EU data protection laws. Accordingly, the EU GDPR also sets out specific requirements for when personal data can be transferred outside of the EU. An international transfer must be covered either by an adequacy decision, an appropriate safeguard or one of eight other permissible exceptions. In some instances, depending on the nature of the transfer, it will also be necessary to perform a Transfer Risk Assessment.

Other Considerations

The EU GDPR requires that appropriate technical and organisational measures must be in place to meet the accountability requirement (see "Principles" above). For example, you may need to conduct a data protection impact assessment (DPIA), employ a data protection officer (DPO), keep a registry of processing activities (RoPA), or conclude data processing agreements.

Other

For foreign investment requirements and guidance on the whistleblowing system, see Annex 5.

12. Industry Associations

AIslovakIA
AIslovakIA is an independent and non-profit platform whose ambition is to develop excellence and connect experts and those interested in artificial intelligence in Slovakia. The National Platform for Artificial Intelligence - AIslovakIA is represented by the Centre for Artificial Intelligence a non-profit interest association of legal entities, which was formed by transformation from the civic association slovak.AI.

The vision of the platform is to create a space for active cooperation between academia and representatives of employers, government officials, representatives of international institutions or individuals to fully develop the potential of artificial intelligence not only in Slovakia.

Website - https://aislovakia.com/

ITAS
IT Association of Slovakia (ITAS) is the largest association uniting all important Slovak and international IT/ICT companies in Slovakia. It was founded in 1999 and represents more than 100 members from Slovak private IT/ICT sector. Companies represented by ITAS employ almost 30 000 people, ITAS also represents Slovakia in Digital Europe.

Main Activities
- Forms, communicates and asserts professional standpoints on relevant regulations and legislative standards which affect ICT industry.
- Takes into the account the business goals and objectives of ICT companies in legislative activities.
- Organize special meetings of ITAS legal experts and thematic meetings on particularly important laws, regulations or guidelines concerning the ICT sector.
- Informs members about its legislative activities.

Website - https://itas.sk/en/#activities

Košice IT Valley

The Košice IT Valley cluster's vision is to create regional partnerships of IT companies, educational institutions, and regional governments. The Košice IT Valley cluster's mission is to create a business-friendly environment supporting all forms of cooperation and innovation within the region of Eastern Slovakia, supporting the sustainability and competitiveness of IT companies worldwide and also focus on creating and bringing job positions with higher added value to the region within individual entities' cooperation. These will contribute to the expansion and improvement of educational programs, creating a broad portfolio of job opportunities for the skilled workforce. Furthermore, the cluster is interested in developing a unified strategy for achieving prosperity in the region of eastern Slovakia, thus ensuring a gradual improvement in its inhabitants' quality of life.

Main Activities:
- Cooperation.
- Innovation;
- Education.

Website - https://www.kosiceitvalley.sk/en/about-us/

Annex 1 – Directors' duties for companies in financial distress

If the directors determine or, considering all facts, are able to determine that the company is in crisis (a company is in a crisis if it is (i) bankrupt or (ii) threatened by bankruptcy – a company is threatened by bankruptcy if the ratio between its net equity and its debts is lower than 8:100), they are obliged (in compliance with the requirements of necessary professional or due care) to do everything that a reasonable person would do in a similar situation to overcome the crisis.

The Commercial Code also defines in relation to the crisis the payments substituting for own resources, which are: (i) a credit or a similar performance which economically corresponds to it (could be also performed by means of mutual set-off, execution or realisation of the pledge with the same effect); (ii) any performance provided to a company before the crisis, whereas the maturity of this performance was postponed or prolonged during the crisis, such as prolongation of maturity of an invoice. The payments substituting for own resources can be provided inter alia by the controlling person (e.g. by a holding company). Under the relevant provisions of the Commercial Code, repayment of contributions substituted for own resources is not permitted if a company is in crisis or, as a consequence of the above, could get into a crisis (as a consequence of such a repayment).

If the company becomes over-indebted under the Bankruptcy Act, a director must submit without undue delay a bankruptcy petition to the court. In the event of failing to file for bankruptcy the director will be obliged to pay a penalty amounting to EUR 12,500.00, unless:

1. he/she proves that he/she was authorised to put measures in place to overcome the insolvency and after acting with due care filed the petition immediately after learning that the implemented measures will help to overcome the insolvency or
2. within 30 days from learning about the over-indebtedness he/she instructed a restructuring trustee to prepare a restructuring report and file an application for restructuring with the relevant court that granted this application.

Annex 2 – Immigration requirements for non-EU employees

Temporary residence

A third-country national (i.e. a non-EU citizen) who plans to work, do business or study in Slovakia may be granted a temporary residence permit. An application for temporary residence in Slovakia consists of an official form and all the required attachments.

The applicant must submit the following documents:
— completed application,
— form two identical colour photos (3 x 3.5 cm),
— proof of payment of the administrative fee (as required for the relevant type of residence),
— valid travel document (passport),
— document proving the purpose of residence (for employment purposes e. g. a written promise of employment),
— document proving a clear criminal record,
— confirmation of accommodation,
— proof of financial coverage.

All documents submitted with the application must be no older than 90 days.

All documents issued abroad must be legalised (apostille or consular superlegalisation) and translated into Slovak by an official translator certified by the Ministry of Justice of the Slovak Republic.

Single Permit

The single permit is a type of temporary residence for the purpose of employment, issued on the basis of confirmation of the possibility of filling a vacancy.

In the case of a single permit, it is therefore sufficient to apply for a temporary residence for the purpose of employment, while it is not necessary for the employee or the future employer to apply for a work permit.

The employer must report a job vacancy to the relevant employment office at least 20 working days before applying for temporary residence for the purpose of employment. It is possible to register a job vacancy electronically on the website https://www.sluzbyzamestnanosti.gov.sk.

Employee cannot apply for a temporary residence permit for the purpose of employment until 20 working days have elapsed since the vacancy was notified.

In case of job with labour shortage the competent Labour Office issues a certificate on the possibility of filling the vacancy without taking into account the labour market situation. This is subject to these conditions:
— the proportion of third-country nationals employed by the employer is less than 30% of the total number of employees,
— the place of employment is located in the relevant region where the occupation has been identified as a shortage occupation. You can find jobs with labour shortage on the website of the Slovak Central office of Labour, Social Affairs and Family here.

In these cases, it is still necessary to declare the vacancy, but the 20 working day obligation does not apply.

Work Permit

Other than through single-permit, in Slovak republic, you can be employed **with a work permit**, if employee:

— holds temporary residence for the purpose of a family reunion and in the period within 9 months from being granted temporary residence for the purpose of a family reunion,
— holds temporary residence of a third country national with acknowledged long-term residence in another EU Member State, in the period within 12 months from the beginning of the stay in the territory of Slovak republic,
— will be employed for the purpose of seasonal employment for a period no longer than 90 days during 12 consecutive months,
— If it is stipulated by an international treaty binding for the Slovak Republic.

Work permits are issued by the locally competent labour office according to the employee's future place of work.

The future employer must report a job vacancy at least 10 working days before submitting the application for a work permit. Employee will submit the application after the expiry of the aforementioned period.

Exceptions

Under Slovak law, there are many possible exceptions under which an employee can be employed without a work permit or confirmation of the possibility of filling a vacancy. One of them is when an employee has been granted temporary refuge. The temporary refuge is granted for the purpose of protecting foreigners from war, endemic violence, the consequences of a humanitarian disaster or persistent or massive human rights violations in their country of origin. The temporary refuge is intended for:

— the citizens of Ukraine,
— persons who had international or equivalent national protection in Ukraine before 24 February 2022,
— family members of citizens of Ukraine and persons with granted protection (if the family resided in Ukraine before 24 February 2022),
— foreigners who are not citizens of Ukraine, yet were permanent residents of Ukraine before 24 February 2022 and cannot return under safe and stable conditions to their country or region of origin.

Temporary refuge is currently provided until 4 March 2024.

Annex 3 – Specific points to consider regarding employee stock ownership plans

Specific points to consider	
Labour law	Slovak labour laws generally do not regulate employee stock ownership plans (**ESOPs**). The implementation of the ESOP should adhere to civil and commercial legislation. Payments under an ESOP cannot be considered as a salary. There is no specific legal obligation to consult employees' representatives before implementing an ESOP unless a company is bound to do so under the terms of a collective agreement or trade union arrangement or if an ESOP should become part of a collective agreement. Where such agreements are in place these must be respected, and a company should consult with the employees or their representatives before implementing the ESOP. Consideration should be given to these issues when determining who should participate in an ESOP, what should happen during a participant's period of absence and what should happen when a participant leaves employment.
Regulatory aspects	It is possible that a prospectus will be required for participation in the Plan to be offered to employees in Slovakia. — Exemptions: Offers made to no more than 150 persons in any EU member state are exempt and certain Issuers (including those incorporated or listed in a Member State) are required only to publish summary information about the Plan and the Stock in lieu of a prospectus. Where a prospectus is required, the Issuer may be able to take advantage of a short-form regime under which certain requirements for the prospectus' contents are waived. Any prospectus must be approved by the national regulatory authority and filed under the passporting system with the relevant regulatory authority of each EU member state in which participation in the plan is being offered.

Specific points to consider	
Foreign Exchange Control	There are no foreign exchange restrictions applicable to the Plan. The notification obligations may apply. Restrictions may apply in the event of emergency in the foreign exchange economy declared by the Slovak government.
Data Protection	Processing of employee data for purposes directly connected to the employment relationship can generally be justified on the basis that the processing is necessary to fulfil the contract between the issuer and each participant. Purposes outside that category need to be assessed on a case-by-case basis, and opt-in consent can be required in some cases.
Employee Tax Treatment	An employee is generally subject to income tax on the value of the discount when the Stock is purchased. The tax rate is progressive from 19% to 25% which applies to overall yearly income exceeding approx. EUR 41 445,46. The local entity is responsible for withholding and remittance of employee's personal income tax. In practice, the withholding is made by the local entity regardless of whether the respective costs are charged to the local subsidiary by the issuer or not in order to avoid payroll tax registration and tax compliance obligations of foreign issuer in Slovakia. Gains up to individual annual allowance (EUR 500) are exempt from tax. Furthermore, if the stock is held by individual for at least one year and during this period the stock was listed / traded at regulated stock market, the capital gain is fully tax exempt.
Social Security Contributions	Social security and health insurance contributions are due from both the local entity and the employee on all income received applying standard monthly social security contributions caps while health insurance contributions are not capped.
Employer Tax Treatment	Expenses of the local entity connected with an ESOP shall be tax deductible if general tax deductibility test is fulfilled (i.e., expenses are incurred to generate, secure and maintain taxable income).

Annex 4 – Register of public sector partners.

The main purpose of the register is to fight “shelf companies” with non-disclosed UBOs receiving public money. The Register of Public Sector Partners is the register of entities (in general) which:

— receive funds, property or property rights from the government or related bodies or health insurance companies;
— engage in agreements or contracts through public procurement;
— operate as a healthcare provider with agreements from health insurance companies;
— are subject to specific regulations or receive funds from government-controlled entities.

The company qualifying as the public sector partner must cooperate with an authorised person (attorneys-at-law, notaries, banks, auditors and tax advisors) in the process of registration. An authorised person is obliged to execute an independent review of the corporate structure and UBOs. An authorised person is obliged to register the independently identified UBOs and corporate structure. The UBOs and the corporate structure of a public sector partner are publicly available via the register. The authorised person is secondarily liable for the fine that a court can impose on the registered public sector partner.

If a company is not a partner and does not trade with the State, entry in such a register is irrelevant.

Annex 5 – Other regulatory requirements - Foreign investment requirements & whistleblowing system

Foreign investment requirements

From 1 March 2023 the Act on Foreign Investment Screening entered into force. The the Act on Foreign Investment Screening supersedes the previous screening regime that applied to specific transactions. The previous regime, hastily enacted in 2021 and incorporated in the Act on Critical Infrastructure, has been replaced with a new system that aligns better with international standards and adheres to the established framework under the Regulation 2019/452 on establishing a framework for the screening of foreign direct investments into the Union.

Only an investment executed by a foreign investor is subject to the new regime. As the foreign investor shall be is anyone who has made or plans to make a foreign investment and, in particular:

- is not a citizen of an EU Member State;
- does not have a registered office or place of business in an EU Member State;
- is controlled by or its beneficial owner is:
  - an individual or an entity mentioned in (1) or (2), or
  - a public authority of a non-EU country, or
  - an entity in whose management participates a public authority of a non-EU country; or
  - an entity in whose management participates a public authority of a non-EU country; or
- the financing of the investment is secured through financial resources provided by:
  - a public authority of a non-EU country, or
  - an entity in whose management participates a public authority of a non-EU country.

The Act on Foreing Investment Screening applies to both direct and indirect foreign investments. A foreign investment is defined as an investment made or planned by a foreign investor, if it enables the foreign investor, directly or indirectly, to:

- acquire the target or a part of the target;
- exercise an effective participation in the target.
  - for non-critical foreign investments, effective participation is an interest of at least 25% in the share capital or voting rights of the target;
  - for critical foreign investments, effective participation is an interest of at least 10% in the share capital or voting rights of the target;
- increase an effective participation in the target.
  - for non-critical foreign investments, increase to a 50% share in the share capital or voting rights of the target;
  - in the case of critical foreign investments, increase to a 20% share in the share capital or voting rights of the target and whenever the 33% or 50% thresholds have been reached;
- exercise control (within the meaning of merger control rules) in the target;
- acquire ownership of or other rights to the substantial assets of the target (only for a critical foreign investments).

Only foreign investments considered to be the “critical foreign investments” are subject to a mandatory notification to the Ministry of Economy. Investment in the target udertaking the follwowing activity is considered as the critical foreign investment:

- operation of an essential service (e.g. healthcare, public services, or postal services, pharmaceutical and chemical industries, smart industry, energy, water management; electronic communications, banking and financial markets, transportation, digital infrastructure);
- operating
- an element of critical infrastructure;
- news website or a news agency or a publisher of perodial publication;
- manufacturing, research, development, or innovation of:
- dual-use items;
- arms and military equipment;
- national cryptographic information protection products;

— production, research, development or innovation in the field of biotechnology in the health sector;
— provision of a content sharing platform (with annual turnover exceeding EUR 2 million);

If a foreign investor wants to make a significant investment in Slovakia that is considered critical, they must apply to the Ministry for assessment before proceeding with the investment. The investment cannot go ahead until the Ministry grants approval.

For other foreign investments that are not classified as critical, there is an option to voluntarily submit them for assessment. This is done to check if these investments might have a negative impact on Slovakia's security or public order. In case of uncertainty it can be a wise choice to undertake screening. By doing so, the investor can reduce the risk of non-compliance and avoid severe fines.

The Ministry of Economy can initiate an investigation of a foreign investment on its own in the following situations:
— if there is a reasonable suspicion that the foreign investment might have negatively affected Slovakia's security or public order when it was made;
— if there is a suspicion that the law has been bypassed in the process of the investment;
— if the Ministry receives reasoned statement from another EU Member State or an opinion from the European Commission.

A foreign investor failing to file for approval for a critical foreign investment, can be fined up to the value of the investment or 2% of the investor's group net turnover from the previous fiscal year, whichever is higher.

If a foreign investment poses an increased risk of negatively affecting security or public order and is completed without the necessary approval, the Ministry has the power to order the investor to reverse or stop the transaction.

Whistleblowing system

Companies with more than 50 employees are required to create and operate a whistleblowing system by appointing an impartial person or unit in its organisation for receiving and investigating whistleblowing reports submitted through the whistleblowing systems. These companies need to prepare and publish a whistleblowing policy.

The information in this factsheet is for general purposes and guidance only.

It is designed to provide a general overview of some important considerations when setting up for success in Slovakia as a tech business. It is not intended to be comprehensive or definitive. It also does not constitute legal or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. You should do further research and seek appropriate legal, tax, accountancy and other professional advice relevant to your particular circumstances before making any decisions that may affect your business.