

## **NEW MEMBER SEEKS FOR OPPORTUNITY TO START BUSINESS IN THE EU – WHERE ?**

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**Abstract:** The main idea of this paper is to analyze opportunities to start business abroad by the Czech investor point of view. The question is – which factors could cause that domestic business units move to another country? The analysis is mainly based on „comparative advantage” approach – minimum cost, maximum benefit. Useful is to keep in mind that one advantage could not bring more satisfaction with entrepreneurship abroad. Are all business conditions comparative or competitive?

**Keywords:** Registered capital, mobility of capital, VAT rate, insurance costs, minimum wage rate

### **Introduction**

Entry conditions on integrated market brought many new structural impulses to Czech business subjects – protective duties have been abandoned, our farmers have been involved in integrated agricultural policy, changes in the tax system, growth of personal mobility, liberalization of capital flow, subventions for economically backward regions or bad structuralized regions.

The united EU market offers other new possibilities, such as market without frontiers with 500 million consumers. It is necessary to have a wide international view, higher education in investment and management, finally, speaking other foreign languages, especially English to be successful on this market. If you do not understand their philosophy, you could suffer from severe competition on the market, and then you could have problems with international law, which protects the united market in the EU. It may not be forgotten that the “old” EU members have an advantage – time spent on the European market. It is the reason why Czech investors could have some other problems to face. These were the fundamental reasons why we have prepared this analysis.

The purpose of the analysis is to map out conditions for founding a company in the EU by using its keystones “Free mobility of goods, services, persons and capital” in real life. In our analysis we shall put special emphasis on the sections concerning persons and capital.

### **Methods of analysis**

To found a company in another country than the Czech Republic, it is critical to make a comparative analysis of future costs of carrying on business in our republic and the EU. We have divided these into the three following sections (see Table 1).

**Table no. 1 Methods of business costs analysis**

| Section                          | Criterion   |
|----------------------------------|---|
| Goods and services free mobility | <ul style="list-style-type: none"> <li>• Basic principles in the integrated EU market</li> </ul>  |
| Free mobility of persons         | <ul style="list-style-type: none"> <li>• Wages and salaries costs,</li> <li>• Insurance costs paid by employer</li> <li>• Long-term residence in EU, permission for working in another country</li> </ul>   |
| Free mobility of capital         | <ul style="list-style-type: none"> <li>• Amount of registered capital for foundation of common company forms such as limited liability company, joint stock company or self proprietor</li> <li>• administrative costs and barriers,</li> <li>• VAT rate</li> </ul> |

**Free mobility of capital**

- *Comparison of requests on registered capital in the EU countries*

When we intend to carry on business in the Czech Republic, we are obliged to follow the Czech Commercial Code, which stipulates the amount of the registered capital, which depends on the company legal form. In order to be permitted to establish a company with limited liability in the Czech Republic, you will need CZK 200,000 (€ 6,329) and for joint stock company you need CZK 2,000,000 (€ 63 291).

In our business law there are other business forms, such as self proprietor, partnerships, limited partnerships, in which you do not need to have a registered capital except in the case of a co-operative, but on our market there are only two dominating forms - company with limited liability and joint stock company. Why are the other forms inessential for our analysis? In majority of countries their definition is not identical. This is the reason why we specialize on these two forms – limited liability company and joint stock company. This could be illustrated by the statistics in the selected EU countries as showed in the table below:

**Table no.2 Comparison of the amount of registered capital**

| Country       | Common forms of company type         | Currency | Request on capital | Capital in € |
|---------------|--------------------------------------|----------|--------------------|--------------|
| Great Britain | Company with limited liability (CLL) |          | not requested      |              |
|               | Joint Stock company (JSC)            |          | not requested      |              |
| Denmark       | CLL                                  | DKK      | 125,000            | 16,788       |
|               | JSC                                  | DKK      | 500,000            | 67,152       |
| Estonia       | CLL                                  | EEK      | 40,000             | 2,547        |
|               | JSC                                  | EEK      | 400,000            | 25,467       |
| Ireland       | CLL                                  |          | not requested      |              |
|               | JSC                                  |          | not requested      |              |
| Italy         | CLL                                  | EUR      | 10,000             | 10,000       |
|               | JSC                                  | EUR      | 100,000            | 100,000      |
| Hungary       | CLL                                  | HUF      | 3,000,000          | 12,173       |
|               | JSC                                  | HUF      | 20,000,000         | 81,153       |

## Management – Marketing - Tourism

| Country         | Common forms of company type | Currency | Request on capital | Capital in € |
|-----------------|------------------------------|----------|--------------------|--------------|
| Germany         | CLL                          | EUR      | 25,000             | 25,000       |
|                 | JSC                          | EUR      | 50,000             | 50,000       |
| The Netherlands | CLL                          | EUR      | 18,000             | 18,000       |
|                 | JSC                          | EUR      | 45,000             | 45,000       |
| Portugal        | CLL                          |          | not requested      |              |
|                 | JSC                          | EUR      | 25,000             | 25,000       |
| Austria         | CLL                          | EUR      | 35,000             | 35,000       |
|                 | JSC                          | EUR      | 70,000             | 70,000       |
| Greece          | CLL                          | EUR      | 18,000             | 18,000       |
|                 | JSC                          | EUR      | 60,000             | 60,000       |
| Slovenia        | CLL                          | SIT      | 1,500,000          | 6,249        |
| Slovak rep.     | CLL                          | SKK      | 200,000            | 4,998        |
|                 | JSC                          | SKK      | 1,000,000          | 24,989       |
| Poland          | CLL                          | PLN      | 50,000             | 11,450       |
|                 | JSC                          | PLN      | 100,000            | 22,900       |
| Finland         | CLL                          | EUR      | 8,000              | 8,000        |
| France          | CLL                          |          | not requested      |              |
|                 | JSC                          | EUR      | 37,000             | 37,000       |
| Lithuania       | CLL                          | LTL      | 10,000             | 2,895        |
|                 | JSC                          | LTL      | 100,000            | 28,951       |
| Belgium         | CLL                          |          | not requested      |              |
|                 | JSC                          | BEF      | 2,500,000          | 61,982       |

From the viewpoint of “minimum costs”, the cheapest company with limited liability can be established in Estonia, Lithuania and Slovakia, while the most expensive will be in Austria, The Netherlands and Greece.

The cheapest joint stock company could be founded in Slovakia, Poland and Portugal, but the most expensive countries include Austria, Hungary, and Italy.

- *Common administrative and other barriers*

Each country has a priority to protect their own market and their producers, because the EU countries have not fixed uniformity of business law. It is the reason, why they impose barriers and restrictions. A common restriction is in a form of tax from registered capital, ranging from 0.5% to 1% (e.g. Belgium, Greece, Poland) or in a form of registration fee, ranging from € 30 (GB, Ireland) to € 800 (Hungary), banking guarantee amounting to 50 000 USD (Greece).

Establishing of a company in other country is more complicated also due to the fact, that corporate statutes will have to be translated into the local language (which extends the process of registration and raises administrative costs), while it is customary to translate the articles of association into English. This barrier exists in Estonia, Finland, Latvia, Slovenia, or they require that a country resident be a manager or a lawyer in the particular company (e.g. Denmark, Estonia, Ireland, Lithuania, Spain, Portugal and Slovenia).

The best conditions and minimum administrative costs are offered by Malta, where registration process will be accomplished within 3-4 days, the same will take 1-2 weeks in Portugal in the case of establishing a joint venture company with a Portuguese

person; on the other hand, this process will take approximately 3-4 months in The Netherlands and Austria (and, moreover, you will have to hand in the certificates of education, tax receipts, etc.).

**Table no. 3 Examples of administrative fees in EU**

| Country        | Administrative cost (mainly)                               | Total in € | Number of procedures | Time (days) |
|----------------|--|------------|----------------------|-------------|
| Belgium        | tax from registered capital 0.5%                           | 1,607      | 4                    | 27          |
| Czech Republic | fee for notification in Trade register - CLL, JSC          | 747        | 10                   | 24          |
| Denmark        |  | 0          | 3                    | 5           |
| France         | registration fee , fee for incorporation in Trade Register | 305        | 7                    | 8           |
| Germany        | registration fee, fee for notification                     | 1,775      | 9                    | 24          |
| Great Britain  | registration fee   | 209        | 6                    | 18          |
| Greece         | tax from registered capital 1%                             | 3,712      | 15                   | 38          |
| Hungary        | registration fee, fee for notification in Trade Register   | 1,635      | 6                    | 38          |
| Ireland        | registration fee   | 102        | 4                    | 19          |
| Lithuania      | tax from registered capital 1%                             | 155        | 7                    | 26          |
| Poland         | notary fee –3% from reg.capital, registration fee          | 1187       | 10                   | 31          |
| Slovakia       | fee for notification in Trade register - CLL, JSC          | 299        | 9                    | 25          |

- *Comparison of VAT rates*

One of the EU priorities is to reduce differences between the basic VAT rates, but at the present time these figures are considerable – about 10%. For a businessman, who intends to commence his production in the particular country, this factor is vital, of course. The VAT rate has an influence on the sales price of the product and its rate increases or reduces competitiveness on the foreign markets.

**Table no. 4 VAT rates in EU**

| Country EU 15   | Basic VAT rate |
|-----------------|----------------|
| Luxembourg      | 15 %           |
| Germany         | 16 %           |
| Spain           | 16 %           |
| Great Britain   | 17.5 %         |
| Greece          | 18 %           |
| The Netherlands | 19 %           |
| Portugal        | 19 %           |
| France          | 19.6 %         |
| Italy           | 20 %           |
| Austria         | 20 %           |
| Belgium         | 21 %           |
| Ireland         | 21 %           |
| Finland         | 22 %           |
| Denmark         | 25 %           |
| Sweden          | 25 %           |

| Basic VAT rate - new EU members |                |
|---------------------------------|----------------|
| Country                         | Basic VAT rate |
| Cyprus                          | 15 %           |
| Malta                           | 15 %           |
| Estonia                         | 18 %           |
| Lithuania                       | 18 %           |
| Latvia                          | 18 %           |
| Czech rep.                      | 19 %           |
| Slovakia                        | 19 %           |
| Slovenia                        | 20 %           |
| Poland                          | 22 %           |
| Hungary                         | 25 %           |

The minimum VAT rates are offered by Cyprus, Malta, Luxembourg, Germany and Spain – 15-16.5%, the maximum VAT rates are imposed in Hungary, Poland, Denmark, Sweden and Finland.

**Free mobility of persons**

After the big expansion of the EU in May 2004, many EU countries have accepted a “transition period”, which restricts free mobility of persons - employees in the EU. This period will definitely expire in 2011. Only Ireland and Great Britain opened their labour markets at once. We have illustrated the situation in Table 5. These restrictions are affected by their own situation on the labour market and their concern of inexpensive, but qualified foreign labour force arriving from the new EU countries.

**Table no.5 Focus on free mobility of people**

| EU Country                | Requirements   |
|---------------------------|--|
| Germany                   | - residence permission,<br>- you cannot have the following sectors - building industry, security services, health services, accommodation services |
| Austria                   | - residence permission,<br>- abstract from the criminal register   |
| Luxembourg                | - residence permission,  |
| Denmark                   | - application fee - 2800,- CZK (approx. € 89),<br>- residence permission for 2 months  |
| Sweden                    | Employer must guarantee a minimum wage rate, accommodation, labour permission.   |
| Spain                     | Entry visa, abstract from the criminal register, administrative fee, translation to Spanish  |
| Italy                     | Quota of 8,000 permissions per year  |
| Finland                   | Labour permission, employment contract, abstract from the criminal register  |
| New Members from May 2004 | Without barriers   |

- *Comparison of minimum wage rates*

Minimum of wage cost is another factor playing role in the making of the decision as to where you intend to set up your business. We have made a comparison in Table 6. The cheapest labour force is offered by Estonia, Lithuania, Latvia, Slovakia, while the most expensive can be found in Luxembourg, Belgium and the Netherlands.

**Table 6 Comparison of minimum wage rate**

| Country    | currency | Rate per month | Amount in € | Commentary                                |
|------------|----------|----------------|-------------|---|
| Belgium    | EUR      | 1,233.54       | 1,233.54    |   |
| Czech rep. | CZK      | 6,700          | 212.23      |   |
| Denmark    | DKK      |                | Not defined | Problem is solved by collective agreement |
| Estonia    | EEK      | 2,480          | 158.50      |   |

| Country         | currency | Rate per month | Amount in € | Commentary  |
|-----------------|----------|----------------|-------------|---|
| Finland         | EUR      |                | Not defined | Problem is solved by collective agreement, minimum wage rate is different in concrete sectors |
| France          | EUR      | 1,090.48       | 1,090.48    | 35 hours per week   |
|                 |          | 1,227.57       | 1,227.57    | 39 hours per week   |
| Ireland         | EUR      |                | 1,092.00    | 39 hours per week   |
| Italy           | EUR      |                | Not defined |   |
| Cyprus          | CYP      | 345            | 598.20      |   |
| Lithuania       | LIT      | 450            | 130         |   |
| Latvia          | LVL      | 80             | 122         |   |
| Luxembourg      | EUR      | 1,403          | 1,403       | Rate is for unqualified staff   |
| Hungary         | HUF      | 54,000         | 219.11      | For the unqualified - HUF 54,000;<br>For qualified - HUF 100,000.                             |
| Malta           | Lira     | 230.23         | 542.40      |   |
| Germany         | EUR      |                | Not defined | Problem is solved by the collective agreement, it depends on business sector                  |
| the Netherlands | EUR      | 1,264.80       | 1,264.80    | For people aged over 23   |
| Portugal        | EUR      | 365.60         | 365.60      |   |
| Austria         | EUR      |                | Not defined | Problem is solved by collective agreement   |
| Greece          | EUR      | 504.83         | 504.83      | Employees must receive 13 <sup>th</sup> and 14 <sup>th</sup> salary                           |
| Slovakia        | SVK      | 6,080          | 151.93      |   |
| Slovenia        | Tolar    | 103.64         | 442.60      |   |
| Spain           | EUR      | 460.50         | 460.50      | Employees must receive 13 <sup>th</sup> and 14 <sup>th</sup> salary                           |
| Sweden          |          |                | Not defined | Problem is solved by collective agreement   |
| Great Britain   | GBP      | 702            | 1,028       | 39 hours per week; GBP4,5 per hour<br>For workers between 18-21 years-<br>GBP 3,80 per hour,  |

- *Insurance costs*

You can see that the minimum costs for insurance paid by the employer are in the Great Britain, where an employee pays it on his own, the list is followed by Slovenia and Poland. The maximum rate is in France because they guarantee a pension at 70% of your wage rate.

**Table no. 1 Outline of insurance costs**

| Country       | Employer's costs in € | Commentary  |
|---------------|-----------------------|---|
| Great Britain | 0                     | SI- GBP 2 per week is paid by employee, employer 7% from profit above € 4,385   |
| Slovenia      | 79.5                  | SI-employee 22,1%, employer 15,9%   |
| Poland        | 104.1                 | SI - employee 18,71%, employer 18,29%<br>- contribution to labour fund 2,45%<br>- wage fund 0,08%,<br>total <b>20,82%</b> |
| Portugal      | 118.75                | SI-employee 11%, employer 23,75%  |
| Lithuania     | 155                   | Employer HI- 3%, pension fund 27%,accident insurance 1%, employee 3%  |
| Hungary       | 165                   | employer HI - 11%, pension fund 22%, employee 2-8%  |
| Estonia       | 165                   | employer pays all - 33% - health + social insurance   |
| France        | 230                   | Employer 46%, employee 22%  |

SI – social insurance, HI – health insurance, the Calculation was made from a monthly wage rate of 500 €

### Conclusion

Considering the simplified analysis of the named factors the following results may be concluded: the best conditions for founding a limited liability company are in Estonia or Lithuania (minimum rate of registered capital), for registration in Great Britain (minimum administrative costs), employing staff from Estonia (minimum wage rate), and considering insurance duty in again Great Britain (minimum insurance costs), VAT registration in Cyprus or Malta.

If we are agree that the combination of the above is not good to implement in common life, we could recommend staying in Estonia, having to stand the disadvantage of a long administrative process.

There is, of course, another possibility – not setting up “your own” company, but taking an opportunity to expand with an existing company abroad in the form of joint venture or strategic alliance – good conditions are in Portugal. Then, you could take the opportunity to get money from the EU funds, where good chances are offered at Cyprus and Malta by fast registration process and interest of the local government in supporting small and medium sized enterprise.

To act as a self-proprietor is more difficult in the EU than in our country – it is more complicated to obtain a trade license, because one must have a qualification in the particular branch of business, than long-term experience and also, one has to be a member of the national professional institutions.

A business activity like commercial representation is not recommended, since many countries EU impose severe restrictions, which prohibit independent business - they view these as a mere representation. A clear reason – tax is paid to the country where the company has a registered place of business and it brings no benefits to the host country.

Benefits from the enterprise can be defined in two ways: firstly, a profit for the company's owner, secondly, state revenue from the settled taxes. Low rate of corporation tax are offered at Cyprus a Malta. Tax rate is about 10%.

Business environment in the EU is very different, varying markedly country-to-country. Advantage for the new EU member states is good rate of exchange for Euro and this factor decrease costs for capital and wage rate. Disadvantage is that economic system has not developed properly so far. It may be the reason why they offer better conditions for foreign investors – they intend to facilitate their own development.

Finally, I would like to add that this material has not been drawn up to seek solutions for all the problems, but we would like to present a new way for Czech businessman and Czech companies in the EU environment and make up a simple analysis on possibilities and opportunities for their expansion.

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