

## LIQUIDATION OF A LIMITED LIABILITY COMPANY IN CZECH REPUBLIC

### **(A) How many types of liquidation do exist?**

It is possible to distinguish two types of liquidation:

- 1) Voluntary, when the shareholders decide to wind up a company. The shareholders have the freedom to cease operations whenever they wish, even without a specific reason.
- 2) Judicial, when the court orders that the company is being terminated and enters into liquidation.

It should be also noted that the company may be dissolved by the court without liquidation and deleted from the Commercial Register without further ado in following cases:

- 1) the bankruptcy of the company was cancelled after fulfilling a resolution on the distribution of property; or
- 2) the bankruptcy of the company was cancelled due to the fact that the property of the company is absolutely insufficient for satisfaction of creditors' claims.

### **(B) What are the steps to liquidate a company?**

There are three main phases in the liquidation of a limited liability company:

- 1) Establishment of the existence of a cause for winding-up of the company, i.e., either a resolution of the shareholders or a resolution of the court;
- 2) Execution of the liquidation procedure;
- 3) Termination of the company, which occurs after the company has been deleted from the Commercial Register.

### **(C) Are there specific procedures to follow in order to liquidate a company?**

In case of voluntarily liquidation of the company, the first step in the liquidation process is to ascertain the cause of dissolution of the company. Such activity pertains to the administrative body of the company, which shall then convene the shareholders' meeting, that shall resolve upon the beginning of the liquidation process and the appointment of the liquidator. The resolution of the shareholders must be executed in the form of a notarial need.

The liquidator shall publish, at least twice in a row and with at least a two-week interval, an announcement on the liquidation, including a call for the company's creditors to register their claims by the liquidator. The announcements are published in the Commercial Journal (available online at: <https://ov.ihned.cz>). The creditors may register their claims within 3 months following the publication of the second announcement in the Commercial Journal.

The liquidator shall sell all assets and settle all liabilities of the company. If it is not possible to sell some of the assets or settle some of the liabilities, such assets or liabilities are usually taken over by someone (usually the shareholders), so as to allow the liquidator to terminate the liquidation process. Once the liquidator completes the liquidation process, he shall prepare a final report on the course of the liquidation. The final report shall be approved by the shareholders of the company.

Once the liquidation is terminated, the liquidator shall submit a motion for deletion of the company from the Commercial Register. The company will cease to exist once it is deleted from the Commercial Register.

**(D) What are the criteria for the order of payment of creditors?**

General rules used in case of most liquidations are following: If the company is not insolvent, the liquidator shall satisfy the claims of employees first. If the assets of the company are not sufficient for satisfaction of all creditors, the creditors are satisfied proportionally. There are also some specific rules applicable in case that the company has been terminated by a judicial resolution.

**(E) What are the tasks and responsibilities of the liquidator?**

The liquidator becomes the legal representative of the company substituting its director(s) and he carries out the liquidation procedure aimed at repaying all creditors and settling any surplus among the shareholders.

**(F) How can I tell if a company is in liquidation?**

When a company is in liquidation, it can be seen from an excerpt from the Commercial Register (available online at: <https://or.justice.cz/ias/ui/rejstrik>). During the liquidation, the company uses its company name with an addition "v likvidaci" (in English: "*in liquidation*"). The notifications on the liquidation are published in Commercial Journal (available online at: <https://ov.ihned.cz>).

**(G) Liquidation timing and costs**

The time required for the liquidation process depends on the size of the company and on its size and quality of assets. Given the deadline set by the laws, the process takes at least 3-4 months but

it can take longer, depending on the size of the company, amount of assets and liabilities to be settled, ongoing court proceedings to be terminated etc.

The liquidation costs may as well vary also depending on the size of the company and go along with the duration of such process. They costs may start from about Euro 4.000,00.

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