

Suspension and termination of business

Sole proprietors' rights and obligations upon suspension and termination of business

SUSPENSION OF BUSINESS

If persons wish to suspend their activities as a sole proprietor, they have to submit a relevant application to the **commercial register** in advance specifying the period of time when the business does not operate (**subsection 3 (3) of the Commercial Code**). The person is not considered a sole proprietor for taxation purposes during the period of suspension of the business. Likewise, advance payments of income tax and social tax need not be paid during the suspension period. As long as the business is not suspended, all the obligations prescribed in the legislation concerning taxes apply to the sole proprietor.

If a sole proprietor's activity has been suspended for more than 12 months, according to the **Taxation Act**, the assets the acquisition cost whereof the taxpayer has deducted from his/her business income are considered to be taken into personal use and the market price of the assets is added to business income (**subsection 36 (7) of the Income Tax Act**).

The business property that was on hold to continue business activities, but after 12 months, for some reason, the activity did not continue, then the moment of personal consumption of the property is 12 months after the start of the suspension. But if such property has been given for use to another person (or taken for the sole proprietor's own use) before 12 months have passed as of the beginning of the suspension, the time of giving the property to the other person is the moment of taking it into personal use. The moment of taxation would also have arisen at the time of doing business. The moment of taking the property into personal use is the earliest moment: either when the property started to be used for other purposes or 12 months have passed since the suspension of the activity.

The expenses made during the suspension of the business may not be deducted from the business income. Whereas business income is subject to taxation regardless of the time of receipt, the income received during the suspension of the business is considered the sole proprietor's business income.

Sole proprietors should know that pursuant to **subsection 10 (4) of the Health Insurance Act**, the health insurance cover of the person is suspended two months after the entry in the commercial register of the suspension of the activities. If the person continues business after the end of the suspension period, the commercial register will submit the information of the end of the suspension to the Health Insurance Fund within ten working days. Upon receipt of the data, the insurance cover of the person will continue without a waiting period.

TERMINATION OF BUSINESS

If a person wishes to terminate activity as a sole proprietor, it is required to submit an application to the **commercial register** on the termination of the activities and deletion from the register. The deletion is made from the commercial register on the basis of an application by the sole proprietor. If the sole

proprietor is a person liable to value added tax, it is required to apply for deletion from the national VAT register prior to submission of the application for deletion from the commercial register.

A register entry on the termination is made by the person as at the date indicated in the application if the date has not come earlier. The commercial register makes a register entry not later than on the fifth working day after signing a ruling on entry, provided that the application and documents added thereto comply with law and have been submitted within the term permitted or prescribed by law (**§ 33 of the Commercial Code**).

If a person terminates activity as a sole proprietor, it is required to submit **form E of the income tax return** on the last financial year by 30 April of the following year. The tax return should also be submitted in the cases when the sole proprietor had neither business activities nor any business income, or the income was less than the supply exempt from tax. Upon the termination of a sole proprietor's business, deductions relating to business are made from the business income of the period of taxation and the received amount is divided by 1.33 before it is multiplied by the tax rate. Any amount of income tax and social tax subject to payment additionally must be paid by 1 October of the year following the period of taxation.

The health insurance cover of the person terminates two months after the deletion entry's date in the commercial register (**subsection 10 (3) of the Health Insurance Act**).

If the sole proprietor actually terminates business activity, but will not submit an application for the deletion of the entry about it, it is still required to make advance payments concerning income tax and social tax.

Business income may be received after the termination of business as well.