

# How to Get Started in Business

## INVESTOR INFORMATION

Nicaraguan laws provide four different forms of business organizations. A stock corporation (*Sociedad Anónima*), comparable to incorporated businesses in the United States, is by far the most flexible and secure way to do business in Nicaragua. No restrictions are placed on foreigners forming a corporation.

## FORMS OF LEGAL ORGANIZATION

Corporations, partnerships, individuals and foreign companies may do business in Nicaragua, provided that all registration statements, certificates, records and other documents are properly filed with the Public Registrar. The Commercial Code governs the conduct and business transactions of these organizations. The main forms of legal organization are:

- Profit and non-profit corporations
- Limited partnerships
- General partnerships
- Joint ventures

## ORGANIZATION OF CORPORATIONS

The most common way for domestic and foreign investors to operate in Nicaragua is to form a corporation under the Companies Act or Commercial Code.

## PROCEDURES

In order to organize a corporation in Nicaragua, incorporators must hold a meeting of shareholders to approve the bylaws, elect a board of directors and subscribe and pay the capital stock. A summary of the bylaws is then published in the official gazette. Subsequently, the corporation is filed with the Public Registrar.

Subsequent amendments to the bylaws are subject to similar procedures (meeting, publication

and filing), except that a special meeting of shareholders must be held for such purpose.

Shareholders are entitled to receive a copy of the company's annual report and financial statements, and the corporation is required to publish its annual balance sheet in the official gazette.

## ARTICLES OF INCORPORATION

The Articles of Incorporation contain the following:

- The name of the corporation
- The principal place of business
- Purpose
- Capital stock
- Duration, etc.

In addition, the Articles of Incorporation contain clauses regarding management and other legal aspects, such as:

- Number of directors
- Directorships
- Powers of the Board President
- Meetings of shareholders
- Stock sale restrictions
- Powers and limitations of management
- Stock rights
- Duties of shareholders
- Rights of minority shareholders
- Legal recourses against corporate officials
- Rights of majority shareholders

- A minimum of two persons, individuals or legal entities, are necessary to form a corporation. Foreigners may own stock.
- No minimum amount of capital is required and at least half of the capital must be subscribed before the corporation can start operations.
- An authorized notary must execute the articles of incorporation and bylaws in a public deed.

## **BYLAWS**

The bylaws, approved at the first meeting of shareholders, contain more detailed information.

The Board of Directors and Superintendent are elected at the first meeting of shareholders. All proceedings must be recorded in the Minute Book and signed by the President and Secretary.

## **CAPITAL STOCK**

The capital stock is the aggregate par value of the subscribed and paid-in shares.

A corporation cannot commence operations until it has subscribed at least half of its capital, of which at least 10% must be paid in cash. No minimum capital is required. The capital is divided into shares of par value expressed in cordobas. Shares may be issued as registered and endorsable stock, but not to the bearer. Shares may be common or preferred, and issued at a premium, but not at a discount.

A minimum of two shareholders is required, who must attend the first meeting of shareholders in order to form the corporation and subscribe the capital stock. There is no maximum limit on the number of shareholders and their liability is limited to the amount of shares owned.

## **LEGAL RESERVE**

Corporations are required to set aside at least 5% of their annual net profits to form a legal reserve, until an amount equivalent to 10% of the capital has been accumulated. Banks and other financial institutions are required to set aside 2% of their annual pretax profits to form a legal reserve.

## **BOARD OF DIRECTORS**

Corporations are governed by a Board of Directors, which is duly elected by the shareholders for a maximum ten-year term. The number of directors is not limited. Directors need not be shareholders. No restrictions are placed on the nationality of the directors.

## **WATCHDOG COMMITTEE**

The bylaws of the corporation may also provide for the election of a watchdog committee, consisting of one or more persons, who need not be shareholders.

The principal duties of the committee are as follows:

1. To inspect the corporation's accounting books and records.
2. To ensure compliance with applicable laws and regulations.
3. To attend the meetings of shareholders.
4. To attend the meetings of the Board of Directors.
5. To submit a written report to the annual meeting of shareholders regarding the corporation's financial affairs.

## **BOOKS AND RECORDS**

Four books must be kept and filed with the Commercial Registry:

- Daily Journal
- General Ledger and Stock Account
- Minute Book
- Stock Register

## **REGISTRATION**

A certified notarial record of the Articles of Incorporation and Bylaws must be filed with the Commercial Registrar.

The new corporation must be filed with the following authorities:

- Local municipal government
- Ministry of the Treasury and Public Credit
- Ministry of Development, Industry and Commerce
- National tax authority (DGI)

A corporation can be organized and filed with the respective authorities in two weeks.

## **LEGAL COSTS AND FEES**

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| 1. Notary fees .....                         | US\$ 650 |
| 2. Filing of Articles of Incorporation ..... | 500      |
| 3. Filing of Books and Records .....         | 100      |
| 4. Business License .....                    | 20       |
| 5. Application for Taxpayer ID (RUC) .....   | 1        |
| 6. Filing with local municipality .....      | 1,000    |

**TOTAL COST .....** **US\$ 2,811**  
(based on a capital stock of \$ 100,000)