What do statutory reserves mean for a limited liability company?

For: Simple limited liability company (j.d.o.o.)

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Applicability: According to the stated scope and the official source

A limited liability company must allocate a quarter of the profit shown in its annual reports, less any loss from the previous year, to statutory reserves. The reserves have prescribed purposes.

The result does not automatically entitle you to a free payout.

Set aside money in the account, accounting profit and the amount whose use can be decided upon. For the company, these are not the same concepts.

Before planning the owner's personal receipts, verify the documentation, the purpose of the reserves and the tax treatment of the specific payment. This review does not calculate the amount available for payment.

How to prepare this in your business

Review the reported result, carried-forward losses and previous decisions with your accountant. In your own records, separate the assumption of a future payout from the decision that has already been made and implemented. This reduces the risk of planning your personal spending based on an incomplete annual accounts.

When deciding how to allocate profits, alongside the prescribed restrictions, also consider the company's liquidity. Even if something is legally available, the company may need the funds for contractual expenses or the next phase of its operations.

Owner's planning example

The company ends the year in profit. Before drawing up his personal plan, the owner checks loss coverage, reserves, resolutions and working capital requirements, rather than treating the entire profit as free cash.

Specific next steps

1. Prepare the annual results with an accountant.
2. Check the existing loss and the necessary reserves.
3. Only then should you review the decision on the use of profits.

Limits of application

The answer addresses the reserve rule for limited liability companies, not all terms of use or profit distributions.

Sources

gov.hr · Establishment of a simple limited liability company

https://gov.hr/hr/jednostavno-drustvo-s-ogranicenom-odgovornoscu/2747

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https://adriatrends.hr/poslovni-vodic/en/pitanja/jdoo-zakonske-rezerve