

Legally Yours



By Ahmad J. Tahboub

The high capital requirement for new companies

As in many countries, there is a governmental body dedicated to register companies in Jordan. One which is responsible for supervising business entities' operations and ensuring their compliance with effective statutes. Since its independence, several thousands of companies were registered in Jordan with the Companies Control Department ("CCD") at the Ministry of Industry and Trade. Although Jordanian law hosts the different registration types, the basic type of incorporation between two or more partners dominated most registrations throughout the years. Under this basic incorporation, each and every partner resumes business operations and becomes personally responsible for the company's debts.

Regardless big or small, most family businesses still operate under this type of registration. Whether manufacturers, traders or food franchisees, old businesses undertake work volume amounts to millions under the same registration form. Ironically, even when an old partner passes away or cousins tend to disagree, the traditional way of thinking prevails and business tycoons split in two different "basic incorporations". Still under the misleading belief that "little" or untrue book keeping avoids heavy taxation! ... I can hear you asking the logical questions of: "And your point is Ahmad ...?"

CCD is the place to go to for registration of all types, from basic incorporation (and other individual companies) to limited liabilities, private shareholding and even public shareholding companies (capital based companies). For Jordan, the nineties witnessed major changes in its demographical formulas. In result, the country's markets witnessed growth due to increased population and migration from some neighboring countries. These socio-economical developments imposed the need for ongoing amendment and development of the local Companies Law. Accused of being slow, local Legislators attempted to amend the

existing code to deal with business needs. For what it's worth, Jordan's Companies Law is now under review by legislators (at the government level).

To accomplish its economical targets, law reviewers should consider certain legislative handicaps. To start with: Companies law imposes high capital requirements over limited liability companies. Jordanians have a benchmark of 30,000 JOD, whereas the minimum amount for foreign investments is 50,000 JOD. Imposers defend this requirement as a separator of serious investment channels and a protection for third party rights. From one side, people deal with companies based on their business activity ...NOT their registered capital. Furthermore, registered or even paid capital is an accounting concept. i.e., it would be invested in depreciated fixed assets or operating expenses, therefore minimum capital requirement does not necessarily provide collateral for potential debtors. From another prospective, high capital requirement drive away ambitious trials, whether locally or by foreign investors. Jordanian laws should differentiate between ownership of companies or shareholding therein by foreigners and residency requirements. For the latter, the government may impose as high of a capital as desired.

Apart from existing real property investment, little foreign investment appears in other business categories. Whereas Jordan announced itself as an incubator for e-ventures, local I.T. companies have limited access to U.S. and European markets. Foreign investment in this sector was made by a few gigantic companies either penetrating local telecommunication market or selling systems to major industrial or excavation projects. There is not much traffic the other way around, and for this Jordan needs to concentrate on small to medium size foreign business people. Those are the ones ready and able to provide Jordanian software to European and American end users. To achieve this goal, one should be able to register a company even if not residing in the country. Also, payment of capital should have some installment mechanism. Some European laws require payment of one third of the registered capital, with a couple of years for the remainder. Other western legal systems give investors more lee way for payment or presenting proof of capital investment!

Lastly, taxation mechanism is of essence. I understand that Jordan needs its taxes for government expenditures, but if we look at it from a business point of view ... the more companies we register ... the more likely we are to collect in due time. Taxation system should create a sense of partnership rather than a sheer financial burden!

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