General Introduction

In Article L223-1 of Book II of the Commercial Code on commercial companies and groups of economic interest, Private Limited Companies (SARLs) are defined in the following terms: “A Private Limited Company is composed of one or more people whose financial liabilities are limited to the total of their contributions. Such a company is designated by a corporate name in which the name of one or more partners can be incorporated and which must be preceded or immediately followed by the words “société à responsabilité limitée” (“Private Limited Company”) or the initials “SARL” and the amount of share capital held. Insurance companies, savings and lottery companies, and savings companies cannot have this legal status.

How Private Limited Companies Work

**Partners:** Private Limited Companies must have at least 2 and no more than 50 partners. If such a company surpasses the 50-partner threshold, it must, within a time-limit of two years, change its status to that of a PLC. If not, it will be dissolved unless, during the aforementioned two-year time limit, the number of shareholders drops back down to 50 or below. Partners can be either physical persons (individuals) or legal persons. Partners receive shares for their capital contributions.

Private Limited Companies are legally bound to have directors (physical persons), who can be chosen from amongst the partners. Private Limited Companies cannot be managed by legal persons.

In a Private Limited Company, the function of the extraordinary general meeting is to modify statutes or approve new shareholders. Decisions must be taken by partners holding at least three-quarters of the company’s shares. There are, however, certain exceptions: unanimity is required for changing the company’s nationality, increasing partners’ commitments, and changing status to a General Partnership, Limited Partnership or Simplified Business Corporation. An absolute majority is required to replace the manager.

The function of the ordinary general meeting is to take decisions other than those involving modifications to the statutes or selling shares to third parties. Decisions must be adopted by one or more partners holding at least half of the company’s shares. If such a majority is not obtained and no contrary clause exists in the statutes, the partners can be convened again. Decisions are then adopted by simple majority vote, regardless of how many votes are cast.

**Capital:** The minimum share capital of a Private Limited Company is freely determined by the partners and defined in the statutes. It can be made up of a contribution in money and/or a contribution in kind (materials, etc.); if the contribution is in money, it is possible to contribute only a fifth of the capital on the day the company is set up and pay up the rest over the five-year period following the date of the company’s registration. The capital is divided into shares of equal value. Usually, Private Limited Companies are fixed capital companies, but they can also be variable capital companies.

**Taxation:** Private Limited Companies are, like other companies, subject to company tax (except family Private Limited Companies which can opt to pay income tax), business tax and VAT.

Advantages and/or disadvantages

- Using Private Limited Company status, a company can be set up with a minimum of capital.
- Partners’ financial liabilities are limited to the total of their contributions.

**NOTA BENE:** This legal status is, at the present time, little used in France.