



International Journal Of
**Recent Scientific
Research**

ISSN: 0976-3031
Volume: 7(5) May -2016

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THE OFFICIAL PUBLICATION OF
INTERNATIONAL JOURNAL OF RECENT SCIENTIFIC RESEARCH (IJRSR)
<http://www.recentscientific.com/> recentscientific@gmail.com



ISSN: 0976-8031

Available Online at <http://www.recentscientific.com>

International Journal of Recent Scientific Research
Vol. 7, Issue, 5, pp. 11315-11320, May, 2016

**International Journal of
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Research Article

CAUSES OF THE DOMINATION OF INDIVIDUAL ENTERPRISES IN RELATION TO OTHER LEGAL FORMS OF BUSINESS ORGANIZATIONS IN THE REPUBLIC OF KOSOVO

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ARTICLE INFO

Article History:

Received 17th February, 2016
Received in revised form 21st March, 2016
Accepted 06th April, 2016
Published online 28th May, 2016

Keywords:

Law, Organization, Business
Association, Tax System

ABSTRACT

Business associations in each country may be established to operate under specific legal forms. They are established by two or more persons and/or legal entities who come together to achieve a common business goal or objectives. As defined in the act of incorporation or its statutes, business organization has a significant contribution to make in the society. Individual business (sole proprietorship) is one of the simplest forms of business activity, in which the business is owned and managed by a single person (one man business). This form of business functions without the need of establishing a complex business organization. In our country, Kosovo, the law does not consider it as a legal personality. This kind of business formation has the highest percentage from the year 2000 until now as compared to other forms of business associations in Kosovo. Although registered in this form, the strength, volume, distribution, and operation of their business is not in harmony with the mission of their registration. So far, there is no study on the causes of domination of the establishments in relation to other business formations. The phenomenon has no adverse effects on the legal plan, but their impact from this aspect is reflected in the fiscal economic system. This phenomenon is not likely to decrease without a synchronization of the laws of companies. Thus, this is accomplished by the systematic regulating of the laws in tax system and by forcing the founders who depend on size and economic power to adopt the legal form of the organization.

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INTRODUCTION

In each state of the modern world, the position of business organizations in practice depends on the changes and features determined by the economic and legal system. This is reflected according to the position of the organization either by the function of producer or as a basic business subject by clearly determining its role and position in the market. This function includes the right to participate and obtain the generated results (total incomes, profits and personal incomes). In addition, it also entails raising and using funds in order to extend social development in relations with the state bodies. This is carried out in terms of the scope of their business policy integration. Based on these components, their position at certain stages of social-economic system development was clearly identified. Therefore, activity and business operations are regulated by law. In this respect, they are perceived as regular activities which include the production and provision of goods and services, property, and/or the labour of a person or organization. However, this is in return or in compensation to any payment provided by the employee in performing services for his employer. Consequently, it is not to be considered when

conducting "business activities" unless such services are compensated based on the contract made by the employee with the employer.

An individual enterprise is a form of business organization owned and managed without being a legal person. The person which is the owner of the enterprise, whether registered or not, has unlimited personal liability for all debts; also, he/she has other liabilities which are incurred or imposed by law or contract related to the respective business. Full and unlimited responsibility includes property and other types of assets and capital, owned directly or indirectly by the responsible person. Therefore, this is regardless of the fact that the property and such capital are used for business, personal, or household purposes.

Forms and Types of Business Organizations in the Republic of Kosovo

The term "business organization" in the Republic of Kosovo is a general term. According to the law, it is a legal business forms established by applicable legislation. In this context, in our country, the law allows corporations and some enterprises to have a legal status just like the individual enterprise.

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Furthermore, Collective Corporation includes partnership, limited partnership, corporations with limited liabilities, and joint stock companies (*Krasniqi, 2014*).

For ordinary readers as well as for professionals, the term "Business Organization" implies that the law regulates only the business organization. Subsequently, it also regulates the functionality of "individual enterprise" as well. Therefore, not only according to our opinion, the naming of the law is not comprehensive and it causes uncertainty. Individual enterprises in Kosovo are more numerous compared to the total number of other business organizations. Consequently, it turns out to be unproductive and to be a knockout approach. This type of organizations is not included to law. Based on the law title, the word "business" helps us to understand that this legal act only applies to business organization or business enterprises, respectively. Thus, just by seeing the title, the dilemma is raised. This is because this law regulates how business organizations should function. In addition, the law regulates the functioning of companies such as non-commercial, manufacturing, service provision, construction companies, etc. Nevertheless, this is carried out without due care and uncreative approach. In one expression, the conclusion was drawn that a law naming is improper. It is necessary that the naming of this Law should be changed into a more inclusive name for all enterprises and business organizations, respectively. This should cover individual, business, production or service organizations, etc. Based on the practices of some countries in the region, we believe that the change of the name of "Law on Business Organizations" into "Law on Enterprises" would be a very constructive step. Hence, it is not clear as to why this Albanian and meaningful word is being avoided! ([Http://www.telegrafi.com/lajme/terminologji-ekonomike-26-4184.html](http://www.telegrafi.com/lajme/terminologji-ekonomike-26-4184.html)).

Under the provisions of the current law for business organizations, we have exactly five certain forms of legal business organization presented in nine forms. They are business/individual enterprise, General partnership, Limited partnerships, Companies with Limited Responsibilities (SH.P.K), Joint Stock Companies (JSC), foreign Companies, Joint Companies, Public enterprises, and Agricultural Cooperatives. In **business/individual enterprise**, the owner has an unlimited liability for all the debts of the organization. The organization has an official name. It includes the legal owner's surname and abbreviation "I.B." **General partnership is** when all the partners are responsible without limitation and solidarity for the organization's debts. Collective partnerships have a name, which may include the name of one or more partners, with the abbreviation "O.P." after it. **Limited partnerships**, in addition to 'unlimited' partners (partners responsible without limitation and solidarity react for the organization's debts) refers to those partners who are responsible for the obligations of the company. A limited partnership has a name, which may include the name of one or more partners, placed after the abbreviation "SH.K.M". **Companies with Limited Responsibilities (SH.P.K)** are those companies that are established by one or several founder. However, these founders are responsible for all the assets and property owned by the company, the debts incurred by the company, and other obligations that needs to be carried out.

Companies with limited responsibilities have a name and abbreviation "SH.P.K." after it. Consequently, ARBK can register a limited liability company, without having to provide evidence on the payment of capital. **Joint Stock Companies (J.S.C.)** refers to companies whose capital is divided into shares. In Joint Stock Companies (J.S.C.), the shareholders are responsible for all the assets and property owned by the company, the debts incurred by the company, and other obligations that needs to be carried out. The Company can be established by having one or several shareholders. In addition, it has a name with the abbreviation "J.S.C." after it (*Krasniqi, 2014*).

The Law on business organizations regulates the establishment and the operation of some other business companies. Hence, these companies should have one of the two legal forms of organization described above. The said legal form is about **foreign Companies** which upon registration are considered as a branch in Kosovo that has no legal identity of a legal person. After registration it has all the rights and obligations established under the applicable law. This is after the name "BRANCH IN KOSOVO" has been added. **Joint Companies** include a legal person and they are jointly owned. These enterprises until it is privatized are monitored and registered by the Kosovo Privatization Agency based on Law no. 02 / L-123 on Business Organizations. **Public enterprises** are specific legal forms of business which carry out activities of the general interest of the state. Public enterprises are monitored by the government and they are organized as joint stock companies under the applicable law on business organizations. Therefore, all ownership interests in a public company are represented by shares, and these shares have to be registered. **Agricultural Cooperatives** are companies established by natural or legal persons who must be farmers. Also, they are required to contribute their own private property in the capital share. Farmer's Cooperative is made up of at least five (5) farmers, who are the signatories of liabilities. However, this cooperative cannot be established without capital. The capital is divided into shares of equal value with the minimum value of € 10. Also, the Director is not allowed to become a member of the cooperative. All these can be found in the Law Nr. 2003/9 on Farmer Cooperatives and the Law No. 03 / L-004 on Amending and Supplementing the Law on Farmer's Cooperatives No-2003/9. (<http://www.arbk.org/sq/Business types>).

Meaning, Registering, and Characteristics of Individual Enterprises

An entrepreneur or individual enterprise is a person who is registered as an individual entrepreneur, and who performs legal activities including art crafts and old crafts, and craft works as a profession in order to make profit, e.g. filigree activity, shoemaker, potters, and working with artistic aesthetic features. On the other hand, a person who deals with the free practicing of his/her profession in accordance with special provisions is considered as an entrepreneur (*Krasniqi, 2014*).

Entrepreneur of an individual Enterprise is considered to be the person who deals with business activities as a profession - permanently and not temporarily from time to time. Although he/she is not a legal person, the entrepreneur should own the necessary property to deal with business activities (*Krasniqi, 2014*).

Regulations do not define the minimum initial capital as a condition for the registration of entrepreneurs in the register. Regarding liabilities, the entrepreneur is responsible for the whole ownership of the properties. Entrepreneurs who deal with independent business activities usually employ a number of employees. Therefore, only a natural person who possesses full business capability can be an entrepreneur. In addition, the rules defined other special assumptions to be implemented by entrepreneurs depending on the type of activity, such as: certain health ability and education (*Law on Business Organizations no. 02 / L-123, Article 27*).

Entrepreneurs are registered on a business entity register. This is done by adding the name "entrepreneur" or abbreviation "entrep." with one or more business activities. With the report of the entrepreneurs, an evidence of the entrepreneur's identity is attached (copy of identity card or passport). If the entrepreneur does not perform operations on its own behalf, but with another name, it is obligatory to record this fact in the register. Therefore, the provisions of the Law on Business Organizations, which regulates the name, head office, activity, conditions for activity performance, representation, liquidation and age, are duly applied to entrepreneurs.

Tabela nr. 1
Raporti statistikorë për vit të dhënë në shifra të përgjithshme

	Forma juridike e organizimit										
	Gjithsej	Biznes individual	Ortakëria e përgjithshme	Ortakëri e kufizuar	Shoqëri me përgjegjësi të kufizuara	Shoqëri aksionare	Kompani e huaj	Ndërmarrje shoqërore	Ndërmarrje publike	Kooperativa Bujqësore	Ndërmarrje tjera nën juridiksion të AKM
TM4 2015	2480	1708	14	1	739	9	8	-	-	1	-
TM4 2014	2175	1630	18	1	498	8	20	-	-	-	-
TM4 2013	1805	1350	25	-	414	2	-	2	-	2	-
TM4 2012	2261	1832	31	-	276	3	18	-	-	1	-
TM4 2011	1799	1445	32	-	305	3	13	-	-	1	-
TM4 2010	1665	1358	39	-	243	3	18	-	-	4	-
T 4 2009	74436	66345	2474	-	4899	188	386	16	12	62	34
T 2008	67950	61004	2269	19	4085	176	279	15	12	57	34
T 2007	6020	4802	274	-	836	39	56	3	-	9	1
T 2006	6933	5817	305	2	708	23	52	5	3	8	10
T 2005	10590	0394	372	-	706	27	59	2	6	24	-
T 2004	40917	38373	1288	17	2089	45	55	6	12	9	23

Source: Number of business organizations according to legal organization form from T 2004 to TM42015. ask.rks-gov.net/regjistri-statistikor-ibizneseve/publikim

Tabela nr. 2
Raportet statistikorë për vit të dhënë në përqindje

	Forma juridike e organizimit										
	Gjithsej	Biznes individual	Ortakëria e përgjithshme	Ortakëri e kufizuar	Shoqëri me përgjegjësi të kufizuara	Shoqëri aksionare	Kompani e huaj	Ndërmarrje shoqërore	Ndërmarrje publike	Kooperativa Bujqësore	Ndërmarrje tjera nën juridiksion të AKM
TM4 2015	100 %	76.4	0.6	0.4	29.8	0.4	0.3	0.0	0.0	0.3	0.0
TM4 2014	100 %	74.9	0.8	0.0	22.9	0.4	0.9	0.0	0.0	0.0	0.0
TM4 2013	100 %	74.8	1.4	0.0	22.9	0.1	0.0	0.1	0.0	0.6	0.0
TM4 2012	100 %	81.0	1.4	0.0	16.6	0.1	0.8	0.0	0.0	0.1	0.0
TM4 2011	100 %	80.3	1.8	0.0	17.0	0.2	0.7	0.0	0.0	0.1	0.0
TM4 2010	100 %	81.6	2.3	0.0	14.6	0.2	1.1	0.0	0.0	0.2	0.0
T 4 2009	100 %	89.1	3.3	0.0	6.6	0.3	0.5	0.0	0.1	0.1	0.0
T 2008	100 %	79.77	4.55	0.00	13.89	0.65	0.93	0.15	0.05	0.00	0.02
T 2007	100 %	79.77	4.55	0.00	13.89	0.65	0.93	0.15	0.05	0.00	0.02
T 2006	100 %	83.90	4.40	0.03	10.21	0.33	0.75	0.04	0.07	0.12	0.14
T 2005	100 %	88.71	3.51	0.06	6.67	0.56	0.25	0.56	0.06	0.02	0.00
T 2004	100 %	93.78	3.15	0.04	2.66	0.01	0.04	0.03	0.11	0.06	0.13

Source: Business organizations in percentage according to legal organization form from T 2004 to TM42015. ask.rks-gov.net/regjistri-statistikor-ibizneseve/publikim

This is done if these relationships are not otherwise regulated by a particular law.

Trend of the Numbers of Individual Enterprises in the Time Period between 2004-2015

The table below shows the official data with great degree of data accuracy. However, since 2004, total domination of legal formation of all companies registered in Kosovo continues to be the individual enterprises with a total of 93.78% in 2014 and 76.4% at the end of 2015. Even after twelve years, gradually until 2015, this percentage decreased only to 76.4%. On the other hand, it turns out that the legal formation of limited liability companies since 2004 increased from 2.66% to 29.8% in 2015. Furthermore, the numbers of other formations over the years does not present any significant increase in terms of percentage. What turns out to be interesting is the growth and decrease trend of the number of individual enterprises during this period. In this respect, in 2004 up to 2008, the number of individual enterprises begins to undergo a significant decrease from 93.78% to 79.77%. Nevertheless, this trend changed again in 2009 and increases to 89.1% with a tendency to decrease again in 2010-2015. Changes in the percentage decrease of individual enterprises have resulted in increasing the percentage of limited liability companies and vice versa. This indicates that the formations with the largest number in Kosovo are individual enterprises and limited liability companies. In addition, the least legal form to be found is the limited partnerships.

Causes of Domination of the Legal Form of Individual Enterprises in Relation to Other Formations

The phenomenon of the legal form domination of individual enterprises in the Republic of Kosovo from 2000 to 2015 in relation to the other forms occurs as a result of the influence of some specific factors. Referring to the official data presented above, which was compared and commented in relation to the legislative base over the years and interviews with officials of the Tax Administration of Kosovo, we believe that the reasons should be found as follows: legislative transition and lack of an information system for advantages and disadvantages of business formations; lack of systematic legal solutions (organic) for fiscal mitigation; financial reporting of the individual enterprise in relation to other business formations, etc. Therefore, these reasons should be analyzed according to two time periods associated with the legal basis.

Legislative transition and lack of information system in the advantage and disadvantage of business formations

In the early 2000s until the beginning of 2008 in Kosovo, there was no special mechanism that would do a reliable explanation of the key concepts of the Law on Business Organizations which regulates business activities in the country. The main objective of this mechanism is to provide a closer knowledge concerning the establishment, operation, and regular and efficient dissolution of companies, as well as matters pertaining to these companies in general. Furthermore, this has led to the loss of the attention required from potential founders to be committed to various types of business organizations, reasons why to choose one structure over the other, as well as other

important issues that legal professionals will encounter in the course of their practice.

In this context, the situation of the 90s of XX century should be considered when Kosovo was in classic occupation of Serbia. Consequently, this usually occurs under tremendous legal, political, and economic pressure and stagnation of this system. After the 1991 War under the administration of UNMIK, the country undergoes a new legal order to regulate social life in Kosovo, including the areas of businesses (*UNMIK Regulation 2001/6 on Business Organizations*).

One of the challenges encountered on its own was the registration of business companies which differs greatly from the previous systems. Before the last war, traditionally, business registration was done in the Municipal Courts of the country. However, after the War of 1999, this process was regulated with a regulation for the provision of temporary registration of businesses in Kosovo which is being transferred to a special department of UNMIK in Prishtina. Registration was regulated according to the provisions of Article 1.2 and was considered "temporary" (*UNMIK Regulation 2000/8*). Actually, it was the time of business activities operating through unregistered business companies. Also, business transactions take place in simple forms, such as individual businesses or collective organizations (general partnerships). Therefore, they are not benefiting from the advantages offered by more sophisticated forms of organization. Business representatives did not clearly understand the new forms of organization and the majority of business activities which were not developed as part of the legitimate economy. Consequently, business representatives under the influence of the previous system were reluctant to accept changes in the legal framework, but continued with their old practices. Under these circumstances and the legal basis of UNMIK, the priority of this situation needs to change through legalization i.e. formalization of business activities through any legal form. However, it was much less important to inform the business founders about the advantages or disadvantages of the provided legal formations. Under the influence of these circumstances, the simplest and "safest" form of registration and operation was considered as the individual/business enterprise. Individual enterprise on the level of business development at that time was identical with legal forms of the former Serbian system known as "Independent, craftsmen or trade shop, or enterprise". This can be proven with the fact that from the year 2000 upwards, some of these business organizations still have their company registered with abbreviations such as "N.P.T., D.P.Z.," etc. According to the new provisions of the Law on business organizations, it was not necessary at all because the trade name of the firm does not determine its form.

Furthermore, with the positive developments manifested by transformations from a central economy to a market economy, it was necessary to change the legal basis as well as to ensure the development of new economic concepts. Until then, it has become unsustainable and complex. The declaration of independence on 17 February 2008 was a new moment not only for the country, but also for changes that should have been made within the legal system. This also included the segment for the regulation of companies. In order to eliminate several problems, on 17 May 2008, the Assembly approved the Law on

business organizations no. 02/L-123. Hence, current Law on Business Organizations, as amended and supplemented several times until now, has managed to provide a detailed set of rules that regulate private relationships between parties in the business community. This legal act has provided a clear procedure for registration for those who wish to conduct certain businesses in Kosovo. Also, subjects such as business founders are offered sufficient opportunities to select the appropriate form of organization that best suits their business needs.

Despite these positive changes, even after 8 years, the problems with the practice of doing business in the past were not sufficiently eliminated. This is attributed to the fact that the business community is not familiar enough with the current law. On the other hand, despite these advances, the phenomenon of change in the percentage of individual enterprises in relation to other legal forms still remains low. It turns out that, especially after 2010, the legal framework and information system cannot be considered as an obstacle to remain in this level of the number of individual enterprises. This is irrespective of the advantages and disadvantages it contains. By researching the causes of this phenomenon in this time period, we, however, ascertain that it is required not to synchronize the systematic legislation that regulates the scope of taxes, fees, and the financial reports which are elaborated below.

Legal solutions for tax mitigations and financial reporting of individual enterprise in relation to other business formations

From the above approach, it is estimated that the number of individual enterprises registered in Kosovo in the period 2000-2008 was higher in percentage. This phenomenon was a result of circumstances of a social-economic and legal transition; lack of information that founders could have an advantage and a disadvantage of certain legal forms; and inadequate administration activities from UNMIK that their registration could be done and transformed in relation to their business volume, power, and turnover. Meanwhile, in 2008, based on official data presented in the above tables, a gradual trend decline in the percentage of individual enterprises was identified from 93.78% in 2004 to 79.74% in 2008. However, with the approval of the Law for business organizations in May 2008, this trends changes. In 2009, a fast increase to 89.1% has been noted.

Logically, the question is raised concerning what are the causes of this trend and what were the influential factors for the founders of these companies to have such a reaction? In our opinion, this situation occurred due to three factors. The first has to do with the "traditional" hesitation. The potential founders have an upper hand whenever a legal transformation occurs. They are more qualitative, in order for them to establish or transform their business organizations in compliance with their economical power and volume. The second is related to the strengthening of the rules for financial reporting. Irrespective of the business volume, it ranks individual enterprises with less and easier liabilities. In the third one, there is no synchronization of law on business organizations with systemic fiscal legislation.

The lack of legislative synchronization in this important segment of social-economic life by not enforcing founders to change the legal business form due to the business turnover

volume, resulted in motivating potential founders to register or to maintain the form of individual enterprise. Today, this legal solution enables an easier accommodation regarding financial reporting obligations unlike other legal forms. This is proved by the fact that the Law on accounting, financial reporting, and auditing does not enforce them to submit documents at Tax Administration Institution for financial records such as: balance sheet, cash flow, and changes in equity - movements of capital (*Law on accounting, financial reporting and auditing*). Subsequently, this formation is enforced to submit only the document, which is the income statement (*Law for ATK and procedures*).

One of the reasons for an impact on the occurrence of this phenomenon we are dealing here are technical hindrances set by the Agency for Registration of Businesses (ABRK) in the period 2010 – 2014. Therefore, this has disabled individual enterprises to transform into various legal forms, forcing them to initially liquidate and register as a new company in another form. Nevertheless, these obstacles have been passed under a memorandum between ARBK and KTA.

CONCLUSIONS

The function of business organizations is based on the realization and fulfillment of the goals and social requirements within a particular organization. Kosovo, after the war of 1999, has undergone a complex phase of legislative transformation. This was initially under the administration and governing authority of UNMIK aimed towards the liberalization of the economic system. Also, the issuance of a series of systematic laws for the establishment and organization of business organizations is considered as a priority. In the context of circumstances at that time, UNMIK Regulations had halved versions adopted according to western law models for business organizations. Also, it actually offered a new start for establishing a legal basis on this field. However, there were great deficiencies. Those shortcomings that characterized those rules with legal force imposed the need for drafting new acts for business organizations in the country. The overall legal acts, after UNMIK administration, regulating the legal structure and business activities of business organizations in Kosovo now provide detailed and clear instructions for a company that wants to establish a business in the Republic of Kosovo.

The Law on business organizations is based on the Austrian-German model. This unique model when compared with other countries in our region was selected by law making institutions. Hence, this legislature claims that it is compatible with most laws on commercial companies in Western Europe. Based on the information obtained, this action is intended to create a suitable environment for foreign investment. It forgets the idea that this legislation should first regulate business organizations in the country and then meet and synchronize other criteria. One of the inherited namely imposed problems that almost no one is pointing out is the title of the law. This is because through this way, it is not only comprehensive; but ultimately, it results to uncertainty. At the law title, the word "business" gives one the understanding that the law applies only to business organizations i.e. business enterprises. These doubts occur just at the beginning of the title by imposing the perception that this law regulates only the functioning of business organizations and not those non-business

organizations such as manufacturing activities, services, construction, etc. It is imperative that the title of the law should be changed in order to be more inclusive for all enterprises. This inclusion is regardless of whether they are individual, business, product or service organizations etc. Therefore, the most convenient and comprehensive title would be the "Law on Enterprises".

One of the interesting phenomenons that characterized the development of business formations in general, from 2000 until now, is the dominance of the large number. This is in terms of the high percentage of individual enterprise in relation to other legal forms. Referring to the official data provided by the Kosovo Statistics Agency, it was concluded that the number of these business organizations was from 93.78% in 2004 to 76.4% at the end of 2015. In fact, this large number does not comply with the organizational structure, volume, and flow of activities of these enterprises. Basically, the causes of this percentage are divided into two time stages which have their respective influencing factors. In the first stage (1999-2008), known as the time of UNMIK, administration was characterized by the dominance of two factors. The first factor has to do with the installation of the economic system on the basis of the market economy, while the second create a completely new legislative base that would ensure the development of social - economic life. Therefore, the new socio-economic and legal system differed entirely from the former systems. In the former system, Kosovo discriminates among the members of the Albanian population. The main challenge of this administration was the formalization of exercising business activities, which in the early years after the war was entirely practiced outside the law. Despite the issuance of regulations with legal power, which generally had elements of Western laws, they lacked the institutional mechanisms to initially inform founders about the advantages and disadvantages of each legal form depending on the organizational level, volume, and the power of business turnover. On the other hand, formalization of business organizations by founders and by registering individual enterprise was initially compatible with the level of their business. Secondly, it is considered as a form which is similar to former individual enterprises of the previous system of the so-called "N.P.T. , D.P.T."etc.

The second stage, after the country's independence in 2008, even after completing the legislation in the business organization scope and the creation of the Business Registration Agency (KBRA) until 2015, did not bring any significant change to this percentage. However, this period varies also with the domination of some other factors that relate to financial reporting. In this case, individual companies are exempted from a range of reporting actions. In addition, an influential factor also serves as the barriers that were present from 2010 – 2014. This is with ARBK not allowing business organizations to transform from one to another legal form. It is, therefore, possible to do this first by ceasing or liquidating a certain business organization, and then registering it in a new form. In 2014, this obstacle was eliminated and it was estimated that this trend will change in order to adapt the legal forms of business organization to the volume and level of their business turnover.

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How to cite this article:

Armand Krasniqi. 2016, Causes of the Domination of Individual Enterprises In Relation To Other Legal Forms of Business Organizations In The Republic of Kosovo. *Int J Recent Sci Res.* 7(5), pp. 11315-11320.

T.SSN 0976-3031



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