

1. What is the government doing and why?

Through the Economic Crime and Corporate Transparency Act 2023 the government will reform how companies report information and what information they report, when filing their annual accounts with Companies House.

These reforms will ensure that the companies register is more reliable and accurate. They will modernise the business practices of Companies House and our financial reporting systems to enable better business decisions.

The reforms focus on what information is filed at Companies House, not on the underlying obligations for companies to prepare accounts. The reforms will mean that what is filed is closer to what companies have already prepared.

2. How is the government going to do it?

The government is doing this by:

- making filing obligations for micro-entities and small companies clearer
- requiring small companies to file a profit and loss account and a directors' report
- requiring micro-entities to file a profit and loss account
- removing the option to file abridged accounts
- requiring an eligibility statement for companies claiming an audit exemption
- requiring documents to be delivered together, in cases where more than one document is filed, including for the filing of accounts

3. What are small companies and micro-entities?

A company is 'small' if, in a year, it satisfies any 2 of the following criteria:

- a turnover of £10.2 million or less
- £5.1 million or less on its balance sheet
- 50 employees or fewer

A company is a 'micro-entity' if, in a year, it satisfies any 2 of the following criteria:

- a turnover of £632,000 or less
- £316,000 or less on its balance sheet
- 10 employees or fewer

4. How will filing requirements for small companies and micro-entities change?

The government will streamline the existing filing framework for small and micro entity companies.

Rather than having the filing obligations for small companies and micro-entities within the same section of the Companies Act 2006, the Act splits the requirements into two sections

(443A and 444), which aims to make the filing requirements clearer for companies to understand.

Under the new rules, small companies and micro-entities will be required to prepare annual accounts in accordance with the requirements of section 396. As such, they will be required to deliver a profit and loss account to Companies House, though micro-entities retain the option to not prepare a directors' report. A small company will be required to file its profit and loss account and directors' report. The changes will also remove the option for companies to prepare abridged accounts.

These amendments will make the filing requirements easier to understand, reduce fraud and error, and improve transparency.

5. What changes will be made to filing requirements for companies relying on audit exemptions (including dormant companies)?

An additional statement will be required by the directors when a company seeks to rely on an audit exemption (for example, dormant companies). The statement will require the directors to identify the exemption being relied on and to confirm that the company qualifies for the exemption. This additional statement is intended to act as a deterrent to criminal activity and to provide additional enforcement evidence.

6. What impact will these reforms have on the integrity of the register and the Registrar's ability to tackle economic crime?

These reforms achieve a better balance between greater transparency and minimising burdens on business. They address concerns about the potential impact of inaccurate or insufficient financial information on the companies register being used to inform important business decisions.

Reforms to the filing options for small companies will help to tackle economic crime. There are concerns that, under the existing regime, companies use filing options that require minimal disclosure when they are not eligible to do so. Simplifying the filing framework will prevent confusion and mistakes and improve the accuracy of the information. Requiring more information to be filed will reduce the risk of deliberate misuse of minimal disclosure options to hide money laundering and other fraudulent activity. Ensuring all companies report sufficient information to determine a company's size and eligibility to file under size specific regimes will improve the value and reliability of the information.

The requirement for companies to file an eligibility statement will provide the Registrar with additional evidence to take stronger enforcement action for false audit exemption filings in the future. For example, evidence from law enforcement agents show that some companies file dormant company accounts and claim the dormant audit exemption, despite their bank accounts clearly showing that the company does not meet the definition of a dormant company. The additional statement is intended to act as a deterrent and help Companies House address such offences in the future.

7. Will the government make any further changes using existing powers?

Further changes are intended to be made at a later date using existing legislative powers or powers under this Act, including:

- mandating digital filing and full tagging of financial information in iXBRL format
- reducing the number of times a company can shorten its Accounting Reference Period