

A short guide to:

Companies House reforms



The UK Companies House reforms will represent a significant change for businesses of all sizes, particularly small companies.



What are the **key changes** being proposed?

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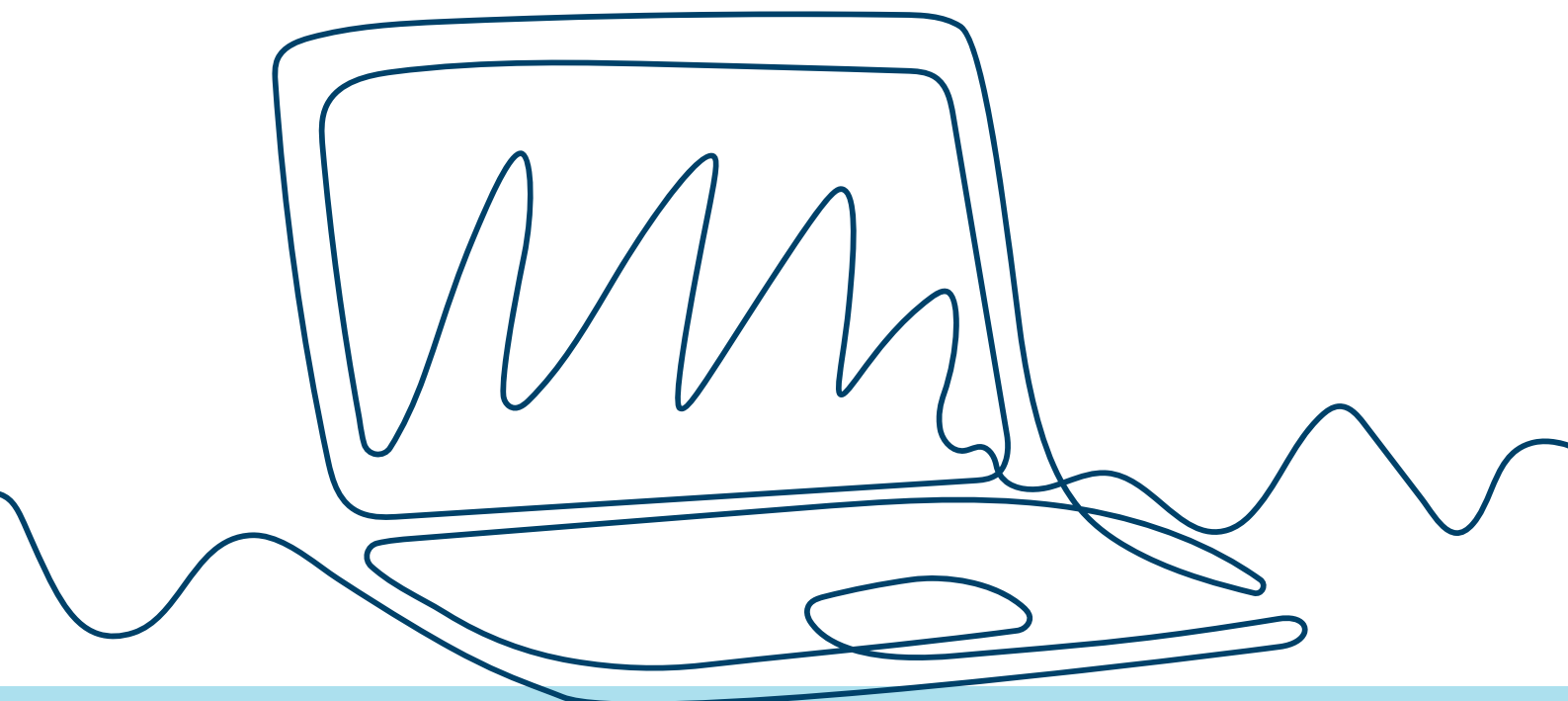
All companies, including small companies, will have to file a profit and loss (P&L) and have this on public record, as the option to file abridged or filleted accounts will be removed. Note, it is only a summary P&L that will need to be filed, and not the detailed version.

2

All directors and people with significant control (PSCs) will need to prove their identity to Companies House when forming new companies.

3

Companies House will be given new powers to investigate and take action against noncompliance with the existing requirements and these reforms. This could include fines, prosecutions, and deregistration.



Who is impacted?

Small companies are those that will be affected by these changes. To be deemed 'small', two of the following criteria must be met:

- Not exceeding turnover of £10.2m;
- Not exceeding 50 employees;
- and/or Not exceeding gross assets of £5.1m.

Given these criteria, the vast majority of companies are classified as small.

What is the impact?

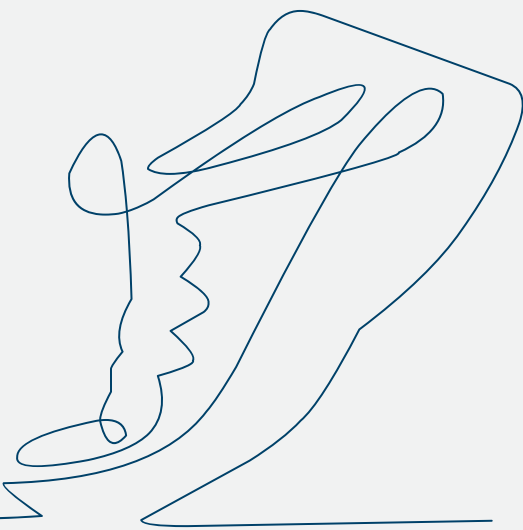
The impact of the reforms will vary depending on the size and structure of the business. However, some of the potential impacts include:

- Increased compliance costs, and particularly for businesses with multiple directors or PSC's.
- Less flexibility in respect of how accounts are filed.
- Greater transparency, but less privacy for limited companies when it comes to their financial position.
- All limited companies will need to file their profit and loss account at Companies House.
- Greater risk of investigation.

What steps can businesses take to mitigate the impact of the changes?

Small companies can mitigate the impact of the reforms, and continue to operate successfully, by:

- Making sure that they are familiar with the new requirements and filing deadlines.
- Consider whether an alternative structure that doesn't have to file accounts with Companies House (such as a sole trader or partnership) would be more appropriate to their circumstances. Clearly this needs careful consideration, including taking into account all factors such as limited liability and tax.
- Working with an accountant or other professional to help them comply with the reforms and consider whether an alternative structure may be appropriate.
- Keeping their records up to date.
- Being aware of the risks of fraud and money laundering and taking steps to mitigate those risks.



What other changes are being proposed?

In addition to the reforms outlined above, there are a number of other changes that are being proposed for Companies House. These include:

- The creation of a new enforcement body: This body will be responsible for investigating and taking action against non-compliance with Companies House requirements.
- The introduction of new penalties for non-compliance. These penalties will be more severe than the current penalties.

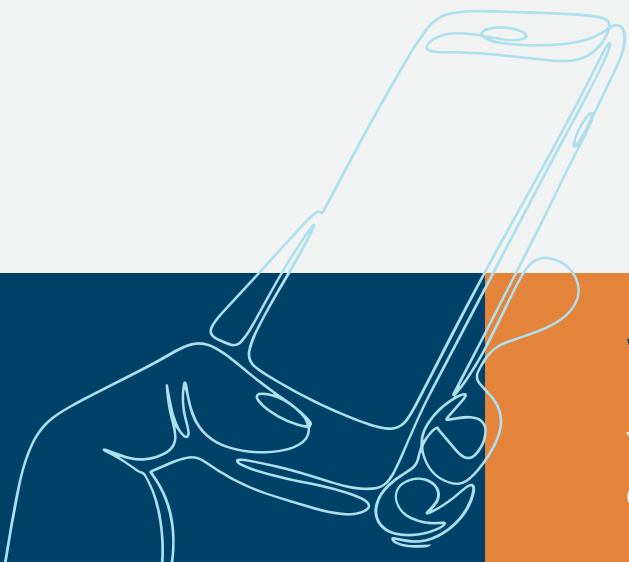
When are the reforms coming in?

At the present time there is no timescale for when the Companies House Reforms may be introduced. However, the first stage of legislation, the Economic Crime and Corporate Transparency Bill 2022, is already going through the legislative process.

The ‘why’ behind the reforms...

The UK Companies House reforms are being introduced with the intention of making the UK a more transparent and accountable place to do business. The proposals include increased measures to protect businesses from fraud and money laundering, and to make it easier for law enforcement agencies to investigate financial crime. Some additional details about the proposed reforms & their purposes:

- Introduction of a new register of beneficial ownership: This register will list the ultimate beneficial owners of all UK companies, making it easier to identify who ultimately owns and controls companies, and helping to prevent financial crime.
- Creation of a new enforcement body: This body will be responsible for investigating and taking action against non-compliance. This will help to ensure that Companies House has the resources it needs to effectively enforce the new reforms.
- Introduction of new penalties for non-compliance: The penalties for non-compliance will be increased. This will deter companies from non-compliance and help to ensure that Companies House has the resources it needs to effectively enforce the new reforms.
- Increased identity verification requirements: This change is designed to make it more difficult for criminals to set up shell companies. All directors and PSCs will need to provide Companies House with proof of their identity. This will apply to new incorporations first.
- Streamlining of accounts filing options: This change will simplify the accounts filing process for small companies. Small companies will no longer have the option to prepare and file abridged accounts. This will make it easier for Companies House to identify companies that are not complying with their filing obligations.
- Increased powers for Companies House to investigate and take action against non-compliance: Companies House will be able to issue fines, prosecute companies, and deregister companies that are not compliant.



Where can I find out more?

You can find out more about the proposed reforms on the Government website, [here](#).

Our thoughts...

These reforms are significant for all limited companies.

With a stated purpose of improving transparency and an equitable approach to the quantity and quality of information collected, there is merit in many of the proposed reforms.

That said, there is one particular proposed change that will concern the vast majority of companies in the UK, who currently take advantage of the 'small company' filing relaxations. Currently, small companies do not have to file an annual profit and loss account unless they choose to, but instead file a balance sheet.

A balance sheet shows 'a state of nation' snapshot of the business at the year end. It normally shows what the business owns, is owed from customers and other debtors, how much cash it has and how much it owes to creditors such as trade suppliers and HMRC. To put it another way, bringing all the above figures together, a balance sheet shows the total of how much profit is left in the company and its share capital at the year end.

What a balance sheet doesn't tell you is how much profit the limited company generated, your sales or the amount of dividends you paid to shareholders during the year.

However, that is precisely what a profit and loss account will show and, under the reforms, this will be easily obtainable from Companies House by anyone who chooses to look. It is reasonable to suspect that most small company owners would not want this information to be in the public domain and available to their competitors, staff, customers and suppliers.



Are limited companies still a good idea?

We always stress the importance of non-tax considerations when advising clients on whether to choose a limited company or LLP over a sole trader or traditional partnership structure.

These reforms will bring significant changes and responsibilities for all limited companies and, as always, there will be repercussions where non-compliance is identified.

Trading through a limited company or LLP, in most circumstances, protects a company owner's personal assets from business liabilities. This can often be a significant motivation for choosing to trade in this way.

However, we recommend seeking professional advice because all factors need to be considered and these reforms could tip the balance for some.

About George Hay

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We offer a comprehensive suite of accountancy services, expert advice, and sector-specific support spanning a range of industries. We also operate a payroll bureau, and offer an outsourced bookkeeping solution, designed to eradicate your frustrations about financial administration and save you time.

Our aim is to become a trusted adviser to you, and to deliver a service that goes beyond compliance alone.



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Date of publication: August 2023

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This guide has been produced in conjunction with the UK200 Group.

