Lambert Chapman
Chartered Accountants

Making life simpler for you

A short guide to the Companies House Reforms

The **UK Companies House reforms** are a set of changes to the way that Companies House operates. The reforms are designed to improve transparency and make it easier to track and investigate financial crime.

The reforms were announced in the Queen's Speech in 2022 and are expected to be implemented in stages.

Once the legislation receives approval, Companies House has confirmed it will increase its charges to cope with the additional cost of dealing with the reforms.

What are the key changes being proposed?

All companies, including small companies will have to file a profit & loss in new streamlining of accounts filing options.
All companies, including small companies, will have to file a profit and loss and have this on public record, as the option to file abridged or filleted accounts will be removed.

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

Increased powers for Companies House to investigate and take action against non-compliance.
Companies House will be given new powers to investigate and take action against non-compliance 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.
The definition of a small company is those that meet at least 2 of the following criteria:

- 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.

How will these reforms impact those affected?

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.

- The reforms will increase the compliance costs for businesses, particularly those with multiple directors and PSCs.

Reduced flexibility

- The reforms will reduce the flexibility that businesses have in how they file their accounts.

Greater transparency but reduced privacy

- The reforms will mean that more information about a limited company's financial position will be easily and publicly available, including a company's annual turnover, profit and dividends paid to shareholders.

All limited companies, whether small or not, will need to file their profit and loss account at Companies House.

- Micro-entities will still have the exemption from filing a Directors Report but will still need to file a profit and loss account.

Increased risk of investigation

- The reforms will increase the risk that businesses will be investigated by Companies House.

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

Small companies can mitigate the impact of the reforms 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.

The UK Companies House reforms are a significant change for businesses of all sizes, particularly small companies. However, by taking the necessary steps, businesses can mitigate the impact of the reforms and continue to operate successfully.

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.

What is the intended purpose of 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 purpose

- **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, such as a passport or driving licence. 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:** This change will give Companies House more power to investigate and take action against companies that are not complying with their filing obligations. Companies House will be able to issue fines, prosecute companies, and deregister companies that are not compliant.
- **Introduction of a new register of beneficial ownership:** This register will list the ultimate beneficial owners of all UK companies. This will make it easier to identify who ultimately owns and controls companies, which will help to prevent financial crime.
- **Creation of a new enforcement body:** This body will be responsible for investigating and taking action against non-compliance with Companies House requirements. 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 with Companies House requirements 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.

Where can I find out more?

You can find out more about the proposed reforms on the Government website:
https://www.gov.uk/government/publications/economic-crime-and-corporate-transparency-bill-2022-factsheets

Our thoughts

These reforms are significant for all limited companies.

Improved verification of identity checks is to be welcomed as is improved electronic filing and reducing the filing options.

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 and who currently take advantage of the 'small company' filing relaxations. These exemptions require small companies, broadly those with turnover below £10.2m, to file a Balance Sheet with limited other financial information at Companies House each year. Currently, small companies do not have to file an annual profit and loss account unless they choose to.

To put this in context, 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. I suspect 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?

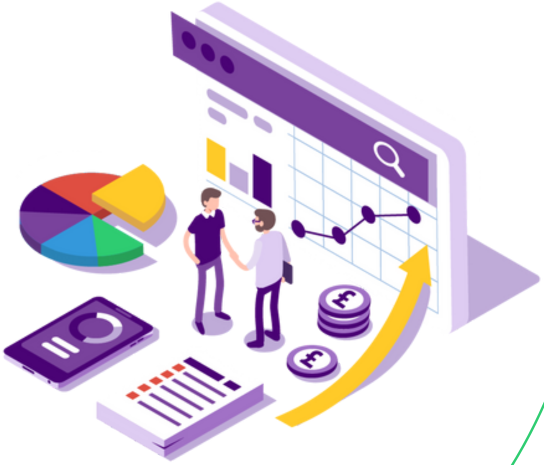
We always stress the importance of non-tax considerations when advising clients on whether to choose a limited company or LLP over a sole trader or traditional partnership.

These reforms will bring significant changes and responsibilities for all limited companies and therefore the risks and repercussions of not complying increase.

Trading through a limited company or limited liability partnership in most circumstances protects a company's owner's personal assets from business liabilities. Our experience is that this is often the most significant consideration when a business owner is choosing how to trade.

This also means that if there are significant changes, such as the increase in corporation tax from 1 April 2023 or the Companies House reforms we are seeing being brought in now, the decision to be a limited company is often still the right one.

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



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We provide a full range of services to help our clients achieve their objectives, offering you a one-stop-shop for all your accountancy needs.

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