

Corporate transparency and register reform – Submission

Arun Advani, Andy Summers and Hannah Tarrant

01 February 2021

Executive summary

- The Companies House register is a useful source of data for the analysis of the UK business population, and has played an important role in enabling us to shed light on business owners at the very top of the wealth distribution.
- Improvements in the quality of information published on the register are welcome. In particular, we would strongly support additional checks of company accounts, and of the personal details of company officers and Persons with Significant Control, to ensure greater consistency both within company records, and across the appointment records of individuals.
- Increasing the quantity of data collected would greatly facilitate progress in analysing and understanding the UK business population. Collecting financial information from all companies, rather than only those meeting the eligibility criteria, would be a major step in the right direction. This information also needs to be displayed in a way that makes it easily accessible for analysis.
- Though the Companies House register has the potential to be an immensely valuable dataset for the analysis of a broad set of business-related issues, its usefulness is currently constrained by the way the information collected is displayed. We strongly support the idea of presenting key financial information on a company's overview page and making this accessible via the Companies House API.

About us

Arun Advani is Assistant Professor of Economics and Impact Director of the CAGE Research Centre at the University of Warwick. He is also a Research Fellow at the Institute for Fiscal Studies, and a Visiting Fellow at the LSE International Inequalities Institute. He studies issues of tax compliance and tax design, with a particular focus on those with high incomes or wealth.

Andy Summers is an Associate Professor of Law at the London School of Economics and an Associate of the International Inequalities Institute at LSE. His teaching and research focuses on tax law and policy, particularly the taxation of wealth. His work also investigates the measurement of inequality using tax data.

Hannah Tarrant is a Research Officer at the London School of Economics, currently working on tax policy, inequality and measurement issues. Prior to joining the LSE, she completed an MPhil in Economics at the University of Oxford.

Our research

We are collaborating on a series of academic research projects that seek to broaden understanding of the characteristics of business owners and their role in the distribution of income and wealth. Our work has made use of Companies House data on those who own and control businesses, putting us in a position to offer suggestions on how the quality and value of the Companies House register could be improved for analytical use.

The Companies House register has played an important role in our efforts to shed light on the characteristics of individuals at the very top of the wealth distribution, who are typically under-represented in survey data. We have matched individuals from the Sunday Times Rich List to company officers and Persons with Significant Control on the register. This has enabled us to understand more about those thought to be the wealthiest individuals in the UK, including their nationality and country of residence. This work has been a key input in two papers commissioned by the Wealth Tax Commission, which studied whether a UK wealth tax would be desirable and deliverable.¹ Two of us (Advani and Summers) are Commissioners of this work, and two of us (Advani and Tarrant) are co-authors on the relevant papers.

The Wealth Tax Commission also commissioned research on valuation and liquidity issues affecting private businesses.² This highlighted the scarcity of data on the financial circumstances of the private business population, concluding that “*research on the UK private business population would progress immeasurably if data were collected in a consistent manner across a broad ranges of businesses*”. We strongly support efforts by Companies House to collect comprehensive financial information from all companies listed on the register, and welcome the opportunity to comment on this.

Detailed responses

Section 1: Towards file once with government

Q1: What features of the Companies House and HMRC filing regimes should be kept under a harmonised filing process?

No comment.

Q2: What information (if any) in annual accounts should not be made public?

We have no comments regarding what information, if any, required from companies ought to be withheld from the public. However, we are keen to emphasise the value of making information which *is* made public accessible for bulk data analysis, not just case-by-case searching. We elaborate on this in Section 9.

¹ Advani, Bangham and Leslie (2020) “The UK’s wealth distribution and characteristics of high-wealth households”, Wealth and Policy Working Paper, 101. URL: <https://www.wealthandpolicy.com/wp/101.html>.

Advani, Hughson and Tarrant (2020) “Revenue and distributional modelling for a wealth tax”, Wealth and Policy Working Paper, 113. URL: <https://www.wealthandpolicy.com/wp/113.html>.

For further information on the Wealth Tax Commission, visit <http://www.wealthtaxcommission.uk>.

² Tarrant (2020) “Valuation and liquidity issues for private business: quantitative evidence”, Wealth and Policy Working Paper, 125. URL: <https://www.wealthandpolicy.com/wp/125.html>.

Q3: What benefits do you envisage for filing once across government?

Adopting a centralised accounts submission standard which ensures that all government bodies receive identical information will not only improve efficiency and effectiveness. It will also improve the statistical value of the register by reducing errors and discrepancies in the information reported. Prepopulating information in the form as proposed and prompting companies to confirm or check this information is also a development we would welcome.

Q4: What challenges do you envisage for filing once across government?

Paragraph 18 cites differences in filing requirements as a key impediment to progress in this area. We support the proposal to require all companies to file the same set of accounts as prepared for the company's shareholders with all government bodies, and it would seem that this reform would have the additional benefit of overcoming some of the difficulties in moving toward a 'filing once' approach.

*Section 2: Requiring financial information to be delivered in a digital format***Q5: In your view, why do some companies continue to file on paper?**

No comment.

Q6: What challenges will mandatory digital filing present?

No comment.

Q7: What can government do to assist these companies to transition to digital filing

No comment.

*Section 3: Full iXBRL tagging of financial information***Q8: What challenges do you foresee with filing fully tagged accounts with Companies House?**

No comment.

Q9: As a user of financial information on the register, what information in a company's accounts is critical for you and should be checked (validated) to ensure it is tagged correctly?

All key balance sheet and profit and loss account fields should be tagged to facilitate the identification of inconsistencies and key missing information if this will improve the quality of the register. See response to Q15 and Q29 for more on validation of other parts of the record.

*Section 4: Reducing the timescales for delivering financial information***Q10: With continual advancements in digital technology, what are your views on shortening the time allowed to submit accounts to Companies House?**

We support measures which will improve the timeliness of filed accounts, especially if technological advancements make this a new possibility. This will not only be of benefit to those making business decisions, but will also enable researchers to inform and analyse policy choices affecting businesses using the most up-to-date information.

Q11: What would be the impact if filing deadlines were shortened to three months for public and six months for private companies from the end of the reporting year?

No comment.

Q12: What measures could the government implement to ease the transition to shorter filing deadlines?

No comment.

Section 5: Maximising the value and integrity of accounts information

Q13: What will be the challenges for companies submitting a declaration of filing eligibility with accounts?

None that we are aware of, as the proposed eligibility criteria all depend upon basic information that all companies prepare in accounts provided to shareholders at present, even if this information is not currently required by Companies House.

Q14: Under what circumstances, if any, should the eligibility information collected with the declaration not be published on the public register?

We cannot think of any reason why the eligibility information should not be published on the public register. Moreover, there is statistical value in publishing this information (turnover, balance sheet total, and number of employees) for all companies. At present, no financial information is provided whatsoever for companies filing accounts under some regimes, which greatly limits the scope of analysis.

Q15: What other information should Companies House collect that would be useful for:

- **Combating economic crime**
- **Increasing the value of the information available on the register**

We would encourage Companies House to ensure that individuals associated with companies as company officers or Persons with Significant Control are uniquely identifiable. At present, it is very difficult to build a picture of the companies owned/managed by a given individual and thus also the relationships between different companies on the register. This is because individual names and dates of birth are often formatted differently, or report conflicting information. In order to achieve this, we suggest that Companies House could:

1. Collect the National Insurance number (NINO) for all officers/PSCs. This information would be held privately, and would enable company records to be linked to taxpayer records held by HMRC.
2. Assign unique individual IDs linked – privately – to NINOs. These unique IDs could be made public, and would make it much easier to pull together all company records associated with a unique individual.

Alternatively, a unique Companies House identifier could be assigned to each individual independently of their NINO. This ID would then be requested when companies notify Companies House of officer appointments or PSCs.

Collecting basic financial information from companies that are currently not required to provide any would also be a valuable development. Additional valuable information that could be collected from all companies includes:

- The number of shareholders (beyond the number qualifying as Persons with Significant Control)
- Directors' remuneration for all companies, including the amount paid to the highest paid director
- Number of employees, split by gender
- Total remuneration paid to all employees, split by gender
- Number of directors, split by gender

Q16: As the directors' declaration will need to include information in respect of turnover, balance sheet total and number of employees, what changes, if any, would you make to these definitions in Part 15 of the Companies Act to make the definitions clearer?

No comment.

Q17: What would be an appropriate sanction for making a false declaration of eligibility?

No comment.

Section 6: Review of small company accounts filing options

Q18: What is the minimum level of financial information that a micro-company should disclose on the public register?

At a minimum, all small and micro-companies should be required to file the maximum amount of financial information that is required by other government departments. Any less than this cannot be justified on the grounds that it imposes too large a burden on small companies, and simultaneously limits the usefulness of the information provided. However, as this information is in the public interest, and varying filing requirements are known to invite fraudulent activity, we believe that this minimum is an absolute lower bound, and would support the proposal that all companies provide full accounts as described in answer to Q20 and Q21.

Q19: Are there any existing filing requirements under the small or micro-entity regimes that could be discarded?

No comment.

Q20: What would be the impact on small companies if the Companies House filing requirement was aligned with HMRC's to require a profit and loss account?

If profit and loss accounts are provided by small and micro-enterprises to HMRC already, it is not clear to us that there is any reason why they should not also be provided to Companies House, at a minimum. The additional cost to the company appears to be negligible.

Q21: How do you think the current small company filing options could be amended to help combat economic crime whilst maintaining a simple filing system for small entities?

If small companies already prepare fuller financial accounts for other government departments, and indeed shareholders, it seems that the costs to small companies of providing full accounts to Companies House would be outweighed by the social benefit of combating economic crime and providing maximal information to all stakeholders, including the public.

*Section 7: Changing and clarifying filing requirements***Q22: What would be the benefits of requiring companies to file the most detailed set of accounts that have been prepared?**

Aside from facilitating the combating of economic crime, providing the most detailed set of accounts would broaden the range of business-related issues that could be analysed by researchers. However, this benefit could be limited in the absence of improvements of how financial is displayed, as we note in our responses in Section 9.

Q23: What would be the disadvantages of requiring companies to file the most detailed set of accounts that have been prepared?

None that we are aware of.

*Section 8: Greater checks on financial information***Q24: What are your views about the general premise that checks should be conducted on all accounts prior to them being accepted as fit for filing on the public register?**

We would welcome this development. Accuracy is a key determinant of the usefulness of any data. The current Companies House register suffers from inconsistencies and inaccuracies not only in accounts filed but also in other information provided, such as the details of company officers and Persons with Significant Control (we discuss this further in response to Q29).

Q25: Additional checks will be limited. Bearing in mind resource and expertise constraints, can you provide examples of what information Companies House should check as priority and how it can be checked?

All key financial information should be checked for inconsistencies and missing information. We would also encourage Companies House to check the personal details of company officers and Persons with Significant Control, having encountered substantial room for improvement in this respect. It is in the public interest to be able to accurately identify those responsible for companies.

Q26: Examples of suspicious activity in a company's accounts may be incomplete, inconsistent or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?

No comment.

*Section 9: Displaying key information on the register***Q27: Which elements of financial information would be most useful to see on the company overview page?**

We strongly support the idea of having key company information displayed on the company overview page in a way that is similar to charities registered with the Charity Commission. The current system of displaying all financial information in PDF images is a significant barrier to the statistical analysis of company accounts.

To further facilitate researchers in analysing company information, we would also encourage Companies House to make this overview information obtainable via the Companies House API.

In terms of financial information, the company overview page should show, for the latest accounting period:

- Turnover
- Profit/loss
- Tax paid (self-reported)
- Total assets and liabilities
- Aggregate directors remuneration
- Aggregate remuneration of employees, split by wages and salaries, pension costs, and social security contributions
- Remuneration of the highest paid director

Q28: What non-financial information would you like to see on the company overview page?

In addition to the information specified in answer to Q27, the company overview page should show, for the latest accounting period:

- Number of employees
- Number of directors
- Name of controlling entity and link to its file, where applicable

Q29: Do you have any additional comments about this proposal?

We have three further suggestions for improving the quality and value of data in the Companies House register.

One record per individual

First, where individuals (officers and Persons with Significant Control) have multiple Companies House records, these should be reconciled as far as possible, such that all associated officer and PSC appointments are linked to a unique individual record. At present, it can be difficult to establish whether two recorded appointments represent the same real individual. This is partly due to different variants of the individual's name being used across records, and standardisation issues noted in the second point below. Creating a single record for each individual would greatly facilitate analysis of UK business owners. We propose ideas for how this could be achieved in our answer to Q15.

Checks of personal details

Second, basic checks should be carried out on the personal details provided for officers and Persons with Significant Control. We have identified several records where "country of residence" and "nationality" contain spelling mistakes, are left blank, and some cases where a town has been entered rather than a country. We would encourage Companies House, as part any future digital filing system, to ensure that "country of residence" and "nationality" are standardised, to prevent multiple versions of country names being recorded, such as "UK" and "United Kingdom". A simple way of achieving this would be to have a drop-down menu, with countries coded using ISO 3166 standard country codes.

Companies House should also produce clearer guidance on how "residence" is defined, as we have come across cases where the same individual is recorded as having a different country of residence across their Companies House records, where this cannot be plausibly attributed to the individual having moved from one country to the other (for example because the individual

appears to move several times within a single year). In some cases, the individual is known to have a private residence in multiple countries, and clearer guidance on which should be reported could improve consistency in the data.

Search by PSC option

Third, the usefulness of the register could be greatly improved by simply making it possible to search by Person with Significant Control, just as it is currently possible to search by officer or company name. This will make it much easier to collect and analyse information on beneficial ownership.

We are happy to provide further evidence and elaboration on these points if it is of benefit to you.

References

Advani, Bangham and Leslie (2020) “The UK’s wealth distribution and characteristics of high-wealth households”, Wealth and Policy Working Paper, 101. URL:

<https://www.wealthandpolicy.com/wp/101.html>.

Advani, Hughson and Tarrant (2020) “Revenue and distributional modelling for a wealth tax”, Wealth and Policy Working Paper, 113. URL: <https://www.wealthandpolicy.com/wp/113.html>.

Tarrant (2020) “Valuation and liquidity issues for private business: quantitative evidence”, Wealth and Policy Working Paper, 125. URL: <https://www.wealthandpolicy.com/wp/125.html>.