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Fair Tax Mark submission to Corporate Transparency and Register Reform Consultation

We thank you for the opportunity to comment on the government's proposals on the above issue provided by your consultation document dated 9th December 2020.¹

Please note that this submission, prepared by the Fair Tax Mark, is additionally supported by:

- Centre for Local Economic Strategies², Church Action for Tax Justice³, Ethical Consumer⁴ and Tax Justice UK⁵.

1. About the Fair Tax Mark

The Fair Tax Mark⁶ certification scheme was launched in February 2014 and seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place. Tax contributions are a key part of the wider social and economic contribution made by business, helping the

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942160/Consultation_on_improving_the_quality_and_value_of_financial_information_on_the_register.pdf

² <https://cles.org.uk/>

³ <https://www.catj.org.uk/>

⁴ <https://www.ethicalconsumer.org/>

⁵ <https://www.taxjustice.uk/>

⁶ More at <https://fairtaxmark.net>

communities in which they operate to deliver valuable public services and build the infrastructure that paves the way for growth.

More than sixty businesses have now been certified, including FTSE-listed PLCs, co-operatives, social enterprises and large private business – which between them have over 7,000 offices and outlets. Fair Tax Mark accredited businesses include Lush, SSE, Marshalls, Pennon, Richer Sounds, Timpson Group, Leeds Building Society, the Co-op, Capita and Severn Trent.

A suite of global accreditation standards will be rolled out in the second half of 2021. We operate as a not-for-profit social enterprise and believe that companies paying tax responsibly should be celebrated, and any race to the bottom resisted. Other initiatives include Fair Tax Week – a UK-wide celebration of the companies and organisations that are proud to pay their fair share of corporation tax – and the Councils for Fair Tax Declaration, which encourages UK cities, towns and districts to stand up for responsible tax conduct. More at <https://fairtaxmark.net>

2. Summary of submission

We very much welcome BEIS' aim to enhance the role of Companies House and increase the transparency of UK corporate entities. We warmly endorse the direction of travel implicit in the Consultation document with regard to improving the quality and value of financial information on the UK companies register (with one exception being the danger that standardisations such as iXBRL tagging might inadvertently hinder businesses that want to embrace extra tax transparency).

As the Consultation sets out, the UK is a global leader on corporate transparency: which in turn builds confidence and helps create an environment for growth. However, a more ambitious framework of public transparency is needed in order to:

- clamp down further on illicit financial flows;
- build the public's trust in the UK's commitment to encouraging good corporate governance; and
- enable a wide variety of stakeholders (including other businesses, financial institutions, civil society groups, academics, journalists and the public at large) to access information on corporate entities that are privileged to enjoy limited liability status.

We are particularly pleased to note that BEIS is embracing the idea of significantly improving the level of corporate transparency in the UK: whether by requiring that companies place the full statutory accounts prepared for their shareholders on public record, or by requiring that a profit / loss income statement always be filed. In our opinion, the first of these options is the most preferable and will enhance stakeholder engagement in a manner that is beneficial to society. We would,

however, suggest that this stipulation should apply to unlimited companies as well.

It is our experience at the Fair Tax Mark that information in the public domain provided by small and medium-sized business has regressed in recent years (especially in connection with tax transparency).

This consultation is not the place to raise the transparency shortcomings of FRS105 and 102, but it is certainly the case that when abbreviated or abridged accounts are posted at Companies House these omit much vital information and make it impossible for stakeholders to form a view as to whether a fair tax contribution is being made, or at all.

An increasing number of companies are keen to demonstrate to their stakeholders that they have paid the right amount of tax, in the right place, and at the right time. Be that via Fair Tax Mark accreditation, or other initiatives that embrace tax transparency (such as the Good Business Charter⁷ or the Business in the Community Responsible Business Tracker⁸).

It is therefore vital that any standardised reporting templates and related software systems accommodate and encourage the fullest tax disclosures and deliver a broad 'true and fair' view of the business' conduct and performance.

Finally, we welcome your desire to identify fraudulent reporting on the Companies House registry.

We provide elaboration of these opinions in the detailed answer to your requests for comment that we attach to this letter. We shall be pleased to provide further evidence and elaboration if it is of benefit to you.

Yours faithfully

Paul Monaghan
Chief Executive
Fair Tax Mark Limited

⁷ <https://www.goodbusinesscharter.com/>

⁸ <https://www.bitc.org.uk/the-responsible-business-tracker/>

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?

We comment on this issue in our answer to later questions.

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

In our opinion there is little if any information currently made available in the annual accounts of any limited liability entity that should not also be made available on public record (the one exception would be the end schedule of sales and administrative expenses connected with the profit and loss account). Our concern is, instead, that too little information is made available in many cases.

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

No comment.

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

No comment.

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?

We suggest that the most significant reason for accounts being filed on paper is that most accounts production software, including that made available by Companies House, is insufficiently flexible to meet the reporting needs of the companies in question. We suggest that this is why it is still so commonplace to see the paper reports of major corporations filed at Companies House.

Q6: What challenges will mandatory digital filing present?

We have addressed this issue in our answer to question 5.

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

As noted in our answer to question 5, it is vital that the company require that accounts production software made available by Companies House and that licenced for use with Companies House must incorporate sufficient flexibility to permit any company to file information in excess of that required as a statutory minimum, or as a minimum by the financial reporting standards with which they are required to comply.

Section 3: Full i-XBRL tagging of financial information

Q8: What challenges do you foresee with filing fully tagged accounts with Companies House?

As noted in our answer to question 5, we do not think that UK corporate reporting should be reduced to its lowest common denominator, or that either statute or financial reporting standards should define the limits of disclosure required when the reality is that the requirement to deliver financial statements reflecting a true and fair view of the affairs of the reporting entity might, in very many cases, require that additional information be disclosed either necessarily, or voluntarily, to meet the needs of stakeholders. The challenge that will then arise is in differentiating this additional information from that de minimis data that is required to populate a Companies House database used for corporate comparison purposes.

In addition, allowance needs to be made for businesses going the extra mile on tax transparency. For example, many Fair Tax Mark businesses now include a Tax Policy in their financial statements. This is to be welcomed in the same way that larger businesses are mandated to disclose a Tax Strategy annually in the UK.

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?

It is our belief that the core data required for disclosure in each of the core statements required by FRS102 and 105 and its derivative documents, including that usually consigned to notes, including that on tax, should be tagged for i-XBRL purposes.

In parallel, as set in our response to Q18, this should be in the context of the fullest set of accounts prepared being disclosed.

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 agree that there should be a shortening in the time allowed to submit accounts to Companies House, and that this will increase the value of the information reported. Perhaps, with a time limit of five months for larger companies, and of eight months for medium size and smaller entities would be appropriate.

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?

See answer provided to Question 10.

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 can think of. We welcome this idea.

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

We do not think that there any circumstances where the eligibility information collected with the declaration should not be published on the public register.

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?

Cash corporation tax paid, as per cashflow statement. This would be a useful flag if reported as zero year after year.

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?

None: these definitions are adequate as they stand.

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

Sanctions should be at the very upper end of those under consideration.

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?

The fullest set of accounts prepared should be disclosed – i.e., the same set of accounts that is prepared for the company's shareholders should be filed with all government bodies and be publicly available. This should apply to all corporate forms, be that ltd, llp, reit, cic, coop or other.

This stipulation should newly apply to unlimited companies as well.

Abbreviated or abridged accounts omit much vital information and make it impossible for stakeholders to form a view as to whether a fair tax contribution is being made, or at all.

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

See response to Question 18.

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?

There should be no additional impact given that we recommend that all companies be required to file their full statutory accounts on public record, and without exception these will include an income statement.

We do not accept that there is ever a reason why a profit and loss account should be excluded from disclosure on the public registry maintained by Companies House.

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?

Attention should be given to countering 'spongebob plans' – where company closure and strike-off is progressed prior to accounts being filed, in an attempt to avoid / evade tax due on trading profits.

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?

Limited liability is a privilege granted by society in exchange for which accounts showing a true and fair view should be filed on public record. We do not see how there can be more than one such set of financial statements for any company

and as such believe that the most complete set available must be those made available. The benefit is in protecting the public from the moral hazard that limited liability inevitably creates, together with a reduction in illicit financial flows as highlighted in the Consultation.

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

We do not think that such disadvantages exist. In our opinion companies themselves benefit from greater disclosure. They face risk as a result of trading with other limited liability entities, and this disclosure mitigates it. We do not see a downside for companies from such disclosure as a result if all are made to comply with it, as we would wish.

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 believe that such checks should take place to ensure that only information that is likely to be proven to be reliable is included on the Companies Registry.

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 a priority and how it can be checked?

- a. No comment.

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?

Significant related party transactions with other companies, where directors beneficial ownership is common and yet no consolidation of companies in a group structure.

Ownership via Trusts, especially offshore trusts.

Low levels of cash corporation taxes paid, despite apparent profits.

Unnecessarily complex group structures.

Directors involved with a significant number of dissolved companies.

Directors and companies connected to 'spongebob plans' – where company closure and strike-off is progressed prior to accounts being filed.

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?

Income

Profit / Loss

Current tax, deferred tax (where applicable) and total tax provisions

Cash Taxes Paid

Average number of employees and combined salaries

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

- a. Trading address of the company as well as that of its registered office, if different;
- b. Names of the directors, with links to their personal files;
- c. Identify of all major shareholders;
- d. Name of controlling entity and a link to its file;
- e. Names of related parties with whom the company has contracted.

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

No. We are, however, happy to provide additional information if requested to do so or to provide additional evidence.