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Need to know
January 2025

Need to know

Changes to size thresholds and directors' report

Contents

This *Need to know* outlines the changes made by the *Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations* 2024 which implement changes arising from the UK government's 2023 call for evidence on the UK's non-financial reporting framework.

- The UK government has laid the ***Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations* 2024 (SI 2024/1303)**
- The changes increase the Companies Act 2006 monetary company size thresholds for micro-entities, small companies and medium-sized companies by approximately 50%. The same changes also apply to limited liability partnerships (LLPs)
- However, the changes do not amend the size thresholds used for the Streamlined Energy And Carbon Reporting (SECR) requirements which are set out in the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations* 2008 (SI 2008/410); these remain the same as previously
- The regulations also remove certain disclosure requirements from the directors' report, primarily where they overlap with other requirements elsewhere in the annual report
- The provisions in the regulations take effect for companies and LLPs for financial years commencing on or after 6 April 2025
- The regulations may not be adopted early. However, for periods commencing on or after 6 April 2025, when considering qualification as a particular company size by reference to a previous financial year, the amendments made by these regulations are treated as having applied in those previous years, enabling companies and LLPs to benefit from the new thresholds as soon as possible after the legislation takes effect.

For more information please see the following websites:

www.ukaccountingplus.co.uk
www.deloitte.co.uk

Background

The reporting requirements for UK companies have expanded over time due to calls for greater transparency and accountability from regulators and investors. This has resulted in duplication of disclosure requirements between some sections of the annual report. As the size thresholds have remained unchanged since 2015, inflation has meant that an increasing number of companies have had to comply with those expanded requirements as companies move into larger size thresholds.

In May 2023, the **UK government issued a call for evidence** on the UK's non-financial reporting framework. The responses to this call for evidence generated a range of suggestions for improvement and, while the government intends to consult further regarding more substantial changes to the non-financial reporting framework, it observed that some changes could be made relatively quickly to ease the reporting burden on businesses by amending the size thresholds to take account of inflation and to remove certain requirements in the directors' report which overlap with other reporting requirements.

> **Observation**
> The explanatory memorandum accompanying the regulations notes that the reduced regulatory burden is estimated to save companies £241m annually. It will result in an estimated 113,000 companies and LLPs moving from the small to the micro-entity size category, a further 14,000 moving from medium-sized to small and 6,000 becoming medium-sized.

Changes in company size thresholds

Reporting requirements for micro-entities, small and medium-sized companies

Different reporting requirements and exemptions apply to UK companies depending on their size, which is in most cases determined based on the company size thresholds and eligibility criteria set out in the Companies Act 2006. Broadly speaking, a company can qualify as a micro-entity, small or medium-sized if it does not exceed two of the three size thresholds set for the relevant size category in two consecutive years and is not ineligible or part of an ineligible group. These size thresholds are set based on annual turnover, balance sheet total (i.e. total assets) and the average number of employees. For a parent company, the size thresholds need to be assessed with respect to the size of the group that it heads.

> **Observation**
> Qualification as a micro-entity, small or medium-sized depends both on size and on whether a company is ineligible or a member of an ineligible group. This *Need to know* provides a high-level summary of the exemptions, but care should be taken when determining whether particular exemptions are available.

The exemptions available to each size category can be summarised as follows.

Exemptions for micro-entities

- Exempt from requirement to prepare a directors' report or strategic report
- May prepare accounts using FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*
- May adopt simplified formats for preparing the balance sheet and profit and loss account
- Exempt from preparing notes to the accounts; specific details required by law disclosed at the foot of the balance sheet
- May choose not to file a profit and loss account
- Exempt from audit.

Exemptions for small companies

- Exempt from requirement to prepare a directors' report or strategic report
- May choose not to file a directors' report if prepared
- May prepare accounts applying the presentation and disclosure requirements of Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*
- May prepare annual report and accounts under the small companies regime in company law
- May prepare an abridged balance sheet and profit and loss account for members showing less detail
- May choose not to file a profit and loss account and related notes
- Exempt from preparing group accounts (under UK GAAP or IFRS Accounting Standards as endorsed in the UK)
- Exempt from audit (although note that for entities that are part of a group, the size criteria for audit exemption are applied at the level of the largest group of which the entity is part rather than the group headed by the entity for the other exemptions).

Exemptions for medium-sized companies

- Exempt from the requirement to prepare a section 172(1) statement
- Exempt from the disclosure of non-financial KPIs in the strategic report
- Exempt from the requirement to report on energy and carbon use
- Exempt from requirement to disclose fees for non-audit services.

Revised size thresholds

The qualifying conditions for micro-entities and small and medium-sized companies are contained in tables within s384A (micro-entities), s382 and s383 (for small companies and small groups) and s465 and s466 (for medium-sized companies and medium-sized groups) of the Companies Act 2006.

Observation

Although the monetary thresholds are increased by the regulations, the threshold for the average number of employees has not changed for any of the size categories. A previous consultation in May 2024 proposed to uplift the medium-sized companies employee threshold from 250 up to 500 employees, but the government has confirmed that these proposals will be considered as part of, but will be considered as part of a broader non-financial reporting consultation on the future of corporate reporting, which is expected to be issued later in 2025.

Micro-entities

	Current entity and group thresholds (net)	New entity and group thresholds (net)	Current group size thresholds (gross)	New group size thresholds (gross)
Annual turnover (£)	≤£632k	≤£1m	N/A	N/A
Balance sheet total (£)	≤£316k	≤£500k	N/A	N/A
Average no employees	≤10	≤10	N/A	N/A

Small companies and groups

	Current company and group thresholds (net)	New company and group thresholds (net)	Current group thresholds (gross)	New group thresholds (gross)
Annual turnover (£)	≤£10.2m	≤£15m	≤£12.2m	≤£18m
Balance sheet total (£)	≤£5.1m	≤£7.5m	≤£6.1m	≤£9m
Average no employees	≤50	≤50	≤50	≤50

Medium-sized companies and groups

	Current company and group thresholds (net)	New company and group thresholds (net)	Current group thresholds (gross)	New group thresholds (gross)
Annual turnover (£)	≤£36m	≤£54m	≤£43.2m	≤£64m
Balance sheet total (£)	≤£18m	≤£27m	≤£21.6m	≤32m
Average no employees	≤250	≤250	≤250	≤250

Changes to the directors' report

Under the regulations, the following disclosures will no longer need to be included in the directors' report. However, many of these disclosures continue to be required elsewhere in the annual report and accounts by legislation or financial reporting standards.

Observation

These changes are only relevant for companies, as LLPs are not required to prepare a directors' report.

Requirement	Description of disclosure	Reason for removal
Details of financial instruments	Description of the use of financial instruments, the nature and extent of risks arising from financial instruments to which the entity is exposed and management of those risks	Overlaps with requirements in financial reporting standards
Branches outside the UK	The existence of branches outside the UK	The government concluded this disclosure provided little value to investors
Employment of disabled people	The company's policy on disabled people and the effectiveness or outcome of those policies	Addressed by more recent anti-discrimination legislation
Employee engagement	Description of how the company has provided information to employees, encouraged the involvement of employees in the company's performance and how they have consulted employees in making decisions likely to affect employee interests	Overlaps with the content of the strategic report and, in particular, the section 172(1) statement
Engagement with suppliers/ customers/others	Description of how the directors have had regard to customers and suppliers in their decision-making	Overlaps with the content of the strategic report and, in particular, the section 172(1) statement
Post balance-sheet events	Information about significant events occurring between the company's balance sheet date and the date on which it files it accounts	Overlaps with requirements in financial reporting standards
Future developments	Description of the future direction of the company	Overlaps with the content of the strategic report
Research and development (R&D)	Information about whether and how a company is investing in R&D	Overlaps with requirements in financial reporting standards and where material, companies are also expected to discuss R&D in the business model

Effective date

These changes will apply to UK companies and LLPs for periods beginning on or after 6 April 2025.

The regulations may not be adopted early. However, for periods commencing on or after 6 April 2025, when considering qualification as a particular company size by reference to a previous financial year, the amendments made by these regulations are treated as having applied in those previous years, enabling companies and LLPs to benefit from the new thresholds as soon as possible after the legislation takes effect.

Further information

If you have any questions about the proposed amendments, please speak to your usual Deloitte contact.

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