

Why don't ministers believe in transparency, accountabi...

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There's been widespread reporting that the requirement for small limited companies to prepare accounts is to be abolished, led by an EU initiative.

As [AccountingWEB notes](#):

The ministers reached an agreement in Brussels [last] week that will see the simplification of rules for profit and loss account and balance sheet reporting.

It will allow EU member states the discretion to exempt the smallest companies from filing these accounts; however simplified balance sheet information will still need to be filed at Companies House. While not specifically stated in the government announcement, the simplification process would appear to make audits irrelevant for these companies too.

Business minister Ed Davey said it will benefit 1.5m small British companies and could save firms up to £300m a year.

He said: "This is a significant step in reducing red tape and a clear signal that we will take action to stop our smallest companies being held back by excessive regulation.

"I believe this shows what can be achieved by a positive and constructive engagement with the European Union. We now need to build on this breakthrough and I hope that further improvements can be agreed before the proposal becomes law."

Member states will now discuss the measures with MEPs, who must also give their approval before the new rules can enter into force.

The new category of companies created by the agreement - "Micro-entities" - must not exceed two of the following three criteria:

- * balance sheet total of â,–250,000 (£217,000)*
- * net turnover of â,–500,000 (£434,000)*

* *average of 10 employees during the financial year in question*

The claim by Ed Davey is entirely bogus. All that is being changed is the requirement that statutory accounts be put on public record by these companies. It doesn't cost £200 a year for a small company to file this data at Companies House. It costs maybe £10 a year.

And the companies in question will still have to prepare accounts in Companies Act format - that's a legal requirement that will not change as companies are meant to file their accounts in this form with H M Revenue & Customs ([even if more than half a million a year fail to do so](#), with HMRC appearing to take no effective action against them as a result due to lack of resources).

So what we actually have here is not a reform that benefits business: it has no real impact at all on business. But it does have serious impacts.

First, it implies accounts aren't a serious business, but they are.

Second, it implies that filing accounts is not important: but it is, it's a criminal act not to do so and more than 300,000 companies a year do not comply.

Third, it implies transparency and accountability are not important, but they are fundamental to the concepts of both limited liability and free markets.

Fourth, it suggests regulation is a bad thing: far from it, effective regulation is the basis for fair trade.

Davey has got this one seriously wrong. So has the EU. Business needs accounts: not least so they can avoid bad debt risk. But he's denying them vital information they need so they can trade with reduced risk. As a result the cost of capital in the UK will rise. What a bizarre thing for a minister to applaud.