

# The UK's company regulation system is a licensed mechan...

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The [Financial Times has reported](#) this morning that:

*Businesses are being set up in the UK at a record rate, according to the government's register of national corporate activity, as criminals attempting Covid-related fraud establish companies alongside entrepreneurs creating new ventures.*

As they note, this matters:

*Senior bankers have raised concerns that criminals have formed companies to take out lightly checked government-backed loans. The National Audit Office this month warned that tens of billions could be lost through fraud and defaults.*

And the numbers are significant:

*In the second quarter of 2020, the last for which there is Companies House data, there were 176,115 new incorporations, an increase of 3.6 per cent on the same period last year.*

*[There are now] more than 4.5m companies are now on the register, compared with 2.7m in 2010.*

The obvious concern is that some of this increase is fraudulent. It is an issue to which I have been referring for more than a decade, with almost no one paying any attention despite the very obvious contribution that the ultra-lax regulatory regime at Companies House to UK tax fraud.

With regard to this, the FT notes that:

*Tackling criminal behaviour, which transparency campaigners say has long been a weakness of Companies House, is a focus of reforms agreed last month. When passed into law, these will see the most important changes to how companies are overseen in the UK for almost two centuries.*

*The agency will strengthen the accuracy and transparency of company ownership through more robust identification processes, use new powers to investigate suspect filings and develop better anti-fraud technology.*

I beg to differ. I think that claim is, at best unsubstantiated. More likely, this is yet more token gesture regulation to pretend that action is being taken on an issue when no change will really occur. This is despite the fact that:

*The reforms are partly driven by a government desire to crack down on dirty money flowing into the UK. The National Crime Agency has estimated that as much as £90bn is laundered through the UK's financial system each year, including by using shell entities registered at Companies House.*

That's all too easy now. As the FT notes:

*Under current laws, Companies House can check records to make sure the right boxes have been filled in, but little else. No checks are made on whether information provided is correct.*

And as the director of Companies House notes:

*"My current powers don't allow me to take action [even when] I can see that obviously something's wrong," Ms Smyth said.*

It is now claimed that:

*Companies House will also work more closely with other government departments, such as the tax authority, to try and identify suspicious behaviour.*

If I am honest, I very much doubt that this will be the case. We know that there has been a substantial reduction in investigation work by HM Revenue & Customs as a result of the coronavirus crisis, and there is no evidence that the government has any intention of making up its funding to cover for the diversion of effort that it has had to make to deal with that issue. Straightforward fraud is, then, going to be investigated even more rarely in the future than it is now. Why, then, HM Revenue & Customs is going to cooperate more often with Companies House is, overall, hard to imagine.

There is an alternative, much better, solution to this problem. All that we require is that every UK bank and financial services company (including accountants) provide information annually to Companies House and HM Revenue & Customs on the companies to whom they provide services or account facilities, and then also provide information on the total sums deposited in bank accounts by those companies in each year if this information is known to them, as it would be to banks, and on the persons who have control as directors or shareholders of those companies, which information they must hold under money laundering regulation. They should, in addition, confirm the real trading address of the company in question.

With this information to hand those two agencies would be able to identify:

- \* Which companies are actually trading in the UK, and should therefore provide tax returns to HM Revenue & Customs. At present they have no way of knowing this, which is absurd;
- \* Where companies really trade, which is information that should be made available at Companies House;
- \* Who really controls operating companies, which is essential information if fraud is to be tackled.

There is nothing radical about this proposal: data of this sort is now automatically exchanged between tax authorities on an international basis, but despite this the UK does not require its transfer with regard to companies trading in the UK. As a consequence our company regulation system is a licensed mechanism for the supply of corruption services. And, there is no plan to change this. You could not make such a fraud generating opportunity up if you tried, but the UK has succeeded in creating it, and appears to want to do nothing about it.

From the government and the claims to be pro-business I find this amazing. Corruption undermines honest business. Seems to be what this government wants.