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Our knowledge, your language

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Changes to Company Size Thresholds

On 10 December 2024 the government approved the changes to the company size thresholds and other reporting requirements, reducing the regulatory burden on small and medium sized businesses in relation to non-financial reporting and audit exemptions.

These changes, which take effect for financial periods beginning on or after 6 April 2025, are eagerly anticipated following an initial proposal made by the government on 18 March 2024. It is worth noting the company size criteria were last amended back in 2016, with the proposed changes designed to reduce burdens on business and address stakeholder concerns and go further than changes to EU legislation, which have seen a 25% increase to account for inflation.

Who is affected?

UK companies within all size bandings will be affected. The government has estimated that the 50% uplift will result in 6,000 companies currently classified as large being reclassified as medium, 14,000 companies currently classified as medium will be reclassified as small and 113,000 companies currently classified as small will be reclassified as micro-entities.

How does company size work?

A company's size is affected by:

- the qualifying conditions (i.e. size thresholds set out above)
- whether it is excluded from a particular size classification (e.g. due to the specific nature of the entity, for example being an ineligible company).

Companies excluded (ineligible companies)

Even where the qualifying conditions are met, certain companies are excluded from being treated as micro, small or medium sized companies.

Public companies (e.g. PLCs), companies with permissions under Part 4A of the Financial Services and Markets Act 2000 to carry on a regulated activity, insurers, scheme funders of Master Trust schemes and e-money issuers are all excluded from being treated as medium sized companies.

Public companies (e.g. PLCs), insurance companies, banking companies, e-money issuers, MiFID investment firms, UCITS management companies, companies carrying on insurance market activity and scheme funders of Master Trust schemes are all excluded from being treated as small companies.

Any company excluded from being treated as a small company, investment undertakings, financial holding undertakings, credit institutions, insurance undertakings, charities, parent companies preparing group accounts and companies which are not parents but are being included in group accounts are all excluded from being treated as micro entities.

In addition, most of those entities listed above will also make the group ineligible (the main exception being an unlisted PLC), meaning any company within the same group is also excluded from the relevant size classification. Entities with shares listed on a UK regulated market will also make the group ineligible.

Working out whether a company or group is ineligible can be complex, so it's well worth discussing your particular circumstances with us. Note that the government has not announced any changes to these exclusions.

What about audit?

The default position in the Companies Act 2006 is that all companies must have an audit unless they are entitled to one of the audit exemptions:

- small companies audit exemption
- parent guarantee audit exemption
- dormancy audit exemption.

None of these exemptions are expected to change directly however, since many more companies will now fall within the small size classification, more companies will be eligible for the small companies audit exemption.

Is the small companies audit exemption always available to small companies?

Even where a company falls within the small size classification, it may still not be able to take advantage of the small companies audit exemption.

For example, members representing not less than 10% of the nominal value of share capital still have a right under s476 of the Companies Act 2006 to request an audit.

However, the most common issue in this space is small companies which are subsidiaries. Unless the group as whole (including those whose parent is overseas) qualifies as a small group, then the small company audit exemption is not available. Such entities may be able to take advantage of the subsidiary companies audit exemption, but this does have specific qualification criteria, including being included in the consolidated accounts of a UK parent which provides a guarantee for the year in question.

Additionally, the exemption is not available to trade unions or employer's associations, and different thresholds and requirements may apply to different types of companies – charitable companies, for example, may be required to have an audit under charity law.

There may also be requirements for an audit within agreements with lenders or suppliers, for example.

Why would I choose to have an audit when I can claim exemption?

Whilst many small companies choose not to have an audit, there are also many who engage auditors voluntarily, on the basis that the benefits of an audit can exceed the cost.

An audit provides directors and shareholders with a 'critical friend' providing an opinion on the reported figures and helpful and supportive advice on areas requiring attention or improvement. It provides stakeholders with assurance that the reported figures are as stated (materially) and this gives greater confidence in the general financial position of the business. The discipline of preparing for an audit and being prepared to answer questions and provide explanations to auditors can also strengthen finance teams and support their development.

An audit report also increases the credibility of a set of financial statements and can often be a condition when obtaining loan financing or other forms of finance such as hire purchase or leasing.

Fraud continues to be an ever-present part of business life. Whilst an audit cannot guarantee to detect all fraud it is an important tool in helping its prevention. An audit can act as a deterrent to the potential fraudster and help to detect fraud which has a significant effect on the accounts. It will also provide positive advice about where controls and financial systems need to be improved to prevent fraud.

Company accounts need to comply with all the requirements of accounting standards and company law. Companies House will continue to reject accounts that are not compliant. An audit will identify problems prior to filing so that they can been corrected.

If a company is part of a group, then the group auditors may request an audit because of the requirements of the auditing standards which impact the group. In order to issue an audit opinion on group accounts, a parent company's auditor must identify and assess the risks of material misstatement of the group financial statements and plan and perform appropriate audit procedures to respond to those risks. This may include requiring an audit on a component, irrespective of its company size.

The benefits of the close involvement of an auditor should not be underestimated. For example, without an audit, accountants who are your tax advisors would need to spend time ensuring that the information submitted to HMRC is reliable, the company is not breaking any of the ever-widening tax requirements and the company and its directors conduct their affairs in the most tax efficient manner.

If an entity chooses not to have an audit, are there alternative assurance services that might be suitable?

Dispensing with an audit can open up the possibility of more tailored or bespoke assurance engagements with a focus on specific areas to provide the assurance that you need in a more flexible way. This might involve focussing on specific areas of the financial statements or carrying out a review of aspects of the finance system. This may be an attractive option for those who are now eligible for audit exemption, but still desire some form of assurance which could be more cost effective.

Preparing for the changes

Companies should review their size against the new criteria to identify whether they have moved from one banding to another and familiarise themselves with the changes to narrative reporting.

Companies should also consider when they will be impacted by the new legislation. The new legislation comes into force for financial years beginning on or after 6 April 2025 which means companies won't feel the benefit of the reduced requirements until much later. For example, companies with a 31 March year end won't benefit from the reduced requirements until their year ending 31 March 2027 which may tempt some companies into changing their accounting reference date or utilising the the '7-day rule'.

In most cases, the updated changes will result in a reduction in disclosure or narrative reporting, but directors should also be aware of the additional filing requirements for small and micro entities, which are to be introduced as part of the implementation of the Economic Crime and Corporate Transparency Act 2023, although the timeline for these changes is still unclear.

However it should be noted that size thresholds which drive the Streamlined Energy Carbon Reporting will not naturally change as a result of these revisions. Therefore entities which were previously large, but are now medium will still need to include this in their directors' report unless related legislation is also updated.

The FRC's recent changes to financial reporting standards will potentially make small companies which qualify as micro, interested in changing financial reporting standards from FRS 102 to FRS 105. Please contact us for more detail on these changes.

Other changes

The government has also included changes to Directors' Reports to remove 'low-value, obsolete or overlapping requirements'. These include:

- Financial instrument disclosures which are already covered in accounting standards;
- Disclosure of events after the year end date which are covered by accounting standards;
- Information about likely future developments;
- Information about research and development (R&D);
- Information of branches outside of the UK;
- Information relating to the employment of disabled people;
- Information about how the company engages with employees;
- Information about how the company engages with customers and suppliers.

The initial proposal from March 2024 also stated the government planned to launch consultations regarding amending the size threshold for number of employees from 250 to 500 for a company to be classified as medium-sized and also on exempting medium-sized companies from the requirement to produce a strategic report. While there are no current plans to make changes in these areas, a ministerial statement by the government on 14 October 2024 noted they plan to launch an 'ambitious consultation' in 2025 aimed at simplifying and modernising the UK's non-financial reporting framework.

New thresholds

The size thresholds are increasing as shown in the table below. The qualifying conditions will be met if a company (or group) meets at least two of the three thresholds in the following tables in a financial year.

Qualifying conditions for individual companies (company size thresholds)

		Turnover[1]		Balance sheet total[2]		Average number of employees[3]
		Old	New	Old	New	
Micro	Not more than:	£632k	£1m	£316k	£500k	10
Small	Not more than:	£10.2m	£15m	£5.1m	£7.5m	50
Medium	Not more than:	£36m	£54m	£18m	£27m	250

[1] Adjusted proportionately if not a year.
[2] The aggregate of the amounts shown as assets in the company's balance sheet (i.e. gross assets).
[3] The absolute number of employees (not full time equivalent). It should be noted these thresholds are unchanged.

Qualifying conditions for groups (group size thresholds)

There are both gross (i.e. before consolidation adjustments) and net (i.e. after consolidation adjustments) thresholds when assessing the size of the group. It is important to remember that gross and net thresholds can be applied interchangeably.

The new group thresholds are as follows:

		Turnover[1]		Balance sheet total[2]		Average number of employees[3]
		New 'Gross'	New 'Net'	New 'Gross'	New 'Net'	
Small	Not more than:	£18m	£15m	£9m	£7.5m	50
Medium	Not more than:	£64m	£54m	£32m	£27m	250

[1] Adjusted proportionately if not a year.
[2] The aggregate of the amounts shown as assets in the company's balance sheet (i.e. gross assets).
[3] The absolute number of employees (not full time equivalent).

It is important to remember when assessing their size, parent companies need to consider not only their individual size, but also the size of the group they head in order to determine whether the qualifying conditions are met, even if they are exempt from preparing consolidated financial statements.

A company's (or group's) size will initially be determined based on its first reporting period. Subsequently its size will then only change where it falls into a new size criteria for two consecutive years (i.e. it meets or exceeds the thresholds 2 years in a row, noting it may be a different two of the three criteria met for these periods). This is often referred to as the two-year rule. There is a transitional provision regarding the two-year rule.

Transitional provision

When considering a company's size by reference to a previous financial year, the uplifted thresholds can be applied in that previous year. This means companies will benefit from the new thresholds as soon as possible after the legislation comes into force.

We can help

We can help you to prepare for these changes and assist you in ensuring you comply with the revisions when they come into force.

March 2025