

Act 2006

The overall objectives

The government's overall objectives in respect of the legislation were to simplify and modernise company law so that it better meets today's business needs and provides flexibility for the future. While the reform process aimed to 'think small first', the resulting legislation has an impact on directors, auditors, shareholders and company secretaries of private, public and quoted companies. The Act itself has been written in simplified language, with a particular focus on small companies.

Key areas of change

Directors

A statement of director's duties

In order to help make it easier to understand the general duties that a director owes to their company, there is now a formal, statutory code of directors' general duties to the company. This clarifies the existing duties that have developed over the years through case law.

The Act requires each director to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole. This broadly replaces the previous duty to act in the company's best interests.

Wider social responsibility and safe harbour from liability

In performing the above duty, the Act requires that directors give some consideration as to how their decisions affect the wider interests of their employees, the community, the environment, their suppliers as well as other factors. As reporting requirements increase for some companies, the Act gives directors a 'safe harbour' that will restrict their civil liability in respect of material omissions from, or statements made in, directors' reports.

Transactions with directors

The rules that regulated transactions between directors and their company, which required shareholder approval, have been reformed and restated. In particular, the Act permits companies, with shareholder consent, to make loans, give guarantees or provide security in connection with a loan to a director.

Other changes

For each director, a service address and the country of usual residence will be required in addition to the home address. Home addresses will not be placed on the public record.

The Act allows companies to have corporate directors, although at least one director must be a natural person (ie an individual).

The period available to file accounts at Companies House has been reduced under the Act:

Filing Deadline	Old	New
	Months from the end of the accounting period.	
Private Limited Company (LTD)	10	9
Public Limited Company (PLC)	7	6

In addition, the penalties associated with late filing of accounts have been increased.



New size limits - is your company small or medium-sized?

January 2004 saw the definition criteria for small and medium-sized companies and the audit exemption limit rise significantly, meaning that many more companies could benefit from the exemptions available.

The limits have been increased again in respect of accounting periods that begin on or after 6 April 2008:

Individual Company Limits	Old Small company limits	New small company limits
Turnover not more than	£5.6m	£6.5m
Balance sheet total not more than	£2.8m	£3.26m
Number of employees not more than	50	50

Individual Company Limits	Old Medium company limits	New Medium company limits
Turnover not more than	£22.8m	£25.9m
Balance sheet total not more than	£11.4m	£12.9m
Number of employees not more than	250	250

The preparation of simpler accounts

Comment - A small company can take advantage of exemptions from certain disclosures in its accounts and can make use of simpler accounting standards to prepare its accounts. Some companies do, however, continue to be prohibited from taking these advantages, including certain financial services companies.

Filing abbreviated accounts on the public record at Companies House

Comment - There had been early indications that the government intended to abolish the option for small and medium-sized companies to file abbreviated accounts at Companies House. However, these were not realised. Unfortunately this option is of less value to medium-sized companies generally and such companies also have to disclose turnover in their abbreviated accounts under the new rules.

Audit exemption

Comment - There are differing views on the value of the audit process to owner managed companies. The decision for you and your business is clearly a personal one. If your company now falls under the higher audit thresholds, which are equivalent to the small company turnover and balance sheet limits, this will provide us with the opportunity to provide you with a more flexible service.

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