How will the proposed EU definition of the enterprise and international profiling affect the UK business register

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Reminder of Current Enterprise Definition

- Smallest combination of legal units that is an organisational unit producing goods or services which benefits from a certain degree of autonomy in decision making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations.
Proposed Enterprise Definition

(1) An enterprise is an organisational unit which has a sufficient degree of autonomy in decision-making and sells in its own will goods and services to a third party. It can be constituted by one legal unit, a combination of legal units or of parts of legal units. An enterprise carries out one or more activities at one or more locations.

(2) An enterprise can correspond to either
• a single legal unit not controlled by any other legal unit
• an enterprise group as a set of legal units under common control, or
• an autonomous part of an enterprise group.
Creating Enterprises on the UK Register

- Daily VAT automatically processed to match to existing units – if no match a new enterprise is created
- Quarterly employment tax (PAYE) – processed to match to existing units. Non matches with a company registration – create new enterprise
- If PAYE does not match, held for further treatment.
VAT group reporting

- One member of a group can pay VAT for whole group.

- Rules based approach: Small groups (<20 employment) not autonomous – so all group members in one enterprise

- Bigger groups – enterprise group created.
Third party sales test

• Automatic process does not apply a third party sale test.

• In new definition, intra-group sales means legal units should be consolidated – larger heterogenous enterprises result

• Less granularity and changes to data collection and survey results
Potential Impact: integrated food manufacturer

Ent 1
- KAU Animal Feeds 1091
- KAU Rearing 0147

Ent 2
- KAU Fresh Chicken 1012
- KAU Poultry 1012
- KAU Convenience Foods 1013
Scale of the problem

- 2.2 m enterprises.

- Around 250,000 enterprises in enterprise groups. 88,000 groups.

- Only profiling can fully answer the third party question.

- We profile around 400 groups per year.
International profiling

• **Future:**
  • Top down based on IFRS segments to create new concept Global enterprise.
  • Country where UCI resident does the profile.

• **Present:**
  • UK – profiled for many years.
  • But bottom up from legal units approach.
Example of top versus bottom approach

• Bottom up – identify all legal units. Undertake range of coherence checks. If necessary contact business to change structure.

• Top down. Look at segments first. Not country specific. Check with company and restructure around segment.

• Will change reporting structures for MNEs.
Oil company has 3 GEN (global enterprises) based on the following operational segments

- **Exploration and Production**
  (Nace 0610 - Extraction of crude petroleum)

- **Refining and Marketing**
  (Nace 4730 - Retail sale of automotive fuel in specialised stores)

- **Other Business and Corporate**
  (Nace 2442)

Each GEN is represented in the UK legal structure therefore creating a new TEN (Truncated Enterprise) for each segment.
### Existing UK Structure for Oil company

Existing UK reporting structure for ONS surveys

<table>
<thead>
<tr>
<th>Name</th>
<th>SIC</th>
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</thead>
<tbody>
<tr>
<td>Exploration</td>
<td>0610 (extraction)</td>
</tr>
<tr>
<td>Exploration Pers</td>
<td>7820 (emp agencies)</td>
</tr>
<tr>
<td>Shipping</td>
<td>5020 (sea freight)</td>
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<tr>
<td>International</td>
<td>4671 (wholesale)</td>
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<tr>
<td>Lubricants UK</td>
<td>1920 (refining)</td>
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<tr>
<td>Chemicals</td>
<td>2014 (organic chemicals)</td>
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<tr>
<td>Oil UK</td>
<td>4730 (retail)</td>
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<tr>
<td>Hydrogen Energy</td>
<td>3511 (electricity)</td>
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</tbody>
</table>
Aerospace company

Complex Reporting Structure

Diverse Activities carrying out:
Manufacturing of:-
Aircraft Engines,
Marine Engines & Turbines
Wind Turbines,
Nuclear Power
There are 5 defined published IFRS segments. However, by visiting business, we confirmed much more complex internal reporting (10 business streams) which company confirmed that data could only be supplied in this way:

These business streams are:

- Airlines
- Gas Turbines
- Defence
- Energy
- Naval Marine
- Commercial Marine
- Industrial
- Nuclear
- Corporate
- Other Project Financing
Conclusions

• Combination of new enterprise definition and international profiling will lead to changes to survey outputs.

• Difficult transition would have to be managed.

• Pragmatic rule based approach for third party sales in conjunction with a large expansion of profiling programme required.