



Every business which either places or uses temporary labour should be aware of the potential dangers posed to their business by Mini Umbrella Company (MUC) fraud in their supply chain. Not only can a fraudulent supply chain lead to reputational and financial damage to your business, but your workers may not receive all they're entitled to. MUC fraud also significantly reduces tax payments to HMRC including PAYE, National Insurance and VAT.

As an end user or provider of temporary labour it is your responsibility to be clear about who ultimately pays the workers and how they are paid. This is the only way to protect your business from becoming entangled in MUC or other supply chain frauds. Most MUC arrangements are considered to be fraudulent, so make sure you spot the warning signs to protect your business.

### **What is Mini Umbrella Company Fraud?**

The MUC model is an employment intermediary model which presents an organised crime threat to the UK Exchequer. The fraud is primarily based around the abuse of two Government incentives aimed at small businesses – the VAT Flat Rate Scheme and the Employment Allowance. But this type of fraud can also result in the non-payment of other taxes such as PAYE, National Insurance and VAT. This is reducing vital funding for the public services we all rely on. MUC fraud is not limited to specific trade sectors and can be found in supply chains whenever temporary labour is used. In its simplest form the MUC fraud model involves splitting up a workforce into hundreds or thousands of small limited companies set up solely to enable the fraud. The workforce is generally a temporary workforce who historically would have been paid by an employment agency or an umbrella company. The structuring of the MUCs is facilitated by a promoter business (sometimes also known as an outsourcing business) which may have other linked businesses to support the operation. The creation of the MUCs and the complex layers of businesses within the supply chain help to facilitate the fraud.

For employees, who are often oblivious to these arrangements, the use of this model can result in the loss of some employment rights. Workers in MUCs are usually unaware of who their employer is and they can be moved regularly between MUCs to help maximise profits from the fraud.

### **How you can spot Mini Umbrella Company fraud and protect your business**

There isn't a standard MUC fraud model and arrangements are constantly evolving as organised criminals are trying to hide their fraudulent activities from HMRC. However, there are some common features which businesses might come across during their regular Due Diligence checks. Information from sources such as the Companies House register might help to spot warning signs when completing the quarterly [Employment Intermediary Reports](#) or the [Key Information Document for Workers](#).

- **Unusual company name** - Often multiple companies are set up around the same time which have a similar or unusual name. These companies will often be registered at an address which does not seem suitable for the types of business activities.
- **Unrelated business activity description** - Do the nature of the business activities described in the Companies House entries seem compatible with the services provided by the workers?



- **Directors being foreign nationals** – Often foreign nationals are appointed as directors when an MUC is formed or they can replace a temporary UK resident director after a short period of time. Usually the directors will have no prior experience in the UK labour supply industry.
- **Unusually high movement of workers** - Are workers moved between different employers who meet the above criteria for being MUCs on a fairly frequent basis?
- **Very short-lived businesses** - The individual MUCs have a fairly short lifespan (often less than 18 months) before being allowed to be dissolved by Companies House as a result of their failure to meet their filing obligations. New MUCs will then take their place in the supply chain. You should notice this as you may find that you need to issue a new Key Information Document to workers on a fairly regular basis.

As the MUCs sit low down in the supply chain it may be challenging to spot them. HMRC advises businesses to remain vigilant, especially where the employer of the worker is not the Umbrella Company they may have a contract with.

It is important for businesses to consider the credibility of the supply, payment arrangements and other surrounding circumstances to help safeguard themselves from financial, operational and reputational risks. Guidance on undertaking robust Due Diligence can be found here: [The supply chain due diligence principles](#).

### **What is HMRC doing about Mini Umbrella Company fraud?**

Mini Umbrella Company fraud creates an uneven playing field for those employment agencies and businesses who follow the rules. HMRC's Fraud Investigation Service is using both its civil and criminal powers to challenge those who are involved and facilitating this type of fraud. HMRC has recently made a number of arrests in relation to MUC fraud and has also taken steps to deny the right to recover input tax in cases where it has established that a business in the supply chain knew, or should have known, that there was fraud.

HMRC is working with trade bodies and other Government Departments to raise awareness of the MUC fraud model and its risks more widely. HMRC is also currently undertaking a programme of activity to establish the levels of Due Diligence being undertaken by employment agencies and end users who use temporary labour. As part of this programme HMRC plans to issue advice on the levels of due diligence expected by businesses to help prevent them becoming a victim of the fraud.

### **Reporting concerns**

If you have concerns about a supplier or engager of Labour, or associated activities, contact the HMRC hotline on: 0800 788 887 (open 8am to 8pm every day). For more details see how to [report fraud to HMRC](#).

You can also report someone if you think they're [evading tax](#).