Regulating the UK's umbrella market

FCSA's response to proposals in Budget 2024

2nd edition 18th March 2025

About FCSA

Freelancer and Contractor Services Association (FCSA) is the UK's leading professional membership body dedicated to raising standards and promoting supply chain compliance for the temporary labour market. Our members provide umbrella employment, self-employed services, accountancy, and business support solutions to the contingent workforce.

At the time of writing FCSA has more than 80 Accredited Members who engage c180,000 people as employees, making them, collectively, one of the largest employers in the UK.

FCSA has worked extensively with government and other stakeholders to promote the highest possible standards in the industry, most recently working with HMRC across a number of areas including the off-Payroll Working Forum, the Employment Status and Intermediaries Forum, providing labour market intelligence and umbrella regulation advice to DBT departments such as Labour Market Enforcement and Employment Agency Standards Inspectorate and has worked with HMRC's own Umbrella Companies team, assisting in their development of guidance and calculators.

FCSA has also assisted Parliament, giving evidence to the All-Party Parliamentary Loan Charge and Taxpayer Fairness Group and the House of Lords Finance Sub-Committee, as well as being an expert advisor to the DBT-supported JobsAware initiative, the Better Hiring Institute

FCSA continues to promote compliance within the sector for the benefit of individual workers, HM Government, and the supply chain. It welcomes the opportunity to support DBT, HMRC and HMT to ensure the highest levels of compliance in the contingent labour market.

Executive Summary

The UK government's proposed regulatory changes to umbrella companies, more accurately called Specialist Payroll Intermediaries (**SPIs**), aim to close a perceived tax gap by mandating a shift in responsibility for the liability and operation of PAYE from SPIs to recruitment agencies (more accurately called employment businesses or **EBs**).

Rather than actually forming regulation to improve compliance, the proposed measure merely shifts responsibility up the supply chain and will:

- **Undermine worker protections** – The policy would strip workers of continuous employment benefits, pension stability, and statutory benefits (e.g., sick pay, maternity leave), increasing their financial instability.
- **Increase non-compliance** – Moving payroll responsibility from 600 well-regulated SPIs to 24,000 Employment Businesses (EBs) will disperse compliance oversight, making fraud easier and tax enforcement harder.
- **Reduce Exchequer revenues** – Instead of closing a £2.85 billion tax gap, the changes will cost the Exchequer over £7.5 billion, due to increased tax avoidance, reduced NICs, and lost Apprenticeship Levy contributions.
- **Overburden HMRC** – The shift will dramatically expand HMRC's administrative workload, diverting resources away from tackling actual payroll fraud.
- **Disrupt** an already largely compliant and well-functioning market

Recommendations

The government must abandon the proposal scheduled for implementation in April 2026 and instead implement a Payroll Intermediary Licensing regime that:

- Requires licensing of all payroll intermediaries to ensure compliance and prevent fraud.
- Introduces real-time digital oversight to monitor and protect tax remittances.
- Strengthens enforcement using existing legislation, rather than merely shifting liability to unprepared and ill-equipped EBs.

Conclusion

Rather than dismantling a largely compliant sector, the government should withdraw the proposed changes planned for April 2026 and work with industry experts to introduce a licensing regime which targets non-compliant operators without disrupting tax revenues, worker protections, or business efficiency in the UK's otherwise well-functioning contingent labour market.

Introduction

Background

The UK's contingent labour market relies heavily on Specialist Payroll Intermediaries (SPIs), commonly known as umbrella companies, to ensure tax compliance, worker protections, and administrative efficiency. These companies, particularly those accredited by FCSA, contribute significantly to the UK economy.

FCSA's members alone

- Collect and remit **£12.5 billion** in employment taxes annually
- Collectively employ c**180,000** people

In the Autumn Budget 2024, the Chancellor stated[1]

"The government is also committed to taking stronger action on the most egregious tax fraud, including by expanding HMRC's criminal investigation work and legislating to prevent abuse in non-compliant umbrella companies."

That Budget proposed a regulatory shift[2],

"The government will introduce legislation to make agencies that use umbrella companies to employ workers responsible for ensuring that the correct income tax and National Insurance contributions (NICs) are deducted and paid to HMRC."*

*By "agencies" the government in fact mean Employment Businesses (EBs) (sometimes referred to as "recruiters" or simply "agencies".)

The perceived benefit of this policy is a closing of a "tax gap" of £2.85 billion[3] over the tax years 2024-2030 (referred to herein as the "reference period"). HMT's policy costing document[4] supports a view that this is indicative of the total amount of tax loss arising from non-compliance.

However, the measure proposed ignores the largely compliant industry and the wider benefits to workers engaged by SPIs such as provision of full employment rights and other employee benefits.

It is worth noting that compliant SPIs – the vast majority - would welcome appropriate regulation, however the current proposal risks forcing a significant proportion of these out of business from the outset.

FCSA notes that HMRC itself has identified numerous recruitment and employment businesses as deliberate tax defaulters[5], For example, the biggest defaulter in the

[1] HMT Autumn Budget 2024 p42 paragraph 2.19
[2] HMRC Tackling non-compliance in the umbrella company market
[3] HMT Autumn Budget 2024 p116 item 8
[4] HMT Autumn Budget 2024 Policy Costings p 15
[5] HMRC Current list of deliberate tax defaulters on which recruitment businesses outnumber umbrellas

September 2024 update was an EB with £6.2 million tax defaulted giving rise to £4.3 million penalty and the 10th biggest in that period was also a recruitment agency. This demonstrates that the risks government seeks to mitigate do not solely lie with umbrella companies.

Are umbrella providers the real problem?

Whilst addressing only tax compliance the government's policy seems to accept without question the many myths and tropes surrounding the industry (see Appendix B - Dispelling myths and tropes) and misinterprets the wider responses to the original consultation (see Appendix C – Trend Analysis of Umbrella Regulation Consultation Responses).

In fact, as can be seen in Figure 2 below, the industry is largely compliant. Reputable industry bodies, such as FCSA and Professional Passport, enforce strict accreditation standards to ensure providers operate transparently. The real risk lies not with such providers but with unaccredited, non-compliant firms, often referred to as "payroll pirates," who exploit loopholes or operate in an outright criminal fashion and tarnish the industry's reputation.

These tax avoidance schemes are often designed by a scheme promoter and supported by a KC Opinion. The scheme promoter is typically a boutique tax advisory firm who then seeks out a scheme facilitator to scale the operation. The current proposals do nothing to address the scheme promoters and will just move the scheme facilitator from the "payroll pirate" to a "recruiter pirate".

Sizing the Problem

The current well-structured and effective payroll model consolidates tax and employment obligations under a single responsible employer - the SPI - reducing tax miscalculations and compliance errors.

FCSA Members alone remit £12.5bn annually in employment taxes. Yet the proposed regulations aim to recover a tax gap of just £2.85 billion over the reference period - just **4%** of FCSA Members' projected employment tax remittances of **£64 billion** over the same reference period.

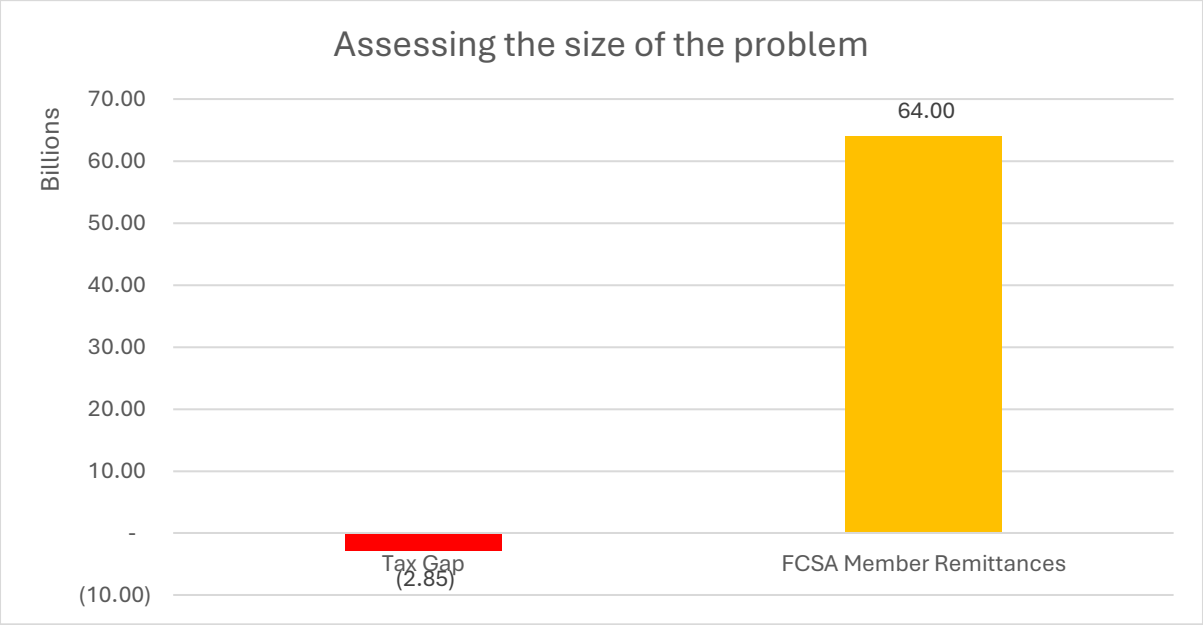


Figure 1 – HMT estimate of the tax gap vs. PAYE tax remittances from FCSA Members alone over the reference period

This report makes it clear that the current regulatory proposal is the equivalent of using a JCB to crack a pine nut.

Flaws in Policy

In terms of overall consequences, the proposed regulation will

- Cost the Exchequer **£7.5 billion**
- Reduce workers access to employment rights
- Increase tax evasion
- Incentivise the proliferation of small, non-compliant "mini-recruiters"
- Complicate tax administration for workers
- Massively increase the burden on HMRC in dealing with workers' tax issues
- Massively increase the burden on HMRC in detecting bad actors
- Fundamentally disrupt an effective, efficient and well-formed market
- Target an ambitious timescale which few in the market believe to be achievable

The proposed regulation will undermine, disrupt and fragment a well-understood and efficient market whereby EBs recruit workers for temporary positions and, in the main, those workers are then employed by SPIs which handle PAYE and provide employment.

The measure proposed simply pushes the issue up the supply chain and will

- Artificially force a shift from c600 expert and established SPIs who are experts in
    - The operation of PAYE
    - The provision of employment rights

to

- c24,000* EBs with
    - little or no experience of handling worker's tax affairs
    - no in-house payroll skills or systems

*c60% of the UK's c40,000 recruiters operate in the temporary market

FCSA agrees with the Chancellor that regulation is required for the industry and has been calling for such for several years, however what has been announced is not really any form of regulation at all – it merely shifts the problem further up the supply chain and comprehensively muddies the waters.

Crucially, FCSA believes that the Chancellor's proposed measure is fundamentally flawed as it introduces significant risks to every stakeholder level in the supply chain.

These risks include tax losses, an increase in fraudulent operations and a profound disadvantaging of workers. In addition, and whether intended or not, the dimunition or eradication of the role played by compliant SPIs – the vast majority - will make HMRC's job even harder.

This report clearly shows that the proposed regulatory changes will cause market disruption and revenue loss to the Exchequer. The government must immediately

abandon these ill-conceived proposals and work with industry experts to implement a practical Payment Intermediary Licensing regime that ensures compliance without disrupting the labour market.

Action Required

FCSA calls for

1. Immediate withdrawal of the proposal announced in Budget 2024

2. The considered and properly planned establishment of a Payroll Intermediary Licensing regime as the most effective solution for non-compliance, enabling
    - A holistic solution to the problem
    - A digital data-led inspection system
    - Introducing accountability within the whole supply chain

3. Targeted enforcement measures against bad actors
    - Applying the already extensive existing legislation

The government must immediately withdraw these proposals and work with industry experts to plan and implement a targeted licensing framework that safeguards tax integrity, employment protections, and business viability.

Background

The Current UK Tax Regime for Employment

The UK's tax system is structured to ensure compliance and maximise tax collection while supporting businesses and workers. For employed individuals, income tax is collected through Pay As You Earn (PAYE), and National Insurance Contributions (NICs) deducted by employers from employees gross salaries (EeNICs). Employers also contribute employer's NICs (ErNICs) for each of their employees. The PAYE system operates alongside other fiscal responsibilities such as pension provision and managing the Apprenticeship Levy and adhering to Employment Allowances for NICs where applicable. This structure ensures transparency and accountability.

For contingent or temporary workers, the landscape becomes more complex. Many find work through recruitment businesses and are employed by umbrella companies. This suits both the individual workers as it gives them flexibility in finding work and enables some workers to work consecutively or concurrently for multiple end-hirers. It is this arrangement the Chancellor seeks to regulate by shifting the liability and responsibility for the operation of PAYE from the umbrella companies to the employment businesses.

In 2021, the Low Incomes Tax Reform Group of the CIOT estimated[6] that there were approximately 500 umbrella providers in the UK, engaging 600,000 workers as employees. In this document we have adjusted for growth and our market calculations are based on c600 umbrella providers, engaging c750,000 workers as employees.

Employment Businesses and Specialist Payroll Intermediaries

Employment Businesses (EBs) and Specialist Payroll Intermediaries (SPIs) are key facilitators in the temporary labour market. EBs typically connect workers with end-hirers and whilst some do handle payroll functions for their candidates many – often including those which can – prefer to outsource the actual employment and tax compliance role to SPIs.

SPIs employ people directly, providing a fully compliant PAYE payroll solution while offering full employment rights such as sick pay, holiday pay, and maternity/paternity leave and many other workplace benefits. They act as any employer does and collect and remit employment taxes to HMRC and have identical obligations in terms of providing employment rights and protections to their employees as any other employer.

SPIs simplify tax compliance by ensuring all income is taxed at source under PAYE, minimising the risk of tax avoidance or evasion. They deduct NICs and manage other

[6] LITRG Labour Market Intermediaries Report

statutory obligations, including contributions to the Apprenticeship Levy and pension auto-enrolment of employees.

Handling PAYE in house is not commonly in most EBs' skillset or expertise and this measure will place additional financial burden on those businesses should they choose the route of bringing the function in house and away from SPIs, reducing their competitiveness and even forcing them out of business altogether.

Current Landscape

Supply Chain (simplified)

1. An **End-hirer** has a requirement for temporary personnel and engages;
2. A recruitment agency (aka **employment business or EB**) to supply candidates which in turn;
3. Contracts with an umbrella company (aka **Specialist Payroll Intermediary or SPI**) to employ the candidates and then operate PAYE and provide full employment rights and other benefits to workers

Specialist Payroll Intermediaries[7]

- There are approximately 600 companies in this field operating in the UK. Of these, c120 are members of the Freelancer and Contractor Services Association (FCSA) or are Professional Passport approved providers.
- FCSA-accredited companies engage around 180,000 employee workers, approximately 25% of the UK's temporary workforce.
- FCSA companies remit about £12.5 billion annually in employment taxes to HMRC, showcasing their significant contribution to the Exchequer.

Employment Businesses

- The UK has c40,000 recruitment agencies, with an estimated 60% or 24,000 handling temporary roles.
- Almost all employment businesses currently use Specialist Payroll Intermediaries to manage the employment of temporary workers
- Many employment businesses are smaller "Mom & Pop" operations, lacking in-house payroll expertise
- Even large employment businesses commonly use Specialist Payroll Intermediaries

[7] Often referred to as umbrella companies.

Tax Regime Thresholds

- Apprenticeship Levy: A levy of 0.5% of gross payroll applies to employers with a wage bill exceeding £3 million annually. Even the smallest of SPI's are likely to fall into the AL brackets within their first year of trading.
- Employers NIC Allowance: Available to most businesses with a ErNICs bill of less than £100k (this restriction will be removed from April 6th 2025).

Sizing the Problem

Collecting and remitting Employment Taxes

In the tax year ended April 5th 2024, FCSA members alone collected c**£11.8 billion** in employment taxes alone (see Figure 1).

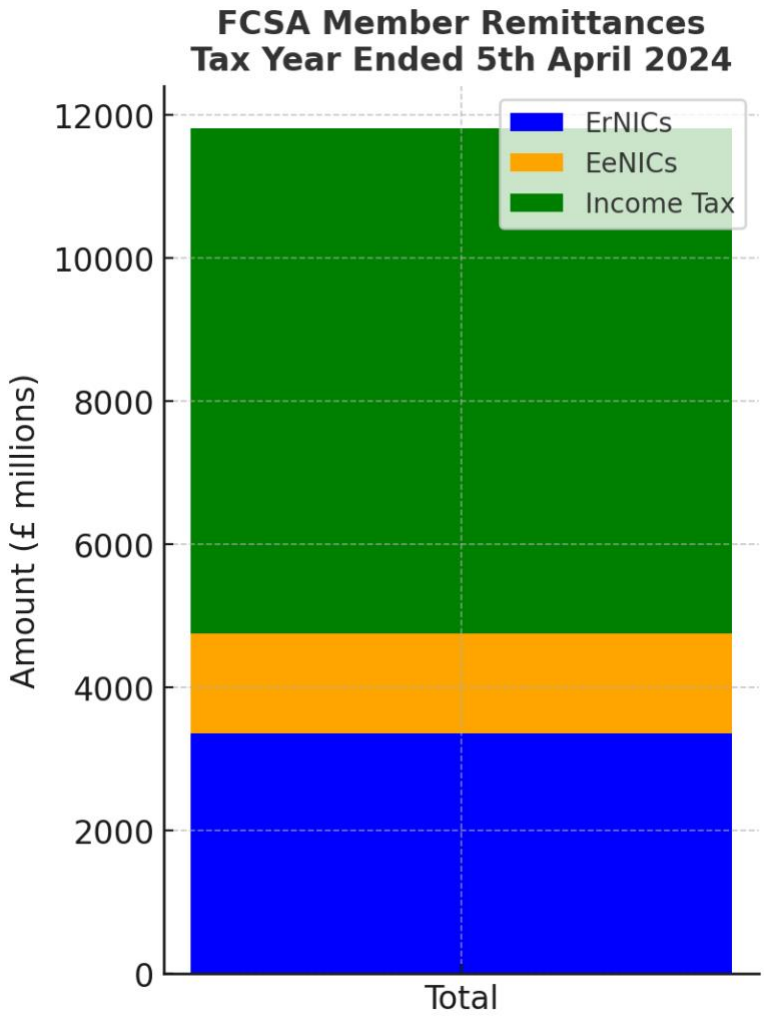


Figure 2 – Employment Taxes collected by FCSA members for tax year ending 5th April 2024

A snapshot taken mid-year 2024-2025 shows this has grown to c**£12.4 billion** for the current tax year.

Assuming this level were to continue over the reference period, this would equate to c**£64 billion** collected and remitted to HMRC *by FCSA Members alone*.

In stark contrast the stated Red Book impact of the proposed legislation shows an expected closing of the "tax gap" in the same period by only £2.85 billion[8], or only about **4%** of the sum collected by FCSA Members alone.

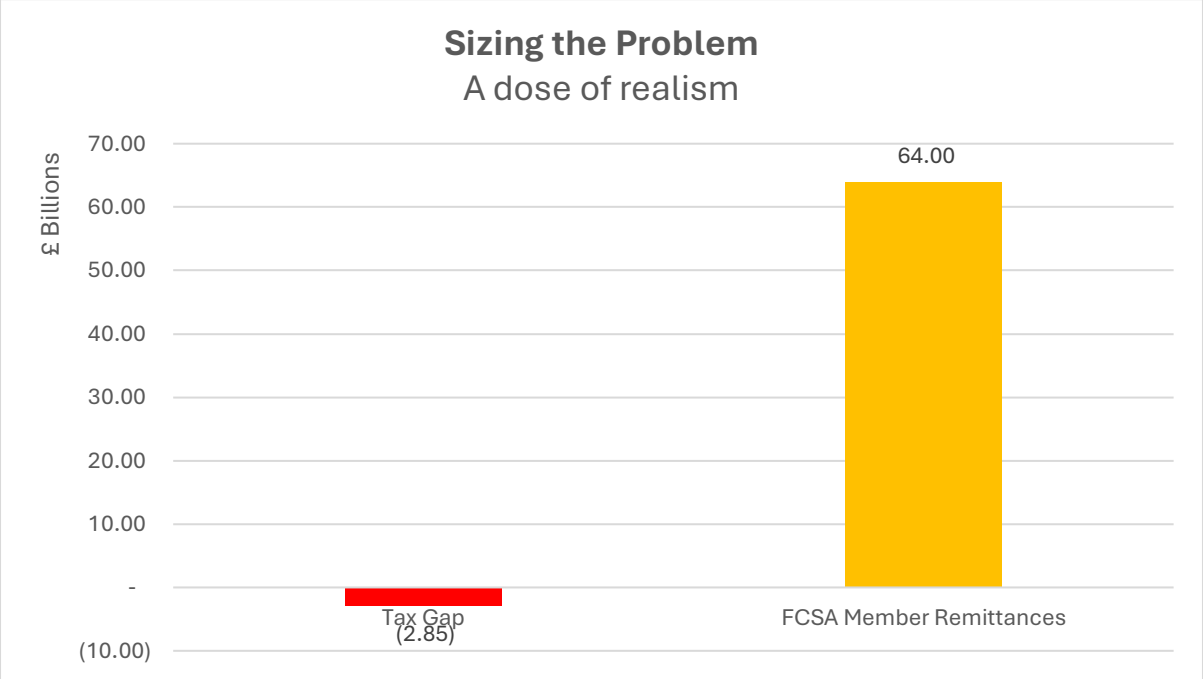


Figure 3 - Tax Gap vs FCSA Member's Tax Remittances over the reference period

Whilst FCSA membership includes many of the largest SPIs in the UK, we can extrapolate from our data to estimate that the overall employment taxes collected and remitted to HMRC from the wider industry is likely to be well over **£150 billion** over the reference period, the "tax gap" caused by payroll pirates therefore being less than 2% of the overall tax receipts from compliant SPIs.

[8] HMT Autumn Budget 2024 p116 item 8

By the government's own admission in reviewing IR35 reforms[9], only 0.5% (1,400 workers) moved from their own Limited Company (PSC) payroll to an organisation offering a disguised remuneration scheme (payroll pirate). Whereas 18% (54,000 workers) moved from their own PSC payroll to an SPI. This indicates that Government have drastically overestimated the proportion of the non-compliant part of the market.

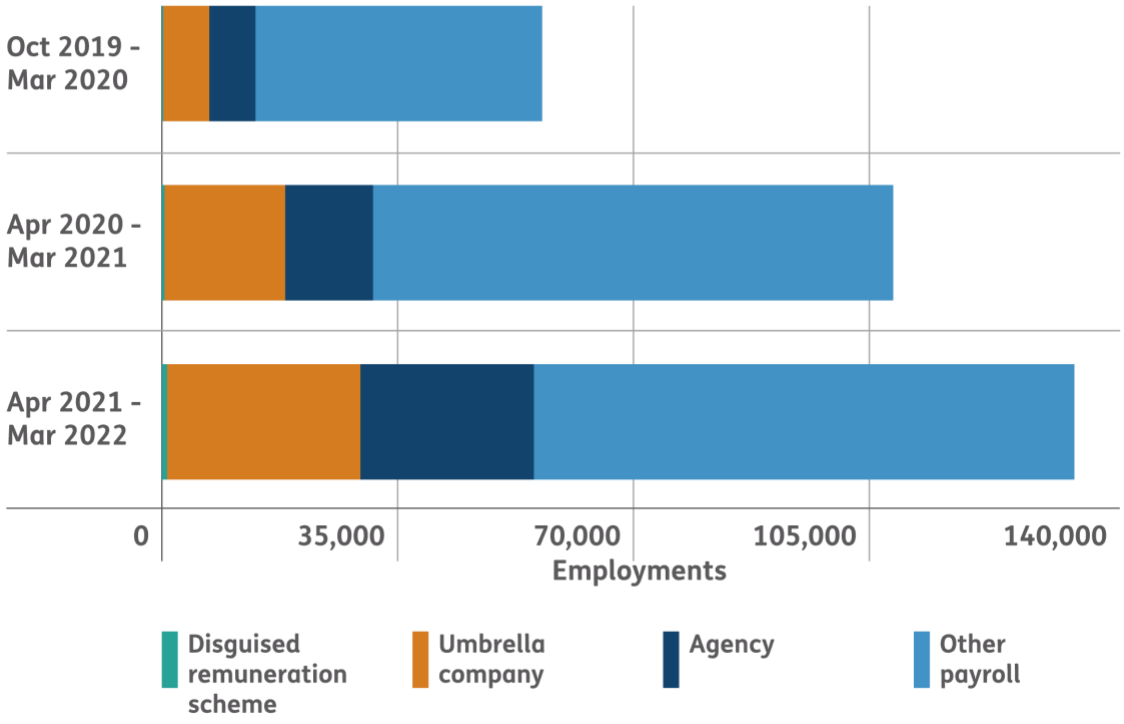


Figure 4 - Source: HMG[10] - The types of organisations that workers moved to when they moved from their own PSC payroll around the time of the reform, broken down by years.

Although this report only addresses about 20% of the overall temporary workforce, FCSA is of the view that taken alongside the data above, it is sufficiently statistically significant to suggest that the vast majority of temporary work is payrolled in a fully compliant manner.

In any event, the proposed measure does not address the underlying issues caused by a percentage of non-compliant rogue businesses but merely shifts it from one compact and identifiable cohort to a massively fragmented cohort.

[9] HMG Update to the impacts of the 2021 off-payroll working rules
[10] HMG Update to the impacts of the 2021 off-payroll working rules

Risks of the Proposed Regulation

Summary of Risks to Exchequer Revenues

Growth in non-compliance

It can be easily understood that policing c24,000 EBs as opposed to just 600 SPIs is a far greater burden on government, making that task orders of magnitude greater. It is reasonable to assume that this will tempt payroll pirates to expand their activities and FCSA therefore projects that the tax gap will increase to £5.7 billion over the reference period.

Loss of National Insurance Contributions

The revised National Insurance Contributions (NICs) system presents challenges, particularly for workers with multiple employers, leading to potential under- or over-deductions. Extrapolated figures suggest £7.9 billion in ErNICs for 2024, with tax losses of £197 million due to miscalculations. The Employment Allowance (EA) increase to £10,500 benefits businesses but risks encouraging artificial mini-companies exploiting tax relief. With an estimated £120 million loss to the Exchequer and increased HMRC workload, stricter oversight is needed to prevent abuse.

- £197 million of NIC losses due to complexities/miscalculation
- Expanded EA eligibility may lead to tax avoidance through mini-recruiters, costing the government £120 million over the reference period.

Loss of Corporation Tax revenues

Shifting payroll tax responsibility from SPIs to EBs is expected to reduce UK Corporation Tax receipts. With SPIs managing 700,000 workers and contributing £30 billion in tax and NICs annually, their estimated Corporation Tax contribution is £44.25 million. If recruitment agencies take over £11.8 billion in payroll processing, their profit margins could drop by 1%, reducing taxable profits by £118 million. This equates to a £29.5 million annual loss in Corporation Tax, or £147 million over the reference period.

- The proposed regulation may reduce Corporation Tax revenues by £147 million, with additional risks from tax avoidance behaviours.

Loss of Apprenticeship Levy Contributions

As SPIs contribute to the Apprenticeship Levy based on their payroll, the disruption to their operations will result in reduced funding for apprenticeship programmes.

It is highly likely that the fragmentation from c600 SPIs to c24,000 EBs will result in some 40% of that cohort falling below the £3 million wage bill threshold, exempting them from the Apprenticeship Levy altogether.

This is of particular concern to government which has stated its intention to develop the apprenticeship programme and the growth and skills levy[11].

- FCSA estimates that the Exchequer will lose £675 million in Apprenticeship Levy over the reference period

Increased Administrative Burden on HMRC

The proposed regulations could overwhelm HMRC's relevant resources with additional enforcement responsibilities, diverting those resources from tackling actual tax avoidance and evasion by payroll pirates.

- FCSA estimates that the HMRC will spend £200 million on increased administrative burden over the reference period

Erosion of PAYE Tax Base

By making it harder for compliant SPIs to operate, there's a risk that workers will be lured by offers of alternative arrangements to turn to less regulated entities, sometimes based offshore, or explore seemingly lawful operating models such as PSCs. This will result in an increase in tax losses rather than the decrease intended.

- FCSA estimates that the Exchequer will lose £675 million to increased use of alternative arrangements over the reference period.

[11] HMG Press release 24th September 2024

Overall tax losses

This report includes a detailed analysis of the likely losses to the Exchequer which arise as a result of the policy, which amount to more than £7.53 Billion over the reference period.

A summary of these losses appears below.

Source	Calculation	Government Estimate (Red Book)
Fraud: switch to recruiter pirates	£2.85 billion	Not Considered
Fraud: new recruiter pirates	£2.85 billion	Not Considered
Fraud: mini-recruiters (NICs)	£0.1 billion	Not Considered
Fraud: mini-recruiters (AL)	£0.075 billion	Not Considered
Grey area: alternative arrangements	£0.675 billion	Not Considered
Lawful: NICs loss	£0.197 billion	Not Considered
Lawful: App Levy Reduction	£0.6 billion	Not Considered
Lawful: Corporation Tax losses	£0.147 billion	Not Considered
Administrative burden increase	£0.04 billion	Not Considered
Total Exchequer Losses	**£7.534 billion**	

Detail of Risks to Exchequer Revenues

Growth in non-compliance

There are varying estimates of the number of payroll pirates currently in existence, however we have HMRC's estimate of around c170 operating outwith the current regulations.

Applying simple logic and common sense would lead to the conclusion that if a similar ratio of the 24,000 EBs active in the contingent labour market were supplanted by payroll pirates transmogrifying to recruiter pirates, then there is the likelihood that HMRC would have to deal with as many as 6,800 organisations operating unlawfully. It can be seen therefore that closing the projected tax gap of £2.85 billion is highly unlikely and that this level would remain.

Whilst it might be unreasonable to assume that the amount lost to payroll fraud by these operators would increase in direct proportion to their numbers, some increase must be expected. This is a reasonable conclusion since the risks of recruiter pirates being detected would substantially diminish and therefore the amount of fraud would rise.

Whilst it is difficult to accurately calculate this rise, it is reasonable to assume that since the number of fraudulent operators would increase 40-fold, a two-fold increase in the overall quantum of fraud can be confidently predicted.

A logical conclusion of the overall effect of the proposal would mean an overall rise in the tax gap caused by recruiter pirates from £2.85 billion to **£5.7 billion** over the reference period.

Increased Compliance Costs for HMRC

The cost to HMRC of effectively policing a cohort of 24,000 employment businesses (EBs) will increase significantly under the proposed regulation. A useful comparison can be drawn from the Gangmasters and Labour Abuse Authority (GLAA), which oversees compliance in a much smaller sector.

According to the GLAA's 2021-22 Annual Report[12], the agency was responsible for regulating 1,086 licensed businesses. Key enforcement metrics include:

- 241 GLAA-led investigations initiated
- 121 investigations completed
- A compliance and enforcement team of approximately 90 staff

[12] GLAA Annual Report and Accounts

This equates to an investigation initiation rate of 22% and a productivity rate of 2.5 investigations per staff member per year.

Applying these same ratios to the 24,000 EBs expected to fall under regulation:

- 22% investigation rate → 5,280 compliance checks annually
- 2.5 investigations per compliance officer per year → A required workforce of 2,112 HMRC compliance officers costing c£85 million in salaries alone
- Full coverage of 24,000 EBs would require over 10,000 enforcement staff

These figures highlight the unrealistic resource demands that would be placed on HMRC or any future enforcement body, significantly increasing operational costs without guaranteeing improved compliance outcomes.

National Insurance Contributions

FCSA members collected £3.35 billion of ErNICs and £1.4 billion of EeNICs in the tax year ended April 5th 2024.

Extrapolating the ErNICs datum to the wider market provides an estimate of £7.9 billion for that tax year and at least **£39.5 billion** over the reference period.

NICs are assessed independently for each employment within a given pay period, rather than on a cumulative basis across all earnings. The proposed regulation structure introduces a significant risk of incorrect NIC calculations when workers undertake multiple assignments through a combination of different EBs and SPIs.

When a worker receives income from multiple sources, each EB or SPI would be processing NIC deductions in isolation, applying the thresholds separately. This will result in thresholds being used multiple times, leading to potential under-deductions (*reducing* tax liabilities incorrectly) or over-deductions (unnecessary financial strain on the worker).

Conversely, when a worker's total earnings exceed the upper NICs threshold, EBs may unknowingly under-report NIC obligations, as no single EB or SPI has full visibility of the worker's combined income. These inconsistencies expose workers to unexpected liabilities and EBs to compliance risks, increasing administrative complexity and the potential for HMRC penalties as well as adding to the overall administrative burden on HMRC.

Calculating the losses to the Exchequer in these circumstances is extremely difficult but a lawful leakage rate of NICs of just 0.5% indicates the likely loss to be c£197 million over the reference period.

NICs - Employment Allowance Issues

In the Autumn Budget 2024,[13] the Chancellor announced an increase in the Employment Allowance (EA) from £5,000 to £10,500 and the removal of the £100,000 ErNICs paid cap, extending the eligibility to receive this allowance to most business.

Business Type	Eligibility for EA?	Reason
Small Recruitment Agency (PAYE employees)	✅ Yes	Pays Employer NICs on PAYE employees
Large Recruitment Agency	✅ Yes	Removal of £100,000 cap
Umbrella Company (direct PAYE employees)	✅ Yes	Only for PAYE staff
Single-Director Ltd Company	❌ No	Needs at least **one other** PAYE employee
Small Business with Employees	✅ Yes	If PAYE Employer NICs are paid

For small businesses in particular this will offset some of the effects of the increased ErNICs rate from 13.8% to 15% and the lowering of the threshold for NICs to £5,000 from £9,100 also announced in that Budget. These measures, as intended, will increase the overall revenues from ErNICs from all employers.

However, if a single-director business has no PAYE employees, it is ineligible for the EA so the increased Employment Allowance will increase the incentive for the proliferation of mini-companies designed solely to take advantage of the allowance.

Government has previously taken action[14] to shut down and/or prevent the spread of artificially created businesses (often referred to as mini-umbrellas) which, even prior to next April's scheduled increase, took advantage of the Employment Allowance (and flat rate VAT).

[13] HMT Autumn Budget 2024 p4
[14] HMRC Mini-umbrella company fraud

Estimating a growth in arrangements artificially created to take advantage of the Employment Allowance - mini-recruiters - is more difficult, but it will likely have a significant impact and will, of course, increase HMRC's workload.

With the removal of the Employment Allowance cap a direct a lawful cost to government will ensue but will also incentivise the artificial arrangements seen before:-

Assuming a low rate (less than 10%) of payroll pirates dressing themselves as EBs and using this route we'd see a loss to Exchequer of £120 million over the reference period.

Activity	Quantity	Annual Cost of EA (at £10,500)	Reference Period
Mini-recruiters (estimate)	2,000	£21million	£105 million
Extra HMRC burden (estimate)	-	£3 million	£15 million

Corporation Tax

Shifting payroll tax responsibility from umbrella companies to recruitment businesses is projected to reduce overall UK Corporation Tax receipts. This projection is based on the following quantitative estimates:

Corporation Tax Contributions from SPIs

SPIs are responsible for approximately 700,000 workers, contributing around £30 billion in tax and National Insurance contributions (NICs) annually. Assuming an average profit margin of 1.5% on their turnover, and applying the maximum current Corporation Tax rate of 25%, the sector's annual Corporation Tax contribution is estimated at £44.25 million.

Impact on EBs

These businesses typically operate on net fee margins ranging from 3% to 11%. Assuming an average margin of 5%, and considering the additional administrative responsibilities and costs associated with taking on payroll functions, their profit margins may decrease by approximately 1%. This reduction would lower their taxable profits and, consequently, their Corporation Tax contributions.

Estimated Reduction in Corporation Tax Receipts

If the £11.8 billion currently processed by umbrella companies shifts to recruitment agencies, and these agencies experience a 1% reduction in profit margins due to increased administrative costs, the decrease in taxable profits would be £118 million. Applying the 25% Corporation Tax rate, this translates to a reduction of £29.5 million in annual Corporation Tax receipts or approximately £147 million over the reference period.

Additional Considerations

- Employer NICs increase: The main rate of Employer NICs is set to increase from 13.8% to 15% from April 2025. This increase will add to the operational costs of recruitment agencies, potentially further reducing their profit margins and taxable profits.

- Potential for tax avoidance: There is a risk that some recruitment agencies may adopt tax avoidance strategies, such as setting up multiple small entities to exploit tax reliefs, which would further erode the Corporation Tax base.

Based on these estimates, the shift in payroll tax responsibility could result in an annual reduction of approximately £29.5 million in UK Corporation Tax receipts. This figure could be higher if additional factors, such as potential tax avoidance behaviours, are taken into account. Therefore, it is reasonable to anticipate a decrease in overall Corporation Tax revenue as a consequence of the proposed policy change.

The Apprenticeship Levy

A levy of 0.5% of an employer's gross wage/salary bill is applied to employers with a payroll bill of over £3 million annually e.g. c75 employees at £40k per annum.

In the tax year ended 5th April 2024 FCSA members alone remitted **c£134 million** in Apprenticeship Levy to HMRC.

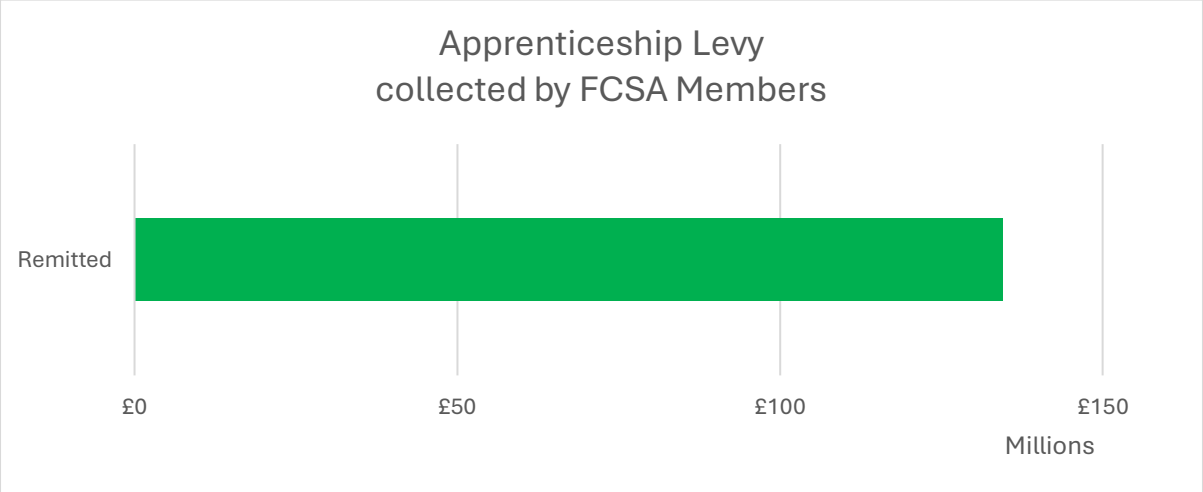


Figure 5 - Apprenticeship Levy collected by FCSA members for tax year ending 5th April 2024

Extrapolating this again to the wider SPI market and allowing that some smaller SPIs might be under the threshold, we can expect to see that the wider market remit c£300 million per annum of Apprenticeship Levy, or c**£1.5 billion** over the reference period.

It would be an inevitable result of the proposed regulation that many of the EB providers would be exempt from this levy as their payroll bill would fall below the £3 million threshold.

Whilst it is difficult to determine the exact figure, we can safely assume that as many as 40% of EBs would be exempt – resulting in a net reduction in receipts of Apprenticeship Levy of c£120 million per annum or **£600 million** over the reference period.

Added to this, and as was previously the case for the Employment Allowance, we can also expect to see a similar number of artificial structures designed to take advantage of the threshold in order to make themselves appear more competitive in the marketplace which could further reduce receipts of Apprenticeship Levy by **c£75 million**.

The Risks to Workers

The Chancellor's proposed regulation of the market, while ostensibly aimed at tackling the non-compliance of a limited number of outlying payroll pirates, risks creating significant unintended consequences for the workers employed by the majority of SPIs.

- SPI employees will lose the benefit of continuous employment
    - Impacting their ability to obtain financial products such as mortgages
    - Affecting their pension arrangements – the potential for workers to end up with multiple small pension pots across multiple providers
- It will deprive SPI employees of benefits
    - Many people choose to remain with their preferred SPI in order to ensure continuity of employment and gain benefits such as
        - consistent pension provider
        - access to an employee benefits platform
        - continuity of employment (which is vital for access to financial products such as mortgages
- Should EBs become responsible for PAYE each will have its own separate PAYE regime and this will force workers to flit from EB engager to EB engager as each assignment changes, losing the benefits outlined above.
- If SPI employees are forced to leave their SPI employment and contract with one or more EB as a worker – often with lesser employment rights – this is the very definition of "fire and rehire" on lesser terms – something which the current government intends to prevent.

In its response to the primary consultation[15], government state at p52 para 3.133

Some respondents also focused on the benefits, such as a continuous employment record, that workers could lose out on if they are moved from umbrella company employment to some other form of engagement. However, views from workers in relation both to this consultation and the previous Call for Evidence indicated that many people do not find that they receive these benefits in practice due to regularly having to change umbrella company when they start a new engagement. It is not clear therefore that other forms of engagement would provide for less continuity of employment.

However, FCSA's survey of its members shows that this is often not the case

- A tenure of greater than two years is not unusual amongst employees of FCSA Members.

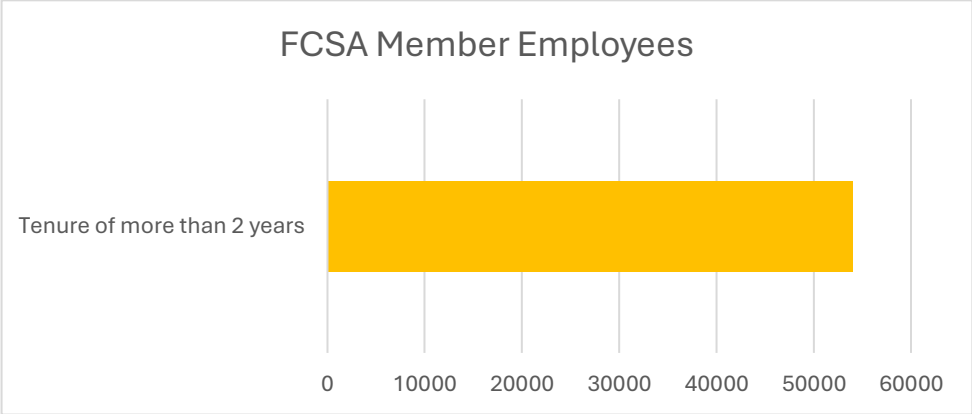


Figure 6 - FCSA Member employees with a tenure of 2+ years

- The average number of separate assignments a worker undertakes whilst with an FCSA member is four

FCSA is of the view that the analysis and response also fails to take into account workers leaving the contingent workforce entirely and moving to permanent roles.

[15] HMG Tackling non-compliance in the umbrella company market - Government response to the consultation

Practical Difficulties for Workers

In many cases different EBs will adopt different policies in response to the proposed legislation, with some choosing to bring the whole employment in house and some choosing to still use SPIs and some which will use both methods.

Moreover, different EBs will offer different services to their employees, and since the EBs have a "captive market" on both the vacancy **and** the payroll, there is little incentive for them to be competitive in their offering to their workers.

The various effects of this will often be to the workers' disadvantage.

Case Study 1

> Charlie, a Senior Project Manager, who was engaged by HMRC ten months ago to work on part of the MTD programme, has been employed by a single SPI, WageRiver for two and a half years. His latest assignment is his third during his tenure at WageRiver. He's been saving for a deposit for a flat and is just about to apply for a mortgage when WageRiver tells him that the Master Service Provider, Bayesian, being the EB closest to the end-hirer, has decided to bring payrolling of all contingent workers in-house.
>
> He's now deeply concerned that he'll not be able to proceed with his plan to purchase a flat. Effectively he'll be changing employer at the very moment he's applying for a mortgage, and he knows almost all of the providers will be put off by that and that even if he can get a mortgage, it might affect the interest he's charged.
>
> What's more the EB which placed Charlie on the assignment with HMRC, LightSpeed, is actually a third-tier EB in the supply-chain and he's heard that Bayesian won't compensate LightSpeed after bringing all the workers in-house. Charlie had a great relationship with LightSpeed, which placed him in his last four assignments, and he's worried that that relationship has now been undermined.
>
> Charlie has decided to take another assignment offered to him by LightSpeed so that he can remain employed by WageRiver and carry on with this flat purchase. HMRC's MTD project has lost a valuable contributor.

Case Study 2

> Claire, a state school supply teacher, who has multiple assignments every year, often of very short duration, has been employed by a

single SPI, PayTeach for more than three years and her average gross income is £55k a year. Eighteen months ago, Claire decided to open a SIPP with her chosen provider and arranged with PayTeach to sacrifice £5k per year from her salary into her SIPP, to save more for her retirement.

PayTeach also offered to contribute their mandated pension contributions directly into Claire's SIPP instead of a NEST fund. This arrangement has worked well for both Clair and PayTeach.

Claire has now been told that two of the five EBs she receives assignments from will be employing her directly whereas the other three will keep paying her through PayTeach. Neither of her new EB employers will allow salary sacrifice pensions but use only NEST.

Not only has Claire been deprived of the benefit of operating salary sacrifice on the whole of her income, but she now has two different pension pots and three different employers.

Complexities of multiple employments

Like Claire's new situation, many individual temporary workers operate in fields where they are engaged by multiple end-hirers simultaneously and use an SPI to aggregate income and more easily comply with the full obligations of PAYE. This is particularly prevalent in the public sector, especially in healthcare.

Case Study 3

Sarah, a radiographer who is engaged by seven NHS Trusts via three separate EBs, is currently employed by a single SPI which pays her weekly and organises her pension payments.

Sarah had a total of six days off sick last year and was paid SSP by her SPI. Sarah is pregnant and is relying on the SMP she knows her SPI will pay her when she takes her maternity leave.

Sarah has been told that her pay will soon come from each of the EBs she was placed by instead of her preferred SPI and she's now worried and confused about which of them will be looking after her when she's on maternity leave and how her pension contributions will be organised.

Since some of Sarah's work now comes from EBs in the form of a Contract for Services, she's even more worried that she may even no longer be entitled to the protections of Maternity Leave.

Under the proposed system, Sarah would lose the simplicity of having just one employer and be forced into multiple PAYE schemes for each of the EBs she finds assignments through, leading to tax miscalculations, pension fragmentation, and increased administrative burden and uncertainty. Sarah's tax affairs are now far more complicated than before. Sarah isn't clear how she'll receive her SMP – and neither are any of the EBs.

Exchequer revenues will be affected too, as this new arrangement would significantly reduce the sum of NICs payable by Sarah since NICs are not cumulative unless employers are "connected". Therefore, Sarah's SPI currently calculates and pays the correct NICs amount to the Exchequer whereas multiple EBs being held separately liable would potentially reduce the revenue rightfully payable to the Exchequer in terms of reduced NICs.

Sarah herself will be in the same position as she can reclaim any overpaid employee NICs (on which there is a maximum limit regardless of the number of employments) but that route leads to increased and unnecessary administrative burden for both Sarah and HMRC.

Similarly, which EB would be the "lead" for using the Sarah's correct tax code? How would the "secondary" agencies correctly calculate income tax for Sarah? Would they all use the basic code of 1257L, or would one have first lead and the rest use D0? How would they be informed to do so? How would Sarah know what was right and what wasn't? There is no mechanism available which can guarantee Sarah's correct tax codes are in use at any given time.

Whilst Sarah's tax code *can* be changed mid-year to flatten out discrepancies there will inevitably be under or overpayments which must be resolved by Self Assessment (SA).

Sarah, who has never previously needed to complete an SA, will be dragged unnecessarily into that regime, resulting in increased and costly administrative burden for both her and HMRC.

This scenario will be played out for many of Sarah's colleagues and many thousands of other workers.

Disruption to Workers' Employment Rights

The novel and untested concept of having two separate 'deemed employers' - one for tax purposes and another for employment rights - is fundamentally flawed and creates unnecessary complexity, making it impractical for a well-functioning economy.

By disrupting the clear responsibilities of Specialist Payroll Intermediaries (SPIs) for the operation of both PAYE **and** their obligations to provide employment rights, the proposed regulation to shift liability for the operation of PAYE to Employment Businesses (EBs) will:-

- Cause confusion over where the responsibility lies for making these payments
    - Which EB will be responsible of the worker has multiple engagements?
    - Will multiple EBs make overpayments to workers such as Sarah?
    - How can claims be reconciled and verified across multiple EBs?
    - If an SPI is in the chain, will it remain their responsibility?

Additionally, there are increased risks to compliance which arise from bad actors trying to avoid responsibility for statutory payments altogether which will encourage

- Worker misclassification by
    - Provision of false self-employment schemes or
    - Artificial use of PSCs
- Removal of workers' employment rights via
    - Contracts for Services vs Contract of Employment

These difficulties fundamentally undermine the objectives of the government's Employment Rights Bill (ERB) and are contrary to the overall aims of The Make Work Pay plan and add substantial pressures on already overloaded ACAS and Employment Tribunal systems, which are likely to come under additional pressure because of the ERB changes.

Alternatively, there is the risk that this could lead to a Joint Employment model, previously frowned upon by government.

In either instance, this would be a contravention of this Government's Manifesto Commitments and undermine the aims of the ERB.

"Worker" vs. "Employee"

Many people will lose some employment rights because the Chancellor's proposals will result in these individuals being engaged under Contract for Service (used in the overwhelming majority by EBs and resulting in the individual having the legal status of a "worker"), rather than a Contract of Employment (used in the overwhelming majority by SPIs and resulting in the individual having the legal status of a "employee").

In the UK the legal status of "worker" currently carries with it fewer employment rights than the legal status of "employee" therefore this measure risks *removing* rights from individuals they currently are assured of under their employment by SPIs.

Entitlement	Worker	Employee
National Minimum Wage	Yes	Yes
Paid Annual Leave	Yes	Yes
Protection from Unlawful Deduction from Wages	Yes	Yes
Statutory Sick Pay (SSP)	Yes	Yes
Statutory Maternity/Paternity Leave & Pay	**No**	Yes
Statutory Redundancy Pay	**No**	Yes
Protection Against Unfair Dismissal	**No**	Yes
Right to Request Flexible Working	**No**	Yes
Minimum Notice Period for Dismissal	**No**	Yes
Auto-Enrolment in Workplace Pension	Yes (potentially)	Yes

The proposed umbrella regulation measure will be to the detriment of most SPI employees and has the potential to fundamentally undermine government's policies as put forward in their Manifesto and as embodied in the Employment Rights Bill.

Statutory Payments to Workers

If SPIs are no longer responsible in full for the operation of PAYE **and** the provision of employment rights, workers may face difficulty in accessing statutory payments.

The funds for making statutory payments are currently covered from the margin deducted from the assignment rate remitted to the SPI by the EB or end-hirer. These are not taxation matters *per se*, but rather payments made as a result of employment legislation and represent a considerable cost, currently borne by SPIs.

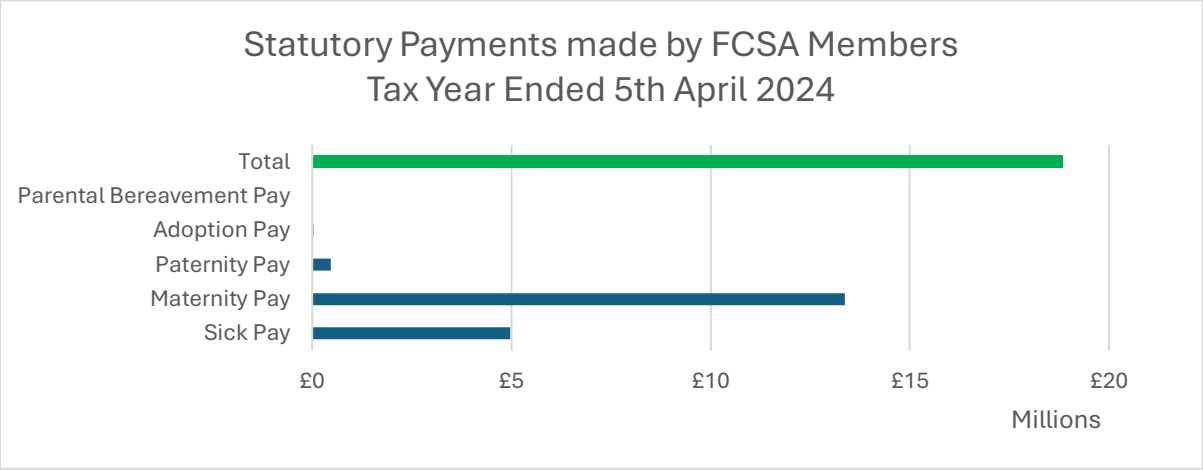
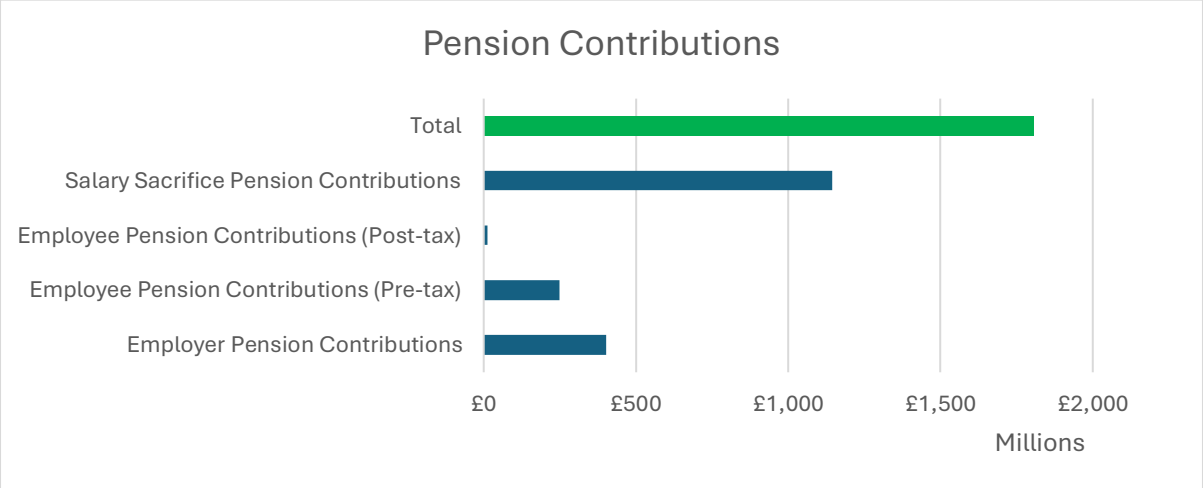


Figure 7 - Statutory Payments made by FCSA Members

Pensions

Just like all businesses, SPIs administer the pension arrangements for their employees and provide employer contributions to those pensions.

In the tax year ended 5th April 2024 FCSA Members alone contributed c£403 million to pension in the form of employers' contributions and arranged for pension contributions by salary sacrifice of a further £1.1 billion as well as making employee contributions totalling c£261 million.



Enabling these contributions is a vital part of an SPIs role in the marketplace and FCSA has serious concerns that many EBs do not have the expertise to replicate this or will move even further towards a Contract for Service model which can exempt them entirely from pension provision.

Inevitably this will mean a large cohort of workers with multiple very small pension pots or no retirement savings of their own and therefore entirely dependent on the state pension.

Other mandated deductions

In the tax year ended 5th April 2024 FCSA Members alone made deductions from post-tax wages for both Child Support and other Court ordered totalling c£7.3 million.

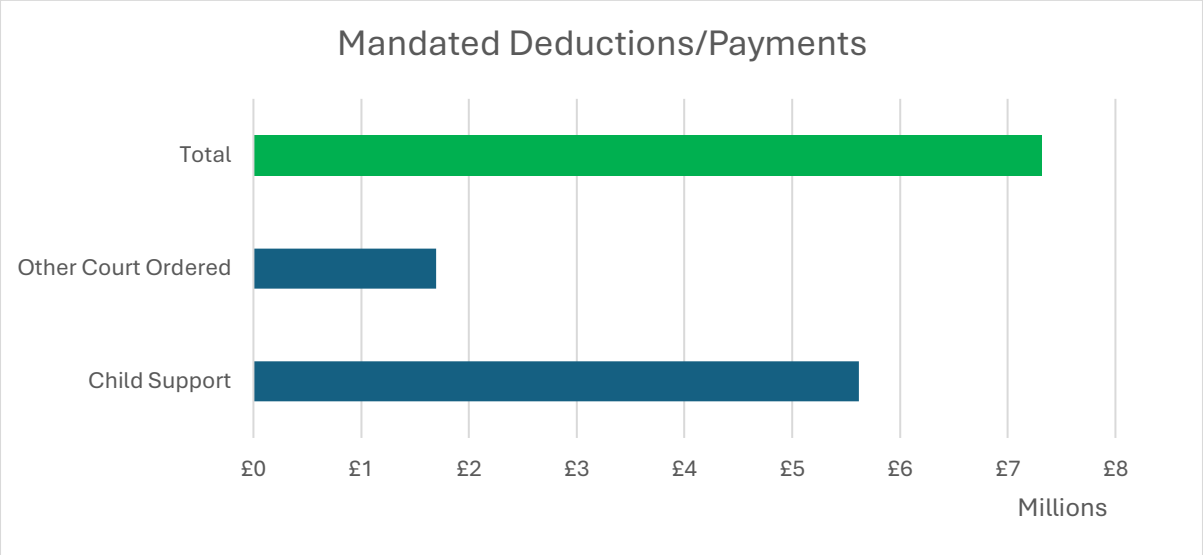


Figure 8 - FCSA Member mandated deductions tax year ended 5th April 2024

In a multi-employment scenario such as Sarah's, which entity will be responsible for making these deductions? How will Courts or the Child Maintenance Service know which entity to approach?

Student Loans

In the tax year ended 5th April 2024 FCSA Members alone made deductions for student loan repayments totalling c£110 million.

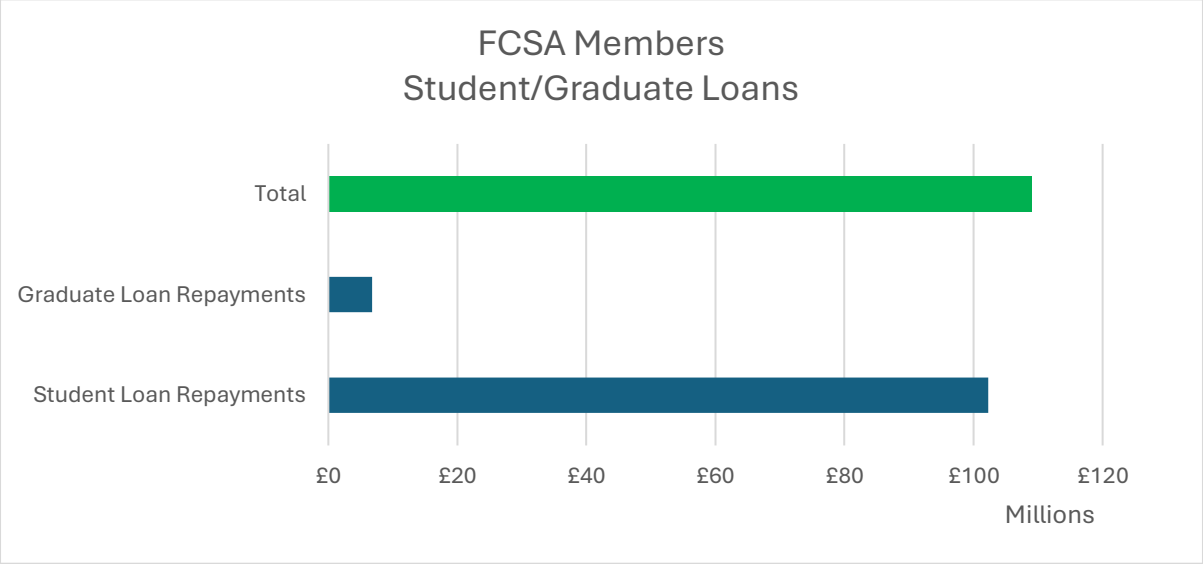


Figure 9 - FCSA Members Student/Graduate Loan Repayments tax year ended 5th April 2024

Student Loan repayment is complex as there are various types of 'plan' and payments are made based on earnings thresholds. It is not clear how this would work in instances where multiple Employment Businesses are involved – underpayment and non-payment in error would be highly likely.

Again, how will the requirements for Student Loan repayments be met in a multiple-employment scenario? Will there be a mechanism which easily copes with the scenario set out Case Study 3 (Sarah) above where the salary paid by each separate EB to Sarah falls below the repayment threshold (£26,065 for Plan 1 loans and £28,470 Plan 2 loans both from 6 April 2025[16]) but in aggregate Sarah in fact receives a total salary above the relevant threshold?

[16] HMG/Student Loan Company Press Release 13/08/2024

The Risks to Recruitment Businesses

FCSA recognises that the recruitment industry's view on the proposed regulations is better addressed by their own industry bodies, however we are compelled to summarise here the likely effect of the proposals on EBs.

The proposed regulations force EBs to take on payroll responsibilities directly becoming the employer of record for tax purposes – a new concept in the UK and having no precedent in statute or Court rulings.

This will increase their operational costs and expose them to the risks of non-compliance though error or omission.

Furthermore, this is also likely to create instances of Joint Employment between the Umbrella and the Recruiter. Not only will this add significant legal complexity – particularly with Employment Tribunals – but it is also something the Government have previously said they oppose.

EBs would face higher costs and compliance burdens, potentially making temporary placements less attractive and reducing labour market dynamism, directly impacting the government's growth agenda.

The recruitment sector has thrived in part due to its ability to supply flexible labour quickly, but if their clients perceive engaging contractors via EBs as a potential tax minefield, they may become wary. Legitimate recruitment agencies will suffer guilt by association when "rogue" so-called agencies make headlines, as already happened with "rogue" so-called umbrella companies

Increased Complexity and Costs

- Smaller employment businesses do not have the skills or capacity to run payroll effectively and this may drive them out of the market
    - Temporary payroll is very complex, and the experience and skills required to ensure compliance are largely concentrated with SPIs – SPI payroll is not something which can simply be run on Sage or Xero
    - Accurate payrolling requires specialist personnel and systems – often expensive – which work at scale and which smaller EBs will be unable to afford.
    - Smaller EBs will not be able to acquire these skills quickly and would therefore be pushed out of the market and may even have to cease trading – or even be tempted to adopt a non-compliant model leading to them facilitating similar fraud schemes to those that currently exist.

- It merely shifts the compliance issues government seeks to address to another operator in the chain
    - This is of serious concern. There are c40,000 recruitment businesses in the UK (as opposed to c600 SPIs) and it is estimated that 60% of these are active in the supply of contingent labour i.e. 24,000 businesses.

One consideration in the prevention of tax avoidance in the market is that of excessive incentives which payroll pirates can offer as inducements to both agencies and workers. Payroll pirates have much deeper pockets than compliant SPIs, with recruiters sometimes being offered significant sums to work with rogue providers, all likely to be conducted off-book and not reported to HMRC, as well as artificially inflated and usually unlawful "take home" pay rates being offered to workers. The proposed shift might remove that "business practice" but, as a result, it further incentivises recruiter pirates – they get to keep more of their ill-gotten gains. A regime which properly licenses and polices SPIs would remove the ability to overpay rebates and other incentives altogether.

- Potential Reputational Damage
    - Simple errors in payroll calculations will tarnish an agency's reputation, affecting end-hirer and worker trust and damage future business prospects.
- Competitive Disadvantage
    - Smaller agencies will struggle to meet compliance demands, giving larger firms an edge.
- Increased Costs
    - Implementing payroll systems and absorbing potential liabilities will lead to higher operational costs.
- Worker Dissatisfaction
    - Delays or errors in payroll due to compliance issues can result in worker dissatisfaction and attrition.
- Insurance Costs
    - Increased liability may lead to higher insurance premiums for agencies.
- Resource Allocation Challenges
    - Agencies may need to allocate more resources to compliance, affecting other business areas.
- Market Exit of SPIs
    - Compliant SPIs exiting the market will disrupt established EB operations.
- Training Costs
    - EB staff will require training to understand and implement new payroll systems compliance measures.
- Potential for Increased Litigation
    - Non-compliance, even inadvertent, could lead to legal action against EBs and challenges at Employment Tribunals
- Impact on Cash Flow
    - Increased operational costs will strain cash flow.
- Difficulty in Talent Acquisition

    - Reputational damage and operational challenges may deter potential recruits.

- Shift in Business Models
    - EBs will need to alter their business models to adapt, incurring transition costs.
- Increased Scrutiny from HMRC
    - EBs will face more frequent audits and checks from tax authorities.
- Potential for Industry Consolidation
    - Smaller EBs unable to cope with new demands may be forced to merge or exit the market altogether.

These points underscore the multifaceted challenges that recruitment and employment businesses will encounter as a result of the proposed regulatory changes.

Financial and Operational Burden on Agencies

Requiring EBs to assume payroll responsibilities currently handled by SPIs would impose significant financial and operational burdens on these firms. Agencies would need to invest heavily in payroll processing infrastructure, compliance staff, and software – an administrative load that SPIs currently absorb[17]. FCSA has warned in the past[18] that expecting agencies to employ and pay hundreds or thousands of contractors on varied short-term assignments is *"logistically impossible"* for most recruiters[19]. In practice, outsourcing to SPIs spares EBs considerable cost and effort, as SPIs handle timesheets, tax calculations and remittance, pension arrangements and many other employer obligations at scale.

Smaller EBs in particular may struggle with the compliance complexity of tax regulation as applied to temporary workers. There are case studies illustrating these challenges: for example, one recruitment firm (Tripod Partners) was found to have unlawfully deducted employer National Insurance from a contractor's pay due to unclear contract terms and was ordered to repay £37,000 in lost wages[20]. This case highlights how even well-intentioned agencies can stumble over payroll compliance nuances, risking legal disputes and financial penalties.

The burden on SME EBs will be especially acute. Industry leaders warn that extra compliance duties and tax liabilities will hit small and mid-sized agencies hardest,

[17] JMK Group Why should I use an umbrella company
[18] FCSA FCSA response to TUC
[19] FCSA FCSA response to TUC
[20] HR Magazine Recruitment agency to pay £37k for incorrect IR35 deductions

diverting resources from core business growth[21]. Many boutique agencies lack in-house payroll expertise, so absorbing SPI functions would mean higher operating costs or the need to hire specialist staff. As one legal analysis observed regarding the new rules, adding this responsibility *"will impose a significant burden"* and for some businesses *"may be one burden too many."*[22] In short, shifting payroll in-house could squeeze SMEs' margins and capacity, potentially driving some out of the market or discouraging new entrants due to higher compliance overheads.

Payroll Fraud and Compliance Risks

Shifting payroll responsibilities to EBs will inadvertently create new fraud vulnerabilities. EBs would become the new "chokepoint" for HMRC compliance, which will make them targets for scheme promoters looking for weaknesses.

Smaller EBs with limited compliance infrastructure might be more susceptible to errors or manipulation. Past schemes like the mini-umbrella fraud thrived in part because end-hirers and agencies did not always have visibility into complex sub-contractor arrangements. If agencies must directly handle PAYE/NIC for workers, any gaps in expertise or oversight will be exploited. Industry experts therefore stress that moving the obligation up the supply chain must be accompanied by robust safeguards. Without proper support, the proposed change will simply shift the problem rather than solve it – resulting in creative new evasion tactics aimed at or through under-prepared agencies. This is why legal commentators note the importance of not just *passing the buck* to agencies, but ensuring they have the tools and guidance to prevent becoming a weak link.

Industry Body Insights and Expert Opinions

Key industry bodies and experts have weighed in on the proposed regulatory changes, often expressing concern about unintended consequences and advocating for balanced solutions:

Recruitment & Employment Confederation (REC) – the professional body for recruitment agencies – has welcomed the government's attention to umbrella company regulation, calling it "long overdue" to protect workers and compliant businesses. REC Chief Executive Neil Carberry emphasised that umbrellas currently lack a specific regulatory framework, which leaves both workers and agencies exposed to risks on things like holiday pay or tax compliance. However, the REC has also cautioned against solutions that simply **pass liability onto agencies** without fixing the root problem. Carberry noted that any new rules

[21] APSCo Global Recruiter Magazine
[22] Lewis Silkin End clients to take responsibility for umbrella company tax compliance

"can't be bodged by handing responsibility to someone else in the supply chain"

The REC advocates for a strong enforcement body (a Single Enforcement Body for labour standards) to oversee compliance, rather than just shifting the tax burden upstream. This position reflects recruiters' fear that they could be made scapegoats for umbrella abuses unless the umbrellas themselves are properly policed.

Association of Professional Staffing Companies (APSCo) – representing white-collar recruitment firms – has raised similar concerns. APSCo participated in the government's umbrella company consultation and noted that the three main proposals initially floated (due diligence requirements on agencies/clients, debt transfer provisions, or deeming the agency as employer) all had significant drawbacks.

APSCo's public policy director Tania Bowers explained each option.

"had the potential to place a significant burden on the staffing business in the supply chain"

In its consultation response, APSCo argued for an alternative approach: direct regulation or licensing of umbrella companies themselves. Bowers pointed to the Netherlands as an example, where umbrella-style companies (labour leasing firms) are highly regulated and must meet strict criteria on tax, social security, and worker rights . Such a model, APSCo suggests, would hold payroll providers accountable and protect workers without overloading recruitment agencies with duties beyond their expertise. This perspective implies that the UK could "go Dutch" by implementing an umbrella licensing scheme – ensuring only compliant umbrellas operate – as a more effective solution than making every agency its own mini-umbrella. APSCo and other industry voices have urged the government to consider these international best practices so that any reforms **clamp down on fraud and non-compliance** while preserving the efficiency and flexibility of the UK's contingent workforce market.

The **TUC** did not support this option as it considered that having one employer for pay purposes and one employer for employment rights purposes was an unreasonable position to put the worker in.

Overall, the consensus among recruitment industry stakeholders and others is that while umbrella company abuses need addressing, the method of reform matters greatly. They call for targeted regulation of payroll providers and strong enforcement, rather than simply shifting all responsibility onto recruitment agencies. The goal, shared by these bodies, is to create a level playing field where compliant firms can operate without being undercut by tax-avoiding competitors – all without crippling the agile staffing services that UK businesses and workers rely on.

Opportunities for Exploitation

Seeing the trees from the wood

Detection of Payroll Pirates will become more difficult

The regulation as proposed will create the opportunity for non-compliant operators to simply shift their business model to mimic an employment business. They will be able to hide amongst the c40,000 recruitment companies extant in the UK market with little to easily differentiate them from real recruitment businesses. Their camouflage will be much harder to discern from their surroundings.

This is in stark contrast to the existing market, where there are c600 SPIs meaning that payroll pirates have less opportunity to hide their operations from HMRC.

We anticipate that the Payroll Pirates will not simply re-emerge as large visible entities in the Recruitment Sector, they are smarter than that. In order to hide and spread risk, they will fragment their operations across multiple firms – reducing the impact should one of their operations be caught by enforcement. The problem will be of the same size and scale, like a chameleon it will just take on a new shape and design new exploitations for the new market conditions.

Added to that, fully compliant and expert SPIs often become aware of the operations of payroll pirates and report these bad actors directly to HMRC or via their professional body. FCSA itself makes regular reports to HMRC and Department for Business and Trade. This will be a new challenge for Recruitment Trade Bodies such as REC and APSCo and it will take time for them to know what to look for and make reports. HMRC risks losing the eyes and ears it has embedded in the market that detect this problem.

Additionally, the regulation will create opportunities for bad actors to exploit vulnerable areas in the system such as replicating the mini-umbrella company model which government has previously addressed.

Shifting payroll responsibility to recruitment businesses has broad implications for the integrity of the temporary staffing market. There is a concern that this change, while intending to close loopholes, may in fact create new pressures and uncertainties that increase non-compliance risks.

Increased Non-Compliance Risk and Fragmentation

The regulatory focus is simply being shifted up the chain to a much larger cohort, and this could result in compliance gaps. The government's goal is to "move the obligation

up the supply chain"[23] to drive accountability which sounds logical – those who benefit from placing workers (agencies, clients) should ensure taxes are paid.

However, as detailed above, the likely behavioural response of payroll pirates is to fragment their operations and hide within the larger pool of agencies. The net effect could be that fraud becomes more decentralised and harder to root out, at least in the short term. Legitimate businesses could also be negatively impacted: honest recruitment agencies will need to invest in additional compliance checks and may become risk-averse about engaging contractors via any third party. Some agencies might withdraw from contractor supply rather than shoulder these new risks, which could reduce competition or push more contractors into less visible arrangements.

Market transparency could suffer if compliant SPIs – which currently serve as a visible centralised and core intermediary – play a diminished role.

If the new rules effectively push more agencies to bring payroll in-house, we will see a patchwork of different practices, some of which could mask non-compliance. In essence, the temporary work sector could become more opaque as multiple parties juggle payroll duties, making it harder for workers, HMRC, and other stakeholders to know when something improper is happening.

Creating the conditions for monopolistic behaviours

The proposed regulation could result in an almost monopolistic "closed loop" where employment businesses hold all the roles in the supply chain:-

- Recruiting for the vacancy
- Providing the candidate
- Payrolling the worker
- Enabling EBs to charge workers fees for payroll services
    - which may well substantially increase over time due to the removal of healthy competition from the market and disadvantaging workers financially

Summary

In summary, the proposed shift of payroll tax responsibility from SPIs to EBs is, at best, a double-edged sword. On one side, it seeks to hold the gatekeepers of the contingent labour supply chain accountable, potentially squeezing out known payroll pirates. On the other side, this analysis shows substantial risks that fraud could become less visible and even more insidious.

The statistical evidence indicates that payroll pirate fraud has been an issue, albeit relatively small in comparison to the overall tax take from the sector, yet

[23] Deloitte Future changes

historically fraudsters have proven adept at changing tactics to evade crackdowns – from loan schemes to mini umbrellas and beyond. The loopholes in the new policy (such as the ability for fraudsters to hide behind sacrificial EB entities) and the challenge of monitoring thousands of agencies will undermine enforcement efforts.

Furthermore, market transparency will diminish if compliant SPIs – often a source of domain expertise and oversight – are marginalised or leave the supply chain altogether.

Whilst FCSA has clearly stated in this report that the proposed measure would negatively impact on HMRC revenues, workers and the wider supply chain and does nothing to combat payroll pirates, however if government were to proceed with this measure then the existing and tangible benefits of SPIs can only be maintained if SPIs continue to use their own PAYE reference (Employers Reference Number or ERN) rather than those of the client EBs.

Ultimately, shifting PAYE to EBs without considering alternative measures (like mandatory licensing of SPIs, better data sharing, and stronger action against promoters) only amounts to "shifting the problem" rather than solving it.

Policymakers and HMRC must urgently reconsider the proposed 2026 change and then truly deliver a cleaner, more transparent temporary labour market, instead of inadvertently giving payroll pirates new places to hide.

Solving the problem

FCSA welcomed government's statement[24]

> *"The government also recognises the positive role that compliant and well-managed umbrella companies and payment intermediaries can play in the functioning of the temporary labour market. This measure will not prevent businesses from continuing to use umbrella companies or other payment intermediaries to operate payroll on their behalf as they do now…*
>
> *…The government anticipates that businesses that continue to outsource payroll operation to umbrella companies will take steps to ensure that these obligations will be correctly met on their behalf. This could include undertaking due diligence checks or putting in place legal indemnities."*

However, we have demonstrated in this report that the proposed regulations, while well-intentioned, will have widespread damaging consequences for the UK's tax revenues, labour market, and, crucially, complicate workers' tax affairs and restrict their access to employment rights.

Re-thinking the approach to tackling non-compliance

A more effective approach would involve collaboration with the full range of industry bodies to refine and better enforce existing standards, rather than imposing sweeping changes that risk harming Exchequer revenues, compliant SPIs, workers and EBs alike.

The government should prioritise targeted enforcement against bad actors while supporting the role of compliant providers in ensuring tax compliance and protecting workers. Failure to do so could result in reduced tax revenues, greater exploitation of workers, and a less dynamic labour market.

The proposed regulation simply shifts the compliance target and demonstrably makes it much more difficult to detect non-compliance. Instead, FCSA strongly recommend that government should introduce a licensing regime for Payroll Intermediaries, requiring ongoing compliance checks and financial audits.

[24] HMRC Tackling non-compliance in the umbrella company market

Role of Compliant SPIs in Fraud Detection

Ironically, the proposed reform sidelines the very entities that have been, in part, a solution to the problem. Compliant SPIs – those adhering to HMRC rules and accredited by industry bodies – have been partners in maintaining standards. For example, industry associations like the FCSA require members to follow strict codes of compliance covering tax and employment rights, and they often flag new fraud risks to agencies and HMRC. FCSA has even developed tools like real-time payslip verification services[25] to help agencies confirm that an umbrella is genuinely paying over the tax it withholds

Under the new regime, however, the incentive for agencies might be to cut out SPIs entirely or only use them as "HR admins" after the agency itself processes payroll. If many compliant umbrellas lose business or exit the market, an important layer of expertise and monitoring will be lost.

FCSA has welcomed proportionate regulation but also cautioned that removing umbrellas from PAYE could be disruptive[26] and it is explicitly noted that compliant umbrella companies play a *"vital role"* in the current system, suggesting that an outright shift of PAYE duties might be counterproductive if it sidelines those good actors.

Moreover, SPIs often have better systems to handle complex payrolls (multiple assignments, expense processing, holiday pay, etc.) than small agencies do. If agencies struggle to replicate those systems, mistakes or accidental non-compliance may increase.

The compliant SPI industry effectively acts as a central node – easily audited and aware of the complexities – whereas now each EB must somehow build that competence. There is a risk that without SPIs in the loop, some non-compliant practices won't be quickly spotted or reported. The sector may lose the whistleblowing and early warning benefits that came from firms policing their own industry (through bodies like FCSA or Professional Passport).

The SPI's role is not that simply of a payroll function, but SPIs require and provide an expert and in-depth understanding of the temporary labour market, from tax to employment to contract law.

The ultimate risk is that these changes could backfire, leading to greater tax revenue losses and damage to market integrity. Fraud and bad practice will simply migrate and mutate, and the savings HMRC predict are extremely unlikely to materialise. In a middle-case scenario, payroll fraud will increase substantially and proliferate through a mini-recruiter model and a larger harder-to-monitor cohort of payroll pirates transforming themselves to recruiter pirates.

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[25] veriPAYE

[26] ContractorUK The truth of umbrella company regulation

Specific Policy Measures

Licensing of Payroll Intermediaries

The government must immediately initiate a Payment Intermediary Licensing regime to prevent payroll fraud and protect compliant businesses.

This could be administered on government's behalf by a non-government body for which there is much precedent[27], and HMRC and the mooted Fair Work Agency should play active roles in its governance. It is recommended that during the establishment process government consults comprehensively with key industry bodies such as FCSA, Professional Passport, the REC, APSCo and TEAM

Minimum licensing standards would require all Payroll Intermediaries to register as such and to meet the following ongoing minimum requirements:

- Exclusion from Employment Allowance eligibility to prevent tax avoidance.
    - Precedent: public sector bodies and businesses doing more than half their work in the public sector
- UK registration and headquarters, with at least one UK-domiciled executive director and/or person of significant control.
    - Fit and proper person checks for all directors, persons of significant control and shareholders, ensuring industry history and integrity.
- Minimum threshold of 15 worker-employees to prevent artificial fragmentation for tax benefits but allow for new entrants to the market.
- Quarterly tax compliance checks
    - Including RTI-to-bank transaction reconciliation and VAT confirmation with HMRC.
- Routine contract of employment audits.
- Spot checks for PAYE compliance and PAYE payslip spot checks.

These requirements would strengthen oversight, reduce tax fraud, and enhance transparency across the supply chain. Similar models operate elsewhere in Europe (see Appendix E – Going Dutch).

[27] See Appendix A – Licensing Bodies

Mandatory use of licenced operators by Employment Businesses

- EBs must carry due diligence on providers
    - When onboarding a new provider
    - Every six months thereafter OR actively use a payslip validation/verification service
    - Similar to REC's current requirements or those hosted by Diligence Hub[28]
- All EBs' providers must be Payment Intermediary Licence holders
    - EBs must carry out monthly registration checks with the licensing body
- Transfer of debt penalties for
    - use of non-licenced providers
    - failure to carry out basic due diligence checks

Mandating of end-hirers to have only licenced operators in their supply chain

- Supplying employment businesses must be required by public and private sector end-hirers to use only licenced operators
- Government framework agreements should penalise budget holders for any failure to observe (e.g. 15% of overall assignment rate)
- Financial penalties for use of non-licenced providers (e.g. 15% of overall assignment rate)

Approval of software systems for use by SPIs

- HMRC should introduce a similar system for specialist software designed for use by SPIs
    - Validate that the software cannot easily be used for any of the known unlawful schemes
    - Ensure that the software provides for the use of Enhanced Data Transparency and Reporting Mechanisms (see below)
    - Mandate the use of a recognised system by SPIs
- Precedent: HMRC recognises accounting systems for Making Tax Digital for Income Tax[29]

Enhanced non-compliance enforcement using existing legislation

- Income Tax (Earnings and Pensions) Act 2003
- Other Tax and Employment Laws
- Conduct of Employment Agencies and Employment Businesses Regulations 2003
- Agency Workers Regulations 2010
- Bribery Act 2010

[28] Diligence Hub Due Diligence Exchange
[29] HMRC HMRC's recognition process

- Criminal Finances Act2017
- Economic Crime and Corporate Transparency Act 2023
    - Failure to prevent fraud (from September 2025)
- Immigration, Asylum and Nationality Act 2006

Enhanced Data Transparency and Reporting Mechanisms

To improve traceability and eliminate fraud, a Unique Worker ID (UWID) system should be introduced. This would:

- Provide a unique identifier for each worker, enabling tracking across multiple simultaneous engagements
    - Making tracking available to the whole supply chain
- Ensure HMRC and EBs can monitor worker pay in real-time.
- Identify non-compliant payroll operators more efficiently.

Worker Education and Transparency Initiatives

- HMRC and the FWA should jointly run worker education strategies to help individuals understand their rights and identify payroll pirates.
- Digital payslip verification should be encouraged to provide workers with real-time confirmation of PAYE and NIC deductions.

An Enhanced Role for Compliant SPIs

Under a licensing model with the parameters outlined above:

- SPIs will retain their role as payroll specialists, ensuring PAYE and NIC deductions are correctly administered using their own PAYE reference.
- SPIs could provide real-time compliance data back up the chain, allowing agencies and end-hirers to have confidence that tax obligations are being met without managing payroll complexities.
- A structured transition would push non-compliant operators into the regulated SPI market or shut down payroll pirates completely.

Conclusion

This proposal is a holistic solution encompassing the entire supply chain. It is workable, meaningful and ensures that primary accountability remains with the expert SPIs but also encapsulates agencies and end-hirers, encouraging a fully compliant supply chain. It also preserves market flexibility, avoids overwhelming EBs with new compliance burdens, and ensures better and sustainable vital protections for SPI workers.

This integrated approach provides a balanced and effective alternative to the widely criticised “Option 3” policy put forward in Budget 2024.

By reinforcing compliance through a licensing regime, real-time data sharing, and enforcement, it achieves the government's objectives of closing the tax gap without undermining the recruitment sector or the overwhelming majority of compliant SPIs.

Protecting the role of compliant SPIs allows for continued market flexibility, essential for economic growth, while reducing or altogether eliminating the activities of payroll pirates.

These recommendations set out a holistic solution available at minimal cost to government. They ensure workers' rights are preserved, businesses are protected from undue burdens, and tax collection remains robust.

Policing the sector

For Tax

Whilst HMRC must retain the ultimate responsibility for safeguarding the Exchequer's revenues and ensuring that the correct amount of tax is remitted to them, the first line of reassurance and policing of SPIs could, and arguably should, be policed by experts in the field and the Payment Intermediary Licensing should have that ability.

For Employment Law

Whilst the proposed regulation focuses almost exclusively on preventing tax losses, we have outlined in this report the crucial role SPIs play in providing the rights workers are entitled to under employment law, and it is crucial that this is also policed and SPIs must fall under the purview of the Fair Work Agency but again this should be policed on their behalf by experts in the field and the Payment Intermediary Licensing should have that ability.

A non-governmental licensing authority

A licensing model of this nature is well-precedented in the UK[30], where industry-led regulatory oversight has been established through Ministerial appointment, Regulatory Order, or Statutory Instrument. This approach allows for effective, industry-informed oversight while maintaining government assurance over compliance standards.

By working jointly with HMRC and the newly introduced Fair Work Agency, an enhanced licensing framework should be developed to ensure compliance and integrity within the payroll intermediary sector. The implementation of such a system would ultimately ensure that, after an initial transition phase, the costs of licensing and compliance

[30] See Appendix A – Licensing Bodies

oversight are borne by operators, reducing the financial burden on government while maintaining the high regulatory standards required. Furthermore, a licensing authority with specialist expertise would provide greater assurance and operational effectiveness in upholding compliance across the sector.

A structured licensing approach, supported by expert oversight, would provide the government with the reassurance it seeks while promoting a fair, transparent, and well-regulated umbrella employment sector.

How FCSA can further assist government

Over a period of more than 16 years, FCSA has developed comprehensive and far-reaching Codes of Compliance[31] for umbrella employment providers, which are widely regarded as the industry's gold standard. These Codes are reviewed at least annually, ensuring they remain up-to-date with legislative and regulatory changes. They are publicly available and provided to the Government each year for input, with feedback typically received from DBT officials and incorporated into subsequent updates.

FCSA's Codes of Compliance go significantly beyond the basic requirements of a licenced operator regime. To strengthen the credibility and robustness of our compliance framework, FCSA's in-house expertise is further supported by independent assessment from nationally and internationally recognised professional services firms, including EY, Brabners LLP, JMW Solicitors, Saffery, and BDO. These assessments ensure rigorous compliance auditing, which is further reinforced through a frequent random sampling and checking process.

Given its extensive experience in compliance and industry regulation, FCSA possesses the required expertise to contribute to the development of a licensing framework that meets both industry and government expectations. As the only not-for-profit organisation within the sector, FCSA is uniquely placed to support government in the establishment of a robust licensing system that upholds fair working practices, transparency, and compliance.

[31] FCSA Codes of Compliance

Conclusion

The government must immediately withdraw this proposal and collaborate with industry leaders to develop a compliance framework and licensing model which safeguards workers employment protections, tax integrity and business viability and preserves the overall benefit of a flexible workforce to the UK's economy and the growth agenda.

The establishment of a government-backed licensing scheme will deliver compliance without dismantling the established payroll model.

Appendix A – Licensing Bodies

Non-governmental Professional Regulatory Bodies

In the United Kingdom, certain professions and industries require practitioners or corporations to hold membership in specific non-governmental industry bodies to legally operate.

These bodies operate independently of the government but are granted statutory powers to regulate their professions. Membership is mandatory for practitioners wishing to legally offer their services in the UK, ensuring adherence to professional standards and safeguarding public interest.

Below is a non-exhaustive list of such bodies, along with their basic details, governance structures, and the authority they possess:

Solicitors Regulation Authority (SRA)

- **Profession**: **Solicitors and Law Firms**
- **Overview**: The **SRA regulates solicitors and law firms** in England and Wales. It sets and enforces ethical and professional standards, ensuring that legal services are delivered with integrity, independence, and fairness. The SRA oversees compliance with professional rules, handles misconduct cases, and protects the interests of consumers who use legal services.
- **Governance**:
  - Operates independently from the **Law Society of England and Wales**, which represents solicitors but does not regulate them.
  - Governed by a **board of both solicitor and non-solicitor members**, ensuring independent oversight.
  - The **Legal Services Board (LSB)** oversees the SRA as part of the UK's legal regulatory framework.
- **Authority**:
  - Issues practising certificates to solicitors, granting them the legal right to provide legal services.
  - Investigates complaints and takes disciplinary action against solicitors or firms that breach regulations, which may include fines, suspensions, or striking solicitors off the register.
  - Enforces compliance with Anti-Money Laundering (AML) obligations and professional conduct rules.

- Oversees Alternative Business Structures (ABS), allowing non-lawyers to have ownership in law firms.

- **Mandatory Membership Requirement**

- Solicitors must be registered with the SRA and hold a valid practising certificate to provide legal services in England and Wales.

- Law firms must also be authorised and regulated by the SRA if they provide reserved legal activities under the Legal Services Act 2007.

Bar Standards Board (BSB)

- **Profession**: Barristers

- **Overview**: The BSB regulates barristers in England and Wales, setting training and conduct standards.

- **Governance**: Operates independently of the Bar Council, governed by a board with a majority of lay members.

- **Authority**: Responsible for authorising barristers to practice and enforcing disciplinary actions.

Institute of Chartered Accountants in England and Wales (ICAEW)

- **Profession**: Chartered Accountants

- **Overview**: ICAEW is a professional membership organisation that provides qualifications and supports over 150,000 chartered accountants worldwide.

- **Governance**: Governed by a Council elected by its members, including various committees overseeing different aspects of the profession.

- **Authority**: Recognised under UK law to regulate chartered accountants, with the power to grant the ACA designation and enforce compliance.

Royal Institution of Chartered Surveyors (RICS)

- **Profession**: Chartered Surveyors

- **Overview**: RICS accredits professionals within land, property, construction, and infrastructure sectors, promoting and enforcing standards.

- **Governance**: Led by a Governing Council, supported by various boards and committees, with members elected from the profession.

- **Authority**: Sets mandatory standards and regulates members through codes of practice and professional conduct rules.

Architects Registration Board (ARB)

- **Profession**: Architects
- **Overview**: The ARB regulates the architects' profession in the UK, ensuring only qualified individuals practice as architects.
- **Governance**: An independent statutory body governed by a board appointed by the Privy Council.
- **Authority**: Maintains the Register of Architects and has the power to take disciplinary actions against those who breach standards.

General Medical Council (GMC)

- **Profession**: Medical Practitioners
- **Overview**: The GMC maintains the official register of medical practitioners within the UK. It sets and enforces the standards for medical education and practice.
- **Governance**: Operates as an independent organisation, governed by a council comprising both medical professionals and lay members.
- **Authority**: Legally empowered to grant or revoke licenses to practice medicine in the UK.

Nursing and Midwifery Council (NMC)

- **Profession**: Nurses and Midwives
- **Overview**: The NMC maintains a register of all nurses and midwives eligible to practice in the UK and sets education standards.
- **Governance**: An independent body governed by the Council, consisting of both lay and professional members.
- **Authority**: Legally authorised to register practitioners and take disciplinary actions to ensure public protection.

General Dental Council (GDC)

- **Profession**: Dentists and Dental Care Professionals
- **Overview**: The GDC regulates dental professionals in the UK, maintaining standards for education and practice.
- **Governance**: Managed by a Council comprising appointed members, both lay and professional.
- **Authority**: Holds statutory powers to grant licenses to practice and enforce disciplinary measures.

General Optical Council (GOC)

- **Profession**: Optometrists and Dispensing Opticians

- **Overview**: The GOC regulates optical professionals and businesses in the UK, ensuring high standards of education and practice.
- **Governance**: Governed by a Council with appointed members, including both laypersons and professionals.
- **Authority**: Empowered to maintain a register of qualified professionals and enforce standards through disciplinary procedures.

Pharmaceutical Society of Northern Ireland (PSNI)

- **Profession**: Pharmacists in Northern Ireland
- **Overview**: The PSNI is the regulatory and professional body for pharmacists in Northern Ireland, ensuring standards of practice and education.
- **Governance**: Managed by a Council elected by its members, including both pharmacists and lay representatives.
- **Authority**: Legally responsible for pharmacist registration and disciplinary proceedings in Northern Ireland.

Executive Non-Departmental Public Bodies

The **Gangmasters and Labour Abuse Authority (GLAA)** is an executive non-departmental public body (NDPB) in the United Kingdom, established to protect vulnerable and exploited workers. The GLAA operates under the sponsorship of the Home Office and is governed by an independent board.

Similar executive NDPBs in the UK, which operate with a degree of independence from government departments while being accountable to the public through Parliament, include:

Disclosure and Barring Service (DBS): Responsible for processing requests for criminal records checks and maintaining lists of individuals barred from working in certain roles, particularly those involving vulnerable groups.

Immigration Services Commissioner (OISC) now the **Immigration Advice Authority** : Regulates immigration advisers, ensuring they are fit and competent and act in the best interest of their clients.

Independent Office for Police Conduct (IOPC): Oversees the police complaints system in England and Wales, investigating serious matters involving the police.

Security Industry Authority (SIA): Regulates the private security industry in the UK, including licensing individuals and approving contractors.

These bodies share the characteristic of being executive NDPBs, operating independently while delivering specific public services or regulatory functions.

Appendix B - Dispelling myths and tropes

SPIs play a crucial role in the UK's temporary labour market, ensuring that contractors and agency workers receive their pay in a compliant and tax-efficient manner. However, despite their legitimate function and strict regulatory oversight, the industry is frequently subject to misconceptions, myths, and damaging stereotypes. These misconceptions often stem from historical issues, a lack of understanding, and the actions of rogue operators rather than the practices of reputable SPIs.

Myth 1: All Umbrella Companies Are Tax Avoidance Schemes

One of the most persistent myths is that umbrella companies exist to facilitate tax avoidance or evasion. This perception largely stems from high-profile cases of disguised remuneration schemes, where unethical providers offered inflated take-home pay through loan schemes or offshore arrangements, or "gross payments" made to the falsely self-employed or to PSCs. As can be seen above, government itself has quantified these activities, and from their own figures these are very exceptional cases.

In reality, compliant SPIs operate under strict adherence to regulations, correctly deducting employment taxes, and honouring their statutory obligations in full compliance with tax and employment law regulations.

Myth 2: Umbrella Companies Are Just a Middleman Taking Unfair Cuts

Many workers believe that umbrella companies take a large, unjustified percentage of their earnings, assuming they do little beyond processing payroll. In reality, SPIs provide valuable employment benefits and services, including statutory sick pay (SSP), holiday pay, pension contributions, and liability insurance and ensure their employees receive and benefit from all the protections of employment law.

While SPIs do charge an administrative fee, typically between £15-£25 per week, this covers essential payroll functions, tax compliance, insurance coverage, the provision of full employment benefits and rights and HR support. The idea that they exist purely to extract profit from workers is misleading and ignores both the benefits provided to their employees and the administrative burden they absorb on behalf of both workers and EBs.

Myth 3: Workers Lose Out on Holiday Pay

Another common misconception is that umbrella companies withhold holiday pay, leaving workers out of pocket. In truth, holiday pay is accounted for in pay calculations and is either rolled up into weekly/monthly pay or accrued for later use. However, confusion often arises because some workers do not realise that holiday pay is

included in their overall rate, leading to the false impression that it has been 'taken away' by the umbrella provider.

Another aspect of this myth is that only umbrella companies operate on a "use it or lose it" – in fact almost every employer in the UK operates this policy and there is a particular quirk of employment law that only allows the payment of outstanding holiday pay when the employment ends.

To combat this misconception and to ensure their employees get the full benefit of holidays or holiday pay, reputable SPIs now proactively communicate holiday policies, ensuring transparency when onboarding and during the employment. FCSA Members are required to provide regular reminders about holidays and holiday pay to their employees.

Myth 4: Umbrella Companies Are Unregulated

A damaging trope is that umbrella companies operate in an unregulated "Wild West" environment. While it is true that there is no single government licensing framework for umbrella firms, they are heavily regulated under existing HMRC tax laws, the Conduct of Employment Agencies and Employment Businesses Regulations 2003, and the Finance Act 2021.

Furthermore, accreditation bodies such FCSA carry out strict compliance audits, requiring members to adhere to rigorous financial and legal obligations.

Myth 5: Umbrella Companies Always Reduce Take-Home Pay

Some workers assume that working through an SPI results in lower take-home pay than other payment models and that it is the SPI which pockets the difference. While it is true that self-employed or limited company arrangements offer a different tax regime, SPIs run PAYE systems and provide their employees with full employment rights and benefits, tax compliance, and reduced administrative burdens.

People who have in the past operated as self-employed or via a limited company but can no longer do so due to increasing government regulation can be, understandably, confused by or dissatisfied with the difference in their take-home pay. That, however, is not because of an SPI being involved, but is the intention of this and previous governments.

Myth 6: Accreditation bodies just take an annual snapshot and can be fooled

Whilst there may have been some truth in this 10 or more years ago, it is no longer the case.

For example, FCSA Members undergo a deep-dive audit annually but are also subject to frequent but random spot checks of their payroll and employment law compliance

throughout the year. Whilst FCSA will not, for obvious reasons, divulge its full inspection regime in a public document, HMRC and DBT will be aware of our activities in ensuring our members are fully compliant.

More recently the industry has seen the advent of digital platforms which reverse engineer and validate employee payments and then reconcile these with reporting to HMRC, pension providers and others. Whilst these platforms can only address the PAYE aspects of an SPIs overall business they are a useful tool in detecting anomalies in pay. FCSA operates such a system.

Myth 7: Accreditation bodies never take action against bad actors

This is simply not true.

Both FCSA and Professional Passport have withdrawn accreditation/approved provider status from companies which have been found to be non-compliant.

Where FCSA has done so, we inform industry stakeholders, including HMRC and DBT, of this action and the reasons why. In some cases, this has resulted in the company involved in withdrawing from the market altogether.

FCSA has the contractual authority to require Members to alter business processes or practices where they are in breach of our (publicly published) Codes of Compliance – which in many cases require standards to be well above the minimum statutory requirements. FCSA can, and has, imposed financial penalties on Members for such breaches where these were insufficiently serious to warrant the withdrawal of accreditation .

Myth 8: Accreditation bodies are "closed shops" or only admit the big players

Again, this is simply not true.

Both FCSA and Professional Passport have and enforce a high set of standards, many of which cannot be met by smaller, more recently established umbrella companies and certainly can never be attained by payroll pirates. Some payroll pirates have gone as far as trying to establish their own accreditation bodies so they too can display accreditation "badges" in their marketing materials.

Many smaller organisations have misunderstood the establishment requirements of FCSA membership and therefore been vocal in their criticism of the accreditation bodies in general and, instead of working towards meeting accreditation standards choose to denigrate them.

It is worth noting that about 30% of FCSA Members are "small" providers and a further 30% are "medium".

Myth 9: If a company is not accredited it must be dodgy

Again, this is simply not true, and the government's own tax gap figures prove this.

Many unaccredited organisations operate fully compliantly and have at this stage in their development, decided not to seek accreditation or operate in a sector where accreditation is not a pre-requisite for gaining business.

The Path Forward: Improving Reputation Through Transparency

Despite these myths, SPIs remain an essential component of the UK's flexible labour market, enabling businesses to hire temporary workers while ensuring tax compliance and employment protections. The actions of rogue providers have contributed to some reputational damage, but industry-led initiatives, such as mandatory accreditation, transparent pay structures, and better worker education, can help dispel these misconceptions.

Ultimately, ensuring that workers, agencies, and policymakers understand the role of compliant SPIs is crucial to protecting the industry from damaging stereotypes and ensuring its continued legitimacy.

Appendix C – Trend Analysis of Umbrella Regulation Consultation Responses

The consultation responses indicated broad opposition to Option 3 (deeming the recruitment agency as the employer for PAYE purposes), particularly from key industry stakeholders such as recruitment agencies, umbrella companies, and industry bodies. While there was near-universal agreement that some form of regulation was necessary, Option 3 was widely seen as an extreme and disruptive measure that would fundamentally alter the UK's flexible workforce market.

Summary of response distribution:

Regulatory Option	Approximate Support	General Sentiment
Option 1: Mandatory due diligence on umbrella companies	~50% (widely supported)	Seen as a balanced, proportionate first step that enforces compliance without disrupting supply chains. Favoured by agencies, umbrella companies, and some industry bodies.
Option 2: Tax debt transfer to recruitment agencies or end clients	~20% (mixed reaction)	Some support as a deterrent against tax abuse, but opposition over risk of punishing innocent parties.
Option 3: Deeming the agency as the employer (PAYE responsibility shift)	~30% (strong opposition)*	Widely criticised for its unintended consequences: shifting liability onto agencies that lack payroll expertise, disrupting business models, and pushing up costs across the supply chain.

*This appears to be firmly at odds with the government's interpretation of responses to the consultation[32] at p51 paragraph 3.125

"...the largest group of respondents thought this option [option 3] *would increase compliance"*

[32] HMG Tackling non-compliance in the umbrella company market - Government response to the consultation

Why Was Option 3 Opposed?

Stakeholders who strongly opposed Option 3 included:

- Recruitment agencies – did not want to become payroll processors overnight.
- Umbrella companies – viewed it as an existential threat that would eliminate compliant providers and do nothing to prevent non-compliance.
- Industry bodies (APSCo, REC, FCSA, Professional Passport) – expressed concerns over feasibility, cost burdens, and market distortion.
- End hirers (clients) – raised alarm over increased administrative burdens and potential talent shortages if agencies stopped engaging contractors due to tax risks.
- The TUC did not support this option as it considered that having one employer for pay purposes and one employer for employment rights purposes was an unreasonable position to put the worker in.

Stakeholder-Specific Opposition to Option 3

1. Recruitment Agencies: increased risk, cost, and compliance burdens

- Recruitment agencies overwhelmingly rejected Option 3, warning that it would force them to take on roles they are neither equipped for nor legally structured to handle. Key concerns included:
- Payroll Expertise Gap: Agencies do not have the systems, staff, or compliance expertise to process payroll for thousands of contractors. They rely on umbrella companies for this specialist function.
- Increased Compliance Costs: Agencies would need to hire payroll teams, purchase software, and invest in tax compliance processes, increasing costs by an estimated 20-30%. Many smaller agencies could collapse under the financial strain.
- Risk of Payroll Errors: Unlike umbrella companies that specialize in contractor payroll, most agencies lack experience handling multi-assignment NIC calculations, leading to high risks of payroll errors, late tax payments, and worker disputes.
- Legal & Insurance Burdens: If agencies become the legal employer for PAYE, they could be exposed to worker claims, pension liabilities, and legal disputes, creating a compliance nightmare.
- Talent Supply Chain Disruptions: With PAYE risks suddenly falling on agencies, many may stop engaging contractors altogether, reducing job opportunities for thousands of skilled workers and limiting employer access to flexible talent.

APSCo (Association of Professional Staffing Companies) stated:

"Recruitment businesses are not payroll providers. This approach would create excessive risk, place unreasonable compliance burdens on agencies, and potentially force a withdrawal from contractor supply in key sectors."

REC (Recruitment & Employment Confederation) warned:

"This will lead to a chaotic transition where compliant agencies are overwhelmed, while bad actors continue to operate unchecked in new, unregulated forms."

2. Umbrella Companies: severe market disruption and loss of worker protections

Compliant umbrella companies strongly opposed Option 3, arguing that it effectively removes the need for umbrellas altogether, leaving thousands of workers without the benefits and protections they currently receive.

- Market Disruption: Option 3 diminishes the role of umbrellas in contractor payroll, forcing agencies to either hire contractors as full-time employees or stop engaging them altogether.
- Loss of Worker Protections: Umbrella companies provide benefits such as statutory sick pay (SSP), holiday pay, pension contributions, and continuous employment for mortgage applications. Under Option 3, these protections would become uncertain.
- Unintended Tax Risks: Many agencies will struggle with multi-assignment payroll for temporary workers, leading to miscalculations of NIC thresholds and potentially higher tax bills for contractors.
- Negative Compliance Effects: If agencies must run PAYE, many may refuse to work with certain workers, creating hiring restrictions and limiting contractor choice.

FCSA (Freelancer and Contractor Services Association) warned:

"This would cause irreparable damage to a compliant industry that has worked hard to clean up payroll abuses. Agencies are not set up for this role, and workers will be the ones who suffer."

3. End Clients: increased costs and reduced workforce flexibility

Large employers who rely on contract workers also raised serious concerns:

Increased Hiring Costs: If agencies pass down compliance costs to end clients, contracting costs could rise by 10-15%, reducing flexibility for businesses.

Skills Shortages: If agencies exit the contractor market, industries like IT, healthcare, and engineering will struggle to source temporary workers, leading to project delays and economic losses.

A legal expert from Pinsent Masons noted:

> *"Option 3 will have unintended consequences – businesses may stop engaging contractors altogether due to liability concerns."*

4. Contractors & workers: loss of choice and potential misclassification risks

While workers generally supported stricter enforcement against bad umbrellas, many rejected Option 3 because it failed to address worker rights issues and could push them into inflexible employment arrangements.

- Loss of Choice: Many contractors prefer umbrella employment for benefits like continuous employment and mortgage eligibility – Option 3 could force them into PAYE models that don't fit their needs.
- Misclassification Risks: Some contractors could be misclassified as employees under PAYE, losing the tax flexibility they rely on.
- No Guarantee of Fairer Treatment: Option 3 might solve tax collection but does nothing to prevent agencies from skimming holiday pay or making unlawful deductions.

Conclusion: Why Option 3 Should Be Rejected

The strong opposition to Option 3 in the consultation responses suggests that forcing recruitment agencies to take on PAYE for contractors is the wrong approach. Instead of solving compliance issues, it creates new risks, increases costs, disrupts flexible hiring, and potentially reduces worker protections.

The preferred alternative includes:

- Option 1 (due diligence checks) – widely supported across all stakeholder groups.
- A statutory licensing/accreditation system for umbrella companies to ensure compliance without destroying the industry.
- Enforcement measures that target bad actors directly, rather than burdening compliant businesses.

The message from the consultation is clear: Option 3 is an overreach that will cause more harm than good. Instead, targeted regulation of umbrellas themselves is the way forward.

Additional considerations in response to the government's proposal

1. Lack of consensus yet proceeding with legislation

The government's response acknowledges that stakeholders did not reach a consensus on how best to define and regulate umbrella companies. Despite this, it has chosen to legislate through Budget measures and an amendment to the Employment Rights Bill, risking the introduction of unclear, unworkable regulations.

This approach disregards the complexities highlighted in consultation responses and examined in detail in this report and is likely to result in confusion, compliance difficulties, and unintended loopholes that could be exploited by bad actors rather than achieving the intended tax compliance improvements.

2. Implied Objective of Eliminating Umbrella Companies

The Government Response suggests that shifting PAYE responsibility to employment businesses (EBs) could reduce the use of umbrella companies altogether, framing this as a potential positive outcome.

However, as demonstrated in FCSA's main report, removing compliant umbrella companies would be detrimental to the UK's labour market because:

- Worker protections would be eroded, including access to continuous employment, stable pension contributions, and consistent statutory benefits.
- Tax compliance would suffer as responsibility is moved from 600 well-regulated umbrella companies to 24,000 employment businesses, increasing oversight challenges and making fraud easier.
- Market disruption would occur, increasing administrative burdens on recruitment agencies that are ill-equipped to handle payroll responsibilities at scale.

Rather than dismantling a largely compliant sector, the government should focus on targeting rogue operators without destabilising an essential part of the contingent labour supply chain.

3. EAS (Employment Agency Standards) Inspectorate lacks enforcement resources

The government proposes expanding the EAS Inspectorate's role to regulate umbrella companies. However, the consultation responses highlight that EAS lacks the necessary enforcement resources.

Without adequate funding, EAS will be unable to:

- Conduct proactive investigations into umbrella company compliance.
- Effectively oversee payroll fraud within an expanded regulatory framework.

- Ensure timely enforcement action against non-compliant businesses.

Given these constraints, shifting regulatory responsibility to EAS without proper investment is unlikely to achieve meaningful enforcement improvements.

4. Failure to Address Mini-Umbrella Company (MUC) Fraud

The Government Response identifies abuse of the VAT Flat Rate Scheme and Employment Allowance by mini-umbrella companies (MUCs) as a significant source of tax fraud. However, it takes no immediate action to close these loopholes, instead focusing on shifting PAYE responsibilities to recruitment agencies.

This failure to target MUC fraud directly means that non-compliant operators will **continue to exploit existing loopholes, undermining the government's stated goal of tackling tax non-compliance.

A more effective approach would involve:

- Directly regulating MUC structures to prevent tax evasion.
- Enforcing stricter oversight on VAT and National Insurance Contribution (NIC) abuses.
- Holding scheme promoters accountable, rather than penalising compliant payroll intermediaries.

5. Underestimation of the negative impact on workers

While the Government Response claims that the proposed measures will protect workers from tax fraud, it fails to account for the wider negative effects:

- Loss of continuous employment:
    - Workers will no longer be employed by a single umbrella provider but will shift between multiple short-term contracts with different employment businesses on Contracts for Service, affecting their entitlement to employment rights, creditworthiness and financial stability.
    - Tax miscalculations and over/underpayments: PAYE calculations will become fragmented, increasing the risk of incorrect deductions and unexpected tax bills.
    - Disruption to pension contributions: Workers may accumulate multiple small pension pots across different providers, making long-term retirement planning difficult.
    - Reduced statutory benefit access: Sick pay, maternity leave, and other employment protections will be harder to track across multiple short-term engagements.

Rather than improving worker rights, the proposed changes increase instability and financial insecurity for those working in the contingent labour market.

In summary, the government’s proposed regulation framework appears to be based on flawed assumptions and risks damaging compliance rather than improving it

Appendix D – Case studies on enforcement of current legislation

These cases illustrate how targeted enforcement actions ***using existing legislation and regulation*** effectively addressed payroll fraud involving third-party payrollers in the UK, emphasizing the importance of due diligence and compliance in labour supply chains.

Case Study 1: Umbrella Care Ltd – Tax Evasion in the Care Sector

The Fraud Scheme:

Umbrella Care Ltd, which despite its name was an employment business **not** an umbrella provider, a company supplying workers to the care sector, including the NHS, was found to have under-declared over £33 million in taxes between May 2017 and April 2020. Directors Raja Usman and his wife Khair Un Nisa knowingly submitted inaccurate VAT, PAYE, and National Insurance contributions (NIC) returns to HM Revenue and Customs (HMRC).

How It Was Tackled:

• HMRC Investigation: HMRC identified significant discrepancies in the tax returns filed by Umbrella Care Ltd, prompting a thorough investigation.

• Company Liquidation: In November 2020, Umbrella Care Ltd was wound up following a court order, with liquidators appointed to recover assets.

• Director Disqualifications: Raja Usman was disqualified from acting as a company director for 14.5 years, and Khair Un Nisa accepted an 11-year disqualification undertaking.

Outcome:

The enforcement actions led to the recovery of approximately £14 million in assets, including funds from bank accounts and the sale of properties linked to the directors. The case underscored the importance of diligent oversight in the use of umbrella companies within the labour supply chain.

Case Study 2: Mini Umbrella Company (MUC) Fraud in the Public Sector

The Fraud Scheme:

Largely in the public sector, certain payroll umbrella companies engaged in Mini Umbrella Company (MUC) fraud by disaggregating their workforce into numerous small companies, each employing only a few workers. This structure was designed to exploit tax reliefs intended for small businesses, such as the Employment Allowance and VAT Flat Rate Scheme, resulting in significant tax evasion.

How It Was Tackled:

• HMRC Compliance Checks: HMRC conducted compliance checks to identify and address MUC fraud, issuing guidance to help businesses recognize and avoid such schemes.

• Public Awareness Campaigns: HMRC launched campaigns to educate businesses and agencies about the risks associated with MUC fraud, emphasizing the importance of conducting due diligence when engaging with umbrella companies.

Outcome:

These enforcement actions led to increased awareness and vigilance among businesses and agencies, reducing the prevalence of MUC fraud in the public sector. The case highlighted the need for robust oversight and due diligence in labour supply chains to prevent tax evasion facilitated by unscrupulous umbrella companies.

Case Study 3: Ducas Ltd – Alleged £171 Million Employer NIC Fraud

The Alleged Fraud Scheme:

Ducas Ltd, a provider supplying approximately 30,000 healthcare workers to the NHS through various recruitment agencies, is accused of evading Employer National Insurance Contributions (NICs) totalling £171 million. The company was allegedly contractually obligated to handle PAYE and NICs but has allegedly diverted these responsibilities to an associated entity, Enix Services Ltd. Enix purportedly paid workers gross amounts without deducting the necessary taxes.

Ducas Ltd allegedly presented falsified payslips and Real Time Information (RTI) submissions to recruitment agencies. These allegedly fraudulent documents were purported to show that the correct deductions for PAYE income tax and National Insurance Contributions (NICs) had been made and reported to HM Revenue and Customs (HMRC). However, HMRC found no record of such payments being received.

This may have concealed the fact that Employer NICs due were not being paid, enabling the fraudulent scheme to continue undetected for an extended period.

How It Was Tackled:

• HMRC Investigation: HMRC conducted an investigation into Ducas's financial activities, possibly uncovering substantial underpayment of Employer NICs and allegedly fraudulent documentation.

• Asset Freezing Injunctions: To prevent potential dissipation of assets, HMRC sought and obtained freezing orders against Ducas Ltd, Enix Services Ltd, and FL Capital Holdings Ltd. The High Court acknowledged that there may be a serious issue to be tried, citing evidence of dishonesty and unexplained fund transfers among the associated companies.

Outcome:

The case is ongoing, with HMRC actively pursuing legal action to recover the alleged unpaid NICs and enforce the freezing orders to secure assets pending the outcome of any trial.

Appendix E – Going Dutch

In the Netherlands, the labour leasing system—also known as labour hire or temporary staffing—is regulated to ensure compliance with employment laws while maintaining the integrity of payroll models. This system allows companies to engage temporary workers through licensed agencies, ensuring that both the rights of the workers and the legal obligations of employers are upheld.

Key Components of the Dutch Labour Leasing System

1. Waadi Registration: Under the Dutch Workers Allocation by Intermediaries Act (Waadi), entities involved in labour leasing must register their activities with the Business Register. This registration enhances transparency and aids in combating illegal labour practices, ensuring that agencies operate within the legal framework.

2. Collective Labour Agreements (CLAs): Many sectors in the Netherlands operate under CLAs, which are agreements between employers and employees outlining specific working conditions and benefits. Labour leasing agencies must adhere to these agreements, ensuring that temporary workers receive terms comparable to permanent employees in similar roles.

3. NEN 4400 Certification: This certification serves as a quality mark for labour leasing agencies, indicating compliance with Dutch regulations, including tax obligations and employment laws. Engaging with NEN 4400-certified agencies provides companies with assurance of the agency's adherence to legal standards, thereby mitigating risks associated with non-compliance.

4. Equal Treatment Principle: Dutch law mandates that temporary workers should not be financially disadvantaged compared to permanent employees performing similar tasks. This principle ensures fair treatment in terms of wages, working hours, and other employment conditions, aligning with the broader objective of protecting employee rights.

5. Employment Duration Regulations: To prevent the perpetual use of temporary contracts, the Netherlands enforces rules that limit the duration of successive temporary contracts. Specifically, a position becomes permanent at the client after 36 months or four consecutive contracts, promoting job security for workers.

Ensuring Compliance Without Disrupting Payroll Models

To seamlessly integrate temporary workers into existing payroll systems while ensuring compliance, companies often collaborate with licensed labour leasing agencies or Employers of Record (EOR). These entities assume responsibility for various administrative and legal aspects, including:

• Payroll Administration: Managing the calculation and payment of wages, taxes, and social security contributions in accordance with Dutch laws.

• Regulatory Compliance: Ensuring adherence to employment laws, CLAs, and other sector-specific regulations, thereby reducing the risk of legal infractions.

• Employee Benefits Management: Administering mandatory benefits such as health insurance and pensions, ensuring that temporary workers receive entitlements comparable to permanent staff.

By engaging with certified and compliant labour leasing agencies or EOR services, companies can effectively manage their workforce needs without disrupting existing payroll structures, all while ensuring full compliance with Dutch employment regulations.

Comparing Waadi Entities to UK Umbrella Companies

Waadi entities in the Netherlands and UK umbrella companies both act as intermediary employers, managing payroll, tax, and employment compliance. However, they differ in structure, regulation, and purpose within their respective labour markets.

Key Similarities

Intermediary Employment

- Both Waadi-registered entities and UK umbrella companies employ workers and then supply them to end-user clients.
- Workers remain employees of the intermediary rather than the end client.

Payroll & Tax Compliance

- Both models handle payroll, tax deductions, and social security contributions on behalf of workers.
- They ensure compliance with local employment laws and prevent tax avoidance or illegal employment practices.

3. Employment Protections

- Workers under both models are entitled to employment rights, such as holiday pay, sick pay, and pension contributions.
- They typically receive equal pay and conditions comparable to permanent employees in similar roles.

Key Comparisons

Aspect	Waadi Entities (Netherlands)	Umbrella Companies (UK)
Legal Basis	Regulated under Waadi (Wet Allocatie Arbeidskrachten Door Intermediairs)	Operate under UK tax and employment law
Main Purpose	Labour leasing (staffing and secondment) – supplying workers to client companies on a temporary basis	Payroll and employment structure for workers with single or multiple end-hirers
Worker Type	Typically used for temporary workers or seconded employees	Used by workers, freelancers, and contractors working across different engagements
Contract Structure	Workers are employed under temporary contracts	Workers are under an umbrella company PAYE contract, typically moving between temporary engagements
Tax & Contributions	Employers pay full Dutch social security & tax	Umbrella companies deduct PAYE tax, National Insurance (NI), and admin fees
Regulatory Oversight	**Strictly regulated** (must register with the Dutch Chamber of Commerce and comply with NEN 4400)	Some oversight (e.g. FCSA accreditation), but **not legally required**

Clarifying the IR35 Factor in the UK

- While some contractors use umbrella companies as a way to work compliantly within IR35 rules, many workers choose umbrella employment simply because it provides flexibility and benefits while working across different end-hirers.
- Unlike Waadi entities, which are primarily staffing firms engaged in labour leasing, UK umbrella companies serve a broader range of workers, including those in long-term temporary roles.

Conclusion

When comparing payroll management and intermediary employment, Waadi entities and UK umbrella companies serve similar functions.

- Waadi entities are much more regulated and structured within a staffing/leasing framework
- UK umbrella companies cater to a wider range of temporary and flexible workers.
- UK umbrella companies are a standard choice for workers who prefer flexible engagements while maintaining employment rights.