

Umbrella companies

New legislation from April 2026



Overview

From April 2026, a new anti-avoidance regime will apply to labour supply chains.

Finance Act 2026 will incorporate a new chapter 11 in part 2 of Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

The new legislation will introduce joint and several liability for PAYE income tax and national insurance contributions (NICs) owed to HMRC on payments made to workers via umbrella companies.

The new legislation will apply to payments made to umbrella company workers on or after 6 April 2026.

The purpose of the new legislation is to make employment (recruitment) agencies or (if there is no agency) the end client jointly and severally liable for any PAYE income tax and NICs which an umbrella company fails to pay to HMRC.

If an umbrella company does not pay its taxes to HMRC, agencies and clients will be liable. There is no defence.

What is an umbrella company?

An umbrella company is a business which employs temporary workers, freelancers, or contractors on behalf of agencies or clients (the term 'client' refers to the end-user of the services being provided).

The umbrella company is a third party employer paying workers who provide personal services to a client.

An umbrella company is responsible for complying with employment legislation and for accounting to HMRC for PAYE income tax and NICs.

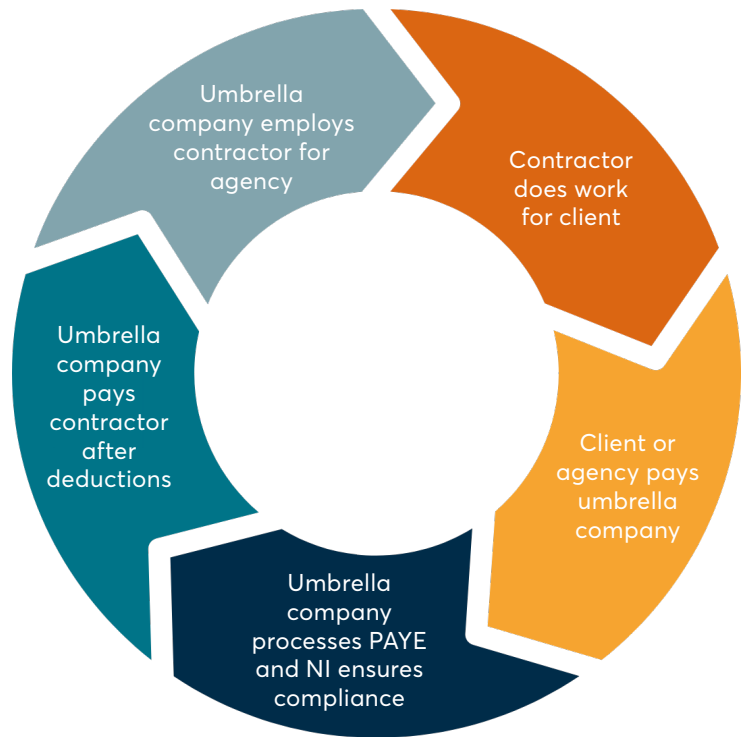
How umbrella companies work

Contractor engagement – the individual secures a temporary assignment, typically through a recruitment agency.

Employment – the individual signs a contract of employment with the umbrella company (which may be connected to the recruitment agency), making it his/her legal employer.

Timesheets – the individual submits his/her timesheets recording worked hours to the umbrella company, which then invoices the agency, which in turn invoices the client. If there is no agency, the umbrella company invoices the client direct.

Payment – the client (or the agency) pays the umbrella company, which then pays the individual via the PAYE system after deducting income tax, NICs, and its own administration fee.



What is joint and several liability?

Joint and several liability means that HMRC can collect the entire tax debt from any of the parties in the labour supply chain.

Who the new joint and several liability rules apply to

The rules will apply to:

- New and existing labour supply chains.
- An agency which has a contract with a client to supply workers.
- A client, if there's no agency involved.
- An umbrella company.
- Payments to workers on or after 6 April 2026.

The agency or client will be responsible for making sure PAYE is operated correctly when an umbrella company employs their workers. HMRC can recover any underpayment of PAYE from them.

When the new joint and several liability rules will not apply

The rules will not apply if the workers are:

- Employed through their own personal service company (subject to certain conditions).
- Deemed to be employed through a managed service company. A managed service company is a personal service company controlled by an outside provider (the managed service company provider) where the worker gets salary plus dividends, but this structure is largely shut down by UK legislation, pushing workers towards umbrella companies or independent personal service companies.
- Salaried members of a Limited Liability Partnership.
- Treated as employed by an agency.

There may be some circumstances when the new rules will apply in these cases.

What is the process?

When a worker is paid by an umbrella company, all parties in the contractual chain (the umbrella company, the agency, the client) will be jointly and severally liable for the taxes until HMRC confirms receipt of the money.

If there is a shortfall from the umbrella company, HMRC will pursue the agency first.

There is no statutory excuse which removes liability from the agency or client.

The agency and client are liable even if the agency proves it gave the money to the umbrella company but the umbrella company fails to pay HMRC.

The umbrella company joint and several liability risk is systemic and applies to all taxes for all workers. A single umbrella company failure exposes the agency and the client to a liability for all their workers paid under that umbrella company.

The agency or the client can end up paying twice. If they pay the umbrella company, but the umbrella company fails to pay HMRC, the agency or client may be required to make a second payment of the taxes direct to HMRC.

Clients may include warranties and indemnities in contracts, undertake due diligence and perform audits of the procedures operated by umbrella company. But these provisions and processes are of limited value – ultimately, if the umbrella company fails to pay the taxes to HMRC, the agency and the client are liable.

The only effective preventative action is for the client to pay HMRC directly.

What the new joint and several liability rules mean for you

If you are an employee of an umbrella company

The umbrella company is your employer and responsible for paying you correctly.

If you are an umbrella company employing workers

You are responsible for operating PAYE for your employees correctly and paying HMRC on time. You will need to provide the agency or client with the information and evidence they need to verify compliance.

If you are an agency or client

If you are a client, you should check if the worker is supplied to you by an agency or umbrella company.

You are responsible for making sure that the umbrella company operates PAYE correctly. If the umbrella company has not paid the correct amount of PAYE to HMRC, the debt will be recovered from you.

Recommendations

If you are an agency

- Don't use umbrella companies to employ and pay workers.
- Employ the workers yourself, operate PAYE and pay HMRC directly.

If you are a client

- Understand the labour supply chain.
- Don't engage with agencies which use umbrella companies.
- Insist that agencies you engage with don't use umbrella companies.
- Consider using agencies to recruit workers only.
- Employ the workers yourself or through your wholly owned umbrella company, operate PAYE and pay HMRC directly.

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