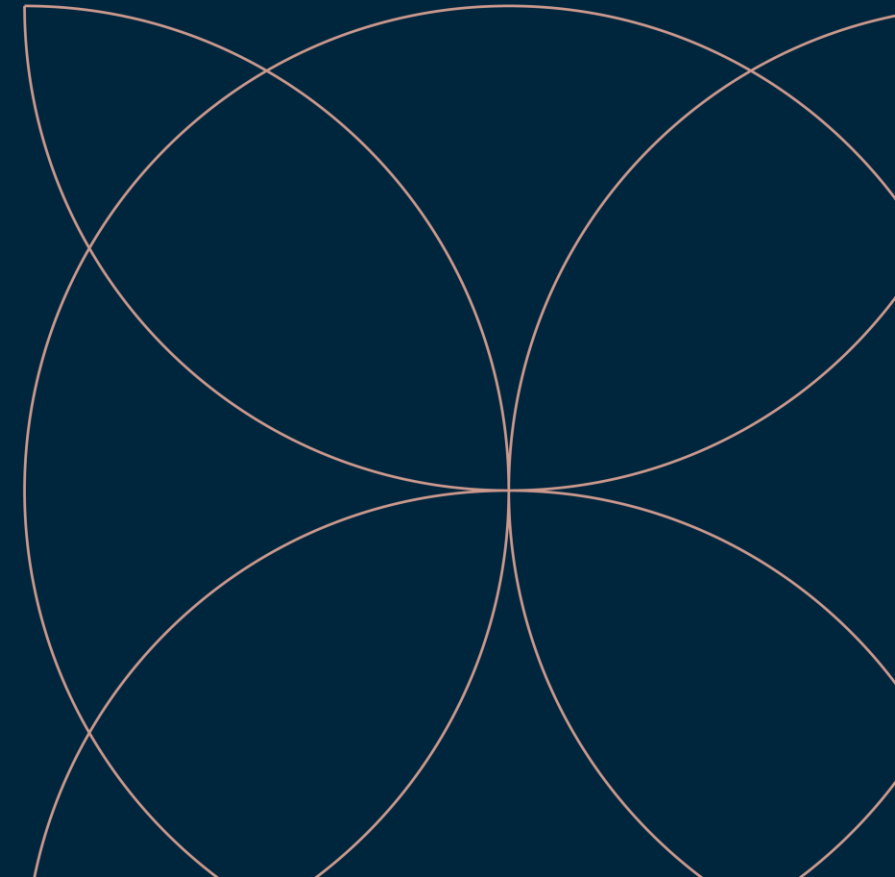


# Employment Tax and Labour Supply Chains

New rules for April 2026 and what you  
need to know

Clive Day  
28 January 2026



01

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Background

# Employing People is Expensive....

- National Minimum/Living Wage;
- Holiday Pay (12.07%);
- 15% Employers Class 1 National Insurance over £96 p/w (£5,000 p.a.);
- Apprenticeship Levy (0.5% +£3m payroll);
- Pensions Auto-Enrollment (3%).

Security Firm Limited

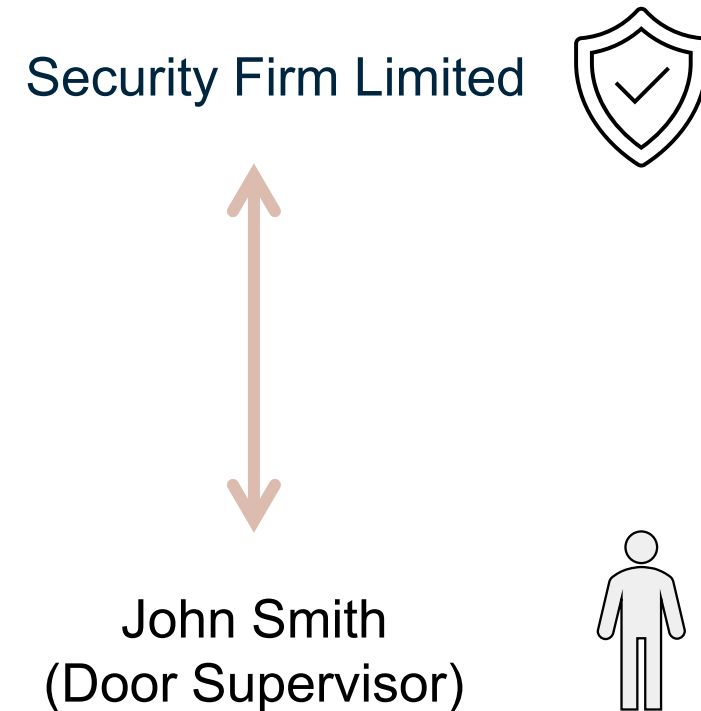


John Smith  
(Door Supervisor)



# It all adds up...

| Real Hourly Cost Breakdown (April 2025–26) | Cost  |
|--|---|
| National Living Wage (21+)                 | <b>£12.21</b> Basic hourly rate (effective 1 April 2025)      |
| Employer NI                                | <b>£1.47</b> (15% on earnings above £5,000/year)              |
| Holiday Pay                                | <b>£1.68</b> (12.07% of base pay for 28 days statutory leave) |
| Auto-enrolment Pension                     | <b>£0.28</b> (3% contribution on qualifying earnings)         |
| Apprenticeship Levy                        | <b>£0.07</b> (0.5% - only applies if annual pay bill >£3m)    |
| <b>Total Hourly Cost</b>                   | <b><u>£15.71</u></b>  |





# A leaky model?

Knights

Simple labour supply chain

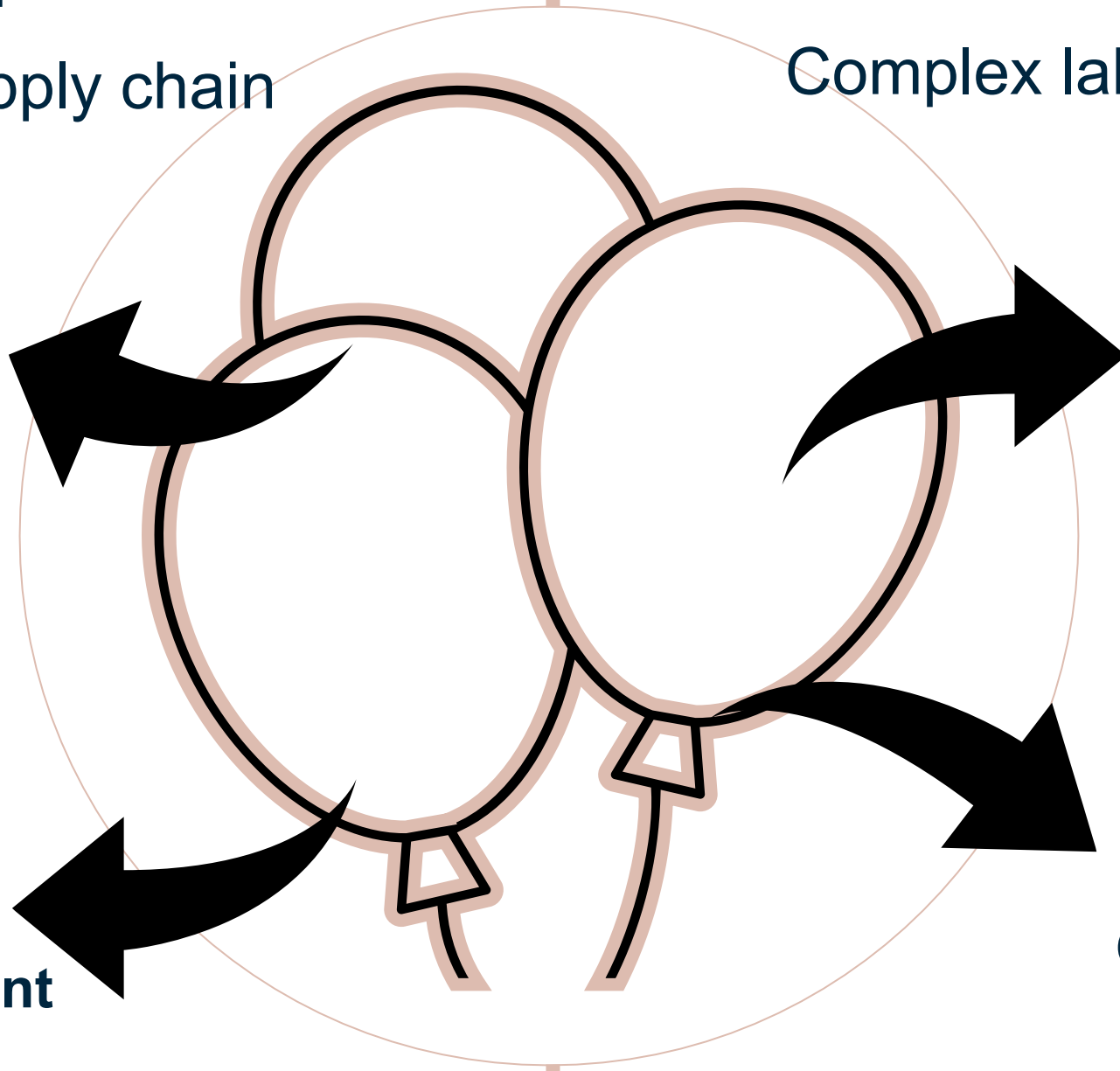
Complex labour supply chain

  
Agency Workers

  
IR35  
(using a PSC)

  
Casual/  
Self Employment

  
Umbrella  
Companies

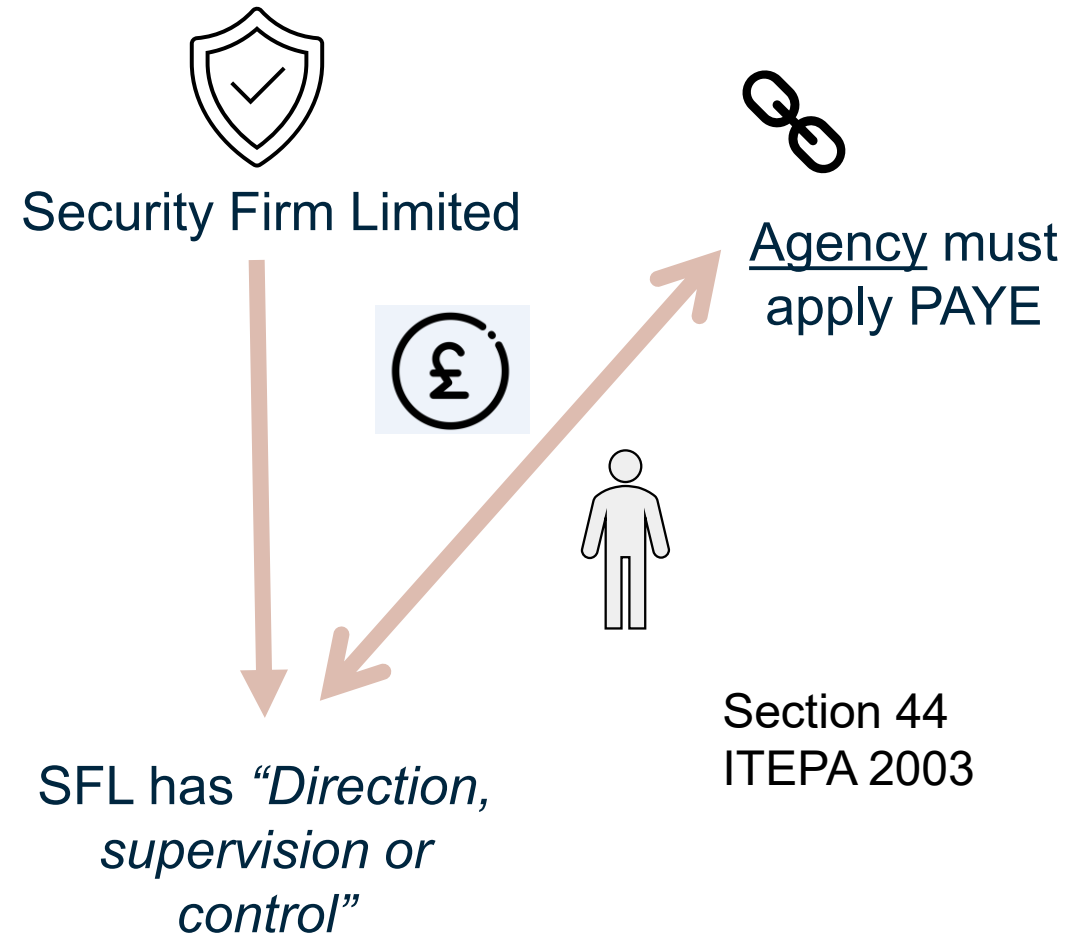


# Basic Employment Test



See “**Employment Status Manual**” : [ESM0500](#)

# Basic Agency Test



See “**Employment Status Manual**” : [ESM2039](#)

02

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Supply Chains – (“IR35”)  
Using ‘one-person’  
companies to lower tax

# Using a ‘Personal Service Company’ to lower taxes (“IR35”)



**End Client**

Invoice



**“John Smith Limited”**

Dividends



**John Smith**

- No Employer N.I.
- Expenses regime more generous.
- Cashflow advantage on tax (no RTI)

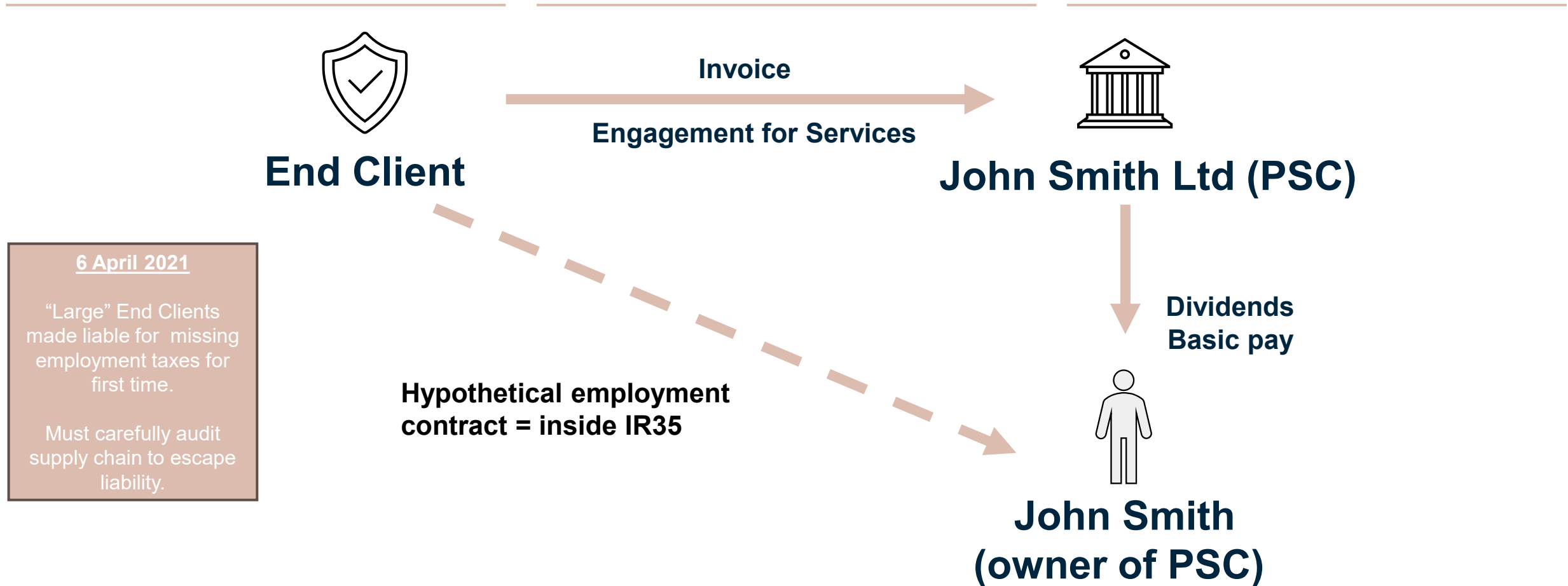
- ORIGINAL IR35: HMRC have power to cross out JSL and charge employment taxes if JS would be an employee.

Year 2000 onwards—  
JSL may have to pay missing employment tax.

Liability NOT applied to End Client

# IR35 Risks Extended to Clients

‘Off Payroll’ regime



**6 April 2021**

“Large” End Clients made liable for missing employment taxes for first time.

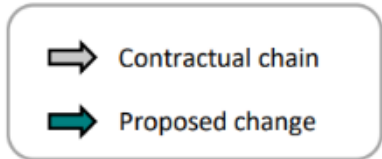
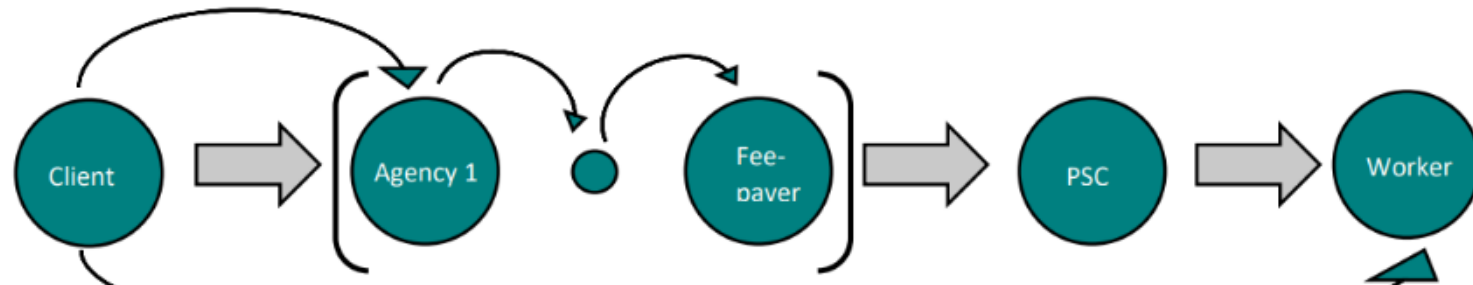
Must carefully audit supply chain to escape liability.

# A More Complicated Example

Bigger End Clients have to: (i) assess if a PSC exists and (ii) issue a Status Determination Statement to the right parties

1. Client required to provide status determination together with the reasons for determination to party they contract with and the worker

2. Status determination and reasons for determination are required to be passed down the contractual chain



3. Client required to provide status determination and reasons for determination to worker



03

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Supply Chains Part 2–  
“Umbrella Companies” after  
6 April 2026

# What is an 'Umbrella' Company?



‘

*...it is generally accepted that an umbrella company is a company that employs temporary workers who work at different end clients' premises.’*

HMRC: ESM2390

**Remember: this is a different situation to IR35: *Umbrella companies are not normally owned (or part-owned) by the worker, unlike in IR35.***

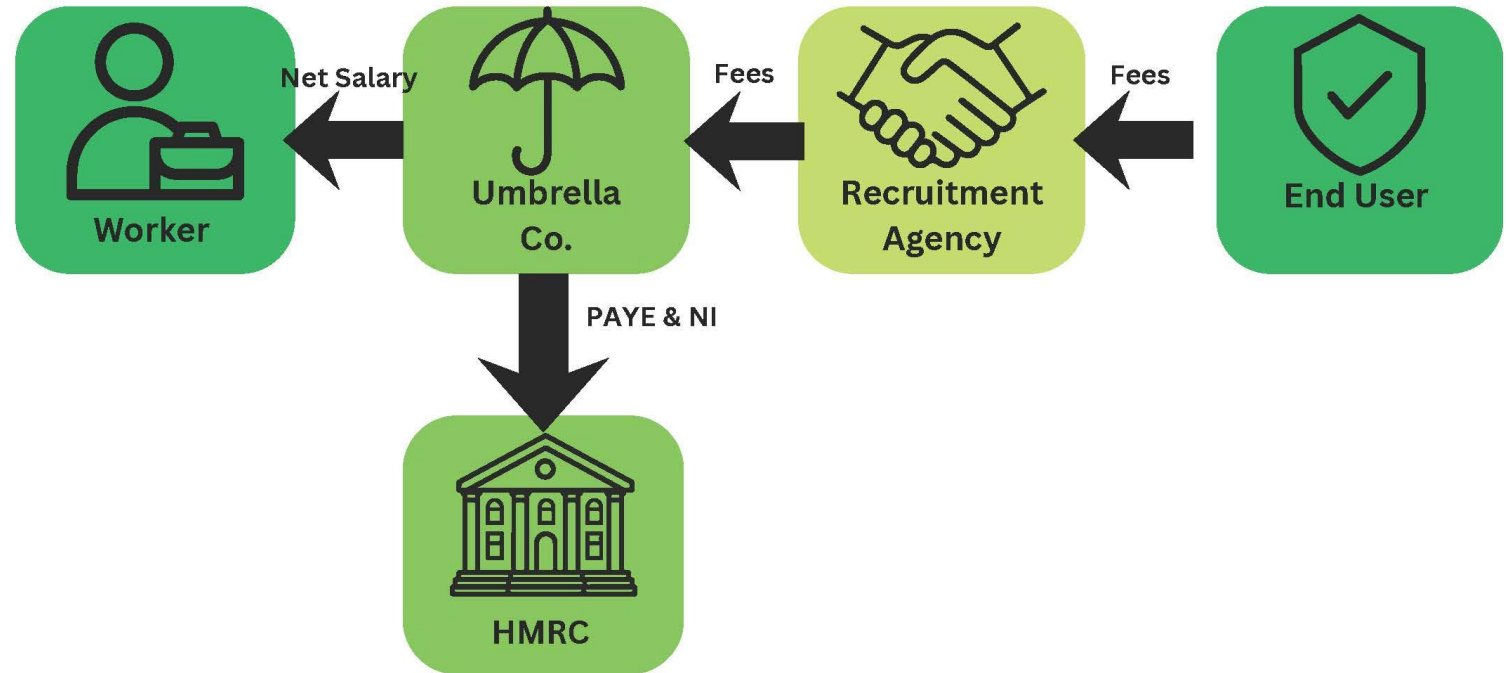
*They are simply nameplate/convenience employers. So why use them?*

- Avoid IR35 risk – find a compliant structure “off payroll”;
- Avoid administration, overhead and risks;
- Lower costs base....?

# Compliant Umbrella Company

Compliant UCs operate full payroll, including:

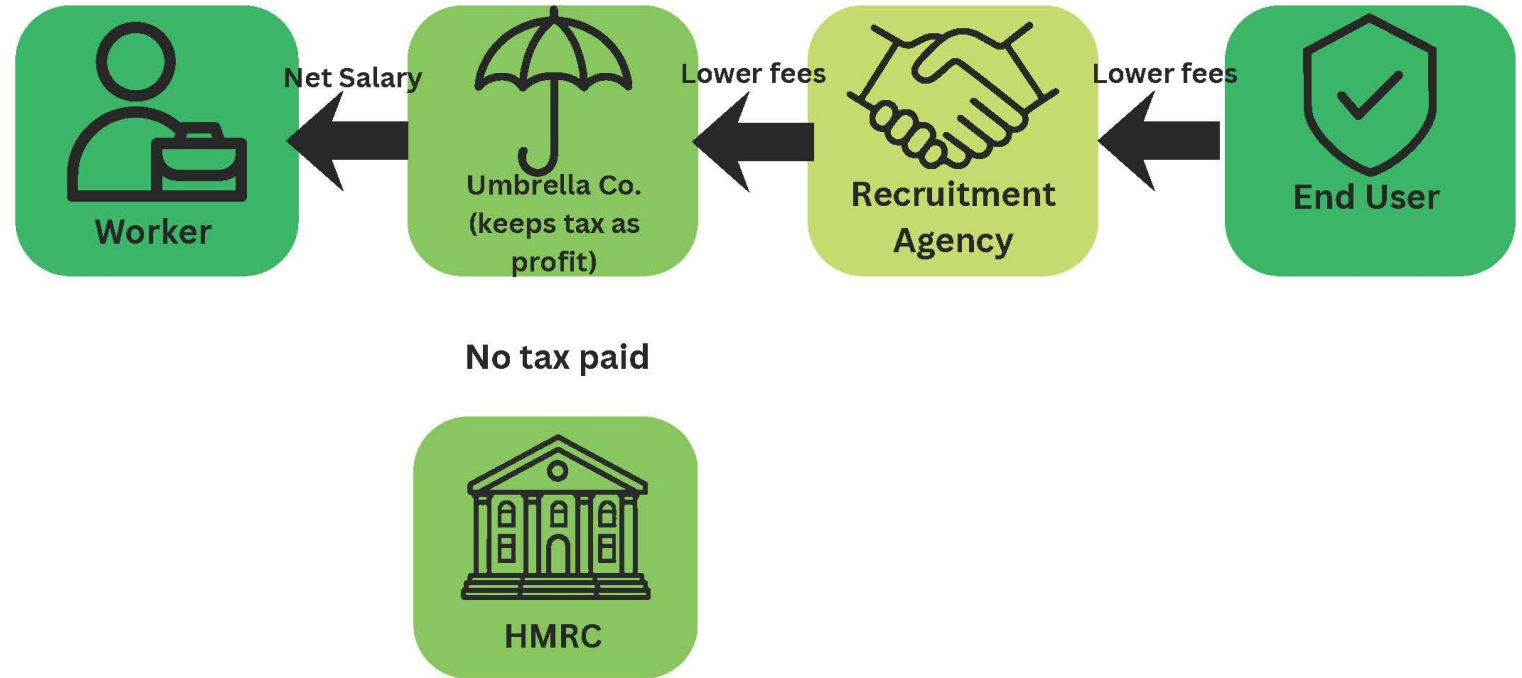
- RTI and payslips;
- Correct rate of pay;
- Full rate deductions and payments of tax to HMRC;
- Payment and tax on holiday pay;
- Appropriate contributions to auto-enrolment pensions + apprenticeship levy.



# Non-Compliance: Basic Fraud

End users looking to hire temporary workers, approach a recruitment agency who, in turn, ask UC's to bid to provide workers.

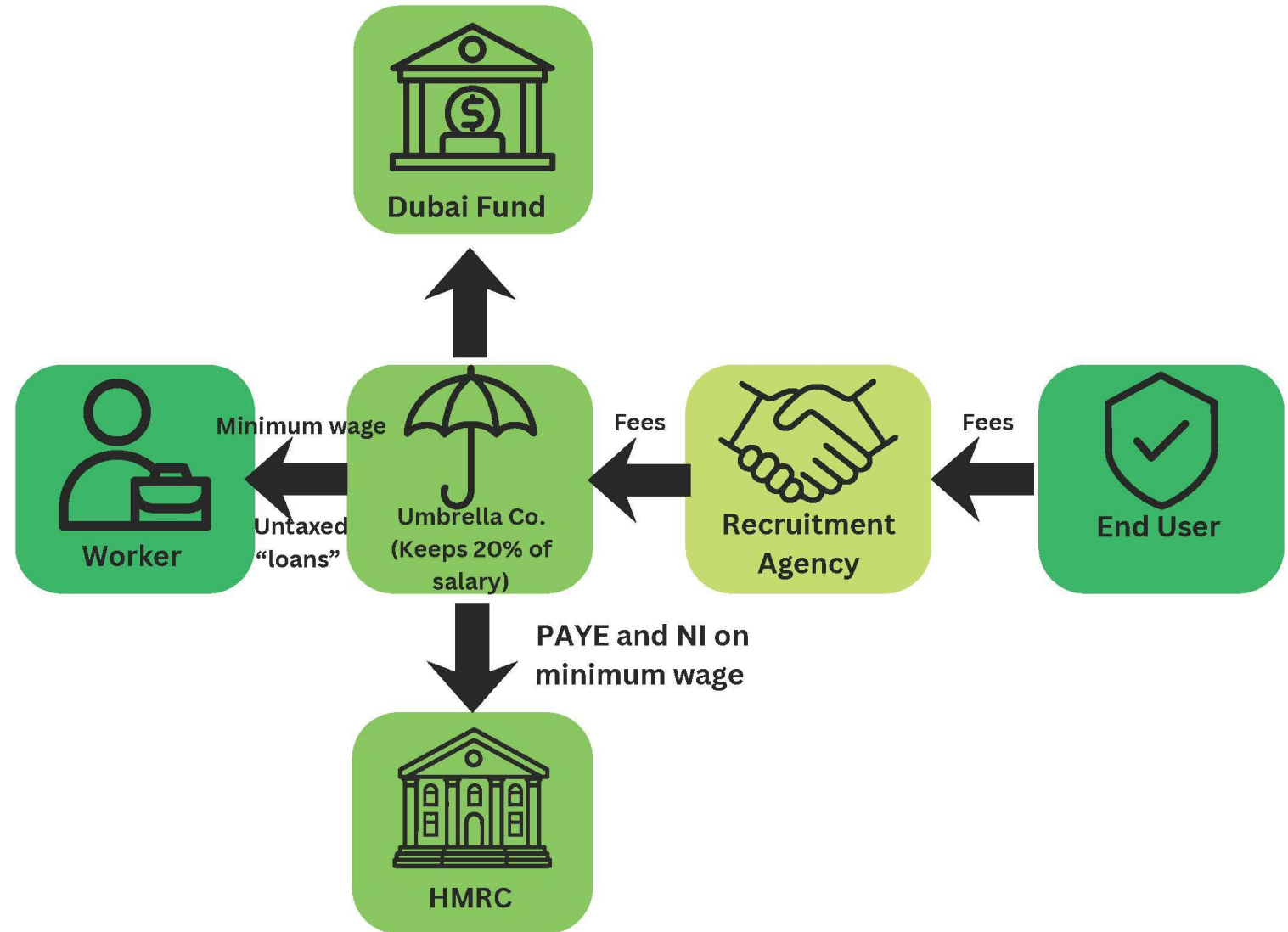
This bidding process incentivises dangerous practices. As they only win the work as the lowest bidder and they have little headroom to recover costs, some umbrella companies fraudulently withhold paying tax and keep this for themselves as profit.



# ‘Creative’ Umbrella Schemes: “Purity”

Some UC’s promote ‘creative’ accounting schemes, that purport to save tax, via loans, allowances of offsets.

For example, in a scheme called “Purity”, the element of pay in excess of NMW was classed as a ‘loan’ re-invested offshore, attempting to avoid payroll taxes.



# New Rules from 6 April 2026

Applies to chains including umbrella companies from 6 April 2026



1. Onshore (UK) employment agencies will be “***jointly and severally liable***” for PAYE shortfalls in workers they supply; BUT
2. If there is no such agency, the end client will be “***jointly and severally liable***” for workers they use.

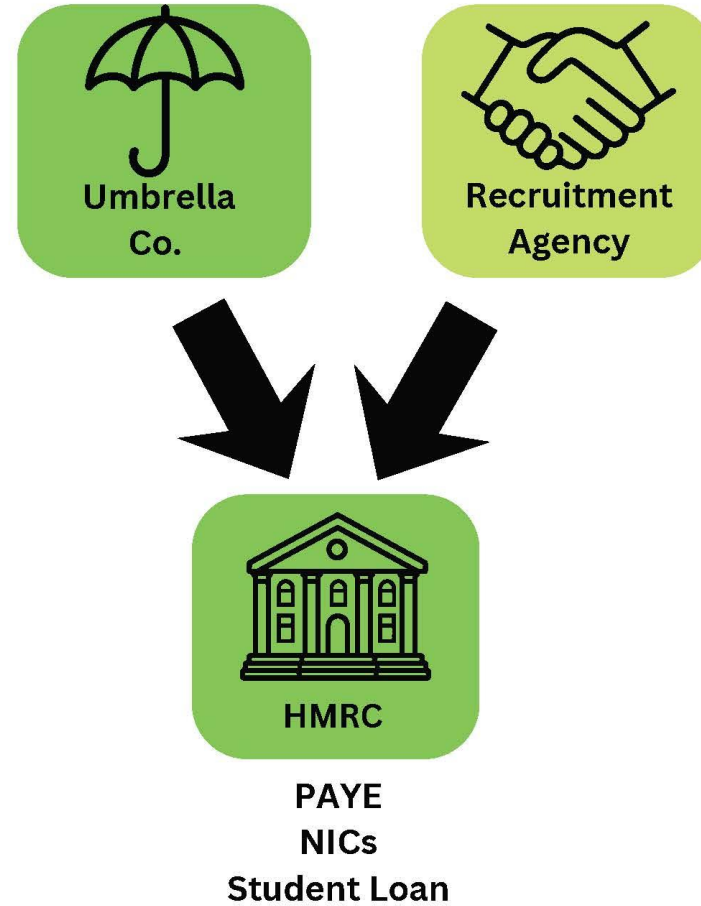
The new rules will apply to:

- New and existing supply chains;
- Money paid to workers from 6 April 2026.

# “Joint and Several” Liability

The new rules, with effect from 6 April 2026, impose a new joint and several liability to both the umbrella company and the recruitment agency.

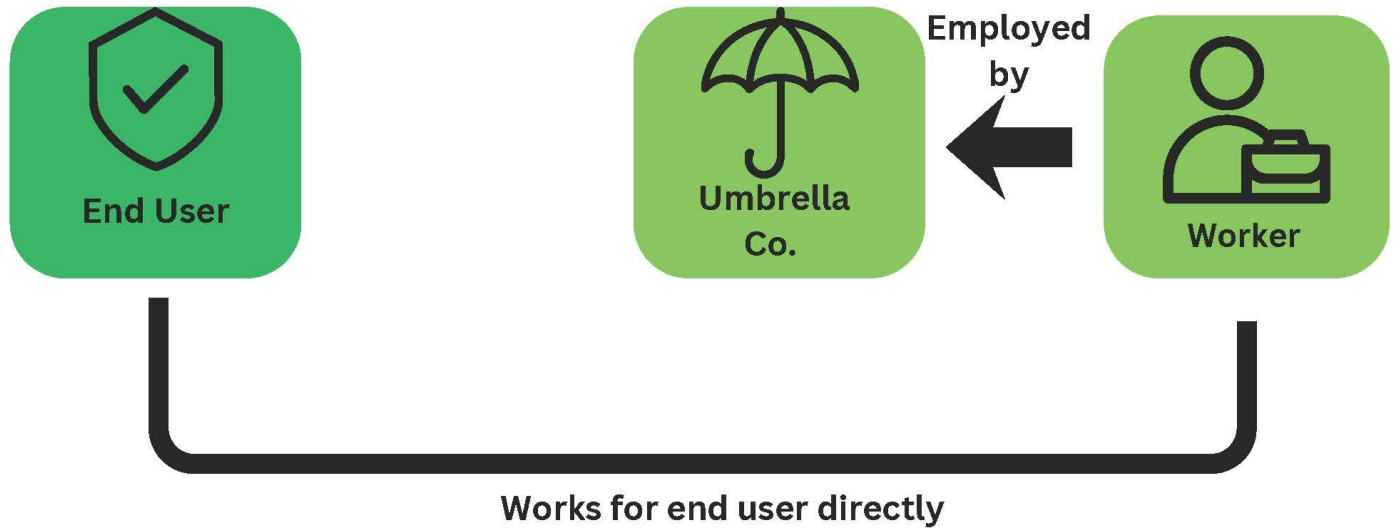
This means should the UC fail to deduct required taxes, HMRC can pursue, not only them for the unpaid amount (plus fines and costs) but also the recruitment agency.



# Where there is no agency

Under the new rules, in the event there is no agency (or no onshore UK agency) in the labour supply chain HMRC can pursue the end user for missing tax and NIC's.

HMRC is advising end-users should protect themselves by conducting thorough due diligence of their supply chains to minimise risks.



04

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Practical Risk Management  
of “Umbrella Companies”  
after 6 April 2026

# Due Diligence

## Possible Steps



### End users will want to carry out checks:

- Checking HMRC list of [named tax avoidance schemes](#);
- Understanding the complete chain back to the worker(s) concerned;
- Understanding which legal entity provides the worker;
- Checking the real hourly cost of labour supply makes sense. Does it include employer's NI, HP, AL etc + margin v what is offered. **NB:** *In the past DEFRA analysis estimated labour provider overhead costs as 30% on top of the National Minimum Wage;*
- Checking example payslips and RTI information (and keeping records)
- Take care in working with UC's that are offshore or incentivise clients to use their services
- Educate workers by sharing information on tax avoidance schemes

# Due Diligence

What UC suppliers will have to show



UC / Agencies who use UCs will need to show to clients:

- They submit their tax returns and payments on time;
- They can show they have reasonable procedures to prevent the facilitation of tax evasion;
- They have transparent structures and example RTI/payslip data to show HMRC compliance.

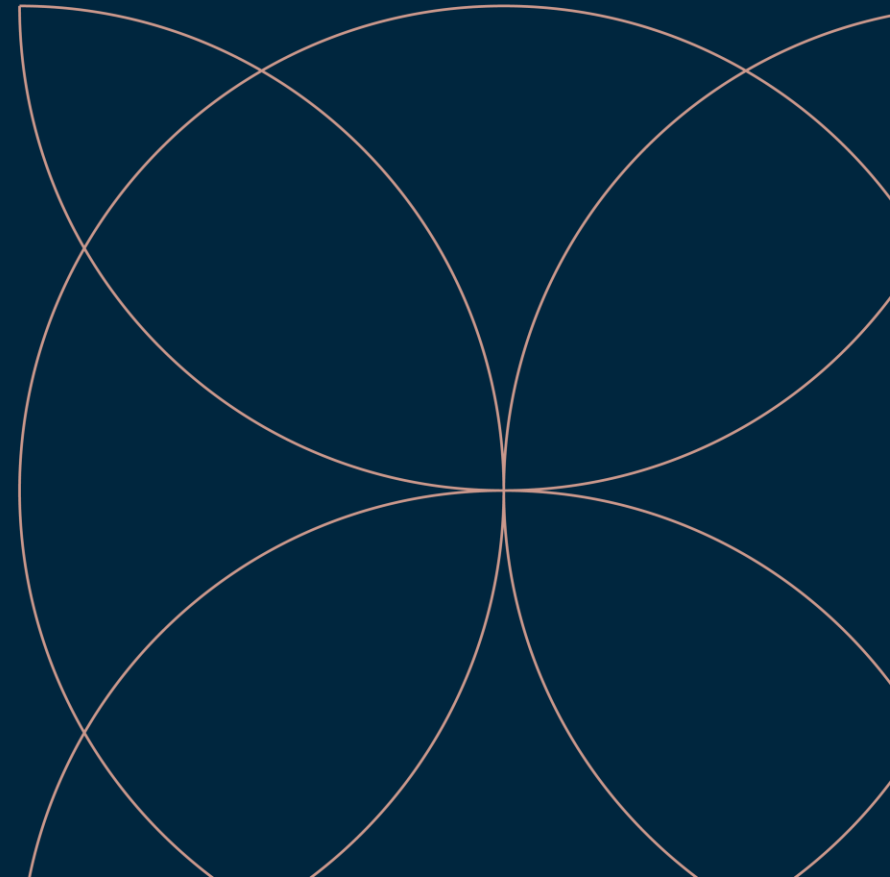
# Contractual Protections for End Users

Consider adding clauses into your contract with umbrella companies

- **Indemnities** – in the event of a shortfall caused by the fault of the UC, should HMRC ask you to reimburse the same, you can recover any amount payable from the UC
- **Warranties** – confirmation that any UC has completed their own DD and deduct all required taxes and pay this to HMRC
- **Confirmation** – commitments not to sub-contract or offshore supply;
- **Right to check.** Access to RTI information and payslips (right to choose sample worker records, upon request, to compare with worker's own payslips)
- **UC Director's Indemnities?**

Thank you

[knightsplc.com](https://www.knightsplc.com)



| Guidance   | Link  |
|--|---|
| Employment Status in the Security Industry               | <a href="https://www.gov.uk/guidance/learn-how-hmrc-rules-apply-to-the-security-operatives-you-deploy">https://www.gov.uk/guidance/learn-how-hmrc-rules-apply-to-the-security-operatives-you-deploy</a>   |
| Employment Status Manual – guidance on employment status | <a href="#">ESM0500</a>   |
| Agency Worker Status                                     | <a href="#">ESM2039</a>   |
| Umbrella basic guidance                                  | <a href="https://www.gov.uk/government/publications/use-of-labour-providers/advice-on-applying-supply-chain-due-diligence-principles-to-assure-your-labour-supply-chains">https://www.gov.uk/government/publications/use-of-labour-providers/advice-on-applying-supply-chain-due-diligence-principles-to-assure-your-labour-supply-chains</a> |