

SUPPLY TEACHERS BULLETIN

UK Government takes action to address tax avoidance among umbrella companies

Umbrella companies are labour market intermediaries that take on the obligations regarding employment rights, payment of workers, and paying the relevant taxes of workers, such as supply teachers.

Unscrupulous umbrella companies are associated with problems – ranging from a lack of transparency over key terms and conditions, including rates of pay, to unwittingly becoming embroiled in fraudulent tax arrangements – all of which can have serious financial consequences.

Indeed, HMRC analysis shows that £500 million was lost to disguised remuneration tax avoidance schemes in 2022/23, almost all of which was facilitated by umbrella companies.

The recent Autumn Budget included an announcement by the UK Government regarding the way in which umbrella companies operate in the labour market in an attempt to tackle tax non-compliance.

This follows our **response** to the consultation *Tackling non-compliance in the umbrella company market* back in 2023, which highlighted the issues experienced by supply teachers who often find themselves in the position of being forced to work through an umbrella company when signing up with employment agencies.

What is the UK Government proposing?

The UK Government has stated its commitment to ensuring that temporary workers are protected from large and unexpected tax bills caused by unscrupulous behaviour from non-compliant umbrella companies.

As such, the UK Government will implement legislation to change who has the responsibility to account for Pay As You Earn (PAYE) when an umbrella company is used in the supply chain to engage a worker.

This will remove the responsibility to account and report for PAYE from the umbrella company that employs the worker to the employment agency that supplies the supply teacher to the end user/client (e.g. the school).

If there is no employment agency involved in the supply chain, then the responsibility will sit with the end user/client (e.g. the school) to account for how this is done.

This will take effect from April 2026.

Where an umbrella company fails to pay the correct tax, recruitment agencies or end clients will pick up the bill.

This change does not therefore ban the use of umbrella companies, but it does put a much greater onus on other parties in the relationship to account for how umbrella companies operate when they are being used.

This means that agency workers, such as supply teachers, are less likely to be forced to work under exploitative umbrella arrangements, as recruitment agencies and end users/clients will not want to risk working with those who are seen to be working unlawfully.

Whilst this is a welcome development, NASUWT maintains that more action is needed to tackle employment rights abuses carried out by unscrupulous umbrella companies, and the Union will continue to campaign for better regulation of the umbrella company market.