EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY CONTRIBUTIONS (UMBRELLA COMPANIES) REGULATIONS 2026

2026 No. 388

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs ("HMRC") and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Peter Downing, Deputy Director for Employment Status, Intermediaries and Coronavirus Job Retention Scheme Legacy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Andrew Lewis at HMRC can be contacted by email at the following address with any queries regarding the instrument: Andrew.Lewis2@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 Legislation was introduced in the Finance Act 2026 to amend Part 2 of the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA 2003"). The legislation introduced changes to make employment agencies or end clients jointly and severally liable for any tax required to be accounted for under the Pay As You Earn ("PAYE") provisions, where an umbrella company forms part of a labour supply chain.

4.2 Joint and several liability will allow HMRC to pursue an employment agency for any payroll taxes that a non-compliant umbrella company fails to remit to HMRC on their behalf. The end client will be liable if contracting directly with an umbrella company.

4.3 This instrument introduces the same treatment for National Insurance contributions ("NICs") that umbrella companies are required to pay to HMRC.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 Umbrella companies are employment intermediaries that employ workers on behalf of agencies and end clients. Many umbrella companies operate diligently, supporting their employees and providing convenience and administrative benefits for agencies. However, too many are used to facilitate non-compliance including tax avoidance and tax fraud. This incurs significant losses for taxpayers and can leave workers with unexpected tax bills. In addition to causing significant harm to workers and taxpayers, non-compliant umbrella companies undercut compliant firms, threatening the viability of those businesses that do the right thing, as well as the functioning of the market itself.

5.2 Employment agencies can decide which businesses enter their labour supply chains, and they have the power to prevent illegitimate operators from entering the market. The government believes that making those who can control labour supply chains legally responsible for ensuring that PAYE is properly accounted for will improve compliance in the market.

5.3 At Autumn Budget 2024 the government announced that it would bring forward legislation to change who has responsibility to account for PAYE where a non-compliant umbrella company is used in a labour supply chain to engage a worker. It is the government's assessment that this option will most improve outcomes for workers, support a level playing field for compliant businesses, and protect taxpayers from the significant losses to the Exchequer.

What was the previous policy, how is this different?

5.4 These Regulations introduce new NICs rules in consequence of the insertion of Chapter 11 of Part 2 of ITEPA 2003 by the Finance Act 2026.

5.5 Umbrella companies are employers and are required to operate PAYE on payments of employment income made to their employees. They are required to pay Class 1 primary NICs on behalf of their employees and to pay their own Class 1 secondary NICs. Other parties in the labour supply chain, such as employment agencies, did not hold any liability under these arrangements. As a result, there was limited incentive for other parties in labour supply chains to undertake assurance when using umbrella companies.

5.6 As a result of this Statutory Instrument, specified businesses that use umbrella companies when engaging or supplying workers are jointly and severally liable to pay the NICs that umbrella companies, as employers, are required to pay to HMRC. This means that each party is liable to pay the full amount of NICs due until such a time as one party has discharged this liability. Where sums remain outstanding, HMRC can recover them from any jointly and severally liable party.

5.7 Where an entity purports to operate as an umbrella company, but does not do so, it is treated in the same way as an umbrella company. The workers supplied are treated as the purported umbrella company's employees. The purported umbrella company is the workers' secondary contributor, giving rise to a requirement to pay Class 1 primary NICs on their behalf and Class 1 secondary NICs on the purported umbrella company's own behalf, with a corresponding joint and several liability arising for specified businesses.

6. Legislative and Legal Context

How has the law changed?

6.1 Regulation 3 sets out the conditions in which joint and several liability applies.

6.2 Regulation 4 sets out which the circumstances in which businesses are relevant parties that are jointly and severally liable.

6.3 Regulation 5 treats workers supplied by purported umbrella companies as employed earners and treats purported umbrella companies as secondary contributors in respect of these workers. Regulations 3 and 4 will apply accordingly to make relevant parties jointly and severally liable.

6.4 Regulations 6 to 9 make consequential amendments to the Social Security (Categorisation of Earners) Regulations 1978 (SI 1978/1689), the Social Security (Categorisation of Earners) Regulations (Northern Ireland) 1978 (SI 1978/401), the Social Security Contributions (Intermediaries) Regulations 2000 (SI 2000/727) and the Social Security Contributions (Intermediaries) (Northern Ireland) Regulations 2000 (SI 2000/728) respectively.

Why was this approach taken to change the law?

6.5 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 The previous government consulted on this policy between June and August 2023.

7.2 The consultation made proposals with the aim of gathering responses from stakeholders about the most effective way to address issues of tax and employment rights non-compliance by umbrella companies. In an effort to reduce tax non-compliance, the government consulted on three options intended to change the incentives that exist within the temporary labour market and encourage greater due diligence by those companies that choose to use umbrella companies in their labour supply chains.

7.3 The government published a response to the consultation in March 2025. It outlined the proposed options the previous government put to stakeholders in 2023 and summarised responses received. It presented the government's position on the proposals and outlined the action the government is taking to reduce non-compliance in the umbrella company market.

7.4 The consultation was well received by many stakeholders who welcomed government action to level the playing field within the temporary labour market. The government worked with stakeholders to review and refine the legislation included in the Finance Act 2026 ahead of the new rules coming into effect in April 2026.

7.5 The consultation, alongside the government's response, can be found on GOV.UK website.[1]

[1] Consultation Outcome: Tackling non-compliance in the umbrella company market: www.gov.uk/government/consultations/tackling-non-compliance-in-the-umbrella-company-market.

8. Applicable Guidance

8.1 HMRC has published guidance which can be found on the GOV.UK website.[2]

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Impact and Information Note covering this instrument was published on 26 November 2025 and can be found on the GOV.UK website.[3]

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is that organisations that choose to engage workers through umbrella companies will need to take steps to ensure that PAYE is operated correctly on payments made on their behalf. HMRC has published guidance to support businesses.[4] This may mean that businesses face additional administrative costs however, it is dependent on what course of action a business chooses to take.

9.3 The legislation does impact small or micro businesses.

9.4 Small and micro businesses that choose to engage workers through umbrella companies will need to take steps to ensure that PAYE is operated correctly on payments made on their behalf.

9.5 The impact on the public sector is that public sector organisations that choose to engage workers through umbrella companies will need to take steps to ensure that PAYE is operated correctly on payments made on their behalf.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is through normal audit activity and regular communication with affected taxpayer groups.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument comes into force less than 21 days after it was laid, which is of particular interest to the Joint Committee on Statutory Instruments. This is necessary in order that the instrument can come into force on 6 April 2026.

11.2 The Finance Act 2026 introduces new PAYE rules for businesses that use umbrella companies from 6 April 2026. The government is committed to aligning the NICs position with the PAYE position. This instrument is required to achieve this and is

[2] PAYE rules for labour supply chains that include umbrella companies from 6 April 2026: https://www.gov.uk/guidance/paye-rules-for-labour-supply-chains-that-include-umbrella-companies-from-6-april-2026

[3] Tax Information and Impact Note Policy Paper 26 November 2025: https://www.gov.uk/government/publications/paye-changes-for-the-umbrella-company-market/umbrella-company-market-changes-to-income-tax-rules-to-tackle-non-compliance

[4] Guidance on Responsibilities for employment businesses working with umbrella companies: https://www.gov.uk/guidance/responsibilities-for-employment-businesses-working-with-umbrella-companies

dependent on the Finance Act 2026. Therefore it was necessary for that Act to be granted Royal Assent before the instrument could be laid. Due to the short period of time between Royal Assent of the Finance Act 2026 and 6 April 2026, it was not possible to comply with the 21-day rule.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").