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Guidance

Mini umbrella company fraud

Find out about mini umbrella company fraud, including checks you should complete and how to report potential fraud.

From:

HM Revenue & Customs (<https://www.gov.uk/government/organisations/hm-revenue-customs>)

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Every business which either places or uses temporary labour should be aware of the potential dangers posed to their business by mini umbrella company fraud in their supply chain. Not only can a fraudulent supply chain lead to reputational and financial damage to your business, but your workers may not receive all they're entitled to. Mini umbrella company fraud also significantly reduces tax payments to HMRC including PAYE, National Insurance and VAT.

As an end user or provider of temporary labour it is your responsibility to be clear about who pays the workers and how they are paid. This is the only way to protect your business from becoming involved in mini umbrella company fraud or other supply chain fraud.

If you are an agency worker or contractor and work through an umbrella company find out about how and what you'll be paid (<https://www.gov.uk/guidance/working-through-an-umbrella-company>).

What mini umbrella company fraud is

There is no standard mini umbrella company fraud model and arrangements are constantly evolving as organised criminals try to hide their fraudulent activities from HMRC.

These criminals create multiple limited companies and only a small number of temporary workers are employed by each one. These are set up to enable fraud.

The structuring of the mini umbrella companies is facilitated by a promoter business (sometimes also known as an outsourcing business) which may have other linked businesses to support the operation. The creation of the mini umbrella companies and the complex layers of businesses within the supply chain help to facilitate the fraud.

If you are a business that uses temporary labour, you should be aware of the potential dangers of mini umbrella company fraud in your labour supply chain.

If you do not take reasonable care a fraudulent supply chain can lead to reputational and financial damage to your business, and your workers may not receive all they are entitled to. Mini umbrella company fraud also significantly reduces tax payments to HMRC including PAYE, National Insurance and VAT.

The impact of mini umbrella company fraud

Mini umbrella company fraud creates an uneven playing field for those employment agencies and businesses who follow the rules and presents an organised crime threat to the UK Exchequer.

The fraud is primarily based around the abuse of 2 government incentives aimed at small businesses – the VAT Flat Rate Scheme and the Employment Allowance. But this type of fraud can also result in the non-payment of other taxes such as PAYE, National Insurance and VAT.

This is reducing vital funding for the public services we all rely on. Mini umbrella company fraud is not limited to specific trade sectors and can be found in supply chains whenever temporary labour is used.

For employees, who are often not aware of these arrangements, the use of this model can result in the loss of some employment rights. Workers in mini umbrella companies usually do not know who their employer is and they can be moved regularly between mini umbrella companies to help maximise profits from the fraud.

Warning signs

As mini umbrella companies are low down in the supply chain it may be challenging to spot them. You must be vigilant, especially where the employer of the worker is not the umbrella company you have a contract with.

A good starting point is to complete regular due diligence checks. Some signs to look out for:

Unusual company names

Multiple companies are often set up around the same time and given a similar or unusual name. The registered address may not seem suitable for their types of business activities.

Unrelated business activity

The business activities listed on Companies House entries will often not relate to the services provided by the workers.

Foreign national directors

Foreign nationals who have no previous experience in the UK labour supply industry, are often listed as directors. They can replace a temporary UK resident director after a short period of time.

Movement of workers

Employees may be moved frequently between different mini umbrella companies.

Short-lived businesses (also known as transient businesses)

These individual mini umbrella companies have a relatively short lifespan (often less than 18 months) before being allowed to be dissolved by Companies House as they do not meet filing obligations. New mini umbrella companies will then take their place in the supply chain.

You should notice this as you may find that you need to issue a new key information document (<https://www.gov.uk/government/publications/providing-a-key-information-document-for-agency-workers-guidance-for-employment-businesses>) to workers on a regular basis.

Information from sources such as the Companies House register might help you to spot warning signs when completing your quarterly employment intermediary reports (<https://www.gov.uk/government/publications/employment-intermediaries-reporting-requirements>).

What HMRC is doing about mini umbrella fraud

HMRC's Fraud Investigation Service is using both its civil and criminal powers to challenge those who are involved in and facilitating this type of fraud.

HMRC is working with trade bodies and other government departments to raise awareness.

HMRC has recently made a number of arrests in relation to mini umbrella company fraud. We have also taken steps to deny the right to recover input tax in cases where we have established that a business in the supply chain knew, or should have known, that there was fraud.

Input tax is the VAT added to the cost when a person or business buys goods or services that have a VAT liability.

Checks you can carry out to protect your supply chain

If your business is using or providing temporary labour it is your responsibility to:

- undertake necessary and proportionate due diligence checks
- be clear who pays your workers and how they are paid
- check the credibility of the supply chain

Completing these checks will help safeguard your business from financial, operational and reputational risks.

For more information read:

- 10 things about due diligence (<https://www.gov.uk/government/publications/use-of-labour-providers/10-things-about-due-diligence-supply-chain-assurance>)
- advice on applying supply chain due diligence (<https://www.gov.uk/government/publications/use-of-labour-providers/advice-on-applying-supply-chain-due-diligence-principles-to-assure-your-labour-supply-chains>)

Report potential fraud or tax evasion

Contact HMRC (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/report-fraud-to-hmrc>) if you have concerns about a supplier, hirer of labour or associated activities.

You can report someone if you think they're evading tax (<https://www.gov.uk/report-an-unregistered-trader-or-business>).

Get more information

Find out more about:

- Joint and several liability for unpaid VAT (VAT Notice 726) (<https://www.gov.uk/guidance/joint-and-several-liability-for-unpaid-vat-notice-726>)
- How to spot missing trader VAT fraud (<https://www.gov.uk/government/publications/vat-missing-trader-fraud>)

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