



Recruitment Agencies and PAYE Accountability

Preparing for the 2026 Compliance Shift



Helping you prosper

Contents

- 4 Executive summary
- 5 Introduction: The changing compliance landscape
- 6 Understanding the PAYE Accountability Reform
- 8 Strategic preparation: Business structures & risk mitigation
- 9 Leveraging incentives: EMI & growth share schemes
- 10 Understanding the PAYE accountability reform
- 12 Case Study
- 14 Expert commentary
- 17 Recommended next steps & checklist
- 18 Conclusion: Turning compliance into competitive advantage
- 19 Appendices



Agencies that prepare now won't just stay compliant; they'll set the standard for how the industry operates in a more accountable future.

Executive summary

From April 2026, recruitment agencies in the United Kingdom will face one of the most significant compliance shifts in recent years. For the first time, agencies will be made directly accountable for ensuring that PAYE tax obligations are met for all umbrella workers they engage.

This reform marks a decisive move by HMRC to tighten oversight of the temporary labour market, reduce tax avoidance risks, and ensure fair and transparent contributions to the public purse. While umbrella arrangements have long provided flexibility for both agencies and workers, inconsistent practices and instances of non-compliance have drawn increasing scrutiny. The new regime effectively transfers responsibility from umbrella companies to the agencies themselves, placing them at the forefront of PAYE compliance and enforcement.

For agencies, the implications are substantial. Beyond the obvious financial risks of non-compliance, which may include penalties, backdated liabilities, and legal action, the reputational impact could be equally damaging.

In a sector built on trust and client confidence, the ability to demonstrate robust compliance may soon become a key differentiator. Rather than viewing the changes solely as a regulatory burden, agencies have an opportunity to reframe them as a strategic advantage: those that prepare early and transparently will be better positioned to win clients, retain contractors, and stand apart in a competitive marketplace.

This White Paper sets out to explain the reforms in detail, explore their wider consequences, and offer practical guidance on how agencies can prepare. It considers a range of strategic responses, from reviewing company structures and assessing exit options, to leveraging incentives such as EMI and Growth Share schemes that can help retain and motivate key staff during this period of adjustment. It also examines the critical role of payroll services, weighing the benefits of building internal capability against outsourcing to specialist providers with the right safeguards in place.

Through real-world case studies and commentary from leading experts, this paper highlights not only the risks of failing to act, but also the tangible benefits of early preparation.

Agencies that take proactive steps now, such as auditing their umbrella relationships, tightening their contracts, and investing in compliance infrastructure, will find themselves on firmer ground when the deadline arrives. With just months to prepare, the clock is ticking.

Introduction: The changing compliance landscape

The UK recruitment sector has long been shaped by its ability to adapt to shifts in regulation, taxation, and labour market demand. In recent years, however, the pace and complexity of compliance reforms have accelerated.

From the introduction of the off-payroll working rules (IR35) to heightened scrutiny of umbrella company practices, agencies have found themselves navigating an increasingly intricate legal environment while continuing to meet the needs of clients and contractors alike.

Against this backdrop, the announcement that recruitment agencies will become directly accountable for the PAYE obligations of umbrella workers from April 2026 represents a turning point.

At its core, the reform seeks to close loopholes that have allowed non-compliant umbrella arrangements to persist. HMRC has consistently highlighted the risks posed by schemes designed to disguise income, underpay tax, or exploit workers through opaque deductions. By shifting responsibility from umbrella companies to the agencies that engage them, the government is making it clear that accountability will rest with those who profit from placing workers in roles, not just with the intermediaries that process their pay. This move reflects a broader strategy: to align tax enforcement more closely with commercial reality, and to ensure that every party in the supply chain plays its part in securing tax compliance.

For recruitment agencies, the implications extend far beyond the administrative burden of processing PAYE. The change fundamentally alters the balance of risk in the supply chain. Agencies that have relied

on outsourced umbrella arrangements to insulate themselves from liability will need to reconsider their operating models. They must assess whether to bring payroll in-house, establish new partnerships with compliant providers, or restructure parts of their business altogether. In addition, the reforms invite questions about contractual arrangements, due diligence, and even the long-term viability of certain business models.

Yet within this challenge lies opportunity. Agencies that take a proactive stance, investing in compliance infrastructure, training staff, and building transparent relationships with contractors, will not only reduce their exposure to HMRC penalties but also strengthen their reputations with clients and candidates. As compliance becomes a market differentiator, early movers will stand out as trusted partners in an environment where accountability and transparency are no longer optional but expected.

The purpose of this White Paper is to equip recruitment agencies with the knowledge, strategies, and tools required to prepare effectively for April 2026. It examines the legislation in detail, explores its consequences, and offers practical pathways for compliance, including structural adjustments, incentive schemes, and payroll solutions. It also draws on case studies and expert commentary to demonstrate how preparation today can safeguard against risk tomorrow. By acting now, agencies can not only survive the reform but use it to sharpen their competitive edge in a sector that rewards trust, resilience, and foresight.

Understanding the PAYE Accountability Reform

We have ascertained that, from April 2026, recruitment agencies will no longer be able to rely solely on umbrella companies to ensure that PAYE tax and National Insurance contributions are correctly calculated, reported, and paid. Instead, agencies themselves will bear ultimate responsibility for all umbrella workers they engage.

Under the current system, umbrella companies act as intermediaries between the agency and the worker, handling payroll, tax deductions, and statutory contributions. Agencies largely focus on client engagement, placing workers in roles, and invoicing. This separation of responsibilities has allowed agencies to operate with limited exposure to payroll errors or non-compliance by the umbrella provider. However, HMRC has consistently identified gaps in compliance across umbrella arrangements, ranging from misreported PAYE obligations to misleading deductions from workers' pay. By transferring accountability to recruitment agencies, the government is signalling that responsibility cannot be outsourced and that agencies must now take an active role in ensuring full compliance.

The reform applies to all umbrella workers engaged by recruitment agencies, regardless of contract type or duration. This includes temporary staff, contractors, and other contingent workers who are paid through an umbrella structure. Agencies will need to demonstrate that PAYE obligations, including income tax, National Insurance contributions, and reporting to HMRC via Real Time Information (RTI) submissions, are correctly managed for every worker on their books. Failure to do so may lead to significant consequences.

HMRC penalties can include not only backdated tax liabilities and interest on unpaid amounts, but also additional fines for negligence or failure to comply with reporting requirements. In extreme cases, directors may face personal liability if the agency has knowingly allowed non-compliance to occur.

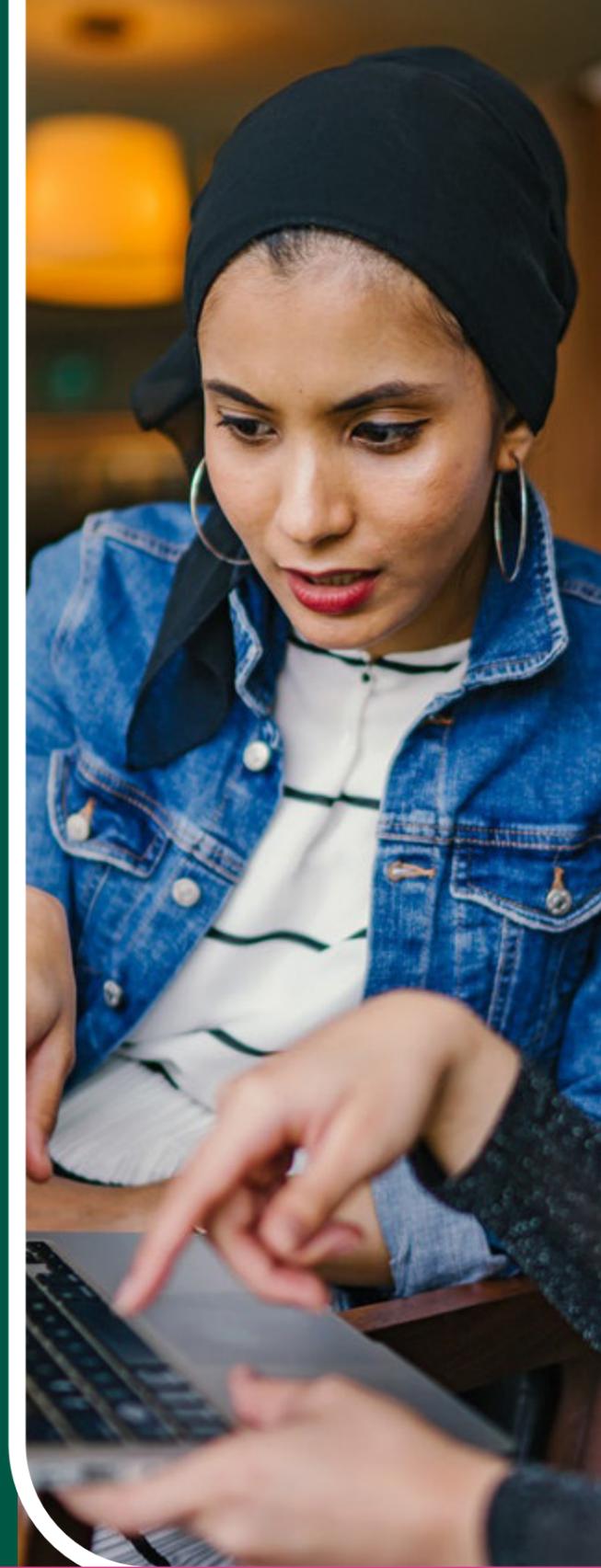
The reform also has implications for contractual arrangements. Agencies must ensure that agreements with umbrella providers clearly allocate responsibilities, include guarantees of compliance, and provide mechanisms for audit and oversight. Equally, contracts with clients and workers may need to be updated to reflect the agency's new obligations and to protect against indirect liability. Agencies that continue to operate under legacy contracts without addressing these changes risk both financial exposure and reputational damage.

While the focus is understandably on risk, the reform also presents an opportunity to strengthen operational processes. Agencies that proactively review their umbrella relationships, implement robust due diligence procedures, and invest in compliance monitoring can reduce the likelihood of errors and demonstrate accountability to clients, workers, and regulators. Options include building in-house payroll capability, partnering with specialist providers, or developing hybrid solutions that provide oversight without requiring full operational control. Whatever the approach, agencies must begin assessing current practices immediately, as structural changes and audits can take months to implement effectively.

It is also worth noting that this reform aligns with broader trends in labour market regulation. Over the past decade, HMRC has increasingly focused on transparency and compliance, with initiatives such as the off-payroll working rules (IR35) and expanded reporting requirements for temporary workers. The PAYE accountability shift can be seen as a continuation of this strategy, aiming to ensure that all parties in the supply chain share responsibility for accurate tax reporting. In practice, it encourages agencies to take a more active role in managing risk, incentivising transparency, and fostering trust with clients and contractors.

In summary, the PAYE accountability reform is far more than a procedural change. It redefines the responsibilities of recruitment agencies, placing them at the centre of compliance for all umbrella workers they engage. Agencies that fail to understand the scope, risks, and operational requirements risk financial penalties, legal exposure, and reputational damage. Conversely, those that respond strategically have the chance to not only mitigate risk but also enhance their credibility and competitiveness in a sector where compliance is becoming an increasingly valuable differentiator.

To underline the stakes of non compliance, recent enforcement activity suggests that HMRC's focus is not confined to legislative change alone. In the recruitment and umbrella sector, HMRC's Fraud Investigation Service has pursued mini umbrella fraud cases involving multiple small entities employed to exploit tax incentives and non compliant practices, resulting in prosecutions, director disqualifications, and forfeiture of assets. These investigations have also extended to joint employment and professional employment models where statutory employers fail to remit PAYE and National Insurance, leaving agencies exposed to retrospective liabilities. Such activity reinforces the message that HMRC will scrutinise labour supply chains rigorously, with significant consequences for those connected to non compliant arrangements.



Strategic preparation: Business structures & risk mitigation

With the PAYE accountability reform approaching, recruitment agencies are entering a phase where strategic foresight will determine both compliance and competitiveness. Beyond understanding the legislative requirements, agencies must examine the underlying structures and operational processes that underpin their businesses. Decisions taken now regarding company setup, contractual arrangements, and payroll oversight will have far-reaching implications, influencing not only financial exposure but also operational efficiency and market positioning.

One of the first considerations is the legal and organisational structure of the agency itself. Agencies that operate through multiple entities, holding companies, or subsidiaries may have opportunities to streamline operations, centralise compliance responsibilities, or clearly delineate accountability across different business units.

Conversely, overly complex structures can obscure responsibility and increase risk, particularly if umbrella arrangements are scattered across multiple legal entities. A careful review of company structures, including shareholding arrangements and subsidiary operations, can reveal both vulnerabilities and opportunities for simplification, which may reduce the administrative burden of PAYE compliance.

Closely linked to organisational design is the question of exit strategies and contingency planning. Agencies must anticipate scenarios where existing umbrella arrangements prove untenable under the new accountability framework. This could include situations where a provider is unable to meet compliance standards, where contractual obligations are unclear, or where risk exposure exceeds acceptable limits. By designing clear exit strategies, agencies can ensure a smooth transition to alternative arrangements without disruption to contractors or clients. In practice, this involves auditing all existing umbrella agreements, identifying dependencies, and establishing predefined processes for disengagement or replacement of providers.

Operational risk mitigation also extends to internal controls and oversight. Agencies should implement robust procedures for monitoring payroll compliance, including regular reconciliations, audits, and reporting. While some may choose to manage payroll entirely in-house, others may prefer to partner with specialist providers who can deliver compliance assurances and support. In either case, agencies must establish mechanisms to verify that all PAYE obligations are being met consistently. This oversight not only protects the business from financial penalties but also demonstrates due diligence to HMRC, clients, and contractors.

Another layer of risk management involves contractual clarity. Agencies must ensure that agreements with umbrella companies, clients, and workers explicitly allocate responsibilities, specify compliance standards, and provide remedies in the event of non-compliance. Well-drafted contracts serve both as a preventive tool and as a protective measure should issues arise. They also allow agencies to enforce accountability upstream, ensuring that partners meet the expected level of diligence and reliability.

Incentive schemes, such as EMI or Growth Share arrangements, can play a complementary role in strategic preparation. By aligning the interests of key personnel with compliance objectives, agencies can encourage proactive management and oversight. Senior managers and compliance officers who have a stake in the business's success are more likely to monitor umbrella arrangements rigorously, flag potential issues early, and champion the implementation of robust processes. Such schemes can therefore be both a motivational and a protective measure, strengthening the agency's capacity to meet its obligations effectively.



Recruitment agencies are entering a phase where strategic foresight will determine both compliance and competitiveness.

Finally, timing and prioritisation are critical. Preparing for April 2026 is not a matter of last-minute adjustments; it requires careful planning over the coming weeks. Agencies should develop a detailed roadmap, identifying key milestones such as auditing existing arrangements, renegotiating contracts, selecting payroll providers, and training staff. By sequencing these steps strategically, agencies can avoid operational bottlenecks, maintain continuity for contractors, and ensure that compliance obligations are met in a timely manner.

Taken together, these strategic considerations highlight that preparation for PAYE accountability extends well beyond simple compliance.

Leveraging incentives: EMI & growth share schemes

As recruitment agencies adapt to the upcoming accountability changes, one of the less obvious but highly valuable strategies lies in how they attract, retain, and motivate their key people.

Compliance is not simply a matter of systems and contracts; it also relies on the individuals who design, monitor, and enforce those processes day to day. Ensuring that leadership and compliance teams are engaged and invested in the long-term resilience of the business is therefore essential.

Incentive arrangements such as Enterprise Management Incentive (EMI) options and Growth Share schemes can play a central role in aligning the interests of these stakeholders with the agency's strategic goals.

The EMI scheme, a government-backed initiative, allows qualifying businesses to grant share options to employees in a highly tax-efficient manner. For recruitment agencies, this offers a powerful tool to retain senior staff and compliance specialists who are critical to steering the organisation through regulatory change. By providing these individuals with a direct stake in the company's success, agencies can foster a culture of accountability where staff are not only responsible for meeting compliance standards but also personally motivated to safeguard the business's reputation and profitability.

It requires a holistic view of the business, careful planning of structures and processes, and proactive risk management. Agencies that invest time and resources now to assess their organisational frameworks, contractual arrangements, and operational controls will not only minimise exposure to penalties but also strengthen their overall resilience. In a sector where trust and reliability are paramount, such foresight can translate directly into competitive advantage, positioning compliant agencies as preferred partners for both clients and contractors.

Growth Share schemes offer a similar alignment of interests but with greater flexibility. Instead of granting traditional equity or options, agencies can create a class of shares that delivers value only once the company surpasses a defined hurdle, such as achieving compliance milestones or meeting profitability targets in the post-2026 environment. This approach rewards key personnel for contributing to measurable outcomes without diluting ownership for existing shareholders unnecessarily. It also allows agencies to tie incentives directly to the challenges and opportunities created by the new compliance framework.

When designed thoughtfully, these schemes do more than reward individuals. They send a signal to clients, contractors, and partners that the agency is serious about embedding compliance into its culture. Agencies can present themselves not just as responsive to regulation, but as proactive businesses that incentivise the right behaviours at every level. This can translate into stronger client relationships, improved staff retention, and a clear competitive advantage at a time when many agencies will still be scrambling to meet basic requirements.

While EMI and Growth Share arrangements require careful legal and tax planning, they offer recruitment agencies an innovative means to reinforce their preparation strategy. By putting ownership, accountability, and compliance incentives in the hands of those most responsible for delivering them, agencies can build a more resilient and future-proof business model.

Understanding the PAYE accountability reform

One of the most immediate and practical questions for recruitment agencies preparing for the PAYE accountability shift is how they will deliver payroll services. From April 2026, accuracy and reliability in processing PAYE will be non-negotiable, which means agencies must decide whether to build payroll capacity in-house or outsource it to a specialist provider. Each option carries distinct advantages, challenges, and costs, and the best choice will depend on the agency's size, structure, and strategic ambitions.

For agencies considering an in-house solution, the primary benefit is control. By managing payroll directly, agencies can establish end-to-end oversight of PAYE processes, ensuring that data flows from worker engagement to HMRC reporting without reliance on a third party. This level of transparency can strengthen confidence with clients and contractors alike, who may value the assurance that all compliance obligations are handled internally. In-house payroll also provides flexibility to tailor systems to the agency's unique operating model and adapt quickly to regulatory updates. However, building this capability requires significant investment in technology, training, and staff. Smaller agencies may find that the costs of recruitment, software, and compliance monitoring outweigh the benefits of direct control.

Outsourcing payroll to a specialist provider offers a different set of advantages. By leveraging external expertise, agencies can access robust systems and compliance frameworks without bearing the full cost of development and maintenance. Many payroll providers already undergo independent audits and carry insurance protections, which can add layers of reassurance. Outsourcing also reduces the administrative burden on agency staff, freeing them to focus on client relationships and placements. The drawback is a relative loss of control: agencies must place trust in their chosen partner and maintain oversight through contractual obligations, service-

level agreements, and regular reviews. Selecting the wrong provider or failing to monitor performance could leave an agency exposed to the very risks it sought to avoid.

The "build vs. buy" decision is not always binary. Some agencies may pursue a hybrid approach, investing in internal payroll capability for their core operations while retaining specialist providers for higher-volume or more complex engagements. This can provide both resilience and flexibility, but it also requires careful management to avoid duplication or inconsistency.

Whichever route an agency chooses, the decision must be informed by rigorous due diligence. Questions of financial stability, compliance record, technological capability, and contractual protections should sit at the heart of any evaluation. Agencies should also consider scalability: will the solution still be effective as the business grows, or if volumes increase significantly in the years following the reform? By taking a forward-looking view, agencies can avoid costly transitions later.

The way payroll services are structured will have long-term implications for how agencies are perceived in the marketplace. An agency that invests in robust, transparent payroll processes positions itself as a trusted partner in an environment where compliance will define competitive advantage. Whether through building capability internally, outsourcing to experts, or blending the two, the critical factor is that agencies take control of the decision rather than leaving it to chance. With April 2026 approaching, the time to evaluate options is now, before external pressures force hasty and potentially costly choices.



Whichever route an agency chooses, the decision must be informed by rigorous due diligence, with financial stability, compliance history and scalability central to any evaluation.



Case Study

Practical examples can offer valuable insight into what effective preparation for the coming changes looks like in reality.

The following case study illustrates how a mid-sized agency approached the challenge in a proportionate, structured way, balancing risk management with operational continuity.

A mid-sized recruitment agency preparing for PAYE accountability

We worked with a UK-based recruitment agency supplying temporary workers across the logistics, manufacturing, and industrial sectors. Like many agencies operating in high-volume environments, it relied on a wide panel of umbrella providers that had developed organically over time. While this approach offered flexibility, it also created uncertainty as the April 2026 reforms approached and agencies faced increased scrutiny over the integrity of their umbrella supply chains.

The agency's primary concern was not the absence of compliance processes, but the lack of consistency and visibility across them. Different umbrella providers operated varying payroll models, offered differing levels of transparency, and provided limited evidence of ongoing compliance. This made it difficult for the agency to demonstrate that it was taking reasonable steps to manage risk, particularly in the event of HMRC enquiry. In parallel, the agency had begun to receive an increasing number of contractor queries relating to payslip clarity and deductions, further highlighting the need for change.

Rather than attempting a wholesale restructuring of its business, the agency adopted a targeted, risk-based approach. Its first step was to undertake a structured review of its umbrella supply chain, focusing on practical indicators of compliance rather than theoretical assurances.

Providers were assessed against a tailored risk framework that considered payroll transparency, alignment of reporting, and commercial practices. This enabled the agency to distinguish between low-risk, well-governed partners and those presenting elevated risk.

Using this analysis, the agency rationalised its umbrella panel to a smaller, more manageable group of providers. High-risk umbrellas were removed in a controlled manner, with clear documentation supporting each decision. At the same time, the agency redesigned its contractor onboarding process to ensure that only approved umbrellas could be selected, reducing the likelihood of future exposure through inconsistent arrangements.

To support this structural change, the agency also introduced light-touch but regular monitoring. Rather than relying on one-off reviews, it established ongoing checks designed to identify anomalies early and maintain confidence in payroll outcomes. Importantly, these measures were embedded into existing workflows, avoiding unnecessary disruption to contractors or clients.

The results were immediate and measurable. The agency significantly reduced the size of its umbrella panel while improving overall transparency and consistency. Contractor satisfaction improved as payslip information became clearer and easier to understand. Most importantly, the agency was able to evidence a clear, documented approach to managing PAYE risk, providing confidence that it was well prepared for the upcoming changes.

Lessons learned

This real-world case study highlights several important lessons for recruitment agencies navigating the path to PAYE accountability. First, effective preparation does not require perfection or radical change. Proportionate, well-documented steps can materially reduce exposure and demonstrate responsible governance. Second, visibility and control matter more than choice. A smaller panel of trusted providers is often easier to manage than a broad network with inconsistent standards. Finally, compliance should be viewed as an ongoing process rather than a one-off exercise. Agencies that embed monitoring and documentation into day-to-day operations are better placed to respond to scrutiny and maintain confidence among clients, contractors, and regulators alike.

Expert commentary

To complement the operational and compliance perspectives outlined in this paper, we invited commentary from specialists across M&A advisory, funding, and banking.

Together, these viewpoints highlight how the upcoming PAYE reforms extend beyond compliance alone, influencing valuation, cashflow, funding structures, and strategic decision-making across the recruitment sector.

M&A Perspective: Market Structure and Consolidation

Contributor: Mark Whiteside, M&A Account Manager, La Salle Corporate Finance

Expertise: Sell-side M&A advisory to recruitment and professional services businesses

La Salle Corporate Finance advises recruitment company shareholders on exits, acquisitions, and growth strategies. From an M&A standpoint, regulatory and compliance changes often act as inflection points, reshaping competitive dynamics and accelerating consolidation. Mark Whiteside shares his perspective on how the new PAYE accountability rules may influence ownership decisions and valuations across the sector.

Based on our experience advising recruitment companies from an M&A advisory perspective, any change in legislation or compliance can produce shifts in the market. The upcoming PAYE compliance responsibility, directly on recruitment agencies for umbrella workers, is no exception.

The additional operational and financial burdens now placed on recruitment agencies may cause some business owners in the sector to pause and reflect. Larger, well-established agencies will typically be better positioned to invest and implement the necessary infrastructure, whereas smaller, independent operators may find the added complexity and risk more challenging to absorb.

There is potential for increased consolidation within the sector. Stronger players may take the opportunity to acquire agencies that lack the scale or systems to adapt. Sellers who can demonstrate robust compliance processes are likely to attract larger premiums. On the other hand, those facing pressure to adapt may seek accelerated exits or partnership strategies.

Ultimately, this change is more than a compliance issue. It has the potential to be a market-defining moment that will reward well-run, compliant businesses and reshape ownership dynamics across the recruitment sector.



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Funding Perspective: Cashflow, Facilities and Lender Appetite

Contributor: Jeff Kendrick, Director, Pinnacle Funding Solutions

Expertise: Invoice finance and working capital solutions for recruitment agencies

Funding structures are closely intertwined with payroll risk in the recruitment sector. As PAYE accountability shifts, lenders are likely to scrutinise agency models more closely. Jeff Kendrick outlines how agencies should think about funding alignment, facility design, and preparation under the new regime.

The upcoming changes to PAYE accountability represent a material shift in both risk and cashflow dynamics for recruitment agencies, particularly those operating contractor desks.

As payroll liability increases, lenders will look more closely at how agencies structure their funding and manage working capital. Historically, many agencies have relied on informal buffers or short-term facilities to bridge payroll cycles. Under the new framework, that approach becomes harder to sustain as lenders place greater emphasis on visibility, control and predictability of cash movements.

Invoice finance will continue to play an important role, but the structure of those facilities matters more than ever. Agencies that can clearly demonstrate they are principal to the debt, with clean contractual relationships and robust paper trails, will find lender appetite remains strong. Those with more complex models, such as commission-only or multi-party arrangements, may face tighter terms or reduced availability unless these structures are clearly understood and documented.

The key for agencies is preparation. Reviewing funding arrangements early, stress-testing payroll scenarios and ensuring facilities are aligned to actual trading patterns can prevent unnecessary pressure as the changes take effect. In a market where compliance and cashflow are increasingly linked, proactive planning will be the difference between stability and disruption.



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Banking Perspective: Risk, Governance and Strategic Readiness

Contributor: Jonathan Tinsley, Relationship Director, Commercial Mid Market, NatWest

Expertise: Banking relationships and risk management for mid-market UK businesses

From a banking and risk perspective, the reforms introduce a fundamental shift in where liability sits within labour supply chains. Jonathan Tinsley provides a detailed overview of the regulatory changes and their implications for recruitment agencies' balance sheets, governance, and operational models.

The UK government's umbrella company reforms, set to take effect from 6 April 2026 under the Finance Bill 2025-26, introduce joint and several liability (JSL) for PAYE income tax and related National Insurance Contributions in labour supply chains.

Currently, umbrella companies handle PAYE as the employer of record. From April 2026, if an umbrella fails to remit taxes properly, HMRC can pursue the recruitment agency (with the direct client contract) jointly and severally for any shortfall — regardless of fault. Where no agency is involved, the end client bears the liability. This targets non-compliance, tax avoidance, and fraud, with HMRC expecting to recover substantial revenue (hundreds of millions annually).

For recruitment businesses, the implications are profound:

- Working capital will face pressure as agencies may need larger reserves or buffers against potential HMRC claims, delayed payments, or disputes.

- Payroll and funding dynamics could shift, with some agencies considering in-house payroll, greater use of PSCs, or renegotiated terms — increasing admin costs and potentially tightening lender scrutiny due to higher contingent risks.

- Governance and risk rise to board-level priorities, requiring enhanced internal controls and audits.

Robust due diligence becomes essential: thorough vetting of umbrellas (compliance history, accreditation, financial stability), ongoing monitoring, strong contractual protections, and full supply chain mapping. Due diligence won't eliminate liability but is critical for risk mitigation and selecting reliable partners.

These changes will no doubt change the market, favour compliant operators, and reward proactive agencies with stronger positioning, but preparation now is vital to safeguard cash flow, reputation, and competitiveness in a more regulated temporary labour sector.



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Recommended next steps & checklist

As the April 2026 PAYE reforms approach, recruitment agencies must take a structured approach to reduce exposure and demonstrate "reasonable steps" to HMRC. The following steps provide a practical roadmap to guide preparation:

Audit current arrangements

Begin with a thorough review of existing umbrella relationships, payroll processes, and contractor onboarding. Understand which providers handle PAYE, how deductions are calculated, and the level of transparency in reporting. This forms the baseline for risk assessment.

Identify exposure

Map each umbrella relationship to quantify potential PAYE liability and highlight areas of uncertainty. Consider the volume of contractors affected, historical compliance issues, and any red flags in past reporting.

Engage expert advisors

Seek guidance from specialists to ensure that processes align with both HMRC expectations and industry best practice. Early engagement avoids reactive measures and builds confidence in decision-making.

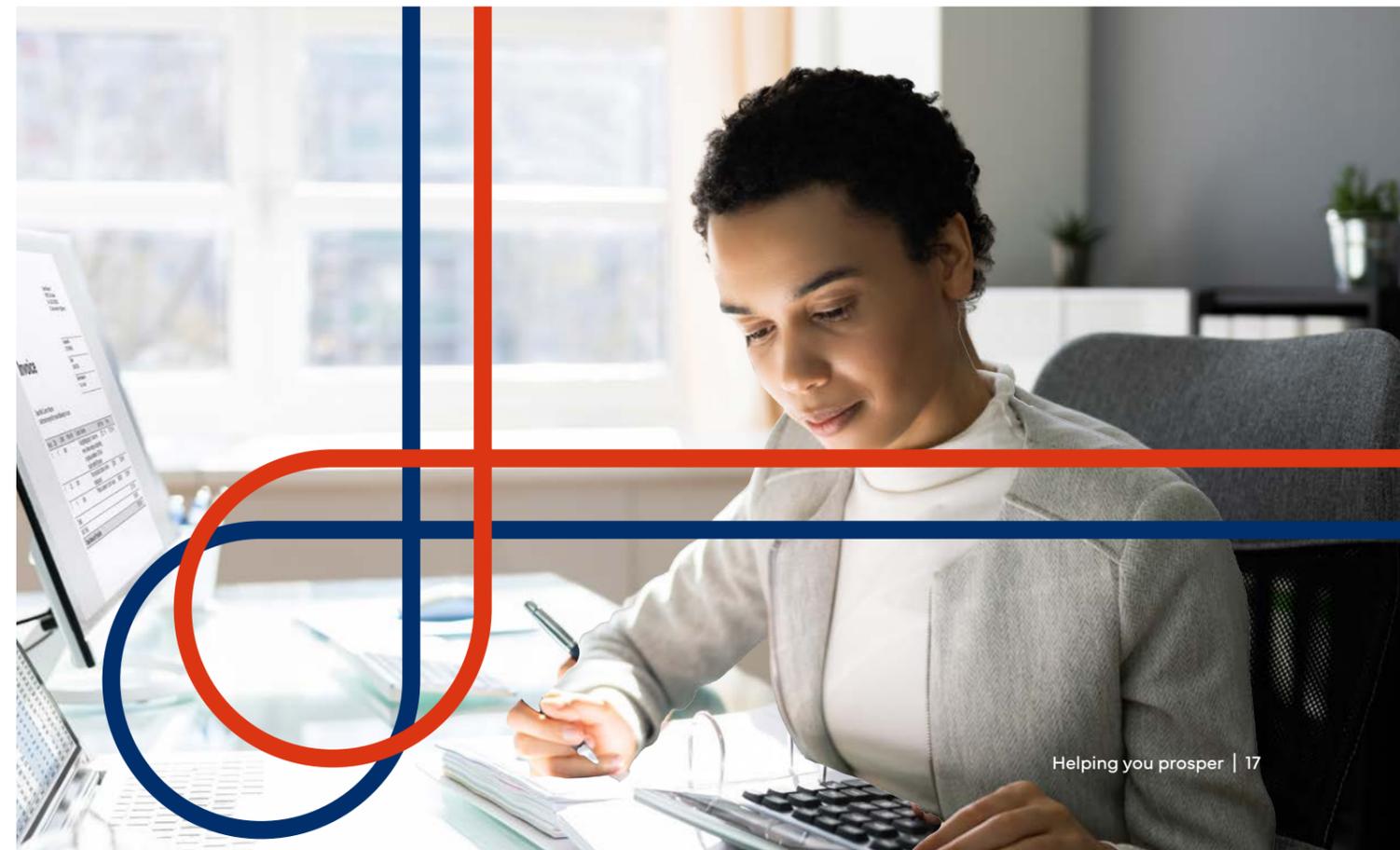
Implement structural and contractual changes

Where risks are identified, consider revising contractual arrangements, consolidating panels, or strengthening governance frameworks. Ensure that agreements clearly define responsibilities and that only compliant umbrella providers remain in use.

Establish monitoring and reporting

Develop ongoing compliance oversight through regular payroll checks, variance analysis, and exception reporting. Maintain documented evidence of all reviews, actions, and improvements to create a defensible trail of due diligence.

By following these steps, agencies can reduce exposure, improve transparency with contractors, and create a structured, repeatable framework that is resilient to future legislative changes. Proactive preparation not only mitigates risk but positions agencies as trusted partners in a more regulated temporary labour market.



Conclusion: Turning compliance into competitive advantage

The upcoming PAYE accountability reforms represent a defining moment for recruitment agencies. Those who act early to assess risk, streamline umbrella relationships, and embed robust governance will not only reduce exposure to HMRC liability but also differentiate themselves in the marketplace.

Compliance, when approached strategically, can become a source of competitive advantage. Clear processes, transparent payroll structures, and strong oversight signal to clients, contractors, and investors that an agency is reliable, professional, and forward-thinking. In a sector where trust and reputation underpin success, this is a tangible business benefit.

Ongoing vigilance is essential. Legislation and HMRC expectations will continue to evolve, and agencies must be prepared to review, adapt, and document their approach continuously. The agencies that treat compliance as a proactive, strategic priority will be best positioned to thrive, attract talent, and maintain long-term growth.

The key takeaway is clear: start now. A structured, deliberate approach to preparation will minimise risk, maximise resilience, and unlock opportunities in a more regulated environment.

Agencies that take early, structured steps will minimise risk, build confidence with clients and contractors, and position themselves to thrive in the more regulated post-April 2026 environment.



Appendices

As the April 2026 PAYE reforms approach, recruitment agencies must take a structured approach to reduce exposure and demonstrate “reasonable steps” to HMRC. The following steps provide a practical roadmap to guide preparation:

A. Glossary of Key Terms

To aid understanding, the following terms are used throughout this White Paper:

- **PAYE (Pay As You Earn):** The system through which employers deduct income tax and National Insurance Contributions from employees’ pay before it is paid.
- **EMI (Enterprise Management Incentive):** A UK tax-advantaged share option scheme designed to help companies incentivise employees.
- **Growth Shares:** Shares structured to reward growth in a company’s value, often used to incentivise management teams.
- **IR35 / Off-Payroll Working Rules:** Legislation aimed at determining employment status for tax purposes, impacting how contractors and employers account for PAYE and NIC.
- **Umbrella Company:** A company that employs contractors and handles payroll, including PAYE and NIC, on behalf of agencies or clients.

B. Timeline to April 2026

Key milestones for recruitment agencies preparing for PAYE accountability:

Date	Action
Q1 2026	Introduce ongoing monitoring processes, conduct internal audits, complete documentation for “reasonable steps.”
6 April 2026	Reforms take effect: agencies are fully accountable for PAYE compliance across umbrella supply chains.

C. Authoritative Resources

For further guidance and reference:

- HMRC PAYE Guidance: <https://www.gov.uk/pay-for-employers>
- IR35 / Off-Payroll Working: <https://www.gov.uk/guidance/ir35-find-out-if-it-applies>
- UHY Williamson Croft Article – Compliance Shake-Up for Recruitment Agencies: <https://www.williamsoncroft.co.uk/major-compliance-shake-up-for-recruitment-agencies-why-preparation-starts-now/>
- HMRC Activity in the Recruitment and Umbrella Sector – Association of Labour Providers: <https://www.labourproviders.org.uk/hmrc-activity-in-the-recruitment-and-umbrella-sector/>
- M&A Guidance – La Salle Corporate Finance: <https://www.lasallecorporate.com/>
- Invoice Finance Guidance – Pinnacle Funding Solutions: <https://pinnacle-funding.co.uk/>
- Banking & Risk Perspective – NatWest: <https://www.natwest.com/business.html>

How we can help

If you'd like advice on navigating these changes or want to discuss how they affect your business, speak to your usual UHY adviser or get in touch with us at info@uhy-williamsoncroft.com. We're here to help you every step of the journey.

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