

What changes has the Act made to the law?

Umbrella companies are payment intermediaries, typically found in the agency worker supply chain, that employ and pay workers on behalf of employment businesses (commonly referred to as “recruitment agencies”, “temp agencies”, or “temporary recruitment agencies”) and end hirers. The Employment Rights Act 2025 amends the definition of “employment business” within the Employment Agencies Act (EAA) 1973. The definition will be expanded to include the actions commonly undertaken by umbrella companies – specifically the handling of a worker’s pay. In doing so, it will bring umbrella companies within scope of the rules which govern the temporary labour market. Once the definition comes into force, umbrella companies will be regulated by the Fair Work Agency (FWA), as is the case for other parties in the agency work supply chain.

The Government’s aim is to ensure that people who work through an umbrella company have comparable protections to their counterparts who work directly through an employment business (as currently defined).

How is this different from the previous legislation?

The EAA 1973 and the Conduct of Employment Agencies and Employment Businesses Regulations (the Conduct Regulations) 2003 set out the rules which employment agencies and employment businesses must follow when engaging workers. This legislation is currently enforced by the Employment Agency Standards Inspectorate (and will in due course be enforced by the FWA).

Although umbrella companies often employ individuals on behalf of employment businesses and provide payroll functions, they are not currently subject to the Conduct Regulations (unless their other activities bring them within the scope of the existing definition of an employment agency or employment business). This means that they generally do not have to follow the same rules as other parties in the agency work supply chain, even where the worker being paid and employed by the umbrella company is an agency worker. It also means that generally they do not fall within the remit of state enforcement, and the Employment Agency Standards Inspectorate cannot take action where an agency worker’s complaint is against an umbrella company.

When will these changes come into force?

The regulation of umbrella companies under the Conduct Regulations is expected to take effect in 2027. Both the new definition of “employment business” and amendments to the Conduct Regulations will come into force at the same time. This will follow a period of consultation, development of secondary legislation, and adequate preparation time for hirers, employment businesses, umbrella companies, and enforcement bodies. This reflects the Government’s phased approach to implementation, ensuring that businesses and workers have clarity and time to adapt to the new framework.

What further detail will be consulted on and when?

The government will consult on amending the Conduct Regulations to ensure that they apply appropriately to the particular business activities of umbrella companies. The consultation will seek views on which of the existing regulations should apply to umbrella companies and how, and

determine the most effective way to design the new regulatory system. It will seek to support the development of a framework that is streamlined and targeted in order to protect agency workers against real-world harms, whilst supporting the temporary recruitment sector to thrive. The new regulations will then apply to the expanded definition of employment businesses.

This consultation will launch in due course.

Key Stats

Recent estimates from HMRC¹ and the Freelancer and Contractor Services Association² suggest that there are around 700,000 individuals currently working through around 500 umbrella companies. Whilst many of these workers will be engaged via an agency, this is not exclusively the case, with the TUC estimating³ that 325,000 “freelancers” use umbrella companies.

The government is aware that the umbrella company market is not working for too many people. For example, a survey from The Association of Independent Professionals and the Self-Employed (IPSE)⁴ found that 72% of respondents felt a key disadvantage of working through an umbrella company was not being entitled to the same full employment benefits as an employee. 80% of respondents reported that they had to cover Employer’s National Insurance and Apprenticeship Levy through reduced day rates.

IPSE also reported that 69% of self-employed workers were forced to use an umbrella company due to changes in IR35 (off-payroll working rules), and 70% reported losing independence and control over their work. This is supported by a survey by Contractor Calculator⁵, which found that 80% of respondents were forced into umbrella company contracts for roles which would have been considered inside IR35 if they had worked through a PSC. In IPSE’s survey, only 8% of respondents reported that they made the decision to operate through an umbrella company.

Common questions

What rules will umbrella companies have to follow in future?

- In future, umbrella companies will be subject to the Conduct of Employment Agencies and Employment Businesses Regulations 2003.
- However the government recognises that, in their current form, these regulations may not apply effectively to the activities that umbrella companies undertake.
- That is why the government will consult on amending these regulations to ensure they address the main harms faced by workers (for example, lack of pay transparency), without creating undue burden on businesses who operate in this sector.
- The Government has not yet made any specific decisions on the detail of amendments to these regulations.

¹ HMRC, 2024, Tackling non-compliance in the umbrella company market, available at: [Tackling non-compliance in the umbrella company market - GOV.UK](#)

² FCSA, 2023, Response to HMT call for evidence on umbrella companies, available at: HM Treasury Call for Evidence on the Umbrella Company Market response from Freelancer and Contractor Services Association LTD (FCSA)

³ TUC, 2023, Consultation on tackling non-compliance in the umbrella company market, available at: <https://www.tuc.org.uk/sites/default/files/2023-09/Tackling-non-compliance-in-the-umbrella%20-company-market-Aug-23-TUC-response.pdf>

⁴ IPSE, no date, Umbrella Company Market Attitudes and Concerns, Available at: <https://www.ipse.co.uk/campaigns/ir35/umbrella-company-market-attitudes-and-concerns> (Accessed: 15 November 2024).

⁵ Contractor calculator, 2023, Non-compliance in the umbrella industry, available at: https://www.contractorcalculator.co.uk/survey_unveils_worrying_noncompliance_umbrella_ind_568310_news.aspx

Is this ultimately going to make it more expensive for hirers to engage people through employment agencies?

- The Government does not believe that regulating umbrella companies will be unduly costly for businesses.
- There is benefit for employment businesses, and ultimately for their clients, in dealing with the non-compliant practices that would otherwise undercut competitors. This is why the recruitment sector called for the regulation of umbrella companies during the last administration.
- In conjunction with changes announced in the 2024 Autumn Budget, businesses will also benefit through reducing the risk of incorrect tax classification, thus avoiding potential wrongdoing.
- The benefits to workers include getting the right pay, transparency of employment rights and knowing who is responsible for providing them.

How do these changes interact with the tax changes coming into force in April 2026?

- These changes are separate to the changes announced at Budget 2024, which from April 2026 will make recruitment agencies responsible for accounting for Pay As You Earn (PAYE) and Class 1 National Insurance (NIC) on payments made to workers that are supplied via umbrella companies.
- The Department for Business and Trade consulted jointly with HM Treasury and HMRC under the previous Government in 2023, as non-compliance in the umbrella sector is a multi-faceted problem, affecting both employment rights and taxation.
- Where the Budget announcement seeks to ensure tax is paid correctly, this measure complements it by ensuring those who work through umbrella companies receive comparable protections to those taken on directly by an employment business or recruitment agency.