Autumn Budget 2024 – Potential impact on umbrellas, contractors and PSC's

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Big changes ahead for contractors and recruitment agencies:

From 2025-2026, the Employer NICs rate will rise to **15%**, and the **£4,100 reduction in the secondary threshold** means umbrella company contractors could see their take-home pay drop—by **over £1,000** a year in some cases—unless assignment rates are adjusted to compensate.

But that's not all. Starting **April 6, 2026**, recruitment agencies will take on new responsibilities. Under the government's latest reforms, agencies will be legally required to deduct PAYE from payments made to contractors employed through umbrella companies.

The driving force behind these changes? A government push to tackle PAYE and NI fraud in the umbrella company market. With these shifts on the horizon, it's crucial for contractors and agencies to stay informed and prepared.

Why do agencies use umbrella companies and what's the likely impact from 2026?

Currently agencies use umbrella companies to cut administrative costs as much as avoiding statutory employment costs and employment responsibilities, as well as contractors choosing this engagement model for continuity of employment and other benefits.

But rather than paying one invoice to one umbrella company which may cover hundreds of contractors, from April 6th 2026, agencies will have to process each PAYE payment separately, based on the current wording of the framework agreement, "Umbrella companies will no longer be legally responsible for operating PAYE on payments to the workers that they employ".

Agencies operating PAYE will withhold income tax and NICs before making payments to the umbrella company employing the worker, or any other intermediary between them and the umbrella company, remitting these sums to HMRC and preventing umbrella companies from failing to pass sums that should be withheld from workers' pay to HMRC. Agencies will also be responsible for the payment of employer NICs." and then pay each worker's net pay to the umbrella company — which will then have to forward the payment on to workers.

Unless there are any changes to the framework it is likely that making agencies the deemed PAYE employer of umbrella contractors will drastically reduce the use of umbrella companies, potentially leading to a significant reduction in their engagement.

"Umbrella companies will no longer be legally responsible for operating PAYE on payments to the workers that they employ"

This measure will not prevent businesses from continuing to use umbrella companies or other payment intermediaries to operate payroll on their behalf as they do now. This measure will ensure that while businesses can continue to do this, they will no longer be able to outsource the underlying PAYE obligation and will be ultimately responsible if the umbrella company operating payroll on their behalf fails to do so correctly.

The government anticipates that businesses that continue to outsource payroll operation to umbrella companies will take steps to ensure that these obligations will be correctly met on their behalf. This could include undertaking due diligence checks or putting in place legal indemnities

How will agencies likely change?

It is likely many ageancies will move contractors to their own agency payroll if they operate one or will run a much tighter approved supplier list. We saw some agencies stop paying limited company contractors when the IR35 rules changed a few years back, when agencies were required to deduct PAYE at source — in the same way as the incoming requirement.

The administration of such a process was not seen to be viable back then, especially when umbrella companies provided an alternative solution.

Another factor to consider is that, currently, umbrella companies deduct their fee from the assignment rate before basic pay is calculated. But from April 6th 2026, the margin will have to be deducted from workers' net pay — and such a deduction could breach the rules on unlawful deductions from wages too, unless each contractor agrees in writing to pay the umbrella company fees from their net pay.

IR35 – Limited company – Client review

It is also worth noting that contracts which fall outside IR35 present the opportunity for contractors to work via their own limited companies, thereby escaping the soon-to-be inflated employment tax costs associated with umbrella companies.

To end-users and agencies, we would therefore advocate the removal of blanket bans on PSCs or blanket inside IR35 assessments on limited company workers and endorse a broader approach to compliant IR35 assessments.

The new policy effected from 6th April 2024 looked to prevent double taxation in cases where HMRC disagrees with an outside IR35 decision. According to the previous regulations, if HMRC contested a client's outside IR35 status determination, the deemed employer was subsequently responsible for settling any additional NICs and income tax owed due to the dispute.

Any taxes already paid by the contractor's limited company were not considered, which is what led to double taxation.

This new measure gave HMRC the power to offset the amounts of tax and NI contributions already made by the contractor and their intermediary. When calculating the amount to be offset, there are several types of tax and NICs expected to be included:

- Corporation tax paid by the contractor's company on income from the assignment in question.
- Tax paid by an individual on company dividends generated by income from the assignment.
- Income tax and employees' NICs on a salary paid from the contractor's company, on income generated by the assignment in question
- Any Class 2 and Class 4 NICs paid on income from the assignment

The impact this new policy has is that tax liabilities will be more fairly shared through the supply chain. What this means is that clients, or other deemed employers, will no longer bear an unfair tax burden in cases where the determination is challenged. This is expected to alleviate somewhat the concerns surrounding the engagement of PSC workers.

Navigating the road ahead

The Autumn Budget 2024 outlines significant changes for contractors, umbrella companies, and recruitment agencies. With rising Employer NICs, new PAYE responsibilities, and shifting dynamics around umbrella companies, these reforms will undoubtedly reshape the contractor landscape.

For agencies, the question remains: how will they adapt to their new responsibilities? Will we see a resurgence in the use of limited companies as contractors seek alternative engagement models, or will agencies shift to managing contractors through internal payroll systems?

For contractors, navigating these changes will require careful planning. Will umbrella companies remain a viable option, or will working through a PSC become the more attractive route? How will end-clients adjust their policies on IR35 to balance compliance and flexibility?

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The next few years will demand proactive decision-making from all parties in the supply chain. Staying informed, reviewing compliance strategies, and fostering transparent communication will be critical.

As the sector evolves, businesses that embrace these challenges with preparation and adaptability will be best positioned to thrive in this new landscape.