

# Call for Evidence: umbrella company market

February 2022

## About IPSE

The Association of Independent Professionals and the Self Employed (IPSE) represents the estimated 4.3 million individuals working for themselves in the UK. Often referred to as freelancers, contractors, consultants and nano-businesses, independent professionals are highly skilled specialists supplying their expertise on a flexible basis to a variety of businesses – from large companies to SMEs.

IPSE has c.11,000 members, the majority of which work through their own limited companies. IPSE also represents sole traders and freelancers who operate in partnerships or via ‘umbrella’ structures. It therefore represents the very smallest enterprises in the UK.

Research has shown the self-employed allow businesses to promote innovation, maximise performance across peaks and troughs in demand, and create jobs by increasing the level of innovation and efficiency in the economy.

**IPSE is grateful for the opportunity to respond to the government’s call for evidence on the umbrella company market.**

## Overview of IPSE’s position

IPSE firmly supports the Government’s commitment to regulate the umbrella company market and believes this should be a priority for the proposed Single Enforcement Body (SEB) once it is established.

Since the implementation of the 2017 and 2021 off payroll working reforms (herein referred to as ‘IR35’), the number of freelancers providing their services through an umbrella company has increased significantly. In fact, IPSE research has revealed that 34 per cent of freelancers now operate through an umbrella company, which is considerably higher than anticipated prior to the reforms (19% expected to work via an umbrella company).<sup>1</sup> Despite the many reputable umbrella companies in the sector, unscrupulous operators and fraudulent companies continue to pose a threat to freelancers by engaging in tax and employment rights non-compliance, whilst undermining the offers of compliant umbrella companies.

Overall, we are concerned that as a result of private sector business’ compliance fears over IR35, too many self-employed people are finding themselves with no alternative but to enter umbrella arrangements if they wish to continue operating. Transparency concerns and significant reductions in freelancers’ earnings when working through an umbrella company compounds the frustrations felt by the self-employed when required to work in this way.

This response is based on the results of an online survey conducted by IPSE between Monday 17 January and 8 February 2022. The respondents were a sample of 584 freelancers working across a range of occupations in the top three highly skilled Standard Occupational Categories (SOC1-3). A total of 67 per cent of the sample were currently operating through an umbrella company whilst 28 per cent had previously operated via an umbrella company.<sup>2</sup>

Comments from responses to qualitative questions in the survey have also been included in this response where they are relevant to the policy discussions outlined below.

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1 IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

2 IPSE, The Umbrella company market: Assessing the attitudes and concerns of umbrella company workers, 2022 (unpublished)

## Role of IR35 reforms

The Government's commitment to regulate the umbrella company sector is welcome, but is also long overdue; regulation should have been in place before the IR35 reforms were implemented.

IR35 has brought enormous disruption to the UK's flexible labour market. Many self-employed people must now work through umbrella companies to continue earning an income, but without proper regulation of the sector to ensure transparency and a fair deal for those forced inside IR35, the disruption will be amplified, pushing freelancers out of the market and making skilled, flexible skillsets more difficult for British businesses to utilise.

We already know that over a third of contractors (35%) have left self-employment since the change to IR35 and of those who remain, one in three contractors (36%) are now working in engagements that are deemed inside IR35.<sup>1</sup>

Despite the importance of regulation in the sector, we do not believe it will fully alleviate the difficulties that today's umbrella market causes for the self-employed; and whilst we acknowledge that IR35 is not within the scope of this call for evidence, our evidence suggests that it underpins much of the perceived unfairness reported by many of our members when operating within the umbrella market.

Blanket 'inside IR35' determinations by clients, and the use of the Check Employment Status for Tax (CEST) tool, which has been subject to significant criticism, mean that swathes of engagements are being deemed to be inside IR35, when they could, and possibly should, be considered outside.

IPSE's research into the actions of clients when determining IR35 status has found that one in five clients (20%) have implemented blanket assessments and determined that all their contractor engagements are within IR35.<sup>2</sup>

The resulting situation is one where the self-employed can be deemed to have an employment status they do not agree with and left with little choice but to enter an employment arrangement that does not align with their status as an independent business.

In fact, when asked about why they operate through an umbrella company, our latest research reveals that the majority of freelancers (69%) operate in this way as their client insisted they operate via an umbrella company as a result of the IR35 changes in the private sector. A further 31 per cent reported that an agency insisted they operate in this way, 14 per cent stated that their engagement was advertised as 'umbrella only' whereas just eight per cent made the decision themselves to operate through an umbrella. When asked about their current engagement through an umbrella company, only one in five (21%) believed that the role was inside IR35.

Without addressing the complexity of the patchwork of legislation and court rulings that constitutes IR35, self-employed workers will continue to be pushed into employment relationships they do not recognise – a situation that has motivated some to retire early, seek work outside the UK or cease working altogether.

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1 IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

2 IPSE, The client's perspective: Assessing the impact of IR35 reforms in the private sector, 2022 (unpublished)

# Survey responses

"The experience has been good so far. I am just deeply upset about freezing my company and all the hassle that involves after working for 40-45 years LEGALLY as a limited company. I am disappointed that although the government says it encourages self-employment they are killing free enterprise off with IR35. Also it costs the companies that use my services a huge amount of money to regulate this. my take home pay is the same hourly rate as I was earning 35 years ago."

"I'm effectively being forced to work this way against my will due to my Client's lack of understanding of IR35!"

"Quite often they [umbrella companies] are "a necessary evil" as a consequence of IR35 regulation and clients wishing to protect themselves across the board rather than judging each case in its merits."

"My umbrella company has done a great job. My main gripe is being forced to operate through them because the client does not want to engage with IR35 and have engaged all contractors through an umbrella company."

"Lousy administration. Fed up of working through an umbrella. Cannot get another full time job at my age. Will regrettably retire when this contract finishes."

"All financial service companies have blanket banned using contractors through Ltd companies, despite what HMRC say. It's incredibly unfair to be taxed like an employee and also pay employers taxes while not being entitled to the same benefits as employees. Being a so called 'employee' of an umbrella is a joke."

"I am very happy with the service I get from [...], my chosen umbrella company. However, IR35 no longer makes it financially worthwhile for me to continue to work anymore than 2 days a week with most of my salary being sacrificed to the mandatory... pension provider."

"I hate it but had no choice as I could not get any outside IR35 roles and was broke. I have had no assessment, just blanket umbrella company. I am being taxed twice. I have my tax deducted then am taxed again by paying employers NI, apprenticeship levy and £20 a week for the umbrella company to do my payroll whilst having zero employment rights. Its daylight robbery and should be scrapped. HMT talk about fairness but how can this be fair? What other employees pay their employers NI, apprenticeship levy and their payroll dept to calculate their take home pay? NONE! I have never felt so degraded and ripped off by a government dept in my life. I am actively looking for an assignment outside IR35 and will never work through an umbrella company again..."

## Tax Non-Compliance

IPSE is concerned that some contractors are unwittingly being placed at risk of tax non-compliance by the activities of unscrupulous umbrella companies. We are pleased that this issue is being prioritised in work to regulate the sector and we would encourage government to adopt an approach of taking strong action against promoters of these schemes.

When asked about how concerned they are that their current umbrella company could be engaged in tax non-compliance, over half of freelancers (53%) surveyed by IPSE reported that they were either not very concerned or not at all concerned. However, 15 per cent of freelancers reported that they were either fairly concerned or very concerned by tax non-compliance from their umbrella company.

In qualitative responses, some freelancers reported that they noticed some umbrella companies to recently become more “aggressive” in their advertising, some of which included offers of higher net pay, at rates which would be implausible for a compliant umbrella company to provide.

“They advertise more aggressively.”

“I keep getting contacted by umbrella companies to offer their services. Some offer less than good compliance against HMRC expectations”

“Some offering schemes that are very obviously illegal schemes”

## Nature of the Employment Relationship

As a result of the IR35 reforms, it is now common for clients to include umbrella companies within their supply chain when seeking a contractor – with some contracts advertised as ‘umbrella only’. Contractors then provide a service as an employee of the umbrella company and are taxed accordingly. This would seem to satisfy the conditions of IR35 rules; but it is notable that unlike a conventional employment arrangement, the umbrella company is very unlikely to have a direct, ongoing relationship with the worker, or any particular knowledge of the worker’s activities during an assignment, or any particular investment in the outcome of a contractor’s work. Ultimately, it is the contractor who bears the reputational implications – be they positive or negative – of their work, not the umbrella company.

It is unclear to us why, if an engagement is deemed to be inside IR35, it is not more beneficial for the contractor to become an employee of the client on a fixed term basis.

“They will only pay me at the same cadence as they get paid by the client. This seems to offer no benefit to me – i.e. they take no risk, yet take a management charge for doing very little.”

“I still hold all the risk. I am still responsible in investing in my own training, certification and membership of professional bodies. I still get treated as a contractor in the workplace (no parking, employee perks etc).”

**We believe government should consider the wider public policy impacts of the increase in employment where a genuine employment relationship is absent.** For instance, on training and skills; employers typically invest in the development of their employees, whether this be through on-the-job training or support to study for formal qualifications. The self-employed, too, do this by taking money from their business to reinvest in their own skills; in both instances, the worker benefits from new skills which can attract higher earnings, whilst businesses and clients reap the rewards of increased productivity.

Yet an umbrella company, which lacks a genuine employment relationship with their IR35-caught contractor, has little responsibility or incentive to make a similar investment into their employees. The employee can little afford to invest in their own training, as a significant proportion of their income is now diverted to umbrella company fees, and often the cost of their employer's National Insurance obligations and, somewhat ironically, the Apprenticeship Levy. For those affected, this situation is clearly not conducive to producing and sustaining a high skill, high wage economy.

"I see umbrella companies as simply glorified payroll companies used by agencies/consultants who do not want to administer such schemes themselves. It adds another useless layer and complexity to the employment chain. My chain is Umbrella Co > Consultancy > End Client. I am unclear who my employer is here, the Umbrella co or the consultancy. I suspect the umbrella company, but I am expected to attend compulsory training at the Consultancy so clearly there is overlap here!"

"Due to employment laws, umbrella companies have to include many terms in the employment contract which are completely inappropriate for self-employed workers, such as holiday pay, minimum wage clauses, obligations on the worker between assignments etc. Hence the worker and umbrella company both have to pretend that the worker is an employee, when that's not the intention of either party. There needs to be a separate set of rules for workers using umbrella companies. Ideally this would also include an obligation to contribute to the worker's pension of choice."

"I am an employee in name only. I get none of the benefits of being an employee. The day rate that I negotiating the end client gets paid to the umbrella and then they take away their NI contribution, apprenticeship levy and a 'fee'..."

**We would be interested in the Government's view on the growth in this style of employment relationship, particularly since the IR35 reforms, and whether this is something government broadly supports.**

## Transparency & Choice

It is common for end clients to present contractors with a limited number of preferred umbrella companies to use for an engagement. Previous IPSE research found that this is the case for almost two thirds of freelancers (63%) operating through an umbrella company, reporting that they had some level of choice but were given a limited range of umbrella companies to choose from.<sup>1</sup>

Many contractors suspect that the restriction of choice over their umbrella company is being driven by commercial arrangements between clients, agencies and umbrellas. If commercial arrangements are in place, then the nature of these arrangements are generally not being disclosed to freelancers, in our experience.

The lack of transparency and the limited choice freelancers are often given over their own employment arrangements should be a priority for regulation.

**Clients, agencies and umbrellas should be required to disclose the nature of their commercial arrangements, particularly when these relate to decisions a freelancer is being encouraged to make that could benefit other parties in the supply chain (in this instance, to work with a preferred payroll provider).**

“Agents “push” certain umbrella companies, because they have a deal with them. Obviously FCSA umbrellas are a safe bet, but we should be free to choose within FCSA compliant umbrellas”

Most concerning of all is that five per cent of contractors surveyed by IPSE in 2021 were allocated an umbrella without the ability to even choose from a limited list of options.<sup>2</sup> In a fair system, it would not be the case that a freelancer, after being forced onto a payroll by their client’s IR35 determination, is then not given some level of choice over who they will effectively become employed by.

Regulation should ensure that when contractors are introduced to preferred payroll providers by a client, they should have more than one option available to them. We believe this could also inspire greater competition within the umbrella market to attract and retain contractors – for instance, through changes to their employment offering to prospective employees (as is the case in the labour market generally).

This could help to improve the currently low levels of satisfaction with working through an umbrella company felt by those we surveyed – with 74 per cent reporting that they were either somewhat or very dissatisfied about working through an umbrella company.

## Employer’s National Insurance and Apprenticeship Levy

The goal of IR35 is to tackle disguised employment and prevent the avoidance of employment taxes through the use of an intermediary. By implication, a contractor caught by IR35 is required to pay employee taxes on their earnings from an engagement, including income tax and employee’s national insurance. However, many freelancers are also covering the cost of their umbrella company’s employment taxes too.

Four in five freelancers (80%) surveyed by IPSE stated that they are covering the liability of Employer’s National Insurance and the Apprenticeship Levy through a reduction in their day rate.

<sup>1</sup> IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

<sup>2</sup> IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

This actually represents a small increase on previous IPSE research conducted between July and August 2021, which found that 72 per cent of freelancers operating via an umbrella were covering this liability through a reduction in their day rate.<sup>1</sup> This is among the strongest grievances freelancers hold with the current system, with 80 per cent identifying the deduction of employment taxes from their day rate as a disadvantage of working through an umbrella company.

There are no equivalent examples in the labour market we can think of where an employee is required to cover the ongoing cost of their own employment in this way.

“It is a sham and a total invention to sit in the middle and shuffle money. Deducting employers NI from my take home pay should surely be illegal.”

“Asking employees (me) to pay an employers’ liability (NIC) is strictly illegal so why don’t HMRC take action about this? Also, loss of genuine business expenses at a temporary place of work in line with legislation has still not been approved by umbrella company. Why do I have to pay an Apprenticeship Levy Its ridiculous No other normal employees have to pay this.”

Economists have debated whether Employer’s NI is paid de facto by employees through downward suppression on wages. It is nonetheless apparent to the majority of freelancers we surveyed that this cost is withheld from their day rate, as well as the Apprenticeship Levy, a tax which is designed to be paid by the largest employers – not individual employees.

These practices are among the largest contributors to the erosion of freelancers’ earnings when their engagement is determined to be inside IR35 – four out of five (80%) have seen a drop in their quarterly earnings and by an average reduction of 30 per cent compared to pre-reform<sup>2</sup> – and are likely responsible for discouraging freelancers from contracting in the UK, many of whom have instead chosen to retire early, enter permanent employment or seek contracts abroad.

“The umbrella actually confirmed they were the employer in written communication but still evaded the Employers NI and took it from my pay. The end client organisation bullishly forced us into umbrella and took the line to not give a rate change furthermore still saw us as contractors and not “employees”. They said we still pay you by the day and the rest is just your tax status, and this is a National Tier 1 rail contractor on HS2.”

“It is wrong that we have to pay both employee AND employer NI. Surely we cannot be both an employee and an employer at the same time? The problem could be easily solved by requiring agencies to only advertise the rate AFTER employer NI and apprentice levy have been deducted. However the rate is always advertised before these costs are removed.”

1 IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

2 IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021



**In its approach to regulating the umbrella market, government should consider how it can ensure that employers' liabilities are genuinely covered by the intended party – either by the umbrella company (as the employer) or the client (as the engager).**

### **Holiday Pay**

Compliant umbrella companies typically provide holiday pay either through an accrual rate, which is paid to the contractor when they take time off work (or when they leave the umbrella company), or it can be 'rolled up' into their regular earnings.

However, there are some unethical and illegal methods reportedly used to withhold holiday pay from contractors; these include not providing the contractor with due notice that unclaimed holiday pay is about to expire, maintaining restrictive policies for claiming holiday pay, and clawing back all holiday pay at the end of an assignment. We believe this is an area where greater transparency is also needed.

Among those we surveyed, there was no clear consensus for how contractors would prefer their holiday pay to be provided. However, when asked if they understood how their holiday pay is currently calculated and administered when operating through an umbrella company, 40 per cent of freelancers reported that they did not understand, whilst just over half (53%) stated that they understood their current holiday pay arrangements. This suggests that there is a need for greater monitoring and enforcement of the requirement for umbrella employers to clearly explain how holiday pay is administered, the rate at which it is paid, and explicitly set out the opportunities available to contractors to claim their entitlements.

“Working through an umbrella is frustrating as the relevant deductions aren't always transparent (e.g holiday pay) on the payslip. Also, the initial sales pitch was misleading – at the very outset [umbrella] told me they contributed to my pension. Which is disingenuous as it all comes out of my daily rate so I pay both employer and employee pension contributions. I'd say... are one of the better umbrellas but there still needs to be more transparency.”

**Government should consider how it can ensure that those working for an umbrella company understand their payslips and holiday pay arrangements, and ensure that they are given appropriate notification of how to claim any unclaimed holiday pay.**

The lack of transparency around holiday pay in some parts of the umbrella market is symptomatic of a broader lack of transparency over the deductions made from freelancers' earnings that can make payslips difficult to interpret. Some members we have spoken to have questioned the practice of receiving their net pay through a combination of 'basic pay' (typically at minimum wage) and a 'bonus', which accounts for the remainder of their net pay. Others have highlighted issues over automatic enrolment into employer pension schemes, with time delays between pension deduction and payment to the pot, as well as one suggesting that their employer's contribution to their work-place pension was taken out of their day rate.

“You lose all control and visibility of your tax affairs. You just have to trust the umbrella you have been forced to work through. They change the amount they pay you every month without any clear explanations. You have no ability or power to dispute things or refuse them permission to make any deductions. You have no rights and the end client are not interested in getting involved. You can unknowingly and unwittingly be committing tax fraud. Your only option is to walk away and get another job that is not through an umbrella.”

“Not informed of double national insurance, basic pay was increased and sold as benefit but came out with less. Total scam”

“...As a mechanism it [umbrella company] worked reasonably well for most of the time. The inflexibility came when I chose to diversify and run two different unrelated contracts concurrently. Although the Umbrella was in theory my ‘employer’ I found myself in the ridiculous situation of getting two payslips each week, and my salary sacrifice restricted to the smaller contract, reducing the amount that I had been paying to my pension. It was ridiculous. I asked them why I was getting two payslips – it was because I had two contracts...”

## Data Protection

Umbrella companies appear to have become a target for cyber-criminals in recent months, with three cyber-attacks on major umbrella companies reported since September 2021. This has resulted in missed payments and stress for thousands of contractors. With an increase in the number of contractors on umbrella company payrolls as a result of IR35, payroll providers are now a more valuable target for cyber-crime and contractors’ earnings and personal data are now at risk in a way they may not have been before.

“Considering it’s a self-regulated industry I’m extremely uncomfortable sharing my personal data...”

**Whether the recent spate of cyber-attacks against umbrella companies proves to be a short-term threat to umbrella workers, or the beginning of a more consistent trend – we believe government should consider how it can ensure freelancers’ incomes are better protected when working inside IR35.**

It is important to recognise that umbrella companies impacted by cyber-attacks are themselves victims of crime. However, this does not detract from an employer’s responsibility to provide timely and useful information about the impact of a cyber-attack on their employees’ data and earnings when one occurs; from engagement with IPSE members affected by these incidents, we have heard that this is not happening in all cases.

“Recent malicious attack on mine and other umbrella companies. The communication has been terrible, I have not been paid on time or paid correctly and I’m not convinced my personal data hasn’t been compromised.”

# IPSE Survey Results: Responding to the Call for Evidence questions about working through umbrella companies

## **Question 21: Approximately, what percentage of your annual income comes from roles performed while employed through an umbrella company?**

Respondents had an average of 85 per cent of their annual income coming from roles performing while operating through an umbrella company, with almost half (47%) reporting that 100 per cent of their annual income comes from roles while employed through an umbrella company. Just eight per cent indicated that roles performed via an umbrella accounted for less than 50 per cent of their annual income.

## **Question 24: Why do you work for/through an umbrella company?**

The majority of freelancers (69%) reported that they operate in this way as their client insisted they operate via an umbrella company as a result of the IR35 changes in the private sector. A further 31 per cent reported that an agency insisted they operate in this way, 14 per cent stated that their engagement was advertised as 'umbrella only' whereas just eight per cent made the decision themselves to operate through an umbrella.

## **Question 27: Are you issued with terms or a contract by the umbrella company?**

88 per cent of freelancers reported that they were provided with terms or a contract by their current or last umbrella company, with just six per cent reporting that they had not and four per cent unsure.

## **Question 28: Do you receive a payslip from your umbrella company and, if so, do you understand the payslip?**

94 per cent of freelancers stated that they had been provided with a payslip by their current or last umbrella company, with just three per cent reporting they had not and one per cent unsure.

"Payslips are provided, but are difficult to interpret and check because of holiday, use of low regular pay with fake bonus, bundling of tax. I have no choice but to be paid weekly and this can skew the tax & NI compared with monthly. Also makes a mess of pension payments."

"Working through an umbrella is frustrating as the relevant deductions aren't always transparent (e.g. holiday pay) on the payslip."

## **Question 31: Are you, or have you been, issued with a Key Information Document when you sign up with an employment business for the first time?**

Just over half (54%) of freelancers reported that they were provided with a Key Information Document by their current or last umbrella company, with 24 per cent reporting they had not and 19 per cent unsure.

## **Additional survey questions on the umbrella company market**

### **How satisfied are you about working through an umbrella company?**

The majority of respondents (74%) reported that they were either somewhat or very dissatisfied about working through an umbrella company, with half (50%) very dissatisfied. Only 16 per cent reported that they were either somewhat or very satisfied about working through an umbrella company.

## **What are the advantages of working via an umbrella company?**

Just over one in four freelancers (26%) cited reduced administrative and time burden as an advantage of operating via an umbrella company whilst a further eight per cent reported that access to professional liability insurance was also an advantage of operating in this way. A further six per cent cited the advantage of being enrolled onto a pension scheme and another six per cent cited the ability to have a continuous income stream. Access to holiday pay and Statutory Sick Pay were only deemed advantages by five per cent of all respondents.

However, 61 per cent of freelancers reported that there were no advantages to working via an umbrella company.

## **What are the disadvantages of working via an umbrella company?**

The majority of freelancers (80%) reported that having to cover the liability for Employer's National Insurance and where applicable the Apprenticeship Levy was a disadvantage of operating via an umbrella company. Other disadvantages included having to pay umbrella company fees (79%), fewer tax breaks compared to operating through a limited company (75%), not being entitled to the same full employment benefits as an employee (72%) and loss of independence and control (70%).

## **When operating through an umbrella company, have you been required to purchase any insurance products?**

The majority of freelancers (83%) reported that they had not been required to purchase any insurance products when operating through an umbrella company. However, over one in ten (11%) of freelancers stated that they had been required to purchase insurance products when operating through an umbrella company.

## **Which, if any, insurance products have you been required to purchase when operating through an umbrella company?**

Of those who reported that they had been required to purchase insurance products when operating through an umbrella company, 42 per cent reported that they had been required to purchase Employer's liability insurance. Other required insurances included professional indemnity insurance (76%), public liability insurance (62%), sick pay insurance (16%), IR35 insurance (14%), income protection insurance (12%) and private medical insurance (10%).

## **Thinking about your current engagement through an umbrella company, do you believe the role is inside or outside IR35?**

Over half of respondents (57%) thought that their role is outside of IR35 but the supply chain just doesn't want any risk so is avoiding limited company workers whereas 13 per cent thought their role is inside of IR35 and could understand why they are engaged through an umbrella company as an employee. A further nine per cent thought that their role is outside of IR35 but the supply chain doesn't have the expertise to assess it properly. Another eight per cent thought that their role is inside of IR35 but they would rather be engaged directly by the end-client as an employee.

## **When you moved to working through an umbrella company, was the rate paid to the umbrella company amended from the original rate paid to your limited company?**

29 per cent of freelancers reported that the rate was not amended and a rate change not discussed whilst 12 per cent stated that it was not amended but it was discussed. A further 13 per cent reported that their rate was increased but not for specific employment costs and nine per cent reported that it was increased

to account for costs such as Employer's National Insurance contributions.

### **When operating through an umbrella company, do you understand the way holiday pay is calculated and administered?**

Just over half of respondents (53%) reported that they did understand the way holiday pay is calculated and administered when operating through an umbrella company. However, 38 per cent reported that they did not understand how it was calculated and administered.

### **Which of the following, if any, best describes the holiday pay arrangements you have with your umbrella company?**

The majority of freelancers (77%) reported that they receive their holiday pay as part of their normal pay whereas, concerningly, nine per cent stated that they were unclear about the holiday pay arrangements that they have with their umbrella company. A further four per cent reported that their holiday pay is withheld by their umbrella company and they have to claim it back whilst three per cent reported that their holiday pay is automatically paid to them at the end of an assignment or time period.

### **When working through an umbrella company, how would you like holiday pay to operate?**

Over half of freelancers (55%) reported that they would like to be able to elect to receive all their pay as they go and ignore holiday pay on temporary/fixed term assignments so they know nothing is withheld. Other responses included wanting to be able to take holiday pay as they accrue it, automatically, so they know nothing is withheld (39%), wanting holiday pay to be abolished for temporary/foxed term working as it can be used to withhold funds from them (26%), wanting to be able to take time off and get paid holiday pay if they've accrued it like a permanent employee (15%) and wanting the rate the supply chain pays to the umbrella to include a specific amount for holiday pay (10%).

### **How satisfied, if at all, are you with the payment timings of your umbrella company?**

The majority of freelancers (60%) reported that they were either somewhat or very satisfied with the payment timings of their umbrella company, with 39 per cent very satisfied. On the other hand, 24 per cent of freelancers reported that they were either somewhat or very dissatisfied with the payment timings of their umbrella company.

### **How satisfied, if at all, are you with the pension arrangements of your umbrella company?**

37 per cent of respondents stated that they were either somewhat or very dissatisfied with the pension arrangements of their umbrella company, with 22 per cent very dissatisfied. A further 28 per cent reported that they were either somewhat or very satisfied with the pension arrangements of their umbrella company.

### **How satisfied, if at all, are you with the holiday pay of your umbrella company?**

Over one in three freelancers (35%) reported that they were either somewhat or very dissatisfied with the holiday pay of their umbrella company, with 22 per cent very dissatisfied. A further 23 per cent stated that they were either somewhat or very satisfied with the holiday pay of their umbrella company.

### **How satisfied, if at all, are you with the communication of your umbrella company?**

38 per cent of respondents reported that they were either somewhat or very dissatisfied with the communication of their umbrella company, with 21 per cent very dissatisfied. A further 37 per cent were either somewhat or very satisfied with the communication of their umbrella company.

**How satisfied, if at all, are you with the management of business expenses from your umbrella company?**

Two-fifths of freelancers (40%) reported that they were either somewhat or very dissatisfied with the management of business expenses from their umbrella company, with almost one-third (30%) very dissatisfied. Just seven per cent of respondents reported that they were either somewhat or very satisfied with the management of business expenses from their umbrella company.

**How satisfied, if at all, are you with the handling of Employer's National Insurance, and where applicable, Apprenticeship Levy deductions from your umbrella company?**

43 per cent of freelancers reported that they were either somewhat or very dissatisfied with the handling of Employer's National Insurance, and where applicable, Apprenticeship Levy deductions from their umbrella company. On the other hand, one fifth of freelancers (20%) reported that they were either somewhat or very satisfied.

**In your current engagement, who ultimately foots the bill for the Employers' National Insurance, and where applicable, the Apprenticeship Levy?**

The overwhelming majority of respondents (80%) reported that they themselves cover the liability for the Employers' National Insurance, and where applicable, the Apprenticeship Levy, through a reduction in their day rate. Other responses on who covers this liability included the umbrella company (7%), the client (4%) and the agency (2%).

**In your current engagement, has the umbrella company allowed for you to keep your existing pension provider?**

Two-fifths of freelancers (40%) reported that their umbrella company allowed for them to keep their existing pension provider whereas 30 per cent reported that their umbrella company was unable to keep their existing pension provider.

**How concerned, if at all, are you with tax non-compliance from your current umbrella company?**

Over half of respondents (53%) stated that they were either not very concerned or not at all concerned with tax non-compliance from their current umbrella company. However, 15 per cent of respondents indicated that they were either fairly or very concerned with tax non-compliance from their umbrella company.

**Have you at any point suspected an umbrella company to be adopting a tax avoidance scheme?**

The majority of freelancers (69%) reported that they had not suspected an umbrella company to be adopting a tax avoidance scheme. However, 14 per cent of freelancers reported that they have suspected an umbrella company to be adopting a tax avoidance scheme.

## Methodology

This response is based on the results of an online survey conducted by IPSE between Monday 17 January and 8 February 2022. The respondents were a sample of 584 freelancers working across a range of occupations in the top three highly skilled Standard Occupational Categories (SOC1-3). A total of 67 per cent of the sample were currently operating through an umbrella company whilst 28 per cent had previously operated via an umbrella company.<sup>1</sup>

*IPSE is grateful for the opportunity to comment on the proposals contained in the consultation document. For further information, please contact [policyqueries@ipse.co.uk](mailto:policyqueries@ipse.co.uk).*

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<sup>1</sup> IPSE, The Umbrella company market: Assessing the attitudes and concerns of umbrella company workers, 2022 (unpublished)



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