



GLAA Brief

Issue 67 – December 2020

The risks of using Mini Umbrella Companies

This Brief publishes the latest information on Mini Umbrella Companies and how using these models may affect your GLAA licence.

Introduction

The GLAA has recently seen an increase in the number of licensed businesses and new applicants using a mini umbrella company (“MUC”) model. We have been working closely with HMRC on this issue and we are concerned that this model may be exploited by some businesses, leading to tax fraud. This, in turn, may affect the status of your GLAA licence.

MUC fraud creates an uneven playing field for those employment agencies and businesses who follow the rules. The GLAA aims to create a level playing field throughout the regulated industry and therefore we have drafted this brief with the aim of raising awareness of the MUC fraud model and its risks to your business.

What is Mini Umbrella Company Fraud?

The MUC model is an employment intermediary model which presents an organised crime threat to the UK Exchequer. The fraud is primarily based around the abuse of two Government incentives aimed at small businesses – the VAT Flat Rate Scheme and the Employment Allowance. MUC fraud can also result in the non-payment of other taxes such as PAYE, National Insurance and VAT which reduces vital funding for the public services we all rely on. MUC fraud can be found in supply chains wherever temporary labour is used.

The MUC fraud model involves splitting up a workforce into hundreds or thousands of small limited companies set up solely to enable the fraud. The workforce is generally a temporary workforce who would previously have been paid by an employment agency or an umbrella company. The structuring of the MUCs is facilitated by a promoter business (sometimes known as an outsourcing business) which may have other linked businesses to support the operation.

For employees, who are often unaware of these arrangements, the use of this model can result in the loss of some employment rights. Workers in MUCs are usually unaware of who their employer is, and they can be moved regularly between MUCs to help maximise profits from the fraud.

How can you spot Mini Umbrella Company Fraud?

The MUC fraud model is constantly changing therefore it can be difficult to spot. However, there are some common features which businesses may come across during their regular due diligence checks:

- **Unusual company name** - Often multiple companies are set up around the same time which have a similar or unusual name. These companies will often be registered at an address which does not seem suitable for the types of business activities.
- **Unrelated business activity description** - Do the nature of the business activities described in the Companies House entries seem compatible with the services provided by the workers?
- **Directors being foreign nationals** – Often foreign nationals are appointed as directors when an MUC is formed or they can replace a temporary UK resident director after a short period of time. Usually the directors will have no prior experience in the UK labour supply industry.
- **Unusually high movement of workers** - Are workers moved between different employers who meet the above criteria for being MUCs on a fairly frequent basis?
- **Very short-lived businesses** - The individual MUCs have a fairly short lifespan (often less than 18 months) before being allowed to be dissolved by Companies House as a result of their failure to meet their filing obligations. New MUCs will then take their place in the supply chain. You should notice this as you may find that you need to issue a new Key Information Document to workers on a fairly regular basis.

The MUC usually sits quite low down in the supply chain and so it can be difficult to spot. Therefore, it is important that businesses remain vigilant especially where the employer of the worker is not the company they have contact with. It is important for businesses to consider the credibility of the supply, payment arrangements and other surrounding circumstances to help safeguard themselves from financial, operational and reputational risks. Guidance on undertaking robust due diligence can be found here: [The supply chain due diligence principles](#).

How the use of Mini Umbrella Companies can affect your GLAA licence

When undertaking an inspection, the GLAA will assess your business practices to ensure compliance with the GLAA Licensing Standards. The use of MUCs may affect your compliance with the following Licensing Standards:

- Licensing Standard 1.1 Critical: Fit and Proper
- Licensing Standard 2.1 Critical: PAYE, NI and VAT
- Licensing Standard 7.3 Workers: Contractual arrangements and records

A breach of any critical standard may lead to your GLAA licence being revoked.

Further information

1. If you any further queries, please contact the GLAA helpline on 0345 602 5020 or email licensing@gla.gov.uk.
2. For the latest news and updates from the GLAA:



Twitter: [@UK_Glaa](#)



facebook: <https://www.facebook.com/TheGLAA>