



talent works

| Contingent Workforce Solutions

The true cost of **misclassification**

An MSP ensures accountability
through the talent supply chain

EXCLUSIVE

Major UK recruiters linked to
tax avoidance schemes after
workers hit with crippling
HMRC demands

Some people have been driven to the brink of bankruptcy by
large unexpected tax bills. It's also been linked to 10 suicides.

Change how you hire. Everywhere. In every way.



Introduction

In the UK, a recent investigation by Sky News has revealed how, over the course of two decades, some of Britain's biggest recruitment companies were linked to large-scale tax avoidance when placing workers into jobs. Many of these workers, typically agency workers and contractors, were paid by third-party umbrella companies that promised to take care of taxes but were operating [tax avoidance schemes](#).

It throws umbrella companies into the spotlight once again. And demands an answer to the question: who is ultimately responsible for the welfare, treatment and classification of contingent workers – umbrella companies, agencies or employers?



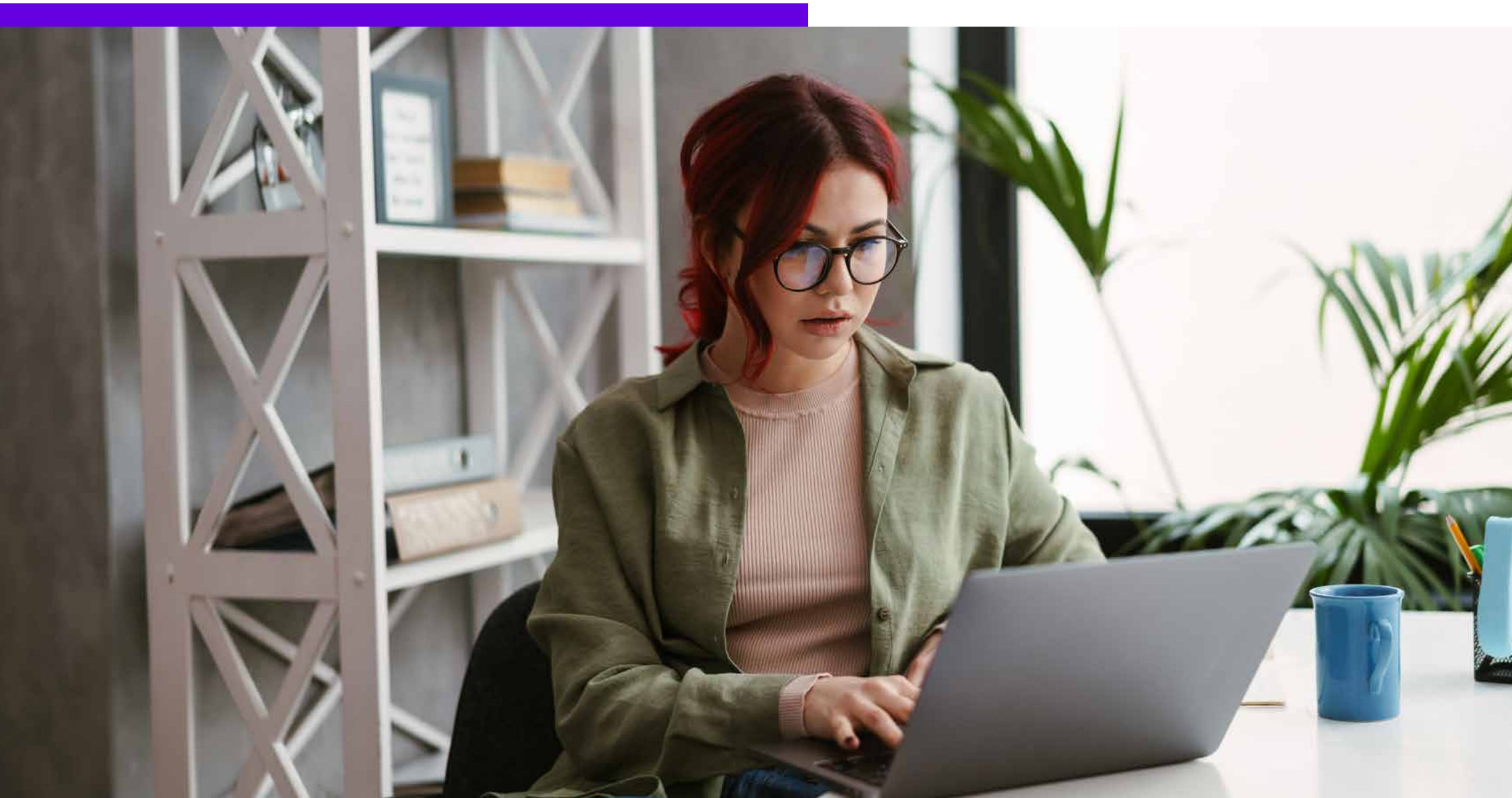


Misclassification and umbrellas

Umbrella companies are usually found within UK recruitment landscape because UK workers can be inside or outside IR35. But the challenge of classifying contingent workers correctly is not purely a UK issue. In the US, for example, hiring organisations have responsibility for ensuring that their contractors are correctly classified, taxed and payrolled.

While the end responsibility may lie in a different place, there are still instances of big companies failing to meet their obligations to their workers. In 2023, a US Senator contacted the California Secretary of Labor, about HR tech brand Deel. By misclassifying employees, he claimed Deel is *“effectively denying them the full suite of employment and social safety net benefits and labour protections they are entitled to, including healthcare, retirement, unemployment insurance, worker’s compensation, collective bargaining, and overtime pay.”*

The wording is remarkably similar to a recent statement issued by the UK government:



There is evidence of **widespread non-compliance in the umbrella company market**, depriving workers of the **employment rights** to which they are entitled, **distorting competition in the labour market** and leading to **significant tax loss to the Exchequer.**

Tackling non-compliance in the umbrella company market: Government response

Updated 4 March 2025





The global talent supply chain

Whether we are talking about umbrella companies, employers of record, agencies or employers, there is no doubt that the talent supply chain is increasingly complex. It is also evolving. Since 2020, more opportunities in more organisations are remote or hybrid, and organisations are increasingly using flexible contingent talent to fill flexibility-based roles. It is an approach that creates opportunities to source talent globally – which adds another layer of complexity to how organisations find, hire and manage their contingent workforce.

74% of employers say they are struggling to find the **skilled talent they need.**

2025 Global Talent Shortage
Manpower Group

It seems fair to say that the difficulties in delivering talent for clients are creating additional pressure for suppliers. It also seems fair to say that this pressure is forcing some suppliers to cut corners.

What do hiring companies need to look out for?

When the talent supply chain is so complex, how do hiring companies know when they are potentially at fault? The cost of misclassification can include significant fines for employers – yet at the same time, as evidenced in the Sky report, the true cost should also be measured in human terms. Contractors left facing unexpected tax bills that they struggle to pay. Lives and families affected.

Here are some of the signs that you need to think about how your contingent workforce is being sourced, hired and managed:

1. There is a lack of transparency in the talent supply chain

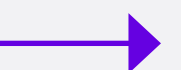
Do you know where talent is sourced from? Who is taking responsibility for pay, taxation and contracts? Is there a clear job description in place? How much is the agency rate and is the contractor being paid a fair rate? If you cannot see where decisions are being made through your talent supply chain, you may be missing something important.

2. There is a lack of consistency in contracts and invoicing

Often, when hiring companies are using a wide range of different recruitment agencies to supply talent, there is a lack of consistency in contracts, invoicing and rates of pay. Centralising process and practice around how agencies are managed is an important step in making sure that you have clarity around your contingent workforce. What was the last time you audited your recruitment agencies and measured their performance?

3. There is no oversight of costs and spending

The complexity of the supply chain means that there are many opportunities for overspend to go unnoticed – and conversely, many good opportunities for overspend to be corrected, processes to be harmonised and costs to be reduced. For many organisations, especially those who have never utilised a contingent workforce programme before, the cost savings available can mean that implementing a programme is cost-neutral for the business.





Conclusion

Without reports like those from Sky News, it can be difficult to truly understand the cost of misclassifying contingent workers for tax purposes. And while umbrella companies are in the spotlight, the challenge of protecting the contingent workforce is one that employers, the recruitment industry and governments are endeavouring to tackle together.

The truth is that umbrella companies, recruitment agencies and hiring organisations need to be held accountable – every day, in every way. This is why a Managed Service Provider is so fundamentally important for those organisations with a large contingent workforce. An MSP will hold every operator in the supply chain to account, ensuring that they are ethical, transparent in the dealings, working in line with best practice guidelines and committed to doing the right thing for clients and candidates.





To find out more about our offering, or to discuss how we can support your business, **please get in touch.**

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