

UK Construction Temporary Labour Chain Risk Heatmap.

CIS, PAYE, Umbrella, PSC and Intermediary Route Risk Assessment.

2026 Q2

DOCUMENT CONTROL

Document control and research position.

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Core model	Indicative annual exposure values based on 100 workers at £750 gross weekly labour value

CENTRAL THESIS

Construction labour-chain risk should be assessed by route substance, worker-payment evidence, tax treatment and accountability, not by supplier label alone.

DOCUMENT PURPOSE

Purpose and use.

This document is an independent research presentation designed to help contractors, agencies and labour-chain participants operating within the UK temporary construction labour market understand the current regulatory ecosystem affecting labour-only supply.

The document is intended as a practical decision-support and risk-mapping tool. It does not replace legal, tax or employment advice.

This paper enables readers to identify their current labour-chain structure, understand the key risks attached to each engagement route, compare relative severity and likelihood, and recognise the trigger questions that create exposure.

It also provides indicative annual exposure values based on 100 workers at £750 gross weekly labour value and assesses why some routes may improve the operating environment for labour-only fulfilment.

The document compares construction temporary labour routes by legal, tax, worker-rights, evidence and assurance exposure.

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Route Risk Heatmap

PAYE, CIS, umbrella, PSC and intermediary route assessment

Indicative annual exposure values per 100 workers

Risk severity, likelihood and trigger questions

SECTION 1

Contractor Direct PAYE

RISK RATING: LOW



The contractor directly employs or engages the worker and operates PAYE itself. This is the cleanest contractor-controlled route for labour-only work because the contractor directly owns:

- employment onboarding;
- PAYE and NIC operation;
- RTI reporting;
- employer NIC;
- holiday pay;
- pension auto-enrolment;
- right-to-work assurance;
- worker records;
- site access and competence records.

For the valuation model below, the assumptions are:

100 workers
£750 gross weekly pay per worker
52 weeks
£3,900,000 annual gross pay flow

For England/Wales/Northern Ireland, the 2026/27 PAYE personal allowance is £12,570 and the basic rate is 20% up to £37,700 above the PAYE threshold. Employee NIC starts above £242/week, employer NIC starts above £96/week, and the standard employer NIC rate above the secondary threshold is 15%.

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Gross pay flow	£3,900,000	Base payroll throughput
PAYE income tax deducted from workers	£528,600	Payroll deduction, not contractor cost
Employee NIC deducted from workers	£211,328	Payroll deduction, not contractor cost
Employer NIC	£510,120	Contractor employer cost
Total PAYE/NIC flow handled	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Based on 12.07% benchmark
Employer pension minimum indicator	£98,280	3% of qualifying earnings
Apprenticeship levy indicator	£4,500	If levy applies and assuming only this pay bill

SECTION 1 CONTINUED

Holiday accrual at 12.07% is based on the statutory 5.6 weeks' leave calculation for irregular-hours or part-year workers. The 2026/27 automatic enrolment qualifying earnings band is £6,240 to £50,270, and employers must pay at least 3% of qualifying earnings into the pension scheme.

Complete heat map matrix – Contractor Direct PAYE

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
PAYE income tax operation	Has the contractor deducted and reported PAYE correctly?	PAYE / Income Tax / RTI	£528,600	Medium	Low
Employee NIC operation	Has employee NIC been deducted correctly?	Class 1 employee NIC	£211,328	Medium	Low
Employer NIC cost	Has employer NIC been correctly costed and paid?	Class 1 secondary NIC	£510,120	Medium / High	Low
Total payroll tax/NIC flow	Can the contractor evidence complete payroll tax/NIC handling?	PAYE + employee NIC + employer NIC	£1,250,048	Medium / High	Low
RTI reporting failure	Has payroll information been reported to HMRC on or before payment? HMRC guidance confirms employers report PAYE payroll information through FPS/EPS.	PAYE Real Time Information	Value depends on penalties/late reporting	Medium	Low
Holiday pay	Is holiday entitlement accrued and paid correctly?	Working Time Regulations / holiday pay	£470,730	Medium	Low
Pension auto-enrolment	Have eligible workers been assessed and enrolled where required?	Pensions Act / auto-enrolment	£98,280 employer minimum indicator	Medium	Low
Apprenticeship levy	Does the contractor's total pay bill trigger levy cost?	Apprenticeship levy	£4,500 indicator if levy applies	Low / Medium	Very Low
National Minimum Wage / working time	Are all working hours captured, including induction, waiting time, PPE collection or site-required time?	NMW/NLW compliance	Not separately valued here; can affect full pay flow	Medium	Low
Right to work	Was the right-to-work check completed before work began?	Immigration / Home Office checks	Not pay-flow based; penalty/disruption risk	High	Low
Site competence / safety	Is the worker competent, inducted and authorised for the task?	CDM / H&S	Not pay-flow based; incident/enforcement risk	High	Low
Worker classification clarity	Is the person clearly treated as PAYE rather than misclassified as self-employed?	Employment status	No adverse valuation; this is the controlled route	Low	Very Low
Evidence / audit readiness	Can payroll, worker, site and payment records be reconciled?	HMRC, HSE, client audit, internal audit	Commercial/evidential exposure across full £3.9m labour route	Low / Medium	Low

Interpretation

Risk rating: Low

Contractor Direct PAYE is not “risk-free”. It still involves a large payroll obligation: approximately **£1.25m per year** of PAYE/NIC flow for every 100 workers at £750/week, plus around **£470.7k** holiday pay cost and **£98.3k** minimum employer pension cost indicator.

However, because the contractor is in direct control of the route, the likelihood of route misapplication is **low** or **very low** when normal payroll, HR, onboarding and site-access controls are in place.

This is the critical distinction:

The severity of getting payroll wrong can still be high.
The likelihood of route failure is low because the contractor controls the employment relationship, payroll route, worker onboarding and evidence trail.

This route materially improves the operating space because:

The contractor knows who the worker is.
The contractor knows who employs the worker.
The contractor controls payroll.
The contractor controls RTI.
The contractor controls site access.
The contractor controls worker records.
The contractor does not need to defend CIS status.
The contractor does not need to prove an agency-to-worker CIS route.
The contractor does not need to rely on umbrella PAYE compliance.

SECTION 1 CONTINUED

So for labour-only work, Contractor Direct PAYE is the cleanest legal and evidential position. Its main downside is not route risk; it is operational burden. The contractor must carry the employment, payroll, rights and worker-record infrastructure itself.

Bottom line: Contractor Direct PAYE converts hidden CIS/status risk into visible payroll cost and direct evidence discipline. The possible consequence of error remains material, but the likelihood of misapplication is low because the contractor owns and controls the full route.

SECTION 2

Agency Direct PAYE

RISK RATING: LOW / MEDIUM

```
graph TD; Contractor --> Agency["Agency / employment business"]; Agency --> Worker["Agency PAYE worker"];
```

The agency directly engages and pays the worker through PAYE. The contractor receives labour from the agency, but the agency operates payroll and normally owns the worker-facing payroll process.

This is the cleanest external labour route because there is no CIS worker, no umbrella company, no purported umbrella, no PSC and no off-chain payroll entity.

The agency owns:

- worker onboarding;
- PAYE and NIC operation;
- RTI reporting;
- payslips;
- worker documentation;
- holiday pay;
- pension auto-enrolment;
- employment business obligations;
- worker pay queries.

The contractor owns:

- supplier approval;
- labour-chain assurance;
- site access;
- right-to-work assurance oversight;
- competence/site induction;
- timesheet approval;
- invoice reconciliation;
- evidence that the route remains agency PAYE.

HMRC's Employment Status Manual states that, where ITEPA 2003 s44 applies, the worker is treated as holding an employment with the agency and the agency is the employer that must deduct income tax, operate PAYE and remit the payment to HMRC through RTI.

For the valuation model below, the assumptions are:

SECTION 2 CONTINUED

100 workers
 £750 gross weekly pay per worker
 52 weeks
 £3,900,000 annual gross pay flow

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Gross worker pay flow	£3,900,000	Base PAYE wage throughput
PAYE income tax deducted from workers	£528,600	Payroll deduction operated by agency
Employee NIC deducted from workers	£211,328	Payroll deduction operated by agency
Employer NIC	£510,120	Agency employer cost, normally priced into charge rate
Total PAYE/NIC flow handled	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Agency employer/worker-rights cost, priced into charge rate
Employer pension minimum indicator	£98,280	Agency employer cost, priced into charge rate
Apprenticeship levy indicator	£4,500	If levy applies and assuming only this pay bill

The 2026/27 employer guidance confirms the Class 1 NIC primary threshold at £242/week and secondary threshold at £96/week. The Key Information Document regime is relevant because agency workers should receive clear information about pay, deductions, benefits and holiday entitlement.

Complete heat map matrix – Agency Direct PAYE

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Agency PAYE operation	Is the agency correctly deducting and reporting PAYE?	ITEPA s44 / PAYE / RTI	£528,600 PAYE income tax flow	Medium	Low
Employee NIC operation	Is employee NIC deducted correctly through agency payroll?	Class 1 employee NIC	£211,328	Medium	Low
Employer NIC cost	Has the agency correctly costed and paid employer NIC?	Class 1 secondary NIC	£510,120	Medium / High	Low
Total payroll tax/NIC flow	Can the agency evidence full PAYE/NIC operation?	PAYE + employee NIC + employer NIC	£1,250,048	Medium / High	Low
Contractor reliance on agency evidence	Can the contractor evidence that the agency route is genuinely direct PAYE?	GfC12 labour supply-chain assurance	Commercial/evidential exposure across full £3.9m labour route	Medium	Low / Medium
Hidden route substitution	Has the agency moved workers to umbrella, CIS, payroll company or another route without approval?	GfC12 / PAYE / umbrella risk	Up to £1.25m PAYE/NIC flow if PAYE route breaks	High	Low / Medium
Worker documentation	Has the worker received clear pay, deduction and holiday information?	Employment business rules / KID	Not a direct tax-flow value	Medium	Low
Holiday pay	Is holiday pay accrued and paid correctly by the agency?	Working Time Regulations / agency worker rights	£470,730	Medium	Low
Pension auto-enrolment	Has the agency assessed and enrolled eligible workers where required?	Workplace pension duties	£98,280 minimum employer contribution indicator	Medium	Low
RTI reporting failure	Is payroll reported to HMRC on or before payment?	PAYE Real Time Information	Penalty/interest dependent	Medium	Low
NMW / working-time capture	Does the agency know all time the contractor requires the worker to spend working or waiting?	NMW/NLW / site working time	Not separately valued; can affect full pay flow	Medium	Low / Medium
Right-to-work assurance	Has the responsible party completed checks before work starts, and can the contractor evidence assurance?	Immigration / Home Office	Non-pay-flow penalty and disruption risk	High	Low / Medium
Site competence / induction	Is the worker approved, competent and inducted before site access?	CDM / H&S	Non-pay-flow incident/enforcement risk	High	Low / Medium
Invoice reconciliation	Do invoices match approved workers, site attendance, timesheets and agreed rates?	Contract / finance / audit	Commercial/evidential exposure across full £3.9m labour route	Medium	Low
Chain opacity	Is there any undisclosed secondary agency, umbrella or payroll provider below the agency?	GfC12 supply-chain assurance	Up to £1.25m PAYE/NIC flow if route becomes unclear	Medium / High	Low

SECTION 2 CONTINUED

Interpretation

Risk rating: Low / Medium

Agency Direct PAYE is one of the strongest supply routes for labour-only construction fulfilment.

The agency owns the payroll obligation, which means the contractor does not need to employ the workers directly. However, unlike CIS, umbrella or PSC routes, the worker's tax route is clear: the worker is paid as an agency PAYE worker.

The route therefore avoids the main labour-only problems associated with CIS, PSC etc:

The contractor does not need to defend worker self-employment.
The agency does not need to justify CIS for labour-only supply.
The worker is not routed through umbrella or purported umbrella structures.
The payroll route is visible and capable of being evidenced.

The annual payroll tax/NIC flow remains significant: approximately **£1.25m** per 100 workers at £750/week. But the issue is not whether the cost exists. The issue is that the cost is properly located, priced and evidenced through the agency's payroll process.

For the contractor, the residual risk is mainly assurance-based:

Is the agency genuinely operating PAYE?
Has the agency avoided undisclosed CIS, umbrella or payroll substitution?
Can the contractor reconcile workers, site attendance, invoices and route evidence?

For the agency, the residual risk is ordinary payroll execution:

Has PAYE been operated correctly?
Have payslips and worker documents been issued?
Have holiday, pension and NMW obligations been managed?

The severity of payroll error can still be material, but the likelihood of route misapplication is **low** where the agency directly controls payroll and the contractor has basic supplier assurance controls.

Bottom line: Agency Direct PAYE is the cleanest scalable alternative where contractors do not want to employ workers directly. It preserves agency labour fulfilment while materially reducing CIS status risk, umbrella-chain risk, purported-employer risk and payroll-chain opacity.

SECTION 3

Genuine CIS Works Package

RISK RATING: MEDIUM

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Contractor
↓
Genuine CIS subcontractor / works package provider
↓
Subcontractor-controlled workforce
  
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This route is materially different from labour-only CIS.

A genuine CIS works package exists where the contractor is buying a defined construction output, not merely workers. The subcontractor should control and deliver the work package, usually with responsibility for some combination of supervision, labour, materials, plant, rectification risk, sequencing, method, quality and commercial delivery.

CIS is legitimate in this context where the subcontractor is genuinely self-employed or operating as a subcontracting business. HMRC says CIS applies to workers who, for particular contracts, are self-employed and not employees subject to PAYE; it also says CIS registration is irrelevant when deciding employment status.

For the valuation model below, the assumptions are:

```

100 workers / worker-equivalent labour flow
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual construction payment / labour-value flow
  
```

Core annual value references for this chain

Value item	Annual value per 100 worker-equivalents	Treatment
Annual construction payment / labour-value flow	£3,900,000	Base payment flow
CIS 20% deduction benchmark	£780,000	Where subcontractor is net-paid at 20%
CIS 30% deduction benchmark	£1,170,000	Where subcontractor is unregistered or higher-rate deduction applies
Gross payment status route	£0 deducted	If subcontractor has valid gross payment status
Potential s62A determination benchmark	£780,000	20% of relevant payment if s62A conditions are met
Maximum s72A penalty indicator	£234,000	30% of £780,000, where penalty conditions apply
VAT / reverse charge exposure reference	Variable	Depends on VAT treatment and whether domestic reverse charge applies

HMRC says standard CIS deduction rates are generally 20% for registered subcontractors, 30% for unregistered subcontractors and 0% where gross payment status applies. The VAT domestic reverse charge must be used for most supplies of building and construction services, subject to the relevant conditions and exceptions.

Complete heat map matrix – Genuine CIS Works Package

SECTION 3 CONTINUED

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 worker-equivalents	Severity	Likelihood
CIS verification failure	Has the contractor verified the subcontractor and applied the HMRC-confirmed deduction rate?	CIS verification rules	Up to £780,000-£1,170,000 deduction-flow error	Medium	Low
Incorrect deduction rate	Has the contractor applied 0%, 20% or 30% correctly?	CIS deduction rules	£780,000 at 20% or £1,170,000 at 30%	Medium	Low
Gross Payment Status relied on incorrectly	Has gross payment status been verified and retained as evidence?	CIS gross payment rules	£780,000 deduction-flow benchmark	Medium / High	Low
Monthly CIS return error	Have payments and deductions been reported correctly in monthly CIS returns?	CIS monthly return / reporting	Penalty/interest dependent	Medium	Low
Materials/labour split error	Has the contractor deducted CIS only from the correct labour element?	CIS deduction calculation	Variable within £3.9m payment flow	Medium	Low / Medium
Fake works package / labour-only drift	Is this genuinely a works package, or has it become labour-only supply?	CIS / employment status / PAYE boundary	Could shift toward £1.25m PAYE/NIC flow if actually labour supply	High	Medium
Downstream agency or labour supplier inserted	Has the subcontractor introduced downstream labour suppliers that change the risk profile?	GfC12 labour-chain assurance / CIS / PAYE	£780,000 s62A benchmark if deliberate connected failure conditions arise	High	Medium
s62A connected deliberate CIS/PAYE failure	Before paying, did the payer know or should it have known of connected deliberate CIS or PAYE failure? HMRC says s62A can determine 20% of the payment in such cases.	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	Low / Medium
s72A penalty exposure	Are s62A/s62B conditions met and penalty conditions present?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Low / Medium
VAT domestic reverse charge error	Has reverse charge/end-user/intermediary status been correctly determined?	VAT domestic reverse charge	Variable; VAT treatment on £3.9m flow	Medium / High	Medium
VAT fraud / input tax denial	Did the contractor know or should it have known the transaction was connected with VAT fraud?	VAT fraud / Kittel principle	Potentially significant, VAT-dependent	High	Low / Medium
Insurance / contractual failure	Does the subcontractor have adequate insurance, competence, scope and responsibility?	Contract / indemnity / project assurance	Variable; commercial/evidential exposure across full £3.9m labour route	Medium	Low / Medium
CDM / site coordination risk	Does the subcontractor control and supervise its work safely within the construction phase plan?	CDM / health and safety	Non-pay-flow incident/enforcement risk	High	Medium
Evidence / audit failure	Can the contractor evidence scope, CIS verification, VAT treatment, payment records and subcontractor control?	HMRC, client audit, internal audit	Commercial/evidential exposure across full £3.9m labour route	Medium	Low / Medium

Interpretation

Risk rating: Medium

A genuine CIS works package should not be treated as inherently problematic.

This is the legitimate CIS zone:

The contractor is buying a defined construction output.
 The subcontractor controls delivery.
 The subcontractor has responsibility for the work package.
 The subcontractor is not merely supplying labour-only individuals.
 CIS verification is completed.
 VAT treatment is reviewed.
 The contractual and site reality match.

The key distinction is that CIS is defensible where the commercial reality is genuine subcontracting. It becomes fragile when the works package is only a label and the reality is supplied labour.

The annual risk values show that the payment flow is still material:

Annual construction payment flow: £3.9m
 20% CIS deduction benchmark: £780k
 30% CIS deduction benchmark: £1.17m
 s62A determination benchmark: £780k
 maximum s72A penalty indicator: £234k

SECTION 3 CONTINUED

However, the likelihood profile is lower than labour-only CIS because the route is structurally appropriate when the works package is genuine. The main risks are ordinary CIS administration, VAT treatment, evidence quality, and the possibility of **route drift**.

The core control question is:

Can the contractor prove this is a genuine subcontracted works package and not labour-only supply under another name?

Bottom line: Genuine CIS works packages remain commercially and legally viable. The discontinuation argument should not attack CIS generally. It should attack **CIS used for labour-only fulfilment**, because that is where status, agency-legislation, PAYE, s62A and evidence risk escalate.

SECTION 4

Direct CIS Labour-Only

RISK RATING: MEDIUM / HIGH

Contractor
↓
Individual CIS labour-only worker

This route is where the contractor directly engages individual workers as CIS subcontractors for labour-only work.

There is no agency, umbrella, payroll provider or secondary supplier between the contractor and the worker. That makes the chain simple, but it also means the contractor directly owns the key decision:

Is this person genuinely self-employed for this engagement, or should they be treated as employed/PAYE?

HMRC states that CIS applies to workers who, for particular contracts, are self-employed and are not employees subject to PAYE. HMRC also states that the fact a subcontractor is already CIS-registered, whether for gross or net payment, is irrelevant when deciding employment status.

For the valuation model below, the assumptions are:

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base CIS labour-only payment flow
CIS 20% deduction benchmark	£780,000	Standard registered subcontractor deduction flow
CIS 30% deduction benchmark	£1,170,000	Higher-rate deduction flow where unregistered or not verified
Gross payment status route	£0 deducted	If valid GPS applies
PAYE income tax that would be deducted under payroll	£528,600	Potential payroll tax flow if workers should be PAYE
Employee NIC that would be deducted under payroll	£211,328	Potential payroll deduction flow
Employer NIC cost	£510,120	Potential contractor employer cost
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Employment-rights cost indicator
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
Potential s62A determination benchmark	£780,000	20% of relevant construction payment if statutory conditions met
Maximum s72A penalty indicator	£234,000	30% of £780,000, if penalty conditions apply

SECTION 4 CONTINUED

HMRC confirms CIS deduction rates of 20% for registered subcontractors, 30% for unregistered subcontractors and 0% for gross payment status. HMRC's s62A guidance states that, where the conditions are met, HMRC may determine that the payer is liable to pay 20% of the payment made.

Complete heat map matrix – Direct CIS Labour–Only

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Employment–status misclassification	Are these workers genuinely self-employed, or are they working like employees under contractor control?	Employment status / PAYE / CIS boundary	Up to £1,250,048 PAYE/NIC flow potentially in issue, subject to CIS offsets and facts	Very High	High
Contractor owns status decision directly	Has the contractor made and documented a worker-by-worker or role-based status decision?	CIS / employment status	Commercial/evidential exposure across full £3.9m labour route	High	High
CIS registration wrongly treated as proof	Is the contractor relying on UTR/CIS registration instead of analysing the actual engagement?	CIS boundary / HMRC status approach	Full £3.9m route may be wrongly classified	High	High
CIS verification error	Has the contractor verified each subcontractor and applied the correct deduction rate?	CIS verification rules	£780,000–£1,170,000 deduction–flow range	Medium	Low / Medium
Incorrect CIS deduction rate	Has 0%, 20% or 30% been applied correctly?	CIS deduction rules	£780,000 at 20% or £1,170,000 at 30%	Medium	Low / Medium
Gross Payment Status relied on incorrectly	Has GPS been verified before making gross payments?	CIS gross payment status	£780,000 deduction–flow benchmark	Medium / High	Low / Medium
PAYE/NIC under–operation if employment–like	If HMRC or tribunal says these were employees, where is the PAYE/NIC evidence?	PAYE / NIC	£1,250,048 total payroll tax/NIC flow	Very High	Medium / High
Employer NIC not costed	Is the apparent saving actually unpaid employer NIC risk?	Class 1 secondary NIC	£510,120	High	High
Employee NIC not operated	Was employee NIC avoided because the worker was treated as CIS?	Class 1 employee NIC	£211,328	High	Medium / High
PAYE income tax flow not operated	Was PAYE required rather than CIS deduction?	PAYE income tax	£528,600, though CIS deductions may offset tax depending on facts	High	Medium
Holiday pay exposure	If workers are workers/employees, has holiday entitlement been missed?	Working Time Regulations / worker status	£470,730 cost indicator	High	Medium / High
Pension auto–enrolment exposure	If employment/worker status applies, should pension assessment have occurred?	Workplace pension duties	£98,280 employer contribution indicator	Medium / High	Medium
NMW / working–time risk	Are hours, site waiting time, induction, PPE collection and required presence captured?	NMW/NLW / working time	Not separately valued; can affect full pay flow	Medium / High	Medium
s62A deliberate CIS/PAYE failure risk	Before paying, did the contractor know or should it have known of deliberate CIS or PAYE failure connected to the construction payment?	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	Low / Medium
s72A penalty risk	Are s62A/s62B conditions met and is a penalty chargeable?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Low / Medium
Worker self–assessment / MTD burden	Are workers willing and able to carry the admin burden of self–employed CIS as MTD thresholds fall?	MTD for Income Tax / Self Assessment	£25,000–£100,000 indicative worker–side admin friction	Medium	High from 2027/2028
Worker evidence / audit failure	Can the contractor evidence identity, status, contract terms, payment treatment and site reality?	HMRC, employment–rights, internal audit	Commercial/evidential exposure across full £3.9m labour route	High	High
Client / tender / ESG challenge	Can the contractor defend direct CIS labour–only to a client, auditor or adviser?	Client assurance / procurement	Commercial value at stake; across full £3.9m labour route	Medium / High	Medium

Interpretation

Risk rating: Medium / High

Direct CIS labour-only is a high-risk route because the contractor owns the status decision directly.

The key weakness is that the contractor may believe it has complied because:

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the worker has a UTR;
the worker is CIS registered;
the contractor verified the worker;
the contractor deducted 20%;
the worker wanted CIS;
the arrangement is common in construction.
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But those points do not answer the real question. HMRC's position is that CIS applies only where the worker is self-employed for the particular contract, and CIS registration does not decide status.

SECTION 4 CONTINUED

The annual values show why the route matters:

```
Annual labour flow: £3.9m
20% CIS deduction benchmark: £780k
30% CIS deduction benchmark: £1.17m
PAYE/NIC flow behind equivalent PAYE route: £1.25m
Employer NIC alone: £510k
Holiday pay indicator: £470.7k
Pension indicator: £98.3k
```

Direct CIS labour-only may look cheaper than PAYE because employer NIC, holiday pay, pension and payroll administration are not visibly priced in the same way. That is precisely why the route is fragile: the commercial saving can become evidence that the route only works because employment-cost obligations have been avoided.

This route also creates a worker-side burden. At £750/week, a worker earns **£39,000 per year**, which means they are above the £30,000 Making Tax Digital threshold from April 2027 and above the £20,000 threshold from April 2028. That makes CIS less attractive and more administratively burdensome for workers over time.

Bottom line: Direct CIS labour-only is simple in chain structure but high risk in substance. The contractor cannot shift responsibility onto an agency or umbrella. If the work is labour-only and employment-like, PAYE materially improves the position because it removes the need to defend self-employment status and converts hidden employment-cost exposure into visible, controlled payroll obligations.

SECTION 5

Agency CIS Labour-Only

RISK RATING: HIGH

```

Contractor
↓
Agency / labour supplier
↓
Individual worker treated as CIS
  
```

This route is where an agency supplies labour-only workers to a contractor but pays or engages those workers through CIS rather than PAYE.

This is one of the highest-risk construction labour-chain routes because the agency is not delivering a genuine subcontracted works package. It is supplying people.

The central question is:

Is the agency genuinely acting as a CIS contractor to self-employed subcontractors, or is it supplying labour-only workers who should be paid through agency PAYE?

HMRC's position is highly relevant. HMRC says that labour agencies supplying workers to a contractor are usually obliged under agency rules to operate PAYE where the agency-worker contract is a contract for services, and that circumstances where an agency must operate CIS as contractor are likely to be rare.

Where ITEPA 2003 s44 applies, HMRC says the worker is treated as holding an employment with the agency for income tax purposes, and the agency must deduct income tax, operate PAYE and remit payment to HMRC through RTI. ITEPA s44 applies where the worker personally provides services to the client, there is a contract between client and agency, and the worker is subject to, or to the right of, supervision, direction or control.

For the valuation model below, the assumptions are:

```

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow
  
```

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base labour-only supply flow
CIS 20% deduction benchmark	£780,000	Standard registered subcontractor deduction flow
CIS 30% deduction benchmark	£1,170,000	Higher-rate deduction flow where unregistered or not verified
PAYE income tax that would be deducted under payroll	£528,600	Potential agency PAYE tax flow if s44/status applies
Employee NIC that would be deducted under payroll	£211,328	Potential agency payroll deduction flow
Employer NIC cost	£510,120	Potential agency employer cost, normally priced into charge rate

SECTION 5 CONTINUED

Value item	Annual value per 100 workers	Treatment
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Employment/worker-rights cost indicator
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
Potential s62A determination benchmark	£780,000	Contractor or payer-side 20% determination benchmark if statutory conditions met
Maximum s72A penalty indicator	£234,000	30% of £780,000, if penalty conditions apply
Worker MTD admin friction	£25,000–£100,000 indicative	Worker-side admin friction estimate only

At £750/week, each worker's annual gross income is **£39,000**. That is above the Making Tax Digital for Income Tax threshold from April 2027 if qualifying income is over £30,000, and above the April 2028 threshold of £20,000. HMRC says MTD for Income Tax is mandatory in phases from April 2026 depending on qualifying income. HMRC's MTD campaign page states the staged thresholds as £50,000 from 6 April 2026, £30,000 from 6 April 2027 and £20,000 from 6 April 2028.

Complete heat map matrix – Agency CIS Labour-Only

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Agency PAYE failure	Is the agency supplying workers personally providing services under supervision, direction or control?	ITEPA 2003 s44 / agency legislation / PAYE	Up to £1,250,048 PAYE/NIC flow potentially in issue, subject to CIS offsets and facts	Very High	High
CIS used where agency PAYE likely required	Is the agency using CIS for labour-only placements rather than operating PAYE?	HMRC CIS agency guidance / ITEPA s44	Full £3.9m route may be wrongly classified	Very High	High
Worker self-employment unsupported	Can the agency prove each worker is genuinely self-employed for the particular engagement?	Employment status / CIS boundary	£1,250,048 PAYE/NIC flow behind route	Very High	High
Worker preference used as justification	Is CIS being used because it is lawful, or because workers prefer gross-pay economics?	CIS / PAYE boundary	Full £3.9m route exposed to challenge	High	High
Contractor request for CIS	Is the agency following client preference rather than applying the correct tax route?	Agency legislation / CIS / PAYE	£1,250,048 PAYE/NIC flow behind route	Very High	Medium / High
CIS registration wrongly treated as proof	Is the agency relying on UTR/CIS registration instead of status and agency-rule analysis?	CIS boundary / employment status	Full £3.9m route may be misclassified	High	High
Employer NIC not costed	Is the apparent agency CIS saving actually unpaid employer NIC risk?	Class 1 secondary NIC	£510,120	High	High
Employee NIC not operated	Has employee NIC been avoided because workers are treated as CIS?	Class 1 employee NIC	£211,328	High	High
PAYE income tax not operated	Was PAYE required under agency legislation rather than CIS deduction?	PAYE income tax	£528,600, though CIS deductions may offset tax depending on facts	High	Medium / High
Holiday pay exposure	If the workers are workers/employees, has holiday entitlement been missed or underpriced?	Working Time Regulations / worker status	£470,730	High	Medium / High
Pension auto-enrolment exposure	If employment/worker status applies, should pension assessment have occurred?	Workplace pension duties	£98,280 minimum employer contribution indicator	Medium / High	Medium
NMW / working-time exposure	Does the agency know all site-required working time, waiting time, induction time and deductions?	NMW/NLW / labour supply chain	Not separately valued; can affect full pay flow	Medium / High	Medium
s62A connected deliberate CIS/PAYE failure risk	Before paying, did a payer know or should it have known of connected deliberate CIS or PAYE failure? HMRC says s62A may determine 20% of the payment where conditions are met.	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	Medium
s72A penalty risk	Are s62A/s62B conditions met and is a penalty chargeable?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Medium
Director/officer exposure	Is company conduct giving rise to penalty attributable to an officer who knew or should have known?	Finance Act 2004 s72B	Up to the penalty amount, depending on attribution	High	Low / Medium
Contractor delisting / commercial rejection	Can the agency remain approved if the contractor bans labour-only CIS?	Procurement / contractor assurance / GfC12	Full £3.9m labour route commercially at risk	High	High
Worker MTD burden	Will workers still accept CIS when £39k annual gross income brings them into MTD from 2027?	MTD for Income Tax / Self Assessment	£25,000–£100,000 indicative worker-side admin friction	Medium	High from 2027/2028
Worker evidence / audit failure	Can the agency evidence worker identity, status, contract terms, pay route, deductions and site reality?	HMRC, client audit, internal audit	Commercial/evidential exposure across full £3.9m labour route	High	High
Pricing credibility failure	Is the agency's CIS price only competitive because employer NIC, holiday and pension are excluded?	Commercial / GfC12 / PAYE/NIC	£1.079m hidden employment-cost pressure: employer NIC + holiday + pension	High	High

SECTION 5 CONTINUED

Interpretation

Risk rating: High

Agency CIS labour-only is more fragile than direct contractor CIS because it sits directly in the agency-legislation risk zone.

The agency may believe it is safe because:

```
workers have UTRs;
workers are CIS registered;
the agency deducts 20%;
the contractor accepts CIS;
the workers prefer CIS;
construction has historically operated this way.
```

But those facts do not answer the agency-legislation question.

The core problem is that the agency is supplying labour. Where workers personally provide services to the client and are subject to, or to the right of, supervision, direction or control, ITEPA s44 may require PAYE treatment. HMRC's own CIS manual says agency CIS cases are likely to be rare because labour agencies supplying workers are usually obliged to operate PAYE.

The annual values make the risk commercially obvious:

```
Annual labour flow: £3.9m
20% CIS deduction benchmark: £780k
PAYE/NIC flow behind equivalent PAYE route: £1.25m
Employer NIC alone: £510k
Holiday pay indicator: £470.7k
Pension indicator: £98.3k
Potential s62A determination benchmark: £780k
Maximum s72A penalty indicator: £234k
```

For agencies, the apparent advantage of CIS is also the source of risk. A CIS labour-only model can appear cheaper because employer NIC, holiday pay, pension costs and payroll obligations are not visible in the same way. That creates pricing pressure, but also makes the route harder to defend.

The contractor-side issue is different. The contractor may not be the agency's payroll operator, but it still has to ask:

```
Did we know, or should we have known, that labour-only workers were being paid through CIS where PAYE should have applied?
```

That question becomes especially relevant where rates are unusually low, workers are clearly under site control, the agency cannot produce status evidence, or the contractor has been told the workers are labour-only CIS.

The worker-side position is also becoming less attractive. At £750/week, the worker's annual income is **£39,000**, meaning the worker falls into MTD for Income Tax from April 2027 if they remain self-employed/CIS and their qualifying income is over £30,000.

Bottom line: Agency CIS labour-only should be treated as a discontinue/default-prohibit route. It creates a high-likelihood agency PAYE failure risk, a contractor assurance risk, a pricing credibility problem, a worker administration burden and a potentially significant s62A/s72A exposure line where deliberate connected non-compliance indicators exist. PAYE materially improves the position because it aligns the route with the labour-supply reality.

SECTION 6

Umbrella PAYE

RISK RATING: MEDIUM / HIGH

```

Contractor / end client
↓
Agency / employment business
↓
Umbrella company
↓
PAYE worker

```

This route is where the worker is employed by an umbrella company, and the umbrella company pays the worker through PAYE.

Unlike CIS, the worker is not being presented as self-employed. The route is therefore not primarily a self-employment/status problem. The issue is whether the umbrella company genuinely operates PAYE correctly, whether the relevant upstream party can evidence that it has done so, and whether the umbrella remains solvent, traceable and cooperative if challenged.

From 6 April 2026, Chapter 11 ITEPA 2003 changes the risk profile materially. HMRC says the new rules are designed to tackle non-compliance in the umbrella company market and make recruitment agencies, or end clients where there is no agency, accountable for PAYE on payments to workers supplied through umbrella companies.

HMRC guidance for employment businesses also states that many umbrella companies follow the tax rules, but some do not, and that some may not pay all money owed to workers or HMRC.

For the valuation model below, the assumptions are:

```

100 workers
£750 gross weekly pay per worker
52 weeks
£3,900,000 annual gross pay flow

```

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Gross worker pay flow	£3,900,000	Base umbrella PAYE wage throughput
PAYE income tax deducted from workers	£528,600	Should be deducted and remitted through umbrella PAYE
Employee NIC deducted from workers	£211,328	Should be deducted and remitted through umbrella payroll
Employer NIC	£510,120	Employment cost normally funded through assignment rate
Total PAYE/NIC flow handled	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Should be transparent and properly administered
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
Apprenticeship levy indicator	£4,500	If levy applies and assuming only this pay bill
Chapter 11 PAYE/NIC exposure reference	Up to £1,250,048	Indicative tax/NIC flow potentially recoverable where umbrella fails and statutory conditions are met
Worker deduction / margin opacity	Variable	Commercial and worker-rights risk, not a fixed statutory amount

SECTION 6 CONTINUED

Value item	Annual value per 100 workers	Treatment
Umbrella insolvency / disappearance / non-cooperation exposure	Up to £1,250,048 PAYE/NIC flow, plus evidence and recovery risk	Where the umbrella fails, folds, disappears, misleads, withholds evidence or has not remitted sums owed

The PAYE changes are designed to tackle non-compliance in the umbrella company market by making recruitment agencies or end clients accountable for PAYE on payments to workers supplied through umbrella companies.

Complete heat map matrix – Umbrella PAYE

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Umbrella PAYE failure	Has the umbrella deducted, reported and paid PAYE/NIC correctly?	Chapter 11 ITEPA 2003 / PAYE / NIC	Up to £1,250,048 PAYE/NIC flow potentially in issue	Very High	Medium / High
Agency relevant-party exposure	Is the agency with the direct contract to the end client the relevant party?	Chapter 11 / joint and several liability	Up to £1,250,048 PAYE/NIC flow	Very High	Medium / High
End-client relevant-party exposure	Is there no agency in the chain, causing the end client to become the relevant party?	Chapter 11 / no-agency chain	Up to £1,250,048 PAYE/NIC flow	Very High	Low / Medium
Multiple-agency chain uncertainty	Which agency has the direct contract with the end client?	Chapter 11 / relevant party rules	Up to £1,250,048 PAYE/NIC flow	High	Medium
Umbrella not genuinely operating PAYE	Do payslips, RTI process, employer identity and payments prove real PAYE operation?	PAYE / RTI / umbrella compliance	£1,250,048 payroll tax/NIC flow	Very High	Medium / High
Umbrella folds, disappears or becomes uncooperative	If HMRC, the agency or contractor later needs evidence or recovery, will the umbrella still exist and cooperate?	Chapter 11 / recovery risk / corporate solvency / evidence failure	Up to £1,250,048 PAYE/NIC flow plus unrecoverable indemnity/evidence loss	Very High	Medium / High
Umbrella deliberately misleads the chain	Has the umbrella represented PAYE compliance while failing to remit, concealing deductions or withholding accurate records?	PAYE / fraud / Chapter 11 / labour-chain assurance	Up to £1,250,048 PAYE/NIC flow plus full route evidence risk	Very High	Medium
Indemnity failure	Is the agency or contractor relying on an indemnity from an umbrella that may not have the assets or continuity to honour it?	Contract / recovery / supplier solvency	Commercial/evidential exposure across full £3.9m labour route	High	Medium / High
Employer identity mismatch	Does the payslip employer match the approved umbrella and worker contract?	Chapter 11 / purported umbrella risk	Full £3.9m route plus PAYE/NIC flow	High	Medium
Unclear deductions and margin	Can the worker understand gross pay, umbrella margin, employer costs, holiday pay and deductions?	Employment rights / umbrella guidance / KID	Variable; affects worker pay and compliance	Medium / High	Medium
Holiday pay misstatement or withholding	Is holiday pay accrued, paid and disclosed correctly?	Working Time Regulations / umbrella worker rights	£470,730 indicator	High	Medium
Pension auto-enrolment failure	Has the umbrella assessed and enrolled eligible workers where required?	Workplace pension duties	£98,280 employer minimum contribution indicator	Medium / High	Low / Medium
Worker documentation failure	Has the worker received clear pre-engagement information about pay, deductions and who pays them?	KID / employment business conduct rules	Non-fixed value; audit and worker-claim risk	Medium	Medium
Mini umbrella drift	Are workers being moved across multiple small employing companies?	Mini umbrella company fraud / PAYE / VAT	Up to £1,250,048 PAYE/NIC flow plus VAT risk	Very High	Low / Medium
Disguised remuneration	Are any payments made as loans, advances, grants or non-taxable elements?	PAYE avoidance / umbrella avoidance / worker tax risk	Up to £1,250,048 PAYE/NIC flow plus worker tax bills	Very High	Low / Medium
Payroll substitution without approval	Has the agency or umbrella inserted a new payroll entity without approval?	GfC12 / Chapter 11 / PAYE	Up to £1,250,048 PAYE/NIC flow	High	Medium
NMW / working-time risk	Are site-required hours, unpaid time and deductions reflected in pay?	NMW/NLW / labour supply chain	Not separately valued; can affect full pay flow	Medium / High	Medium
Right-to-work assurance gap	Has the responsible employer completed checks and can the contractor/agency evidence assurance?	Immigration / labour-chain assurance	Non-pay-flow penalty and disruption risk	High	Low / Medium
Invoice and pay reconciliation failure	Do contractor payments to agency, agency payments to umbrella and umbrella payslips reconcile?	Contract / finance / audit	Commercial/evidential exposure across full £3.9m labour route	Medium	Medium
Evidence / audit failure	Can the chain evidence worker, employer, payroll, deductions, RTI process and payment flow?	HMRC, client audit, labour-chain assurance	Commercial/evidential exposure across full £3.9m labour route	High	Medium / High
Contractor assurance failure	Has the contractor relied on "umbrella PAYE" without checking whether the umbrella is approved, evidenced, solvent and stable?	GfC12 supply-chain assurance	Full route value £3.9m plus reputational risk	High	Medium / High

Interpretation

Risk rating: Medium / High

Umbrella PAYE is materially safer than labour-only CIS in one respect: the worker is not being presented as self-employed. PAYE is supposed to be operated.

SECTION 6 CONTINUED

However, the route introduces a different and now significant risk:

The contractor or agency is relying on a third-party umbrella to operate PAYE correctly, remit the sums owed, maintain accurate evidence, remain solvent, and cooperate if challenged.

That reliance is not theoretical. HMRC states that while many umbrella companies follow the rules, some do not, and some may not pay all money owed to workers or HMRC.

From 6 April 2026, that reliance becomes much more sensitive. HMRC says the reforms make agencies, or end clients where no agency is involved, accountable for PAYE in umbrella chains.

The annual values show why this matters:

Annual gross pay flow: £3.9m
 PAYE income tax flow: £528.6k
 Employee NIC flow: £211.3k
 Employer NIC flow: £510.1k
 Total PAYE/NIC flow: £1.25m
 Holiday pay indicator: £470.7k
 Pension indicator: £98.3k

This route therefore does not remove payroll risk. It relocates payroll risk into the umbrella and then, under Chapter 11, potentially back up to the agency or end client.

The practical commercial concern is that an umbrella may:

deduct PAYE/NIC but fail to remit it;
 underpay workers;
 withhold or obscure deductions;
 fail to preserve reliable payroll evidence;
 change payroll entities;
 fold or disappear before challenge;
 lack the funds to honour indemnities;
 mislead the chain about compliance.

For agencies, the key issue is:

If we use the umbrella, are we the relevant party responsible for PAYE failure if the umbrella does not remit, disappears or cannot evidence compliance?

For contractors, the key issue is:

Are we relying on an umbrella route without evidence of compliance, stability and solvency, and could we become the relevant party where there is no agency or where the structure makes us responsible?

Umbrella PAYE should therefore be treated as an **exception route**, not a default route. It can be viable where the umbrella is approved, audited, transparent, solvent, stable and evidence-cooperative. But it carries materially more chain risk than agency direct PAYE or a controlled non-umbrella PAYE alternative.

SECTION 6 CONTINUED

Bottom line: Umbrella PAYE is better than labour-only CIS where PAYE is genuinely operated, but it introduces Chapter 11 relevant-party risk, third-party remittance risk, umbrella insolvency/disappearance risk, deduction opacity, holiday-pay complexity, mini-umbrella risk and evidence burden. For labour-only construction fulfilment, direct PAYE, agency direct PAYE or a controlled non-umbrella PAYE route materially improves the operating position.

SECTION 7

Purported Umbrella / Payroll Company Operating CIS

RISK RATING: VERY HIGH

```
Contractor / end client
↓
Agency / labour supplier
↓
Payroll company / purported umbrella / umbrella-like entity
↓
Worker treated as CIS, gross-paid, or not genuinely paid as PAYE
```

This route is where a labour chain inserts a payroll company, umbrella-like entity, compliance company or payment intermediary, but workers are treated as CIS/self-employed rather than genuinely employed and paid through PAYE.

It may be described as:

- CIS payroll;
- self-employed payroll;
- payroll support;
- outsourced payroll;
- employer-of-record;
- compliance payroll;
- umbrella alternative;
- construction payroll solution;
- gross-pay payroll.

The critical point is this:

```
If a payroll company is positioned as the worker-paying intermediary
but operates CIS instead of PAYE, the route should be treated as a very high-risk purported umbrella / Chapter 11 trigger.
```

HMRC's draft Chapter 11 materials state that relevant parties are jointly and severally liable with the umbrella company for PAYE amounts, and HMRC's Employment Status Manual says the guidance covers arrangements entered into with a party that **purports to be an umbrella company**.

For the valuation model below, the assumptions are:

```
100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow
```

Core annual value references for this chain

SECTION 7 CONTINUED

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base worker payment / labour-chain flow
CIS 20% deduction benchmark	£780,000	If workers are treated as CIS with 20% deductions
CIS 30% deduction benchmark	£1,170,000	If unverified / higher-rate CIS treatment applies
PAYE income tax that should be deducted under payroll	£528,600	Potential PAYE flow if workers should be PAYE
Employee NIC that should be deducted under payroll	£211,328	Potential worker NIC flow
Employer NIC cost	£510,120	Potential employer NIC cost
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Worker-rights cost indicator
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
Chapter 11 / joint-and-several PAYE recovery reference	Up to £1,250,048	Indicative PAYE/NIC flow where umbrella-like chain fails
Potential s62A determination benchmark	£780,000	20% construction-payment benchmark if conditions met
Maximum s72A penalty indicator	£234,000	30% of £780,000 if penalty conditions apply
Worker MTD admin friction	£25,000–£100,000 indicative	Worker-side admin friction if treated as self-employed/CIS

At £750/week, each worker's annual gross income is **£39,000**. That exceeds the MTD for Income Tax £30,000 threshold from April 2027 and the £20,000 threshold from April 2028 if the worker remains within self-employed/CIS reporting.

Complete heat map matrix – Purported Umbrella / Payroll Company Operating CIS

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Payroll company operating CIS instead of PAYE	Is a payroll company or umbrella-like entity paying workers through CIS rather than PAYE?	Chapter 11 / purported umbrella / PAYE / agency rules	Up to £1,250,048 PAYE/NIC flow	Very High	Very High
Joint-and-several PAYE exposure	Has a worker-paying third party been inserted into the labour chain, creating umbrella/purported umbrella risk?	Chapter 11 ITEPA 2003 / relevant party liability	Up to £1,250,048 PAYE/NIC flow	Very High	Very High
Purported umbrella recharacterisation	Does the entity perform umbrella-like functions but avoid PAYE by calling the worker CIS/self-employed?	Chapter 11 / purported umbrella arrangements	Full £3.9m route plus PAYE/NIC flow	Very High	Very High
Worker not genuinely employed	Does the supposed employer actually employ the worker, or merely process payments?	PAYE / employment status / purported employer risk	Full £3.9m route plus PAYE/NIC flow	Very High	Very High
CIS used inside payroll-like chain	Why is a payroll company operating CIS at all for labour-only workers?	CIS / PAYE boundary / agency legislation	£1,250,048 PAYE/NIC flow behind route	Very High	Very High
Agency PAYE failure	Are workers personally supplying services under supervision, direction or control but paid outside agency PAYE?	ITEPA s44 / agency legislation	Up to £1,250,048 PAYE/NIC flow	Very High	High
Employer identity mismatch	Do worker contracts, payslips, invoices and payments identify the same employer/payer?	Chapter 11 / PAYE / evidence failure	Commercial/evidential exposure across full £3.9m labour route	Very High	High
PAYE not operated or not remitted	Can the chain prove PAYE/NIC was deducted, reported and paid?	PAYE / RT1 / Chapter 11	£528,600 PAYE + £211,328 employee NIC + £510,120 employer NIC	Very High	High
Employer NIC avoided	Is the route avoiding employer NIC by calling workers CIS/self-employed?	Class 1 secondary NIC	£510,120	High	High
Employee NIC not operated	Has employee NIC been avoided through CIS/gross pay treatment?	Class 1 employee NIC	£211,328	High	High
PAYE income tax not operated	Was PAYE required instead of CIS deduction?	PAYE income tax	£528,600, subject to CIS offsets and facts	High	High
Holiday pay exposure	If workers are employees/workers, has holiday entitlement been missed or obscured?	Working Time Regulations / worker rights	£470,730	High	High
Pension auto-enrolment exposure	Should the paying/employing entity have assessed workers for pension duties?	Workplace pension duties	£98,280	Medium / High	Medium / High
Worker deduction opacity	Can the worker explain gross pay, deductions, margin and who pays them?	Employment rights / worker information / umbrella guidance	Variable; affects full worker pay route	High	High

SECTION 7 CONTINUED

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
s62A connected deliberate CIS/PAYE failure	Before paying, did a payer know or should it have known of connected deliberate CIS or PAYE failure?	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	High
s72A penalty	Are s62A/s62B and penalty conditions met?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Medium / High
Director/officer exposure	Is company conduct attributable to an officer who knew or should have known?	Finance Act 2004 s72B	Up to relevant penalty amount	High	Medium
MTD worker burden	Are workers carrying self-employed reporting obligations because PAYE was not operated?	MTD for Income Tax / Self Assessment	£25,000–£100,000 indicative worker-side admin friction	Medium	High from 2027/2028
VAT / invoice-chain risk	Is the payment chain connected to VAT fraud or artificial invoicing?	VAT / Kittel / labour-chain fraud	VAT-dependent; potentially material on £3.9m route	High	Medium / High
Contractor assurance failure	Can the contractor explain who employs, pays and taxes the workers?	GfC12 labour supply-chain assurance	Commercial/evidential exposure across full £3.9m labour route	Very High	High
Agency delisting / commercial failure	Would a contractor, auditor or adviser accept this route if fully explained?	Procurement / contractor assurance	Full £3.9m route commercially at risk	High	High
Evidence collapse	Can the route be evidenced without contradiction?	HMRC / client audit / employment-rights / fraud	Commercial/evidential exposure across full £3.9m labour route. Plus PAYE/NIC flow	Very High	Very High

Interpretation

Risk rating: Very High

This route should be treated as **structurally unsafe**.

It is not simply “CIS with an extra admin provider”. The insertion of a payroll company or umbrella-like payment entity changes the nature of the risk. If the entity is positioned as the party responsible for paying workers, but it operates CIS rather than PAYE, the route strongly resembles a purported umbrella or umbrella-like arrangement.

That means the risk is not remote or theoretical. The trigger is present in the structure itself:

A third-party payment/employment-style intermediary exists.
The worker is not genuinely paid through PAYE.
The entity performs payroll-like or umbrella-like functions.
The worker is treated as CIS/self-employed.

The consequence is that both major risk regimes may now be engaged:

Chapter 11 / joint-and-several PAYE risk
+
CIS / s62A construction-payment risk

The annual exposure indicators are significant:

Annual labour flow: £3.9m
PAYE/NIC flow behind route: £1.25m
Employer NIC alone: £510k
Holiday pay indicator: £470.7k
Pension indicator: £98.3k
s62A determination benchmark: £780k
maximum s72A penalty indicator: £234k

For contractors, the key question is:

Why is a payroll company operating CIS for labour-only workers in our chain?

SECTION 7 CONTINUED

For agencies, the key question is:

Are we relying on, recommending, controlling or benefiting from a payroll company that is avoiding PAYE by operating CIS?

If the answer is yes, the route should be treated as a presumed failure route unless specialist advice confirms otherwise.

This should not be an exception route. It should be a **prohibit route**.

Bottom line: A payroll company operating CIS for labour-only workers is one of the clearest danger patterns. It combines CIS misuse, agency PAYE failure, purported umbrella risk, Chapter 11 joint-and-several exposure, worker-rights risk, MTD burden, VAT/fraud risk and evidence collapse. PAYE materially improves the operating position because it removes the artificial payroll/CIS layer and replaces it with a known employer, known PAYE scheme, known deductions and auditable worker records.

SECTION 8

Mini Umbrella / Disguised Remuneration

RISK RATING: VERY HIGH

```

Contractor / end client
↓
Agency / labour supplier
↓
Mini umbrella companies / disguised remuneration provider
↓
Worker
  
```

This route is where workers are routed through artificial, fragmented, avoidance-led or non-compliant payroll structures.

It may involve:

- multiple small employing companies;
- workers moved between employer entities;
- short-lived companies;
- unusual director patterns;
- shared addresses;
- unusually high take-home pay;
- loans, advances, grants or other non-taxable payments;
- low taxable pay with separate non-taxed elements;
- opaque payslips;
- offshore or third-party payment flows.

HMRC describes mini umbrella company fraud as involving the use of multiple limited companies, each employing a small number of temporary workers, to exploit tax reliefs and avoid paying the correct tax.

HMRC also warns agency workers and contractors that tax avoidance schemes may use loans, advances, grants, annuities or other non-taxable payments instead of ordinary taxable pay.

For the valuation model below, the assumptions are:

```

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow
  
```

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base worker payment / labour-chain flow
PAYE income tax potentially avoided	£528,600	Potential PAYE income tax flow
Employee NIC potentially avoided	£211,328	Potential employee NIC flow

SECTION 8 CONTINUED

Value item	Annual value per 100 workers	Treatment
Employer NIC potentially avoided	£510,120	Potential employer NIC flow
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Worker-rights cost indicator
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
VAT exposure reference	Variable	Depends on invoicing, VAT recovery and fraud facts
Chapter 11 PAYE recovery reference	Up to £1,250,048	If umbrella/purported umbrella chain fails
Worker tax bill exposure	Variable	Especially where disguised remuneration is used
Agency/contractor commercial route exposure	Full £3,900,000 route	Route may become indefensible or contractually prohibited

Complete heat map matrix – Mini Umbrella / Disguised Remuneration

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Mini umbrella company fraud	Are workers fragmented across multiple small employers with weak substance or repeated entity changes?	Mini umbrella company fraud / PAYE / VAT	Up to £1,250,048 PAYE/NIC flow plus VAT exposure	Very High	High
Disguised remuneration	Are workers receiving loans, advances, grants or non-taxable pay elements?	PAYE avoidance / loan scheme rules / worker tax risk	Up to £1,250,048 PAYE/NIC flow plus worker tax bills	Very High	High
PAYE not properly operated	Can the chain prove taxable earnings were fully processed through PAYE?	PAYE / RTI / umbrella avoidance	£528,600 PAYE + £211,328 employee NIC + £510,120 employer NIC	Very High	High
Employer NIC avoidance	Is the structure designed to reduce or avoid employer NIC?	Class 1 secondary NIC	£510,120	Very High	High
Employee NIC avoidance	Has worker NIC been reduced or avoided through artificial pay structuring?	Class 1 employee NIC	£211,328	High	High
VAT fraud / input tax denial	Did the agency or contractor know, or should it have known, the transactions were connected with VAT fraud?	VAT fraud / Kittel principle	VAT-dependent, potentially material on £3.9m labour flow	Very High	Medium / High
Chapter 11 upstream PAYE exposure	Is an umbrella or purported umbrella chain being used, and has PAYE failed?	Chapter 11 ITEPA 2003 / umbrella or purported umbrella rules	Up to £1,250,048 PAYE/NIC flow	Very High	High
Worker tax exposure	Has the worker been told some pay is non-taxable when it is really taxable income?	Disguised remuneration / income tax	Variable; worker may face direct tax bills	High	High
Holiday pay opacity	Is holiday pay clearly accrued, paid and shown on payslips?	Working Time Regulations / umbrella worker rights	£470,730 indicator	High	Medium / High
Pension auto-enrolment failure	Are eligible workers assessed and enrolled by the true employer?	Workplace pension duties	£98,280 employer minimum contribution indicator	Medium / High	Medium
Employer identity instability	Are workers repeatedly moved between employing entities?	PAYE / company law / evidence	Commercial/evidential exposure across full £3.9m labour route	Very High	High
Worker confusion	Does the worker know who employs them, pays them and deducts tax?	Employment rights / worker information	Non-fixed value; supports challenge and evidence failure	High	High
False or misleading payslips	Do payslips show a low taxable amount, split pay or employer mismatch?	PAYE / fraud / employment rights	Up to £1,250,048 PAYE/NIC flow	Very High	Medium / High
Agency due diligence failure	Did the agency carry out proper due diligence before using or recommending the structure?	GfC12 / umbrella due diligence / contractor assurance	Full £3.9m route commercially at risk	Very High	High
Contractor supply-chain assurance failure	Did the contractor accept the chain without identifying obvious red flags?	GfC12 / procurement / client audit	Full £3.9m route commercially at risk	High	Medium / High
Director/officer governance risk	Did officers approve or ignore a structure with clear avoidance indicators?	Fraud / tax evasion facilitation / governance	Variable; potentially severe	High	Medium
Supplier delisting / termination	Would the route survive contractor, client, legal or tax adviser scrutiny?	Contract / procurement / audit	Full £3.9m route at commercial risk	High	High
Evidence collapse	Can the chain be evidenced without contradiction, entity confusion or pay mismatch?	HMRC / client audit / fraud / employment rights	Full £3.9m route plus PAYE/NIC flow	Very High	High

Interpretation

Risk rating: High

Mini umbrella and disguised remuneration routes are not “higher risk alternatives”. They are **prohibit routes**.

SECTION 8 CONTINUED

They do not merely create compliance complexity. They indicate that the labour chain may be designed around artificial employer fragmentation, tax avoidance, PAYE failure, VAT abuse or worker pay misrepresentation.

The warning signs are usually visible:

```
workers moved between small employers;
employer names change;
payslips are unclear;
taxable pay appears artificially low;
take-home pay is unusually high;
workers receive loans or advances;
companies have little substance;
multiple entities share addresses or directors;
the agency cannot explain the structure clearly.
```

The annual exposure indicators show why the route is unacceptable:

```
Annual labour flow: £3.9m
PAYE/NIC flow behind route: £1.25m
Employer NIC alone: £510k
Holiday pay indicator: £470.7k
Pension indicator: £98.3k
VAT exposure: variable but potentially material
Full route commercial exposure: £3.9m
```

For agencies, the question is:

```
Why are we using a payroll structure that creates artificial employer fragmentation or unusually high take-home pay?
```

For contractors, the question is:

```
Why are we allowing a chain that we would struggle to explain to HMRC, a client, an auditor or our own board?
```

A contractor or agency cannot sensibly mitigate this route through ordinary monitoring. The correct control is exclusion.

Bottom line: Mini umbrella and disguised remuneration routes should be prohibited. They create very high-likelihood PAYE/NIC, VAT, worker-tax, worker-rights, fraud, governance and evidence-collapse risks. PAYE materially improves the operating space because it removes artificial employer fragmentation and non-taxable pay structures, replacing them with a known employer, ordinary taxable earnings, transparent deductions and auditable payroll evidence.

SECTION 9

PSC for Labour-Only Work

RISK RATING: HIGH

```

Contractor / end client
↓
Agency / intermediary, where applicable
↓
Worker's personal service company
↓
Individual worker

```

This route is where a labour-only worker provides services through a personal service company, usually invoicing through that company rather than being paid as PAYE by the contractor or agency.

PSC use is not inherently improper. It may be suitable for genuinely independent consultancy, specialist professional services, or project-based work where the company is genuinely in business on its own account.

The problem arises where PSCs are used for ordinary labour-only construction roles.

In that scenario, the route may simply move the problem from CIS/status risk into IR35/off-payroll working risk.

HMRC guidance states that if the off-payroll working rules apply, the client is responsible for determining the worker's employment status for tax and should produce a Status Determination Statement with reasons. The rules apply on a contract-by-contract basis.

HMRC also states that until the client passes the Status Determination Statement down the labour supply chain, the client remains the deemed employer and is responsible for operating PAYE.

For the valuation model below, the assumptions are:

```

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow

```

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual PSC labour flow	£3,900,000	Base invoice / labour-value flow
PAYE income tax that may need to be deducted if inside IR35	£528,600	Potential deemed employment tax flow
Employee NIC that may need to be deducted if inside IR35	£211,328	Potential worker NIC flow
Employer NIC cost if inside IR35	£510,120	Potential fee-payer / deemed employer cost
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Not automatic under IR35 tax rules, but relevant if broader employment/worker-rights challenge arises
Employer pension minimum indicator	£98,280	Not automatic under IR35 tax rules, but relevant if employment/worker-rights duties arise

SECTION 9 CONTINUED

Value item	Annual value per 100 workers	Treatment
Apprenticeship levy indicator	£4,500	Potentially relevant depending on deemed employer/pay bill position
SDS / status governance burden	Non-fixed	Administrative and adviser cost
Commercial route exposure	Full £3,900,000 route	If PSC route is rejected, reclassified or contractually prohibited

HMRC's manual describes a "chain payment" for off-payroll purposes as a payment or other benefit passed down the contractual chain that can reasonably be taken to be for the worker's services to the client. HMRC says the fee-payer is the person in the chain immediately above the worker's intermediary and is treated as making a deemed payment to the worker, subject to the relevant statutory rules.

Complete heat map matrix – PSC for Labour-Only Work

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Inside IR35 / deemed employment	Would the worker be an employee for tax purposes if engaged directly by the client?	ITEPA 2003 Chapter 10 / off-payroll working	Up to £1,250,048 PAYE/NIC flow	Very High	High
Missing Status Determination Statement	Has the client produced and passed down a valid SDS before payment?	Off-payroll working / SDS duties	Up to £1,250,048 PAYE/NIC flow may remain with client until SDS passed down	Very High	Medium / High
Generic or weak SDS	Has the client taken reasonable care, or used generic/unsupported determinations?	Off-payroll working / reasonable care	Up to £1,250,048 PAYE/NIC flow	High	High
Labour-only role unsuitable for PSC	Is this ordinary site labour under supervision, direction or control rather than genuine independent business service?	IR35 / employment-status indicators	Full £3.9m route may be wrongly structured	Very High	High
Fee-payer uncertainty	Who is immediately above the PSC in the payment chain and responsible for deductions if inside IR35?	Off-payroll working / deemed employer rules	£528,600 PAYE + £211,328 employee NIC + £510,120 employer NIC	High	Medium
PAYE not operated where inside IR35	If the engagement is inside IR35, has the fee-payer deducted and accounted for PAYE/NIC?	PAYE / NIC / off-payroll rules	£1,250,048 total PAYE/NIC flow	Very High	Medium / High
Employer NIC not costed	Has the commercial rate priced employer NIC if the engagement is inside IR35?	Class 1 secondary NIC / deemed employer cost	£510,120	High	High
Employee NIC not deducted	Has employee NIC been deducted from deemed employment payments where required?	Class 1 employee NIC	£211,328	High	Medium / High
PAYE tax not deducted	Has PAYE tax been operated where the rules require deemed employment treatment?	PAYE income tax	£528,600	High	Medium / High
Contract / working-practices mismatch	Does the written contract match what actually happens on site?	IR35 status evidence	Commercial/evidential exposure across full £3.9m labour route	High	High
Supervision, direction and control	Does the contractor direct what, how, where or when the worker performs the work?	Employment-status / IR35 factor	Full £3.9m route may be reclassified	High	High
Substitution right not genuine	Is substitution real in practice or just wording in the contract?	Employment-status / IR35 factor	Full £3.9m route may be reclassified	High	Medium / High
Integration into site team	Is the worker operating like part of the contractor's ordinary site workforce?	Employment-status / IR35 factor	Full £3.9m route may be reclassified	High	High
Route shopping after CIS/PAYE challenge	Is PSC being used because CIS or PAYE was challenged, rather than because the role is genuinely independent?	Governance / tax avoidance indicator	Full £3.9m route commercially at risk	High	Medium / High
Agency chain failure	Has status information been passed through the agency chain correctly before payment?	Off-payroll working / supply-chain communication	Up to £1,250,048 PAYE/NIC flow	High	Medium
Worker-rights challenge	Could the individual argue they are a worker/employee beyond the tax analysis?	Employment rights / worker status	£470,730 holiday + £98,280 pension indicators where broader employment/worker status arises	Medium / High	Medium
Audit failure	Can the client evidence SDS, reasons, working-practices review, fee-payer and payment treatment?	HMRC / client audit / internal governance	Commercial/evidential exposure across full £3.9m labour route	High	High
Contractor/client policy breach	Is PSC use prohibited or exception-only for labour-only site roles?	Procurement / labour-chain governance	Full £3.9m route commercially at risk	Medium / High	Medium / High

Interpretation

Risk rating: High

PSC for labour-only work is a high-risk substitution route.

It is not the same as CIS, but it often performs the same commercial function: it allows the labour chain to avoid ordinary PAYE employment presentation while still using individual workers on site.

SECTION 9 CONTINUED

The route may be defensible for genuine independent consultancy or specialist services, but labour-only construction work is difficult because the practical working conditions often look employment-like:

```
site supervision;
fixed hours;
contractor control;
integration into site teams;
no genuine substitution;
no meaningful financial risk;
no independent delivery of a defined service.
```

The annual value indicators show the scale:

```
Annual labour flow: £3.9m
PAYE/NIC flow behind inside-IR35 treatment: £1.25m
Employer NIC alone: £510.1k
PAYE income tax: £528.6k
Employee NIC: £211.3k
```

For contractors, the key question is:

```
Would this individual be treated as employed for tax if we engaged them directly?
```

For agencies, the key question is:

```
Are we supplying ordinary site labour through PSCs and relying on paperwork to override site reality?
```

The route's weakness is that it requires active governance every time:

```
valid SDS;
reasonable care;
status evidence;
contract review;
working-practices review;
fee-payer identification;
chain communication;
payment treatment;
ongoing monitoring.
```

Where those controls are missing, generic or contradicted by site reality, the route becomes very difficult to defend.

Bottom line: PSC should not be used as a labour-only fulfilment route. It is an exception route for genuinely independent services. For ordinary construction labour-only work, PAYE materially improves the operating space because it removes the need for IR35 status defence, SDS governance, fee-payer analysis and working-practices disputes.

SECTION 10

Offshore Payroll Chain

RISK RATING: HIGH



This route is where one or more non-UK entities are inserted into the labour chain for workers performing UK site labour.

The entity may be described as:

- offshore payroll;
- non-UK employer;
- offshore agency;
- international employer-of-record;
- overseas payroll company;
- offshore umbrella;
- non-UK labour provider;
- overseas subcontractor.

The issue is not that every non-UK entity is automatically unlawful. The issue is that UK construction labour performed on UK sites requires a clear answer to:

Who is responsible for UK PAYE/NIC, worker rights, right-to-work assurance, payment evidence and labour-chain compliance?

HMRC’s labour supply-chain assurance guidance identifies offshore intermediaries as a tax-risk area and warns businesses to understand the chain, how workers are engaged and paid, and who is responsible for tax compliance.

For the valuation model below, the assumptions are:

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base UK labour-chain flow
PAYE income tax potentially at issue	£528,600	Potential UK PAYE tax flow

SECTION 10 CONTINUED

Value item	Annual value per 100 workers	Treatment
Employee NIC potentially at issue	£211,328	Potential UK employee NIC flow
Employer NIC potentially at issue	£510,120	Potential UK employer NIC flow
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Worker-rights cost indicator where UK worker/employment duties arise
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator where duties arise
Chapter 11 / umbrella-like PAYE exposure	Up to £1,250,048	If offshore entity functions as umbrella/purported umbrella
Agency legislation exposure	Up to £1,250,048	If UK agency rules apply
VAT / invoice-chain exposure	Variable	Depends on VAT, invoicing, reverse charge and fraud facts
Commercial route exposure	Full £3,900,000 route	Route may be contractually prohibited or rejected by contractor/client

Complete heat map matrix – Offshore Payroll Chain

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
UK PAYE/NIC responsibility unclear	Who is responsible for UK PAYE/NIC for workers performing UK site labour?	PAYE / NIC / labour supply-chain assurance	Up to £1,250,048 PAYE/NIC flow	Very High	High
Offshore agency rules / agency PAYE risk	Is an offshore entity supplying workers who personally provide services under UK supervision, direction or control?	Agency legislation / PAYE / offshore intermediary rules	Up to £1,250,048 PAYE/NIC flow	Very High	Medium / High
Offshore umbrella or purported umbrella	Is the offshore party functioning as the worker-paying umbrella or payroll intermediary?	Chapter 11 / umbrella / purported umbrella rules	Up to £1,250,048 PAYE/NIC flow	Very High	High
PAYE not operated in UK	Can the chain evidence UK payroll operation, reporting and payment?	PAYE / RTI / NIC	£528,600 PAYE + £211,328 employee NIC + £510,120 employer NIC	Very High	High
Employer NIC avoided	Is the offshore structure avoiding UK employer NIC cost?	Class 1 secondary NIC	£510,120	High	High
Employee NIC not operated	Has employee NIC been avoided by paying through a non-UK route?	Class 1 employee NIC	£211,328	High	Medium / High
PAYE tax not operated	Was UK PAYE required but not operated?	PAYE income tax	£528,600	High	Medium / High
Employer identity opacity	Does the worker know who employs and pays them, and can that entity be enforced against?	PAYE / employment law / audit	Commercial/evidential exposure across full £3.9m labour route	Very High	High
Payment-flow opacity	Do payments flow through offshore or third-party accounts that cannot be reconciled?	Fraud / tax / labour-chain assurance	Full £3.9m route plus PAYE/NIC flow	Very High	High
Worker-rights enforcement gap	Can UK worker-rights obligations be enforced against the paying/employing entity?	Employment rights / worker protection	£470,730 holiday + £98,280 pension indicators where applicable	High	Medium / High
Right-to-work assurance gap	Has the responsible party carried out valid UK right-to-work checks before work begins?	Immigration / Home Office duties	Non-pay-flow penalty and disruption risk	Very High	Medium
NMW / working-time risk	Are UK working-time, waiting-time, deduction and minimum wage obligations captured?	NMW/NLW / UK site practices	Not separately valued; can affect full pay flow	High	Medium
VAT / invoicing risk	Is VAT treatment correct and is the offshore chain connected to artificial invoicing or VAT leakage?	VAT / domestic reverse charge / VAT fraud	Variable; potentially material on £3.9m route	High	Medium
s62A connected deliberate PAYE/CIS failure	Before making a construction payment, did the payer know or should it have known of connected deliberate PAYE or CIS failure?	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	Medium
s72A penalty	Are s62A/s62B and penalty conditions met?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Low / Medium
Modern slavery / exploitation risk	Does the offshore chain obscure recruitment, transport, deductions, control or worker vulnerability?	Modern slavery / labour exploitation	Non-pay-flow but severe commercial/legal risk	Very High	Medium
Contractor assurance failure	Can the contractor explain and evidence the full chain, employer, payer, tax route and worker protections?	GfC12 labour supply-chain assurance	Commercial/evidential exposure across full £3.9m labour route	Very High	High
Agency due diligence failure	Did the agency approve an offshore route without full tax/legal/payroll validation?	GfC12 / employment business governance	Full £3.9m route commercially at risk	High	High
Client / board / adviser rejection	Would this route survive scrutiny by a client, auditor, insurer, legal adviser or HMRC?	Procurement / governance / audit	Full £3.9m route commercially at risk	High	High
Evidence collapse	Can the route be evidenced without ambiguity over employer, payer, tax and worker rights?	HMRC / client audit / tax / worker rights	Full £3.9m route plus PAYE/NIC flow	Very High	High

Interpretation

SECTION 10 CONTINUED

Risk rating: High

Offshore payroll chains should be treated as high-risk exception routes, and for ordinary UK construction labour-only fulfilment they should generally be avoided.

The central weakness is that the worker is performing UK construction labour, but the payroll, employer or payment function is being moved outside the UK or into a non-UK structure.

That immediately creates the questions:

Who is the UK PAYE/NIC responsible party?
 Who can HMRC enforce against?
 Who is the legal employer?
 Who performs right-to-work checks?
 Who handles worker rights?
 Who carries employer NIC?
 Who reconciles payments to payslips and site attendance?

The annual value indicators show the exposure scale:

Annual labour flow: £3.9m
 PAYE/NIC flow behind route: £1.25m
 Employer NIC alone: £510.1k
 Holiday pay indicator: £470.7k
 Pension indicator: £98.3k
 s62A determination benchmark: £780k
 maximum s72A penalty indicator: £234k

For contractors, the key question is:

Why are UK site workers being paid or employed through a non-UK labour-chain entity?

For agencies, the key question is:

Can we prove UK PAYE/NIC responsibility, worker-rights compliance, right-to-work assurance and payment flow through this offshore route?

If the answer requires specialist explanation before anyone can understand the route, that is itself a commercial problem.

The route may be defensible in limited specialist international cases, but for routine UK construction labour-only fulfilment, it creates unnecessary opacity.

Bottom line: Offshore payroll chains should not be used as ordinary labour-only fulfilment routes. They create very high PAYE/NIC, enforcement, worker-rights, right-to-work, VAT, s62A, modern slavery, audit and evidence risks. PAYE materially improves the operating space because it brings the employer, payroll, tax deductions, worker records and enforcement route back into a known and auditable UK structure.

SECTION 11

Deep Secondary Agency Chain

RISK RATING: HIGH

```

Contractor / end client
↓
Primary agency / prime labour supplier
↓
Secondary agency / downstream labour supplier
↓
Possible payroll company, CIS route, umbrella, PSC or offshore entity
↓
Worker

```

This route is where the contractor believes it is dealing with one approved agency, but the actual worker source, worker engagement route, payroll route or payment route sits further down the chain.

The route may involve:

- secondary agencies;
- gangmasters or informal labour sources;
- downstream CIS labour suppliers;
- payroll companies;
- umbrellas;
- mini umbrellas;
- PSCs;
- offshore entities;
- unknown worker-paying parties.

The core issue is loss of control and visibility.

HMRC's labour supply-chain assurance guidance says businesses should know the businesses in their supply chains, understand how the workforce is engaged and paid, and regularly review the whole supply chain.

For the valuation model below, the assumptions are:

```

100 workers
£750 gross weekly labour value per worker
52 weeks
£3,900,000 annual labour flow

```

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Annual labour flow	£3,900,000	Base downstream labour-chain flow
PAYE income tax potentially at issue	£528,600	Potential PAYE flow if PAYE should be operated
Employee NIC potentially at issue	£211,328	Potential worker NIC flow

SECTION 11 CONTINUED

Value item	Annual value per 100 workers	Treatment
Employer NIC potentially at issue	£510,120	Potential employer NIC flow
Total PAYE/NIC flow behind route	£1,250,048	PAYE tax + employee NIC + employer NIC
CIS 20% deduction benchmark	£780,000	Where downstream CIS route is used
CIS 30% deduction benchmark	£1,170,000	Where downstream unverified/higher-rate CIS treatment applies
Potential s62A determination benchmark	£780,000	20% construction-payment benchmark if conditions met
Maximum s72A penalty indicator	£234,000	30% of £780,000 if penalty conditions apply
Holiday pay cost indicator	£470,730	Worker-rights cost indicator
Employer pension minimum indicator	£98,280	Auto-enrolment cost indicator
Chapter 11 umbrella exposure reference	Up to £1,250,048	If downstream umbrella or purported umbrella is used
VAT / invoice-chain exposure	Variable	Depends on chain, VAT treatment and fraud facts
Commercial route exposure	Full £3,900,000 route	If route is contractually prohibited or fails audit

Complete heat map matrix – Deep Secondary Agency Chain

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Chain opacity	Does the contractor know every party between itself and the worker?	GfC12 labour supply-chain assurance	Commercial/evidential exposure across full £3.9m labour route	Very High	High
Unknown employer / payer	Who actually employs and pays the worker?	PAYE / employment rights / audit evidence	Up to £1,250,048 PAYE/NIC flow	Very High	High
Primary agency loss of control	Is the primary agency genuinely controlling the downstream route?	Agency governance / contract compliance	Full £3.9m route commercially exposed	High	High
Undisclosed secondary agency	Has the primary agency introduced another supplier without approval?	Contract / GfC12 / labour-chain assurance	Full £3.9m route commercially exposed	High	High
Downstream CIS labour-only route	Is a downstream supplier using CIS for labour-only workers?	ITEPA s44 / CIS / PAYE boundary	Up to £1,250,048 PAYE/NIC flow plus £780,000 CIS/s62A benchmark	Very High	High
Downstream umbrella route	Has a downstream agency or payroll provider inserted an umbrella route?	Chapter 11 ITEPA 2003 / umbrella PAYE	Up to £1,250,048 PAYE/NIC flow	Very High	Medium / High
Downstream purported umbrella / payroll company	Is a worker-paying payroll entity operating outside ordinary PAYE?	Chapter 11 / purported umbrella / PAYE	Up to £1,250,048 PAYE/NIC flow	Very High	High
Downstream mini umbrella / avoidance structure	Are workers fragmented across small employers or paid through non-taxable elements?	Mini umbrella fraud / disguised remuneration / VAT	Up to £1,250,048 PAYE/NIC flow plus VAT exposure	Very High	Medium / High
Downstream PSC route	Has a PSC route been inserted without SDS, fee-payer and status controls?	IR35 / off-payroll working	Up to £1,250,048 PAYE/NIC flow	High	Medium
Offshore downstream entity	Is any downstream payer, employer or payroll provider offshore?	PAYE / offshore intermediary / right to work / GfC12	Up to £1,250,048 PAYE/NIC flow	Very High	Medium / High
s62A connected deliberate CIS/PAYE failure	Before paying, did a payer know or should it have known of connected deliberate CIS or PAYE failure?	Finance Act 2004 s62A	£780,000 determination benchmark	Very High	Medium / High
s72A penalty	Are s62A/s62B conditions and penalty conditions present?	Finance Act 2004 s72A	Up to £234,000 indicator	High	Medium
PAYE not operated where required	Has the downstream route avoided PAYE where PAYE should apply?	PAYE / agency legislation / Chapter 11 / IR35	£1,250,048 PAYE/NIC flow	Very High	High
Employer NIC avoided	Is the route cheaper because employer NIC is not priced or paid?	Class 1 secondary NIC	£510,120	High	High
Holiday pay / worker-rights failure	Are worker rights lost or obscured in the downstream chain?	Working Time Regulations / employment rights	£470,730 holiday indicator	High	Medium / High
Pension auto-enrolment failure	Has the true employer assessed workers for pension duties?	Workplace pension duties	£98,280 employer contribution indicator	Medium / High	Medium
NMW / working-time risk	Does the downstream employer know actual site-required working time?	NMW/NLW / site practice	Not separately valued; can affect full pay flow	High	Medium / High
Right-to-work assurance gap	Has the responsible party completed right-to-work checks before site access?	Immigration / Home Office duties	Non-pay-flow penalty and disruption risk	Very High	Medium / High
Worker substitution without onboarding	Are replacement workers appearing without contractor approval?	Right to work / CDM / audit / contract	Full route exposed to worker-record failure	High	High
Site competence / CDM gap	Can the chain evidence competence, cards, training and induction for every worker?	CDM / H&S	Non-pay-flow incident/enforcement risk	High	Medium / High
VAT / invoice-chain risk	Are invoices, VAT numbers and payment flows consistent across the chain?	VAT / Kittel / reverse charge	VAT-dependent; potentially material on £3.9m route	High	Medium

SECTION 11 CONTINUED

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Payment-flow mismatch	Does money flow to the same entities disclosed in the chain map?	Fraud / tax / contract / audit	Full £3.9m route plus tax flow	Very High	High
Worker confusion	Does the worker know who employs and pays them?	Employment rights / GfC12 / safeguarding	Non-fixed; strong evidence-collapse indicator	High	High
Modern slavery / exploitation risk	Does chain depth obscure recruitment, transport, deductions, accommodation or control?	Modern slavery / labour exploitation	Non-pay-flow but severe legal/reputational risk	Very High	Medium
Contractor audit failure	Can the contractor reconstruct the chain from supplier to worker?	GfC12 / client audit / internal governance	Full £3.9m route commercially exposed	Very High	High
Agency delisting / contract termination	Would the primary agency remain approved if it cannot evidence downstream control?	Procurement / contractor assurance	Full £3.9m route commercially at risk	High	High
Evidence collapse	Can the route be evidenced without gaps, contradictions or unknown parties?	HMRC / client audit / employment rights / fraud	Full £3.9m route plus PAYE/NIC flow	Very High	High

Interpretation

Risk rating: High

Deep secondary agency chains are high risk because they separate the contractor from the worker and may separate the primary agency from the actual worker-paying entity.

This route is not always unlawful. Secondary agency participation can be legitimate where it is disclosed, approved and controlled. But it becomes dangerous where the contractor's approved agency acts as a front end while the real sourcing, payment or engagement route sits further down the chain.

The core concern is:

The contractor thinks it has approved the supplier.
 The primary agency thinks the downstream party is responsible.
 The downstream party may use CIS, umbrella, PSC, offshore payroll or another unapproved route.
 The worker may not know who employs or pays them.
 The evidence trail may collapse.

The annual exposure indicators show the scale:

Annual labour flow: £3.9m
 PAYE/NIC flow behind route: £1.25m
 CIS 20% deduction benchmark: £780k
 s62A determination benchmark: £780k
 maximum s72A penalty indicator: £234k
 Holiday pay indicator: £470.7k
 Pension indicator: £98.3k

For contractors, the key question is:

Can we identify every party between us and the worker, and can we prove who employs, pays and taxes the worker?

For agencies, the key question is:

Can we evidence that every downstream supplier is approved, controlled, and prohibited from using CIS, umbrella, PSC, offshore or unknown payroll routes without permission?

Deep secondary chains are especially dangerous because they can hide other prohibited or high-risk routes:

SECTION 11 CONTINUED

secondary agency → CIS labour-only;
secondary agency → umbrella;
secondary agency → purported umbrella;
secondary agency → mini umbrella;
secondary agency → offshore payroll;
secondary agency → PSC;
secondary agency → unknown worker-paying party.

So the route is not just a risk in itself. It is a **risk multiplier**.

Bottom line: Deep secondary agency chains should be strictly controlled, not allowed by default. They create high-likelihood chain opacity, worker evidence failure, PAYE/CIS misclassification, s62A, Chapter 11, VAT, right-to-work, worker-rights, modern-slavery and audit risks. PAYE materially improves the operating space only where the secondary chain is removed or tightly controlled so that every worker remains on a known, approved, non-CIS, non-umbrella PAYE route.

Findings and Controlled Response

Route-level findings

Response criteria

Controlled non-umbrella PAYE employment route

CLCRH-001

SECTION 12

Findings

The route analysis identifies a repeated risk pattern across construction temporary labour chains. The lowest-risk positions are those where worker status, payroll operation, contractual responsibility and audit evidence remain aligned. The highest-risk positions are those where supervision, worker payment, tax treatment and contractual accountability are split across multiple parties.

Finding	Interpretation
Risk is not evenly distributed	Contractor Direct PAYE and properly evidenced Agency Direct PAYE are generally clearer. Labour-only CIS, default umbrella use, PSC, offshore payroll, mini-umbrella and deep-chain arrangements carry materially higher risk.
Labour-only supply is the pressure point	CIS is easier to defend where a genuine works package is being delivered. It is much harder to defend where the practical arrangement is labour-only supply into contractor-controlled works.
Chain depth multiplies exposure	Each additional agency, MSP, payroll provider, umbrella, secondary supplier or offshore participant reduces visibility and increases evidence failure risk.
Payroll route and worker outcome are connected	Routes that create PAYE, NIC, employment-status or CIS exposure also tend to create weaker worker clarity, weaker accountability and weaker public defensibility.
Existing market routes leave a gap	Contractor Direct PAYE is clean but operationally heavy. Agency Direct PAYE can work but depends on agency conduct and route controls. Genuine CIS is valid only for genuine packages. The remaining higher-risk routes create recurring exposure.

Core finding

The construction labour market needs a route that preserves temporary labour flexibility while producing PAYE clarity, worker-level visibility, auditable evidence and controlled substitution away from umbrella, CIS labour-only, PSC, offshore and deep-chain payroll structures.

SECTION 13

Response Criteria

The findings do not point to a simple preference for one existing market route in all cases. They point to a required operating standard. A better route must retain commercial usability while removing the recurring weaknesses that appear across labour-only CIS, umbrella, PSC, offshore and deep secondary-chain models.

Required element	Operating requirement
PAYE clarity	The route should produce a clear PAYE employment outcome, with known PAYE operation, RTI reporting, payslip evidence, employer NIC treatment and payroll accountability.
No umbrella assignment-rate conversion	The worker should not need to interpret umbrella assignment-rate, gross-pay, margin, employer-cost or deduction conversion logic to understand their pay.
No labour-only CIS substitution	The route should prevent labour-only workers being pushed into CIS where the practical relationship is site labour supply rather than delivery of a genuine works package.
No PSC, offshore or mini-umbrella substitution	The route should prevent workers being moved into PSC, offshore, mini-umbrella, disguised-remuneration or unknown payroll structures below the visible supplier.
Known legal employer and payer	The worker, contractor, agency and audit function should be able to identify who employs the worker, who pays the worker and who handles payroll questions.
Worker-level route visibility	The contractor, funder or public buyer should be able to identify the approved payroll route at worker level, not merely at supplier level.
Evidence-ready operation	The route should generate onboarding, RTI, payslip, holiday pay, pension, right-to-work, timesheet, rate and payment evidence capable of review.
Commercial flexibility without chain opacity	The model should preserve temporary labour responsiveness without relying on hidden payroll intermediaries or uncontrolled secondary chains.
Substitution control	The route should prohibit unauthorised switching into umbrella, CIS, PSC, offshore, secondary agency or unknown payroll structures.
Audit and reporting capability	The route should support contractor, funder, insurer, HMRC-facing and internal governance review through consistent, worker-level evidence.

Response standard

A credible alternative should not merely avoid one named risk route. It should be designed so that the worker, contractor, supplier, auditor and funder can all see the same controlled PAYE position.

SECTION 14

Controlled Non–Umbrella PAYE Employment Route

RISK RATING: VERY LOW

```

Contractor
↓
Controlled non-umbrella PAYE Employer
↓
PAYE Employee
  
```

This route is introduced as the model response to the risk pattern identified in the preceding heatmap. It describes a deterministic, system-bounded and compliance-controlled PAYE true-employment alternative that is **not**:

- contractor direct PAYE;
- ordinary agency PAYE;
- umbrella PAYE;
- operated under a “contract for services”;
- purported umbrella;
- CIS;
- PSC;
- offshore payroll;
- mini umbrella;
- disguised remuneration.

The purpose of this route is to preserve a clear PAYE outcome while avoiding the additional chain-risk created by umbrella, CIS, PSC or payroll-intermediary structures.

A controlled non-umbrella PAYE employer should:

- be a known legal employer;
- operate PAYE through a known PAYE scheme;
- operate true employment contracts, not “contracts for services”;
- have no umbrella margin/deduction opacity;
- have no CIS treatment capability;
- have no PSC treatment capability;
- have no off-chain payroll provider capability;
- have no worker payment capability outside the approved PAYE route;
- have project-level worker attribution;
- operate and maintain employment onboarding evidence;
- operate and maintain payroll evidence;
- be capable of engagement, invoice and payment reconciliation;
- be capable of system-ready audit-ready reporting.

For the valuation model below, the assumptions are:

SECTION 14 CONTINUED

100 workers
 £750 gross weekly pay per worker
 52 weeks
 £3,900,000 annual gross pay flow

The 2026/27 employer guidance confirms the weekly Class 1 NIC primary threshold at £242 and secondary threshold at £96. Employers report PAYE payroll information to HMRC using FPS/EPS, and FPS must normally be sent on or before payday.

Core annual value references for this chain

Value item	Annual value per 100 workers	Treatment
Gross worker pay flow	£3,900,000	Base PAYE wage throughput
PAYE income tax deducted from workers	£528,600	Payroll deduction through controlled PAYE route
Employee NIC deducted from workers	£211,328	Payroll deduction through controlled PAYE route
Employer NIC	£510,120	Employer cost, priced into the PAYE model
Total PAYE/NIC flow handled	£1,250,048	PAYE tax + employee NIC + employer NIC
Holiday pay cost indicator	£470,730	Employment-rights cost, priced into the PAYE model
Employer pension minimum indicator	£98,280	Employer cost, priced into the PAYE model
Apprenticeship levy indicator	£4,500	If levy applies and assuming only this pay bill

Holiday entitlement for irregular-hours or part-year workers can accrue at 12.07% of hours worked, and the lower qualifying-earnings band for pension auto-enrolment remains £6,240 for 2026/27.

Complete heat map matrix – Controlled Non-Umbrella PAYE Alternative

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
PAYE income tax operation	Is PAYE correctly deducted, reported and paid through the controlled PAYE route?	PAYE / Income Tax / RTI	£528,600	Medium	Very Low
Employee NIC operation	Is employee NIC deducted correctly?	Class 1 employee NIC	£211,328	Medium	Very Low
Employer NIC cost	Is employer NIC correctly costed and paid by the employing/payroll-responsible entity?	Class 1 secondary NIC	£510,120	Medium / High	Very Low
Total payroll tax/NIC flow	Can the route evidence complete payroll tax/NIC handling?	PAYE + employee NIC + employer NIC	£1,250,048	Medium / High	Very Low
RTI reporting failure	Is payroll reported to HMRC on or before payment?	PAYE Real Time Information	Penalty/interest dependent	Medium	Very Low
Holiday pay	Is holiday entitlement accrued and paid transparently?	Working Time Regulations / holiday pay	£470,730	Medium	Very Low
Pension auto-enrolment	Are eligible workers assessed and enrolled where required?	Workplace pension duties	£98,280 employer minimum indicator	Medium	Very Low
Apprenticeship levy	Does the total pay bill trigger levy cost?	Apprenticeship levy	£4,500 indicator if levy applies	Low / Medium	Very Low
NMW / working-time capture	Are all working hours captured and reflected in pay?	NMW/NLW / site working time	Not separately valued; can affect full pay flow	Medium	Very Low
Employer identity clarity	Is the worker's legal employer known and consistent across contracts, payslips and payment records?	PAYE / employment law / audit evidence	Commercial/evidential exposure across full £3.9m labour route	Medium	Very Low
Umbrella recharacterisation risk	Could the route be characterised as an umbrella or purported umbrella in substance?	Chapter 11 / purported umbrella risk	Up to £1.25m PAYE/NIC flow if route is actually umbrella-like and fails	High	Very Low
Hidden payroll substitution	Has any unapproved payroll provider, umbrella, CIS supplier or offshore entity been inserted?	PAYE / GfC12 supply-chain assurance	Up to £1.25m PAYE/NIC flow if PAYE route breaks	High	Very Low
Worker documentation	Does the worker know who employs them, who pays them and how deductions are calculated?	Employment rights / worker information	Not directly pay-flow valued	Medium	Very Low
Right-to-work assurance	Was right-to-work assurance completed before work began?	Immigration / Home Office	Non-pay-flow penalty and disruption risk	High	Very Low
Site competence / induction	Is the worker competent, inducted and authorised for the task?	CDM / H&S	Non-pay-flow incident/enforcement risk	High	Very Low

SECTION 14 CONTINUED

Risk	Key question / trigger	Relevant legislative / compliance arm	Annual value indicator per 100 workers	Severity	Likelihood
Invoice and payment reconciliation	Do invoices reconcile to approved workers, site attendance, timesheets, rates and payroll route?	Contract / finance / audit	Commercial/evidential exposure across full £3.9m labour route	Medium	Very Low
Evidence / audit readiness	Can worker, payroll, site, project and payment records be retrieved and reconciled?	HMRC, HSE, client audit, internal audit	Commercial/evidential exposure across full £3.9m labour route	Low / Medium	Very Low
Route drift	Has the controlled PAYE route remained non-CIS, non-umbrella and non-PSC throughout the engagement?	Governance / labour-chain assurance	Up to £1.25m PAYE/NIC flow if route control fails	Medium / High	Very Low

Interpretation

Risk rating: Very Low

A controlled non-umbrella employer should occupy the safest external position between:

Contractor Direct PAYE

and

Agency Direct PAYE

It preserves the key advantage of PAYE:

The worker is not treated as self-employed.
 PAYE is operated.
 NIC is handled.
 Holiday pay and pension duties are visible.
 The worker has a known employer.
 The contractor is not relying on CIS status.
 The contractor is not relying on umbrella compliance.
 The contractor is not relying on PSC status.

The annual PAYE/NIC flow is still material: approximately **£1.25m per 100 workers** at £750/week, with additional visible holiday and pension cost indicators of around **£569k** combined.

But the risk profile is fundamentally different from CIS, umbrella or PSC. The route does not depend on defending self-employment, proving or maintaining umbrella related compliance, or validating an IR35 position.

The main risks are therefore operational and evidential, not structural:

Is PAYE actually being operated?
 Is the employer identity clear?
 Has the route stayed non-umbrella?
 Has the route stayed non-CIS?
 Has the route stayed non-PSC?
 Can the records be reconciled?

Because the route is system controlled, non-umbrella and PAYE-based, the likelihood of route misapplication should remain **very low**, provided the model has clear contractual boundaries, payroll controls, worker records, and audit evidence.

Bottom line: A controlled non-umbrella employer model materially improves the operating space for labour-only fulfilment. It gives contractors and agencies the practical advantages of PAYE without forcing the contractor to employ directly and without introducing CIS, umbrella, purported umbrella or PSC route-risk.

SECTION 15

Final Conclusion

The heatmap indicates that the strongest construction temporary labour-chain position is achieved where worker status, payroll treatment, contractual accountability and audit evidence are aligned.

Contractor Direct PAYE and properly controlled Agency Direct PAYE provide strong routes where they are operationally practical and properly evidenced. Genuine CIS remains appropriate where the contractor is buying a real construction works package rather than labour-only supply.

The highest-risk routes are those that separate labour supervision from payroll accountability, especially labour-only CIS, default umbrella use, purported umbrella/CIS payroll structures, PSC labour-only arrangements, offshore payroll and deep secondary chains.

A controlled non-umbrella PAYE employment route is therefore a credible response where the market requires external labour flexibility but the contractor, funder or public buyer requires PAYE clarity, worker-level visibility and reduced chain-risk exposure.

Overall conclusion

Construction labour-chain risk should be assessed by route substance, not route label. The most defensible models are those that keep the worker on a known, evidenced, non-umbrella PAYE route and prevent substitution into opaque or misclassified structures.

Publication and Source Base

Publication notice

Legislative and guidance source list

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Footer / Publication Notice

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APPENDIX A

Legislative and Guidance Source List

The following sources support the labour-chain risk analysis, route classifications, statutory triggers, indicative exposure values and compliance references used throughout this document.

Area	Source / citation	Relevance
Labour supply-chain assurance	HMRC GfC12 - recommended approach to assurance. GOV.UK	Core HMRC guidance on knowing the supply chain, understanding how workers are engaged and paid, reviewing chains regularly and simplifying chains to reduce risk.
Labour supply-chain tax risks	HMRC GfC12 - tax risks. GOV.UK	Identifies PAYE, CIS, VAT, IR35, umbrella, offshore, MSC, mini umbrella and labour fraud risks.
Labour supply-chain contractual controls	HMRC GfC12 - contractual process and recommended steps. GOV.UK	Supports contractual controls, evidence gathering and ongoing assurance.
Labour supply-chain implications	HMRC GfC12 - potential implications for businesses. GOV.UK	Supports discussion of consequences for businesses, including umbrella and CIS fraud measures.
Supply-chain due diligence principles	HMRC labour provider due diligence guidance. GOV.UK	Supports the "check, act, review" approach and record keeping.
Agency legislation	ITEPA 2003 s44. Legislation.gov.uk	Core statutory provision for workers supplied by agencies.
Agency PAYE operation	HMRC ESM2039. GOV.UK	Confirms that where s44 applies, the agency must deduct income tax, operate PAYE and remit through RTI.
Agency SDC presumption	HMRC ESM2037. GOV.UK	Supports the risk analysis around supervision, direction or control in agency labour supply.
CIS employment-status boundary	HMRC CISR11060. GOV.UK	Confirms CIS applies to self-employed workers for particular contracts and that CIS registration is irrelevant to employment-status determination.
CIS agency worker guidance	HMRC CISR12040. GOV.UK	Confirms agency CIS cases are likely to be rare where agency or off-payroll rules apply.
CIS verification	GOV.UK CIS contractor verification guidance. GOV.UK	Supports contractor requirement to verify subcontractors before payment.
CIS deduction rates	GOV.UK CIS deduction guidance. GOV.UK	Supports 20%, 30% and gross payment status deduction references.
CIS guide	HMRC CIS340. GOV.UK	General CIS contractor and subcontractor guidance.
CIS fraud measures	HMRC CISR85000 contents. GOV.UK	Source index for s62A, s62B, knew/should-have-known, penalties and officer liability.
s62A construction-payment risk	HMRC CISR85020. GOV.UK	Supports the 20% determination risk where payer knew or should have known of connected deliberate CIS/PAYE failure.
s62B CIS credit risk	HMRC CISR85040. GOV.UK	Supports CIS credit determination risk.
s72A penalties	HMRC CISR85140. GOV.UK	Supports the maximum 30% penalty indicator.
s72B officer liability	HMRC CISR85150. GOV.UK	Supports officer liability exposure where company conduct is attributable to an officer.
Finance Act 2026	Finance Act 2026. Legislation.gov.uk	Primary legislation source for 2026 tax changes, including CIS amendments.
Umbrella PAYE changes	PAYE rules for labour supply chains including umbrella companies from 6 April 2026. GOV.UK	Core guidance for Chapter 11 umbrella risk and relevant-party exposure.
Umbrella policy paper	PAYE changes for the umbrella company market. GOV.UK	Supports policy intention and upstream PAYE accountability.
Umbrella legislative measure	Umbrella company market changes to Income Tax rules. GOV.UK	Supports joint and several PAYE liability references.

APPENDIX A CONTINUED

Area	Source / citation	Relevance
Umbrella non-compliance policy	Umbrella Companies: tackling non-compliance in the umbrella company market. GOV.UK	Supports umbrella compliance and due diligence context.
Umbrella company collection	GOV.UK umbrella companies collection. GOV.UK	General source for umbrella company guidance.
Umbrella worker guidance	Working through an umbrella company. GOV.UK	Supports worker-facing umbrella pay, holiday pay and KID references.
Employment businesses using umbrellas	Responsibilities for employment businesses working with umbrella companies. GOV.UK	Supports agency due diligence obligations around umbrella companies.
Umbrella avoidance schemes	HMRC guidance on umbrella companies operating avoidance schemes. GOV.UK	Supports avoidance, reputational and financial damage warnings.
Mini umbrella fraud	HMRC mini umbrella company fraud guidance. GOV.UK	Supports mini umbrella fraud red flags and worker movement concerns.
Disguised remuneration	HMRC Spotlight 60. GOV.UK	Supports loan, advance, grant and non-taxable payment warning signs.
Off-payroll / IR35	Understanding off-payroll working. GOV.UK	Supports client responsibility for status determination and SDS.
SDS chain communication	HMRC GfC4 status determination statements. GOV.UK	Supports rule that client remains deemed employer until SDS is passed down.
Fee-payer	HMRC ESM10017. GOV.UK	Supports fee-payer and deemed employer analysis.
Agency off-payroll application	HMRC ESM10018. GOV.UK	Supports agency PAYE operation where agency is deemed employer.
CEST	Check employment status for tax. GOV.UK	Supports employment-status assessment reference.
PAYE/NIC thresholds	Rates and thresholds for employers 2026 to 2027. GOV.UK	Supports PAYE/NIC threshold assumptions.
NIC rates	National Insurance rates and allowances. GOV.UK	Supports employee and employer NIC calculations.
PAYE reporting	Employer further guide to PAYE and NIC 2026/27. GOV.UK	Supports payroll operation and RTI context.
Holiday entitlement	Holiday pay and entitlement reforms. GOV.UK	Supports 5.6 weeks' leave and irregular-hours holiday pay context.
Auto-enrolment thresholds	The Pensions Regulator earnings thresholds. The Pensions Regulator	Supports qualifying earnings and pension contribution assumptions.
MTD for Income Tax	Find out if and when you need to use MTD for Income Tax. GOV.UK	Supports £50k, £30k and £20k staged thresholds.
MTD campaign page	Get ready for Making Tax Digital for Income Tax. Making Tax Digital for Income Tax	Supports staged rollout dates and thresholds.
MTD £20k threshold	Reduction of MTD threshold from £30k to £20k from April 2028. GOV.UK	Supports the 2028 threshold reduction.
NMW in labour chains	Ensuring NMW/NLW compliance in labour supply chains. GOV.UK	Supports unpaid time, deductions and end-user site-practice risk.
Right to work	Employer's guide to right-to-work checks. GOV.UK	Supports statutory excuse and pre-employment right-to-work checks.
Right-to-work checklist	Employers' right-to-work checklist. GOV.UK	Supports online check and statutory excuse references.
VAT domestic reverse charge	VAT domestic reverse charge technical guide. GOV.UK	Supports VAT reverse charge, end-user and intermediary treatment references.

APPENDIX A CONTINUED

Area	Source / citation	Relevance
VAT reverse charge end user	VATREVCON33100. GOV.UK	Supports end-user definition.
VAT reverse charge intermediary supplier	VATREVCON33300. GOV.UK	Supports intermediary supplier definition.
VAT Kittel principle	HMRC VATF52100. GOV.UK	Supports input tax denial where trader knew or should have known transactions were connected with VAT fraud.
VAT Kittel application	HMRC VATF36160. GOV.UK	Supports Kittel "knew or should have known" principle.
CDM principal contractor duties	HSE principal contractor responsibilities. HSE	Supports plan, manage, monitor and coordinate duties.
CDM contractor duties	HSE contractor responsibilities. HSE	Supports checking worker skills, knowledge, training and experience.
CDM worker duties	HSE construction workers responsibilities. HSE	Supports competence and training references.
Key Information Document	KID guidance for agency workers paid through umbrella companies. GOV.UK	Supports pay, deductions, holiday entitlement and worker information requirements.
Agency worker KID	GOV.UK agency worker rights – basic information. GOV.UK	Supports worker information, pay, deductions and who pays the worker.
Modern slavery supply-chain transparency	Transparency in supply chains guidance. GOV.UK	Supports supply-chain transparency and exploitation-risk context.

With special thanks to and guidance from:

HM Revenue & Customs
 GOV.UK
 legislation.gov.uk
 Health and Safety Executive
 The Pensions Regulator
 Home Office
 Department for Business and Trade
 HMRC Employment Status Manual
 HMRC Construction Industry Scheme Reform Manual
 HMRC VAT Fraud Manual
 HMRC GfC12 Labour Supply Chain Assurance Guidance
 HMRC GfC4 Off-Payroll Working Guidance