



**Low Incomes  
Tax Reform  
Group.**

A voice for the unrepresented

16 June 2025

HMRC counter avoidance

By email; [ca.consultation@hmrc.gov.uk](mailto:ca.consultation@hmrc.gov.uk)

Dear Sir or Madam

**LITRG response to HMRC's consultation on closing in on the promoters of tax avoidance**

We are writing in response to HMRC's consultation on proposed measures to close in on promoters of tax avoidance schemes—particularly those involving disguised remuneration (DR), an area we know well through our extensive experience and interest in umbrella companies.

We fully support HMRC's commitment to tackling tax avoidance. However, efforts to date have fallen short of shutting down DR schemes as effectively as intended and progress appears limited. We are unclear whether this is down to the measures already introduced not being fit for purpose, or whether the measures already introduced have simply not been used and enforced effectively; but either way, DR schemes continue to proliferate which is an unsatisfactory outcome for everyone.

**Our views on the consultation proposals**

We like many of the ideas in this consultation, for example, the universal stop notice and promoters action notice. We particularly welcome the recognition of the need to target the true controlling minds—rather than individuals such as stooge directors, who may be vulnerable, unwitting participants.

We are also supportive of proposals for more criminal sanctions for promoters (subject to the points made by our CIOT colleagues about the introduction of further strict liability criminal offences and the criminalisation of other parties outside of promoters). We would have thought that a promoter's liberty being at stake, no matter how persistent and determined they are, could potentially create an effective deterrent and so change their behaviour; except, of course, where individuals are based offshore in jurisdictions with little or no cooperation.

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**Tackling disguised remuneration (DR)**

As we have said before<sup>1</sup>, we believe there is an alternative—and more effective—lens through which to view the DR problem and to therefore tackle it. DR, in many instances, is not driven by traditional avoidance motives on the part of individuals, but rather by umbrella companies deliberately avoiding their PAYE obligations to reduce costs. These cost savings are often passed along the supply chain or used to increase margins. In some cases, the manipulation of pay and taxes occurs behind the scenes, leaving workers unaware of their involvement in DR arrangements.

This distinction is crucial as it means that the solution does not lie in changing taxpayer behaviour or pursuing promoters, but in addressing the structural use of PAYE avoidance within supply chains. That means identifying who benefits and reshaping behaviours and incentives accordingly. This is precisely the direction of HMRC's 2023 umbrella company consultation work<sup>2</sup>, which rightly refocuses everyone concerned on the correct operation of PAYE.

Now that a policy option has been chosen, we look forward to seeing the draft legislation in good time of the April 2026 implementation date and are keen to ensure the detail of the policy delivers the intended policy outcomes while minimising unintended consequences. Given our strong belief that these umbrella company proposals offer the best chance of ending most DR once and for all, we do not offer detailed responses to each of the current consultation's measures. Instead, we wish to make a general observation, which may inform your consideration of Question 2: *Is there more HMRC can do to support those who use tax avoidance schemes?*

**Problems with the current approach**

At present, there does not appear to be a coherent, joined-up approach to tackling DR. In fact, it actually feels as though HMRC are addressing two separate issues. For example, it is concerning that the umbrella company proposals—framed as aimed at the same £500 million DR tax loss—are mentioned only briefly in one paragraph of an otherwise extensive consultation with 60 questions.

More broadly, there appears there may be a cultural and operational divide between HMRC teams. Communications differ in tone and emphasis. For example, we note that there is often the inclusion of wording like 'Some people try to bend the rules of the tax system to pay less tax than they should<sup>3</sup>' in counter avoidance publications on DR and 'I am writing to you because I believe you've used a tax avoidance scheme' in counter avoidance letters to taxpayers. Other parts of HMRC seem more progressive in their messaging and have managed to adapt it to better reflect the current landscape which includes umbrella manipulation. Counter avoidance products seem to explain and present the way umbrella companies work differently from other parts of HMRC. For example, the

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<sup>1</sup> See for instance <https://www.litrg.org.uk/latest-news/submissions/200923-call-evidence-tackling-disguised-remuneration-tax-avoidance> and <https://www.litrg.org.uk/latest-news/submissions/210601-clamping-down-promoters-tax-avoidance> and <https://www.litrg.org.uk/latest-news/submissions/220222-call-evidence-umbrella-company-market>

<sup>2</sup> <https://www.gov.uk/government/consultations/tackling-non-compliance-in-the-umbrella-company-market/outcome/tackling-non-compliance-in-the-umbrella-company-market-government-response-accessible#>

<sup>3</sup> <https://dontgetcaughtout.campaign.gov.uk/tax-avoidance/>

Check your payslip page<sup>4</sup> talks about umbrellas charging fees for schemes, whereas in reality the umbrella will be retaining more of the assignment rate to increase its margin if they pay people through DR – a small but important difference.

This divergence may not be a problem *if* there is a genuinely shared understanding, vision and close collaboration across teams behind the scenes. But without such alignment, there is a real risk that the two sets of proposals and the work of different teams will not only fail to complement each other but could actually work against each other. For example, it may confuse workers who are caught up in DR arrangements without realising it, making it harder for them to self-identify as an affected party.

There is also a practical issue regarding compliance strategy. Counter-avoidance currently sends early intervention letters to workers, essentially encouraging them to exit schemes and settle their liabilities. But under the PAYE Regulations, primarily, tax is due from the employer— not the worker<sup>5</sup>. Since HMRC cannot collect the same tax twice, it's unclear how the early intervention initiative will align with the new PAYE focussed strategy. If counter avoidance is seeking to collect underpaid DR income tax from the worker, what amounts, if any, will be left for employer compliance teams to pursue as PAYE? In order for the umbrella company proposals to transform outcomes in the way envisaged, they will need to be used, with HMRC ensuring any PAYE failures are identified and dealt with promptly – to act as a deterrent.

### ***Other considerations***

We know HMRC resources are not infinite and it is therefore vital that resources are used in areas that are likely to have the greatest real impact. For example, 'high profile' promoter work should not be prioritised over the potentially more transformative, umbrella proposals. From another point of view, if the umbrella proposals finally deal with DR once and for all, then there is a risk that different types of tax avoidance will quickly emerge. It will be important for counter avoidance to ensure that they have not invested so much in a single area that they cannot be agile and adapt to a changing tax avoidance landscape.

### **Strategy, comms and guidance**

We believe it would be helpful for HMRC's counter avoidance and other relevant teams to now publish a joint strategic paper outlining their shared approach to DR and umbrella companies. This paper should clearly set out how policy and compliance functions will collaborate after April 2026. We also urge HMRC to review all public-facing guidance and communications to ensure they reflect a modern understanding of umbrella companies and DR, and to remove any outdated assumptions that individual taxpayer behaviour is the primary driver.

Thank you for considering our input on this important issue. We look forward to seeing how HMRC addresses these challenges in the months ahead—ensuring clarity for all taxpayers and protecting the integrity of the PAYE and wider tax system.

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<sup>4</sup> <https://www.gov.uk/guidance/check-your-payslip-if-you-work-through-an-umbrella-company>

<sup>5</sup> <https://www.gov.uk/hmrc-internal-manuals/payee-manual/payee54001>

**Acknowledgement of submission**

We would be grateful if you could acknowledge safe receipt of this submission and ensure that the LITRG is included in the List of Respondents when any outcome of the consultation is published.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Victoria Todd', written over a light blue rectangular background.

Victoria Todd  
Head of LITRG