



HM Revenue  
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4<sup>th</sup> February 2022

Dear Mr Wilson, Mr Smith and Mr Yasin,

Thank you for your letter of 24 January 2022, which raised ten questions regarding HMRC's use of contractors.

HMRC has been asked many questions about its use of contractors both by Parliament and through Freedom of Information requests. On 29 April 2021 HMRC published a Corporate Report entitled "[Tax compliance of HMRC suppliers](#)". This report gives full transparency over this issue and made HMRC's position clear. Where relevant, I refer back to this report, and explain why it will not be possible to provide the information beyond what has already been stated in the report to respond to your specific questions. In my response I have grouped some of my answers, but have provided the relevant question numbers from your letter for your ease of reference.

### **Freelancers and Contractors Services Association (FCSA) accreditation of contingent workers (Q1 & 2)**

Since 2018, along with other Government departments and public sector bodies, HMRC has made use of the Crown Commercial Service's Public Sector Resourcing (PSR) framework for the provision of contingent workers. Through this framework Alexander Mann Solutions (AMS), supported by over 300 specialist recruitment agencies, provide a fully managed end-to-end service enabling hiring managers to access contingent workers.

In 2018 AMS began to implement a policy to only engage workers using FCSA accredited umbrella companies. This policy was fully implemented throughout its supply chain by April 2020. As stated previously in response to the article in Contractor UK, the decision to engage only umbrella companies that are FCSA-accredited has been made by AMS alone. HMRC has not insisted on this and does not endorse the use of any particular association or body. As you know, HMRC conducts its own extensive processes to check contingent workers' tax compliance, using HMRC data sources.

Therefore, since April 2020, and as stated in response to the Freedom of Information request, as AMS has been HMRC's sole source of contingent labour, it is correct to say that contingent workers engaged by HMRC or RCDTS are required to use FCSA-accredited umbrella companies. However, as stated in response to the Contractor UK article, this

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requirement does not come from HMRC, but is the policy of its supplier of contingent workers. The two statements are both accurate.

### **Companies that have supplied contingent workers and service contractors to HMRC and RCDTS since 2010 (Q3)**

HMRC does not maintain a list of companies that have supplied service contractors to the department (either to HMRC or RCDTS). Therefore, this information is not held.

As stated above, since 2018 HMRC's contingent workers have been provided via the Crown Commercial Service's Public Sector Resourcing Framework through Alexander Mann Solutions, who are supported by over 300 specialist recruitment agencies classified by their role category capability. Prior to this arrangement, contingent workers were provided via different Crown Commercial Service frameworks. The majority of contingent workers were provided by Capita using the Contingent Labour One framework, with the remainder provided through the Non Medical Non Clinical framework.

### **Contractual conditions relating to tax compliance for suppliers of service contractors and contingent workers to HMRC and RCDTS (Q4 & 5)**

I refer you to the publicly available Corporate Report "[Tax compliance of HMRC suppliers](#)", which comprehensively sets out the contractual provisions used by HMRC for suppliers generally and also those specific to suppliers of contingent workers. The report describes how all companies and workers in HMRC's contingent labour supply chain have full visibility of HMRC's contract terms, and the requirement to comply with them.

The report also explains how contractors engaged by suppliers as part of a service contract are directly managed by, have their own arrangements with, and are wholly the responsibility of the supplier. These suppliers must comply with tax law and accept HMRC's tax compliance clauses, but they do not face additional checks beyond those applicable to all HMRC suppliers.

### **HMRC action against suppliers of contingent workers or service contractors as a result of the use of disguised remuneration schemes (Q6 & 7)**

Where a contingent worker uses a disguised remuneration scheme, typically they will have been sold that scheme by an umbrella company that is part of a long supply chain, potentially including multiple umbrella companies and employment agencies. It is possible for a contingent worker to be using a disguised remuneration scheme without the knowledge of either the end engager (in these cases HMRC or RCDTS) or the employment agency with which the engager directly contracts.

Under its standard contractual framework, where HMRC identifies a contingent worker who is working for HMRC or RCDTS and is currently using a disguised remuneration scheme, HMRC can and does terminate that engagement. HMRC recognises that a contingent labour agency does not have data sources at its disposal such that it can consistently and reliably identify tax avoidance of this sort within its supply chain. Accordingly, HMRC focuses its efforts on specific, identified contingent workers.

As further explained in the Corporate Report "[Tax compliance of HMRC suppliers](#)" and previous responses to Freedom of Information requests, HMRC has not taken action against

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the suppliers of contingent workers or service contractors as a result of the use of disguised remuneration schemes.

HMRC uses a range of compliance measures, seeking to settle outstanding tax liabilities and collect the tax due. HMRC also performs extensive work tackling the promoters of the tax avoidance schemes used and others who have enabled the use of the arrangements.

### **The number of service contractors to have used a disguised remuneration scheme whilst providing a service to HMRC since 2010 (Q8)**

As stated in the annex to the Corporate Report "[Annex 1 – data on the use of disguised remuneration](#)", HMRC is aware of two service contractors whose use of a disguised remuneration scheme was concurrent with the period when they were providing a service to HMRC/RCDTS.

As explained in the Corporate Report "[Tax compliance of HMRC suppliers](#)", service contractors are directly managed by, have their own arrangements with, and are wholly the responsibility of the supplier. HMRC does not have knowledge of or control the approach its suppliers take to hiring contractors and is unable to share confidential tax compliance information with the supplier. Whilst these suppliers must comply with tax law and accept HMRC's tax compliance clauses, they do not face additional checks beyond those applicable to all HMRC suppliers.

### **Explanation of how contingent workers and service contractors have been found to use disguised remuneration schemes whilst engaged by the department or providing a service to it, despite the tax compliance measures taken. Improvements made to checking process operated by the department (Q9 & 10)**

It is important to note the chronology described in the Corporate Report "Tax compliance of HMRC suppliers" and the associated Annex "Annex 1 – data on the use of disguised remuneration".

Since 2017 HMRC has matched the data in its centralised contingent worker database with the data in its database of known users of tax avoidance held by its Counter Avoidance Directorate, in order to identify contingent workers using disguised remuneration tax avoidance. This process was run on an annual basis and, due to the limited information initially available in the contingent worker database, there were initially no positive matches.

In November 2019, HMRC first identified five contingent workers engaged by the department who were current users of DR schemes. Following this, in early 2020, HMRC began to systematically collect more data about its contingent workers in order to substantially enhance the ability to successfully match the two data sets. As can be seen in the timeline set out in the Annex to the Corporate Report, in April 2020 seven further contingent workers were then identified as using disguised remuneration whilst engaged by the department.

This process of regularly checking data on HMRC's and RCDTS' contingent workers is now carried out on a four-monthly basis. No new cases have been identified by this process since April 2020. (The contingent worker identified as a user of disguised remuneration in July 2020 was identified by the separate pre-engagement check process.)

As clearly explained in the Corporate Report, the measures put in place by HMRC cannot totally prevent a contingent worker from using a disguised remuneration scheme whilst

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engaged by the department. However, as no usage of disguised remuneration has been identified within HMRC's contingent worker population since July 2020, it should be evident that these measures have reduced the risk that such a situation can occur.

Where HMRC identifies a contingent worker engaged by the department to be a current user of disguised remuneration it acts to terminate the engagement with immediate effect. Similarly, regardless of how HMRC discovers that a service contractor working for a supplier is a current user of disguised remuneration, it will ask the supplier to take that individual off HMRC work. In all instances where contingent workers or service contractors are discovered to have used disguised remuneration, they would be subject to compliance action by HMRC like any other taxpayer.

Please note that as we have previously committed in the Corporate Report, we will update the Annex on an annual basis with the latest information available.

Yours sincerely,

Kind regards,



**Jim Harra**  
**CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY**

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