

What is Salary Skimming?



Umbrella companies have become increasingly popular in recent years and continue to be a viable and attractive option for all parts of the supply chain in the UK, across both public and private sectors. In fact, with the rapid expansion of the so-termed “gig economy”, the UK has become increasingly reliant on a temporary workforce for a whole host of beneficial reasons that are unlikely to decline anytime soon.

For contractors, umbrellas enable the potential for significant work-life balance, choice of work types, and the chance to earn a very good financial income. Added to this, contractors are employees, so they benefit from the full range of legal protection and entitlements of traditional employees such as holiday and sick pay to name a few.

It's currently estimated that [15% of freelancers and contractors use an umbrella company](#) at any one time, so it's safe to say that business is booming.

However, despite most umbrella companies having integrity and optimum compliance, the umbrella payroll sector has come under a lot of scrutiny over the last few years especially when it comes to unacceptable compliance standards. Most recently, there have been allegations (and some proof) of umbrellas participating in a behaviour that not only affects contractors but the whole chain; **salary skimming**.



Salary Skimming – What is it?

Salary skimming (which is at best immoral) is a fraudulent practice in which an employer, or in this case umbrella companies, intentionally deducts a portion of an individual's earnings that should have been paid to them but keeps it for themselves. The terms “skimming” and “pocketing” have been attached to such conduct.

But how could it be that nobody notices? Because the amount skimmed could be seen as ‘pocket change’ to most people. These small amounts are not obvious as the net pay amount is still broadly in line with expectations, although slightly less. On average, [£1-6 will be deducted from the assignment rate paid to the umbrella](#), added to national insurance, or even taken from the contractor's pay itself. These small amounts are not obvious as the net pay amount is still broadly in line with expectations.

But when the practice is applied to every payment, to all contractors, sometimes tens of thousands of times over many years, the total can become huge. This is not only unfair to contractors, (especially with the cost-of-living crisis having a significant impact on the lower earners), but also raises questions about the legality of such practices.

While umbrella companies are required to comply with employment and tax laws, there are no statutory regulation requirements for them to disclose their fees upfront or provide clear and transparent payment arrangements. This lack of transparency makes it difficult for workers to know exactly how much they will be paid, how it will be calculated, and how much they will be charged.



Why would umbrella companies do this?

There could be a multitude of reasons why they would participate in salary skimming, with the first coming to mind is the increasing of profits unashamedly at the expense of contractors. Other reasons could be due to increasing costs or finding ways to unlawfully cut corners. The growing number of contractors using umbrella companies (due to off-payroll legislation) has led to greater competition, possibly forcing some companies to cut their fees to attract contractors, but then building in a hidden financial margin resulting in umbrellas taking a larger percentage of workers' earnings.



The effects of salary skimming

In recent months the number of umbrella companies called out for salary skimming has increased, not just highlighting the practice but showing just how many umbrella companies have participated in the act.

Just recently, one of the largest umbrellas in the country was investigated regarding salary skimming. Although they have now been cleared of this practice, this could leave them with a dark cloud over its name and by extension the entire umbrella employer sector. This type of allegation doesn't just affect the payroll provider and contractors, but also the agencies and end clients that work with them.

For agencies, if an umbrella they recommend is caught committing payroll skimming, it can significantly impact them leading to a loss in their reputation. When a contractor or end client falls victim to payroll skimming, they lose the trust for that agency, making it difficult for them to attract new business leading to a decrease in revenue, overall performance, and in extreme cases closure. End-clients are also going to be affected if an umbrella is caught skimming wages. Their reputation with contractors will be damaged, and the end client can end up losing faith in the umbrella sector entirely.

Yet through all of this, it is the contractor that will be hit the hardest when it comes to salary skimming. Many can lose hundreds or thousands of pounds a year from this wholly unacceptable practice and miss out on reaping the benefits of their work.

How to safeguard from salary skimming

Salary skimming has been on the rise for far too long and harmed the lives of many who rely on umbrella companies. All who are a part of the sector feel the effects when an umbrella is either accused of or found guilty of the practice. Yet there are ways to ensure protection and safeguard contractors' pay; with the best being a full undisclosed audit.

[PayePass'](#) independent payroll auditing offers a non-biased look into an umbrella's payroll functions to ensure all calculations, deductions, and payments are correct. Once the audit has been conducted and the umbrella can prove their compliance, they are rewarded with the [PayePass Verify Award](#).

This Award can then be shared with potential prospects and shown on the website so all parties can be confident in the umbrella's services. For agencies, contractors, and end-clients, this award will give them complete confidence and ensure that the payroll journey is secure.

