

Q&A: THE APPRENTICESHIP LEVY

What is the Apprenticeship Levy and how will it be calculated?



What is the apprenticeship levy?

- ▶ The apprenticeship levy (**levy**) is effectively a new tax which will be imposed on certain employers as part of the Government's initiative to fund three million new apprenticeships by 2020. If achieved, this will be a 35% increase compared to the previous five years. The objective is to drive increased productivity which will ultimately lead to increased profitability for businesses and increased wages in the long term.
- ▶ Aiming to also increase the quality of apprenticeships in England, the Government is putting control of funding in the hands of employers. It is hoped that the levy will raise around £3 billion for the Exchequer to spend on boosting the quantity and quality of apprenticeships.
- ▶ HMRC published draft legislation on 4 February 2016 introducing the levy, which will have effect on and after 6 April 2017.
- ▶ The levy will be set at 0.5% of an employer's paybill (see section 2 below as to how this is defined and calculated), with an annual allowance of £15,000 to offset against their levy payment (paid in vouchers). Once in effect, the levy will only be payable on paybills in excess of £3 million per year, which is estimated to catch only 2% of employers.
- ▶ From April 2017, employers will be able to access funding for training through the new online portal service, Digital Apprenticeships Services, regardless of whether they have contributed to the levy. Employers can use the portal to 'shop' for apprenticeships, find accredited training providers and pay for training with their digital vouchers.
- ▶ Employers obliged to pay the levy will be able to draw down more funding than they have contributed through Government top-ups. Funding not used within two years will expire and be made available for other employers.
- ▶ HMRC will introduce many of the rules including assessment, payment and record keeping via secondary legislation.

How will it be calculated?

- ▶ An employer's paybill will be calculated on total employee earnings subject to Class 1 secondary National Insurance Contributions (**NICs**), but not including benefits in kind.
- ▶ The levy will be collected by HMRC through the PAYE mechanism.
- ▶ A person will be treated as liable for NICs even where the applicable rate is 0% (for example where a worker is under 21, or an apprentice under 25).
- ▶ Where two or more companies are connected, for example a group of companies, only one will be entitled to use the £15,000 annual allowance for that year.
- ▶ Examples of how the levy could be calculated is detailed below:
 - ▶ **Example 1:** The paybill for an employer with 250 employees, each with a gross salary of £20,000 will total £5,000,000 (250 x £20,000). The total levy sum will be calculated at £25,000 (0.5% x £5,000,000 = £25,000). Taking into account the annual offset allowance of £15,000 the total levy sum payable is **£10,000**.
 - ▶ **Example 2:** The paybill for an employer with 100 employees, each with a gross salary of £20,000 will total £2,000,000 (100 x £20,000). The total levy sum will be calculated at £10,000 (0.5% x £2,000,000). Taking into account the annual offset allowance the total levy sum payable will be **£0**.

What training will be covered?

- ▶ The plan is to reform the current batch of apprenticeship frameworks so they become 'standards', developed in conjunction with employers. Work has already begun on this through the Government's Apprenticeship Trailblazer programme, which has published 194 standards, of which 60 are either higher or degree apprenticeships.
- ▶ In April 2017, when the levy commences, the government will establish an Institute for Apprenticeships, where employers or groups can submit apprenticeship standards and assessment plans. In the interim, the government will stagger the withdrawal of funding for new starters on old, framework apprenticeships.
- ▶ One of the key roles of the Institute for Apprenticeships will be to oversee quality, and apprenticeships will need to last a minimum of 12 months and involve at least 20 per cent off-the-job training.

What does this mean in practice?

- ▶ For large employers, the levy will not be fully recoverable through the annual allowance, and, therefore, becomes an additional cost. In the short term, the levy may also entail some further administration costs.
- ▶ Reaction from the industry to the proposals are particularly negative, with many considering the levy to be fundamentally a new payroll tax. In particular, some sectors, such as those less likely to train apprentices, may end up subsidising apprenticeships in those sectors where apprenticeships are more common.
- ▶ However, HRMC have commented that employers who are committed to training are likely to get more back than they put in through the levy, by training apprentices.
- ▶ From a practical perspective, we know that the money will be drawn from PAYE, but the full mechanics of this have not been confirmed. Employers will, therefore, in time need to engage with their payroll team/ provider to clarify how the money will be taken and avoid any potential hiccups when the levy is introduced (if it is applicable).

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