

The Apprenticeship Levy Briefing note for employers



The Apprenticeship Levy is due to come into effect from 6 April 2017. While it is anticipated that the levy will only be payable by around 2% of employers, significant changes to the way that apprentices are funded are also being introduced from 1 May 2017, which will affect all employers.

This note considers in detail what the Apprenticeship Levy means for businesses and what businesses should be doing now in preparation.

What is the Apprenticeship Levy?

Following consultation on the proposed legislation, the government has now issued further guidance on the new funding arrangements that will be put in place for apprenticeship training from 1 May 2017. Some details regarding the practicalities of implementing the levy are as yet unclear, however, and it is likely that further guidance will be issued before the levy comes into effect next year. We will update this note as and when further guidance is issued. The current proposed legislation and guidance provides for the following:

- Employers will have to pay a levy of 0.5% of their annual pay bill, subject to a £15,000 annual allowance.
- The annual allowance means that in practice only employers with pay bills **over** £3 million will have to pay the levy. For example, an

employer with a pay bill of £3 million exactly would on the face of it be liable to pay a levy of £15,000. However, the £15,000 annual allowance would reduce this liability to £zero.

- The annual pay bill refers to the total amount of earnings subject to Class 1 secondary NICs, including earnings that are below the secondary threshold. Earnings include any remuneration or profit coming from employment, such as wages, bonuses, commissions, and pension contributions on which the employer pays NICs. The levy will not be charged on other payments such as benefits in kind, which are instead subject to Class 1A NICs.
- The levy will be reported and paid through the PAYE system alongside income tax and NICs.
- Employers will be required to assess their annual pay bill for the previous and current tax year to decide if they are liable to pay

the levy. It is expected that employers with a pay bill of £2.8 million or more for the previous tax year, or those who believe their pay bill will be £3 million or more in the current year will be subject to the reporting requirements detailed below. Government guidance indicates that the £2.8 million threshold has been set to ensure employers whose pay bill increases beyond the £3 million threshold during the course of the next tax year come within the scope of the levy as and when their pay bill reaches the required threshold.

- Employers who calculate that they will have a liability to pay the levy will need to declare this and include it in their usual PAYE payment to HMRC by the 19th (or 22nd if reporting electronically) of the following month.
- **The levy will be introduced on 6 April 2017, meaning that the first declarations of liability to HMRC will need to be made in May 2017.**
- The levy allowance will operate on a monthly cumulative basis, meaning that employers will have an allowance of £1,250 a month. The levy will therefore only be payable in any particular month to the extent it exceeds £1,250 and any unused allowance in one month may be carried over into subsequent months.

Worked example:

	Pay bill (£)	Levy before allowance (£) (pay bill x 0.5%)	Monthly allowance (£)	Total levy payable (£)
Jan	500,000	2,500	1,250	1,250
Feb	100,000	500	1,250	zero
Mar	500,000	2,500	2,000 (i.e. £1,250 plus £750 from Feb)	500

- If at the end of a tax year there has been an overpayment of the levy, for example due to an employer's pay bill varying throughout the course of the year, employers will be able to offset the overpayment against other PAYE liabilities.
- Connected companies will only have one £15,000 allowance between them and must decide what proportion of the allowance each employer in the group will be entitled to at the beginning of the tax year. However, it is expected that adjustments will

be able to be made at the end of a tax year if the full allowance is not used as originally anticipated.

- Employers will be prohibited from recovering the cost of the levy from employees and HMRC will be able to impose penalties against employers who do not pay the levy.
- Employers who already contribute to an existing industry levy scheme, such as those of the construction, engineering construction and film industry, will still be required to pay the Apprenticeship Levy. It is expected that the relevant industry training boards of those industries will hold separate consultations with their members regarding the interaction of their levy arrangements with the Apprenticeship Levy.

Accessing levy funds for apprenticeships and training

- Use of the funds that have been paid through the levy will vary across the UK and the provisions detailed below relate to the training of apprentices whose main place of employment is in England only. Scotland, Wales and Northern Ireland are expected to put separate arrangements in place.
- Any apprenticeships started from 1 May 2017 will be funded according to the new rules. Existing apprenticeships will continue under the previous arrangements.
- Employers will be able to access money they have paid under the levy through a new digital apprenticeship service account, run by the Digital Apprenticeship Service. The funds available to spend through the English system will be calculated from data regarding the home address of an employer's employees to work out what proportion of the employer's pay bill is paid to employees living in England. HMRC will calculate this quarterly in July, October, January and April each year and the amount available will be available to view via the digital apprenticeship service.
- **Employers will be able to register to create an account from January 2017 and once registered will need to verify and link their PAYE schemes to the account.**
- The Government will top-up the funds in each employer's account by 10%, so for every £1 paid via the apprenticeship levy, the employer will get £1.10 in their account.

- **Use it or lose it: Funds will expire 24 months after they enter the digital account unless they are spent on apprenticeship training.**

- Once an employer's funds in their digital account have been used up, the government will contribute towards any additional costs of apprenticeship training at a rate of 90% of the cost, up to a maximum funding band which will be set for each type of apprenticeship standard or framework. The employer will be required to pay the remaining 10%, together with any costs in excess of the funding band cap. This will be known as "co-investment". The funding bands range from £1,500 to £27,000, depending on the level of the particular apprenticeship. Further details regarding the funding bands and allocation of frameworks and standards within those bands are available at www.gov.uk/government/publications/apprenticeship-funding-from-may-2017.
- The proposed legislation only allows the funds in an employer's account to be used to pay for apprenticeship training and assessment of the employer's own employees. Employers cannot direct funds to another company in an employer's supply chain or to an Apprenticeship Training Agency (although companies in the same group will be able to pool funds). The government has, however, committed to allow some transfer of funds and is consulting on proposals to allow employers to transfer 10% of their funds to another employer's account or to an Apprenticeship Training Agency, from 2018.

Additional payments for certain apprentices

- For apprentices aged between 16 and 18 at the start of their apprenticeship, an additional payment will be made to both employers and providers of £1,000 each.
- Providers will also receive a payment from the government equivalent to 20% of the funding band maximum for the particular apprenticeship framework in question, although this is specified to be a "transitional measure" only.
- For apprentices aged between 19 and 24 with special educational needs or who have been in the care of the local authority, employers and providers will receive the same additional payment and uplift as is available for apprentices aged between 16

and 18. Additional support of up to £150 per month for apprentices with additional learning needs will also be provided.

- Employers with fewer than 50 employees will receive a 100% contribution from the government towards apprenticeship training costs for 16-18 year olds.
- For the first year of the new arrangements, the government will continue to provide a more "simplified" version of the current system of additional support to apprentices from disadvantaged areas. Under this more "simplified" system, for apprentices living in the top 10% of deprived areas, an additional £600 will be paid to providers, for those in the next 10% of deprived areas, a £300 payment will be made and for those in the next 7% of deprived areas, a £200 payment will be made.
- A flat rate payment of £471 will be payable towards the costs of Level 1 and Level 2 English and maths qualifications for apprentices.

Employers who do not pay the levy

- Employers who do not pay the levy are not required to start using the digital apprenticeship service until at least 2018 and will be notified in advance of their requirement to do so.
- Employers will, however, be able to use the digital apprenticeship service to choose a training provider and assessment organisation using the digital apprenticeship service.
- Employers will also be able to benefit from the system of "co-investment" available to employers paying the levy, without having to have paid any levy into the digital apprenticeship scheme. Under "co-investment", the government will contribute towards the costs of apprenticeship training at a rate of 90% of the cost, up to a maximum funding band which will be set for each type of apprenticeship standard or framework, with the employer required to pay the remaining 10%, together with any costs in excess of the funding band cap.



What type of training can employers use levy funds for?

- Funds can only be used towards the costs of apprenticeship training and assessment, which must be with an approved training provider and assessment organisation. The funds available will not cover wider costs associated with training apprentices, such as wages, supervision costs, traineeships, work placement programs, and the costs of setting up an apprenticeship programme.
- Employers can register to become an approved training provider but to do so will be subject to Skills Funding Agency and Ofsted monitoring. Further information can be found at www.gov.uk/government/publications/apprenticeships-become-a-training-provider

- Apprenticeships must be either on a new apprenticeship "standard", which are in the process of being set up under the Government's Apprenticeship Trailblazer programme, or an existing apprenticeship framework and it is proposed that all current frameworks will eventually be moved onto the new system of apprenticeship standards.
- There is as yet some uncertainty as to the extent to which employers may be able to set up new and less traditional forms of apprenticeship standards. However, employers may be surprised at the potential scope of occupations and qualifications that may potentially be eligible for government funding under the new system. For example, there are already approved apprenticeship standards in place leading to qualifications for solicitors, professional accountants, degree level chartered managers, HR consultants and certain degree level engineering roles.

What should employers do now?

- Estimate your annual levy contribution. There is an online tool available at <https://estimate-my-apprenticeship-funding.sfa.bis.gov.uk/>
- Plan your apprenticeship training requirements going forwards and how you may be able to use the apprenticeship levy for this purpose.
- Register to create an account with the digital apprenticeship service from January 2017.
- Comply with reporting requirements from April 2017 onwards if applicable

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