

## Apprenticeship Levy - Everything You Need to Know

### News Article



The Government's promise of 3 million new apprentices by 2020 was inevitably going to mean a funding dilemma.

To plug the gap the Government is introducing the apprenticeship levy, which comes into effect from 6 April 2017.

#### What is the levy?

A levy on UK employers to fund new apprenticeships to be introduced in April 2017. The levy will be charged at a rate of 0.5% of an employer's wage bill.

Each employer will receive an allowance of £15,000 to offset against their levy payment. The Levy is a new measure - there is no existing legislation.

#### Who has to pay the levy?

The levy applies to employers in England, who have an annual pay bill above £3m.

The pay bill is defined as employee earnings subject to Class 1 secondary NICs.

#### How is the levy calculated?

The levy is 0.5 per cent of the annual pay bill.

All employers will receive a £15,000 annual allowance, to be offset against the bill. This effectively means that employers with an annual pay bill of £3m or less pay no levy.

#### How will the levy work?

The levy will be collected by HM Revenue and Customs monthly through Pay as You Earn (PAYE). It can then be accessed by employers through an online digital service account.

Employers can use the online digital service to pay for apprenticeship training for apprentices that work for at least 50 per cent of their time in England, which will be limited up to certain maximum funding bands. When the apprentice training starts funds (in the form of vouchers) will be taken from the account.

#### What about apprenticeship funding for businesses that do not have to pay the levy?

From May 2017 employers not paying the levy, who offer apprenticeships to 16 to 18 year olds, will receive 100 per cent of the cost of the training from the Government, up to the maximum funding bands. Employers will have to pay 10 per cent of the cost of the apprenticeship training for those aged 19 and over and the Government will pay the remaining 90 per cent, up to the maximum funding bands. This support applies to all age groups.

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HMRC has published the following information:

#### Who is likely to be affected?

This will affect employers in all sectors. The levy will only be paid on annual Paybills in excess of £3 million, and so less than 2% of UK employers will pay it.

#### General description of the measure

The Apprenticeship Levy will be a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship funding will be put in the hands of employers through the Digital Apprenticeship Service. The levy will be charged at a rate of 0.5% of an employer's Paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. It will be introduced in April 2017.

#### Background to the measure

The Apprenticeship Levy was announced at Summer Budget 2015, and at Autumn Statement 2015 it was announced that it would come into effect in April 2017. A consultation was held between 21 August 2015 and 2 October 2015 to hear from employers how the levy should work in practice. At Autumn Statement 2014 the government announced it would abolish employer Class 1 National Insurance Contributions for apprentices aged under 25 on earnings up to the weekly limit of £827 from 2016 to 2017.

#### Detailed proposal Operative date

The levy will have effect on and after 6 April 2017.

#### Current law

The Apprenticeship Levy is a new measure and there is no existing legislation.

#### Proposed revisions

Legislation will be introduced in Finance Bill 2016 and will provide for a levy to be charged on employers' Paybills at a rate of 0.5%. The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance. To keep the process as simple as possible "Paybill" will be based on total employee earnings subject to Class 1 secondary NICs.

Each employer will receive one annual allowance of £15,000 to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

#### Economic impact

It is expected that the levy will support productivity growth through the increase in training. It may have a near-term impact in reducing earnings growth, although by supporting increased productivity, it is expected that the levy will lead to increased profitability for businesses, and increased wages over the long-term.

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#### Impact on individuals, households and families

The measure is not expected to impact on family formation, stability or breakdown. There are no direct impacts on individuals and households. However, it is expected that the Apprenticeship Levy will create more apprenticeship vacancies in the near term.

#### Equalities impacts

It is not anticipated that there will be any direct equalities impacts on the groups sharing protected characteristics.

#### Impact on business including civil society organisations

The levy will help to support quality training, and employers who are committed to training will be able to get more out than they pay in levy. The government wants this measure to be administratively simple, and therefore employers will pay and report levy payments through their normal payroll processes, using PAYE real time information (RTI). The Apprenticeship Levy will also operate on the basis of known definitions which employers will already use in relation to National Insurance contributions. The levy will be paid by less than 2% of UK employers, i.e. those who have annual Paybills of more than £3 million.

For employers paying the levy, the measure is expected to have some impact on administration costs and the impact will vary by employer, depending on the size of their Paybill. The policy intention is that they will calculate and pay the levy on

a monthly basis. HM Revenue and Customs (HMRC) will engage with employers to discuss and assess the impacts on them.

#### Operational impact (£m) (HMRC or other)

The operational impact on HMRC will not be significant. The levy will be collected through PAYE RTI employer submissions. There will be also be a need to change HMRC's accounting systems. HMRC's costs for setting up the levy are estimated at £7 million.

#### Monitoring and evaluation

The measure will be monitored through information collected through employer's tax returns.

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