

The Apprenticeship Levy

In April 2017 the new Apprenticeship Levy will be paid by all large employers in the UK. In October 2016 the government announced further updates on how it will work and how you can spend it.

This document covers these areas:

1. **Calculating your Levy**
2. **Spending your Levy**
3. **Preparing for the Levy**

Calculating your Levy

Will I have to pay the levy?

All employers – private and public sector – will be liable to pay the levy. There is a £15,000 annual tax free allowance so the levy will only be paid to HMRC where your annual payroll bill exceeds £3m.

How is the levy calculated?

The levy will be set at 0.5% of your total UK pay bill. An annual allowance of £15,000 will be deducted from this. Note that your pay bill is your total employee earnings subject to class 1 secondary NIC.

When will I have to pay?

The levy comes into force from April 2017. Employers will declare levy payable based on payroll year to date. Therefore, the first time eligible employers will have to declare their liability to HMRC will be in May 2017 for levy due on their April payroll.

We are part of a group of companies. How will the levy work for us?

If you are part of a group of connected companies, you will only get one £15,000 allowance across the group. The allowance can be split between the companies in the group, but this division must be decided upon and notified to HMRC before the start of the tax year and cannot then be changed for the remainder of the tax year. Each company in the group will pay 0.5% of their pay bill, minus the allowance they have been assigned.

What if I belong to one of the existing industry levy schemes?

Some organisations already operate similar levy systems or other collective training arrangements. Particularly in the Construction Industry. You will have to pay the apprenticeship levy even if you already contribute to another training arrangement.

Can I pass my funds to another employer for their use?

No, not in the first year of the levy. In year one you will be able to use the funds in your digital account to pay for apprenticeship training and assessment for your own employees. The main aim of the

apprenticeship levy is to support employers in growing the number and quality of apprenticeships in their own workforce.

However, some employers may want to use funds in their digital account to pay for apprenticeship training of other employer's apprentices, for example, someone in their supply chain. The Government have said that they are committed to allow levy-paying employers to transfer up to 10% of the annual value of funds entering their digital accounts to other employers or apprenticeship training agencies.

Can we pool funds in a digital account with other employers in our group structure?

Yes, if you are in a group of companies connected for the purposes of paying the levy, your group will be able to collect their funds together into one digital account. Your group will do this by registering to have PAYE schemes attached to a single digital account. Since you can only use funds in your digital account to pay for apprenticeship training for your own employees, employers that are not connected will not be able to pool funds in a digital account.

What if we don't want to have Apprentices in my business?

You will still have to pay the levy to HMRC. If you do not recruit new Apprentices or people from your existing workforce you will lose the funds in your digital account as they expire. There are many new Apprenticeship Standards in development and these may well mirror some of the in-house training you currently provide. Please talk to us about how you might map your existing workforce development against current or emerging Standards.

Spending your levy

Where will the levy be held?

You will be able to monitor payments into and out of your levy account using an online portal from the Digital Apprenticeship Service. The money will be held here as vouchers but you cannot access the money directly.

What can I spend the levy on?

Any apprenticeships commenced from 1 May 2017 can be funded using your apprenticeship levy. The levy can only be used to pay for Apprenticeship training and assessment from an approved Training Provider. An approved provider must be on the Register of Approved Training Providers (RoATP) and be subject to Skills Funding Agency (SFA) funding rules, quality arrangements and Ofsted inspections.

The levy cannot be used to pay for salaries, travel or other costs. Levy paying employers will be able to purchase training through the new digital system from the very start of May 2017 and the new system will pay Training Providers one month in arrears for training they report has been delivered.

Do I have to spend all my Apprenticeship levy on young people under 25?

No, the levy can be used for the whole of your workforce (new or existing) irrespective of age as long as they meet the apprenticeship eligibility criteria.

How much will each apprenticeship cost?

You will not be able to spend an unlimited amount of money on a single apprentice. Funding limits will be set which limit the amount of levy funds an employer can spend on training for an individual apprentice. The maximum will vary according to the level and type of apprenticeship. For example, more expensive training with significant technical inputs and off the job elements will have a higher maximum funding level.

What if I don't or can't spend all of my levy?

Levy payments into your account will be held in your account for a maximum of 24 months. If you don't spend the levy on training during this time it will be automatically returned to the central government budget.

What additional payments and incentives are there?

There are some additional costs associated with supporting younger apprentices (16-18), young care leavers and young adults with additional learning needs. There will therefore be an additional payment of £1,000 to all employers and a further £1,000 payment to training providers for any apprentice who falls into one of these categories when they start their apprenticeship. The £1000 incentive will be paid in 2 instalments at 3 months and 12 months.

From April 2016, employers' National Insurance Contributions (NICs) for apprentices under 25 were abolished, therefore incentivising recruitment of apprentices under this age bracket.

The government will fund English and Maths training directly, sending the funding straight to the training provider, and this will not be deducted from your digital account. This is part of the government's commitment to help all apprentices gain the minimum standard of Level 2 in English and Maths.

There will also be some available funding for providers where an apprentice requires additional learning support as a result of conditions such as dyslexia, learning difficulties or disabilities. This is a continuation of the current system.

What if I am a levy payer and I use up all the funds in my account?

If you are a levy payer and you have used all the funds in your account and still need to pay a provider for apprenticeship training or wish to recruit additional apprentices, then you will move over to the government co-investment funding that will be available to all non-levy payers.

The Government will fund 90% of the apprenticeship training and assessment, and you will pay 10%. Once the provider had received your contribution, then they will be able to claim an additional payment from government. The maximum amount that you can receive from the government will depend on the maximum funding for that framework's band.

What if I am an employer who does not pay the levy?

If you do not pay the levy, you won't need to use the digital apprenticeship service to pay for apprenticeship training and assessment until at least 2018.

When the new funding system begins in May 2017, you can choose the training you'd like your apprentices to receive. You will have to make a 10% contribution to the cost of this training and government will pay the rest (90%), up to the maximum amount of government funding available for that apprenticeship based on the allocated funding band. You will pay this directly to the provider.

Preparing for the Levy

How will apprenticeships that start before the levy is introduced be funded?

The new funding system will come into effect on 1 May 2017. Apprenticeships that are started before the 1 May 2017 will continue to be funded under the current model for their entire length. Therefore, companies starting apprentices in April 17 or earlier will be funded under the existing funding model for the whole of the apprenticeship. Your levy account cannot be used to fund apprentices who start an apprenticeship before 1 May 2017.

What steps do I need to take to make sure I am prepared for the levy?

- Calculate your annual levy payment.
- Register for Digital Apprenticeship Service Levy Account online from January 2017.
- Register on the RoATP (closing date 25th November 2016) if you want to access your digital account and use the money for apprenticeship delivery.
- Decide who will control your Digital Apprenticeship Service online account.
- Ensure payroll systems are in place to report levy payments to HMRC from May 2017.
- Review your workforce, current training programmes, recruitment strategy and skills gaps to identify potential areas to use apprenticeships.