

Apprenticeship Levy

The funding system for employers

April 2017 saw the introduction of the Apprenticeship Levy, heralding significant changes to the funding of apprenticeships for all employers. This factsheet outlines some key aspects of the system.

What is the Apprenticeship Levy?

The Apprenticeship Levy was introduced from 6 April 2017 with the stated aim of providing a more sustainable workforce and helping to bridge the UK skills gap.

The Levy has changed the way apprenticeships are funded, requiring larger UK employers to invest a percentage of their annual pay bill in apprenticeships.

These organisations have gained access to the government's new digital account system and payments are taken from the digital account each month to pay the training provider. Non-Levy paying businesses still need to contribute towards the cost of training apprentices, although some concessions may apply.

Example calculation

An employer, X Ltd, expects the annual pay bill for the 2019/20 tax year to exceed £3 million. X Ltd therefore has a reporting requirement in respect of the Apprenticeship Levy. The pay bill does, however, fluctuate from month to month.

In the month ended 5 May 2019, the pay bill is £200,000. The annual allowance of £15,000 is divided into 12 monthly instalments of £1,250 each.

0.5% of £200,000 is £1,000. As this is less than £1,250, there is no Levy to pay for the month. The balance of the allowance not used (£250) is carried forward.

In the month ended 5 June 2019, the pay bill is £320,000. 0.5% of £320,000 is £1,600. The cumulative allowance is £1,500 (£1,250 and £250 brought forward). There is a £100 Levy to pay for the month.

The calculations follow along similar lines for the rest of the 2019/20 tax year.

Who pays the Levy?

Although many employers don't pay the Levy, there have been significant changes to taxpayer funding of apprenticeships for all employers.

In principle, employers only pay the Levy if their annual 'pay bill' is over £3 million. A pay bill means the total earnings upon which Class 1 employer national insurance contributions (NICs) are calculated. The Levy therefore is not charged on other payments to employees, such as benefits-in-kind.

The Levy is 0.5% of the pay bill, but there is an annual allowance of £15,000. The Levy is reported and paid using the PAYE process.

However, there only needs a report on the Levy if the employer:

- had a pay bill of £3 million in the previous tax year, or
- considers that the pay bill will be over £3 million in the current tax year.

So, for many employers there is no liability to pay the Levy, and no reporting requirements.

As might be expected, there are rules about connected employers, for example, companies in the same group. Connected employers cannot have more than a £15,000 allowance between them. The allowance can be split between connected employers in any ratio they choose.

How are apprenticeships now funded?

The government has issued the policy for the funding of apprenticeships in England. Employers in other parts of the UK pay the Levy, but each devolved government has drawn up their own plan for the use of their share of the Levy.

The funding policy was implemented in May 2017 and will be reviewed from time to time. The funding policy has been adapted from initial proposals in response to feedback from interested parties.

All apprenticeships started from 1 May 2017 have been funded under the new policy. This applies to all employers, including those who do not pay the Levy. There are, however, different rules depending upon whether an employer has paid the Levy. The Levy will not affect the funding of training for apprentices who started a programme before 1 May 2017.

Employers who have paid the Levy

An employer has a digital account to fund the cost of training apprentices. The level of funding is the monthly Levy paid to HMRC, multiplied by the proportion of the employer's pay bill paid to their workforce living in England. There is a 10% government top up on this amount.

Employers have 24 months in which to use the funds in the digital account.

The funds can pay for apprenticeship training and assessment with an approved provider. All existing apprenticeship frameworks and standards have been placed in one of 15 funding bands, with the upper limit of those bands ranging from £1,500 to £27,000. The upper limit of each funding band caps the maximum amount of digital funds an employer who pays the levy can use towards an individual apprenticeship.

Employers can negotiate the best price for the training they require from a training provider, which can be below the maximum set by the funding band. If the employer wants to spend more than the upper limit of the funding band, they can do so, but at their own cost.

An employer who wishes to invest more in training than they have available in their digital accounts will benefit from further government funding through 'co-investment', as outlined below.

Co-investment

Employers who are not required to pay the Levy, or who wish to invest more in training than they have available in their digital accounts, will receive government funding through co-investment.

Under co-investment, government funding will meet 95% of the training costs, and the employer 5% (for apprentices starting from 1 April 2019).

The government funding only applies to amounts up to the funding band limit for any particular apprenticeship.

Special funding for younger apprentices

There are a number of additional measures which focus on apprentices aged 16-18 on an apprenticeship framework or standard, and apprentices aged 19-24 who have previously been in care or have a Local Authority Education, Health and Care plan.

Where employers take on these types of apprentices, employers receive £1,000 for each apprentice in two instalments.

Employers with fewer than 50 people working for them have the benefit of the £1,000 and are excepted from the need to pay 10% of the training costs of the qualifying apprenticeships. The government pays all the training costs up to the funding band maximum.

Training providers also receive equivalent funding for these apprentices.

Want to find out more?

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Should you consider taking on apprentices?

Employers may find that an apprenticeship scheme can help to develop their workforce and fulfil their business's needs, as part of their overall strategic planning. Apprenticeships should be sustainable and address a real business need.

Apprentices can be new or current employees, aged 16 or over and combine working with studying for a work-based qualification. The government funding outlined here does not, of course, pay the salary of an apprentice. However, from April 2016 the government introduced a 0% rate of NIC for employers of apprentices. This rate applies to the earnings of under 25 year-old apprentices up to £827 per week for the current tax year.

Apprentices in England aged under 19, or aged 19 or over and in the first year of apprenticeship, are entitled to receive the apprentice rate of the National Minimum Wage, which is currently £3.90.

Further information on the Apprenticeship Levy can be found through the [Education & Skills Funding Agency](#).

Information correct as of February 2020.

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