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Special Issue – February 2017

Personal & Business Taxation – Audit & Assurance – Accounting & Business Services



Apprenticeship Levy - Are you ready!

From April 2017 the new Apprenticeship Levy will be enforced with the funding system being live from May 2017 – what does this mean.....

The issue....

From April 2017 HM Revenue & Customs are introducing an apprenticeship levy this will require all employers operating in the UK, with a pay bill over £3 million each year, to make a cash investment in apprenticeships. This will initially be set 0.5% of the total annual pay bill, with an allowance of £15 000 to off-set against the levy payable.

The Levy will not only apply to a singular UK company but also apply to wider Group's by looking at the associated companies' rules at sections 25 and 27 to 30 of the Corporation Tax Act 2010. Under the associated companies' rules it will mean that a UK subsidiary may well fall into the scheme if the wider Group's payroll bill exceeds £3 million. Although there may not be any required payment due to the £15,000 allowance there will be a requirement to register through the relevant PAYE scheme. Where a Group of employers are

connected there will only be one £15,000 allowance.

Although each company may have to pay a levy based on their payroll bill, only one company can be elected to receive the allowance. If the allowance is not fully used by the elected company it will not be able to transfer the balance to another connected company.

The opportunity....

For those companies that are required to pay in to the levy and those companies that fall outside of the apprenticeship scheme, both can benefit as the government will look to subsidise the cost of apprenticeships based on the banding associated to a particular apprenticeship. Where an employer's fund doesn't cover the full cost of the apprenticeship, in general terms, the government will contribute 90% of the further cost. Where an employer falls outside of the scheme, again, in general terms, the government will subsidise 90% of the full cost.

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Further Facts to consider

What counts as your payroll bill:

- Total amount of earnings subject to Class1 Secondary NICs i.e. wages, bonuses, commissions and pension contributions you pay NIC's on but not benefits in kind.

Government contributions

- The government will apply a 10% top-up to monthly funds entering levy paying employers digital accounts, for apprenticeship training in England.
- Where an employers levy fund doesn't cover the cost of training the government will further subsidise the cost up to the maximum amount of funding available for that apprenticeship. The proposed contribution is 90% of the further cost with the employer paying the remaining 10%.
- Where an employer doesn't pay into a levy the government will subsidise the cost of apprenticeship up to 90%. The maximum cost will depend upon which one of the 15 bands the apprenticeship you want to use falls into.
- There are further incentives for example where employers have less than 50 staff members and employ 16-18 year old apprentices.

What can Levy funds be spent on?

- Levy funds can only be used towards the cost of apprenticeship training and end-point assessment with an approved training provider. It can be used towards an Apprentice's wages or wider training.

How much can be spent on each apprentice

- Each apprentice standard or framework will be placed into one of 15 bands, ranging from £1,500 to £27,000. These bands will determine the maximum amount that can be spent on each apprenticeship.

The upper limit of the funding bands will also cap the maximum the government will 'co-invest'.

How can employers spend their levy and what are the time restrictions?

- Employers will be able to direct the funds held in their digital account to 'approved training providers' to pay for their apprenticeship training.
- Levy funds will expire after 18 months from when they enter the employers digital account i.e. first in first out so use them or lose them.
- Funds can be used to fund existing employees as long as the training meets an approved apprenticeship standard or framework and co-insides with the apprenticeship requirements.
- From 2018 it is proposed that employers will be able to divert 10% of their levy funds to other employers registered on the digital scheme – perhaps useful for Group companies.
- Latest legislation suggests that levy funds cannot be used for apprenticeships that have started pre May 2017.

How will payments be made to the provider

- When you agree to buy apprenticeship training from a provider, monthly payments will be taken from your digital account and sent to the provider.
- 20% of the overall cost of the apprenticeship will be held back and taken from the digital account when the apprenticeship ends.

If you don't use apprenticeships

- We recommend looking at the apprenticeship standards currently available to see if any of the fit with job roles within you organisation. If they do, this could be a good way of making the most of the apprenticeship levy.

Key facts

- The first levy payments will be due in April 2017 and will be paid through Pay As You Earn.
- The levy will apply to all large organisations, regardless of whether they already employ apprentices or not.
- The rate for the levy will be set at 0.5% of an employer's pay bill.
- Employers will receive an allowance of £15,000.
- The effect of this allowance is that the levy will only be payable on annual pay bills in excess of £3m (Group wide) – employers with a pay bill less than £3m will not pay anything.
- HMRC will collect the levy through PAYE
- The levy payment will be then be ring-fenced in the form of an electronic voucher that can be used to purchase training from recognised providers from the Digital Apprenticeship Service

For further information and detailed Government Guidelines see:

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>