06 April 2017

THE APPRENTICESHIP LEVY ("LEVY")

The following information relates to the Levy in England only

What is the Levy?

- The Levy is part of the government's pledge to increase the quantity and quality of apprenticeships. The tax will help fund an additional 3 million apprenticeships in England leading up to 2020.
- The Levy will be tax deductible for Corporation Tax purposes.

When is the Levy coming into effect?

- From 6 April 2017, employers who meet certain criteria will be required to contribute to the levy on a monthly basis.

Which employers meet the criteria?

- All employers who operate in the UK and who have a total employee pay bill of over £3 million a year will be required to pay the levy.

What is a pay bill?

- Your pay bill is simply the total employee earnings subject to Class 1 secondary NICs (**see appendix for a more detailed definition**).

What is the tax rate for the levy?

- The rate is set at 0.5% of an employer's annual pay bill.

Is there an annual allowance for the Levy?

- Employers will receive an annual allowance of £15,000 to offset against their levy payment. There is only one annual allowance per connected companies.

Example 1: An employer who would pay the Levy

- An employer with an annual pay bill of £6 million

  Pay Bill: £6,000,000 x 0.5% = £30,000

  Allowance: £30,000 - £15,000 = £15,000 total annual payment.

Example 2: An employer who may not be liable to pay the Levy

- An employer with an annual pay bill of £2.5 million

  Pay Bill: £2,000,000 x 0.5% = £12,500

  Allowance: £12,500 - £15,000 = £0 annual payment.

- However this is a monthly Levy, therefore although the annual pay bill does not exceed the £3,000,000 annual limit, a Levy charge may apply in some months for example where the trade is cyclical and thus the pay bill is higher in certain months.

Can the allowance be shared between companies?

- Where companies or charities are connected, they may share the £15,000 allowance between them as they see fit (**see appendix for definition of connected companies**).
- The split of the allowance does not necessarily have to be an even split, this is up to the employer.
- Once the group of companies or charities has decided on the split, that split cannot be changed for the remainder of the tax year.

Can the allowance be shared between PAYE schemes?

- If an employer has more than one PAYE scheme, they may share the allowance across the PAYE schemes as they see fit.
- Once this split has been decided, it cannot be changed until the end of the tax year.

What happens to any unused allowance?

- Any unused allowance in one month will be carried over to the next month.
- Any unused allowance in a tax year cannot be carried over the next tax year and therefore is lost.

What allowance can be claimed if you are only an employer for part of the year?

- If an employer starts their company part way through the tax year or if they cease to be an employer during the tax year, or if they go into liquidation during the tax year, they can still claim the full £15,000 allowance against their levy liability for the part of the year they operate.

How and when to pay the Levy?

- Each month, the levy will be reported and paid through the PAYE system and will be payable alongside income tax and national insurance.
- Although the levy is an annual charge, employers will report and pay it each tax month, at the same time as other PAYE liabilities.
- This payment should be made by the 19th of the following month, or the 22nd if reporting electronically.
- Employers must keep any records of information used to calculate their levy liability for at least 3 years after the tax year to which they relate.
- Once an employer starts reporting the Levy, they must continue to report it every month until the end of the tax year.

What's in it for employers?

- In England, control of apprenticeship funding will be put in the hands of the employers through the Digital Apprenticeship Service.
- Employers in England will be able to reclaim their levy contributions as digital vouchers that can be used to pay for training apprentices.
- Unspent funds in an employer's Digital Account will expire after 24 months, so if funds enter their account in May 2017, they will expire in April 2019.
- The Digital Account Service works on a FIFO basis, therefore funds which entered the account first will be automatically used for payments.
- Employers in England will also receive a 10% top-up to their monthly contributions from the government. As such, for every £1 an employer contributes, they can spend £1.10 on training through their Digital Account.

What are Levy Vouchers allowed to pay for?

- Fund from an employer's digital account can pay for apprenticeship training and assessments as long as they are with an approved training provider and assessment organisations.
- Funds cannot be used to pay for wages, travel or subsidiary costs, managerial costs, work placements, traineeships, or the costs of setting up an apprenticeship programme.

What about outside England?

- The Levy will apply to employers across the UK; however Scotland, Wales and Northern Ireland will have their own arrangements for certain aspects of the Levy. If you require any information on the Levy in Scotland, Wales or Northern Ireland, then please get in touch with us.

What about employers who don't pay the Levy?

- Employers who don't pay the Levy will not need to use the Digital Apprenticeship Service to pay for apprenticeship training and assessment until at least tax year 2018.
- When the new funding systems beings in April 2017, these employers will be able to choose the training for apprentices, approved training providers and an assessment organisation using the registers available on the Digital Apprenticeship Service.
- Employers will have to make a 10% contribution to the cost of this training and the government will pay the rest, up to the maximum amount of funding available for that apprenticeship.
- This will need to be paid directly to the training provider and can be spread over the lifetime of the apprenticeship, to a schedule agreed between the employer and the training provider.
- A £1,000 cash incentive will also be received if the employer takes on any apprentices aged 16-18.
- Employers with less than 50 employers will not have to make co-investments as 100% of the cost will be met by the government.

Appendix

The Pay Bill

The pay bill is based on the total employee earnings that are subject to Class 1 secondary national insurance contributions (NICs).

This includes:

- Any remuneration or profit coming from employment such as wages, bonuses and commissions – payments from a registered pension scheme are not considered earnings for NIC purposes, although a limited group of pension payments may be subject to Class 1 NICs if paid out of an employer-financed retirement benefits scheme;
- Earnings below the Lower Earnings Limit ("LEL") and the Secondary Threshold ("ST"); and
- Earnings of employees under the ages of 21 and apprentices under the age of 25 (but not under the age of 16 in either case).

Although employers do not pay Class 1 secondary NICs on the earnings up to the Upper Secondary Threshold ("UST"), or employees under the age of 21, or apprentices under the age of 25, they remain liable for the payment of Class 1 secondary NICs on those earnings even though the rate at which they would pay is 0%. Consequently, these earnings should be included in the pay bill for Levy purposes.

The pay bill does not include any earnings on which the employer is not liable to pay Class 1 secondary NICs. Therefore, it does not include:

- Earnings of employees under the age of 16;
- Earnings of employees not subject to UK NIC legislation;
- Any payment which is not considered earnings for Class 1 NICs purposes, for example, benefits in kind which are liable to Class 1A NICs (e.g. company cars or private medical insurance);
- Any non-cash benefit within a salary sacrifice arrangement, which is not subject to Class 1 NICs; and
- Payments to employees working abroad where there is no Class 1 secondary NICs liability.

Connected Companies

Two companies are "connected" with each other if one of them has control of the other, or if both companies are under the control of the same person or persons. Control is defined as being where a person has or is entitled to acquire the greater part of the share capital or voting power in a company, or in the event of a distribution of the company's income the greater part of the amount distributed, or in the event of distribution of assets the greater part of the company's assets.

The rules relating to connected companies do not apply to unincorporated businesses or single companies.