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## Funding Focus – Apprenticeship levy

1 September 2016

*Funding Focus provides quick summaries of recent funding developments, or particular aspects of the funding system.*

### Introduction

#### Apprenticeship levy: how it will work

On 12 August DfE released a suite of apprenticeship funding information including updated guidance on the [Apprenticeship levy: how it will work](#). The apprenticeship levy will be introduced for all UK employers on 6 April 2017. This Funding Focus summarises key information about how the levy will work. It looks at:

- paying the apprenticeship levy
- accessing funds from the apprenticeship levy
- buying apprenticeship training
- employers who operate in England and in other parts of the UK.

#### The funding system

The DfE are proposing that the new system for funding apprenticeships will come into effect from 1 May 2017. Any apprenticeships started from this date will be funded according to the new rules. Until this date, the funding system in place for frameworks and standards will continue to operate. The DfE released a key funding document on 12 August – the 23 page [Proposals for apprenticeship funding from May 2017](#) for levy and non-levy payers – along with proposed new funding bands for all apprenticeships and a [survey](#) asking for views on the proposed funding plans. Two Funding Focuses are available which summarise the information:

- [160816 Funding Focus - Apprenticeship funding after April 2017](#)
- [160816 Funding Focus - Proposed allocation of frameworks and standards to new funding bands from May 2017](#)

#### Approving organisations to deliver apprenticeship training

The DfE also released a key document about the new Register – the 17 page [Proposals for a new Register of Apprenticeship Providers](#) (RoATP) – which organisations must apply to join if they want to deliver apprenticeship training from May 2017, a [survey](#) on the proposals which closes on 5 September, and a 31 page [Employer-provider guide](#) which explains what employers need to do to become an apprenticeship provider. A Funding Focus summarising these documents will also shortly be available (160818 Funding Focus - Proposals for a RoATPs, and Guidance for employers wanting to become apprenticeship providers) on the Pearson [Funding News](#) website.

#### Further documents and information

DfE also released:

- A [press release](#) which outlines what has been published.



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- [Information on the apprenticeship levy](#) with data broken down by size and sector and the total apprenticeship budget which shows how much money the government is spending on apprenticeships and the amount employers will pay as part of the apprenticeship levy (9 pages).
- An [online levy calculator](#) which employers can use to estimate if they will pay the apprenticeship levy, how much an organisation will have available to spend on apprenticeships and how much the government will contribute towards the cost of training.

## When further information will be available

The publication of further guidance is now back on track. We expect the following information to be available, as originally planned, in October 2016, and December 2016:

- October 2016: The final funding bands that will apply in the new system, the final levels of government support, additional support for 16-18-year-olds, and English and maths payments, the final, full set of technical rules that underpin the funding system, and confirmation of how the proportion of pay bill that is paid to employees living in England will be calculated.
- December 2016: Further employer guidance from HMRC on how to calculate and pay the apprenticeship levy.

## Paying the apprenticeship levy

All employers in the UK, in all sectors, and of all sizes will pay the apprenticeship levy if they have a pay bill of more than £3 million each year. For the purposes of the levy, an 'employer' is someone who is a secondary contributor, with liability to pay Class 1 secondary National Insurance Contributions (NICs) for their employees. The levy will be charged at 0.5% of the annual pay bill and employers have an allowance of £15,000 per year to offset against the levy. This means employers will only pay the levy if their pay bill exceeds £3 million in a given year. Employers will pay the levy to HMRC through the Pay as You Earn (PAYE) process.

### What counts as the pay bill

- The pay bill will be based on the total amount of earnings subject to Class 1 secondary NICs. Earnings below the secondary threshold are not counted when calculating an employer's NICs but they will be included for the purposes of calculating the amount of levy the employer needs to pay.
- 'Earnings' include any remuneration or profit coming from employment, such as wages, bonuses, commissions, and pension contributions that employers pay NICs on. The levy will not be charged on other payments such as benefits in kind, subject to Class 1A NICs.

### Calculating what employers will pay

- An [online levy calculator](#) is available which employers can use to estimate if they will pay the apprenticeship levy, and how much an organisation will have available to spend on apprenticeships and how much the government will contribute towards the cost of training.
- The levy will be paid a rate of 0.5%. However, a £15,000 levy allowance will offset this and. This means the levy is only payable on pay bills over £3 million (as  $0.5\% \times £3 \text{ million} = £15,000$ ).
- The levy allowance will operate on a monthly basis and will accumulate throughout the year. This means employers will have an allowance of £1,250 a month. Any unused allowance will be carried from one month to the next. For example, if an employer's levy liability in month 1 is £1,000 they will not pay the levy as they will not have reached their allowance. The remaining £250 will be carried



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over to the next month, and the allowance in month 2 will be £1,500 (£1,250 monthly allowance + £250 carried over from the previous month).

- If an employer has some unused allowance in a month, but paid the levy previously in the tax year, they can receive a credit to offset against other PAYE liabilities. The credit will also reduce the amount of levy paid.
- If an employer has multiple PAYE schemes and does not use the full £15,000 allowance, they will be able to offset the unused amount against another scheme once the tax year has ended.

Simple examples:

Example 1: An employer who would pay the levy	Example 2: An employer who would not pay the levy
<ul style="list-style-type: none"> <li>• Annual pay bill: £6,000,000</li> <li>• Levy sum: 0.5% x £6,000,000 = £30,000</li> <li>• Annual levy payment: £15,000 (i.e. subtract levy allowance from levy sum: £30,000 - £15,000)</li> </ul>	<ul style="list-style-type: none"> <li>• Annual pay bill: £1,500,000</li> <li>• Levy sum: 0.5% x £1,500,000 = £7,500</li> <li>• Annual levy payment: £0 (i.e. subtract levy allowance from levy sum: £7,500 - £15,000)</li> </ul>

### How the levy will be paid

- Employers will report and pay the levy to HMRC through the PAYE process alongside tax and NICs.
- Employers liable for the levy will need to declare this and include it in their PAYE payment to HMRC by the 19th (or 22nd if using electronic reporting) of the month following the introduction of the levy (April 2017). The first submission in which employers will declare they will pay the levy will be in May.
- Any apprenticeship levy payment to HMRC will be allowable for Corporation Tax.

### Connected companies or charities

- Where a group of employers are connected they will only be able to use one £15,000 allowance. The definition of 'connected' is the one used for the [Employment Allowance](#).
- Employers that are part of a group of connected employers must decide what proportion of the levy allowance each employer will be entitled to. This decision must be taken at the beginning of the tax year and will be fixed for the year unless a correction is necessary because the total amount of the levy allowance claimed across the group exceeds £15,000. Each employer will then calculate what they have to pay through the same processes set out above, but using only their portion of the £15,000 allowance.

### Employers paying into an existing industry levy scheme

- Industries already contributing to existing levy systems are also required to pay the apprenticeship levy. The Industry Training Boards for the construction, engineering construction and film industries will consult their members on potential changes to existing levy arrangements.

## Accessing funds from the apprenticeship levy

The apprenticeship levy will be introduced on 6 April 2017 and the first time eligible employers will have to declare their liability to HMRC will be in May 2017 for levy due on the April payroll. Levy paying employers will be able to see funds in their DAS shortly after their final declaration to HMRC; after 22 May.

### **The digital apprenticeship service (DAS)**

- Once an employer has declared the levy to HMRC they will be able to access funding for apprenticeships through a new digital apprenticeship service (DAS) account and will be able to use this to pay for training and assessment for apprentices in England.
- The service will also help employers find training providers to help them develop and deliver apprenticeship programme.
- Online tools for employers will be available via the DAS over the next year. Employers will be able to register to create an account from January 2017 and once registered will need to verify PAYE schemes and link them to their account. Employers can use more than one account if they want to, to keep schemes separate.

### **Government top-ups**

- Government will apply a 10% top-up to the funds for spending on apprenticeship training in England. The top-up will be applied monthly, at the same time the funds enter the DAS. It means that for every £1 that enters DAS; an employer has £1.10 to spend.

### **Expiry of funds**

- Funds, and top-ups, expire 18 months after they enter the DAS unless they are spent on apprenticeship training. Money is spent when it leaves the DAS as payment.
- The account will work on a first-in, first-out basis. When a payment is taken it will automatically use the funds that entered the account first. The DAS will alert employers when funds are due to expire.

### **Pooling funds in a DAS with other employers in a group structure**

- If an employer is in a group of companies connected for the purposes of paying the levy, the group will be able to collect funds together into one DAS by registering to have PAYE schemes attached to a single DAS.
- Employers can only use funds in the DAS to pay for apprenticeship training for their own employee so employers that are not connected will not be able to pool funds in a DAS.



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## Buying apprenticeship training

Levy paying (and non-levy paying) employers will choose apprenticeship training which can either be on a new apprenticeship [standard](#), or on an existing apprenticeship [framework](#). Levy paying (and non-levy paying) employers also need to choose an approved training provider and an approved assessment organisation. All employers will be able to access a register of approved training providers, and approved assessment organisations, through the DAS.

### The digital apprenticeship service (DAS)

- Levy paying employers will be able to purchase training through the new DAS from 1 May.
- Payments will be automatically taken from the DAS once the apprenticeship training has been agreed, and the apprenticeship training has started.
- From June 2017 payments will be made on a monthly basis and paid one month in arrears. This means that the first payments to leave an employer's DAS, for training purchased in May, will be in June. In future, the aim is to give employers more flexibility over the way payments leave the DAS.
- When an employer buys apprenticeship training through the DAS they won't need to have enough funds in the DAS to cover the entire cost of the training at the start; there just needs to be enough funds in the DAS to cover the monthly cost of each apprenticeship.
- The DAS will show the funds entering the account and the funds leaving the account each month.

### Employers that don't have enough funds in the DAS, or not using the DAS to buy training

- If an employer doesn't have enough funds in the DAS, or does not use the DAS to buy apprenticeship training they want, they will buy it directly from a provider following the same process as non-levy paying employers.
- Employers will make a contribution to the extra cost of training that month and to pay this directly to the provider according to a payment schedule agreed with the provider. Government will provide support with costs and are seeking views on proposals that government and employers co-invest with government paying 90% and employers paying the remaining 10% (see 'Funding documents' on page 1 for more).
- Once an employer has decided to buy apprenticeship training through the DAS:
  - Funds will be taken from the DAS each month to pay the training provider
  - DfE will work out if the amount paid is less than 100% of the amount due that month.
  - DfE will calculate how much more has to be paid (using the rate set for co-investment).
  - The provider will let employers know when the co-investment needs to be paid.
  - DfE will pay the government share direct to the provider.
  - DfE will ask the provider to confirm an employer has made their contribution.

### Employers who pay the levy in some months and not others

- Some employers, such as those who employ seasonal workers, may pay the levy in some months but not others, even if their annual pay is less than £3 million.
- The PAYE system will ensure employers pay the correct amount of levy for the tax year. This will involve an in-year repayment by allowing the employer to make a reduction in their other PAYE payments.
- Employers will not be allowed to use the DAS to purchase training with funds paid that have been repaid or that they expect to be repaid.



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- Seasonal employers who expect their annual pay bill to be less than £3 million should purchase training directly from providers.

## Spending apprenticeship funding

- Funds in the DAS (and funding provided by the government through co-investment), can only be used towards the costs of apprenticeship training and end point assessment with an approved training provider and assessment organisation.
- It can't be used on other costs associated with apprentices or wider training effort. For example wages, statutory licences to practise, travel and subsidiary costs, managerial costs, traineeships, work placement programmes or the costs of setting up an apprenticeship programme.
- The SFA publish a set of detailed rules for 2016/17 to define what apprenticeship funding can be spent on. These rules are being reviewed ahead of the levy being introduced and a full set of rules will be published by October 2017.

## Employers who operate in England and in other parts of the UK

- Apprenticeships are a devolved policy, which means that authorities in each of the UK nations manage their own apprenticeship programmes, including how funding is spent on apprenticeships.
- The levy will apply to employers across the UK but the amount entering the DAS account will be how much an employer has available to spend on apprenticeship training in England. Scotland, Wales and NI have their own arrangements for supporting employers to access apprenticeships.
- To calculate how much employers will have to spend the DfE plan to use data they hold about the home address of employees. This data will be used to work out what proportion of an employer's pay bill is paid to employees living in England. The approach is being tested and the DfE will provide more details in October 2016, and the assessment will be made in early 2017.
- The DfE are seeking views on proposals that employers should be able to use their digital funds (and access government co-investment in other cases) for training employees whose main workplace is England (see 'Funding documents' on page 1 for more).

	Employees in:			
	England	Scotland	Wales	NI
<b>Paying levy fund, i.e. Which employees' payroll will the levy apply to?</b>	✓	✓	✓	✓
<b>Levy funds i.e. What part of the levy that levy-paying employers pay, will go into the DAS to spend on apprenticeships?</b>	✓ <i>Living in</i>	x	x	x
<b>Spending levy funds i.e. Which employees can levy-paying employers spend the DAS funds on?</b>	✓ <i>Working in</i>	x	x	x

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