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introducing the apprenticeship levy

Q&A

Senior Levy Consultant Andrew MacPhee answers your questions on the apprenticeship levy and how it affects your business

What is an apprenticeship?

An apprenticeship is a nationally recognised training programme combining real work with learning and training, both on and off the job.

Apprenticeships are no longer a career pathway for just young people. Due to recent legislative changes, anyone, regardless of age or past qualifications, can become an apprentice.

This is ideal for existing employees who are looking to progress in their career or learn new skills through apprenticeship funding. This change in legislation was introduced with the apprenticeship levy.

What is the apprenticeship levy?

The apprenticeship levy requires all employers operating in the UK, with a pay bill over £3 million each year, to make an investment in apprenticeships (0.5% of their annual pay bill).

Why was the apprenticeship levy introduced?

The aim of the apprenticeship levy is to improve the quality and quantity of Apprenticeships in England and help the government meet its target of 3 million Apprenticeships by 2020. An additional major facet of the levy is providing a sustainable workforce and bridging the skills gap affecting many industries.

3 million apprenticeship starts are expected by 2020

Does my company have to pay the apprenticeship levy?

The levy is 0.5% of every employer's pay bill. However, since each employer currently receives a £15,000 offset allowance every tax year, the majority of companies do not need to pay anything at all.

Example 1: an employer who needs to pay the levy; An employer with an annual pay bill of £5,000,000:
levy sum: $0.5\% \times £5,000,000 = £25,000$
subtracting levy allowance: $£25,000 - £15,000 = £10,000$ annual levy payment

Example 2: an employer who does not have to pay the levy; An employer with an annual pay bill of £2,000,000: levy sum: $0.5\% \times £2,000,000 = £10,000$
subtracting levy allowance: $£10,000 - £15,000 = £0$ annual levy payment

What defines a pay roll?

A pay roll is defined on total employee earnings subject to class 1 secondary NICs. Earnings include any remuneration or profit coming from employment, such as wages, bonuses, commissions, and pension contributions that you pay NICs on.

How would my company pay the apprenticeship levy?

If you have to pay the apprenticeship levy, you should calculate, report and pay on a monthly basis to the HMRC, through the PAYE process alongside tax and NICs.



What is the £15,000 allowance and how does it work?

The £15,000 levy allowance is divided monthly so you will only pay for a given month if your liability is less than £1,250. Any unused allocation money will carry over towards the next month.

My company is a group of connected companies. How will this be affected by the levy?

When a group of companies are connected, they can only use one £15,000 levy allowance. However, this allowance can be split towards all businesses in the group but this must be decided and notified to HMRC before the start of the tax year. It cannot also be changed for the rest of the tax year.

I'm paying the levy. What advantages does it bring to my company?

Any company paying the levy will have access to the new digital account system, which enables you to pay for training and assessment for apprentices in England, provided as a voucher system. You are also able to search for training providers like Skills Team to help deliver your apprenticeship programme.

However, digital funds and government funding cannot be used for:

- apprentice wages
- apprentice travel and subsistence costs
- managerial costs
- traineeships
- work placement programmes
- the costs of setting up an apprenticeship programme

Your company has 24 months to spend these funds or they will otherwise expire and cannot be used again.

I don't need to pay the apprenticeship levy; will I have to contribute any costs?

Non-levy paying employers still have to make a small contribution towards training an apprentice. Called 'co-investment', these employers will pay 10% towards the cost of Apprenticeship training with the government paying the remaining 90%.

Any non-levy paying businesses with under 50 employees won't need to pay for anything taking on a 16-18 year-old apprentice, with the government contributing 100% towards the total cost of training.

Can I use the levy to train my existing staff?

Employers can use the levy payments to provide their existing staff with apprenticeship training either in a specialist technology, or with leadership and management skills for internal progression.

The benefits of using the levy to upskill staff include improved staff productivity, staff retention and succession planning.

However, some apprenticeships used for upskilling staff are subject to eligibility so speak to your training provider for detailed advice.

What's next?

At Skills Team we would love to help your business take advantage of the apprenticeship levy and alleviate any concerns you may have.

If you're seeking advice regarding the apprenticeship levy, hiring an apprentice or if you're interested in upskilling your current staff, then please get in touch with our Employer Relationship Team on 020 3174 1100.