

**A new Apprenticeship Levy is due to come into effect in April 2017. The levy will be payable by all employers with an annual payroll of £3m or more, whether or not they employ apprentices. There will be no exemptions for charities, independent schools and other not for profit employers.**

**It is intended it will be collected via the PAYE system at a rate of 0.5% of payroll costs, with an annual allowance of £15,000.**

### WHO WILL BE AFFECTED?

The levy will be payable by all employers with an annual payroll of £3m or more. Whilst it is anticipated it will only affect 2% of employers, it will nonetheless have a considerable impact upon larger employers, especially those in the charity and not for profit sectors.

There will be no exemptions for charities, independent schools or other not for profit employers.

### HOW WILL THE APPRENTICESHIP LEVY BE CALCULATED AND COLLECTED?

The Apprenticeship Levy will be payable at a rate of 0.5% by employers with an annual payroll in excess of £3m. For the purposes of the Apprenticeship Levy the £3m is calculated by reference to the total employee earnings, including cash bonuses, but excluding benefits in kind, employers' National Insurance contributions and pension payments.

An annual allowance of £15,000 will be applied when calculating the total amount due for the year. This means all employers with a payroll cost in excess of £3m will be within the scope of the legislation.

The Apprenticeship Levy will be collected via the PAYE system.

The following are examples to help illustrate the position:

#### EXAMPLE 1:

Employer with 200 employees—each with a gross salary of £20,000.

Description	Calculation	Impact
Payroll cost	200 x £20,000	£4,000,000
Apprenticeship Levy	£4,000,000 x 0.5%	£20,000
Allowance of £15,000	£20,000 - £15,000	£5,000
<b>Annual Apprenticeship Levy Payable</b>		<b>£5,000</b>

## EXAMPLE 2:

Employer with 100 employees—each with a gross salary of £20,000.

Description	Calculation	Impact
Payroll cost	100 x £20,000	£2,000,000
Apprenticeship Levy	£2,000,000 x 0.5%	£10,000
Allowance of £15,000	£10,000 - £15,000	-£5,000
<b>Annual Apprenticeship Levy Payable</b>		<b>£0</b>

## WHAT WILL EMPLOYERS GAIN FROM THE APPRENTICESHIP LEVY?

Employers will be able to use their Apprenticeship Levy contributions to pay for training (but not salary costs) for those who meet the definition of an apprentice (although details of the definition are still awaited).

Details of the Apprenticeship Levy contributions will be maintained on digital accounts and employers will be able to purchase their apprenticeship training from registered providers. It is envisaged that an employer can be registered as a provider and draw down from their account the costs incurred for providing any “in-house” training.

However, employers will have between 18 and 24 months to use their Apprenticeship Levy contributions. Any unspent contributions will be re-allocated to other employers with capacity for additional training. The reallocation of funds may include employers who have not paid any Apprenticeship Levy contributions.

## IMPACT OF THE APPRENTICESHIP LEVY

The introduction of the Apprenticeship Levy will impact all employers with an annual payroll cost in excess of £3m. However, all employers are within the scope of the Apprenticeship Levy and should not ignore the impact of the legislation because their payroll cost may currently be less than £3m. As there is a requirement for it to be paid upfront, this will have an impact for cash-flow purposes and budgets which are being prepared now. Employers will need to take into account the additional costs of the Apprenticeship Levy.

Clearly employers will want to be in a position to be able to take advantage of the Apprenticeship Levy payments they make. This may see a change in the way, for example, school leavers are recruited.

## FURTHER DEVELOPMENTS

The legislation has yet to be finalised. However, there appears to be little likelihood that there will be any fundamental changes to the proposed legislation.

We will update our commentary in respect of the Apprenticeship Levy once further developments are announced.

For further information please contact your usual haysmacintyre contact or a member of the Employment Taxes team.