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3HR Legal Weekly

Employment

How Will the New Apprenticeship Levy Affect Your Business?

From 6 April 2017, the government is changing the way it funds apprenticeships in England by introducing a new Apprenticeship Levy. The levy will require all employers operating in the UK, with a pay bill over £3 million each year, to make an investment in apprenticeships.

The government believes that employers can benefit from this investment by training apprentices. Recruiting and training apprentices enables employers to fill the skills gaps that exist within their current workforce as apprentices begin to learn sector specific skills from day one. According to the National Apprenticeship Centre, 80% of companies who invest in apprentices have reported a significant increase in employee retention and 77% believe apprenticeships make them more competitive. Further, the data reveals that 92% of employers who employ apprentices believe that apprenticeships lead to a more motivated and satisfied workforce.

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 a rate of 0.5% of the employer's annual pay bill.

The pay bill will be based on the total amount of earnings subject to Class 1 secondary National Insurance Contributions (NICs). Earnings include any remuneration or profit coming from employment, such as wages, bonuses, commissions, and pension contributions that the employer pays NICs on.

Employers will have a levy allowance of £15,000 per year to offset against the levy it must pay. As the levy is charged at the rate of 0.5%, this means they will only pay the levy if the pay bill exceeds £3 million in a given year.

The levy will be paid to HM Revenue and Customs (HMRC) through Pay as You Earn (PAYE).

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 forward from one month to the next.

Apprenticeship levy payments to HMRC will be allowable for Corporation Tax.

Businesses that have paid the levy to HMRC will be able to access funding for apprenticeships through a new digital apprenticeship service account. They 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 their apprenticeship programme.

Remember that if you do decide to employ apprentices, you must pay them at least the minimum wage for apprentices (currently £3.30 per hour if they are under 19 years old or in the first year of their apprenticeship – thereafter they are entitled to the minimum wage for their age).

For advice regarding apprenticeships or any other employment matter, please contact the Employment Team.

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