

THE APPRENTICESHIP LEVY IS HERE - ARE YOU READY?

Human Capital



The Apprenticeship Levy came into being on 6 April 2017. We have set out below some background and steps your organisation should be taking to ensure it is compliant and also to maximise use of the Levy it will be paying.

The Government has introduced the Levy to address the UK's shortage of skilled labour as part of a plan originally announced in the Summer 2015 Budget. Responsibility for the Levy rests with the Department for Education (DfE), with HM Revenue & Customs (HMRC) responsible for collecting and policing the Levy.

We have set out below how the Levy will operate but anticipate there may be further developments once the Levy beds in during 2017/18.

The basics

The Levy will be charged at 0.5% of an employer's 'paybill' - which is classified as total earnings liable to employer Class 1 NIC. The classification will include earnings for employees aged under 21 and apprentices under 25. For Levy purposes, the employer will be the organisation that has a liability. There will also be an annual allowance of £15,000 for each employer to offset against the Levy which will be applied on a cumulative basis. Employers with a paybill of less than £3m will, therefore, be exempt from the Levy.

Is your organisation liable for the Apprenticeship Levy?

It is estimated that around 20,000 employers will have a paybill that is over the threshold and so pay the Levy - although the calculation will not be straightforward. It will be a monthly, cumulative, calculation so, for employers with multiple payrolls

operating on different pay cycles, careful co-ordination will be required. Payments liable to Class 1A or Class 1B NIC will be excluded from the calculation, as will earnings of expatriate and inpatriate employees - assuming they do not trigger a Class 1 NIC liability.

Connected organisations

Many organisations are part of a group and this will have Levy implications. The paybills for organisations that are deemed to be connected for Levy purposes will be aggregated for the £3m threshold test. Each organisation within the group will be able to draw down funds for qualifying training (assuming it has a separate PAYE reference). Also, the £15,000 allowance can be shared amongst group members if appropriate.

The connection test also only applies at the start of the tax year. So, if a business comes into a group after 6 April and does have an existing Levy liability in its own right, then its paybill need not be considered for Levy purposes until the following tax year. We are already finding that some organisations are not immediately aware that they are connected for Levy purposes.

At or near the £3m threshold - do we need to consider the Levy?

The organisation should, by April 2017, have carried out an accurate assessment of its position and its projected annual payroll costs. Assuming you don't breach the £3m threshold, no Levy liability will arise, but if the organisation is growing

CONTACTS

MAYBETH SHAW Partner

t: +44 (0)2890 439009

e: maybeth.shaw@bdoni.com

FIONA NEILL Senior Manager

t: +44 (0)2890 677321

e: fiona.neill@bdoni.com

LEANNE O'HARA Senior Manager

t: +44 (0)2890 677324

e: leanne.o'hara@bdoni.com

RENEE DAWSON Manager

t: +44 (0)2890 437227

e: renee.dawson@bdoni.com

rapidly or has a fluctuating paybill (eg a seasonal business) you will need to monitor the threshold on a monthly basis. However, if the threshold is breached because your organisation has merged with or acquired by another, the test will be examined the position at the start of the next tax year. So, for the rest of the merger year, both organisations will be treated separately for Levy purposes.

Compliance and anti-avoidance

The legislation includes a range of anti-avoidance measures designed to ensure employers pay the correct Levy and do not introduce arrangements to reduce or avoid it. However, if an organisation has or seeks to implement an Optional Remuneration Arrangement (formerly known as salary sacrifice) or a flexible benefits arrangement as part of its reward and remuneration strategy, this would only be viewed by HMRC as avoidance if the sole purpose for introducing such an arrangement was to reduce a Levy liability.

What can be drawn down from a digital account?

The Government has formed the Institute for Apprenticeships to monitor and decide how Levy funding is spent. All employers, whether they pay the Levy or not, will be able to access funding for apprenticeships - most via a digital account which will enable users to see their Levy contributions and/or how much apprenticeship training they may purchase with a qualified training provider. It should be noted that the amount of funding an employer may spend on each apprentice will be capped.

While the Levy applies to all UK employees, Levy payments will be split across the devolved nations in proportion with where employees live. So an employer with employees in England and Scotland, for example, will need to apply to the SFA to draw down from its English digital account, and make a separate application to its Scottish equivalent. Different rules may apply - the Scottish Government position is set out here:- <http://www.gov.scot/Topics/Education/skills-strategy/apprenticeship-levy>. The Welsh Government has announced it does not intend to change its current system of funding Apprenticeships and details of the position in Northern Ireland can be accessed here:- <https://www.nibusinessinfo.co.uk/content/apprenticeships-employers>

The Government has stated that employers paying the Levy will receive a 10% top-up to their monthly contributions to spend on apprenticeship training. But this only applies to the English Levy liability. See: <https://www.gov.uk/government/collections/apprenticeship-standards> and here:-

<https://www.gov.uk/government/publications/a-guide-to-apprenticeships>

What do we need to do?

We recommend that all organisations examine how the Levy will impact the organisation. Points to consider are:

- Will your organisation be exempt?
- What are the financial and practical implications of your workforce assessment and payroll parameters review of items subject to Class 1 NIC?
- Are your systems sufficiently robust to be able to calculate the paybill for Levy purposes on a monthly basis? Is a suitable process in place?
- Is it relevant to revisit your resourcing plans or remuneration strategy? Should benefits liable to Class 1A (eg under a flexible benefits scheme) be offered?
- If you are part of a group, how does the 'connected persons' definition affect each organisation? If the one-entity restriction is not changed, which group company will be nominated to draw down funds?
- What training are employees currently offered?
- Is this training likely to qualify under an apprenticeship standard? If not, have you explored how to change your training programme to maximise the level of draw down funds from your digital account?

NEXT STEPS

BDO's experts can guide you as you consider the impact of the Levy on your business.

Please contact one of the team overleaf to discuss how we can support you.



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Northern Ireland to discuss these matters in the context of your particular circumstances. BDO Northern Ireland, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms. A list of partners' names is open to inspection at our registered office, Lindsay House, 10 Callender Street, Belfast, BT1 5BN. BDO Northern Ireland is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.
© May 2017 BDO Northern Ireland . All rights reserved.