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Guidance on the Apprenticeship Levy

Background

As an employer, you must pay [Apprenticeship Levy](#), if you:

- have an annual pay bill of more £3 million; and
- are “connected” to any companies or charities for Employment Allowance purposes and have a combined annual pay bill of more than £3 million.

Apprenticeship Levy is an amount paid at a rate of 0.5% of an employer’s annual pay bill. If an employer is eligible to pay the levy, they must pay this and report to HMRC through the PAYE process on a monthly basis.

Note, all employers must notify HMRC each month confirming whether they are eligible to pay the levy.

Using the Apprenticeship Levy allowance

Employers who aren’t “connected” to another company or charity, have an Apprenticeship Levy allowance of £15,000 each year. This allowance reduces the amount of the levy paid across the year. Any unused allowance cannot be carried over into the next tax year.

Employers who are “connected” to another company or charity with a combined annual pay of over £3 million, only have an allowance of £15,000 to share between them. You can find further information on this below.

If you are not connected to any other employer and your pay bill is not over £3 million you will not need to pay the levy. However, as the levy is based on the PAYE payroll, it includes temporary workers paid on a PAYE basis directly. Therefore, even relatively small recruitment companies may have to pay the levy if their temporary worker pay bill takes the total over £3 million per annum.

Your annual pay bill comprises of all payments to employees that are subject to employer Class 1 secondary National Insurance Contributions (“NICs”) (including 0% NICs) such as wages, bonuses and commissions.

Digital Apprenticeship Service

Following recent changes introduced by the Education and Skills Funding Agency (ESFA), employers that pay the apprenticeship levy can ‘pledge’ and transfer unused levy through an online service account.

How it works:

1. From the 13 September 2021, all ‘sending’ employers (those transferring the levy) can add advertise their transfer opportunities (pledge) on the online portal. Employers can set specific criteria over the apprenticeship that they wish to support i.e. – location, sector and/or type of role.
2. From the 27 September 2021, all ‘receiving’ employers (those applying to pledges) can view the criteria and apply to the pledges via the criteria on the portal.

The Apprenticeship Service Account

The registration for the apprenticeship service (previously called the digital apprenticeship service) is open to all levy-paying employers. An account can be created [here](#).

In order to set up an account, you need to have details of your Government Gateway login, details for the PAYE schemes to be included in the account, as well as details of organisations that will be making an agreement with a training provider for apprenticeship training.

Funds expire 24 months after they enter your account unless they are spent on apprenticeship training. When a payment is taken from the account, the service automatically uses the funds that was entered first.

A total price for each apprenticeship must be agreed between the levy payer and the training provider, which includes the costs of training and assessment. For apprenticeship standards this must include the cost of the end-point assessment agreed with the apprentice assessment organisation. Government funding is available to support the costs of the end-point assessment. Costs of the end-point assessment can vary but should not be more than 20% of the total cost of an apprenticeship, though often they are less than 20%.

Transferring funds in the supply chain

Since [April 2019](#), levy-paying employers can transfer a maximum amount of 25% of their annual funds. These funds can be transferred to any employer, including smaller employers in your supply chain, and Apprenticeship Training Agencies. Levy payers can see their annual transfer allowance in their apprenticeship service account.

Employers need to take note of the rules on state aid when receiving funds from other employers. A percentage of all the funds you receive as a transfer may be considered as state aid. This represents the amount of co-investment you would otherwise have had to contribute towards the apprenticeship if funds had not been transferred from another employer. For all starts funded through a transfer before 1 April 2019, 10% of all the funds you receive may be considered as state aid. For starts funded through a transfer on or after 1 April 2019, only 5% may count. This is because the co-investment rate was reduced from 10% to 5% for all new starts from 1 April 2019.

Main rules governing apprenticeships:

- The apprentice must be employed in a real job; they may be an existing employee or a new hire (it is therefore not applicable for temporary workers and contractors).
- The apprenticeship training must last at least 12 months.
- The apprentice must spend at least 20% of their time on off-the-job training - this training must be directly relevant to the apprenticeship framework or standard.
- The apprentice must work towards achieving either an approved apprenticeship standard or framework (frameworks will be phased out between now and 2020).

Connected companies

Connected companies have one £15,000 allowance to share between them. Two or more companies are “connected” if one of them has control of the other or if they are under the control of the same person(s); control is defined under ss.450 and 451 of Corporation Tax Act 2010. The allowance can be split between your PAYE schemes or with your connected companies, the split must be reported to HMRC and cannot be changed during the tax year.

If you are in a group of connected companies, you can set up a single shared apprenticeship account and pool your funds. You should also register every organisation that has or will enter into an agreement with a training provider for apprenticeship training.

What the funds can be used for

The funds can only be used for the apprenticeship training and assessment costs up to the funding band maximum for that apprenticeship but does cover all staff, levels and ages, including graduates. This must be with an approved training provider and assessment organisation. You cannot use the funds on other costs associated with the apprentices; such as wages, statutory licences to practice, travel and subsidiary costs, work placement programmes or the costs of setting up an apprenticeship programme.

Employers who don’t pay the levy or run out of funds are able to access government “co-investment” support to train apprentices.

Funding bands

The apprenticeship funding system is made up of 30 funding bands, which can be reviewed [here](#). All existing apprenticeship frameworks and standards have been placed within one of these funding bands, and new standards will be placed in a funding band as they become ready for use.

The upper band sets in place a maximum that the government is prepared to spend on training and assessment for that apprenticeship. Employers are able to spend more than the upper limit of the funding band.

Funds in your apprenticeship service account can be used up to the funding band maximum for each apprenticeship. If the costs of training and assessment go over the funding band maximum, you will need to pay the difference from your own budget.

You can find the recruitment consultant standard [here](#) and recruitment resourcer standard [here](#). These types of apprenticeships are Level 3 and Level 2 respectively, with a funding band of £5000.

Once the apprenticeship training has started, monthly payments will be automatically taken from the account and sent to the provider. The provider will pass funds on to the end point assessment organisation.

For employers that pay the levy

The amount of funding entering your account each month is calculated as follows:

- The levy you declare to HMRC through the PAYE process;

- Multiplied by the proportion of your bill paid to your workforce who live in England (the “English percentage”); and
- A 10% government top-up on this amount.

You can use [HMRC’s Basic PAYE Tools](#) to help work out how much you need to pay. You can also use the government guidance on paying the levy [here](#). The Apprenticeship Levy is paid each month through the PAYE process in the same way Income Tax or NICs are paid. As the payment is taken monthly, in real time, the levy amount taken is reflected as the pay bill changes each month. Apprenticeship Levy payments are a deductible expense for Corporation Tax.

If you do not have enough funds in your account but you wish to continue funding an apprenticeship, you can share the remaining costs with the government – this is called “co-investment”. In April 2019, the co-investment rate changed for new apprenticeships starting on or after 1 April 2019. Now, you will fund 5% of any further training and the Government will pay the remaining 95% up to the funding band maximum.

Reporting

If you are paying the levy, you need to tell HMRC how much Apprenticeship Levy you owe each month. Furthermore, you need to continue reporting it until the end of the tax year even if your annual pay bill turns out to be less than £3 million. You can report your Apprenticeship Levy each month using your Employer Payment Summary (EPS). You do not need to report your Apprenticeship Levy on your EPS if you have not had to pay it in the current tax year.

You must keep records of any information you have used to calculate your levy payment for at least 3 years after the tax year which they relate to.

If you have overpaid Apprenticeship Levy during the year, you will receive a refund as a PAYE credit.

For employers that do not pay the levy

Employers that do not pay the levy can receive government funding towards the costs of apprenticeship training and assessment through co-investment.

For apprenticeships that start from 1 August 2021, you are now required to make a 5% contribution towards the cost of apprenticeship training, and the government will pay the remaining 95%, up to the funding band maximum for that apprenticeship. There is a small employer waiver for employers with fewer than 50 employees who are training apprentices aged 16-18, or apprentices who are aged 19-24 who have previously been in care or who have a Local Authority Education, Health and Care plan. These employers are not required to contribute the 5% co-investment as the government will pay 100% of the training costs up to the funding band maximum.

In April 2021, all reservations for employers who do not pay the apprenticeship levy were reset, to enable these employers to make up to 10 reservations. You can find further information on reservations [here](#).

Training Providers

Funds in the apprenticeship service account can only be spent on apprenticeship training and assessment from a Government-approved training provider. These apprenticeship training providers will have to pass quality and financial tests, and those with an inadequate Ofsted rating will not feature on the Government's register -

<https://www.gov.uk/guidance/register-of-apprenticeship-training-providers>

Further Information

This guidance is only applicable for employers in England as separate arrangements are in place for Scotland, Wales and Northern Ireland.

Please contact legalhelpdesk@apsco.org should you have further queries in relation to the Apprenticeship Levy.

Disclaimer

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