

Apprenticeship levy - Guidance for Software Developers

Key facts

From 6 April 2017 the way that the government funds apprenticeships in England is changing. Some employers will be required to pay the new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

The levy will be charged at a rate of 0.5% of an employer's pay bill but there is an annual allowance of £15,000 to offset against this. So, in practical terms **only employers with annual pay bills greater than £3 million will pay the levy.**

How is the employer's pay bill calculated?

For the purposes of the levy, an employer's pay bill is based on the total employee earnings subject to Class 1 secondary National Insurance Contributions (NICs). This already includes any remuneration or profit coming from employment such as wages, bonuses, commissions and some pension contributions that NICs are paid on. However, for the levy, the total earnings must also include other amounts that are not included when calculating employer NICs. These are earnings below the Secondary Threshold (ST) and earnings of employees under 21 and apprentices under 25 which applies a zero rate of Class 1 secondary NICs.

Pay bill for levy purposes does not include benefits in kind that are, subject to Class1A NICs.

The levy allowance

The levy allowance of £15,000 will apply in each tax year, which employers can use to offset against their levy liability, subject to the connected companies and charities rules that are explained below.

The levy liability will be calculated monthly with the operation of the annual allowance being offset on a cumulative pro-rata basis.

Who will pay the apprenticeship levy and when?

Only employers with annual pay bills greater than £3 million will pay the apprenticeship levy.

The due date will be the same as now, 14 or 17 days after the end of each tax period depending on the employer's payment method. This would be their levy liability for that current tax period e.g. tax month, less any levy liability paid to HMRC the previous tax period.

How do I report the apprenticeship levy?

Employers will **only** need to report the apprenticeship levy to HMRC where they are likely to have a liability to pay the apprenticeship levy. It will be reported as part of the normal payroll process using the Employment Payment Summary (EPS) within their software package or by using Basic PAYE Tools.

Connected companies and charities

The government is tabling an amendment to the Finance Bill 2016 to allow connected companies or charities to share the levy allowance between them, rather than stipulating that just one employer out of a group of employers will receive it. If this applies, each employer will claim their portion of the allowance against their levy liability due, but no more than £15000 in total can be claimed by the employers involved in sharing the allowance

In a similar way, an employer with more than one PAYE scheme will have the option to split the allowance as they choose across their PAYE schemes. This will enable the employer to divide the allowance they have between their multiple PAYE schemes (but not exceed the total £15,000 annual levy allowance) and calculate the levy due accordingly.

The split of the allowance must be agreed at the beginning of the tax year and fixed for that year. Employers who are part of a connected group will not be able to change the amount of levy allowance in year.

How do I calculate the apprenticeship levy due and how is the allowance allocated?

To arrive at the monthly “pay bill” the employer will add all the employee earnings subject to Class 1 secondary NICs (from each of the paydays in the tax month) together and include every employee reported in the employer’s PAYE scheme or schemes. Then the 0.5% rate will be applied to this sum to calculate the levy liability for that tax month, before the pro-rated cumulative monthly allowance is applied. Employers will offset the cumulative monthly allowance against the cumulative monthly levy liability in order to calculate the apprenticeship levy payable for each tax month.

A twelfth of the £15,000 annual allowance can be claimed in each month of the tax year on a cumulative basis.

An example

$$£15000/12 = £1250$$

$$\text{Month 1} - £1250$$

$$\text{Month 2} - £1250 + £1250 = £2500$$

$$\text{Month 3} - £1250 + £1250 + £1250 = £3750$$

And so to Month 12

$$\text{Month 12 } £1250 \times 12 = £15000$$

The cumulative nature of the allowance means that, even if a pay bill increases, 'carried over' allowance may mean that an employer doesn't have to pay anything in levy until they have used up the entirety of their allowance.

Below are examples of how the allowance will work

Example 1 - Regular pay bill of £250000 each month (£3m for the tax year so no levy is due)

Month 1

$$£250000 \times 0.5\% = £1250 \text{ levy}$$

$$\text{Cumulative levy allowance} = £1250, \text{ i.e. } £15000/12$$

$$\text{Levy due up to month 1 is } £1250 - £1250 = \text{NIL}$$

Month 2

$$£500000 (£250000 + £250000) \times 0.5\% = £2500$$

$$\text{Cumulative levy allowance } £2500 \text{ (see paragraph 16)}$$

$$\text{Levy due up to month 2 is NIL}$$

$$\text{Levy paid in month 2} = \text{levy due up to month 2} - \text{levy due up to month 1} = 0 - 0 = 0$$

And so on until **month 12**

£3 million ($£250000 \times 12$) $\times 0.5\% = £15000$

Cumulative levy allowance £15000

Levy due up to month 12 is NIL

Levy paid in month 12 = levy due up to month 12 – levy due up to month 11 = 0 – 0 = 0

Example 2 – Regular pay bill of £300000 each month (£3.6m for the tax year)

Month 1 and each month of the tax year thereafter

$£300000 \times 0.5\% = £1500$ levy

Cumulative levy allowance = £1250

Levy due up to month 1 is $£1500 - £1250 = £250$

Month 2

$£600000$ ($£300000 + £300000$) $\times 0.5\% = £3000$

Cumulative levy allowance £2500

Levy due up to month 2 is $£3000 - £2500 = £500$

Levy paid in month 2 = levy due up to month 2 – levy due up to month 1 = $£500 - £250 = £250$

And so on until **month 12**

£3.6 million ($£300000 \times 12$) $\times 0.5\% = £18000$

Cumulative levy allowance £15000

Levy due up to month 12 is £3000

Levy paid in month 12 = levy due up to month 12 – levy due up to month 11 = $£3000 - £2750 = £250$

This means that the organisation pays £250 each month in levy which totals £3000 over the year.

Example 3 – Seasonal pay bill. Total pay bill is £3 million over the year but fluctuating with a peak in June and July (month 3 and 4). See table below:

Pay bill	Tax month
£200000	1
£200000	2
£500000	3
£500000	4
£200000	5
£200000	6 to 12
£3 million	Total

Month 1

$£200000 \times 0.5\% = £1000$ levy
Cumulative levy allowance = £1250, i.e.
Levy due up to month 1 is NIL as £1000 levy is less than the cumulative allowance

Month 2

$£400000$ ($£200000 + £200000$) $\times 0.5\% = £2000$
Cumulative levy allowance £2500
Levy due up to month 2 is NIL as £2000 levy is less than the cumulative allowance (£2500)
Levy paid in month 2 = levy due up to month 2 – levy due up to month 1
 $= 0 - 0 = 0$

Month 3

$£900000$ ($£200000 + £200000 + £500000$) $\times 0.5\% = £4500$
Cumulative levy allowance £3750
Levy due up to month 3 is $£4500 - £3750 = £750$
Levy paid in month 3 = levy due up to month 3 – levy due up to month 2
 $= £750 - 0 = £750$

Month 4

$£1400000$ ($£200000 + £200000 + £500000 + £500000$) $\times 0.5\% = £7000$
Cumulative levy allowance £5000
Levy due to month 4 is $£7000 - £5000 = £2000$
Levy paid in month 4 = levy due up to month 4 – levy due up to month 3
 $= £2000 - £750 = £1250$

Month 5

$£1600000$ ($£200000 + £200000 + £500000 + £500000 + £200000$) $\times 0.5\% = £8000$
Cumulative levy allowance £6250
Levy due up to month 5 is $£8000 - £6250 = £1750$
Levy paid in month 5 = levy due up to month 5 – levy due up to month 4
 $= 1750 - 2000 = - £250$

Therefore the employer gets a credit of £250 that month that may be used to offset against other PAYE liabilities.

Month 6

$£1800000$ ($£200000 + £200000 + £500000 + £500000 + £200000 + £200000$) $\times 0.5\% =$
 $£9000$
Cumulative levy allowance £7500
Levy due up to month 6 is $£9000 - £7500 = £1500$

Levy paid in month 6 = levy due up to month 6 – levy due up to month 5
 $= £1500 - 1750 = - £250$

Therefore the organisation gets a further credit in month 6 of £250 to set against their PAYE liabilities.

The calculation continues in the same manner for each of the months 7 -12 where the firm gets a credit of £250 in each month. The whole position for the year can be seen in the table below:

Tax month	Pay bill	Cumulative				Levy paid per month
		pay bill	Pay bill x 0.5%	Allowance	Levy	
1	£200,000	£200,000	£1,000	£1,250	£0	£0
2	£200,000	£400,000	£2,000	£2,500	£0	£0
3	£500,000	£900,000	£4,500	£3,750	£750	£750
4	£500,000	£1,400,000	£7,000	£5,000	£2,000	£1,250
5	£200,000	£1,600,000	£8,000	£6,250	£1,750	£-250
6	£200,000	£1,800,000	£9,000	£7,500	£1,500	£-250
7	£200,000	£2,000,000	£10,000	£8,750	£1,250	£-250
8	£200,000	£2,200,000	£11,000	£10,000	£1,000	£-250
9	£200,000	£2,400,000	£12,000	£11,250	£750	£-250
10	£200,000	£2,600,000	£13,000	£12,500	£500	£-250
11	£200,000	£2,800,000	£14,000	£13,750	£250	£-250
12	£200,000	£3,000,000	£15,000	£15,000	£0	£-250
Total	£3,000,000					£0

Apprenticeship levy – 3rd Party Payroll Software calculation and submission requirements

When calculating apprenticeship levy the following requirements will be needed to provide the levy due year to date

- use or input relevant total pay bill to date subject to Class 1 Secondary NI (total pay bill) for the scheme; must allow for corrections / updates
(validation rule: field length to 12 digits; i.e. £9,999,999,999.99 – to two decimal places)
- calculate the levy due at 0.5% on total relevant pay bill to date (truncated to whole £)
e.g. 1: £467,487 x 0.5% = £2337.435, truncated to £2337
e.g. 2: £467,523 x 0.5% = £2337.615, truncated to £2337
(Validation rule: Rate to be defined for the whole year – initial parameter set to 0.5% but should be updateable)

- Must select tax year and the appropriate tax month to enable calculation of levy allowance
(validation rule: for Apprenticeship Levy only - tax year cannot be before 2017/18 tax year)

Levy allowance calculation:

- input the annual levy allowance amount in the range of £0 to £15000; must allow for corrections / updates (see example in table below)
(validation rule: cannot exceed £15000)
(validation rule: cannot be a minus amount)
- calculate monthly levy allowance amount (truncate to 2 decimal places)
- calculate levy allowance year to date (truncate to 2 decimal places)
- Deduct the levy allowance year to date figure to provide the levy due year to date (rounded down to whole £ in customers favour)
- Where the total pay bill for an earlier year changes, allow recalculation of levy liability for the year following the end of the tax year
(Validation rule: Can go back up to 6 years from now – not before 2017/18 tax year)

	Cumulative					Levy paid
Tax month	Pay bill	pay bill	Pay bill x 0.5%	Allowance	Levy	per month
	£5000 allocated allowance but incorrectly applied £6000 = £500 p/m					
1	£200,000	£200,000	£1,000	£500	£500	£500
2	£200,000	£400,000	£2,000	£1,000	£1000	£500
	Allowance corrected in month 3 to £5000 = £416.66 (allowance is truncated to two decimal places) (Levy due is rounded down to the nearest pound in customers favour)					
3	£500,000	£900,000	£4,500	£1,249.98	£3250	£2,750
4	£500,000	£1,400,000	£7,000	£1,666.64	£5,333	£2,083
5	£200,000	£1,600,000	£8,000	£2,083.30	£5,916	£583
	There is no paybill in month 6 which results in a credit of £412					
6	£0	£1,600,000	£8,000	£2,496.96	£5503	£-412

Report the result through EPS

(weekly / Fortnightly / 4 weekly payrolls – report monthly;
quarterly / 6 monthly / annual payrolls – report the same)

Employers will submit through the Employment Payment Summary (EPS) and provide the following:

- Submit the cumulative levy due to date amount (validation rule: Max inclusive 99999999.00, Min inclusive 0.00, defined as whole pounds (so non zero pence value not permitted, negative value not allowed, mandatory)
- Submit the tax year the levy relates (validation rule: tax year cannot be before 2017/18 tax year)
- Must submit the tax month for the levy due to date amount (validation rule: must be in the range of 1 to 12 with no leading zeros)
- Mandatory input of the total annual levy allowance amount allocated (validation rule: Max inclusive 15000.00, Min inclusive 0.00, pence allowed, negative value not allowed , mandatory)
- Where the total pay bill for an earlier year changes, allow submission of recalculated levy liability following the end of the tax year
(Validation rule: Can go back up to 6 years from now – not before 2017/18 tax year)

What if the business needs to make an in-year adjustments to levy allowance amount?

The employer representative should update their next submission to include the correct apprenticeship levy allowance to date to provide the correct cumulative apprenticeship levy due to date.

If the business operates for only part year, how do I apply the apprenticeship levy allowance?

Where an employer operates for only part of a year e.g. business starts up mid-year or goes into liquidation part way through the year, the full annual allowance of £15000 for the tax year can be used.

Example

So where a business starts up say in May, the allowance for May would be £2500, i.e. $\text{£}15000/12 \times 2$. Where a business goes into liquidation in May, the allowance would be £15000.

This is subject to the connected rules though, which will allow a group/unit of companies to split the allowance. This means that a company may not get the full £15,000.