

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, subject to the connected companies and charities rules, **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 all of those employee earnings liable to Class 1 secondary National Insurance contributions (NICs), this also includes all earnings below the Secondary Threshold (ST).

This includes any remuneration or profit coming from employment such as wages, bonuses, commissions and some pension contributions that NICs are paid on. Payments from pensions are generally not considered earnings for NICs, however employer contributions into an employee's pension can be subject to NICs in some circumstances.

Pay bill **also includes** the earnings of employees under the age of 21 and apprentices under the age of 25. This is because an employer is still liable to pay Class 1 secondary NICs on those earnings, but at a rate of 0%, (which means it may seem to the employer as if they do not have NICs liability for these employees).

Pay bill **does not include** any earnings where an employer is not liable to pay Class 1 secondary NICs.

So the Pay Bill figure should not include:

- earnings of employees under the age of 16
- earnings of employees not subject to UK NICs legislation
- any payment which is not considered earnings for NICs purposes or is officially disregarded, for example, pension payments which are not subject to NICs
- Benefits in kind that are liable to Class1A NICs.
- Payments to employees working abroad that are making employee only contributions.

The levy allowance

The levy allowance of £15,000 will apply in each tax year. Employers can use the allowance 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.

If you have a payroll with a mixture of frequencies – for example monthly and yearly, weekly and half yearly, how would the employer apportion the Allowance to calculate the levy and which PAYE month would they report it in?

Irrespective of the frequency of an employer's payroll, the annual apprenticeship levy allowance is apportioned across the 12 tax months of the year. So, for a company allocated the full annual £15,000 allowance, the monthly apportionment will be £1250. The apprenticeship levy is a charge on an employer's monthly pay bill. The employer must calculate their monthly pay bill and offset their apportionment of the monthly levy allowance against the charge.

If there is a payroll with a range of frequencies, monthly and yearly, to work out the Nicable Pay to use for the calculation for the PAYE Month, do you include the Yearly frequencies value in Month 12 or the PAYE Month that the Pay Date falls in?

You should include the yearly frequency value in the PAYE month that the pay date falls in.

Who will pay the apprenticeship levy and when?

Subject to the connected rules, only employers with annual pay bills greater than £3 million will pay the apprenticeship levy.

The due date for payment will be 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 in the previous tax period.

How do I report the apprenticeship levy?

Employers **only** need to report the apprenticeship levy to HMRC if they are likely to have a liability to pay it. This will be where their annual pay bill in the previous tax year that was liable to Class 1 secondary NICs was over £2.8 million, or they believe it will be over £3 million in the current year, or, for connected employers who allocate the allowance across their group and the allocation is such that the employer believes they are liable to pay the levy

The levy will be reported as part of the normal payroll process using the Employer Payment Summary (EPS) within their software package or by using Basic PAYE Tools.

When an employer starts submitting levy submissions, they will need to continue to make submissions, even if their levy due year to date amount for any subsequent months is zero.

Will the location of an employee affect how much levy an employer is liable to pay or is it only the amount of funds that will be available within the employer's digital apprenticeship service account?

All UK employers with a Class 1 secondary NICs liability are liable to pay the Apprenticeship Levy. The location of the employee within the UK does not affect how much levy the employer pays. It only affects the maximum amount that they can spend through their digital apprenticeship service account

Connected companies and charities

The government has made 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 £15,000 in total can be claimed by the group of employers as a whole.

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. 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, subject to the connected companies and charities rules.

An example

$£15000/12 = £1250$
Month 1 - £1250
Month 2 - £1250 + £1250 = £2500
Month 3 - £1250 + £1250 + £1250 = £3750
And so to Month 12
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

$£250000 \times 0.5\% = £1250$ levy
Cumulative levy allowance = £1250, i.e. $£15000/12$
Levy payable month 1 $£1250 - £1250 = \text{NIL}$

Month 2

$£500000 (£250000 + £250000) \times 0.5\% = £2500$
Cumulative levy allowance £2500
Levy payable to month 2 is NIL
Levy paid in month 2 = levy payable to month 2 – levy paid 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 payable to month 12 is NIL

Levy paid in month 12 = levy payable to month 12 – levy paid 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 payable month 1 $£1500 - £1250 = £250$

Month 2

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

Cumulative levy allowance £2500

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

Levy paid in month 2 = levy payable to month 2 – levy paid 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 payable to month 12 is £3000

Levy paid in month 12 = levy payable to month 12 – levy paid 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 - Regular Pay bill of £353,410.56 each month (£4,240,926.72 for the tax year)

Month 1

$£353,410.56 \times 0.5\% = £1767$ levy

Cumulative levy allowance = £1250

Levy payable month 1 $£1767 - £1250 = £517$

Month 2

$£706,821.12 \times 0.5\% = £3534$ levy

Cumulative levy allowance = £2500

Levy payable to month 2 is $£3534 - £2500 = £1034$

Levy paid in month 2 = levy due up to month 2 – levy due up to month 1 = $£1034 - £517 = £517$

And so on until **month 12**

$£4,240,926.72$ ($£353,410.56 \times 12$) $\times 0.5\% = £21,204$

Cumulative levy allowance £15000

Levy payable to month 12 is £6204

Levy paid in month 12 = levy due up to month 12 – levy due up to month 11 = $£6204 - £5687 = £517$

This means that the organisation pays £517 each month in levy which totals £6204 over the year.

Example 4 – 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) x 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

Below are examples of how the allowance will work where a unit of companies or charities split the allowance across the unit:

Example 5 – A unit of 3 companies (Company A, Company B and Company C) split the £15000 allowance equally between all 3 companies so that each company receives an annual allowance of £5000. Each company has a monthly pay bill of £250000 (£3m for the tax year)

Month 1

$£250000 \times 0.5\% = £1250$ levy

Cumulative levy allowance = £416.66 i.e. $£5000/12$

Levy payable month 1 $£1250 - £416.66 = £833.00$

Month 2

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

Cumulative levy allowance £833.32

Levy payable to month 2 is $£2500 - £833.32 = £1666.00$

Levy paid in month 2 = levy payable to month 2 – levy paid in month 1 $£1666.00 - £833.00 = £833.00$

And so on until **month 12**

£3 million ($£250000 \times 12$) $\times 0.5\% = £15,000$

Cumulative levy allowance £5000 (**See note below**)

Levy payable to month 12 is $£15,000 - £5000 = £10000.08$

Levy paid in month 12 = levy payable to month 12 – levy paid to month 11 = $£10000.08 - £9166.74 = £833.00$

All 3 companies will pay the same because they've been allocated the same amount of allowance and their monthly pay bills are the same. Due to the rules on rounding down and truncating, there are instances where in reality the employer may receive less than the allocated allowance. The levy due year to date figure is rounded down to the whole pound in the customers favour.

This is evident in Example 4, where the employer receives 8 pence less than £5000 in allowance for the year. The rules on rounding are in place to ensure that employers do not accidentally exceed the £15,000 allowance

Example 6 – A unit of 3 companies (Company A, Company B and Company C). Company A and Company B are allocated an annual levy allowance of £7500. As a consequence, Company C has a levy allowance of £0. Company A and Company B have monthly pay bills of £250000 (an annual pay bill of £3million). Company C has a monthly pay bill of £100000 (an annual pay bill of £1.2 million)

The levy to be paid for Company A and Company B will be calculated as follows:

Month 1

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

$$\text{Cumulative levy allowance} = £625 \text{ i.e. } £7500/12$$

$$\text{Levy payable month 1 } £1250 - £625 = £625$$

Month 2

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

$$\text{Cumulative levy allowance } £1250$$

$$\text{Levy payable to month 2 is } £2500 - £1250 = £1250$$

$$\text{Levy paid in month 2} = \text{levy payable to month 2} - \text{levy paid to month 1} = £1250 - £625 = £625$$

And so on to **month 12**

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

$$\text{Cumulative levy allowance } £7500$$

$$\text{Levy payable to month 12} = £15000 - £7500 = £7500$$

$$\text{Levy paid in month 12} = \text{levy payable to month 12} - \text{levy paid to month 11} = £7500 - £6875 = £625$$

The levy to be paid for Company C will be calculated as follows:

Month 1

$$£100000 \times 0.5\% = £500$$

$$\text{Cumulative levy allowance } £0$$

$$\text{Levy payable month 1 } £500 - £0 = £500$$

Month 2

$$£200000 (£100000 + £100000) \times 0.5\% = £1000$$

$$\text{Cumulative levy allowance } £0$$

Levy payable to month 2 £1000

Levy paid in month 2 = levy payable to month 2 – levy paid to month 1 = £1000 - £500 = £500

And so on to month 12

£1.2 million ($£100000 \times 12$) $\times 0.5\%$ = £6000

Cumulative levy allowance £0

Levy payable to month 12 £6000

Levy paid in month 12 = levy payable to month 12 – levy paid to month 11 = £6000 - £5500 = £500

Is the Levy payment included in the amount due to HMRC?

It is expected that the levy payment will form part of the monthly PAYE payment to HMRC

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

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

How do I correct or update a post year levy calculation?

The levy is reported on the EPS and to correct a previous year, you must send another EPS for the tax year that requires a correction or update.

If the business operates for only part of the 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.

As highlighted in the example below, when a company goes into liquidation it will still be entitled to the full annual £15,000 allowance (subject to the connected companies' and charities rules).

Example:

Month 1: Pay bill of £300,000 $\times 0.5\%$ = £1500 levy.

Cumulative levy allowance for month 1 = £1250.

Levy payable in month 1 = £1500 - £1250 = £250.

Month 2 the company goes into liquidation.

Its cumulative pay bill for month 2 is £300,000 + £300,000 = £600,000.

0.5% of £600,000 is £3000, so, in the two months of the tax year that this company has been in operation, it has accrued an apprenticeship levy liability of £3000.

This will be offset entirely by the full £15,000 annual allowance that is available to it, despite it only operating for part of the year, so the £250 levy payment made in month 1 will be offset against other PAYE liabilities.

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 annual levy allowance.

How will the refunds process work?

In the same way as the existing refunds process. That process confirms if we have a credit on the account. All credits are either used automatically to clear older charges that are due or they are held on the account pending future charges unless the customer specifically requests a refund.

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 NICs (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	£2,250
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 £416					
6	£0	£1,600,000	£8,000	£2,499.96	£5500	-£416

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 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)

Record of amendments

The first version issued to software developers was version 1.5 in June 2016.

The changes from Version 1.5 to 1.6 are as follows.

Page 1 – “How is the employer’s pay bill calculated?” has been updated to include info about what is not included in the pay bill.

Page 1 and 2 - 2 New Q&A’s for payroll with a range of frequencies and who will pay the apprenticeship levy and when.

Page 2 - How do I report the apprenticeship levy? Reference to those with annual pay bill over £2.8 million in previous year included. Sentence also added to show that 'When an employer starts submitting levy submissions, they will need to continue to make submissions, even if their levy due year to date amount for any subsequent months is zero'.

Page 2 - New Q & A for Location of Employee and payment of Levy.

Page 4 - Additional pay bill calculation added - Example 3

Pages 7, 8, 9 and 10 - Calculation examples added to reflect unit of companies/charities splitting the allowance and additional Q & A's - Levy Payment, In-year adjustments, Post year corrections, refunds process and part year operation and the levy (calculation example included).

Page 11 - Calculation result amended