

# TAX BRIEFING NOTE

## APPRENTICESHIP LEVY

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DECEMBER 2017

### What is it?

The apprenticeship levy is a payroll tax on larger companies which was introduced in April 2017. Its revenues are hypothecated for expenditure on funding apprenticeships. The rate is 0.5 per cent on all payroll bills as defined by employer national insurance contributions and there is a £15,000 allowance, meaning that only employers with a payroll in excess of £3 million pay.

### What's the problem with it?

The apprenticeship levy is a pure payroll tax and, like national insurance, operates effectively as an income tax. Income taxes weaken incentives to engage in productive economic activity. In some cases and for some people, it makes the difference between an activity being worthwhile or not. This means that some jobs and promotions are not sought by workers, and some are not created by employers because some investments are not made in the first place. This leads to lower employment, lower incomes and lower productivity. The difference between taxes on consumption and taxes on income is that income taxes also hit investment, which makes them disproportionately damaging to the economy. More directly, it reduces the amount of money workers and investors have to spend on what they value for themselves and their families.

While the levy is not a wholly new and separate parallel system of income tax, it does effectively constitute a new set of rules, rates and thresholds added onto the national insurance system. This further bloats the tax code which leads to inflated numbers of planning and avoidance agents and compliance officials to monitor and understand the system on behalf of taxpayers and HMRC. Almost two thirds of affected companies plan to rebrand existing training schemes to avoid the levy, according to CBI research.<sup>1</sup> Economically, the levy operates as another income tax on workers because labour markets reflect the charge by adjusting wages. In the short term, however, before they can be passed through to wages, changes operate as a business tax on employers. This means that some tax (and wages) is hidden from employees, making it harder for employees to understand what their full compensation and tax liabilities are.

The government has a stated intention of lifting people out of tax by raising the personal allowance for income tax. But the apprenticeship levy applies an allowance according to the size of the company, not the income of the employee. This means that low paid staff in companies with payrolls over £3 million are hit but the highly-paid will be exempt so long as their employer's total payroll is under £3 million.

### What should be done?

1. Abolish the apprenticeship levy immediately.
2. Alternatively, at least replace it with an equivalent increase in income tax or national insurance.

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<sup>1</sup> CBI, *Helping the UK thrive CBI/Pearson Education and skills survey 2017*, July 2017, [http://www.cbi.org.uk/index.cfm/\\_api/render/file/?method=inline&fileID=DB1A9FE5-5459-4AA2-8B44798DD5B15E77](http://www.cbi.org.uk/index.cfm/_api/render/file/?method=inline&fileID=DB1A9FE5-5459-4AA2-8B44798DD5B15E77)