



Need to know

Financial reporting effects of the UK Apprenticeship Levy

Contents

In a nutshell

Background

The Digital Apprenticeship System

Government 'top-up' and 'co-investment'

Transferability of funds in the DAS

Further information

In a nutshell

- Since 6 April 2017, employers with an annual pay bill exceeding £3 million are required to pay a levy of 0.5% of that pay bill, with payments to be made via the PAYE system along with payroll taxes.
- Funds paid under the levy are credited to a 'Digital Apprenticeship Services Account' (DAS) which can be used to pay for vocational training and assessment provided by government-approved training/assessment organisations. When the levy is paid, employers that expect to use funds in the DAS should recognise a prepayment, employers that do not should recognise an expense.
- Government will also contribute to the costs of apprenticeships through a 10% 'top-up' of funds paid into an employer's DAS and 90% 'co-investment' when there are insufficient funds to pay for approved training/assessment. These contributions should be recognised as government grant income at the same time as the associated training/assessment expense.

Background

The Government has committed to developing vocational skills, and to increasing the quantity and quality of apprenticeships with an aim of facilitating an additional three million apprenticeships in England by 2020¹. As part of this initiative, from 5 April 2017, employers in the UK with an annual pay bill exceeding £3 million are charged a levy of 0.5% of their 'pay bill' (defined as payments to employees subject to employer Class 1 (secondary) National Insurance Contributions) less a £15,000 annual allowance to be paid via the PAYE process. Both the £3 million threshold for payment of the levy and the £15,000 allowance are calculated on a combined basis for connected companies.

Amounts paid via the levy can, together with amounts contributed by government, be used to fund approved training/assessment programmes.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

April 2017

1. <https://www.gov.uk/government/publications/apprenticeship-levy/apprenticeship-levy>

The Digital Apprenticeship System

Payments made under the levy are credited to the employer's account, maintained on the government controlled 'Digital Apprenticeship System' (DAS). Employers need to register for the DAS in order to access the funds paid into the account.

Funds paid into a DAS account are immediately available to fund apprenticeship training for/assessment of existing employees or new hires that is:

- provided by a government approved training provider/assessment organisation;
- working towards achieving an approved apprenticeship standard or apprenticeship framework;
- at least 12 months in duration; and
- involves the apprentice spending at least 20% of their time in 'off the job' training, alongside learning job-specific skills and working with experienced staff.

Payments to a training provider are made directly by government, with a concurrent reduction in the DAS balance. There is no circumstance in which the employer can recover cash from the DAS.

Amounts paid into the DAS expire after 24 months, with payments to training providers allocated on a FIFO basis (i.e. a payment made to a training provider is allocated first to the oldest payment into the DAS). Upon expiry of funds in the DAS, the employer receives no refund or other benefit of any kind.

Observation

The amount of Apprenticeship Levy to be paid will be calculated based on an employer's total UK pay bill. However, only the proportion paid to employees living in England will be available for funding apprenticeships via the DAS.

Separate arrangements for funding apprenticeships are implemented in other parts of the United Kingdom. This means that the proportion of the funds in the DAS account relating to the employees living in Wales, Scotland or Northern Ireland is not available to fund the employer's training costs in the same way as they are for employees living in England.

Government 'top-up' and 'co-investment'

Government will contribute directly to apprenticeship costs in two ways:

- By a 'top-up' into the employer's DAS account of £1 for every £10 paid in through the levy system. Once the 'top-up' is made, there is no distinction between that amount and amounts paid by the employer.
- When costs are incurred but there are insufficient funds in the employer's DAS account, by 'co-investment' in which the government effectively share the cost of training and assessing apprentices by paying 90% of approved apprenticeship costs.

'Co-investment' funding is also available to employers who do not pay the Apprenticeship Levy (because their UK pay bill for all UK group companies is less than £3 million per annum).

All available funding is capped by the Government subject to the level and type of the available apprenticeship offered.

Accounting for Apprenticeship Levy payments

The accounting for the funds, whether under IFRSs or UK GAAP, paid into the DAS will differ between:

- Employers that will enter into apprenticeships eligible to be paid for via DAS and;
- Employers that do not intend to enter into apprenticeships eligible to be paid for via DAS.

Employers that will enter into apprenticeships that meet the requirements for utilisation of funds in their DAS account will receive services to train their staff in skills directly related to their employment with the entity (as funds in the DAS can only be used for vocational training). The payments made under the levy therefore represent a prepayment for training services expected to be received and is recognised as an asset until the receipt of the service (similar to other payments made in return for services to be received in the future, regardless of whether that prepayment is required by government). When the training service is received, an appropriate expense will be recognised.

Employers paying the levy that do not intend to enter into applicable apprenticeships within the 24 month life of funds in the DAS, are not expecting to receive any training services in return for the cash paid. Therefore the payment of the levy is made with no reciprocal service being received and should be expensed in the same way as other payments to government with no direct benefit received in return.

Similarly, an employer will receive no direct benefit from levy payments made in respect of employees outside England (and, as a result, not added to the DAS). As such, these payments should also be expensed as they fall due.

Accounting for associated government assistance

Both the 10% 'top-up' and 90% 'co-investment' mechanisms meet the definition of government grants for accounting purposes as they transfer resources (the training services) to the company in return for compliance with certain conditions (providing approved training to its employees).

Such assistance should, in accordance with paragraphs 12 and 16 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (or, for entities applying FRS 102, paragraph 5D of Section 24), be recognised as grant income at the same point in time that an associated expense for training services is recognised.

To calculate the government grant income to be recognised, at a point in time in which part, but not all, of the funds added to the DAS in a particular month are utilised as payment for training/assessment services, it will be necessary to draw a distinction between funds from the employer and funds that are part of the 10% 'top-up' from government. As the DAS system makes no such distinction then, in the absence of any guidance in either IAS 20 or Section 24 of FRS 102, a consistent accounting policy will need to be applied (e.g. a weighted average approach or treating only the 'first' or 'last' 10% of the funds used as relating to the 'top up').

Transferability of funds in the DAS

Employers in the same VAT group can register to have their levy payments attached to a single DAS account, funds can then be used for apprenticeships of employees across the group.

There is also a stated aim by government that employers will be able to direct up to 10% of the annual value of the funds entering into their accounts to other employers.

The mechanism for transfers, together with any restrictions (for example, whether transfers can be made to any other employer, or only one in the employer's supply chain and whether consideration for the transfer can be cash or only, for example, as part payment for inventory) have yet to be determined. For this reason, transfers are not expected to be possible until 2018.

Observation

Transferability of funds in the DAS may give rise to other means by which the employer's asset can be realised, or give rise to an asset in companies not intending to use their DAS account to fund apprenticeships for their employees.

However, the effect of any transferability will need to be considered once the mechanism for and any restrictions on transfers is finalised.

Further information

If you have any questions about the subjects raised in this publication, please speak to your usual Deloitte contact or, to discuss the impact of the Apprenticeship Levy on your business and the potential options available to you, our national apprenticeship levy champion; Kym Hanbridge (kyhanbridge@deloitte.co.uk).

Further information on how the apprenticeship funding will work can be found at:
<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

More information on UK accounting, reporting and corporate governance news and publications, can be found at:
www.ukaccountingplus.co.uk



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2017 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. J11872