

Tax briefing note

Apprenticeship levy

June 2025

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. This allowance has remained unchanged since its introduction. Firms are permitted to spend their levy on approved apprenticeships and training but any funds not spent are collected by HMRC. The government has announced that it will be renamed as the 'growth and skills levy', reflecting rule changes to allow a broader range of permissible training programmes within the charge.¹

What's the problem with it?

The apprenticeship levy is effectively a payroll tax and, like national insurance, is akin to an income tax. Income taxes weaken incentives to engage in productive economic activity. In some cases, and for some people, they make 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 harmful. More directly, they reduce the money workers and investors have to spend on what they value for themselves and their families.

While the levy is not a wholly separate parallel system of income tax, it does effectively constitute an additional 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. Two-fifths of firms have increased the number of apprenticeships, although half have not increased the overall investment in training since its introduction.² 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 committed itself not to increase taxes on working people, but a frozen threshold has that effect. And its base being the size of the company payroll rather than the income of the employee means that low paid staff in companies with payrolls over £3 million are hit but highly paid staff 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.

¹ Department for Education, Prime Minister overhauls apprenticeships to support opportunity, 24 September 2024, www.gov.uk/government/news/prime-minister-overhauls-apprenticeships-to-support-opportunity (accessed 29 March 2025).

² Confederation of British Industry, Skills for an inclusive economy: CBI/Birkbeck Education and Skills Survey 2021, July 2021, p. 8.