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Apprenticeship levy dubbed stealth tax following IFS report

[Annie Makoff](#) 31 Jan 2017  0 comments

Experts question where levy funding will be spent and whether quality of apprenticeships will be sacrificed

The apprenticeship levy has been dubbed a “stealth tax” and “poor value for money”, following a [damning report by the Institute for Fiscal Studies](#) (IFS).

Due to be introduced in April, the government initiative intends to create three million apprenticeships – an additional 600,000 per year – and will be funded by taxing all businesses with

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an annual payroll above £3m.

The revenue raised from companies is projected to reach £2.8bn by 2019-20, but the IFS has warned that government spending on apprenticeships in England is only expected to increase by £640m between 2016-17 and 2019-20, which suggests that the remainder of the revenue is being spent elsewhere.

According to City AM, the report has highlighted fears that the levy is being used as revenue-raising tax rather than a means to boost skills and increase the number of apprenticeships.

Seamus Nevin, head of employment and skills policy at the Institute of Directors, described the apprenticeship levy as a “stealth tax” and said there was a “very strong case” for the government to start engaging with employers to address the shortcomings of the new levy system.

“Most businesses are in principle happy to pay a levy to fund apprenticeships. But a system that is designed in a way that incentivises sub-standard training and emphasises quantity over quality simply to increase numbers will not address the skills gap or boost productivity,” he said. “The poorly designed levy risks damaging the reputation of apprenticeship training and undermining the apprentices whom it was supposed to help.”

Under the scheme, which requires large employers to pay higher taxes, the subsidies available mean that employers will only have to fund up to 10 per cent of off-the-job training costs for apprenticeships. Currently, employers pay around 50 per cent of training costs for those aged 19 and over.

The IFS warned that these financial incentives posed ‘considerable risks’ to the efficient use of public money, while the government’s target of 600,000 new apprenticeships a year risked “quantity at the expense of quality”. It also raised concerns that the levy could put “downward pressure on wages”.

The IFS criticised the government for “failing to make a convincing case” for such a “large and rapid” expansion scheme, and accused it of making “wildly optimistic claims” about the extra economic earnings such investment could generate.

Elizabeth Crowley, skills adviser at the CIPD, told *People Management*: “The IFS report provides more evidence of the potential unintended and negative consequences that the new apprenticeship



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more evidence of the potential unintended and negative consequences that the new apprenticeship levy is likely to bring. Our research published last year reached similar conclusions: [we found almost a third of employers planned to offset costs by rebadging existing training programmes](#). And of more concern was that employers were considering increasing the numbers of lower-level apprenticeships at the expense of investment in more advanced provision.”


Sarah Peacock, partner at law firm Blake Morgan, added: “The levy comes at a time when a number of increased costs are about to kick in – the increased national living wage, which will result in increased NICs, and pension contributions under auto-enrolment. The level of employer auto-enrolment contributions also rises next year. It is no wonder employers will want to get some benefit from the levy wherever possible, which may mean that ultimately apprenticeships could be devalued.”

But Petra Wilton, director of strategy for the Chartered Management Institute, told People Management the levy was a “huge opportunity” for employers to invest in skills.

She said: “Businesses disputing the need to invest in professional training need to realise that the true tax on jobs is the low productivity of managers already in the workplace costing £84bn per year according to research by Investors in People. Investment to upskill and bring on the next generation of managers through higher-level and degree apprenticeships will be more than repaid by the productivity gains they deliver.”

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