Calls increase for reform of ‘flawed’ apprenticeship levy

Pressure is mounting on the government to reform the apprenticeships system, following recent apprenticeship levy statistics.

The Institute of Directors (IoD) has joined the British Chambers of Commerce (BCC) in urging the government to address ongoing problems with the levy.

Apprenticeship starts were down 25% for the seven months to February 2018 compared with the previous year, according to statistics from the Department for Education.

The apprenticeship levy, which has been in place since 6 April 2017, means businesses with an annual wage bill of more than £3 million must pay the levy towards apprenticeship funding.

The levy is charged at 0.5% of the annual wage bill, and each employer is eligible to receive an allowance of £15,000 to offset against their levy payment.

Seamus Nevin, head of policy research at the IoD, said that “while the motivation behind the policy is laudable, the execution is flawed”.

He suggested the system could be reformed by giving businesses more time and flexibility when using levy funding.

Nevin said:

“If we want to boost skills, productivity and wages in our economy then the [apprenticeship] system must be reformed.

“Businesses should be afforded the flexibility to invest in more tailored courses, firms need longer to spend the money so they can use it on the apprenticeships of greatest value and larger companies could also be allowed to transmit more of the funds down to where it’s most needed.”

Jane Gratton, head of skills at the BCC, also saw inflexibility as one of the main problems with the levy, which has felt “more like a tax” for larger firms.

Meanwhile, she said the changes to apprenticeships have only “added to the barriers, complexity and cost of recruiting and training staff” for SMEs.

Gratton added:

“There is a consensus among the UK business community that the levy needs reform, yet our calls continue to go unanswered.

"Each month the number of apprenticeships is falling, so now has to be the time for government to work with business and training providers to sort things out."

We're happy to discuss the apprenticeship levy.

'Raise the VAT threshold to stimulate SME growth'

The Association of Independent Professionals and the Self-Employed (IPSE) has called for the VAT threshold to be increased, in response to a government consultation.

The current £85,000 threshold at which businesses must register for VAT has been frozen until 2020, while the government deliberates on its approach to the tax.

Chancellor Philip Hammond considered lowering the VAT-registration threshold before Autumn Budget 2017 to bring the threshold closer to global standards and the EU average of £20,000.

Estimates suggested that reducing the threshold from £85,000 to £43,000 would net the Treasury an extra £1.5 billion a year, while decreasing the threshold to £25,000 could fetch up to £2 billion.

More than half a million businesses currently below the registration threshold would need to register for VAT if it was lowered, according to the Office for Tax Simplification.

IPSE warned against decreasing the threshold, arguing this would "actively discourage" growth as well as forcing business owners to either raise prices or absorb the costs.

Instead, the organisation suggests raising the threshold annually in line with the retail prices index measure of inflation, which it says would incentivise growth and innovation in small businesses.

The comments came in response to the government's call for evidence on the VAT threshold, which ran from 13 March to 5 June 2018.

Other suggested policy solutions include a "smoothing mechanism", which would introduce the tax more gradually.

Andy Chamberlain, deputy director of policy at IPSE, said:

"Presently, the self-employed contribute £271 billion to the UK economy every year.

"Increasing the VAT threshold would create a nurturing environment for our smallest businesses to thrive, expand and further increase the overwhelming value they provide."

Contact us to discuss managing VAT.

SMEs miss out on business savings interest

Small business owners could alleviate pressure on their cashflow by paying more attention to business savings interest, according to a report.

Aldermore polled 950 SME owners and sole traders and found that 62% are earning no interest on their business savings at all.

Over half (53%) are earning less than £300 a year in interest on their business savings, while 65% had the same business bank account as their personal account provider.

While consistently low interest rates offer little incentive to save, 33% of respondents said they were spending their cash too quickly each month.

Around a fifth (19%) claim their bank does not offer high enough rates for noticeable interest to be earned.

Ewan Edwards, head of savings at Aldermore, is urging sole traders and business owners to conduct due diligence to find the best banking products on the market.

Edwards said:

“It is vital business owners make their surplus cash work harder to provide additional financial support and to strengthen financial resilience.

“Many businesses could be missing out on additional income that would be a boost when dealing with the multiple financial pressures of running a business.

“We encourage all business owners to shop around to find the best account on offer, as this can make a positive difference in the long term.”

Talk to us about your business.

Working pensioners pay £8.6bn in income tax

Working pensioners are on course to pay £8.6 billion in income tax in 2018/19, according to Aegon.

The number of pensioner households containing at least one person working beyond their state pension age increased from 12% in 1997/98 to an estimated 17% in 2018/19.

Aegon estimates there are around 12.8 million people living in 8.7 million pensioner households in the UK, with around 1.4 million homes containing a working pensioner.

Steven Cameron, pensions director at Aegon, said:

“Gone are the days when reaching state pension age meant a total end to work.

“Many people are choosing to keep working and earning, even once they’ve started taking their pension.”

Weekly wages in pensioner households increased 30% over the same 20-year period – up from an average of £410 in 1997/98 to £534 in 2018/19.

Working pensioners who are single have seen their weekly wages rise 71%, from £199 to £340 per week over the same period.

Pensioners who continue to work past their state pension age and pay tax on that income are providing a boost to the economy, but Aegon warned against complacency.

Cameron added:

“These people are contributing significant amounts to the nation’s finances through the tax they generate, while also helping the broader economy through their work.

“We’re living in what has been described as a golden era for pensioners, with many benefiting from generous final salary pensions and increases to the state pension.

“When you combine this with earnings from post-retirement work, it’s not surprising that many pensioners are living on very decent incomes.

“However, these are unlikely to continue so it’s important that society changes with more people able to choose to work past traditional retirement ages.”

Get in touch for tax planning advice.