

Late VAT returns or payments?

NEW penalty and interest regime launched by HMRC

New regime affects VAT return periods starting on or after 1 January 2023

HMRC have replaced the Default Surcharge regime with the following 3 tier penalty system;

1. *Penalty points for late submission of VAT returns*
2. *Late payment penalties*
3. *Late payment interest*

1. Late VAT returns - points based penalties

A new points based penalty system has been introduced. A point will be added each time you submit a VAT return after the due date. A penalty is charged when your points reach;

SUBMISSION PERIOD	POINTS THRESHOLD	POINTS RESET TO NIL
Annual VAT returns	2 points	2 annual returns submitted on time
Quarterly VAT returns	4 points	4 quarterly returns submitted on time
Monthly VAT returns	5 points	6 monthly returns submitted on time

Hit the points threshold and you will receive a £200 penalty. Once in the system you will receive a £200 penalty each time you submit a late return until you have reset the clock (above) and all VAT returns for the last 24 months have been received by HMRC.

Points will not be issued for;

- *First period VAT returns for newly registered businesses*
- *Final VAT return after cancelling your VAT registration*
- *One-off returns that cover a period other than monthly, quarterly or annual*



2. Late payment penalties

- *Payment made up to 15 days late = no penalty*
- *Payment made between 16 and 30 days late = penalty calculated at 2% of the VAT due at the end of day 15*
- *Payment still late after 30 days = penalty calculated at 2% of the VAT due at day 30*

1st penalty issued by HMRC on day 31 includes any of the above penalties with an explanation.

2nd penalty issued by HMRC for the remainder of the outstanding VAT, calculated at a daily rate of 4% per annum, from day 31 until the VAT is paid in full.

3. Interest

Late VAT payments for VAT returns have not previously been subject to interest charges, often resulting in seemingly interest free loans to businesses.

HMRC have now introduced a late VAT payment interest regime which includes late payment of;

- *A VAT return*
- *An amendment or correction to a VAT return*
- *A VAT assessment made by HMRC*
- *A missed 'Payment on Account' – relevant to large businesses*

Interest is now accrued on all late payments, alongside the penalties listed above. Calculated daily, interest will be based on an annual rate of 2.5% above the Bank of England base rate.

Interest will continue to accrue even where a Time to Pay arrangement has been agreed with HMRC.



Avoiding penalties

There is a soft landing period to allow for businesses to familiarise themselves with this new regime. HMRC will not charge a first late payment penalty until after 31 December 2023 provided that within 30 days of the payment being due the balance is paid in full or a Time to Pay arrangement has been agreed (within the 30 days).

If you can't pay your VAT due on time you should still submit the VAT return on time to avoid late filing penalties.

Submit the VAT return and call HMRC before the due date to arrange a 'Time to Pay' – this will prevent late payment penalties being imposed.

Ultimately, the sooner you pay and the more you pay, the less penalties and interest will be accrued.