# Late VAT returns or payments?

## HMRC increase late payment penalties and daily interest rates from April 2025.

The late payment penalties and interest regime started on 1 January 2023.

### 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 | Two points | Two annual returns submitted on time |
| Quarterly VAT returns | Four points | Four quarterly returns submitted on time |
| Monthly VAT returns | Five points | Six 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 3% of the VAT due at the end of day 15
- Payment still late after 30 days = penalty calculated at 3% of the VAT due at day 30

**First penalty** issued by HMRC on days 15 and 31 calculated as above.

**Second penalty** issued by HMRC for the remainder of the outstanding VAT, calculated at a daily rate of 10% 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 4% 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

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.

Or you can **apply online** if the amount you owe is less than £100,000 and you have no other debts or outstanding VAT returns.

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