

CHANGES TO VAT PENALTIES AND INTEREST

At CavanaghKelly, we have a team of experienced professionals dedicated to offering payroll and VAT related services to our clients, and ensuring they are up to date with all process and system changes.

For VAT return periods starting from 1 January 2023 onwards, the VAT default surcharge regime has been replaced by a new penalty system with separate penalties for late submission of VAT returns and late payment of VAT. The new system has also changed the way in which interest is calculated when taxpayers are late in paying HMRC and vice versa. For ease, we have summarised in this article, the key changes as reported by HMRC. To read more from the HMRC website [click here](#).

For more support and guidance on how these changes may affect you and your business, contact our payroll and VAT specialists on 028 8775 2990.

[Penalty points and penalties if you submit your VAT Return late](#)

For VAT accounting periods starting on or after 1 January 2023, late submission penalties apply if you submit your VAT Return late. This includes nil or repayment returns. This was not the case under the old VAT default charge regime. Traders who are normally expecting refunds or submitting nil returns were never charged penalties and should take note of the new penalty rules.

[How late submission penalties work](#)

Late submission penalties work on a points-based system.

For each return you submit late, you'll receive a penalty point until you reach the penalty point threshold.

When you reach the threshold, you'll receive a £200 penalty. You'll also receive a further £200 penalty for each subsequent late submission while you're at the threshold.

The penalty point threshold for your accounting period

The penalty point threshold is set by your accounting period. The threshold is the maximum points you can receive.

Accounting period	Penalty points threshold
Annually	2
Quarterly	4
Monthly	5

If you use a non-standard accounting period or your accounting period, different rules apply but they still fall under the new points-based system and will have a points threshold.

Remove penalty points you've received after submitting your VAT Return late

If you've not reached the threshold for penalty points for your accounting period, individual points will expire automatically.

When penalty points expire depends on the date your return was due.

If the deadline for your return was:

- not the last day of a month — a penalty point expires on the last day of the month, 24 months after this

- the last day of a month — a penalty point expires on the last day of the month, 25 months after this

Remove all penalty points if you're at the threshold

If you've reached the penalty points threshold and have the maximum points allowed for your accounting period, you can only remove them by meeting both conditions A and B.

A: complete a period of compliance, submitting all returns by the deadline.

B: submit all outstanding returns for the previous 24 months.

Accounting period	Period of compliance	Returns to make
Annual	24 months	2
Quarterly	12 months	4
Monthly	6 months	6

VAT Returns not affected

The late submission penalty rules do not apply to your:

- first VAT return if you're newly VAT registered
- final VAT return after you cancel your VAT registration
- one-off returns that cover a period other than a month, quarter or year

For example, you might make a one-off return covering a four-month period because you changed from submitting quarterly to annually.

Taking over a business

If you take over a VAT-registered business as a 'going concern' any penalty points built-up by the business will not be transferred to your VAT registration number. This will be the case even if the VAT registration number is transferred from the previous owner to yourself.

VAT groups and penalty points

If the representative member of a VAT group changes, any penalty points they've built-up are transferred to the new representative member. The VAT groups' penalty points total does not change if a person:

- joins the group, even if the joining member had penalty points
- leaves the group (the leaving member does not take points with them)

How late payment penalties work if you pay VAT late

If your payment is more than 15 days overdue, first and second late payment penalties apply.

Summary of late payment penalties

You'll get a first late payment penalty if your payment is 16 or more days overdue. When your payment is 31 or more days overdue, your first late payment penalty increases, and you get a second late payment penalty.

Period of familiarisation

To give you time to get used to the changes, HMRC will not be charging a first late payment penalty until after 31 December 2023. This is provided that, within 30 days of your payment due date, you either:

- pay in full
- make a Time to Pay arrangement

Late payment interest if you do not pay VAT or penalties on time

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From 1 January 2023, HMRC will charge VAT-registered businesses late payment interest from the first day their payment is overdue until it is paid in full.

Late payment interest is charged from the first day that the payment is overdue until the day it's paid in full. It's calculated at the Bank of England base rate plus 2.5%.

Payments subject to interest

Interest will be charged on all late payments where VAT is due. This includes amounts overdue following:

- a VAT Return
- an amendment or correction of a return
- a VAT assessment made by HMRC
- a missed VAT payment on account

Interest will also be charged on all penalties if they are overdue including:

- late payment penalties for late payment of VAT
- late submission penalties for not submitting a return on time

Where an amount due is paid in instalments, such as a Time to Pay arrangement, HMRC charges interest on the outstanding balance until you pay the tax in full.

VAT and Payroll team.



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