

HMRC VAT PENALTY GUIDE

Penalty points and
penalties if you submit
your VAT return late



“

From 1 January 2023,
HMRC changed the
structure and system for
applying and calculating
VAT penalties for late
submissions and
payments.

”



TAX
TIME!

What are the changes?

Previously HMRC issued a default surcharge for submitting a VAT return or payment late.

This has now been replaced by new penalties and interest calculations for VAT returns starting on or after 1 January 2023.

The changes affect anyone who submits a VAT return, including a repayment or nil return.

How late submission penalties work

As per HMRC's rules you must send a VAT Return by the deadline specified for your accounting period i.e Accounting period 1 Jan to 31 Mar 2023 is due by 7 May 2023.

Going forwards late submission penalties now work on a point based system, as you will receive a penalty point per late submission.

When the penalty point threshold is reached, you will now receive a £200 penalty and then an extra £200 penalty for each subsequent late submission while over the threshold.

The penalty point threshold is determined by your accounting period.

These thresholds are the highest points you can receive before incurring the charge.

Accounting Period	Penalty points threshold
Annually	2
Quarterly	4
Monthly	5



Example

A business submits their VAT returns quarterly, which gives them a 4 point penalty threshold.

The business has already submitted their past 3 returns late, meaning that they are already at 3 penalty points before their next submission deadline.

They submit their next VAT return late and receive another point, bringing their total to 4. This results in them now receiving a £200 fine for late submissions.

Even if they submit their next return on time they are still at 4 points. This means that they can submit the next return on time and not receive a further fine. However if the return after this is late, they will receive another £200 fine as they are still at 4 points.

Accounting Period	Penalty point threshold	Rules that apply
Over 20 weeks	2	Annual
Over 8 weeks and less than 20 weeks	4	Quarterly
8 weeks or less	5	Monthly

It is also worth noting that if you change when your accounting period ends this will also affect penalty points and thresholds.

HMRC will adjust the thresholds as follows:

Previous accounting period	Previous penalty point threshold	New accounting period	New penalty point threshold
Annual	2	Quarterly	4
Annual	2	Monthly	5
Quarterly	4	Annual	2
Quarterly	4	Monthly	5
Monthly	5	Annual	2
Monthly	5	Quarterly	4

HMRC will also adjust any current penalty points when you change accounting periods.

Once you've reached your accounting period's threshold you will need to take action to remove these points to avoid further fines. If you have not reached the threshold individual points will expire automatically after around 24 months.

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 have reached the penalty point's threshold and have the maximum points allowed for your accounting period, then you can only remove the points 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.

Condition A – Complete a period of compliance

This is when you submit all of your returns within a period on time.

HMRC advise that you work out the start date of your period of compliance using the following steps:

1. Record the day after the missed deadline for your accounting period.
2. Record the first day of the month following the date recorded in step
3. Start your period of compliance on the date recorded in step 2.

Example from HMRC:

Missed submission example date	Earliest start - period of compliance
7 July	1 August
31 March	1 May

Depending on your accounting period, you'll be expected to make the below number of VAT returns on time during a period of compliance.

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

It is worth noting that the new scheme does not affect all VAT Returns, as some are exempt from the scheme.

The returns excluded are:

- First VAT Return for newly VAT registered businesses
- Final VAT Return for businesses who have cancelled their VAT registration
- Any one-off returns that cover a period besides the standard periods (month, quarter or year) i.e. You may be required to make a one-off return covering a two-month period because you have changed from submitting quarterly VAT Returns to annually.



Late VAT Liability Payments



From 1 January 2023 there are also changes to the way HMRC will issue penalties for late payment of your VAT liability to HMRC.

Late payment charges will be applied to any VAT liability payments that are not paid in full by the deadline. The exceptions to this are VAT payments on account and instalments for the VAT Annual Accounting Scheme.

Late payment penalties can be applied by HMRC on payment due:

- On your VAT return
- Following a correction and/or amendment to a previously submitted return
- From a VAT assessment HMRC issued when you did not submit your return or for another reason

Interest will be charged on any outstanding balance from the first day payment is overdue, until paid in full.

	First late payment penalty	Second late payment penalty
Payment up to 15 days overdue	None	None
Payment between 16 and 30 days overdue	Calculated at 2% on the VAT you owe at day 15.	None
Payment 31 days or more overdue	Calculated at: <ul style="list-style-type: none">• 2% of what was outstanding at day 15• plus 2% of what is still outstanding at day 30	Calculated at: <ul style="list-style-type: none">• a daily rate of 4% per year on the outstanding balance• charged everyday from day 31 until the outstanding balance is paid in full

The best way to avoid fines and interest is to pay your VAT liability by the given deadlines.

However if for any unfortunate reason that is not possible by the deadline, it is worth noting that HMRC will allow a payment plan to be agreed for any liability that a business struggles to pay. By arranging an agreement with HMRC it may result in lower or no charges being applied for an outstanding liability balance.

Any penalties which HMRC issue will be notified to you by HMRC in a penalty decision letter. Included in this letter will be information on how you can appeal a penalty decision if you disagree with HMRC.

For further information or guidance on this new penalty regime please get in touch with our bookkeeping departments, where our staff are on hand and happy to assist you.

This guide is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.



info@forrester-boyd.co.uk
www.forrester-boyd.co.uk

Grimsby : 01472 350601
Louth : 01507 606111
Scunthorpe : 01724 863105
Skegness : 01754 761777
Beverley : 01482 889400
Hull : 01482 889400