

CHAVEREYS

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HM Revenue & Customs changes to VAT penalties and interest charges from 1 January 2023

For VAT periods starting on or after 1 January 2023, the default surcharge for submitting VAT returns late or paying VAT late will be replaced by new penalties.

Every business submitting a VAT return for accounting periods starting on or after 1 January 2023 will be affected by this change.

This will apply to the late submission of any nil or repayment VAT returns.



Late submission of a VAT return

Late submission penalties will work on a points system; for each VAT return submitted late, the business will receive one late submission penalty point.

Submission frequency	Penalty points threshold	Period of compliance
Monthly	5	6 months
Quarterly	4	12 months
Annually	2	24 months

Once a penalty points threshold is reached, HM Revenue & Customs (HMRC) will charge a penalty of £200 and a further £200 penalty will apply for each subsequent late submission until:

All subsequent submissions are made in time for the relevant period of compliance; and
All outstanding returns for the last 24 months have been submitted.

Late payment of your VAT

Late payment interest

From 1 January 2023, HMRC will charge late payment interest calculated as the Bank of England base rate plus 2.5%. Interest will be charged from the day your payment is overdue to the day your payment is made in full. Based on the base rate as at November 2022 this would equate to 5.5% per annum.

Late payment penalties

Penalties will be determined by how late the payment is received by HMRC; the sooner the payment is made after the due date, the lower the penalty rate.

If any VAT owed is paid or a payment plan is agreed:	up to 15 days	no late payment penalty will be charged.
	between 16 and 30 days	the first payment penalty will be calculated at 2% of the VAT owed at day 15.
	at 31 days or more	The first penalty will be calculated at 2% of the VAT you owe at day 15, plus 2% on the VAT owed at day 30. The second penalty will be calculated at a daily rate of 4% per annum for the duration that the balance is outstanding; this will be calculated when the outstanding balance is paid in full, or a payment plan is agreed.

A business needing to agree a payment plan with HMRC should contact the Payment Support Service on 0300 200 3835.

Further information can be found at:

<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/business-payment-support-service>

Time to get used to the changes

For the first year from 1 January 2023 until 31 December 2023, HMRC will allow a period of familiarisation in which no late payment penalty will be levied if full payment is made within 30 days of the payment due date.

Repayment interest

For accounting periods starting on or after 1 January 2023, HMRC will pay the business repayment interest on any VAT the business is owed.

Repayment interest will be calculated as the Bank of England base rate minus 1%, with a minimum rate of repayment interest at 0.5%, even where the calculation results in a lower percentage.

Repayment interest will be calculated from the day after the due date or the date of submission (whichever is later) and until the day HMRC issues the repayment VAT amount due in full.

This document is intended as a general guide and although Chavereys have made every effort to ensure accuracy, they cannot accept liability for any errors of fact or opinion.