

VAT late submission, late payment penalties and interest charges

M+A Partners has been helping clients to grow their businesses and achieve their ambitions for almost a century - and we're immensely proud of our history.

We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by nine partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over a hundred staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

The new penalty system for the late submission and payment of VAT returns will impact all VAT registered businesses.

Find out how the system works and how to avoid the penalties and interest charges.

Why has the system changed?

HMRC have introduced the new penalties to harmonise the penalty systems for late submission and late payment.

What are the changes?

The current Default Surcharge is a combination of late submission and late payment penalties, the new system replaces this - creating two new distinct penalties.

- + A point-based system for late submission; and
- + A point-based system for late payment.

There have also been changes to VAT interest, bringing this in line with Income Tax Self Assessment (ITSA).

Late submission penalties

How do the penalties work?

The late submission penalties are calculated on a points-based system.

- + For each late return, a penalty point will be received. This also applies to nil returns and repayment claim returns - previously the Default Surcharge system would not have applied to these returns;
- + Once the penalty threshold has been met, a fixed penalty of £200 is issued; and
- + A further £200 penalty is issued for each subsequent return while at the threshold.

How does the points system work?

The penalty point threshold is set by accounting period. The threshold is the maximum number of points that you can receive before being issued with a penalty.

Accounting period	Penalty points threshold
Annually	2
Quarterly	4
Monthly	5

If a business submits their returns quarterly, a £200 penalty will be issued if 4 late returns are submitted - these do not have to be consecutive.

Any late submissions following this will also incur a £200 penalty.

See the example below for how the penalties are issued, based on a business submitting their returns on a quarterly basis:

Late submission penalties - quarterly filer									
Period ending	03/23	06/23	09/23	12/23	03/24	06/24	09/24	12/24	03/25
Submission due date	7 May 23	7 Aug 23	7 Nov 23	7 Feb 24	7 May 24	7 Aug 24	7 Nov 24	7 Feb 25	7 May 25
Penalty points			 	 	 	 	 	 	
Financial penalty	 Quarterly = 4 points trigger a financial penalty of £200					£200 penalty applied			£200 penalty applied

How are points removed?

If the points threshold has been reached, the points total can only be reset to zero once two conditions have been met:

1. Returns must be submitted on time on or before the due date for a period of time based on the accounting period.
 - + Annual filers must submit 2 VAT returns on time (24 months);
 - + Quarterly filers must submit 4 VAT returns on time (12 months); and
 - + Monthly filers must submit 6 VAT returns on time (6 months).
 2. All VAT returns that were due within the previous 24 months must have been received by HMRC. If the threshold has not yet been reached, each individual point will automatically expire after 24 months.
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Late payment penalties

The changes to late payment penalties means the sooner the VAT liability is paid, the lower the penalty rate will be.

What are the new penalties?

There are two new late payment penalties:

- + First late payment penalty: calculated on amounts outstanding on day 15 and day 30; and
- + Second late payment penalty: calculated on amounts outstanding from day 31 until the full amount is paid.

If the amount is paid in full or a payment plan is agreed up to 15 days after the payment due date, no late payment penalty will be issued.

This means if a trader is struggling to pay a VAT bill, they should submit their VAT return on time and then contact HMRC immediately to set up a Time to Pay arrangement - no payment penalty will then be issued. See below for setting up a Time to Pay arrangement for VAT.

Late payment interest will be charged from the date the payment is overdue until the date the payment is paid in full.

How much are the penalties?

- + If the amount is paid in full or a payment plan is agreed between 16-30 days after the due date: the penalty is calculated at 2% of the VAT owed at day 15.
 - + If the amount is paid in full or a payment plan is agreed on or after day 31: the penalty is calculated at 2% of the VAT owed at day 15 PLUS 2% of the VAT owed at day 30; and
 - + A second penalty will be issued calculated at a daily rate of 4% a year until the VAT is paid in full or a Time to Pay arrangement is agreed.
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Late payment interest

New interest changes bring VAT in line with the interest for other taxes.

Previously, no interest was charged on late payments for VAT returns. Now, interest starts to be calculated the day after the payment due date until the VAT is paid.

- + The late payment interest rate is variable and is calculated at a rate of 2.5% plus the Bank of England base rate.; and
- + Late payment interest also applies to late submission and late payment penalties, if they are paid after 30 days.

Repayment interest

Repayment interest has been introduced, this replaces the repayment supplement.

HMRC will pay repayment interest on any VAT that is owed. This is calculated from the day after the due date or the date of submission (whichever is later) until the date a repayment is issued.

The interest is variable and is calculated at the Bank of England base rate minus 1%, with a minimum rate of 0.5%.

Time to Pay arrangement for VAT

VAT registered businesses that owe less than £20,000 of VAT are able to set up a 'Time to Pay' arrangement. A Time to Pay arrangement just means setting up a plan to pay VAT in instalments.

Payment plans are subject to HMRC's prevailing interest rate, which is the base rate + 2.5%.

The VAT payment plan can be set up online, through the Government Gateway login.

To set up a Time to Pay arrangement, a business must have:

- + Filed its latest VAT return;
- + Owe £20,000 or less;
- + Be within 28 days of the payment deadline;
- + Have no other payment plans or debts with HMRC; and
- + Plan to pay off its debts within the next six months.

Businesses that are not eligible to set up a Time to Pay arrangement are those that:

- + Use the VAT cash accounting or annual accounting schemes; or
- + Make VAT payments on account.

HMRC has a specific page to assist with any issues in making payments or you can contact the Payment Support Service on **0300 200 3835**.

How M+A Partners can help

VAT is a complex area that requires careful planning to ensure businesses pay only the required amount.

We are experienced in all aspects of VAT and can assist with any stage of the returns process. Our team will work with you from the outset, understanding your structure to make sure you have the right VAT scheme for your business.

If you have any queries regarding VAT late submission, late payment penalties and interest charges, please get in touch with your usual M+A Partners contact or email enquiries@mapartners.co.uk



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