

DECEMBER 2022

DON'T BE LATE!

HMRC are introducing a replacement to the default surcharge scheme from 1 January 2023.

This is quite complicated, as there will now potentially be a penalty for late submission, AND a penalty for late payment, AND interest on the late payment. These changes will affect VAT Returns for accounting periods starting on or after 1 January 2023.

SUBMISSION PENALTIES

Late submission penalties will work on a points-based system, with one point issued for each VAT Return submitted late. Once a penalty threshold is reached, a £200 penalty is triggered and a further £200 penalty for each subsequent late submission.

For those on annual returns, the penalty threshold is 2 points with the period of compliance being 24-months. For quarterly submissions, its 4 points with a 12-month compliance period. For monthly submission, its 5 points with a 6-month compliance period. To clear the slate, the full compliance period must be met.

Any nil or repayment VAT returns submitted late will earn a penalty point, and once the threshold is hit, the £200 submission penalty will be due. This is an important change, as nil or repayment returns were never subject to penalties.

LATE PAYMENT PENALTIES

Late payment penalties are split into 3 time frames.

- Up to 15 days overdue - no penalty is charged;
- 16 and 30 days overdue - a 2% penalty is calculated at the amount due on day 15;
- 31 days and over - a 2% penalty on the amount due at day 15, plus another 2% on the amount due at day 30.

For those paying over 31 days, there is also another variable penalty which is calculated at a daily rate of 4% per year for the duration of the outstanding balance. These penalties are calculated when the outstanding balance is paid in full or a payment plan is agreed.

Please note that for the first 12 months, HMRC will waive the late payment penalty where payment is made in full within 30 days of the payment due date.

LATE PAYMENT INTEREST

In addition to the penalties, HMRC will also charge late payment interest. This will be calculated from the day the payment is overdue to the day payment is made in full. Late payment interest is calculated as the Bank of England base rate plus 2.5%.

WHAT ABOUT MONEY DUE BACK?

HMRC will remove the 'repayment supplements' that were historically due to a trader where a VAT refund was more than 30 days late. This will be replaced by an automatic interest payment system whereby HMRC will pay Repayment Interest, calculated at the Bank of England base rate minus 1%. The minimum rate of repayment interest will always be 0.5% even if the repayment interest calculation results in a lower percentage.

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



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