



The VAT default surcharge will be replaced with new penalties, which will apply to everyone who submits a VAT return. Penalties will be charged for late submission once the relevant penalty points threshold is reached. Penalties for late payment will depend on the extent to which the payment is late. The way in which interest on late paid VAT is also changing, and repayment interest will replace the repayment supplement.

Key dates

The new rules will apply for VAT accounting periods beginning on or after 1 January 2023. However, a period of familiarisation will apply from 1 January 2023 until 31 December 2023 during which a late payment penalty will not be charged if payment is made in full within 30 days of the date on which the payment was due.

This note explains how to the new regime will work.

Late submission penalties

For VAT accounting periods beginning on or after 1 January 2023, a points-based system will apply where returns are submitted late. One penalty point will be charged for each late VAT return. A late submission penalty of £200 will apply once a penalty threshold is reached. Thereafter, a penalty of £200 will be charged for each subsequent late submission. If you submit a nil or repayment return, you will also receive a penalty point if you submit your VAT return late and a penalty if your reach the points threshold.

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Your penalty points threshold will depend on how frequently you file VAT returns. The points thresholds are shown in the table below.

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

Your points threshold will revert to zero if you:

- submit your returns on or before the due date for the period of compliance (as shown in the table above). This varies depending on the frequency with which you submit your VAT returns;
- submit all outstanding returns for the previous 24 months.

The deadline for submitting your VAT return is one calendar month and seven days from the end of the VAT accounting period. For example, if your VAT accounting period is the quarter to 31 October 2022, you must file your return on or before 7 December 2022. It is advisable to have procedures in place to ensure this deadline is not missed.

Late payment penalties

For VAT accounting periods starting on or after 1 January 2023, the penalty that is charged where VAT is paid late will depend on how late the payment is made – the later payment is made after the due date, the higher the penalty.

Under the new rules, a penalty will not be charged if the amount is paid in full or a payment plan is agreed between one and 15 days after the due date.

Where the payment is between 16 and 30 days overdue or a payment plan is agreed in this period, a first penalty equal to 2% of the VAT due on day 15 will be charged.

If the payment remains overdue after 30 days, a first penalty will be charged, equal to 2% of the VAT owing at day 15 plus 2% of the VAT owing at day 30. A second penalty will also apply, calculated at a daily rate of 4% and will be charged for the period for which the payment is outstanding. This is calculated at the point at which the outstanding balance is paid in full or a payment plan is agreed.

A familiarisation period will apply from 1 January 2023 until 31 December 2023 during which a late payment penalty will not be charged if payment is made within 30 days of the due date. VAT is due on the same day that the VAT return for the period is due, i.e. one calendar month and seven days after the end that period.

Late payment interest

From 1 January 2023, late payment interest will be charged on the overdue payment from the day that the payment is due to the day on which it is paid in full. Interest is charged at a rate equal to the Bank of England base rate plus 2.5%.

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Repayment interest

The repayment supplement is to be withdrawn from 1 January 2023. Instead, you will receive repayment interest on any VAT that you are owed. This will be paid from the due date or, if later, the day on which the return was submitted, until the date that payment is made in full by HMRC. Interest will be paid at a rate equal to the Bank of England base rate minus 1%, subject to a minimum rate of 0.5%.

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