

PENALTIES FOR LATE VAT PAYMENTS

VAT late payment penalties are catching out a significant number of businesses, with more than 580,000 VAT-registered traders fined last year — equivalent to one in four on the VAT register. The figures point to the growing impact of HMRC's tougher penalty regime, introduced in 2023, on businesses already under cash flow pressure.

PENALTY REGIME

Each late payment of VAT is considered separately, with penalties charged as follows:

Days Late	Penalty
Up to 15	None
16-30	3% of outstanding VAT
More than 30	A Further 3% penalty, plus a daily penalty at a rate of 10% p.a. on the outstanding VAT (charged beginning after initial 30-day period)

- A penalty is not charged if a trader has a reasonable excuse. Illness and domestic problems do not count as valid excuses unless really serious. Lack of funds also does not count, nor does reliance on a third party or a lack of a reminder from HMRC.
- A trader can, however, avoid any further penalties accruing by entering into a time to pay (TTP) arrangement with HMRC. For example, penalties are avoided if a business secures an arrangement before a VAT payment is 15 days late.

Traders struggling to pay a VAT liability should avoid ignoring the overdue bill. Instead, try to negotiate a TTP arrangement to provide a breathing space.

Regardless of whether any late payment penalties are incurred, late payment interest is charged from the due date until the date that a VAT liability is paid. The rate charged is currently set at 7.75%.

PENALTY INCREASES IN 2027

From April 2027, the 3% late payment penalty charged after day 15 will increase to 4%, as will the penalty charged after day 30.

Currently, if a business is, say, 50 days late paying a VAT liability of £50,000, the total penalties charged amount to £3,273. The total will increase to £4,273 from April 2027; a stark warning that businesses need to get on top of their cash flow management.



HMRC's guidance on how late payment penalties work can be found in the [guidance](#).

WE CAN HELP

If you require further assistance, please contact us on **01753 888 211** or email info@nhllp.com, we are here to help.