

New VAT penalties and interest payments.

HMRC has introduced a new penalty system for all VAT return periods starting on or after **1 January 2023** and payments due from **7 March 2023**. It replaces the existing VAT default surcharge.

A quick summary of the new system is outlined below from the HMRC Press Release:

- **Late submission penalties** - These work on a points-based system. For each VAT return submitted late, customers will receive a penalty point until they reach the penalty point threshold – at which stage they will receive a £200 penalty. A further £200 penalty will also apply for each subsequent late submission while at the threshold, which varies to take account of monthly, quarterly and annual accounting periods.
- **Late payment penalties** - If a VAT payment is more than 15 days overdue, businesses will pay a first late payment penalty. If the VAT payment is more than 30 days overdue, the first late payment penalty increases and a second late payment penalty will also apply. To help customers get used to the changes HMRC will not charge a first late payment penalty on VAT payments due on or before **31 December 2023**, if businesses either pay in full or a payment plan is agreed within 30 days of the payment due date.
- **Payment plans** - HMRC will help businesses that cannot pay their VAT bill in full. Customers may be able to set up a payment plan to pay their bill in instalments. After **31 December 2023**, if a customer proposes a payment plan within 15 days of payment being due and HMRC agrees it, they would not be charged a late payment penalty, provided that they keep to the conditions of the payment plan. Late payment penalties can apply where proposals are made after the first 15 days, but the agreement of the payment plan can prevent them increasing.
- **Interest calculations** - HMRC has introduced both late payment and repayment interest, which will replace previous VAT interest rules. This brings the new regime in line with other taxes.