

The costly implications of the new VAT penalty and interest regime



A new VAT penalty and interest regime may come as a shock for many businesses. It now comes into effect for VAT returns beginning on or after 1 January 2023 (a delay from the originally proposed 1 April 2022 start date).

The new regime replaces the VAT default surcharge regime and comprises 3 elements – the Late Submission Penalty (LSP), the Late Payment Penalty (LPP) and Late Payment Interest (LPI).

While the headline penalty rates make the changes appear to be less costly, the other elements mean it will be a lot more expensive for some businesses.

The Late Submission Penalty

The LSP is a point-based system. Every time a VAT return is submitted late a penalty point accumulates.

Once the relevant penalty threshold is reached a £200 penalty is issued plus another £200 for every subsequent late submission.

Return Frequency	Penalty Threshold
Annual	2 points
Quarterly	4 points
Monthly	5 points

Points expire once they are 24 months old. They can be reset to zero if:

- All outstanding VAT returns are submitted; and
- Future VAT returns are submitted on time for these periods:

Return Frequency	Period of Compliance
Annual	24 months
Quarterly	12 months
Monthly	6 months

Late Payment Penalty

A separate penalty arises for paying late (or failing to arrange time to pay), which is calculated based on the length of the delay in payment.

The penalty will not bite in full until 2023 and will apply as follows:

Number of days after payment deadline	Penalty
0 – 15	No penalty
16 – 30	2022/23: no penalty 2023/24 onwards: 2% of amount outstanding on day 15
31	2% of amount outstanding on day 15 AND 2% of amount outstanding on day 30
31 onwards	Daily penalty calculated at 4% APR for duration of outstanding balance

Late Payment Interest

Interest applies from day 1 after the due date.

There is no phased introduction to this and it will be applied at 2.5% plus the Bank of England base rate (currently 0.1%).

Interest applies from the first day that payment is overdue, until the amount owing is paid in full.

Businesses Affected

Businesses likely to be worst hit by the new regime are those that are only late very occasionally, while those that are often late in submission and payment but only by a few days will find the new approach more to their liking.

The new regime also replaces the repayment supplement with repayment interest, which applies when a business has submitted a repayment claim VAT return.

Repayment interest will kick in from day 1 but will be at Bank of England base rate less 1% subject to a minimum rate of 0.5%.

