



HM Revenue  
& Customs

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Date March 2023

## Changes to VAT penalties and interest from 1 January 2023

Dear customer,

I'm writing to tell you about the new penalties for submitting VAT returns or paying VAT late, which came into effect from 1 January 2023. The new penalties replace the default surcharge and now also apply to customers who submit nil or repayment returns.

To avoid penalties, you must:

- Submit your VAT returns on time using software that is compatible with Making Tax Digital (unless you are exempt from Making Tax Digital). For more information, go to GOV.UK and search '**Making Tax Digital software**'.
- Pay your VAT on time.

The way we calculate interest on late VAT payments and repayments of VAT that we owe you has also changed for VAT periods starting on or after 1 January 2023.

### What will happen if you submit a VAT return late

For VAT periods starting on or after 1 January 2023, penalties for submitting VAT returns late will work on a points-based system. One penalty point will be given for each VAT return submitted late.

If you reach your points threshold, you'll have to pay a fixed £200 penalty. You'll also have to pay another £200 penalty, each time you submit your VAT return late while you're at the threshold. Your points threshold will depend on how often you need to submit a VAT return. For more information about how late submission penalties work and how to avoid them, go to GOV.UK and search for '**Penalty points and penalties if you submit your VAT return late**'.

To find out how to remove penalty points you've received after submitting your VAT return late, go to GOV.UK and search for '**Remove penalty points you've received after submitting your VAT return late**'.

### What will happen if you do not pay your VAT on time

If your payment is more than 15 days overdue, you'll have to pay a first late payment penalty. If your payment is more than 30 days overdue, you'll also have to pay a second late payment penalty.

For more information about how late payment penalties work, how to avoid them and get help to pay in instalments, go to GOV.UK and search for '**How late payment penalties work if you pay VAT late**'.

You'll also be charged late payment interest from the day after your VAT is due to the day you pay in full. Interest will be calculated at the Bank of England base rate plus 2.5%. For more information about how late payment interest works go to GOV.UK and search for '**Late payment interest if you do not pay VAT or penalties on time**'.



## How we're supporting you to get used to the new penalty system in the first year

To help you get used to the new penalty system, we will not charge a first late payment penalty on VAT payments due on or before 31 December 2023, if you either:

- pay in full within 30 days of your payment due date.
- ask for a payment plan within 30 days of your payment due date and we agree to it.

If your payment is 31 days or more overdue, you'll have to pay a first and second late payment penalty.

## How we're supporting you to set up a payment plan

We're here to help if you cannot pay your VAT bill in full. You may be able to set up a payment plan to pay your bill in instalments.

From 31 December 2023, if you request a payment plan from HMRC within 15 days of the payment being due and we agree it, you'll not be charged any late payment penalties provided you keep to the conditions of the payment plan.

You'll still have to pay late payment interest on overdue payments, even if you have a payment plan in place.

If you do not request a payment plan within 15 days or we do not agree it, you'll be liable to pay late payment penalties. For more information about payment plans, go to [GOV.UK](https://gov.uk) and search for '**if you cannot pay your tax bill on time**'.

## If you've paid too much VAT

Repayment supplement is being discontinued. If you are owed VAT and we are overdue in repaying this money to you, HMRC will pay you repayment interest. This will be calculated at the Bank of England base rate minus 1% with a minimum rate of 0.5%. To find more information about VAT repayment interest, including who is eligible and how it is calculated, go to [GOV.UK](https://gov.uk) and search for '**Repayment interest on VAT credits or overpayments**'.

## Further support

You can also watch our webinar on [GOV.UK](https://gov.uk) for an overview of the new penalty system for late VAT submissions and payments, and changes to how interest is calculated. To find it, go to [GOV.UK](https://gov.uk) and search for '**VAT penalties and VAT interest charges – communication resources**'.

If you need a copy of this letter or any other VAT documents in Braille, audio or large print, go to [GOV.UK](https://gov.uk) and search for '**Get help from HMRC if you need extra support**'.

## Protect your information

If someone contacts you saying they are from HMRC and wants you to transfer money urgently or give personal information, never let yourself be rushed.

Take your time and check HMRC's advice about scams on [GOV.UK](https://gov.uk) before you do anything. You can also phone us directly, but make sure you use our contact details on [GOV.UK](https://gov.uk).

In addition, never share your HMRC login details. Someone using them could steal from you or make a fraudulent claim in your name. For more information, go to [GOV.UK](https://gov.uk) and search for '**Phishing and scams**'.

Yours faithfully,



Jim Harra

Chief Executive and First Permanent Secretary HMRC