

A Comprehensive

# GUIDE TO VAT

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HMRC VAT penalty guide

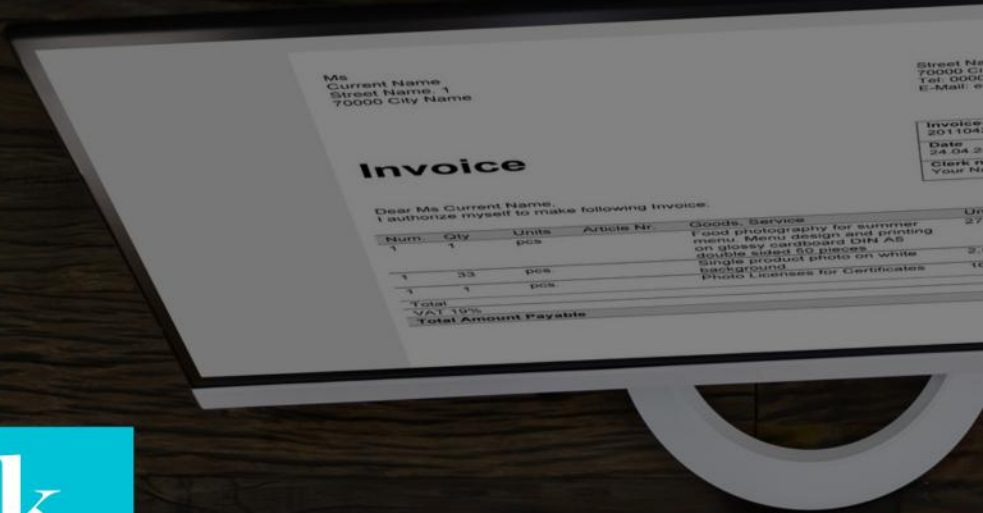
Paying your VAT Liability

How PVA works

# A Quick Update

From 1 January 2023, HMRC changed the structure and system for applying and calculating VAT penalties for late submissions and payments.

Here is everything you need to know...





# What are The Changes?



Previously HMRC issued a default surcharge for submitting a VAT return or payment late. This has now been replaced by new penalties and interest calculations for VAT returns starting on or after 1 January 2023.



The changes affect anyone who submits a VAT return, including a repayment or nil return.

## How Late Submission Penalties Work



**As per HMRC's rules you must send a VAT Return by the deadline specified for your accounting period i.e Accounting period 1 Jan to 31 Mar 2023 is due by 7 May 2023.**

Going forwards late submission penalties now work on a point based system, as you will receive a penalty point per late submission.

When the penalty point threshold is reached, you will now receive a £200 penalty and then an extra £200 penalty for each subsequent late submission while over the threshold.

The penalty point threshold is determined by your accounting period.

These thresholds are the highest points you can receive before incurring the charge.

| Accounting Period | Penalty points threshold |
|-------------------|--------------------------|
| Annually          | 2                        |
| Quarterly         | 4                        |
| Monthly           | 5                        |



## A Closer Look at How it Works

A business submits their VAT returns quarterly, which gives them a 4 point penalty threshold. The business has already submitted their past 3 returns late, meaning that they are already at 3 penalty points before their next submission deadline.

They submit their next VAT return late and receive another point, bringing their total to 4. This results in them now receiving a £200 fine for late submissions. Even if they submit their next return on time they are still at 4 points. This means that they can submit the next return on time and not receive a further fine. However if the return after this is late, they will receive another £200 fine as they are still at 4 points.

It is also worth noting that if you change when your accounting period ends this will also affect penalty points and thresholds.

| Accounting Period                   | Penalty point threshold | Rules that apply |
|-------------------------------------|-------------------------|------------------|
| Over 20 weeks                       | 2                       | Annual           |
| Over 8 weeks and less than 20 weeks | 4                       | Quarterly        |
| 8 weeks or less                     | 5                       | Monthly          |



# HMRC will also adjust any current penalty points when you change accounting periods.



Once you've reached your accounting period's threshold you will need to take action to remove these points to avoid further fines. If you have not reached the threshold individual points will expire automatically after around 24 months.

If the deadline for your return was:

- not the last day of a month — a penalty point expires on the last day of the month, 24 months after this
- the last day of a month — a penalty point expires on the last day of the month, 25 months after this

## HMRC will adjust the thresholds

### As follows...

| Previous accounting period | Previous penalty point threshold | New accounting period | New penalty point threshold |
|----------------------------|----------------------------------|-----------------------|-----------------------------|
| Annual                     | 2                                | Quarterly             | 4                           |
| Annual                     | 2                                | Monthly               | 5                           |
| Quarterly                  | 4                                | Annual                | 2                           |
| Quarterly                  | 4                                | Monthly               | 5                           |
| Monthly                    | 5                                | Annual                | 2                           |
| Monthly                    | 5                                | Quarterly             | 4                           |



If you are taking over a business as a 'going concern', any penalty points built-up by that business will not be transferred to your VAT registration number. This also applies if the VAT registration number is being transferred from the previous business owner to yourself.



# Removing Penalty Points

If you have reached the penalty point's threshold and have the maximum points allowed for your accounting period, then you can only remove the points by meeting both conditions A and B.

- a. complete a period of compliance, submitting all returns by the deadline.
- b. submit all outstanding returns for the previous 24 months.

## Condition A – Complete a period of compliance

This is when you submit all of your returns within a period on time. HMRC advise that you work out the start date of your period of compliance using the following steps:



1. Record the day after the missed deadline for your accounting period
2. Record the first day of the month following the date recorded in step 1
3. Start your period of compliance on the date recorded in step 2

| Missed submission example date | Earliest start - period of compliance |
|--------------------------------|---------------------------------------|
| 7 July                         | 1 August                              |
| 31 March                       | 1 May                                 |

“ It is worth noting that the new scheme does not affect all VAT Returns, as some are exempt from the scheme. ”

Depending on your accounting period, you'll be expected to make the below number of VAT returns on time during a period of compliance.

| Accounting period | Period of compliance | Return to make |
|-------------------|----------------------|----------------|
| Annual            | 24 months            | 2              |
| Quarterly         | 12 months            | 4              |
| Monthly           | 6 months             | 6              |

The returns excluded are:

- First VAT Return for newly VAT registered businesses
- Final VAT Return for businesses who have cancelled their VAT registration
- Any one-off returns that cover a period besides the standard periods (month, quarter or year)  
I.e. You may be required to make a one-off return covering a two-month period because you have changed from submitting quarterly VAT Returns to annually.



# Late VAT

## Liability Payments



From 1 January 2023 there are also changes to the way HMRC will issue penalties for late payment of your VAT liability to HMRC.

Late payment charges will be applied to any VAT liability payments that are not paid in full by the deadline. The exceptions to this are VAT payments on account and instalments for the VAT Annual Accounting Scheme.

Late payment penalties can be applied by HMRC on payment due:

- On your VAT return
- Following a correction and/or amendment to a previously submitted return
- From a VAT assessment HMRC issued when you did not submit your return or for another reason

Interest will be charged on any outstanding balance from the first day payment is overdue, until paid in full.

|  | First late payment penalty   | Second late payment penalty  |
|--|--|--|
| Payment up to 15 days overdue          | None   | None   |
| Payment between 16 and 30 days overdue | Calculated at 2% on the VAT you owe at day 15.   | None   |
| Payment 31 days or more overdue        | Calculated at: <ul style="list-style-type: none"><li>• 2% of what was outstanding at day 15</li><li>• plus 2% of what is still outstanding at day 30</li></ul> | Calculated at: <ul style="list-style-type: none"><li>• a daily rate of 4% per year on the outstanding balance</li><li>• charged everyday from day 31 until the outstanding balance is paid in full</li></ul> |

## Penalties & Plans

The best way to avoid fines and interest is to pay your VAT liability by the given deadlines.

However if for any unfortunate reason that is not possible by the deadline, it is worth noting that HMRC will allow a payment plan to be agreed for any liability that a business struggles to pay. By arranging an agreement with HMRC it may result in lower or no charges being applied for an outstanding liability balance.

Any penalties which HMRC issue will be notified to you by HMRC in a penalty decision letter. Included in this letter will be information on how you can appeal a penalty decision if you disagree with HMRC.

For further information or guidance on this new penalty regime please get in touch with our bookkeeping departments, where our staff are on hand and happy to assist you.

# Paying Your VAT Liability

Once you have submitted your VAT Return it is important to remember to pay your liability by the given deadline. The deadline for you to pay your VAT liability is the same date as you are required to submit your VAT Return by, and can be found on your VAT Return for that period.

Alternatively you can also use HMRC's VAT payment deadline calculator to work out the payment deadline for any accounting period: <https://www.gov.uk/vat-payment-deadlines>

If you do not pay your liability by the given deadline, or have an active Direct Debit with HMRC then you may incur a surcharge for late payment. There are various options and ways to pay your VAT liability to HMRC.

## For same or next day payments:

Online or telephone banking by Faster Payments or CHAPS

To make an online or telephone bank transfer you can pay HM Revenue and Customs (HMRC) by Faster Payments, CHAPS or Bacs.

| Sort code | Account number | Account name |
|-----------|----------------|--------------|
| 08 32 00  | 11963155       | HMRC VAT     |

Reference number – This will need to be your 9-digit VAT registration number.

When sending a payment to HMRC please check how long it will take for the type of payment to be processed and received by HMRC. You will need to take this into account and factor in any extra time to ensure your payment will still reach HMRC by the deadline.

CHAPS – usually reaches HMRC the same working day.

Faster Payments – the same or next day, including weekends and bank holidays.

BACS – Typically 3 working days





## Direct Debit

You can log in to your online government gateway account and set up a direct debit. This must be completed and set up 3 working days before you submit your VAT Return.

Once the DD is set up, HMRC will automatically take payment from your chosen bank account 3 working days after the submission deadline. The figure for this will be taken from box 5 of your submitted VAT Return. If you submit your VAT Return late, the payment will be still be taken 3 working days after you submit your return.

## Standing Order

You can only pay by standing order if you are using the annual VAT scheme or making payment on account. Standing orders taking 3 work days to reach HMRC's bank accounts. If the deadline falls on a weekend or bank holiday, your payment must arrive in HMRC's bank account on the last working day before it (unless you pay by Faster Payments).

## Online by debit or corporate credit card

The cards you can use to pay your VAT liability are:

- Personal Debit Card
- Corporate Credit Card
- Corporate Debit Card

You cannot pay with a personal credit card and there is also a non-refundable fee if you pay by corporate debit or credit card.

## Bank or Building Society

To pay at your bank or building society you will need a payslip booklet that you can order direct from HMRC. This can take up to 6 weeks to arrive. You can then use this payslip to pay the cash or cheque into the bank for payment to HMRC. Cheques will need to be payable to "HM Revenue and Customs Only".





# Important Information



Remember you will need your reference number when making any payment to HMRC – This will need to be your 9-digit VAT registration number. It is important to make sure that you include your VAT number as a reference, as HMRC will use this to match the payment with your account. Payments without a reference will be sat in a holding account and not allocated to your account, which will result in your account being overdue and incurring possible surcharges.

Reminder – You can find your registration number in either your VAT online account or on your VAT registration certificate that you received after registering with HMRC. Do not put any spaces between the numbers when inputting your reference.







## If you need to pay a VAT surcharge or penalty

You can pay a surcharge or penalty using most of the above options, excluding standing order.

The difference is that you will need to give your 14-digit reference number beginning with 'X', instead of your VAT reference number when making payment to HMRC. You can find your 14-digit reference number in the letter HMRC sent you about your surcharge or penalty.

## VAT Refund Payments from HMRC

If the VAT Return you've submitted shows that you are due a refund, HMRC will refund this directly to your bank using the account details in your online account. If you have no bank details saved in your account, HMRC will send you a cheque. HMRC aims to send repayments within 30 days of receiving your VAT Return. If you have not received your refund after 30 days HMRC will advise that you contact them.

The 30 days starts from the day HMRC receives the VAT Return and ends the day your repayment is approved, not the day you get it. HMRC do not count the days taken to check your return as part of this 30-day period. Once you have made your payment to HMRC you should be able to check that HMRC have received your payment via your online gateway account. It should be updated within 48 hours.



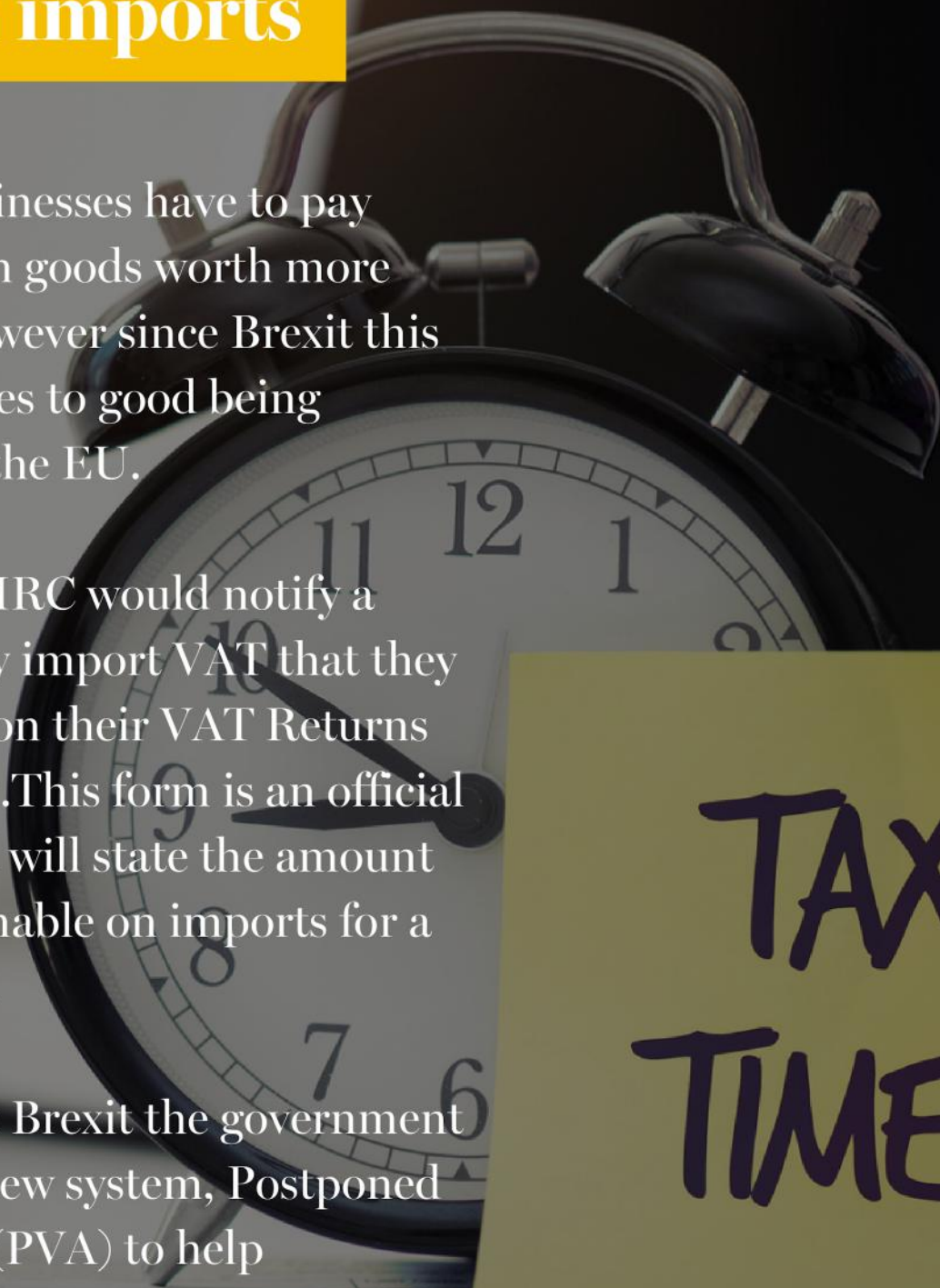
# Rules & changes to claiming

## VAT on imports

In the UK businesses have to pay import VAT on goods worth more than £135, however since Brexit this now also applies to goods being imports from the EU.

Previously HMRC would notify a business of any import VAT that they could reclaim on their VAT Returns via a C79 form. This form is an official document and will state the amount of VAT reclaimable on imports for a certain period.

However since Brexit the government introduced a new system, Postponed VAT Account (PVA) to help businesses with import VAT and aid the impact on a business's cash flow.



TAX  
TIME!





# What is Postponed VAT Accounting

Usually a business importing goods would have to pay the VAT on the goods imported at the borders and then reclaim it on their next VAT Return. However PVA allows you to postpone paying this import VAT.

Under PVA a business is not required to pay the import VAT upfront and reclaim it later, as the new scheme postpones the import VAT and deal with both elements together on one VAT Return.

It is a faster and more efficient way for a business to complete VAT Returns. It can also help businesses avoid their goods being held at customs until VAT is paid.

## Who can use PVA?

The PVA scheme is open to any VAT registered business in the UK and does not require them to get permission or apply for the scheme from the government.

**You can choose to use PVA if:**

- The goods you import are for use in your business
- You have an EORI number which starts with GB – this must be statement on custom declarations if using PVA



# How Does PVA Work?

To use PVA your business will need to be registered for the Customs Declaration Service.

This will allow you to receive your PVA monthly statements, as these show the amount of Postponed VAT that needs accounting for on your next VAT Return.

In order for HMRC to know you are using PVA Scheme you must make sure that the person completing your customs declaration forms for your goods includes the following information:

- Your VAT registration number
- A “G” in box 47e for the method of payment for import VAT.

Alternatively you can pay the VAT upfront and continue to receive C79's.



# Completing your VAT

## Return for PVA

With postponed VAT accounting there are changes to the way you need to complete the boxes on your return.

You must account for postponed import VAT on the return for the accounting period which covers the date you imported the goods. The figures can be found on your monthly PVA statements, which are downloadable from your customs account after 6th working day of the month.

### To complete your VAT Returns you will need to:

**Box 1 – VAT due on sales and other outputs -** Include the VAT due in this period on imports accounted for through postponed VAT accounting.

**Box 4 – VAT reclaimed on purchases and other inputs -** Include the VAT reclaimed in this period on imports accounted for through postponed VAT accounting.

**Box 7 – Total value of purchases and all other inputs excluding any VAT -** Include the total value of all imports of goods in this period, not including any VAT.

Under Making Tax Digital you can NOT manually adjust the values in the VAT Return boxes as they must be recorded in the main record-keeping software.

**Most digital software's will have an added feature on the VAT Return to include the PVA figures and post the adjustments for you.**



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