



# **VAT Penalties and Interest:**

**late VAT returns**

**late VAT payments**

# 1 Overview

## 1.1 What is this notice about?

This notice provides information about the penalties and interest that may be charged for failing to –

- submit a VAT return on time
- make a VAT payment on time.

It also explains when repayment interest may be paid when the Treasury owes you an amount of VAT.

## 1.2 Who is affected?

This affects any VAT registered person submitting VAT returns, and related payments, for accounting periods starting on or after 1 January 2023.

## 1.3 When does this take effect?

This has effect in relation to VAT returns, and related payments, which have an accounting period starting on or after 1 January 2023.

## 1.4 Why are the rules changing?

The rules relating to penalties and interest for late VAT returns and associated payments are changing in the United Kingdom. The Isle of Man Government has an agreement with the United Kingdom which requires the Isle of Man to keep the management and administration of VAT aligned with the United Kingdom. The changes for Isle of Man VAT registered businesses are similar to but not identical to those in the United Kingdom.

## 1.5 What is changing?

The default surcharge, which is the penalty regime for VAT returns and payments which are submitted late, is being replaced.

There are 2 separate obligations you will need to meet in order to avoid a penalty –

- **all** VAT returns must be submitted by the due date. This includes any nil or repayment returns (returns seeking a refund of VAT)
- VAT payments must be submitted by the due date. This includes any payments due on a VAT return, an assessment following a VAT audit or error correction.

## 1.6 What is the law?

The law is contained in sections 59ZA, 59ZB and 75 of, and Schedules 15B to 15F to, the Value Added Tax Act 1996.

## **2 VAT returns**

As long as you submit your VAT returns on time you will not receive a penalty.

### **2.1 What happens if my return is submitted late?**

You may receive a £200 penalty if you submit your VAT return late.

On the first occasion that your VAT return is late you will receive a warning letter.

If you subsequently submit another 1 or 2 VAT returns late within a rolling 24 month period, you will receive further warning letters.

If you have submitted 3 late VAT returns in a rolling 24 month period, and then submit another VAT return late, you will receive a £200 penalty.

For each subsequent VAT return that is late you may be charged a further £200 penalty if you do not take steps to ensure your VAT returns are submitted on time.

### **2.2 What is a rolling 24 month period?**

The rolling 24 month period is the period which is used to determine how many VAT returns have been submitted late in order to calculate any penalty.

The rolling 24 month period looks backwards from the due date of the most recent VAT return which has been submitted late.

*Example:*

VAT return has a due date of 31 July 2023. The rolling 24 month period is 1 August 2021 to 31 July 2023.

## **3 VAT payments**

As long as you make your VAT payments on time you will not receive a penalty.

### **3.1 What happens if my VAT payment is late?**

You may incur a monetary penalty if your VAT payments are not made on time. There is a 2 step stage to the penalty process. The first is a percentage of the amount of unpaid VAT (between 2-4%) and the second is an annualised amount accruing on a daily basis until paid.

### **3.2 First penalty**

If –

- all outstanding VAT is paid within the first 15 days after the due date, or
- you contact Customs and Excise within the first 15 days after the due date to propose a payment plan, and that plan is agreed between you and Customs and Excise (a Time to Pay Agreement),

you will not incur a penalty.

On day 16 a penalty of 2% of any unpaid VAT will be incurred. If –

- all outstanding VAT is paid by day 30, or
- you contact Customs and Excise within day 16 to day 30 after the due date to propose a payment plan, and that plan is agreed between you and Customs and Excise (a Time to Pay Agreement),

no further penalty will be imposed.

However, where there is still outstanding VAT due after 30 days and you have not entered into a Time to Pay Agreement the penalty will be calculated as 2% of the VAT due on day 16 plus 2% of the outstanding VAT at day 31.

### **3.3 Second penalty**

From day 31 you will begin to incur an additional penalty accruing on a daily basis at a rate of 4% per annum of the VAT outstanding at day 31 until the amount is fully paid. If you enter into a Time to Pay Agreement this penalty may be waived or reduced.

### **3.4 Time to pay arrangements (TTP)**

These arrangements allow you to stop a penalty from being applied or from accruing any further by approaching Customs and Excise and setting up a payment schedule for any outstanding VAT. Any agreement must be made with Customs and Excise and in line with our existing guidelines. Provided that the taxpayer continues to honour the terms of the agreement then no further penalties will be applied.

### 3.5 Penalty examples

Days after payment due date	Action by customer	Penalty
0-15	Full payment made or TTP proposed by day 15 and subsequently agreed	No penalty
16-30	Full payment made or TTP proposed by day 30 and subsequently agreed	Penalty calculated at 2% of amount outstanding
Day 31	Some VAT still unpaid, no TTP agreed	Penalty calculated at (a) 2% of amount outstanding at day 16, plus (b) 2% of amount outstanding at day 31

If any VAT remains unpaid on day 31 a second penalty will start at 4% per annum of the amount outstanding and will accrue until full payment has been made.

#### Example 1

You owe £1,000, which is not paid by the due date. You approach Customs and Excise seeking a TTP arrangement on day 11 and subsequently agree a schedule to pay the debt.

By approaching Customs and Excise for a TTP arrangement and subsequently agreeing one, you enjoy the same benefit of paying off the VAT on day 11 – there will be no penalty. However late payment interest will continue to accrue on any outstanding amounts.

#### Example 2

Again, you owe £1,000, which is not paid by the due date. By day 15 you have incurred the first penalty at 2% - £20. You approach Customs and Excise seeking a TTP arrangement on day 20 and subsequently agree a schedule to pay the debt.

By agreeing a TTP arrangement, you enjoy the same benefit of paying off the VAT on day 20 – the penalty is charged at 2%. However late payment interest will continue to accrue on any outstanding amounts.

#### Example 3

This time you have failed to pay £1,000 by day 30 and have already incurred the first penalty at the full rate of 4% - £40. You have still not paid by day 40 and have incurred 10 days' worth of the second penalty at 4% per annum. You approach Customs and Excise and agree a schedule to pay the debt.

By agreeing a TTP arrangement, you enjoy the same benefit of paying off the VAT on day 40 – the second penalty stops accruing and you are only charged the additional penalty for days 31-40. However late payment interest will continue to accrue on any outstanding amounts.

## 4 Interest charges

### Late payment interest

Customs and Excise may charge late payment interest on VAT that remains outstanding after the due date, irrespective of whether any late payment penalties have also been charged.

Late payment interest will apply from the date that the amount became due and payable until the date full payment is received.

Late payment interest is charged at a rate set by the Treasury. The current rates can be found [here](#).

### Repayment interest

Where a person has overpaid VAT, Customs and Excise may pay repayment interest on any VAT due to be repaid from --

- in a case where you have made an overpayment, the date on which the payment was due
- in the case where you have submitted a claim, from the day after the date the claim was submitted,

until the repayment is made.

Repayment interest will be paid at a rate set by the Treasury. The current rates can be found [here](#).

## 5 Reviews and Appeals

### 5.1 Customs and Excise discretion not to apply penalty

Customs and Excise will normally issue a penalty when a VAT return or a VAT payment is late.

However, Customs and Excise has a discretionary power not to charge a penalty in relation to an individual or group of VAT registered persons if it considers it appropriate to do so in the particular circumstances. Any use of this discretionary power by Customs and Excise will be carefully considered and exercised in line with published guidance. Where Customs and Excise has already issued a penalty you must use the reviews and appeals process if you wish to challenge this decision.

### 5.2 Reviews and appeals

A VAT registered person can challenge a penalty relating to late VAT returns or late payments through both an internal review process and an appeal to the VAT and Duties Tribunal.

The grounds for an appeal include the grounds that the taxpayer had a reasonable excuse for missing a filing deadline.

The appeal process is the same as the appeal process for an assessment of VAT. Further information can be found in [Notice Appeal 1 MAN](#)