

Points make Penalties

All change for the tax penalty regime

No prizes for guessing that HM Revenue & Customs may be looking into overhauling a number of tax areas post the Covid 19 pandemic. The tax penalty regime is no exception.

The new measure will affect those who are required to submit a VAT Return and/or an Income Tax Self Assessment (ITSA) Return and who fail to submit returns on time or fail to pay on time.

Currently for income tax there is a flat late filing penalty of £100 (going up £10 a day after three months, and to £300 or 5% of the tax liability (whichever is greater) becoming chargeable where a return is outstanding 6 months after the deadline and again at 12 months) regardless of the history of “offences”, but all this is about to change (if the vote is given in parliament) to a points-based system. For VAT, there is currently no standalone late submission penalty.

Proposals

Late submission penalties

When a taxpayer misses a submission deadline, they will incur a point. Points accrue separately for VAT and for ITSA.

A taxpayer becomes liable to a fixed financial penalty of £200 only after they have reached the points threshold.

Individual penalty points accrued will automatically expire after 24 months, provided the taxpayer remains below the points threshold. After the points threshold has been reached all points will expire after the taxpayer has met their return obligations for a set period of time based on their submission frequency.

If the taxpayer continues to miss submission deadlines after they have reached the points threshold and have been issued with a penalty, they will become liable for a further fixed rate penalty for each additional missed obligation. This is the case even if they have paid the fixed rate penalty.

In common with other tax penalties, a taxpayer will not be liable to a point or penalty if they had a reasonable excuse for not making the relevant submission on time and will have a right to appeal against both points and penalties.

Late payment penalties

There is no penalty at all if the taxpayer pays the tax late but within 15 days of the due date.

The first penalty is set at 2% of the outstanding amount if they pay between 16 days and 30 days after the due date.

It is set at 4% of the outstanding amount if there is tax left unpaid 30 days after the due date.

A second late payment penalty is charged at a rate of 4% per annum, calculated on a daily basis on the total unpaid tax incurred from day 31.

To avoid a penalty or penalties, the taxpayer will need to either pay or approach HMRC to agree a Time to Pay Arrangement.

HOW BEAVIS MORGAN CAN HELP

If you would further information, please contact Fiona Cross, Tax Partner, Beavis Morgan.

For a no obligation discussion, please contact:

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