

# Making Tax Digital – New penalties in 2023

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# Housekeeping

The screenshot displays a Sage webinar interface. On the left, a presentation slide titled "Making Tax Digital – What's Next." is shown, featuring the names of the speakers: Jacqui Wilson, Jess Jenson, Becca Chappell, Fabiano Rocha, and Adrian Malpass. The Sage logo is visible in the bottom left corner of the slide. The main video area shows a woman in a white apron working at a laptop in a modern office setting. On the right side of the interface, a "Questions" panel is open, with a "Send" button at the bottom. Two green callout boxes with arrows point to the "Muted" icon and the question input area, with the text "Automatically Muted" and "Submit your questions" respectively. The "Questions" panel also contains the text "Want answers?" and "Ask the staff a question".

Any handouts will be available from Tomorrow on Sagecity.com

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# Poll

**What Software do you currently use for submitting VAT return?**

**Sage 50 Accounts**

**Sage Accounting**

**Other**

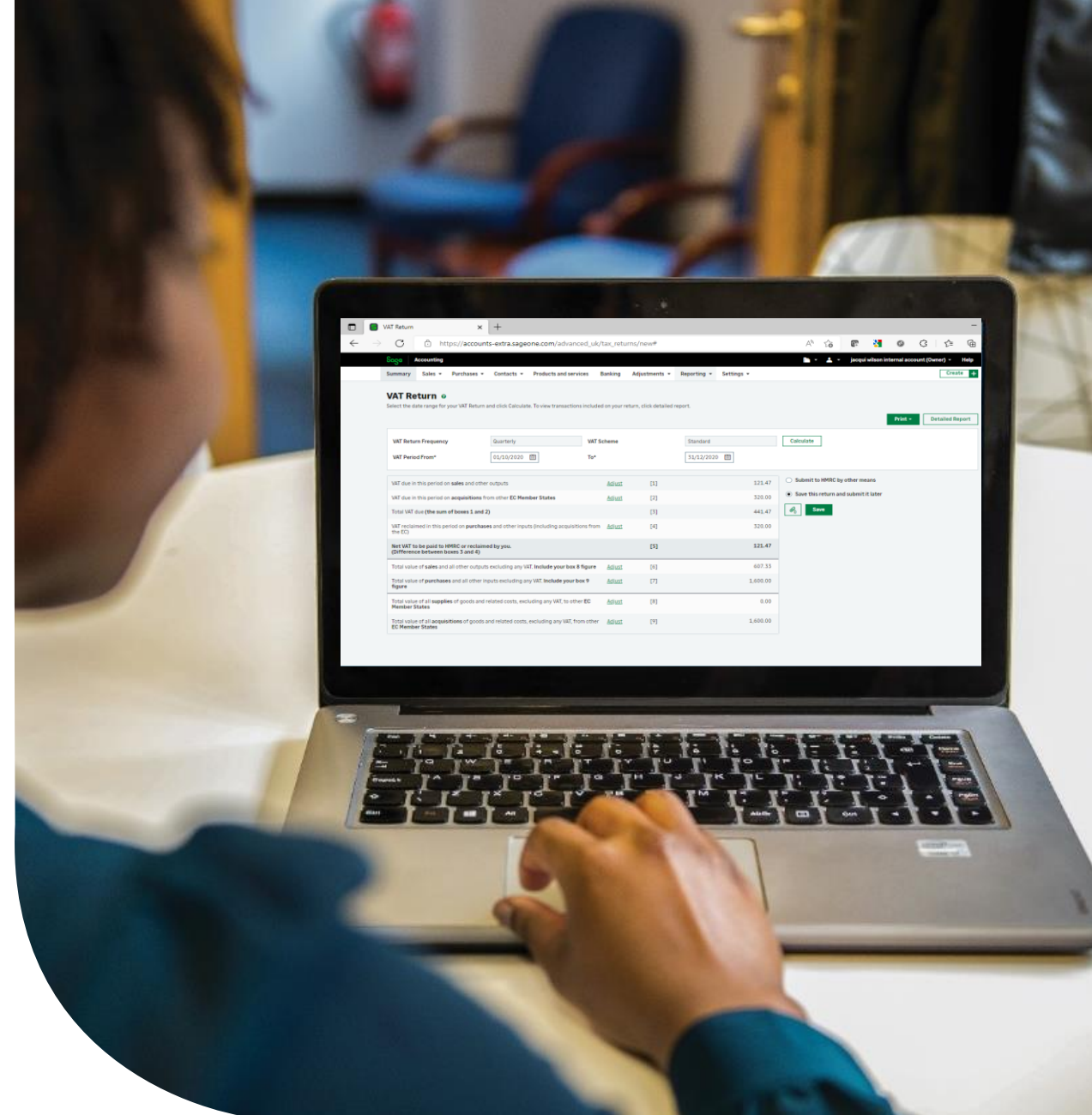
**I do not have software**

# MTD recap



# Making Tax Digital, the Story so far.

- Since April 2019 businesses with a taxable turnover above £85,000 have been required to submit their VAT returns electronically and are no longer permitted to submit manually through the HMRC gateway.
- In addition, these businesses are obligated to keep digital records of their transactions.
- From 1 April 2022, MTD for VAT included those businesses who are below the £85,000 threshold and have voluntarily registered for VAT.



# What does MTD for VAT require?

## Digital Record-Keeping

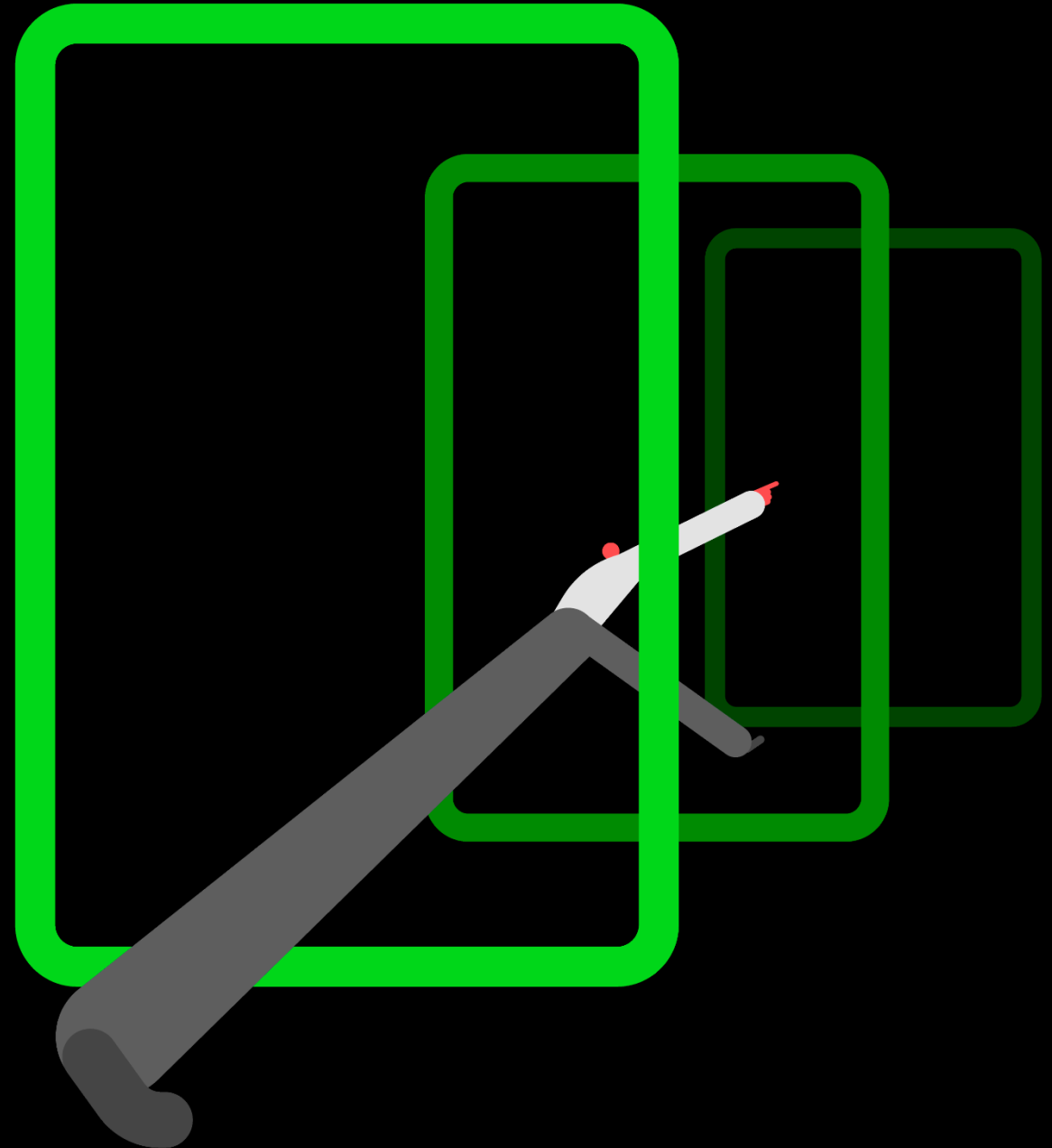
You must **keep and maintain key VAT data digitally**. This data must be maintained digitally for **six years** after the end of the VAT period.

## Functional Compatible Software

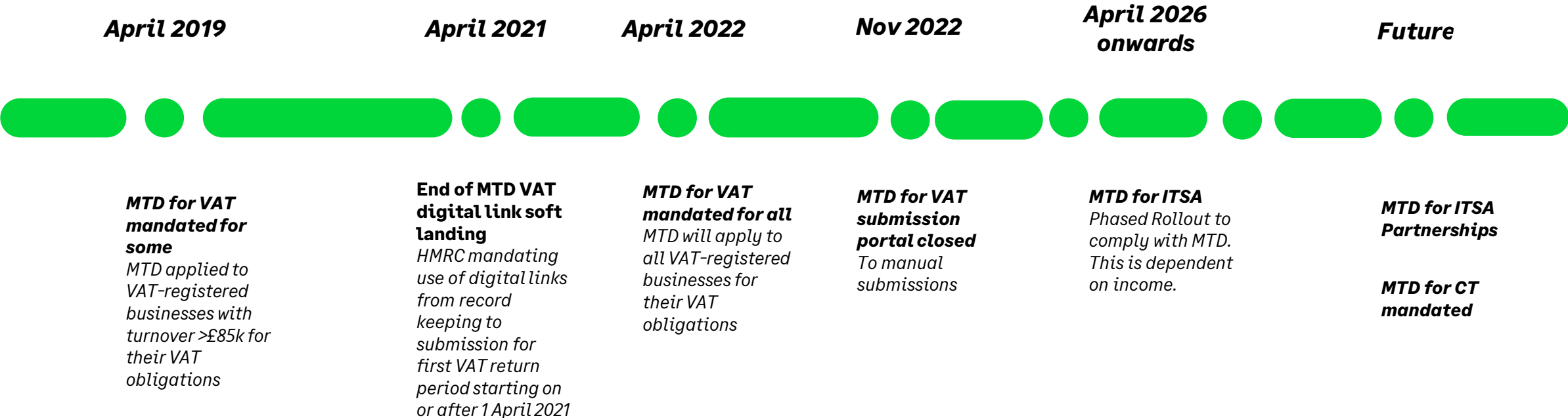
HMRC states functional compatible software must be used to submit your VAT Return each time.



The process must be completely digital. VAT data must be transferred automatically and electronically between software programs, applications or products. **Cutting or copying and pasting data from one place to another is NOT allowed.**



# HMRC Timeline





# Where are we now?

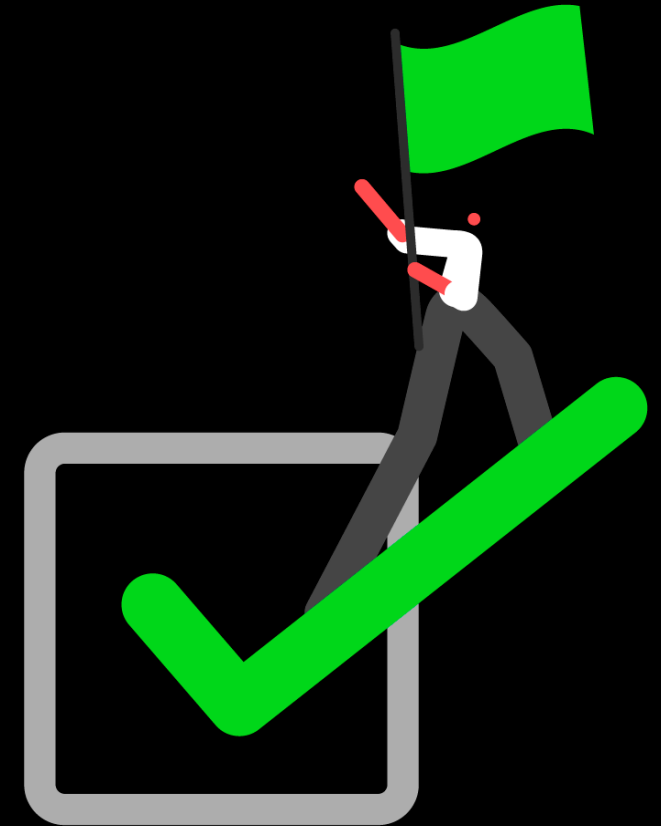


# Where are we now?.

On 1 November 2022 the old submission portal was closed to manual submissions. Meaning all submissions post November need to be submitted via MTD for VAT compliant software.

HMRC have Automatically registered all remaining VAT registered business for Making Tax Digital

January and February will see many businesses making their first Making Tax Digital for VAT submissions



# January 2023 – Penalty changes



# Penalties.

A new penalty system will apply from 1 January 2023. This is split into 2 different penalties.

- **Late submission penalty** - A points-based system for missed submission deadlines.
- **Late payment penalty** - Penalties applied based upon how late a payment is made for tax owed to HMRC.

These points and penalties are applied automatically, but HMRC, at its own discretion, may choose not to do so.

Once a point or penalty has been applied HMRC cannot remove it unless you use the reviews and appeals process.

# Late submission penalty.

Late submission penalties are based on a points system, once a certain number of points are reached by a business or individual a financial penalty of £200 is automatically applied.

One point is applied each time a submission deadline is missed.

The points threshold for the penalty is based on the frequency of VAT submissions

- **Monthly** – Five points are required for the penalty to be applied
- **Quarterly** – Four points are required for a penalty
- **Annual** – Two points are required

These points are separate from any points received for income tax submissions and separate penalties can be applied.

# Late payment penalty.

Like the points system for late submission, this is automatically applied as follows:

- **Up to 15 days late** – No penalty
- **Between 16- 30 days overdue** – 2% of amount due
- **Day 31 after payment was due** – 2% of what was due on day 15, plus 2% of amount due on day 30.
- **Day 31 onwards** - 4% of the outstanding amount, applied daily

The standard 2.5% interest rate is also applied.

[Prepare for upcoming changes to VAT penalties and VAT interest charges - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

# Penalties.

## Period of Familiarisation

In order to provide time to adjust HMRC will not charge a first late payment penalty for the first year until 31 December 2023 providing you pay in full within 30 days of the payment due date.

## Expiry of Penalty points

Points Accrued will be set to zero once the following criteria has been met.

- A period of compliance –submitting on time for the period of compliance. 6 months for Monthly submissions, 12 months for Quarterly submissions and 24 for months for annual submissions.
- All submissions for the preceding 24 months have been submitted to HMRC

[Penalties for late submission - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

# MTD for ITSA





# MTD for ITSA.

In December 2022 the government announced a phased approach to MTD for income tax self assessment from April 2026 rather than April 2024.

This will begin with self employed individuals and landlords with income over £50,000 from April 2026.

From April 2027 this will roll out to those with an income between £30,000 and £50,000.

The rollout to businesses under the 30,000 will be reviewed and more information be provided at a later date

Currently MTD for ITSA will not be rolled out to General partnerships in 2025

# VAT submission in Sage 50 Accounts and Sage Accounting





# Questions.

## Do the penalty points for late submission expire?

Yes penalty points will expire automatically if you have not met a penalty threshold after 2 years.

If the penalty threshold has been met then you will need to complete a period of compliance and submit all outstanding returns for the previous 24 months

[Remove penalty points you've received after submitting your VAT Return late - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

## Can I appeal a penalty?

You can appeal to HMRC against a penalty however this will only be cancelled or amended if the reason is deemed a reasonable excuse. For more information check out the link below.

[Disagree with a tax decision: Appeal against a penalty - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

## What steps can a business take to ensure compliance with the new system?

Sage Accounts Products are MTD ready providing you with a solution to enable you to submit your MTD returns.

In addition Sage products can record VAT submissions made and the payments submitted to HMRC making it easy to keep track of your MTD obligations.

# Summary.

- All VAT registered are now automatically signed up for MTD with HMRC
- All VAT returns now need to be submitted directly from MTD Compatible software.
- New penalties were introduced in January 2023 for MTD for VAT
  - Late submission penalties
  - Late payment penalties
- A period of familiarisation has been introduced for the late payment penalty for the first year providing you pay within 30 days or make a time to pay arrangement
- Existing penalty regimes remain in place in some circumstances.
- MTD for ITSA has been delayed and will commence a phased approach from April 2026 onwards.

## Useful links

### HMRC – Late returns and payments

[Send a VAT Return: Late returns and payment - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

### **Sage Blog – Making tax digital for income tax delay**

<https://www.sage.com/en-gb/blog/mtd-for-income-tax-postponed/>

### **Making Tax digital : what the new penalty regime means for MTD**

[\*Making Tax Digital: What HMRC's new penalty regime means for MTD for VAT and Income Tax - Sage Advice United Kingdom\*](#)

### **Late payment penalty guidance**

[\*How late payment penalties work if you pay VAT late - GOV.UK \(www.gov.uk\)\*](#)

### **Penalty points if you submit your VAT return late**

<https://www.gov.uk/guidance/penalty-points-and-penalties-if-you-submit-your-vat-return-late>

# Thank you!

