VAT and Income Tax Self Assessment penalty reform stakeholder event

Indirect Tax | Personal tax



24 April 2024

On 20 March 2024, CIOT and ATT representatives attended an HMRC stakeholder event to review the journey of the penalty reform for VAT project, and to review how changes in VAT could assist in preparing for the roll out of Making Tax Digital and penalty reform for Income Tax Self Assessment mandated taxpayers in April 2026.

Discussions at the stakeholder event focused on what went well, what could have been done differently and what could be changed for the Income Tax Self Assessment (ITSA) implementation. The audience was a mixture of HMRC staff from different departments and external stakeholders from tax and accounting, software developers and industry to bring together differing perspectives. It was positive to hear HMRC’s commitment to consistent engagement with external stakeholders, which they said was critical to readiness and was a success of the penalty reform for VAT project. HMRC said that the same engagement would continue in preparing for changes for ITSA.

The breakout sessions had three focuses.

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1. What went well in penalty reform for VAT?

External stakeholders said that there was a lot of goodwill on VAT penalty reform from both practice and business, as the former VAT penalty regime was capable of creating quite punitive results and was subject to many appeals and tribunal cases. Therefore, reform was definitely welcomed. Stakeholders said that it would be interesting in future to compare the statistics for appeals and tribunals for the new penalty system. At the launch of the new VAT penalty system, the ‘reset’ to a nil point starting point for all businesses, even those incurring 15% default surcharges, was also positive.

Several external stakeholders mentioned that there was currently little feedback from members or agents on poor outcomes, which usually means that things are going well. The CIOT raised what appeared to be an isolated case of a stagger/penalty period mismatch.

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2. What would you have done differently in penalty reform for VAT?

Stakeholders suggested that the agent journey should have been considered at an earlier time in the project, including user testing via agents. It was noted that VAT penalty letters issued to agents were still not in an ideal format and caused difficulties; HMRC appreciated that this was an ongoing issue.

The timing of publishing HMRC guidance was also discussed, with stakeholders saying that it was published too close to the launch date, which created uncertainty for businesses.

Some HMRC attendees raised concerns that the ‘penalty free’ period after the required VAT return submission date would cause more businesses to use it. Representatives from professional bodies noted that the Professional Conduct in Relation to Taxation rules require affiliated agents and in-house tax professionals to ensure that the right amount of tax is declared at the right time, though it was appreciated that not all agents belong to a professional body.

The CIOT said that it was disappointed to see the loss of HMRC's discretionary powers to block VAT default interest in cases of non-commercial restitution, adding that we would still like to see these powers restored.

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3. What would you like to see Making Tax Digital (MTD) take into penalty reform for ITSA?

Whilst many of the points raised related to internal HMRC communications and systems processes, external stakeholders were still able to make suggestions. These included: the lessons learned in the VAT sessions on agent consideration; timing of ITSA guidance; possible uses of nudges and prompts in MTD; appreciating the additional complexities for ITSA quarterly reporting and uploading; the change to mandated digital recordkeeping; digital links requirements; and the requirement for communications to businesses advising of new obligations.

Member feedback

The CIOT and ATT are still interested to hear from members with feedback about experiences of MTD for VAT penalties, particularly where there could be an element of learning for the ITSA project. Please email us at technical@ciot.org.uk or atttechnical@att.org.uk.

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