EXPLANATORY MEMORANDUM TO

THE VALUE ADDED TAX (AMENDMENT) REGULATIONS 2025

2025 No. 578

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury at His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Elinor Paterson, Deputy Director in Indirect Tax at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Samuel Warren email: cit.vatregistrationandaccountingpolicy@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Value Added Tax Regulations 1995 (S.I. 1995/2518) ("the regulations") to address an administrative inflexibility and ensure the effective management of Value Added Tax (VAT). It provides HMRC with the power to extend by direction the length of the period a person has available to make their final return when becoming de-registered from VAT.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 A business has a fixed amount of time, usually one month and seven days from the date its VAT registration is cancelled, to submit its final return. While most cancellation requests are processed promptly, on occasion HMRC needs additional time to confirm the date of cancellation and issue the final return to the business. As a result, any delay in carrying out necessary administration and compliance activity reduces the amount of time a business has available to submit their final return. This can make it difficult or impossible for a business to meet the deadline specified in the regulations and may result in a liability to a penalty and interest.

5.2 To mitigate this problem and ensure fair and equitable treatment, it is current practice to extend the deadline a business has to submit its final return for a reasonable period under an administrative concession. This instrument will provide a regulatory basis for the discretionary extension of the time limit for a final return, where necessary, and prevent the automatic issuing of inappropriate penalty and interest liability notices.

What was the previous policy, how is this different?

5.3 There is no change to current policy.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument is made under section 25(1) of the Value Added Tax Act 1994 ("VATA"). That subsection provides that a taxable person shall account for and pay VAT by reference to such periods, at such time and in such manner as described by regulations.

6.2 Regulation 25(4) of the regulations provides that a person who has ceased to be liable or entitled to be registered under any of the relevant schedules of the VATA must make a final return. The final return must be made within one month from the date the cancellation of the registration takes effect. A further week is allowed by direction under regulation 25A(20) if the return is made using an electronic system.

6.3 This instrument amends regulation 25 of the regulations to give the Commissioners for HMRC ('the Commissioners') a power to extend by direction the time limit specified in regulation 25(4) for making a final return.

Why was this approach taken to change the law?

6.4 The amendment to regulation 25 is the most appropriate way to provide the Commissioners with a power to extend the time limit for making a final return in circumstances where a business would otherwise be disadvantaged by processing delay.

6.5 It provides a regulatory basis for what was previously an administrative easement and brings the provision for final returns into line with the provision for regular returns where the Commissioners already have a power, in regulation 25(1)(c) of the regulations, to extend the time limit for making a return.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation was undertaken as it maintains existing policy.

8. Applicable Guidance

8.1 The instrument confirms existing treatment and new guidance is not required.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax information and Impact Note covering this instrument will be published on the gov.uk website.[1]

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the instrument is an administrative measure that ensures existing treatment continues.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because the instrument does not impose new obligations on public bodies.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 Monitoring is not required as the instrument confirms existing treatment although it may be reviewed to ensure it meets policy objectives.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 a review clause is not required as the instrument relates to a tax therefore this meets the requirements of the exemption set out in section 28(3)(a).

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to the negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

[1] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins