

VAT - group registration

VAT grouping (which is often referred to as 'VAT group registration') is a facilitation measure that allows two or more 'bodies corporate' to be treated as a single 'taxable person' for VAT purposes. A VAT group is treated in the same way as a single person registered for VAT on their own. A VAT group submits a single VAT return that covers all members of the VAT group, whereas transactions between the VAT group members are disregarded.

There are strict eligibility criteria for membership of a VAT group. The term 'bodies corporate' includes companies of all kinds as well as limited liability partnerships (LLPs). Since 2019 certain unincorporated bodies, namely sole traders, partnerships and Scottish partnerships, have also been permitted to join a VAT group provided they make taxable supplies and control one or all of the 'bodies corporate' in the VAT group.

In all cases, the members of the VAT group each have to be established or have a fixed establishment in the UK, and be under common control. There are special conditions for VAT groups with an annual turnover of more than £10 million.

Advantages of group registration include:

- The representative member accounts for all tax due on supplies made by the group to third parties outside the group. This can be helpful where accounting is centralised.
- The group is treated as a single taxable person and therefore it is not normally necessary to account for VAT on goods or services supplied between group members.
- There is one single VAT return for the whole group.
- Companies (or other eligible entities) that are not making taxable supplies and hence cannot register for VAT in their own right can be included in a VAT group. Typically, this can be useful in registering holding companies in a VAT group with trading subsidiaries, when the only activity is the provision of management services to the subsidiaries.
- The fact transactions between members of the same VAT group are disregarded for VAT purposes and hence no VAT is charged on inter-group supplies means in some situations VAT leakage can be reduced - for example, where management charges are invoiced within a corporate group to a subsidiary making only exempt supplies.

Disadvantages include:

- Although the representative member is nominally liable for transactions with third parties, all group members are jointly and severally liable for debts, including the tax due.
- Thresholds for schemes such as cash accounting, annual accounting, voluntary disclosure, partial exemption *de minimis* and VAT payments on account, apply to the group as a whole and not the members individually.
- A new VAT registration number will be required for the group when it is first set up.
- Applications need to be made to HMRC each time there is a decision to add or remove an entity from a VAT group.

In order to establish a VAT group it is necessary to make an application to HMRC. Generally, applications cannot be backdated and must be made within 30 days of the effective date.

As with most other areas of the tax system, VAT Groups are subject to detailed anti-avoidance provisions. These largely concern situations where an essentially VAT exempt business attempts to obtain assets or other purchases VAT-free. HMRC have the discretion to refuse applications for VAT group treatment where they consider the application is abusive.