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Insight ...

VAT group: overview of the main rules relating to the VAT single taxpayer regime

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The Finance Bill for 2021 has transposed the VAT Directive, which allows the formation of VAT groups. As is already the case for corporate income tax purposes, companies of a group may constitute a single taxable person for VAT purposes. Regarding the VAT deduction rights of the VAT group, each member will be regarded as a separate sector of activity. The formation of a VAT group is available to all economic sectors. The exercise of this option, which lasts for 3 calendar years, must be formalized before October 31st, N for implementation from January 1st, N+1. The Finance Bill for 2025 has amended this regime with respect to payroll tax.

France has transposed Article 11 of UE Directive 2006/112/EC dated 28 November 2006 on the common system of VAT into Article 256 C of the French Tax Code ("FTC"). This measure was due to enter into force on January 1st, 2023. Consequently, the first option had to be formulated by October 31st, 2022 at the latest.

Under this regime, members of the VAT group are regarded as a single VAT entity. Consequently, transactions between members of the VAT group remain outside the scope of VAT, and transactions with non-members are subject to the normal VAT rules.

Which entities are eligible to this regime ?

The conditions to be met in order to form a VAT group are set out in Article 256 C of the FTC.

Conditions to be met

A VAT group must be formed with at least 2 VAT taxable persons.

All the members of a VAT group:

- May belong to only one group,
- Must have their place of business in France. French branches of foreign companies may also be members of a VAT group in France,
- Must be closely linked to each other financially, economically and organisationally. These links must exist at the date of the option and continuously throughout the period covered by it.

Being closely linked to each other financially

Taxable persons controlled directly or indirectly by the same person, including that person, are considered to be financially linked.

This condition is met when a taxable person or a non-taxable legal person holds:

- More than 50% of the capital of another taxable person, directly or indirectly through other taxable persons or non-taxable legal persons,
- More than 50% of the voting rights of another taxable person or a non-taxable legal person under the same conditions.

A presumption of financial links exists for certain entities such as mutual insurance or banking companies, members of social security organizations, AGIRC-ARRCO, and social housing companies.

Being closely linked to each other economically

The economic link is effective when the taxpayers carry out:

- Either a main activity of the same nature,
- Or activities that are interdependent, complementary or pursue a common economic objective,
- Or an activity carried out in whole or in part for the benefit of the other members.

Be closely linked to each other organisationally

Taxable persons are considered to be organisationally linked if they:

- Either are, *de jure* or *de facto*, directly or indirectly, under common management,
- Or organize their activities, as a whole or in part, in consultation with each other.

The following are not eligible

Permanent establishments of French companies that are not located in France are not eligible for this VAT regime.

An entity that already belongs to another VAT group cannot be part of another VAT group.

What are the terms of the option?

Exercise of the option

The option for the VAT group covers 3 calendar years. It must be formalized before October 31, of the year preceding the formation of the group and for the first year of entry into force, before October 31, 2022 to be effective on January 1st, 2023.

The members of the VAT group must appoint the head company of the group that will be responsible for monitoring, reporting and payment obligations for VAT purposes.

The option must be addressed to the department of the French Tax Authorities to which the representant of the VAT group belongs and must include the following mandatory mention:

- Names and registered office of each group's member companies,
- Individual VAT number of each group's member companies,
- Agreement of each of the members to join the VAT group,
- Description of the activities of each group's member companies,
- Name and registered office of the representative company of the VAT group.

Evolution of the perimeter

The perimeter of the VAT group must be freely determined when it is set up. The option is valid for 3 calendar years, during which the perimeter of the group cannot, in principle, be changed.

However, as soon as a member no longer fulfils the conditions of belonging to the group, it must leave the group on the first day of the month following that in which it no longer fulfils the conditions.

The VAT credit owned by a member prior to the entry in the VAT group cannot be taken into account for the calculation of the VAT owed by the group's taxpayer. It can be refunded to the group's member company.

How the VAT group operates?

General information

The VAT group will have its own VAT number.

Each member of the VAT group loses its own status as a taxable person in favor of the group's single taxable representative. Thus, for the duration of the scheme, the VAT group acts as a single taxable person in relation to third parties. Thus, all transactions carried out by a member of the group with a third party will be deemed to have been carried out by the group itself. The VAT credit recorded by one of the members of the group is definitively acquired by the single taxable person.

The group representative is responsible for monitoring the reporting obligations and for making payments and requests for refunds (VAT credit) for all entities in the VAT group.

The members are jointly and severally liable for the payment of VAT and any reassessments up to the amount they would have been required to pay in the absence of a VAT group.

VAT's right of deduction

Each member of the VAT group becomes a separate sector of activity of the single taxpayer, and the consequences for the right to deduct must be drawn.

The calculation and repayment of regularizations (annual regularizations and/or global regularizations) are then the responsibility of the single taxpayer.

Finance Bill for 2025: end of the negative consequences of the VAT group in terms of payroll tax

Formation of VAT group has potentially negative consequences in terms of payroll tax since, for each of its members, it increases the proportion of turnover not subject to VAT and, consequently, the amount due in payroll tax.

The Finance Act 2025 amends Article 231 A of the CGI. It exempts, with effect from remuneration paid from January 1st, 2026, from payroll tax for companies member of the VAT group under the following conditions:

- The company would not have been subject to payroll tax even if it were not a member of the VAT group,
- For the calendar year preceding that of the payment of remuneration, the turnover from transactions carried out by the VAT group which qualifies for VAT deduction is at least equal to 90% of the total amount of its VAT taxable turnover.



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