

VAT saving tips with group registration (Lecture B1180 – 12.46 minutes)

Sole traders and partnerships

The opportunities for group registration increased on 1 November 2019. In some cases, an unincorporated business can now join a group i.e. a sole trader or partnership business. Until this date, only the following entities could join a group:

- An incorporated business, including an LLP; and
- If it is established in or has a fixed establishment in the UK.

Note - there is no problem with a company incorporated outside the UK belonging to a VAT group as long as it has a fixed establishment in the UK. See VAT Notice 700/2, paras 2.2 and 10.4.

The two main conditions for non-corporate bodies being able to join a group from 1 November are as follows:

1. The business must be entitled to register for VAT as a stand-alone business, i.e. it is making or intending to make some taxable supplies. This is different to a corporate body where a dormant company can be included in a group or a company only making exempt supplies.
2. It must control all of the corporate bodies in the group, which usually means owning 51% or more of the share capital in the other companies i.e. similar to the parent/subsidiary company relationship for corporate bodies.

Example 1

Bill and Ben trade as a partnership, offering management consultancy services in the travel industry. They each own 30% of the shares in a travel agent Holidays Ltd.

The partnership and company cannot form a VAT group because Bill and Ben own the shares individually. If they owned 60% of the total shares as a partnership, it would be possible to apply for a group registration.

Example 2

Mary owns 100% of the shares in both ABC Ltd and DEF Ltd, earning dividends from both companies. She has no other income.

Mary cannot form a VAT group between herself and the two companies because she is not making any taxable supplies (or intending to make taxable supplies) so is not eligible to register for VAT as a sole trader. Dividend income is outside the scope of VAT. But the two companies could form a group because of Mary's control of them both. VAT Notice 700/2, para 2.9

Why form a VAT group?

Important control conditions need to be met before a VAT group is formed, which means that one member (or a non-group member) controls all of the other members. In many cases, this will be a typical parent company and subsidiary arrangement, but it is also acceptable if all members are controlled by an individual person or group of persons operating as a partnership.

Benefit 1 - save time and administration costs.

Only one VAT return is submitted for the whole group, saving the need for each company to submit its own VAT return. Under MTD, links between the VAT totals for each group member to the consolidated VAT return for the group should be done by electronic means i.e. rather than cut and paste.

Benefit 2 - trading between group members is ignored for VAT purposes.

No output tax is charged on inter-company supplies. This can produce a VAT saving if a member receiving goods or services from a group member is partly exempt.

VAT Notice 700/2, para 2.3

Example 3

ABC Ltd is partially exempt because it makes exempt supplies of financial services. DEF Ltd makes an annual management charge of £100,000 to ABC, as a contribution from ABC for shared overheads paid by DEF. If the two companies are not in a VAT group, the £20,000 VAT charge by DEF Ltd would be partly input tax blocked for ABC because it is a partially exempt business.

Note – for partial exemption purposes with a VAT group, it is necessary to check the link between an expense from a supplier and the third-party income it generates from customers outside of the VAT group, rather than any onward supply to a group member. Also, the partial exemption de minimis limits apply to the group as a whole i.e. each member does not get its own de minimis limit.

Benefit 3 - VAT saving opportunity for some charities

There is no problem with a company joining a VAT group that only has exempt or non-business income. And there is no problem if the only taxable supplies being made are within the circle of the group. This arrangement can produce a VAT saving for some charities.

Example 4

Good Causes Ltd is a registered charity which only receives income from legacies and donations, plus the profits made by its trading subsidiary, Raise Funds Ltd. The latter company makes an annual charge for management services of £100,000 to the charity for shared overheads.

Raise Funds Ltd has to register for VAT because its annual taxable sales exceed the registration threshold of £85,000. But if it forms a VAT group with Good Causes Ltd, the £100,000 recharge is outside the scope of VAT, avoiding £20,000 VAT being charged to Good Causes Ltd which it could not claim as input tax because it has no taxable sales.

In situations such as this, VAT returns submitted by the group will be 'nil' returns if the group earns no taxable income from customers outside the VAT group. VAT Notice 700/2, para 2.5

Warning - joint and several liability

A potential disadvantage of a VAT group is that each member is jointly and severally liable for the VAT debts of the group to HMRC. This might be a downside if, for example, one group member owns a big property asset. If a trading company in the group has financial problems and fails to pay its VAT liability to HMRC, the property could be at risk. (HMRC Notice 700/2, para 2.1).

Contributed by Neil Warren