

Implementation of a VAT Group into French law?

As in many European Union member states, the VAT Group could be introduced into French domestic law by the Finance Bill for 2021.

The VAT Group regime provided for under the EU VAT Directive, allows different legal entities established in the same EU Member State to be considered to be a “single taxable person” as long as the entities are closely related to each other financially, economically, and in terms of organization. The VAT Group regime makes it possible to ignore all supplies of goods and services between group entities and to report only transactions with third parties (in other words, with parties out of the VAT Group). Therefore, the regime allows a single VAT return to be filed, consolidating all of those third-party transactions.

Indeed, since several months, companies in several sectors, notably the financial sector, have been questioned about the implementation in France of such a VAT Group. In the meantime, given the potential negative impact of this transposition on State income, the French General Inspector of Finance was responsible for carrying out a quantified assessment of the tax and budgetary consequences of the implementation of a such scheme.

The new VAT Group would offer an alternative to the exemption regime for the provision of services rendered to its members by means groups (Article 261 B of the French Tax Code). The VAT Group should also have a direct positive impact on the Groups' cashflow, going further than the current consolidation of payments regime reserved for companies under the French tax authorities' department for big companies (called in French « DGE » for Direction des Grandes Entreprises).

The implementation of a such VAT Group is highly expected in France. Indeed, the VAT Group would allow all companies which will benefit of this scheme to neutralized all of the transactions carried out between the members of a VAT Group (internal flows). Furthermore, this VAT Group will also allow companies which have an international activity to avoid VAT credits. Finally, for companies in the banking or financial sectors, this regime should make it possible to neutralize internal flows which do not give the right to deduct, or which give a weak right to deduct VAT.

It seems that this new scheme could be effective, at the earliest, 1st January 2022.

As from today, companies can start to identify the flows which could be concerned and anticipate the future scope of their VAT Group, which may be more extensive than that of tax consolidation, given its more flexible holding conditions.

More details on this future Group will be unveiled when the Financial Bill will be debated before the French Parliament next fall.

Stay tuned!



Dominique Villemot and Nathalie Lay
Attorney-at-Law

Contacts: dominique.villemot@villemot-wts.com / nathalie.lay@villemot-wts.com