VAT groups: one number, many consequences

Indirect Tax | Large Corporate

December 2026



23 November 2026

VAT grouping offers significant savings but brings risks involving eligibility, HMRC scrutiny, partial exemption, customs arrangements and administrative disruption.

Key Points

What is the issue?
A VAT group turns several businesses into a single taxable person, with supplies between members disregarded. The savings are real, but the eligibility rules, HMRC's powers and the practical consequences of a new VAT number are often underestimated.

What does it mean to me?
Overseas members need a genuine UK establishment on the day of application. The

Barclays case, and HMRC’s approach to the care sector, show its protection of the revenue powers being used more widely.

What can I take away?
Treat a VAT group application as a change to the whole business. Check eligibility and establishment, get the membership and effective date right first time, and time the change around the shipping calendar.

Consider the example of Ferrick Quay Ltd, which has applied to join a new VAT group. The application was submitted, and seven weeks later the new VAT group number arrives. The finance director is delighted: one return instead of four, no VAT on management charges, and a tidier year end. Meanwhile, a container of components for Ferrick Quay is sitting at Felixstowe, declared under an EORI number that disappeared when the company’s own VAT registration was cancelled. The freight forwarder is on the phone, the entry won’t go through, and the production line in Glasgow has three days of stock left.

The VAT analysis was sound. The paperwork was right. The savings are real. The problem is that a VAT number does far more work than many realise, and changing it has consequences well beyond the VAT return.

I’ll come back to Ferrick Quay at the end. First, the group itself.

What a VAT group does

A VAT group allows two or more eligible persons under common control to register as a single taxable person. One member, the representative member, files a single return for the whole group, and supplies between all members are disregarded for VAT purposes.

That second point is where most of the value lies. A management charge from a service company to its partially exempt sister company carries no VAT, so there is no sticking tax. The price of admission is joint and several liability. Every member is liable for the whole group’s VAT, and that liability stays with a member for the periods it was in, even after it leaves the VAT group.

For most of the history of UK VAT, only bodies corporate could be members. In November 2019, eligibility was extended to individuals, partnerships and Scottish partnerships. The non-corporate member must carry on a business, be established in the UK, and control every corporate member. Control is tested by asking whether the individual or partnership would be the holding company of those companies if it were itself a company.

In practice, this opens VAT grouping to the sole trader or partnership that owns the companies it works alongside. It does not help two 50/50 shareholders, whose holdings cannot simply be added together to create control.

Establishment and the *Barclays* lesson

Every member must be established, or have a fixed establishment, in the UK. An overseas company can join through a UK branch, and when it does, the UK treats the whole legal person as part of the group. That whole-entity approach is what makes VAT grouping attractive to multinationals. Services from an overseas head office to UK VAT group members are disregarded, subject to the anti-avoidance rules on bought-in services.

Barclays Services Corporation v HMRC [2026] UKUT 211 is a reminder that the branch must be real on the day of the application. A US service company applied to join the Barclays UK VAT group through its UK branch. At the application date, employment contracts had been signed but only one employee had started work. The Upper Tribunal upheld the finding that there was no fixed establishment. An intention to build a qualifying establishment is not enough.

HMRC also argued that, following the CJEU's decision in *Danske Bank A/S* (Case C-812/19), only the UK branch should be treated as grouped. The Upper Tribunal rejected this as undermining a fundamental feature of the UK rules, and described HMRC's approach as 'somewhat strange, to put it mildly', given that it ran contrary to HMRC's published position.

That published position has itself moved. For a decade, HMRC applied the *Skandia* principle, treating an overseas establishment in an EU state with establishment-only grouping as a separate taxable person. VAT groups in that position had to reverse charge certain head office and branch services.

Revenue and Customs Brief 7 (2025) withdrew that policy from 26 November 2025. As a result, HMRC now treats such establishments as part of the UK group and confirms that groups which accounted for VAT under the old policy may be able to reclaim overpaid VAT through error correction, subject to the normal time limits.

For any partially exempt business that has reverse charged since 2015, whether a bank, an insurer or a gambling operator, the potential for a VAT repayment is worth investigating.

Where VAT groups work, and where they don’t

The classic case for VAT grouping is a partially exempt business with a service company. Staff, premises and IT sit in one entity and are recharged to the operating companies. Outside a VAT group, those recharges carry VAT which the exempt side cannot recover. Inside a VAT group, the recharge simply disappears. A single return is a welcome administrative saving on top.

The problems start when VAT grouping is treated as a default rather than a decision. Bringing an exempt or partially exempt company into a fully taxable VAT group can restrict recovery on shared overheads that were previously recovered in full. A group that was comfortably de minimis can lose that status overnight, because the partial exemption de minimis test applies to the group as a whole, rather than to each member separately. The £7,500 annual limit applies to the group’s combined exempt input tax, making it easier to exceed the threshold.

Joint and several liability deserves more attention than it gets. VAT grouping with a company you do not fully control, or one with a patchy compliance record, means sharing its exposure. One member’s late information holds up the group return, and one member’s mistake becomes the group’s assessment.

Protection of the revenue

HMRC can refuse an application, or remove a member from an existing VAT group, where it considers this necessary for the protection of the revenue. A refusal must be made within 90 days of receiving the application, and removal on these grounds takes effect from the date of HMRC’s notice.

HMRC accepts the natural savings that VAT grouping produces, such as disregarded management charges. The power is intended to prevent arrangements that go beyond these legitimate savings.

The *Barclays* case also shows how far that power may reach. Even if the branch had qualified, the Upper Tribunal indicated that HMRC could reasonably have refused the application, because the VAT saving was large compared with the activity actually carried on in the UK. Although that observation was not necessary to decide the case, it may influence HMRC's approach to future applications.

The care sector shows how HMRC's powers can affect an entire industry. Care is normally exempt, so providers cannot recover VAT on their costs. By VAT grouping with an unregulated company, providers could charge VAT to local authorities, who can reclaim it, and recover VAT on their own costs in turn. HMRC accepted these arrangements for years, sometimes expressly agreeing to them. However, Revenue and Customs Brief 2 (2025) reclassified the arrangement as avoidance, and HMRC is now refusing new applications and investigating existing VAT groups, all without any change in the law.

The lesson for anyone designing a VAT group structure is that a saving which only exists because of the VAT group will attract HMRC's attention.

Applying, and waiting

HMRC's guidance asks applicants not to chase until 40 working days have passed. That has been the position since May 2024, when it was increased from 15 working days.

Unless HMRC refuses within 90 days, the group takes effect from the date the application is received, or another date HMRC allows.

Revenue and Customs Brief 5 (2022) sets out what to do in the meantime. Treat the application as provisionally accepted from the date it was submitted, and account for VAT as a group from then. Members with existing registrations should stop filing separate returns and issuing VAT invoices under their old numbers. Sales can be invoiced for the gross amount marked 'VAT number applied for', with no VAT shown separately. Once the group number arrives, the invoices can be credited and reissued. Automated assessments and payment demands generated while you wait

will be cancelled once the application is processed.

Regular repayment traders need particular care. Once the application is in, separate returns stop, so any repayment due to a joining member waits until the group number arrives and the first group return is processed. Even when only one company is in a repayment position, that can mean weeks of lost cash flow.

Getting the membership right first time matters. In *Beritaz Care Ltd v HMRC* [2026] UKFTT 912, a care home had been left out of a VAT group registration by oversight. Four years later, the group applied to add it retrospectively. HMRC did not refuse within 90 days, so the care home joined automatically, but only from the day the application arrived. HMRC then refused to backdate it. The tribunal could not hear the appeal, because the application itself had been granted and backdating was a matter for HMRC's discretion. If a member is missed at the outset, there may be no route back.

Back to Ferrick Quay

Ferrick Quay's problem began the moment its individual VAT registration was cancelled. A VAT-registered business's EORI number mirrors its VAT number, and HMRC removes EORI numbers when the underlying VAT registration is cancelled. Joining a VAT group cancels that registration.

The new number is only the start. Duty deferment accounts and guarantees, customs authorisations, forwarder instructions, postponed VAT accounting statements and customer and supplier records all hang from it. Businesses need to contact HMRC's supervising office about their authorisations, and none of this moves automatically when the group is approved.

A company joining an existing VAT group can have another member that already holds an EORI make declarations on its behalf while its own number is sorted. A brand-new VAT group has no such fallback. Until the new numbers and the authorisations behind them are in place, nobody in the group can clear goods in their own name.

That is where Ferrick Quay came unstuck. What it needed was a plan: an effective date set around the shipping calendar and clear of goods at sea, stock built up ahead of the gap, the forwarder and customs agent briefed early, and the customs

changes ready to go the day the number arrived. All of this required careful planning and coordination.

Get that right, and the container at Felixstowe becomes a minor delay rather than a crisis.

Key takeaways

- Test every proposed member for control and UK establishment as they stand on the application date.
- Check the combined partial exemption and de minimis position, and each member’s compliance record, before anyone joins.
- Map everything that hangs off each member’s VAT number, from EORIs and deferment accounts to forwarder instructions, and set the effective date around it.
- Partially exempt groups with EU establishments that reverse charged under the old Skandia policy should review whether an error correction claim is available.