



VAT Grouping



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VAT Grouping

Portuguese Government released the draft law for Portuguese VAT Grouping scheme. Final version still to be gazetted and expected to come into force as from July 1st, 2026.

According to the Draft Bill all members of the VAT Group will need to be domiciled in Portugal and carry out taxable operations. The VAT scheme allows for a consolidation of VAT tax positions, offsetting excess VAT credits and liabilities within the Group.

MFA Tax Team will continue monitoring the legislative process until approval of the new set of rules.

Eligibility Requirement

Group members must share a strong financial, economic and organisational link

The controlling entity (Group's representative) must hold, directly or indirectly, at least 75% of the share capital of the other entities within the Group

Group members must be domiciled or have a permanent establishment in Portugal (i.e., non-resident entities are not allowed to Portuguese VAT grouping scheme)

All entities within the Group must carry out taxable transactions (exempt entities are not eligible for VAT Grouping). No minimum threshold being required.

Obligation to remain within the VAT Group for at least 3 calendar years

The regime is mandatory for all eligible entities within a Group

VAT Grouping Scheme

Practical implications

Group's members shall continue to be treated as separate taxable entities.

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Group's consolidated VAT is reported and payable by the controlling entity (each entity of the Group shall, however, still comply with its individual reporting obligations)

3

VAT credits accrued by a group member before joining the VAT Group cannot be used by other group members

4

Intragroup services remain subject to VAT according with the general rules

5

All entities of the Group are subject to joint liability in the event of tax due

6

Entities are only allowed to be part of one single VAT Group

Practical examples

1

Cash flow benefit

Company 1:

Input VAT on purchases = €50,000

Output VAT on sales = €30,000

Net position → €20,000 VAT credit

Company 2:

Input VAT on purchases = €40,000

Output VAT on sales = €70,000

Net position → €30,000 VAT payable

Without VAT Grouping:

Company 1 requests a €20,000 refund from the Tax Authorities.

Company 2 pays €30,000 VAT

Net effect → Group delivers €30,000, waiting to recover €20,000 from the Tax Authorities.

With VAT Grouping*:

Company 1's €20,000 credit offsets Company 2's €30,000 liability.

Group's consolidated VAT payable = €10,000.

Immediate saving → €20,000 in cash flow

* VAT credits accrued by a group member before joining the VAT Group cannot be used by other group members

Practical examples

2

Improving liquidity

Company 1 (new project):

Invests €5,000,000 in assets for purposes of developing a project

Input VAT = €1,150,000

No sales yet → full VAT credit position.

Company 2:

Output VAT on sales = €800,000

Input VAT on purchases = €500,000

Net position → €300,000 VAT payable

Without VAT Grouping:

Company 1 must request a refund of €1,150,000 (which may take months to process).

Company 2 pays €300,000 VAT.

Group's cash outflow → €300,000, while €1,150,000 refund is dependent on the Tax Authorities approval.

With VAT Grouping*:

Company 1's €1,150,000 credit offsets Company 2's €300,000 liability.

Group's consolidated position → €850,000 VAT credit.

The group may request a single refund of €850,000, reducing exposure and improving liquidity.

* VAT credits accrued by a group member before joining the VAT Group cannot be used by other group members

Let's work together



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