

Group VAT and Extended VAT Base: A Step Towards Tax Integration

Now, I will talk about Group VAT and the Extended VAT Base, which serve as an introduction to tax integration.

VAT is a fundamental tax in France, representing nearly fifty percent of the state's tax revenue. However, its application is not uniform:

- Different rates apply depending on the sector.
- Many exemptions exist.

To simplify and optimize taxation, several reforms have been introduced in recent years. Among them:

- Group VAT, which allows companies within the same group to be considered as a single taxable entity.
- The extension of the VAT base, which aims to eliminate some exemptions and harmonize rates.

These changes refer to a well-known mechanism: tax integration.

About Group VAT :

Since **January 1, 2023**, France has introduced a **Group VAT regime**, inspired by European practices. This system allows **financially linked companies** to be treated as a **single taxpayer** by the tax administration.

How Does It Work?

- A **single VAT declaration** is submitted for the entire group.
- **Internal transactions** between group companies are **exempt from VAT**.

This measure prevents companies from having to **advance large amounts** for internal operations, thus **improving their cash flow**.

Conditions to Benefit from This Regime

To qualify, companies must meet the following conditions:

1. The **parent company** must hold at least **50% of the capital** of the group members.
2. Only companies **subject to VAT** can be part of the group.
3. The regime is **optional**: once chosen, it applies for a **minimum period of three years**.

Advantages of Group VAT

- ✓ **Simplified administration**, as only **one declaration** is required.
- ✓ **Improved cash flow management**.

✓ **Tax optimization**, by **offsetting VAT credits** from one company with VAT collected by another.

Limitations of Group VAT

✗ **Joint tax liability**: if one group member does not pay the VAT due, the tax administration can demand payment from the other companies.

✗ **Loss of deduction rights**: some companies may lose their right to VAT deductions if they engage in **VAT-exempt activities**.

Group VAT is therefore a step towards a more integrated tax system, but further considerations include **the extension of the VAT base**.

Extended VAT Base

Currently, VAT is based on **differentiated rates**:

- **The standard rate (20%)** applies to most goods and services.
- **The intermediate rate (10%)** applies to restaurants and transport.
- **The reduced rate (5.5%)** applies to essential goods, such as food and energy.
- **The super-reduced rate (2.1%)** applies to reimbursed medicines and the press.

This creates **distortions in competition** between sectors benefiting from a **reduced rate** and those subject to the **standard rate**. It also results in a **loss of tax revenue**, as some activities **partially or fully escape VAT**.

What is an Extended VAT Base?

The idea of an **extended VAT base** aims to **reduce exemptions** and apply a **more uniform rate**.

Challenges of Extending the VAT Base

However, extending the VAT base raises concerns:

- It could **increase prices** for certain goods and services that are currently **exempt or taxed at reduced rates**.

Link with Tax Integration and Future Perspectives

The **tax integration regime** allows companies within the same group to consolidate their fiscal results and **pay a single corporate tax**.

This mechanism is based on **similar principles** to **Group VAT** and **Extended VAT**, as it aims to **simplify tax obligations** and **avoid unnecessary tax burdens**.

Like Group VAT, **tax integration** is based on **capital links between companies**. To benefit from it:

- The **parent company must own at least 95%** of the integrated subsidiaries.

- In return, it can **neutralize intra-group transactions** and consolidate results, **optimizing corporate tax**.

Thus, **tax integration, Group VAT, and the extended VAT base share the same objective:**

✓ **Facilitating tax management for businesses.**

✓ **Ensuring better tax revenue for the state.**

These measures reflect **a broader movement towards a more integrated and coherent tax system.**