UHY Ross Brooke
Chartered Accountants

In the know: VAT

What the revised VAT grouping rules mean for UK groups with overseas branches

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Helping you prosper

In the know is our ongoing series designed to keep you up to speed with the latest regulatory updates, tax developments and policy changes that could impact your organisation. From evolving legislation to shifts in compliance requirements, we'll highlight what's changing, why it matters, and what action, if any, you need to take. Timely, relevant and clearly explained, these updates will ensure you stay informed and prepared.

HMRC has revised VAT-grouping rules, but what does that mean for UK groups with overseas branches?

On 26 November 2025, HMRC issued Revenue & Customs Brief 7/2025, announcing a significant shift in the UK's treatment of cross-border VAT within VAT groups. The update reverses HMRC's post-Skandia position and restores the whole-entity VAT-grouping principle, meaning overseas establishments of UK VAT-grouped entities are once again treated as part of the UK VAT group.

For some organisations, this represents little more than a simplification in VAT accounting going forward. For others, particularly those with partial exemption restrictions, this may present an opportunity to recover VAT historically overpaid.

Taken together, this marks one of the most significant VAT-grouping shifts in a decade, and one that could quietly reshape cost, compliance and recoverability for certain businesses.

This edition of **In the know** explores what has changed, why HMRC has recalibrated its interpretation and what UK VAT groups with non-UK establishments should be considering as they navigate the technical, commercial and compliance outcomes arising from this reform.

At a glance: what has changed?

What is new...	Why it matters...
HMRC will now treat overseas establishments as part of the UK VAT group.	Cross-border intra-group recharges are no longer treated as taxable supplies.
HMRC's post-Skandia interpretation has been withdrawn after ten years in place.	UK VAT groups no longer need to apply the reverse charge on internal services received from overseas branches.
Internal services are now disregarded for VAT, restoring the whole-entity view.	VAT accounting becomes simpler, reducing administrative friction and VAT compliance steps.
HMRC recognises that historic VAT may have been over-declared.	Some VAT groups may be able to reclaim four years of reverse-charge VAT previously overpaid.
The change is interpretive, not legislative - and therefore retrospective.	The impact could be commercially meaningful for partially exempt or VAT-restricted sectors in particular.

The update does not affect every organisation, but where it does, the impact could be operationally and financially material.

How did we get here?

In 2015, HMRC issued Revenue & Customs Briefs 2/2015, 18/2015 and 23/2015 following the Skandia America Corp (C-7/13) judgment. HMRC's stated view was that where a UK VAT-grouped business had a branch in an EU member state operating 'establishment-only' VAT grouping, internal flows of services between UK and overseas locations were treated as supplies between separate taxable persons.

As a result, many organisations had to apply the reverse-charge mechanism when receiving supplies of intra-group cross-border services. This created both cost and complexity, particularly where input tax was not fully recoverable.

Businesses most affected tended to fall into sectors where VAT recovery is restricted or inconsistent, including:

- financial services and insurance
- investment management
- property funds and REIT structures
- asset servicing and custodial platforms
- corporate holding companies
- real estate management and rental operations.

In these settings, VAT on internal services often crystallised as a genuine economic loss.

HMRC's decision to reverse that position signals a return to the whole-entity grouping approach, which historically treated the overseas establishment and UK head office as one taxable person for UK VAT purposes.

What has changed from 26 November 2025

- Overseas establishments/foreign branches of UK VAT-group members are now considered part of the UK VAT group for UK VAT purposes, regardless of whether the foreign jurisdiction applies 'whole-entity' or 'establishment-only' VAT grouping.

- Intra-group services such as management charges, recharges, overhead allocations) between the UK VAT-grouped entity/head office and its overseas establishment should no longer be treated as supplies for UK VAT. Consequently, the UK reverse-charge mechanism should not be applied when such services are received.

- While the technical basis is a reinterpretation of UK law, affected businesses should still consider the broader VAT-recovery issues going forward. For example, partial-exemption calculations, impact on UK partially-exempt VAT groups and compliance with anti-avoidance provisions (notably section 43(2A) of the VAT Act 1994).

Potential retrospective VAT recovery

The revised policy is retrospective (ie. it applies to prior VAT accounting periods). HMRC expressly acknowledges that many VAT groups may have accounted for UK VAT under the reverse charge based on the previous guidance.

In such cases, there may now be scope to reclaim overpaid VAT, by submitting a VAT error-correction notification to HMRC subject to the usual rules. Therefore, affected businesses should consider reviewing any VAT charged on intra-group cross-border services during the past 4 years (the relevant statute-of-limitation period under VAT rules).

Before submitting any error correction, VAT groups should carefully review their historical VAT accounting, ensure they hold proper documentation in support of any intra-group services and assess the likely recoverability based on their overall VAT recovery position.

Eligibility will depend upon:

- quality of records
- supportable allocation methodology
- nature of services recharged cross-border
- partial exemption profile.

For partially exempt VAT groups, historic VAT leakage could be substantial. Even modest periodic allocations, rolled across four years, can generate meaningful reclaim outcomes.

However, claims must be evidence-based, proportionate and consistent with HMRC technical expectation. The opportunity is real, but not automatic.

What this shift could mean for affected businesses

The effect of HMRC's revised interpretation will vary, but for certain VAT groups, the impact could be commercially meaningful.

Some businesses may experience the benefit primarily through simplified administration. Removing the need for reverse-charge accounting on internal cross-border services reduces friction, streamlines reporting and removes a layer of complexity that many VAT teams have contended with for the past decade.

Others may wish to examine whether their historical VAT accounting gives rise to a route to reclaiming overpaid VAT. For example, if VAT was accounted for under the reverse-charge mechanism based on HMRC's previous guidance, there may now be scope, depending on documentation and reclaim eligibility, to unwind trapped VAT from prior periods. For groups operating in sectors with restricted input VAT recovery, this may present a real cash-flow benefit.

The scale of opportunity will depend on your group's structure, sector profile and historic VAT treatment applied. Two groups with similar structures may face very different outcomes depending on service flows, VAT exemption profiles and past VAT treatment. For that reason, understanding the implications of the update is more valuable than immediately acting on it.

Where impact may be smaller:

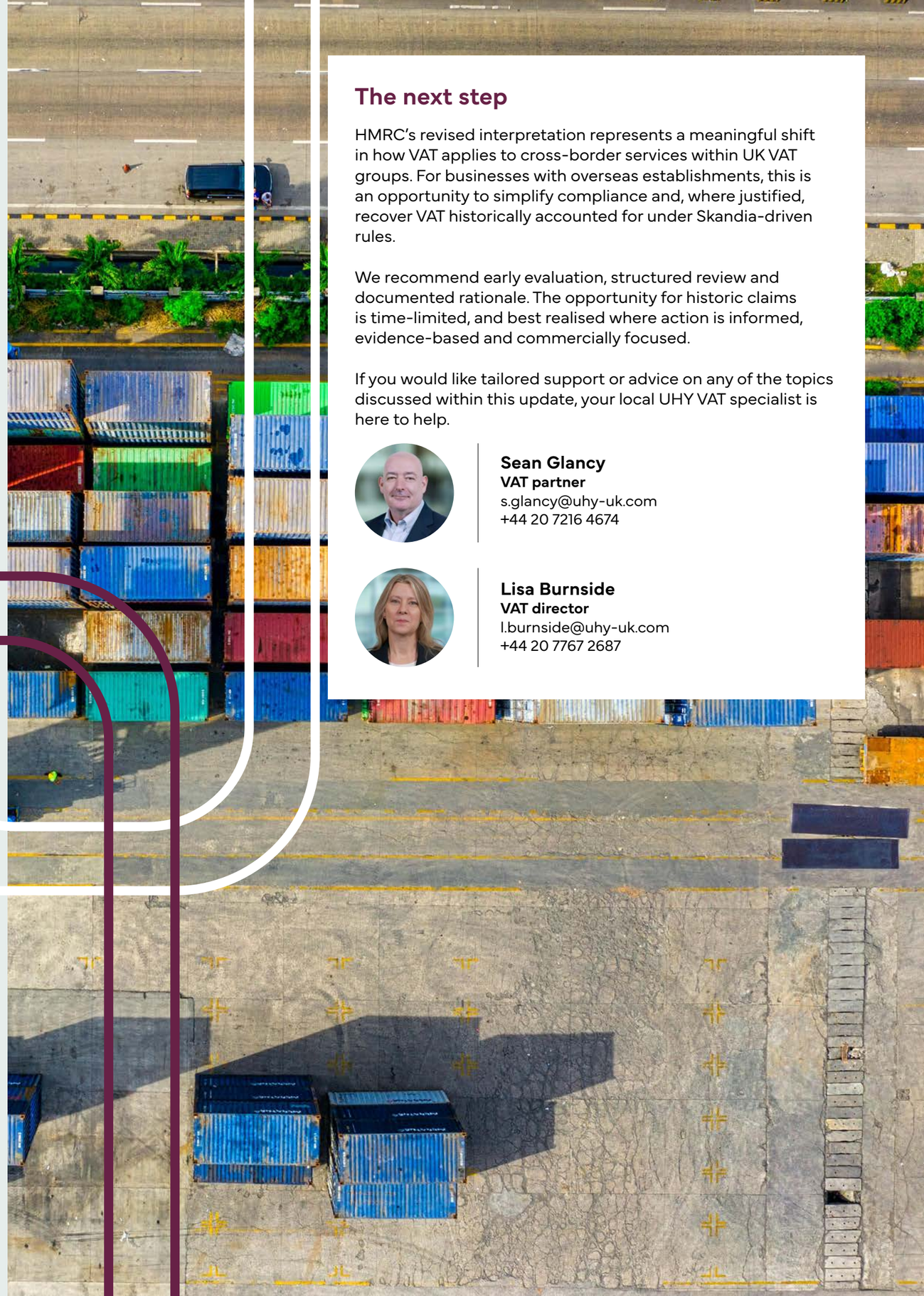
- VAT groups operating almost exclusively in the UK
- businesses with full or near-full input tax recovery
- organisations with minimal cross-border internal recharge activity.

These groups may not see a reclaim opportunity, but still gain benefit through reduced process, simpler controls and more intuitive VAT treatment going forward.

Key takeaways

It is easy to assume that this reform applies only to large multinational groups, but its relevance is broader than that. Depending on your own facts and circumstances, even relatively modest cross-border support costs can translate into a meaningful historic VAT reclaim over a four-year period. Otherwise, the benefit may lie less in financial savings but more in simplification, reduced friction and greater clarity over VAT treatment going forward.

As the impact is dependent on your sector profile, VAT recovery position and the nature of historic recharges, outcomes will vary.



The next step

HMRC's revised interpretation represents a meaningful shift in how VAT applies to cross-border services within UK VAT groups. For businesses with overseas establishments, this is an opportunity to simplify compliance and, where justified, recover VAT historically accounted for under Skandia-driven rules.

We recommend early evaluation, structured review and documented rationale. The opportunity for historic claims is time-limited, and best realised where action is informed, evidence-based and commercially focused.

If you would like tailored support or advice on any of the topics discussed within this update, your local UHY VAT specialist is here to help.

Sean Glancy
VAT partner
s.glancy@uhy-uk.com
+44 20 7216 4674

Lisa Burnside
VAT director
l.burnside@uhy-uk.com
+44 20 7767 2687

The next step:

For any related enquiries, please get in touch at
+44 1635 555 666
newbury@uhy-rossbrooke.com

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www.uhy-rossbrooke.com