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The VAT Groups Regime Law No. 62/2025, of 27 October

1. General Observations

Law No. 62/2025, of 27 October, which has just been published, introduces the VAT groups regime and enables **the consolidation of VAT balances - payable or recoverable** - between entities within the same group that are closely linked by **financial, economic and organisational relationships**.

2. Application Requirements

Inspired by the financial consolidation framework model of **the special corporate income tax regime for groups of companies** (*Imposto sobre o Rendimento das pessoas Colectivass*) (the “IRC”), the new regime applies to groups that fulfil certain requirements, namely:

A. A financial link:

- » A controlling entity must hold, directly or indirectly, **at least 75% of the share capital** of the controlled entities.
- » The shareholding must confer **more than 50% of the voting rights**; and
- » The shareholding must have been held for **more than one year**.

B. An economic and organisational link:

- » The entities must pursue **similar, complementary or interdependent economic objectives**.
- » The entities must have **a common management structure** or be **subject to the same business strategy**.

C. Exclusivity:

- » Entities in a VAT group **may not simultaneously belong to another group**.
- » The controlling entity may not itself be controlled by any other entity established in Portuguese territory that meets the requirements to be considered a controlling entity.

D. VAT framework:

- » The entities must be subject to **the normal monthly VAT regime**; if not, the **Portuguese Tax Authorities** will reclassify such entities as monthly reporting entities.
- » The entities must carry out, wholly or partly, transactions that give rise to a right of deduction.

3. Key elements of the regime

A. Membership and the mandatory minimum period:

- » Membership is **optional**; however, once a VAT group is formed, participation is **mandatory for a minimum period of three years** following the formation of the group.
- » The relevant declarations must identify all entities that form part of the VAT group and confirm that, at the date of joining the VAT group, each entity complies with the relevant legal requirements.

B. Periodic VAT returns and consolidation:

- » Each company must continue to calculate its **own taxes** and submit its own **periodic VAT return**.
- » The **controlling entity** must submit a **consolidated return** which reflects the aggregate balances and which is based on the algebraic sum of the credit and/or debit balances calculated in each of the individual periodic VAT returns.

C. Responsibility for payment:

- » **The controlling entity is responsible for paying the tax due.**
- » The controlled entities are **jointly and severally liable** for payment, and such liability **remains in force until the expiry of the limitation period**, even after their withdrawal from the group.

D. Exclusion and termination of the Regime:

- » An entity will cease to be part of a VAT group if:
 - The legal requirements are no longer met.
 - It has not carried out any **taxable transactions for more than one year**.
 - It is subject to **insolvency, restructuring or out-of-court reorganisation proceedings**.
- » The exclusion of an entity does not entail the termination of a VAT group, **except where such exclusion affects the controlling entity**.
- » If a credit in favour of a group exists at the time of termination of the regime, the controlling entity may request a tax refund.

E. Entry into force:

- » The regime shall apply to tax periods beginning on or after 1 July 2026.

4. Final Comments

The creation of the VAT groups regime represents **a significant step forward in the modernisation of the Portuguese tax system**.

The consolidation of VAT balances will enable companies to manage their cash flows more efficiently, reducing the need for individual refunds and will free up resources to invest in growth and competitiveness.

Nevertheless, the approved model does not fully exploit the potential demonstrated by comparable VAT regimes in other European jurisdictions, where such mechanisms have shown **greater flexibility and a wider scope of application**, particularly through the complete neutralisation of intra-group transactions for VAT purposes.

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