



BETA CONSULTANTS

**FREQUENTLY ASKED QUESTIONS
ON
DIRECTOR SERVICES UNDER UAE VAT**

FAQ ON DIRECTOR SERVICES – UAE VAT

1. What are Director Services?

When an Individual not being an employee of the company, acts as a director of such company for a compensation, such services rendered are considered to be Director Services.

2. Are Director Services Taxable under UAE VAT?

An employee who performs services for his employer is not considered to be making a taxable supply. However, taxable persons who provide independent director's services to other legal entities would be considered to be making a taxable supply of services (subject to place of supply rules). The services are subject to VAT at 5%, with a few possible exceptions where 0% VAT may apply.

3. When is a director is liable to get VAT registration under UAE VAT?

If the fees for services (in addition to any other supplies that might be made by the person) exceed the VAT mandatory registration threshold, namely AED 375,000, then directors are liable to register for VAT and charge VAT on the director fees.

4. Are Non-monetary considerations received by director are subject to Tax?

Yes, value of supply will be calculated with reference of any consideration the director receives in respect of the services. Such consideration may be monetary (e.g. basic director fees and cash bonuses) or non-monetary (e.g. stock options or free accommodation).

5. Will a director be able to take credit of Input Tax?

Yes, Director will be able to take credit of Input tax subject to VAT LAW.

In conducting its independent director activities, a taxable person may incur expenses which are subject to VAT. The incurred VAT also known as "input tax". The recovery of input tax will generally be permitted where acquired goods and services are used, or intended to be used, in making any of the following:

- taxable supplies; and
- supplies that are made outside the UAE which would have been considered taxable had they been made in the UAE.

As a consequence, a director making taxable or out of scope supplies of director services should be able to recover input tax attributable to making such supplies.

In certain circumstances, acquired goods or services can be used partly in the course of making supplies that allow for the recovery of input tax and partly for making supplies for which VAT is not recoverable. In these situations, the director may need to use input tax apportionment rules to identify the proportion of VAT which may be recovered.

A director should not recover any VAT in respect of expenses incurred solely for non-business purposes.

6. Are Services performed by a director overseas taxable?

Where a director who is resident in the UAE provides director's services which are physically performed outside the GCC Implementing States, such services will be zero-rated.

Hence Such service are taxable however rate of tax will be Zero-Rates.

In contrast, if the services are physically provided in another GCC Implementing State to a company which is resident and registered in that other GCC Implementing State, the supply will be treated as taking place in that other Implementing State. Therefore, no UAE VAT will be charged.

7. Are services provided by a director to overseas company taxable?

If a UAE resident director provides services from the UAE to a company not resident in the GCC Implementing States, the services may be zero rated if the company does not have a presence in the UAE, and the performance of the services is not received in the UAE by any person who would be able to recover VAT incurred.

If such services are provided to a company which is resident and registered in another GCC Implementing State, the supply will be treated as taking place in that other Implementing State. Therefore, no UAE VAT will be charged.

8. Who is a Business Supplied Director and how will the income generated by supplying of a Business Director to taxed?

A business or Government entity may provide an employee or director to serve as a director of another Government entity, company, or another type of business. In these circumstances the normal rules relating to supplies of services should apply. Specifically, the supplier entity must account for VAT on any payment it receives for agreeing to the appointment, provided the place of supply is in the UAE.

Although the default rate is 5%, VAT may be charged at 0% if this are export of services and conditions cited in Article 31 of the Cabinet Decision No. 52 of 2017 on the Executive Regulations of the Federal Decree-Law No (8) of 2017 on Value Added Tax are met.

9. Are fees recovered from related companies by a company who paid the fees to the common director chargeable to tax?

An individual may act as a director of a number of companies, including in related companies. For convenience, one company may pay all the director's fees and then allocate the costs to recover appropriate proportions from the others.

The individual's services, such as attending meetings or approving expenditure, are supplied by the individual to the companies of which he is a director. The services are supplied directly to the relevant businesses by the individual and not from one company to another. In this case, there is no supply between the companies and accordingly, no VAT is due on the share of money recovered from each company.

10. Are fees charged by a company to another company, for appointing a person as a director in such other company, considered to be a taxable service?

This often occurs in situations where one company is investing in another and is exercising a legal or contractual right to appoint a director to the board of the company in which they are investing. The director is usually selected because of his specialised knowledge and is appointed to give expert advice to the other company.

Typically, a fee is charged by the company appointing the director and is paid by the company to which the director has been appointed. This fee should be treated as consideration for a taxable supply made by the director's original company and the fee is subject to VAT.



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