



FTA clarifies Directorship services liable to VAT

Federal Tax Authority (FTA) releases Guidance Note on Director's Services

In April 2018, the FTA issued Guidance Note on VAT treatment on Director Services with detailed analysis on taxability, its Place of Supply, recovery of input tax along with special scenarios on taxability of director fees either in the hands of business entity or director in his individual capacity.

In this update, we have summarised key points of the guidance note.

Taxability of Director Services

After examining the provisions of the UAE VAT Decree Law, the FTA has clarified that the independent director rendering services to legal entities would be considered as taxable supply of services. The services would be subject to VAT at 5% if the fees for the services collectively exceed mandatory registration threshold of AED 375,000.

In exception to above, it has been clarified that the Director who is an employee and is performing services for his employer would not be considered to be making a taxable supply.

Place of Supply for Director Services

Applicable Place of Supply Rule on Director services:

- By default, place of residence of director
- In case recipient has place of residence in GCC implementing States and registered, place of residence of recipient of services



- In case the director does not have place of residence in the UAE, the place of supply is UAE. The company will need to discharge VAT on Reverse Charge Mechanism

Recovery of Input tax

In conducting independent director activities, taxable person can recover input tax incurred on the purchase of goods and services in the course of business, subject to certain conditions. In certain circumstances, director may need to use input tax apportionment rules to identify the proportion of VAT which may be recovered.

Special Scenarios

Director providing services overseas

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.

Director providing services to overseas company

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.

Business supplied director

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 such case, 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.

Common Director

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. On recovery of share of money from each company, there is no supply between the companies and therefore, no VAT is due on such recovery.



Right to a Director

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

Our Comments

In view of the above guidance note, various companies need to comply with the clarification provided and ensure that due VAT has been charged or paid for the directorship services.



W T S Dhruva Consultants

UAE

U-Bora Tower 2,
11th Floor, Office 1101
Business Bay P.O. Box 127165
Dubai, UAE
Tel: + 971 56 900 5849

Dhruva Advisors

Mumbai

1101, One India Bulls Centre,
11th Floor, Tower 2B,
841, Senapati Bapat Marg,
Elphinstone Road (West),
Mumbai 400 013
Tel: +91 22 6108 1000 / 1900

Ahmedabad

B3, 3rd Floor, Safal Profitaire,
Near Auda Garden,
Prahaldnagar, Corporate Road,
Ahmedabad - 380 015
Tel: +91-79-6134 3434

Bengaluru

Prestige Terraces, 2nd Floor
Union Street, Infantry Road,
Bengaluru 560 001
Tel: +91-80-4660 2500

Delhi/NCR

101 & 102, 1st Floor, Tower 4B
DLF Corporate Park
M G Road, Gurgaon
Haryana - 122 002
Tel: +91-124-668 7000

Bahrain

Bahrain Financial Harbour, East Tower - Floor 23,
Office 2301, Building 1398, Road 4626, Block
346, Manama, Kingdom of Bahrain
Tel: 973 1663 1921

New York

Dhruva Advisors USA, Inc.
340 Madison Avenue, 19th Floor,
New York,
New York 10173 USA
Tel: +1-212-220-9494

Silicon Valley, USA

Dhruva Advisors USA, Inc.
5201 Great America Parkway,
Santa Clara,
California 95054
Tel: +1 408 930 5063

Singapore

Dhruva Advisors (Singapore) Pte. Ltd.
20 Collyer Quay, #23-01,
Singapore - 049319
Tel: +65 9105 3645

Contacts

Dinesh Kanabar

Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com
Phone: +91 22 6108 1010/11

Pratik Shah

Resident Partner & VAT Expert
pratik.shah@dhruvaadvisors.com
Phone: +971 55957 8232

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