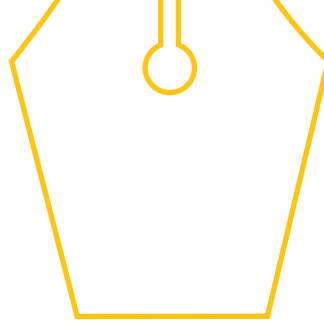


# VAT Treatment of Director Services in the UAE:

## A Comprehensive Guide (VATP037)





## Table of Contents

**01**

Introduction

**03**

Performing the  
Function of Director  
on a Board of  
Directors by a  
Natural Person

**06**

Taxability of Director  
Service Vs  
Non-Taxability of  
Director Service

**08**

How to determine  
the Date of Supply  
for Director  
Services

**10**

Examples for Better  
Understanding of  
Taxability or  
Non-Taxability of  
Director Service

**13**

Formal Capacity  
as Director

**15**

About FAME  
Advisory

**17**

Our Team





# Introduction

# Basic Rule for Taxability of Directors Service

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## Effective Date for Checking Taxability of Director Service – 01 January 2023

Director services were Taxable where the Director performed the services on a regular, ongoing, and independent basis, and the total value of taxable supplies and imports made by the Director, not limited to but also including the Director services, exceeded the mandatory registration threshold.



# Performing the Function of Director on a Board of Directors by a Natural Person

**Performing the Function of Director by any person on a Board of Directors was considered as supply of service and was Taxable but as per the new clarification issued by FTA if the performance of a Director's function After 01 January 2023 by a natural person in Board of Directors of any government entity or of any private sector entity then performance of those Director's function will not be considered as Supply of Service therefore will not be Taxable whereas if the Director Service is given by either natural person or legal person to Public Joint Stock entity then it will be considered as supply of service and will be Taxable, also Directors Services Provided Before 01 January 2023 is taxable.**

Director's function means services performed in the formal capacity as Director only which means Only Director services performed by any natural person in the formal capacity as director will not be considered as supply of service for the purpose of VAT and will not be taxable i.e. if any other professional Services are provided by director in individual capacity then it will be considered as supply of Service and will be taxable only when the Director is a Taxable person (i.e. Director is registered under VAT).

If any Director who is not the Resident of UAE providing director Service as above then those services will also not be considered as supply of service. There will be no application of the reverse charge mechanism or need for the natural person to register in the UAE for VAT purposes.

If Services performed as a member of a committee derived from the same Board as above on which the Director serves then such services will also be not considered as supply of service for Vat purpose but other services provided by the member, are considered to be supplies of services for VAT purposes and may be taxable subject to meeting conditions for taxable supplies as stated in the VAT legislation

## How will a natural person decide VAT Obligation before January 1 2023 or on or after January 1 2023?

If any natural person provides both director service and other professional service then he will have to check the **Date of Supply** of director service.

If date of supply of director service is before 01 January 2023 then all services by that natural person will be considered as supply of service and will be taxable if meeting the requirements for mandatory registration

But if date of supply of director service is on or after 01 January 2023 then directors service will not be considered as supply of service and will be excluded from calculating the mandatory registration threshold.

If a natural person is registered for Vat and date of supply for director service is on or after 01 Jan 2023 as a result if that person is not meeting the requirements for mandatory registration any more then such natural person must deregister from VAT.



# Taxability of Director Service Vs Non-Taxability of Director Service

## Taxability of Director Service Vs Non-Taxability of Director Service

Sr. No.	Particulars	TAXABLE (All Conditions to be Fulfilled)	NON-TAXABLE (All Conditions to be Fulfilled)
1.	Date of Supply	Date of Supply of Director Service is Before 01 January 2023	Date of Supply of Director Service is On or After 01 January 2023
2.	Type of Person	The director is either a Natural Person or a Legal Person	If the Director is a Natural Person (Either Resident or Non-Resident of UAE)
3.	Board of Directors	If Director services performed as Director on a "Board of Directors" of a Government Entity or a Private establishment or Any Other Establishment.	If Director services performed as Director on a "Board of Directors" of a Government entity or Private establishment only
4.	Type of Service	Any Service provided by the Director- If the Total value of All taxable supplies and imports made by the Director, also including the Director's services, exceeded the mandatory registration threshold.	AED 10,000 + VAT Only the services performed in the formal capacity as the Director



# How to determine the Date of Supply for Director Services

The date of supply is determined either as per the general rules or the special rules, depending on whether there will be periodic payments or consecutive invoices.

## General Rules

### Rule No. 1- Normal for supply of Services

Date of supply shall be the earliest of any of the following dates:

- The date on which the provision of services was completed.
- The date of receipt of payment or the date on which the tax invoice was issued.

### Rule No. 2- Supply of Services for any contract that includes periodic payments or consecutive invoices

The date of supply shall be the earliest of any of the following dates:

- The date of issuance of any tax invoice.
- The date payment is due as specified on the tax invoice.
- The date of receipt of payment.
- The date of expiration of one year from the date the services were provided.

## Special Rules for determining the Date of supply for the Board fees paid to Independent Directors

### Rule No. 3

If fees for the Independent Directors are not known in the beginning and are determined only upon the conclusion of the Annual General Meeting, the date of supply would be triggered when such fees are known.

### Rule No. 4

If fees for the Independent Directors are known in the beginning then date of supply will be as per Rule No. 1 and Rule No. 2 as above.

# Examples for Better Understanding of Taxability or Non-Taxability of Director Service

## Example 1

Natural person performs the function of Director for the calendar year 2022 whereby fees for the services were known at the beginning on 1 January 2022, no payments were released to the natural person during 2022 and no Tax invoices were issued, what will be the Date of Supply in this case? (Refer Rule No.1 & Rule No.4 Above)

In this scenario, the date of supply will be the date of actual completion of the services, and the Director's services will be considered as Supply of Service and will be taxable regardless of whether payment was made in 2023 or not.

## Example 2

The natural person is appointed as Director for 2 consecutive calendar years, i.e., 2022 and 2023.

Fees for services to the Board, and any committee derived therefrom, are fixed and known as on 01 January 2022 and automated payments are made on the first business day after the end of each calendar quarter (1 April 2022, 1 July 2022, 3 October 2022, 2 January 2023, 3 April 2023, 3 July 2023, 2 October 2023 and 2 January 2024). It is also agreed between the Director and the entity that the Director issues his/her tax invoice after receipt of the payment, what will be the Date of Supply in this case? (Refer Rule No. 2 & Rule No. 4 Above)

In this scenario, the date of supply will be the date of receipt of payment, being the earliest of the dates mentioned in Rule No.2 above. Hence, the payments received on 1 April 2022, 1 July 2022 and 3 October 2022 will be considered as triggering the date of supply for Director's service which will be considered as a supply of services and will be taxable

But the other payments received on 2 January 2023, 3 April 2023, 3 July 2023, 2 October 2023 and 2 January 2024 will not be considered as Supply of service and will not be taxable because the Date of supply is on or after 01 January 2023.

### Example 3

The natural person provide the Director Service for the calendar year 2022 but the fees allocated for that calendar year are only determined after the conclusion of the Annual General Meeting, to be held on 31 March 2023. (Refer Rule No. 3 Above)

In this scenario, the Directors fees was not known on 01 January 2022, the Fees will be known upon the conclusion of AGM on 31 March 2023 despite the fact that the provision of the services may have been physically completed earlier.

Date of supply will be 31 March 2023 which is after 01 January 2023 therefore this service will not be considered as Supply of Service and will not be taxable.

# Formal Capacity as Director

## **Some of the Examples of Director performing the Services in the formal Capacity of Director**

- Director Participating in board meetings to take some strategic decisions,
- Director Managing the day-to-day affairs of the company,
- Director approving the financials or any other documents of the company as an Authorized Signatory Director providing any compliance services in a capacity of director to the company

## **Some of the Examples of Director performing the Services in Individual Capacity as a professional which will not be considered as Director Performing the Services in the formal Capacity of Director**

- Director providing any Professional Services to the company as a freelancer for which issuing Separate Invoices for the Services Rendered.
- Director representing the company in a court as lawyer in an individual capacity
- Director providing any consultancy services to the company in an individual capacity as a Chartered Accountant.

# About us FAME Advisory

# About FAME Advisory FZCO

With three decades of market presence, FAME Advisory has remained the UAE's most trusted and leading tax advisory and management firm.

Along with that, FAME excels in various domains, such as corporate services, succession planning, and corporate structuring. Our primary aim is to align our solutions with the client's problems, educate them, and empower them to take informed decisions.



Better future with  
**FAME Advisory**



## Vision

To be the region's first choice for tax compliance and advisory in various aspects of the business.



## Mission

We at FAME Advisory aim to solve businesses' tax compliance issues and provide advisory services that help them achieve the milestones they dreamt of.



## Our Team

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**Mr. Nirav Shah**

Director at FAME Advisory

With over two decades of experience in corporate advisory, consultancy, and compliance, CA Nirav Shah is a qualified Chartered Accountant and a stalwart in the industry, being recognized as amongst the top corporate structuring, international tax, and compliance experts in the UAE, India, and other countries.

For more than 15 years, Mr. Nirav has had a distinguished journey consulting global clients on Corporate Structures and Governance and family asset holding structures and has served as a specialist in providing strategic inputs to organizations.



**Udit Chokshi**

Associate Director - Indirect Tax & Compliance

Udit Chokshi is a Taxpert, helping businesses all across the UAE in getting tax audit-ready, streamlining their VAT and accounting processes, and shield them against tax evasion. Being an active listener, Udit absorbs and understands the client's problem and situation and communicates the facts and solutions honestly.

As a customer service-oriented person, he believes in providing utmost dedication and availability to customers.



## Our Team

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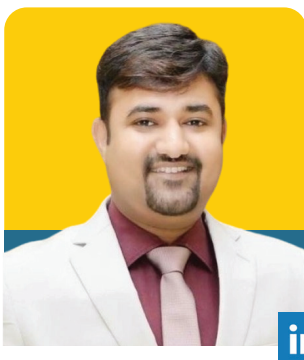


### CA Juned Halai

Manager International & Corporate Tax

With enriched experience in Corporate Tax at FAME, CA Juned Halai, provides strategic tax advisory services to a diverse portfolio of domestic and international clients. Specializing in tax planning, he has a proven track record of optimizing tax liabilities and enhancing client profitability. Skilled in navigating complex regulatory frameworks, he offers expert tax guidance to multinational corporations and local businesses across the UAE and GCC region, ensuring compliance while maximizing tax efficiency.

He is actively engaged with international clients to provide expert advice on various international tax issues.



### Hemang Agravat

Associate Director - Corporate Services


As a Business Development Manager at FAME, Hemang has had a long professional career with a focus on growing the company's client base.

He holds a successful track record of nurturing clients & has been instrumental in building high-performing teams. He specializes in building programs that add value to the client relationships. Hemang brings in a wealth of experience bridging the gap between Sales & Advisory teams.





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