

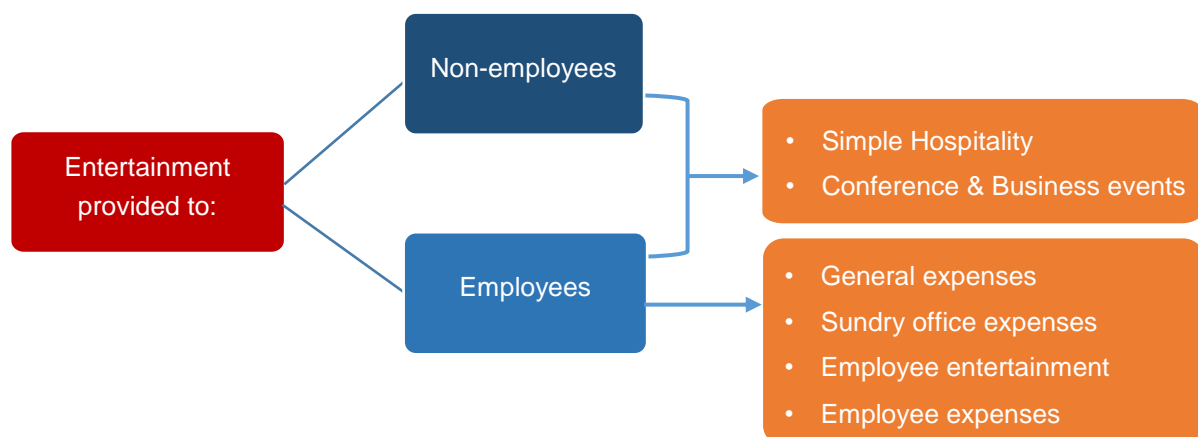
5th Public Clarification – Input VAT on Entertainment Services

Introduction

The Federal Tax Authority (FTA) has recently issued a Public Clarification (VATP005) on Non-Recoverability of VAT on Entertainment Services under Article 53 of the Cabinet Decision No. (52) of 2017 on the Executive Regulation on Value Added Tax (VAT). In this clarification, FTA has provided the instances where VAT is recoverable and where it is not recoverable in relation to Entertainment Services.

We are pleased to summarise this clarification below:

Categories classified by FTA





Entertainment services to non-employees

- **In the case of Designated Government entities**
 - Input tax on entertainment services to anyone not employed by the entity shall be recoverable
 - For example:
 - Meetings with delegations from other countries where lunch or dinner is provided;
 - Meetings with representatives from other Government entities to discuss official business, where refreshments are provided;
 - Ceremonies held to mark significant political events e.g. signing of an international agreement, where entertainment is provided to the audience
- **In the case of Non-designated Government entities**
 - Entertainment Services provided to others, such as customers, potential customers, officials or shareholders or other owners or investors – VAT is not recoverable

Entertainment services to Employees

1. General

- Non-recoverable in full unless an exception applies
- Recoverable only if:
 - Legal obligation under any applicable labour law in the UAE or Designated Zone or
 - Contractual obligation or documented policy to provide those services or goods in order to perform their role and proven normal business practice in course of employing those people or
 - Deemed supply

Recoverable	Non-Recoverable
Short-stay hotel accommodation for new employees	Lunch / dinner for employees e.g. Ramadan iftar



2. Simple Hospitality

- Simple hospitality provided in the normal course of a business meeting e.g. where simple food and refreshments are provided during the course of a meeting, shall be recoverable
- Criteria to determine:
 - Hospitality provided at the same venue as the meeting
 - If meeting is interrupted, only by a short break for the provision of the hospitality and then resumes as normal e.g. lunch or break
 - Cost per head of providing hospitality does not exceed any internal policy the business normally has in place around employee subsistence claims, where available
 - Food and beverage is not accompanied by any form of entertainment e.g. motivational speaker, a live band etc.
- Where food and refreshments are considered to be so substantial that they would constitute an end in themselves and may have encouraged attendees to come to the meeting, the same shall be non-recoverable. e.g. a gala dinner event with a short introduction by a speaker would not be considered to be food and beverage expense in the normal course of a business meeting and the input tax incurred on costs would be blocked from recovery, where no charge is made for attendance.

3. Conference and Business events

- Where fees are charged from the attendees, input tax recoverable on catering services
- Where fees are not charged, input tax related to catering services will be blocked

It has been clarified that the Businesses should refrain from recovering input tax where it cannot establish or it is uncertain whether or not hospitality is provided in the normal course of a business meeting.

4. Sundry office expenses

- Normal incidental office expenses for general use by both employees and visitors – recoverable

Recoverable

- Tea and coffee
- Flowers for display in receptions, offices or for decoration during special events
- Dates, chocolates or equivalent snacks



5. Employee entertainment

- Purchase of goods or services given away free of charge, for example staff parties, shall be blocked.

Non-recoverable
<ul style="list-style-type: none">○ Staff parties○ Reward for long service rewards○ Eid gifts, or gifts for other festivals or special occasions○ Gifts given on occasion of a wedding or birth of a child○ Employee of the month gifts○ Dinner to reward service

6. Employee expenses

- Circumstances where business will fund or reimburse an employee for certain costs that the employee incurs for business purposes, in the course of performing their role, shall be recoverable

Recoverable	Non-Recoverable
<ul style="list-style-type: none">○ Hotel accommodation where it involves a domestic business trip and requires overnight accommodation○ Food and drinks for own consumption during business trips	<ul style="list-style-type: none">○ Costs incurred by the employee which relate to entertainment of current / potential customer / supplier

Comments

This is an important public clarification issued by the FTA and provides substantial clarity on recoverability of input VAT on entertainment services with examples of expenses where input VAT would be recoverable and instances where it would be blocked. The clarification provides that entertainment services provided to non-employees would be blocked without any exceptions. However, issue still remains open on other HR perquisites provided to employees such as accommodation related expenditure borne by the business, daily lunch offered to employees, family insurance that is part of the documented policy and is a normal business practice.



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