

# Synopsis of Public Clarification on VAT treatment of Non Recoverable Input tax - Entertainment

- Article 53 of Cabinet Decision No. (52) of 2017 on the Executive Regulation of the Federal Decree-Law No. (8) of 2017 on Value Added Tax (“VAT Executive Regulations”) stipulates input tax which is non- recoverable by taxable person.
- The Public Clarification issued by FTA explains the application of Article 53 of the VAT Executive Regulations with regards to VAT which is non-recoverable in respect of **entertainment or hospitality of any kind**.
- *The phrase “entertainment services” shall mean:*
  - *hospitality of any kind, including the provision of accommodation,*
  - *food and drinks which are not provided in a normal course of a meeting, access to shows or events, or*
  - *trips provided for the purposes of pleasure or entertainment*

Federal Decree-Law No. (8) of 2017 on Value Added Tax

Cabinet Decision No. (52) of 2017 on the Executive Regulations of the Federal Decree-Law No (8) of 2017 on Value Added Tax

VAT Public clarification  
VATP005

# Our Evaluation of Recovery of Input Tax on Entertainment Expenses – Non Employees

## Designated Government entities:

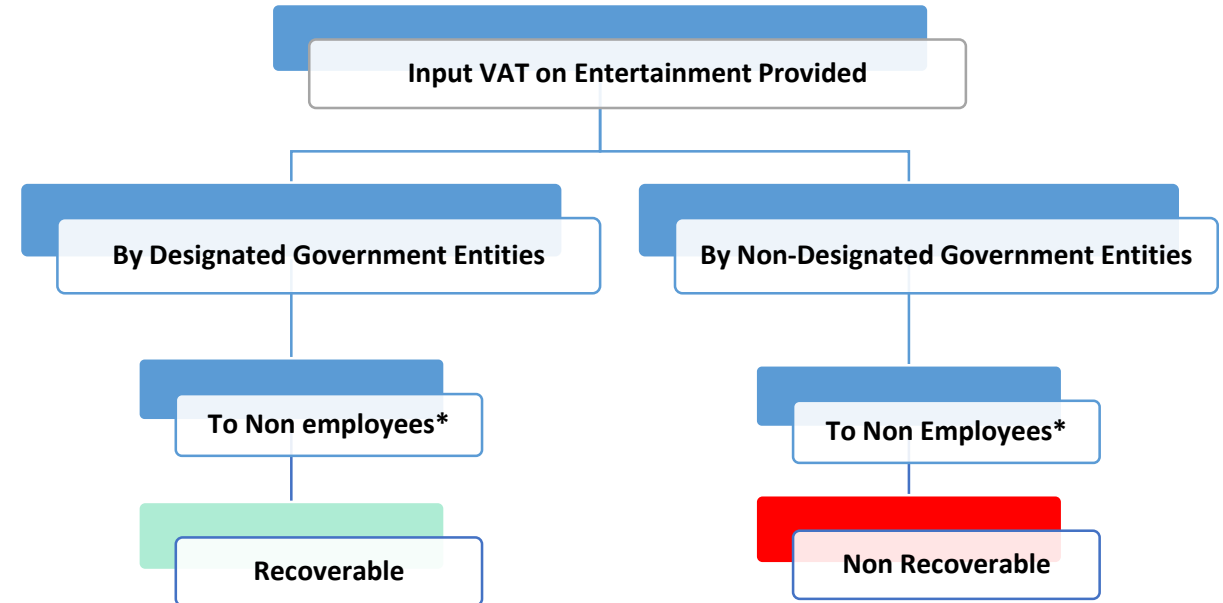
- Designated Government Entity is able to provide entertainment services to anyone not employed (Non- employees) by the entity and shall be able to recover the input tax incurred on those costs.
- This exception for Designated Government Entities only applies to entertainment provided to non- employees.

### Example of such recoverable expenses are:

1. Lunch and dinner, refreshments provided in meetings with delegations from other countries or representatives from other government entities.
2. Entertainment activities conducted in the event or ceremonies held to mark significant political events.

## Non-Designated Government entities:

Where a VAT registrant who is not a Designated Government Entity provides entertainment services to any non-employee VAT incurred on such costs shall be blocked from recovery in full.



\* Non employees include: customers; potential customers; officials; or shareholders, or other owners or investors.

# Our Evaluation of Recovery of Input Tax on Entertainment Expenses – Employees

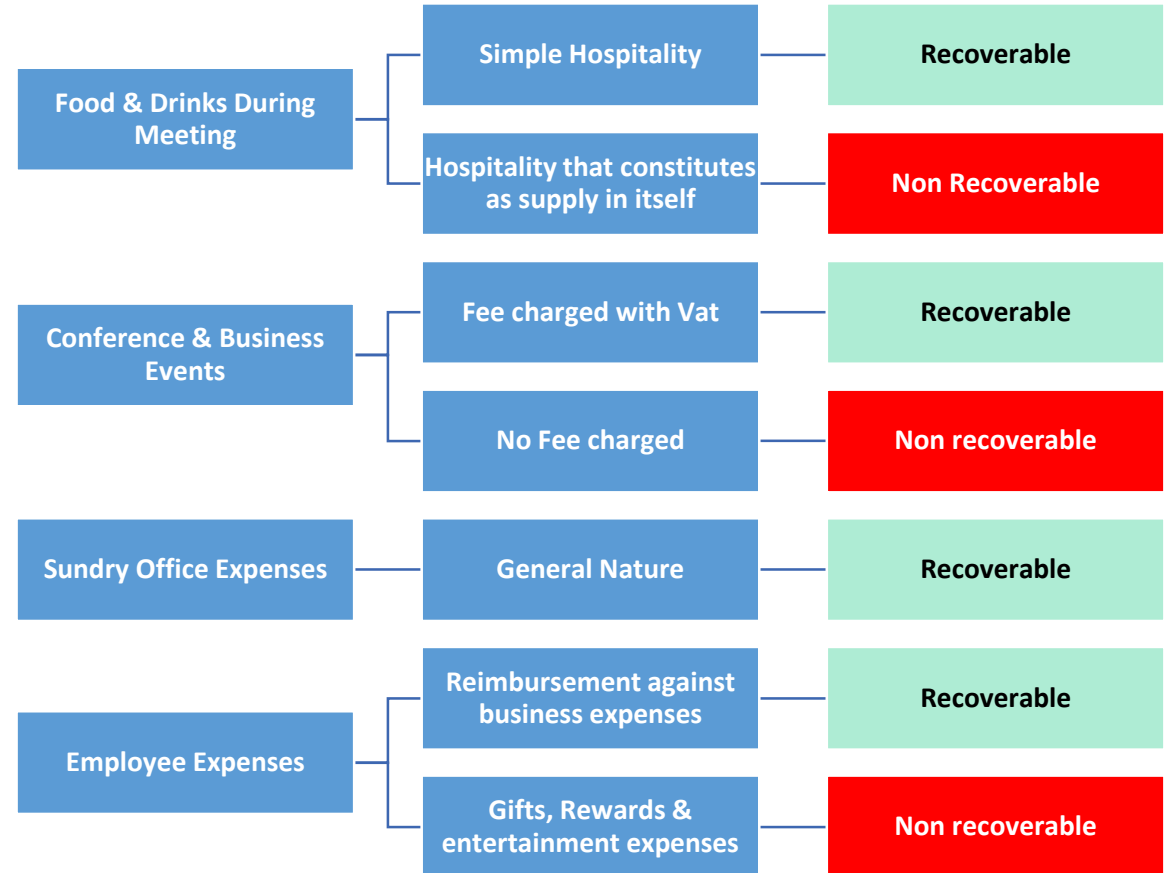
Where goods or services are purchased by any person to be used by employees for no charge to them and for their personal benefit, including the provision of entertainment services, then the VAT incurred on the cost is not recoverable unless an exception applies including Designated Government Entities.

## Exception:

- Providing such supplies are legal obligation of the taxable person.
- Providing such supplies under contractual obligation or if it is a documented policy to provide those services or goods to those employees so that they can perform their role and is normal business practice in course of employing the person.
- Such supplies are accounted as Deemed supplies.

## Example of such exception:

Initial short Hotel accommodation provided to new employees prior to finding their own accommodation. VAT incurred on such costs would be recoverable, as this cost is necessary for the person to perform their role



## Our Evaluation of Recovery of Input Tax on Entertainment Expenses – Employees (Continued)

<p><b>Food &amp; Drinks “in the normal course of a meeting” for employees:</b></p>	<p>Certain hospitality and entertaining expenses should be classed as normal business expenses and vat incurred on such cost is recoverable.</p> <p><u>Criteria -</u></p> <ul style="list-style-type: none"> <li>▪ Hospitality should be provided in the same venue where meeting is being conducted</li> <li>▪ The cost per head of providing the hospitality does not exceed any internal policy the business normally has in place, if any.</li> <li>▪ Such hospitality should not be accompanied by any other form of entertainment e.g. live band, motivation speaker etc.</li> </ul> <p><u>Exception:</u> Where such hospitality is considered to be so substantial that they would constitute “supply” themselves and may have encouraged someone to attend the meeting, the input tax incurred is non-recoverable.</p> <p><u>Example</u> A gala dinner event organized with a short introduction by a speaker would not be considered to be food and beverage in the normal course of a business meeting</p>
<p><b>Conference and Business events</b></p>	<p>Input tax in respect of costs incurred for catering services during conferences and business events can be recovered if a fee is charged and VAT is accounted on the same</p>
<p><b>Sundry office expenses</b></p>	<p>Normal incidental office expenses incurred for general use by employees or any other person will be allowed for vat recovery.</p> <p><u>Examples</u></p> <ul style="list-style-type: none"> <li>▪ Tea or coffee expenses or such expenses incurred during meetings</li> <li>▪ Consumables available in office like snacks, chocolates etc.</li> <li>▪ Decorative displays in office</li> </ul>

## Our Evaluation of Recovery of Input Tax on Entertainment Expenses – Employees (Continued)

<b>Employee Expenses:</b>	<ul style="list-style-type: none"><li>▪ Vat on Expenses incurred by employees for business purpose and reimbursed/funded by the taxable person is recoverable. Expenses incurred such a cost of hotel accommodation on a business trip can be recovered</li><li>▪ However, expenses incurred by employees for hospitality of any kind to “Non employees” are not available for input tax claim</li></ul>
<b>Employee Entertainment Expenses</b>	<p>Expenses incurred of the below nature cannot be used for input vat claim:</p> <ul style="list-style-type: none"><li>▪ long service awards; retirement gifts; Eid gifts, or gifts for other festivals or special occasions; gifts given on the occasion of a wedding or birth of a child; employee of the month gifts; or a dinner to reward service</li></ul>

**Where the business cannot establish or is uncertain whether or not hospitality is provided in the normal course of business meeting, it should refrain from recovering input tax on the expenses.**

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