

UAE FTA clarifies and expands the meaning of “Director” and “Officer” for Connected Person Rules



INTRODUCTION

The UAE Federal Tax Authority ("FTA") has recently issued a Public Clarification (CTP010) on the meaning of the terms "director" and "officer" for the purposes of the Connected Person provisions under Article 36 of the UAE Corporate Tax Law (Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses). While the Corporate Tax Law has, since its inception, included directors and officers within the definition of a Connected Person, the absence of a detailed definition had created uncertainty regarding the scope of individuals covered by these provisions.

The clarification provides much-needed guidance on identifying individuals who fall within the Connected Person framework and has important implications for the deductibility of payments, transfer pricing compliance, and disclosure obligations under the UAE Corporate Tax regime.

Why does this clarification matter

Article 36 of the Corporate Tax Law provides that any payment or benefit provided by a Taxable Person to a Connected Person is deductible only to the extent that it corresponds to the market value of the services or benefits received and is incurred wholly and exclusively for business purposes.

In addition, Article 55 empowers the FTA to require disclosure of transactions and arrangements with Connected Persons. Taxpayers are currently required to disclose payments and benefits provided to Connected Persons in their Corporate Tax Returns where prescribed thresholds are exceeded.

Given the direct impact on tax deductibility and compliance obligations, understanding who qualifies as a Connected Person is critical.

Meaning of “Director”

The FTA has clarified that a director refers to a person who holds a position on the board of directors or an equivalent governing body of a Taxable Person.

Importantly, the determination is based on the entity's legal and constitutional framework rather than an individual's job title.

A director may include:

- Executive directors;
- Non-executive directors;
- Alternate directors;
- Temporary directors; and
- Members of board committees.

Where an entity does not have a board of directors, the term extends to individuals serving on an equivalent governing body, such as a board of trustees or board of governors, as recognized under the entity's constitutional documents or governing legislation.

Job Titles Alone Are Not Determinative

One of the most significant aspects of the clarification is the FTA's confirmation that merely having the word "director" in a job title does not automatically make an individual a director for Corporate Tax purposes.

For example: Finance Director, Commercial Director; Operations Director; or Human Resources Director would not necessarily be considered directors unless they formally occupy a position on the board of directors or an equivalent governing body.

However, such individuals may still need to be assessed under the separate definition of an "officer."

Meaning of "Officer"

The clarification introduces a broad and substance-based interpretation of the term "Officer."

An officer includes any individual who:

- Possesses the authority and responsibility for planning, directing, and controlling the activities of the Taxable Person, consistent with the principles outlined in IAS 24 (Related Party Disclosures);
- Has authority to make strategic financial, operational, or commercial decisions; or
- Has authority to enter into agreements or approve actions that legally or contractually bind the Taxable Person.

The FTA has emphasised that the assessment should focus on the actual authority exercised by the individual rather than solely on their formal designation.

Substance Over Form Approach

The clarification adopts a clear substance-over-form approach.

An individual may be considered an officer even where they do not hold a formal C-suite title if, in practice, they exercise strategic decision-making powers or possess binding authority on behalf of the business.

Conversely, individuals who merely implement decisions or provide recommendations without ultimate authority would generally not qualify as officers.

The determining factor is whether the individual possesses final strategic decision-making authority or the ability to legally bind the entity.

Examples

The FTA indicates that officers may include:

- Chief Executive Officer (CEO);
- Chief Financial Officer (CFO);
- Chief Operating Officer (COO);
- Chief Commercial Officer (CCO);
- General Manager (GM); and
- Authorised representatives with discretionary authority.

The list is not exhaustive and taxpayers should evaluate actual functions and authority levels rather than relying solely on job titles.

Implications for UAE Businesses

The clarification has significant implications for UAE businesses, particularly family-owned groups, privately held companies, and organisations with decentralised management structures.

In many organisations, strategic decision-making authority may reside with individuals who are not formally appointed directors but effectively manage the business and possess broad operational authority.

Key Takeaways

The FTA's clarification provides valuable guidance on the interpretation of the terms "Director" and "Officer" under the UAE Corporate Tax regime. While the definition of Director remains relatively narrow and linked to formal governance structures, the concept of officer is intentionally broad and focuses on the actual authority exercised by individuals within an organization.

The clarification highlights the importance of adopting a substance-based approach when assessing Connected Person relationships and reinforces the need for businesses to maintain robust documentation supporting payments and benefits provided to senior management personnel.

As the UAE Corporate Tax framework continues to evolve, businesses should proactively review their governance arrangements and remuneration practices to ensure compliance with the Connected Person provisions and avoid potential challenges to tax deductibility.



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