FTA Regulation on Eligibility of Input Tax Recovery

Resource Number: RS058/2026

Resource Details

Country	United Arab Emirates	**Group**	Value Added Tax (VAT)
Category	Federal Tax Authority	**Sub-Category**	FTA Decision No. 17 of 2026
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Effective Date	2026-10-01		
Short Brief	The UAE Federal Tax Authority (FTA) issued Decision No. 17 of 2026 on 9 September 2026, effective from 1 October 2026, outlining the conditions for recovering input VAT on employee-related expenses, including transportation, food and beverages in remote locations, work-related accommodation, temporary accommodation for new employees (up to 30 days), mobile phones, internet services, and business parking. VAT recovery is permitted only for eligible business-related expenses that meet the prescribed conditions and are supported by employment contracts, documented company policies, and appropriate records. Businesses must maintain proper documentation to ensure compliance with applicable VAT recovery requirements.		

Sections

Primary Purpose

The primary purpose is to **define and standardize the conditions for recovering input VAT on employee-related expenses**. The Decision aims to distinguish legitimate business expenses from personal employee benefits, **establish clear eligibility criteria for VAT recovery**, strengthen compliance through **documented company policies and supporting evidence**, and prevent incorrect VAT claims.

It ensures that **input VAT recovery is permitted only where the prescribed conditions are satisfied**, thereby promoting transparency, consistency, and compliance with UAE VAT legislation. The Decision is **effective from 1 October 2026**.

Scope of Application

The Decision applies to **VAT-registered taxable persons in the UAE** seeking to recover input VAT on goods and services provided to employees free of charge, pursuant to a **contractual obligation or documented company policy**, in accordance with **Article 53(1)(c)(2) of the UAE VAT Executive Regulation**.

The Decision specifies **six categories of employee-related expenses** for which input VAT recovery may be permitted, subject to prescribed conditions:

A. Transportation Expenses

B. Food and Beverages in remote work locations

C. Employee Accommodation / Place of Residence

D. Temporary Accommodation for New Employees (not exceeding 30 days)

E. Mobile Phones, Internet and Communication Facilities

F. Business-Related Parking Expenses

Input VAT recovery is not automatically permitted for all expenses falling within these categories. Businesses must demonstrate that the expenses meet the applicable eligibility criteria, are incurred for legitimate business purposes, and are supported by appropriate documentation.

General Conditions under Article 1

1. **Recoverable Input VAT**: Input VAT incurred on **eligible employee-related expenses** may be recovered where the expenses satisfy the **specific conditions prescribed under FTA Decision No. 17 of 2026**, along with the applicable UAE VAT legislation.

2. **Non-Recoverable Input VAT**: Input VAT on expenses incurred **primarily for employees' personal benefit**, or those **failing to meet the prescribed eligibility conditions**, is generally not recoverable under the applicable provisions.

3. **Compliance Requirements**: Businesses must maintain **adequate supporting documentation**, including valid tax invoices, relevant **employment contracts, documented company policies,** and evidence establishing the business purpose and eligibility of expenses for input VAT recovery.

4. **Conditional VAT Recovery**: The inclusion of an expense within the six specified categories **does not automatically establish eligibility for input VAT recovery.** Each expense must be assessed against the applicable conditions and supported by appropriate documentation.

Explanation of Input Tax Recovery-Article 2

Article 2 of FTA Decision No. 17 of 2026 outlines the **specific conditions for recovering input VAT on six categories of employee-related expenses**. Recovery is permitted only where the relevant eligibility requirements are satisfied and the expenses are incurred for legitimate business purposes.

A. Transportation:

1. The transportation Service is provided only **between the employee's place of residence and the workplace or to clients' premises, or for any other purposes directly related to the performance of job duties**.

2. Transportation must be **work-related and not primarily intended for the employee's personal benefit**.

B. Food and Beverages:

1. Food and beverages may qualify where employees are required to work or reside in **remote, distant, or isolated locations**.

2**. Food preparation facilities or reasonably accessible restaurants and food services must be unavailable**, in accordance with the applicable conditions.

C. Accommodation/ Place of Residence for Employee:

1. Accommodation must be provided due to **work-related requirements**, including proximity to the workplace, client premises, or remote work locations, and must be appropriate to the employee's duties and basic living needs.

2. Accommodation must be **primarily intended for the employee's use**, with any permitted use by other persons subject to the specific conditions prescribed in the Decision.

D. Accommodation/ Place of Residence for New Employee:

1. Accommodation provided to newly recruited employees must be **temporary and limited to a maximum period of 30 days**.

2. The accommodation must be **appropriate to the employee's job requirements and basic residential needs**, rather than primarily providing a personal benefit.

E. Mobile phones, internet and communication facilities:

1. Employers must establish a **documented internal policy** specifying the permitted business use of mobile phones, internet services, and communication facilities, including restrictions on unauthorized personal use.

2. Such facilities must be provided **for the performance of employment duties**, including remote working, business communications, and work-related activities outside normal working hours.

3. Employers must **monitor usage and employee compliance with the approved policy**, maintain appropriate records, and document any unauthorized use and its justification.

F. Parking Expenses:

1. Parking expenses must be **directly related to business activities**, including official duties, client visits, and other work-related travel.

2. Employers must maintain a **documented internal reimbursement policy and appropriate approval mechanisms** for business-related parking expenses.

3**. Supporting records must be maintained**, including evidence of the parking date, time, amount paid, and applicable VAT, to substantiate eligibility for input VAT recovery.

NOTE: Cash allowances paid directly to employees do not, by themselves, establish entitlement to input VAT recovery. Recovery depends on the underlying qualifying supply, applicable conditions, and supporting tax documentation**.**

Compliance Approach and Recommended Actions

The compliance approach focuses on assessing **employee-related expenses, reviewing existing VAT recovery practices, and evaluating Employment Contracts and Internal policies** to identify expenditures eligible for input VAT recovery under the specific conditions prescribed by FTA Decision No. 17 of 2026.

Businesses should establish a **structured compliance framework** incorporating appropriate accounting treatments, **documented expense approval procedures, effective internal controls, and adequate supporting documentation** to demonstrate the business purpose and eligibility of expenses.

Businesses should also **maintain valid tax invoices, employment contracts, documented company policies, expense approvals, and relevant supporting records** to substantiate input VAT recovery, ensuring compliance with **applicable UAE VAT recordkeeping requirements**.

Periodic compliance reviews are recommended to identify potential gaps, **prevent ineligible VAT claims, maximize legitimate input VAT recovery**, and ensure continued compliance with applicable UAE VAT legislation.

Documents

• FTA Decision No. 17 of 2026-Employee Expense Tax Recovery

References

• FTA Decision No 17 of 2026 on Cases and Conditions for Input Tax Recovery on Employee Expenses — https://tax.gov.ae//Datafolder/Files/Pdf/2026/legislation/FTA%20Decision%20No.%2017%20of%202026%20on%20the%20Ca%20Publishing.pdf