



UNITED ARAB EMIRATES

Tax Alert on clarification of Director and Officer for Connected Persons

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FTA in UAE releases Public Clarification to provide guidelines on definitions of director and officer

The UAE Federal Tax Authority (FTA) has released Public Clarification CTP010 on 29 April 2026, providing essential guidance on the definitions of director and officer for the purpose of payments to Connected Persons under Article 36 of the Corporate Tax Law.

Payments or benefits provided to Connected Persons are only deductible if they are as per Market Value and are incurred wholly and exclusively for business purposes.

The FTA has clarified that simply having a director in the job title does not automatically trigger Connected Person status if the individual is not on the Board. Similarly, an Officer is identified by their actual authority.

If an individual has the responsibility to plan, direct and control the activities of the company or the power to make strategic decisions in relation to finance, operations or commercial matters, authority to enter into agreements or legally bind the company only then they are considered an Officer.

DIRECTOR

The FTA clarifies that the director refers to :

- An individual formally appointed to the board of directors; or
- A member of an equivalent governing body as per law or constitutional documents, entrusted with the management and oversight of the entity.

Key considerations:

- Directors include executive, non-executive, temporary, and alternate directors;
- Directors includes members of board committees;
- Merely having director in a job title does not qualify a person as a director and formal appointment is essential.

OFFICER

The term officer is broader and requires a functional, substance-based assessment. The FTA clarifies that an officer is an individual occupying a senior management position with the authority to take strategic or operational decisions on behalf of the business.

The officer is an individual who:

- Has authority for planning, directing, and controlling business activities.
- Can make strategic decisions (financial, operational, or commercial), or
- Has authority to contractually or commercially bind the entity.

Key considerations:

- Directors include executive, non-executive, temporary, and alternate directors.
- Directors includes members of board committees.
- Merely having director in a job title does not qualify a person as a director and formal appointment is essential.

EXAMPLE

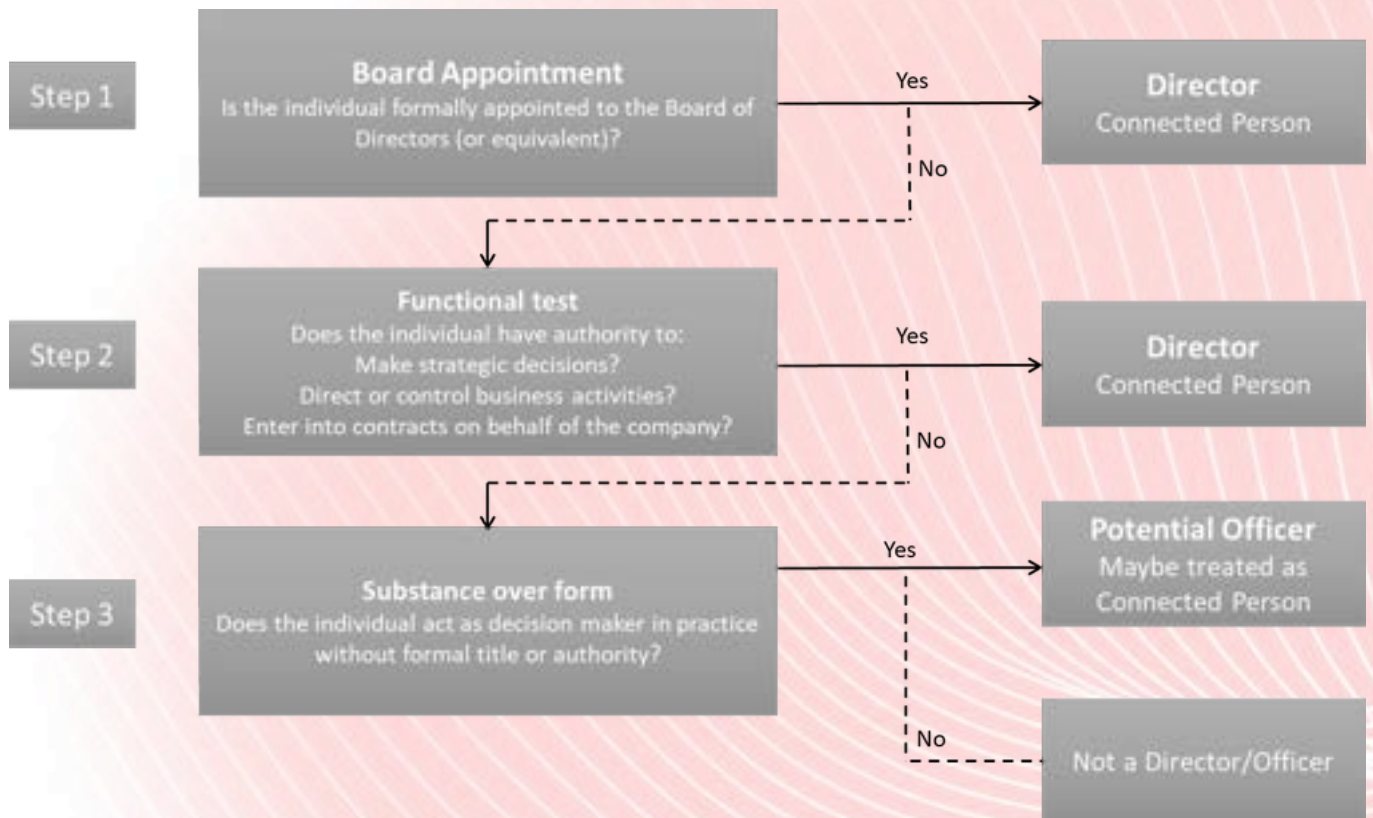
- A Head of Operations, though not formally appointed as a director, has authority to make key operational decisions and enter into binding contracts. The individual may also have delegated authority to negotiate and enter into contracts on behalf of the company. Given this level of involvement in strategic and operational decision-making, and the ability to bind the company contractually, the role goes beyond routine management and reflects substantive control over business activities.
- Based on this functional role, the individual may be treated as an officer. Accordingly, payments to such an individual could fall within Connected Person provisions and must satisfy the arm's length principle and appropriate disclosure requirements.

How to determine if a person is a Connected Person?

The FTA clarifies that the director refers to :

- An individual formally appointed to the board of directors; or
- A member of an equivalent governing body as per law or constitutional documents, entrusted with the management and oversight of the entity.

Follow the flowchart **below** to determine if the individual is a connected person



KEY IMPLICATIONS OF BUSINESSES

1- Expanded Scope

The broad definition of officer means that more individuals may fall within Connected Person rules than anticipated.

This would include:

- De facto decision-makers
- Interim executives
- Individuals with delegated authority

2- Recharacterization Risk

The FTA may re-characterise individuals as officers based on actual conduct, regardless of how the business has classified them. This introduces risk where:

- Authority is informally exercised
- Decision-making is delegated but not documented

A Finance Manager is not part of senior leadership but has delegated authority to approve budgets and sign vendor contracts within defined thresholds. Depending on extent of decision-making and binding authority, he may be treated as an Officer.

3- Compliance and Disclosure

Companies must identify all directors and officers based on substance and clearly document roles, authorities, and delegation frameworks

Incorrect classification of personnel may lead to:

- Disallowance of deductions (non-arm's length payments)
- Under-reporting of Connected Person transactions
- Penalties for non-compliance

4- Heightened Scrutiny by the FTA

The clarification signals that the FTA is likely to:

- Scrutinise management structures and authority flows
- Examine substance of decision-making
- Challenge non-arm's length compensation

PRACTICAL IMPLICATIONS

The public clarification confirms that the classification of a Connected Person is to be based on functional assessment rather than on nomenclature. To mitigate tax exposure, businesses should focus on the following key areas:

- **Functional role mapping:** Identify individuals exercising strategic or binding authority.
- **Compensation:** Ensure compensation to directors and officers is benchmarked and is aligned as per market rates
- **Internal supporting:** Maintain key supporting documents such as board minutes, employment contracts, approval frameworks etc.
- **Scrutiny:** Be prepared for scrutiny by ensuring consistency between legal structures, operational reality and tax reporting

ACQUISORY'S VIEW

The issuance of clarification highlights the FTA's move toward a substance-based enforcement of the Transfer Pricing regime.

Understanding the boundary between routine management and strategic authority is now critical. For many groups, the primary risk will not arise from the payments themselves, but from the misidentification of who constitutes an officer. Businesses must document the rationale for classifying or excluding key personnel to withstand audit scrutiny and ensure that the Arm's Length Principle is robustly applied to all Connected Person transactions.





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