

UAE Tax Update

Cases and Conditions for the Recovery of Input Tax on Employee Related Expenses

Federal Tax Authority Decision No.
17 of 2026 – Issued 9 Sep 2026
(Effective from 1 Oct 2026)



A. Overview

The Federal Tax Authority has issued Decision No. 17 of 2026, providing clarity on the specific cases and conditions under which a Taxable Person may recover Input Tax incurred on goods or services provided to employees free of charge. The Decision was issued on 9 September 2026 and is effective from 1 October 2026. It applies where there is a contractual obligation or documented policy to provide such goods or services to employees for the purpose of enabling them to perform their roles, in accordance with Article 53(1)(c)(2) of the Executive Regulation.

The Decision together with the amendments introduced by Cabinet Decision No. 149 of 2026, provide specific rules for the recovery of Input VAT on employee-related expenses. It covers categories including transportation, food and beverages, accommodation, temporary accommodation for new employees, mobile and internet services, and parking, with each category subject to specific conditions.

Businesses should therefore reassess their current recovery of Input VAT on employee-related expenses before filing VAT Returns covering periods commencing from 1 October 2026.

B. Key provisions of the Decision

We have discussed how the FTA Decision clarifies the conditions under which Input Tax incurred on employee-related expenses may be recoverable, subject to fulfilment of the prescribed conditions. Further, we have included practical scenarios along with our assessment of the potential recoverability of Input Tax in each of the cases:



Expense category	Conditions for the Application of the Update	Practical Scenarios to consider for Businesses*
Employee transportation expenses	Input VAT incurred on employee transportation expenses is recoverable subject to the following: • The transport is limited to home-to-work, client visits or other job-related travel. • The transportation is not used for personal benefit. • There is no cash allowance or any financial compensation offered in its place.	• In the scenario where a company provides accommodation to its employees and engages a bus rental service to transport employees between their accommodation and place of work, the Input Tax incurred on the bus rental charges would be recoverable, provided the transportation is used solely for commuting between the employees' accommodation and place of work, is not available for the employees' personal use, and no cash allowance is offered in lieu of the transportation. • However, when the transportation facility is used by employees for sightseeing, leisure activities or other personal purposes during the weekend, the Input Tax on such transport charges by the bus rental company would be non-recoverable, as the transportation is not being used for eligible work-related purposes.
Food and beverages	Input VAT incurred on expenses for providing food and beverages to employees is recoverable subject to the following: • The employee lives in a remote or isolated area. • There are no food-preparation facilities or restaurants available at the residence or workplace. • The food is linked to the work or residence period the job requires. • There is no cash allowance offered in its place.	• A company provides food and beverage facilities to its employees, and the workplace is located in a remote area with no kitchen or nearby restaurants. In such circumstances, the Input Tax incurred on catering services could be recoverable, provided no cash allowance or alternative financial benefit is offered to employees in lieu of the food or beverages offered. • However, where the workplace is in a publicly accessible area with nearby restaurants, the Input Tax incurred on general staff lunches would be non-recoverable.

Expense category	Conditions for the Application of the Update	Practical Scenarios to consider for Businesses*
Employee accommodation	Input VAT incurred on providing accommodation/place of residence to the employees is recoverable subject to the following: • The accommodation meets operational needs of the work and is not part of the employee's ordinary benefits or pay. • The work arrangements require the employee to live near the workplace, site or client. • The accommodation facility is for the employee only and not family or personal use. The exception is where the employee must live permanently near work, so the accommodation is their usual place of residence. • The facility matches job and basic living needs, without significant recreational or personal features. • There is no cash allowance or financial compensation offered in its place.	• In the scenario where a company relocates an employee to a location away from their usual residence for a time-bound work assignment and provides accommodation at the new location, the Input Tax incurred on such accommodation expenses could be recoverable, provided the accommodation is temporary, it does not become the employee's usual place of residence, and no cash allowance or alternative financial benefit is offered in lieu of the accommodation. • However, where the accommodation provided exceeds what would ordinarily be required for the employee's temporary work assignment, such as an executive villa with a private pool, or where the accommodation is also provided to the employee's family, the related Input Tax would be non-recoverable.
Temporary accommodation for new employees	Input VAT incurred on providing accommodation/place of residence to new employees is recoverable subject to the following: • The accommodation is provided on a temporary basis for a period not exceeding 30 days. • The accommodation provided is commensurate with the employees' job requirements and basic residential needs.	• In the scenario where an employee is relocated from overseas to the UAE and the company provides temporary accommodation while the employee arranges permanent accommodation, the Input Tax incurred on such accommodation for a period of up to 30 days would be recoverable. • However, where the new employee's temporary accommodation extends beyond 30 days, the Input Tax

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		attributable to the accommodation exceeding the 30-day period would be non-recoverable.
Mobile phones, airtime, data and home internet expenses	Input VAT incurred on providing mobile phones, airtime, data packages, and internet access from the place of residence via a modem or router to the employees is recoverable subject to the following: • The goods and services are needed for job duties, including outside working hours or when away from the workplace. • The use of said goods or services is limited to work, and any personal use is minor and incidental. • The employer has a documented policy that sets out permitted use and the consequences of misuse. • The employer monitors use against the policy and keeps records of any unauthorized use.	• In the scenario where a company provides mobile, airtime or data plans to employees for work-related purposes and maintains a documented and monitored usage policy to ensure the services are used solely for official purposes, the Input Tax incurred on such expenses would be recoverable. • However, in the event an employee uses the mobile or data plan for personal purposes, such as personal calls or data usage, beyond what is incidental or insignificant, and there is no internal policy or monitoring mechanism in place, the related Input Tax would be non-recoverable.
Parking expenses	Input VAT incurred on parking fees for parking spaces allocated to employees are recoverable subject to the following: • The fees are incurred only for business purposes, such as job duties or business visits. • A documented policy sets out when parking is reimbursed and how it is approved.	• Where an employee incurs parking expenses while travelling for an official client meeting or other similar business-related purposes, the related Input Tax could be recoverable, provided valid supporting receipts are maintained and a documented internal policy governing such expenses is in place.

Expense category	Conditions for the Application of the Update	Practical Scenarios to consider for Businesses*
	The receipts on such parking fees are kept as supporting documentation showing the date, time, amount and VAT paid.	However, where parking receipts do not provide sufficient details, such as the date, time, amount and VAT information, and the business purpose of the expense cannot be substantiated, the related Input Tax would be non-recoverable.

*The scenarios above are illustrative and reflect our interpretation of the Decision as at the date of this update, assuming that all other conditions for Input Tax recovery are satisfied. The recoverability of Input Tax will depend on the specific facts and circumstances of each case, and businesses should assess the application of the Decision to their particular case.

C. Recommended Action

- i. The Businesses should review and strengthen their internal governance policies, VAT recovery processes and SOPs for employee-related expenses, with clear responsibilities, approval and escalation procedures, and controls aligned with FTA Decision No. 17 of 2026, effective 1 October 2026. This should cover relevant expenses such as mobile, internet, parking and transportation, supported by appropriate monitoring controls in place.
- ii. Further, the business should maintain adequate supporting documentation evidencing the nature, business purpose and VAT recovery basis of employee-related expenses to meet FTA record-keeping requirements and substantiation of the Input Tax claimed.

What should you do next

Businesses must review their recovery of Input Tax on employee-related expenses in light of FTA Decision No. 17 of 2026, effective 1 October 2026. This could include assessing employee benefits and contractual arrangements against the Decision’s conditions, mapping expense GL codes to relevant categories, and reviewing existing claims to identify gaps or potential exposure.

Businesses may also consider whether their governance frameworks, policies, SOPs, monitoring controls, supporting documentation, ERP tax codes and expense workflows need to be updated. Where relevant, documenting the business purpose and operational need for an expense will help support the recovery position.

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