Managerial Remuneration: Navigating the Tax Traps for Owner-Directors

The Owner-Director Dilemma

For many SME owners, partners, and directors in the UAE, the line between 'personal income' and 'business expense' is often blurred. You might view your salary, bonuses, and perks as your well-earned reward for building a business. However, from the perspective of the Federal Tax Authority (FTA), these payments are business expenses that must be rigorously justified. If you are an owner-director or a partner, the FTA will apply a higher level of scrutiny to ensure your remuneration isn't simply a disguised distribution of profits, which would be non-deductible.

The Arm's Length Principle: Your Ultimate Defense

This is the 'gold standard' test. Because you are a 'connected person,' your remuneration must align with the Arm's Length Principle. This dictates that your compensation must mirror what an independent, unrelated third party would receive for performing the exact same services in a comparable business. If the FTA deems your pay to be excessive—or if it is structured in a way that ignores market standards—they have the full authority to disallow the 'excess' portion of your remuneration as a tax-deductible expense. This can suddenly turn your planned salary into a taxable liability for the company.

The Risk of Recharacterization

This is a trap many business owners fall into. If the FTA concludes that payments to you (as a partner or owner) are not reflective of actual, documented services performed for the business, they will 'recharacterize' them. Essentially, they will argue that your salary is not remuneration at all, but rather a dividend or profit distribution. Dividends are not tax-deductible expenses. This recharacterization forces you to pay Corporate Tax on the amount originally claimed as a salary, effectively doubling your tax burden and triggering penalties.

The Power of Contemporaneous Evidence

The burden of proof is entirely on you. You cannot wait for an audit to explain why you were paid a certain bonus or incentive. You must have contemporaneous evidence: documented job descriptions, formal employment contracts, board minutes authorizing the compensation, and performance metrics that justify the pay level. Without this trail of evidence, the FTA assumes the payment was unjustified. Proactive documentation is your single most effective defense against expensive tax adjustments.

Why Your Business Needs Intex Global for Remuneration Strategy

Managerial remuneration, especially for owner-directors and partners, is a high-stakes area that the Federal Tax Authority (FTA) monitors with intense scrutiny. If your compensation packages are not properly justified, you risk having significant deductions disallowed, leading to unplanned tax liabilities and audit exposure. At Intex Global, we turn your remuneration strategy into a robust, defensible pillar of your business structure.

We go beyond simple payroll management. We perform detailed market benchmarking to ensure your compensation levels meet the Arm's Length Principle, effectively neutralizing the risk of recharacterization. We help you design clear, performance-linked pay structures, backed by meticulous documentation—from employment contracts to meeting minutes—that clearly demonstrate the 'wholly and exclusively' nature of these payments. We don't just protect your deductions; we help you navigate the delicate balance between fair compensation and tax compliance. Don't leave your compensation strategy vulnerable to arbitrary FTA disallowances—partner with Intex Global to secure a defensible and optimized remuneration plan today.

Optimize Your Remuneration Strategy – Contact Intex Global!