No GST on full-time directors’ salary: AAR

Mumbai: The controversy on whether remuneration paid to directors of a company is subject to the goods and services tax (GST) has been put to rest by a recent decision of the Authority for Advance Rulings (AAR), Karnataka bench.

Anil Kumar Agrawal, who had received salary as a director from a private company, had approached the bench. In its order dated May 4, the AAR bench has clarified that if the director is an employee of the company, there will be no incidence of GST. However, if the director is a non-executive director (that is, a nominated director), and provides his or her services to the company, then the remuneration paid is subject to GST. In such cases, the ‘reverse-charge’ mechanism will apply and it is the company (recipient of the services) who will pay the GST.

AAR rulings have a persuasive role in similar cases. Thus, this ruling will be useful to India Inc to substantiate that GST does not arise in case of remuneration paid to full-time directors, who essentially are key managerial personnel of the company.