Bad Debt Write-Offs: Turning Financial Losses into Compliant Deductions

The Strict Rules of Corporate Tax Deductibility

For many businesses, a bad debt is simply a loss that hits the bottom line. However, for Corporate Tax (CT) purposes, the ability to claim a deduction for that loss is heavily regulated. The most critical rule to understand is that the FTA does not allow for deductions based on 'provisions' or 'estimates' of bad debts. If you are recording a general bad debt provision in your financial statements to account for anticipated losses, you must add this back to your taxable income when calculating your CT liability. The only path to a tax-deductible expense is a 'specific write-off'—where the debt is definitively recognized as unrecoverable and formally removed from your books.

The 'Reasonable Efforts' Requirement

You cannot simply decide a debt is bad and claim it as a deduction. The FTA mandates that you demonstrate that you have made reasonable, documented efforts to collect the outstanding amount before a write-off can be accepted. This isn't just about sending one email; it involves a clear, professional paper trail. This includes formal demand letters, records of communication, evidence of engaging debt collection agencies, or legal documentation proving the customer's insolvency or disappearance. If an audit occurs, the absence of this documentation is the most common reason the FTA will disallow your deduction.

The Related Party Minefield

Claims for bad debts owed by related parties or connected persons are treated with extreme caution by the tax authorities. Because related-party transactions can be manipulated to reduce taxable income, the FTA applies a higher standard of evidence to these write-offs. You must be able to prove that you pursued the related party with the exact same rigor and legal persistence that you would apply to an independent third party. Any sign of leniency or preferential treatment in your collection efforts will almost certainly lead to the deduction being rejected.

Audit Vulnerability: Why Documentation Saves You

When you claim a bad debt deduction, you are inviting the FTA to verify the history of that receivable. They will look at the original transaction to ensure it was reported as taxable income, verify the write-off date, and inspect your collection logs. If the documentation is missing, inconsistent, or appears to be a retrospective effort to save tax, you will face not only a reversal of the deduction but also interest charges and administrative penalties. Proactive, contemporaneous record-keeping for every bad debt is the only way to build a firewall against these risks.

Why Intex Global is Your Strategic Partner for Bad Debt Management

Bad debts are not just a financial loss; they are a tax-deductibility challenge that can invite significant scrutiny from the Federal Tax Authority (FTA) if handled incorrectly. Many businesses make the fatal error of attempting to deduct general provisions or estimates for doubtful debts, a practice which the Corporate Tax regime strictly prohibits. At Intex Global, we ensure your bad debt write-offs are not only compliant but also audit-proof.

We guide you through the stringent documentation requirements, ensuring that every write-off is supported by evidence of reasonable collection efforts, clear management approval, and proof that the income was originally recognized as taxable. We help you establish internal processes that differentiate between 'specific write-offs' and 'general provisions,' shielding you from the risk of disallowed deductions and administrative penalties. Don't let your financial losses become regulatory liabilities—partner with Intex Global to implement a precise, defensible bad debt policy that protects your tax position.

Need an Audit-Proof Bad Debt Policy? Contact Intex Global!