

LEGAL NOTICE NO. 37

THE INCOME TAX ACT

(Cap. 470)

GUIDELINES ON ALLOWABILITY OF BAD DEBTS

PURSUANT to section 15 (2) (a) of the Income Tax Act, the Commissioner-General issues the guidelines set out in the Schedule hereto on allowability of bad debts for tax purposes.

SCHEDULE

1. A debt shall be considered to have become bad if it is proved to the satisfaction of the Commissioner to have become uncollectable after all reasonable steps have been taken to collect it.

2. A debt shall be deemed to have become uncollectable under paragraph (1) where—

- (a) the creditor loses the contractual right that comprises the debt through a court order;
- (b) no form of security or collateral is realisable whether partially or in full;
- (c) the securities or collateral have been realized but the proceeds fail to cover the entire debt;
- (d) the debtor is adjudged insolvent or bankrupt by a court of law;
- (e) the costs of recovering the debt exceeds the debt itself; or
- (f) efforts to collect the debt are abandoned for another reasonable cause.

3. A bad debt shall be a deductible expense only if it is wholly and exclusively incurred in the normal course of business.

4. For the purposes of these guidelines, a bad debt which is of a capital nature shall not be an allowable expense.

M. G. WAWERU,
Commissioner-General,
Kenya Revenue Authority.