

TR 250**Facts**

K has set up an appropriate committee responsible to determine the appropriate course of action when a debt is considered to be doubtful or is non-performing. The committee decides on the appropriate course of actions considering a number of factors including the debt recovery costs, size of debt amounts, the recovery timeframes and any other debt restructuring alternatives.

When the committee determines that a loan is doubtful, it would evaluate the various options and it may conclude that the sale of a debt is in the best interest of the bank. The bank may approach specialised agencies and any other third parties for the sale of such debt including foreign parties in so far as debts granted to non-residents are concerned. Upon completion of the bidding processes, the bank executes an agreement of the transaction.

For financial reporting purposes, the excess of the carrying value of the debt and the amounts recovered from the sale is recognised as a sell down expense.

Point at issue

Whether the sell down expense on the sale of a debt to independent third parties who may not be debt recovery agencies qualifies for a deduction under section 57 of the Income Tax Act?

Ruling

On the basis of the facts mentioned above, it is ruled that the sell down expense on the sale of debt to independent third parties who may not be debt recovery agencies does not qualify as a deduction under section 57 of the Income Tax Act as the debt constitutes an asset of the bank. Moreover, the debt cannot be treated as a bad debt as it does not satisfy the conditions as set out in section 60(1)(a) of the Income Tax Act.