

REVENUE REGULATIONS NO. 5-99 issued March 16, 1999 implements Section 34(E) of the Tax Code of 1997 relative to the requirements for deductibility of bad debts from gross income of a corporation or an individual engaged in trade or business or a professional engaged in the practice of his profession. The requisites for valid deduction of bad debts from gross income are: a) there must be an existing indebtedness due to the taxpayer which must be valid and legally demandable; b) the same must be connected with the taxpayer's trade, business or practice of profession; c) the same must not be sustained in a transaction entered into between related parties enumerated under Section 36(B) of the Tax Code of 1997; d) the same must be actually charged off the books of accounts of the taxpayer as of the end of the taxable year; and e) the same must be actually ascertained to be worthless and uncollectible as of the end of the taxable year. The recovery of bad debts previously allowed as deduction in the preceding year or years will be included as part of the taxpayer's gross income in the year of such recovery to the extent of the income tax benefit of said deduction.