Income Tax

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

On the Conditions of Deductible Expenses to Determine the Tax Base under Income Tax Provision

Second Version | May 2026

Note: The English version is for guidance purposes only. In case of any discrepancy between the Arabic and English versions, the Arabic version shall prevail

The Zakat, Tax and Customs Authority (henceforth 'ZATCA') has issued this Guideline to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Guideline shall not be deemed an amendment to any of the laws and regulations in force in the Kingdom of Saudi Arabia.

The Authority affirms that it shall apply the explanatory treatments set out in this Guideline, where applicable, considering the relevant statutory provisions. If any clarification or content contained in this Guideline is amended in relation to an unchanged statutory provision, the updated explanatory treatment shall apply to transactions carried out after the date of publication of the updated version of the Guideline on the Authority's official website.

Amendments

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
-	-	-	-	-	-	-

Table of Contents

1. Introduction	3
2. General Provisions of Expenses Tax Deductibility to Determine the Taxable Income	4
2.1 What Is Considered a Deductible Expense?	4
2.2 What is Considered a Non-Deductible Expense?	4
2.3 Practical Examples	5
3. Guidance on Tax Deduction of Specific Expenses from the Tax Base	7
3.1 Payments to Head Office Outside the Kingdom	7
3.1.1 Deductible Expenses	7
3.1.2 Tax Withholding Treatment of Non-Deductible Expenses	9
3.1.3 Practical Examples	10
3.2 Inter-Bank and Intragroup Charges	11
3.2.1 Deductible Expenses	11
3.2.2 Treatment of Payments to the Foreign Head Office for Tax Withholding Purposes	12
3.2.3 Practical Examples	13
3.3 Variable Payments to Employees	13
3.3.1 Deductible Expenses and Their Conditions	13
3.3.2 Non-Deductible Expenses	15
3.3.3 Practical Examples	16
3.4 Bad Debts	17

1. Introduction

This Guideline, published by the Zakat, Tax and Customs Authority ("ZATCA"), serves to provide insights and guidance on expense tax deductibility to determine the taxable income based on the Income Tax Law ("Law") and its Implementing Regulations ("the Regulations") (together are referred to as "ITL Legislation") of the Kingdom of Saudi Arabia ("KSA").

The ITL legislation, ZATCA's policies, and interpretation of the legislation are the basis of this Guideline. The objective of this Guideline is to minimize any ambiguities for any person in the computation of the taxable base or the application of Tax Withholding where applicable.

2. General Provisions of Expenses Tax Deductibility to Determine the Taxable Income

2.1 What Is Considered a Deductible Expense?

The deductible expenses[1] are the ordinary and necessary expenses, either paid or incurred, for the purpose of generating the taxable income. The deductible expense must meet the following conditions[2]:

- **a)** a) It is an actual expense, supported by proper documentation or other evidence that enables ZATCA to verify its veracity and eligibility;
- **b)** b) The expense is incurred for the purpose of generating taxable income;
- **c)** c) The expense is related to the tax year;
- **d)** d) The expense is not of a capital nature.

Article 9 of the Regulations sets out further clarification on the conditions applicable to specific business expenses.

(1) Article 1 of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (GCC).

(2) Article 9 of the Implementing Regulations

2.2 What is Considered a Non-Deductible Expense?

Conversely, the Law[3] and its regulations provide expenses that are not allowed for deduction if they fall within the following categories:

a) Expenses not incurred for the purpose of generating a taxable income.
b) Salaries, wages, etc., whether in cash or in kind, paid to the owner, partner, or shareholder (except shareholders in stock companies), or to any of their family members, including parents, spouse, children, and siblings.

As well as the value of compensation, whether in cash or in kind, paid to the partner, shareholder, or any of their family members including parents, spouse, children, and siblings, in exchange for properties or services provided to the company, which exceeds the prevailing market price at the date of the transaction.

c) Recreation expenses: these include Entertainment expenses incurred for events such as parties, sports competitions, entertainment trips, and activities, etc.
d) Expenses of a natural person arising from personal consumption (i.e., expenses which are not related to the conduct of the activity, such as personal drawings, alimony for family members, or their education expenses, etc.).
e) Income tax paid or accrued in KSA or in another country and any penalties or fines related to it.
f) Fines or financial penalties paid or payable to any entity in the Kingdom, such as traffic violations and violations for damaging public facilities. As for financial fines resulting from the breach of contractual terms, such as fines for delayed execution or poor execution, they may be deducted provided they are documented by the entity contracting with the taxpayer, and that they are declared within the income of the taxpayer in the year of recovery.
g) Any bribe or similar amounts considered a criminal offense under the laws of KSA, even if paid abroad.

---

(3) Article 13 of the Income Tax Law and Article 10 of the Implementing Regulations

In addition to the above, based on Article 10 of the Regulations, the following expenses are also not deductible for income tax purposes:

a) Insurance Commission more than 3% of total premiums collected in KSA through the agent or others, and whether the agent is a partner or not.
b) Payments by employers of their employees' contributions to a legal pension fund, social insurance, or savings funds.
c) Payments made to head offices abroad by fully owned branches for:
    - royalties, rents, or commissions.
    - loan charges (proceeds) or any other financial fees excluding the loan fee paid by branches of foreign banks in KSA to their head offices abroad, and
    - indirect administrative and general expenses allocated on an estimated basis.
    - Value of goods or services delivered to the taxpayer by related parties to the extent that it is more than prices used between independent parties; the Authority shall issue specific rules for determining fair prices for transactions between related parties in accordance with internationally recognized standards.

Furthermore no deduction shall be allowed for any reserves or provisions, other than provisions for doubtful debts for banks, in accordance with the rules and conditions specified in the Regulations, pursuant to Article 15 of the Law.

2.3 Practical Examples

Below are some practical examples of what can be considered as deductible or non-deductible expenses for the purpose of determining the taxpayers' taxable income.

Example (1):

A resident company in the Kingdom generates income from the sale of books, and this activity is considered among the usual commercial activities practiced by the company.

During the tax year 2020, and for the purposes of conducting its commercial activity, the company

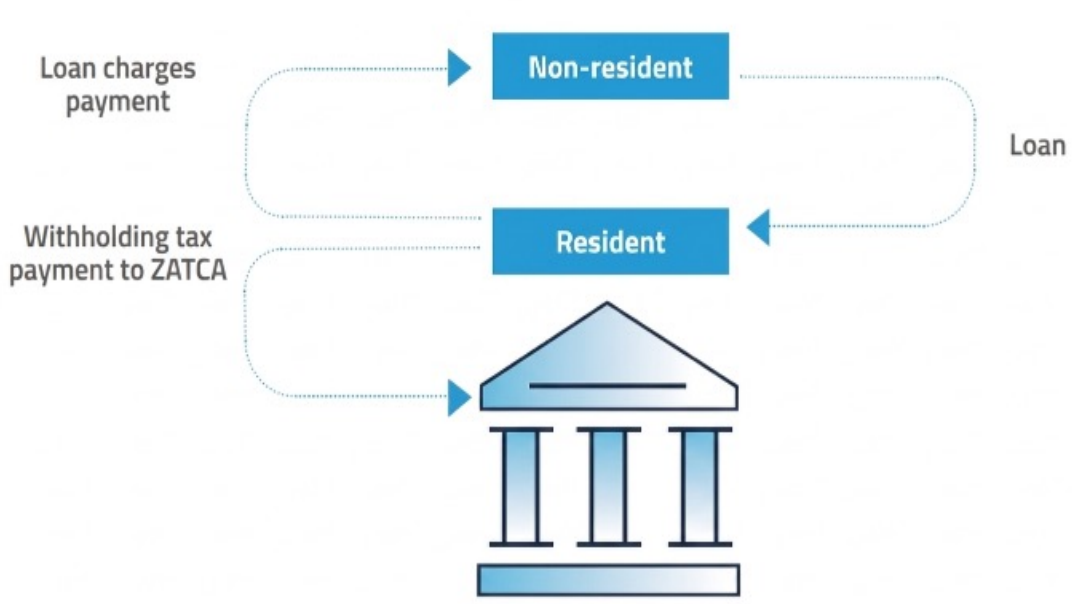
employed 10 full-time employees and paid their salaries monthly, in addition to its contribution to the pension fund and social insurance for the benefit of the employees. The company also incurs costs such as internet services for business purposes, which are paid monthly to service provider. A shareholder in the company purchased a personal vehicle and used it for the purposes of commuting from his home to his office; however, this vehicle is not registered as part of the company's assets.

The deductibility of expenses is outlined below:

Taxable year 2020 expenses

Deductible Expenses	Non-deductible Expenses
Monthly salary of all employees from January to December 2020 provided they are paid/ accrued within the taxable year according to the social insurance certificate or any other document acceptable to the authority.	Portion related to the employee's contribution to the employee's social insurance.
The portion related to the employer's contribution for the employee's social insurance.	Internet monthly subscription paid in January 2020 in relation to services provided in December 2019.
Internet monthly subscription for the services provided from January to December 2020.	The cost associated with the shareholder's purchase of a personal vehicle for personal use.

Example (2): A resident company in KSA is paying loan charges to a non-resident partner (in a country that has not concluded a Double Tax Agreement "DTA" with KSA) in relation to a loan granted to pursue its business activity in KSA.



The loans charges are an allowed expense in the books of the resident company, provided the loans charges are contracted for the purpose of the business, the transaction is at arm's length, and meets the conditions set out in Article 9.2 of the Regulations (provided that the expense also meets the conditions stipulated in Section 2.1 above).

If returns are not calculated according to the arm's length principle, or if loans are not used in the conduct of the economic activity, their deduction within expenses is not permitted, while remaining subject to Tax Withholding.

In addition, loan charges are subject to Tax Withholding in accordance with Article 68 of the Law.

3. Guidance on Tax Deduction of Specific Expenses from the Tax Base

3.1 Payments to Head Office Outside the Kingdom

A variety of expenses may be incurred by a head office on behalf of a branch, or Permanent Establishment ("PE") and subsequently recharged to such subsidiary, branch, or PE.

These expenses can fall within the following categories:

a. Expenses that the head office incurs the branch, or PE
b. General administrative expenses.

Below is a clarification of the tax treatment of expense payments to head offices depending on whether payable by a subsidiary, a branch, or PE in the Kingdom.

3.1.1 Deductible Expenses

Payments of a branch or a permanent establishment:

Expenses that the head office incurs for the exclusive benefit of its branch are deductible for tax purposes to the extent that they are direct and actual expenses (subject to the conditions outlined in Section 2.1 of this Guideline).

For example, if the head office abroad purchases an insurance policy covering all its branches worldwide, including in the Kingdom, and allocates it on a non-discretionary allocation basis among these branches, these expenses will be considered allowed for deduction in the Kingdom, provided that the expenses are direct and determined on an actual basis. These expenses may be deducted whether paid directly by the branch to the insurance company or through the head office.

Amounts paid in consideration of technical services are considered deductible expenses in the Kingdom, provided that the statutory conditions stipulated in the Implementing Regulations are satisfied.

However, there are restrictions on the possibility of deducting certain expenses paid to the head office covered by Article 10 of the Implementing Regulations. According to this provision, payments made for the following to head offices abroad by fully owned branches located in the Kingdom are non-deductible for the purpose of determining the taxable income if paid in respect of the following:

c) A royalty, rent, or commission.
d) Loan charges (proceeds) or any other financial fees excluding the loan fees paid by branches of foreign banks in the Kingdom to their head offices abroad.
e) Indirect administrative and general expenses allocated on an estimated basis.

As mentioned above, payments made by the branch or permanent establishment to its head office corresponding to its share of the indirect general head office expense (as opposed to direct expenses, which are deductible if the criteria are met) are not an allowed deduction and shall be adjusted and added back to the branch or permanent establishment taxable base.

A similar limitation on the tax deduction in relation to certain payments by PE to its head office is included in most of the DTAs concluded with the Kingdom[4] .

(4) Article 7, Paragraph 3 of most DTAs concluded with the Kingdom provides the following: "In the determination of the profits Article 7, Paragraph 3 of most DTAs concluded with the Kingdom provides the following: "In the determination of the profits of a permanent establishment, there shall be allowed as deductions expenses incurred for the business of the permanent establishment, including executive and general administrative expenses, whether incurred in the Contracting State in which the permanent establishment is situated or elsewhere. However, no such deduction shall be allowed in respect of amounts paid, if any (otherwise than towards reimbursement of actual expenses), by the permanent establishment to the head office of the enterprise or any of its other offices by way of royalties, fees, or other similar payments in return for the use of patents or other rights, or by way of commission for specific services performed or for management, or (except in the case of a banking enterprise) by way of income from debt-claims with regard to moneys lent to the permanent establishment. Likewise, no account shall be taken, in the determination of the profits of a permanent establishment, of amounts (otherwise than towards reimbursement of actual expenses) charged by the permanent establishment to the head office of the enterprise or any of its other offices by way of royalties, fees, or other similar payments in return for the use of patents or other rights, or by way of commission for specific services performed or for management, or (except in the case of a banking enterprise) by way of income from debt-claims with regard to moneys lent to the head office of the enterprise or any of its other offices". This paragraph follows the UN Model Tax Convention language containing restrictions on tax deductibility of amounts paid against certain types of services made between the head office and the PE of the same enterprise.

3.1.2 Tax Withholding Treatment of Non-Deductible Expenses

As a general rule, payments made to head offices or related parties for technical services, consulting services, international telephone services, rent, airline tickets, or air or sea freight, distributed profits, loan interest, insurance premiums, or reinsurance are subject to Tax Withholding at a rate of 5%. Any other payments are subject to a rate of 15%.

The non-deductible nature of the expense shall not subsequently impact its withholding tax treatment.

Nevertheless, if these payments are subject to Tax Withholding, the withheld tax may be deducted from the Income Tax as follows:

- For payments to the head office considered as a non-deductible expense, the withheld tax may be deducted from the income tax computed[5] .
- For payments to the head office considered as a deductible expense (e.g., for technical services or other direct expenses), the tax withheld shall not be allowed to be deducted from the income tax computed.
- Tax Withholding that is required to be deducted should be withheld and paid to the Authority. A maximum amount of tax due on the taxpayer shall be deducted in the same tax year, and the increase may not be carried forward to the following year.
- The above provision does not apply to treatments that apply the provisions of transfer pricing. Expenses from which the tax was deducted and then processed by refunding the difference to the tax base based on the arm's length principle, Tax Withholding related to it is not deducted from the tax due on the taxpayer.

(5) Article 68 (g) of the Income Tax Law

3.1.3 Practical Examples

Below are some practical examples of non-deductible expenses for the purpose of determining the branch or PE taxable income.

Example (1):

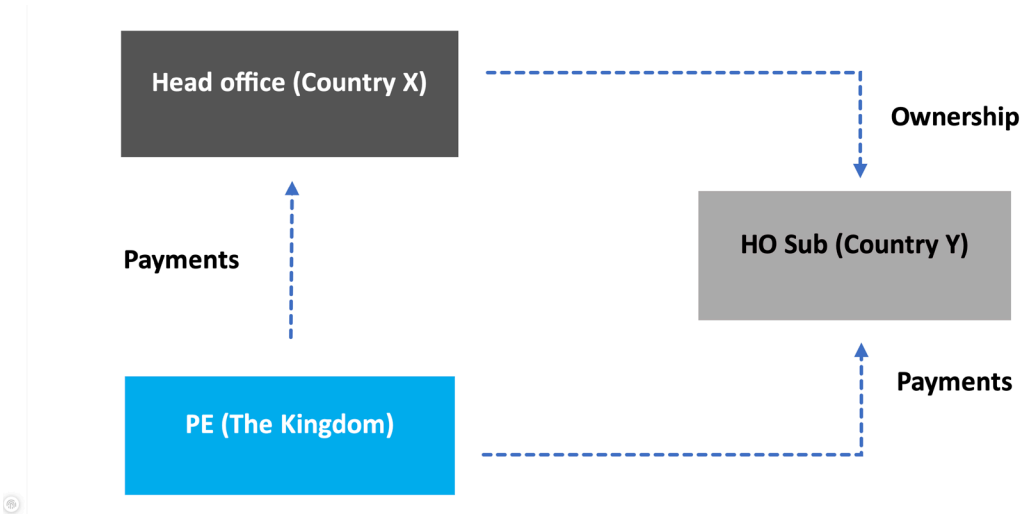
A branch or permanent establishment of a head office abroad (in a country that does not have a DTA Agreement with the Kingdom) is making direct payments to its head office and to a subsidiary of the head office.

Such expenses, provided they are actual and directly related to the branch or permanent establishment and do not fall within the category of non-deductible expenses, are deductible in the Kingdom (provided the expenses also meet the conditions stipulated in Section 2.1 above).

The direct expenses of the PE may be accepted as deductible expenses as long as their nature is considered a deductible expense and it meets the conditions of expense deduction (the conditions stipulated in Section 2.1 above).

In case these expenses relate to general head-office expenses, simply reallocated to the branch or permanent establishment in the Kingdom with no direct economic link, or loan charges (except for payments made to a branch of a foreign bank), they should be treated as non-deductible for the purpose of determining the taxable base of the branch or permanent establishment.

The treatment of payments made to other foreign companies of the group (wholly owned by the head office) will mirror that of the payments made to the head office itself. As such, the nature of deductible expenses or those subject to tax shall be determined similarly.



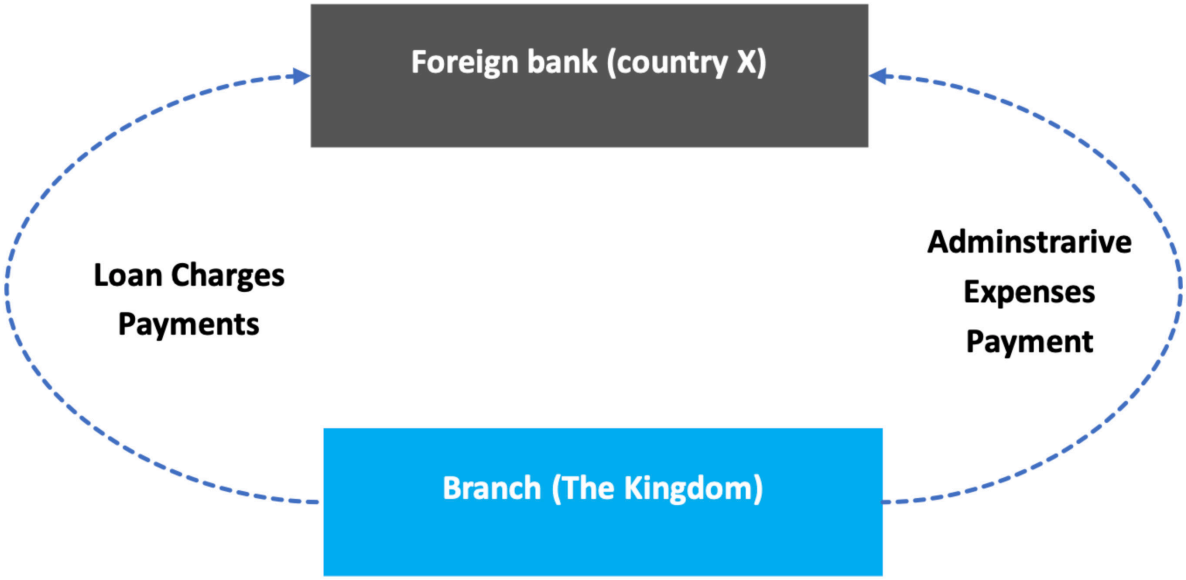
Example (2):

A branch of a foreign bank in the Kingdom is paying loan charges to its head office located abroad (in a country that has not concluded a DTA with the Kingdom), as well as administrative and general expenses determined by the group on an estimated allocation basis. In this case, the following treatment should apply:

a) The loan charges payments will be considered as deductible expenses for the purpose of determining the taxable base of the branch, as they fall within the exclusion provided for by Article 10 of the Implementing Regulations (provided the expense meets the conditions stipulated in Section 2.1 above). In addition, the deduction of this payment is subject to transfer pricing rules applicable to controlled transactions between related parties (please refer to the transfer pricing bylaws and the Transfer Pricing Guideline for further information in this regard).
b) The general expense payment will be considered as a non-deductible expense for the purpose of determining the taxable base of the branch, given that the expenses are not directly related to the branch but to the wider group and have been allocated to the branch on an estimated basis.

The treatment from a Tax Withholding perspective is as follows:

a) The loan charges will be subject to Tax Withholding at 5%, and this Tax Withholding cannot be deducted from the computed income tax of the branch.
b) Administrative expenses subject to withholding tax.



3.2 Inter-Bank and Intragroup Charges

The branch of a foreign company, including a branch of a bank, is considered a separate entity for the purposes of taxation in the Kingdom. Therefore, unless otherwise provided by the Law, branches are treated similarly to legal entities for tax purposes.

3.2.1 Deductible Expenses

From a deductibility perspective, the same general conditions stated in Sections 2.1 and 2.2 above shall apply. The expenses of a branch of a foreign bank should also be regarded as payments to the head office and are subject to the same treatment stated in Sections 2.1 and 2.1.1

There are no specific provisions applicable to branches of foreign banks in the Kingdom, except for the provisions contained in Article 10 of the Implementing Regulations, which clarify that loan charges (proceeds) or any other financial fees paid by a branch to its head-office, which are usually considered as non-deductible expenses can be allowed for deduction to the extent that they are paid by branches of foreign banks in the Kingdom to their head-offices.

In this regard, it should be noted that the provisions of Item 2 of Article 9 of the Implementing Regulations do not apply to banks.

In addition, provisions formed during the year for doubtful debts in banks should be considered as deductible expenses, provided that the bank submits a certificate from the Saudi Central Bank, stating the amount of doubtful debts, and the amount of doubtful debts collected during the year that should be reinstated in the tax base of the year of collection.

Accordingly, any expense falling within the above context and outside of the general non-deductible expense (please refer to Section 2.1.1) would therefore be considered as deductible for the purpose of determining the taxable base of the branch or permanent establishment, subject to the condition that the payments were appropriately subject to Tax Withholding in the Kingdom.

3.2.2 Treatment of Payments to the Head Office for Tax Withholding Purposes

As a general rule, payments made abroad by branches of foreign banks are subject to Tax Withholding (similar to what is set out in Section 3.1.2) to the extent it relates to loan charges, technical or consulting services, or royalties. In case payment is made under another category, and the service linked to it is fully performed abroad (e.g., transfer fees and correspondent bank fees), then no Tax Withholding applies.

The following is stated in Paragraph (A) of the Ministerial Decision:

a) The following text shall be added to the end of Paragraph 1 of Article 5 of the Implementing Regulations as follows: "With the exception to the revenue generated from Interbank deposits if the deposit stayed in the residential borrower bank for a duration not exceeding 90 days, provided that an annual statement approved by the Saudi Arabian Monetary Authority is submitted stating the names of the lender Banks, their address, the duration and the paid revenue generated from the loan".

3.2.3 Practical Examples

Below is a practical example of the deductibility rules applicable to a branch of a foreign bank and to inter-bank charges for the purpose of determining the branch or PE taxable income.

Example (1):

A branch of a foreign bank in the Kingdom enters into different transactions with its head office and a third-party correspondent bank as follows:

a) An interbank transaction under which the branch is paying transfer fees to a correspondent bank.
b) Loan charges in respect of a loan granted by the head office to fund its operations in the Kingdom.

The deductible expenses and their taxable nature are explained as follows:

a) Interbank transaction: the expense is deductible for the purpose of determining the branch taxable base, to the extent that it is actual and directly related to the branch. The payment is exempt from Tax Withholding In accordance with the statutory provisions.
b) Loan charges: the expenses are allowed for deduction for the purpose of determining the taxable basis according to the exception provided for in the Implementing Regulations and applicable only to banks operating in the Kingdom. This payment is, however, subject to Tax Withholding at 5%, and the tax withheld is not deductible from the income tax computed, given that the expense to which it relates has been deducted from the taxable base.

3.3 Variable Payments to Employees

In general, payments in relation to the workforce are allowed as a deductible expense to determine the taxable income of a taxpayer in the Kingdom, to the extent that these expenses are necessary and ordinary to the business and meet the conditions outlined in Sections 2.1 and 2.2 of this Guideline.

However, some variable elements of payments made to employees may be considered as non-deductible under specific circumstances as detailed below.

3.3.1 Deductible Expenses and Their Conditions

The following variable payments to employees or for their benefit are considered as deductible expenses in the Kingdom:

Expenses	Conditions
Bonuses and incentives	These payments are considered deductible provided that the following conditions are met: **a)** Payments are made to legal employed staff. **b)** The employment contracts outline the basis of such variable in accordance with the Saudi Labor Law. **c)** The employment policy of the relevant entity must clearly outline the method for calculating and granting these bonuses and incentives, and the financial policy regulations must be duly approved by the Ministry of Labor. **d)** The relevant entity maintains records of the management approvals for payment of such variable expenses.

Expenses	Conditions
School fees paid by taxpayers for their employees' children	School fees are deductible provided that they meet the following conditions: **a)** They are paid to a local licensed school in the Kingdom. **b)** This benefit is clearly stated in the employment contract.

Expenses	Conditions
Employer's contributions for the benefit of the employee to the statutory retirement funds	The tax treatment may differ depending on whether the contributions are paid by a capital company or a non-capital company: **In case of a capital company:** Capital companies are allowed to deduct their contributions provided that: **a)** The deduction shall not exceed the value of unfunded liabilities relating to such funds that have not been paid as of the beginning of the fiscal year during which the deduction takes place. The unfunded liabilities are the employer's liabilities of its contribution to these funds due for the year of deduction, which are not paid till the end of the fiscal year. **b)** The aforesaid unfunded liabilities shall be well recognized in the financial statements of the capital company audited by a certified accountant licensed to work in the Kingdom. **c)** Work contracts of employees for whom these contributions are made shall indicate such a merit. **d)** These funds shall be of independent legal personality, whether established in the Kingdom or abroad, and shall have independent accounts audited by an independent certified accountant. The capital companies should provide the Authority with information regarding those funds, including the following:

Expenses	Conditions
Employer's contributions for the benefit of the employee to the statutory retirement funds	1. The Articles of Association of the fund (whether the Articles of Incorporation of any other system) showing the fund's objectives, subscription conditions, subscribers' rights, and sources of finance. 2. Fund's final accounts audited by an independent certified accountant at the end of each year. 3. Names of the beneficiaries of the fund each year and the amounts paid to them, when requested by the Authority. **In case of a non-capital company:** The deduction is allowed within the limit of, individually or collectively, 25% of each employee's income, prior to calculating the employer's contributions. The deduction is possible only provided that a) The fund established in accordance with the laws of the Kingdom. b) The fund is established in accordance with a special regulation indicating the conditions and rights of its contributors. c) The contribution is mentioned in the employment contract or the company's Articles of Association. d) The fund is of an identity independent from the identity of the company, and has separate accounts audited by an independent certified accountant.

Expenses	Conditions
End-of-service award reserves	End-of-service award reserves used during the year, which have been readjusted when it had been made to increase income/decrease expenses in the year of formation, are deductible expenses provided the following conditions are met: 1. The used amount was paid or accrued during the year, and it is supported by proving documents. 2. The reserve had been adjusted in the year of formation to increase the tax base.

3.3.2 Non-Deductible Expenses

According to Article 10 of the Implementing Regulations, the following expenses are specifically considered as non-deductible:

a) The employee's share in statutory retirement funds, such as the retirement pension fund, social insurance, or savings and thrift funds.
b) Wages, salaries, and whatever is deemed so, in cash or in kind, paid to the owner, contributing partner, or to any of their family members, including parents, spouse, children, and siblings. This provision does not, however, apply to stockholders in stock companies.
c) Entertainment expenses incurred for events with employees or customers, such as parties, sports competitions, activities, and recreational trips.
d) Payments made by resident parties to non-resident parties in respect of employees' subscriptions to savings and thrift funds established outside the Kingdom.

3.3.3 Practical Examples

Below are practical examples (non-exhaustive) of the deductibility rules applicable to variable payments made to employees for the purpose of determining the taxable income of the Saudi company.

Example (1):

A non-resident shareholder of a company in the Kingdom is distributing profits of the year to himself, which are recognized as salary in the company accounts and deducted for the purpose of determining the taxable income of the company.

According to the provisions of the Law and the Implementing Regulations, payments to shareholders (or board of Directors, owner, etc.) shall not be deemed as salary and therefore may not be deducted for income tax purposes.

Furthermore, they will be deemed distributed dividends and therefore readjusted and added back to the taxable income.

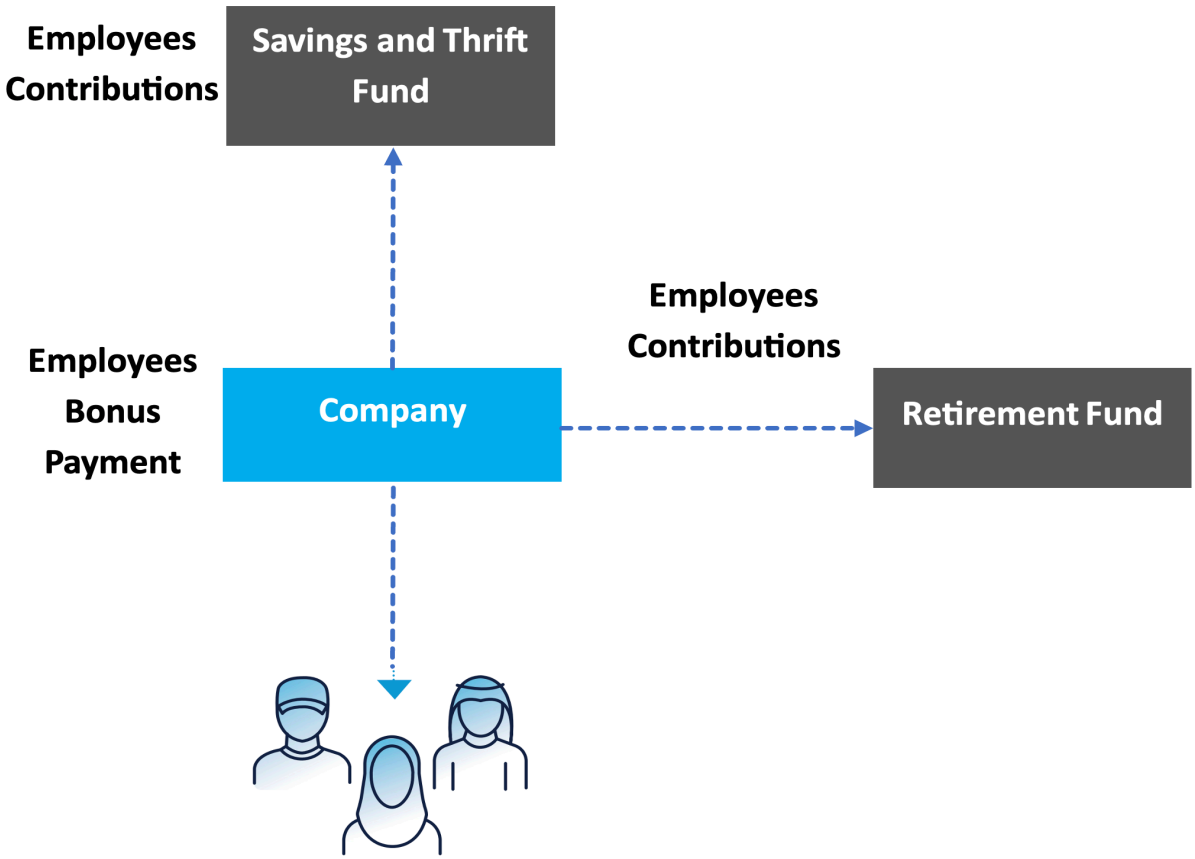
Example 2:

A company in the Kingdom is making the following variable payments to or on behalf of its employees:

a) Payments to non-resident savings and thrift funds in return for employees' subscriptions.
b) Payments to the Saudi retirement fund in return for employees' subscriptions
c) Payment of yearly bonus which are in line with the company policy, approved by the Ministry of Labor, and provided by the employment contracts of the relevant employees. Bonuses have been decided through performance review and formally approved by the company management.

The following deductibility rules will apply:

a) Both payments 1 and 2 will be considered as non-deductible as they relate to the "employee" share. In case they are related to the "employer" share, they could have been allowed for deduction subject to the condition outlined in the table in Section 2.3.2.
b) The payment of a performance bonus for the year is a deductible expense, provided that it meets all the relevant conditions and evidence can be provided by the company upon request by the Authority.



3.4 Bad Debts

Based on the provisions of the Income Tax Law, bad debts resulting from the sale of goods or services are generally considered as deductible expenses provided that these debts were previously reported as taxable income of the taxpayer in the year in which they arose(6) .

The bad debt is allowed for deduction on the condition that it is written off from books, provided that appropriate evidence is available demonstrating the impossibility of its collection.

(6) Article 14 of the Income Tax Law

The Implementing Regulations stipulate the conditions or controls that must be met by the taxpayer to deduct expenses related to bad debts, which are as follows[7] :

a) The bad debts must have previously been declared in the return as part of the taxpayer's revenue in the year the revenue became due.
b) The bad debts must arise from the sale of goods or the provision of services.
c) The debts are not owed by related parties to the taxpayer.
d) The taxpayer should be able to provide a certificate issued by a certified public accountant, confirming the write-off of the debts from the taxpayer's books pursuant to a decision issued by the authorized person.
e) The taxpayer undertakes to declare the debts within his income once collected.
f) All legal procedures for the collection of the debts must have been undertaken, and the impossibility of collection must be demonstrated by submitting any convincing evidence proving this.

The following are examples of documents required to be submitted to prove the deduction of bad debts:

Conditions	Supporting Evidence
Write off the income from the books	Certificate issued by a Certified Public Accountant confirming the write-off
Taking all legal procedures for the collection of the debts and proving the impossibility of their collection	Proving the impossibility of collection by convincing evidence (judicial ruling, proof of the debtor's bankruptcy, etc.)
Commitment to reinstate debt that was written off and deducted, as soon as it is collected	• No particular document required • Failure to comply may result in adjustments by the Authority during the tax audit.

With respect to the debts scheduled to be bad debts for one of the non-resident partners, although it is not accounted for as expenses, it is subject to Tax Withholding at 5%, considered as a dividend, because it decreased the value of the remaining profits.

(7) Article 9(3) of the Implementing Regulations of Income Tax Law



Scan this code to view the latest update of this document and all published documents, or visit the website of the Zakat, Tax and Customs Authority at zatca.gov.sa.