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An Analysis of Bad Debts Deductibility for Financial Institutions Under Tanzania Income Tax Act

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Abstract
This paper examines the deductibility of bad debt by Financial Institutions (FIs) under section 25(5) (a) of the Income Tax Act Cap. 332 [R.E. 2023]. The study adopts qualitative approach, combining doctrinal analysis of statutes, case law, and regulation with empirical data from interviews and questionnaires administered to 100 respondents, including tax officials, regulators, bankers, and practitioners. The sample was determined using the Cochran formula to ensure representativeness at a 95% confidence level and a 10% margin of error, addressing potential selection bias. The findings revealed that the Income Tax Act allows deduction only after all reasonable steps are taken to recover a debt, it fails to define these steps. This ambiguity causes inconsistency interpretations and frequent dispute between Tanzania Revenue Authority and FIs. Evidence shows that Bank of Tanzania (BOT) supervised recovery policies already embedded reasonable steps through documented procedure and board approvals. This study recommends legislative reforms to codify qualitative factors and harmonize tax law with prudential standards. Such alignment will enhance clarity, reduce disputes, and balance fiscal and prudential objectives, thereby promoting compliance and financial sector stability.
Keywords: Bad debt, Deductibility, Financial Institutions, Income Tax Act, Reasonable steps, Tanzania.
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1. Introduction

The deductibility of bad debt by financial institutions (FI) is a critical aspect of income taxation, shaping fiscal policy, compliance and financial stability (Escolano, 1997; Jandwa, 2024). Unlike ordinary taxpayers, FIs operates under complex regulatory frameworks and prudential standards, making the treatment of bad debts, to impose a prerequisite that debts be written off after taking reasonable steps to recover them (section 25(5)(a) of the Income Tax Act, Cap. 332 [R.E. 2023]) (Ndikimi, 2025). However, the Act does not define what constitutes reasonable steps, creating interpretational ambiguities and administrative discretion that often led to disputes between FI and Tanzania Revenue Authority (TRA) (Jandwa, 2024; Ndikimi, 2025).

This uncertainty has significant implications for compliance and financial sector stability. Although the Bank of Tanzania (BoT) prescribes prudential standards for debt classification and write offs, these standards are not explicitly harmonized with tax law, resulting in a regulatory gap. The absence of codified criteria for reasonable steps undermines predictability in tax administration and exposes FIs to inconsistent enforcement. A thorough analysis of what constitute reasonable steps is essential for reducing disputes and ensuring predictable tax outcome. Factors such as the complexity of debt recovery, prudential requirements, and the interplay between tax and financial regulation influence compliance. Yet, deliberate ambiguity in the law remains a major contributor to contention between TRA and FIs.

This paper addresses the interpretation of reasonable steps by examining the reasonable steps legal framework, practical recovery strategies, and international best practices. Focus is on Tanzania, where the Finance Act No.2 of 2014 introduced the reasonable steps requirement, shifting FIs from reliance solely on BoT standards to a dual compliance regime under tax. Specifically, it is asked what constitute reasonable steps for bad debt deductibility under Tanzania law, and how can tax and BoT standards be harmonized to enhance clarity and compliance. The study adopts a mixed approach, combining doctrinal analysis of statutes, case laws, and regulation with empirical insights from interviews and questionnaires administered to key stakeholders, including TRA officials, BoT regulators, bankers and tax practitioners, complimented with comparative analysis of international practices to propose a harmonized framework aligned with BoT standards and global best practices.

2. Empirical Evidence

Scholars on bad debt deductibility for FIs reveals conceptual and regulatory gaps. Escolano (1995) defines bad debt as a major FI asset that may become worthless, Nevertheless, distinguishes between the charge-off which is based on non-performance, collateral adequacy, and debtor financial position and the reserve method which allows deduction before formal non recovery, using expected credit loss estimates (Escolano, 1995, 1997). Thuronyi (1998) supports the reserve method for FIs and the charge off method for others entities other than FIs, In Tanzania, the basis emanates from the Finance Act No. 2 of 2014 which introduced the reasonable steps prerequisite under sections 25(5)(a) and 39(d) of the Income Tax. The International Monetary Fund, through successive *Global Financial Stability Reports* (GFSR), urges FIs to adopt a forward-looking provisioning and harmonize tax and accounting standards (International Monetary Fund, 2020–2024). Makundi (2024) critiques misalignment between section 25(5)(a) of the Income Tax Act and IFRS 9, proposing phased deduction aligned with IFRS 9, as seen in South Africa and the United Kingdom, though Tanzania applies a charge off method (Makundi, 2024).

Global evidence shows varied timelines for NPL write offs 7–24 months in American and Asian, the CESEE region, 3 years in Albania writes off loans reduces the NPL ratio by 2.7 per cent, and North Macedonia reducing NPL ratios by 4.2%. Escalano (1997) notes that Australia and the United States exhibit significant gaps between regulatory and taxable income, while Denmark, France, Germany, Luxembourg, and Switzerland show broad conformity. Italy, Japan, and Spain restrict or cap tax deductibility for loan provisions (Escolano, 1997). Makwi (2021) outlines recovery management strategies for non-performing loans (NPLs) and written-off loans, emphasising approved appraisal and context specific approaches.

This study addresses this gap by evaluating what constitutes reasonable steps for bad debt deductibility under Tanzania law and proposing a harmonized framework aligned with BoT standards and international best practices.

In Tanzania, the principal legislation governing income taxation is the Income Tax Act, Cap. 332 [R.E. 2023], which applies to FIs. For FI, the Act prescribes specific provisions under section 25(5)(a), requiring that bad debt be written off only after taking reasonable steps to recover them. This requirement was introduced by Finance Act No.2 of 2014, marking a significant shift from the previous regime where compliance with BoT prudential standards alone sufficed for deductibility.

The FIs sector is regulated primarily under the Banking and Financial Institutions Act, Cap. 342 [R.E. 2023], complemented by BoT prudential regulations such as the Management of Risk Assets Regulations, G. N. No. 287 of 2014. These regulations classify loans into categories including standard, substandard, doubtful, and loss and prescribe procedures for provisioning and write offs. While these standards aim to safeguard financial stability, they are not harmonized with tax law, creating a dual compliance burden for FIs.

The tax year in Tanzania runs from 1st January to 31st December, and corporate income tax is levied at a standard rate of 30% on taxable income (gross income less allowable deductions and exemptions). For FIs, bad debt deductions are significant because loan constitute their core assets. Any restriction or ambiguity in deductibility directly affects profitability, liquidity, and capital adequacy ratios. Unlike ordinary taxpayers, FIs does not write off debts voluntarily, as doing so reduces their capital base and impacts regulatory compliance with BoT prudential limits on non-performing loans.

The absence of codified criteria for reasonable steps under the Income Tax Act has led to interpretational inconsistencies. TRA retains discretion to allow or disallow deductions, often requiring evidence of exhaustive recovery efforts. In practices, FIs rely on internal debt recovery policies approved by their boards and supervised by BoT, which include measures such as restructuring, collateral realization, litigation, and alternative dispute resolution. However, these steps are not formally recognized under tax law, creating uncertainty and frequent disputes between Tanzania Revenue Authority and Financial Institutions.

This regulatory gap is particularly critical given the size and role of the banking sector in Tanzania's economy. As of 2023, the sector comprises over 40 licenced banks and FIs, contributing significantly to credit intermediation and economic growth. Ensuring clarity in bad debt deductibility is therefore essential for balancing fiscal objective with financial stability

3. Methodology

3.1 Data sources

As the primary data source, qualitative evidence was collected through semi structured interviews and questionnaires administered to 100 respondents, including TRA officers, BoT regulators, bankers, Ministry of Finance officials, advocates and tax consultants. Respondents were selected using purposive sampling to ensure expertise on bad debt deductibility (Kothari, 1990; Crossman, 2025). The study was complemented this with documentary review of statutes, case law, and regulations, and judicial decisions, scholarly work and reports. Prior to analysis, responses were organised thematically under legal framework, interpretation of reasonable steps, and harmonization strategies (Kombo & Tromp, 2006). Five expert validation session with TRA and BoT officials verified interpretations and informed recommendation.

3.2 Estimation strategy

In order to analyse patterns in bad debt deductibility, the study deployed both explanatory and comparative analysis, in both cases, compliance was operationalized using three outcomes (i) whether the FIs writes off debt after taking recovery action; (ii) whether those actions align with BoT supervised recovery procedures; and (iii) conditional on write off, whether qualitative factors such as insolvency, statutory limitation, or absence of realisable security are documented before deduction (section 25(5)(a) of the Income Tax Act, Cap. 332 [R.E. 2023]; Banking and Financial Institutions (Management of Risk Assets) Regulations, G.N. No. 287 of 2014)).

The descriptive analysis displays compliance behaviour across a variety of factors, visually describing patterns in interpretation of reasonable steps and their alignment with prudential standards (Kombo & Tromp, 2006). For the correlational analysis, this study applied comparative tests to access differences in compliance among FIs based on size, sector and recovery strategies. Cochran formula was used in this study to validate sample adequacy of qualitative inference:

$$n0 = \frac{Z2p\,(1-p)}{e^2}$$

Where $Z = 1.96$ for 95% confidence, $p = 0.5$ (maximum variability), and $e = 0.10$ (margin error). This produced a recommended sample size of 98 respondents, our purposive sample of 100 respondents therefore exceeds the minimum requirement, ensuring representativeness and qualitative saturation (Kothari, 2004; Crossman, 2025). Finally, responses were triangulated with statutory provisions and international benchmarks from Kenya, Malaysia, and South Africa, supported by IMF and World Bank reports on harmonization on Tax and prudential standards (Escalano, 1997; IMF, 2020-2024; World Bank, 2019).

4. Findings and Discussion

4.1 Existing legal gap to the deductibility of bad debt

Section 25(5)(a) of the Income Tax Act, Cap. 332 [R.E. 2023] The ITA provides that FIs may only deduct a bad debt where it complies with Bank of Tanzania (BoT) standards and demonstrate that “all reasonable steps” were taken to recover the debt. While this provision forms the statutory basis for the reasonable steps requirement, the Act does not prescribe the specific steps that FI must undertake to qualify for deduction (Access Bank Tanzania Limited v. Commissioner General, Tanzania Revenue Authority, Civil Appeal No. 314 of 2017, p. 11).

Before the Finance Act, 2014, compliance with BoT standards alone was sufficient for deductibility (PricewaterhouseCoopers, 2014). The current absence of defined steps contradicts the long-standing legal principle that taxation must be imposed in clear statutory language, and where exists, it must be interpreted in favour of the taxpayer (Commissioner General of TRA v. Pan African Energy Tanzania Ltd, Civil Appeal No. 112 of 2020). Consequently, this gap thereby creates uncertainty in application.

All groups of respondents, including BoT officials, bankers, Ministry of Finance (MoF) officials, TRA employees, advocates confirmed and were consistent with Makundi (2024) and Jandwa (2024), that there is no existing legal framework specifying the reasonable steps. BoT officials emphasized that Circular No. FA.178/461/01/02 requires FI to demonstrate proactive recovery efforts such as restructuring, engaging collateral agents, and documenting all recovery attempts, and securing board approval (BoT Circular No. FA.178/461/01/02, 2018). They noted that FI’s do not prefer writing off debts, because BoT prudential norms require banks to maintain a non performing loan ratio below 5 per cent, and write-offs reduces its capital base (Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014, reg. 19(2);

No. FA.178/461/01/02, 2018).

Respondents further highlighted the need to harmonise the ITA with BoT prudential standards and internal recovery policies. Banks rarely write off loans because debts from their trading stock, and write offs directly affect liquidity and going concern status. (K. H. Monto, personal communication, October 11, 2016). To avoid double standards, FI's already comply with stringent BoT supervisory requirements before writing off debts, yet TRA lacking sector specific expertise often adopts inconsistent interpretations. (Naidu, 2018; Jandwa, 2024).

4.2 Consequences of Undefined Reasonable Steps

Findings demonstrate that the ITA does not specify the steps FIs must take qualify for bad debt deductibility (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a)). Because TRA retains discretion to allow or disallow claims, this statutory silence creates legal vacuum that results in inconsistent applications and disputes with FIs (Ndikimi, 2025). With no codified steps, tax officers exercise wide latitude in evaluating whether "all reasonable" were taken.

Comparative insights from New Zealand shows that determining a bad debt must base on objective, verifiable evidence, not subjective opinion (Public Ruling 05/01, 2005; Naidu, 2018). However, Tanzania, uncertainty persists because TRA applies varying interpretations of what constitute adequate recovery efforts.

These findings align with Makundi (2024) and Jandwa (2024), both of whom argued that the ambiguity surrounding reasonable steps leads to arbitrary administrative decisions and undermines taxpayer confidence. Case law reinforces this concern both Commissioner General (TRA) v. Pan African Energy Tanzania Ltd, Civil Appeal No. 112 of 2020; and Access Bank Tanzania Limited v. Commissioner General, Tanzania Revenue Authority, Civil Appeal No. 314 of 2017 decisions underscore the importance of predictability, clarity, and legality in Tax administration.

Empirical data from interviews confirms this challenges. All respondents including TRA officers themselves acknowledged that the absence of codified steps creates interpretation inconsistency and leads to unnecessary contention with FIs (K. H. Monto, personal communication, October 11, 2016). International Institutions simillary observe that unclear treatment of bad debts weakens financial sector stability and tax compliance (World Bank, 2019; International Monetary Fund, 2019, 2021).

4.3 Proposed Legal Framework for Deductibility of Bad Debt by FIs

4.3.1 Proposed Qualitative Factors for Deductibility of Bad Debts

Qualitative factors are circumstances that make a financial institution reasonably certain that a debt is uncollectible. Currently, the ITA does not provide qualitative factors for bad debts, creating ambiguity, especially when compared to NPL classifications under the "loss" category in BoT regulations, which do recognise such factors (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a); Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014, reg. 19(2)). This inconsistency between NPL and bad debt under the ITA has led to interpretational challenges, making it essential to define qualitative factors before prescribing reasonable steps for deductibility.

A comparative analysis reveals that several jurisdictions and frameworks—including the United States, Australia, Malaysia, Kenya, BoT regulations, and IFRS 9—recognise loss of legal capacity, such as death, bankruptcy, or liquidation, as a clear indicator that recovery is no longer feasible (United States Internal Revenue Service, 2016; Australia Taxation Office, 1992; Inland Revenue Board of Malaysia, 2019; Kenya Revenue Authority, 2024; Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014; IFRS 9, para. 5.5.17). This factor was supported by all 100 respondents in the study and is practical and easily verifiable through documentation such as death certificates, insolvency records, and court orders.

Temporary but repeated financial difficulty of the debtor is acknowledged by the United States, Kenya, BoT regulations, and IFRS 9, and was supported by 90 respondents, while the expiration of the statutory limitation period is recognised in the United States, BoT regulations, and IFRS 9 and was supported by 95 respondents (United States Internal Revenue Service, 2016; Kenya Revenue Authority, 2024; Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014; IFRS 9, para. B5.5.5). This latter factor aligns with IFRS 9's ECL model, which already applies in FI provisioning systems (IFRS 9, para. B5.5.37).

Inability to trace a debtor's whereabouts or assets is recognised in the United States, Australia, Malaysia, and

BoT regulations, and was supported by all 100 respondents (United States Internal Revenue Service, 2016; Australia Taxation Office, 1992; Inland Revenue Board of Malaysia, 2019; Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014). This factor applies where debtors cannot be located and enforcement attempts have failed and is consistent with recovery challenges frequently faced in Tanzanian credit markets (Jandwa, 2024).

The debt being statute-barred is specifically emphasised in Malaysia and was supported by all 100 respondents; this factor considers debts that have become unenforceable due to the lapse of the statutory recovery period (Inland Revenue Board of Malaysia, 2019). Tanzanian courts similarly uphold limitation defences under domestic limitation laws.

Absence of realisable security is recognised in Malaysia and was supported by 97 respondents; this factor considers situations where pledged collateral or guarantees no longer hold recoverable value (Inland Revenue Board of Malaysia, 2019; Banking and Financial Institutions [Management of Risk Assets] Regulations, G.N. No. 287 of 2014, reg. 19(2)). This aligns with BoT's classification of loans as losses when collateral realisation is impossible or uneconomical. Incorporation of this factor into the ITA would synchronise tax treatment with BoT prudential classifications of loss (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a)).

Failed attempts at alternative dispute resolution (ADR) are recognised in Malaysia (Inland Revenue Board of Malaysia, 2019) and were supported by 90 respondents. Inclusion of this factor as a qualitative indicator would support the principle of exhausting recovery avenues before deduction. Disappearance of an active market for the debt recognised under IFRS 9 and supported by 50 respondents arises when the secondary market for debt instruments collapses, making realisation impracticable; however, this factor has limited applicability in most Tanzanian financial institutions, where secondary debt markets are underdeveloped (IFRS 9, para. B5.5.37).

Ill health of the debtor is recognised only in United States practice but was not supported by respondents, indicating limited practical relevance (United States Internal Revenue Service, 2016). As illness does not, in itself, extinguish a legal obligation, this factor is not suitable for inclusion as a stand-alone qualitative criterion, though it may serve as supporting evidence where illness leads to legal incapacity or insolvency.

The cost of recovery exceeding the debt amount, acknowledged in Malaysia but not supported by respondents, applies when litigation or enforcement costs exceed the recoverable amount (Inland Revenue Board of Malaysia, 2019). While this factor reflects commercial reasonableness, it may be susceptible to manipulation and therefore would require careful drafting if adopted.

These findings underscore the necessity for legislative reform that moves beyond TRA's discretionary approach by codifying qualitative factors that qualify a debt for deduction (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a); Ndikimi, 2025). Such reforms would harmonise the ITA with international best practice and prudential standards, ensuring clarity, fairness, and predictability in tax administration and supporting a stable financial sector (World Bank, 2019; International Monetary Fund, 2019, 2021).

4.4 Reasonable Steps toward Deductibility of Bad Debt

BoT Circular No. FA.178/461/01/02 imposes a regulatory obligation on FI to codify their Debt Recovery and Arrears Management Policies, and these internal policies effectively outline reasonable steps required in loan recovery under BoT supervision (No. FA.178/461/01/02, 2018; Naidu, 2018). Their existence demonstrates that such steps are already embedded within the prudential regulatory framework governing the FI. Recovery strategies employed by FI depend on the nature and complexity of the debt, and may include but are not limited to the following: negotiating new repayment schedules with borrowers, initiating court action, conducting auctions, placing corporate borrowers under receivership, engaging debt collectors, taking possession of secured assets, advising borrowers to refinance with other FI, peaceful seizure and sale of assets, encouraging voluntary disposal of assets, requesting borrowers to seek financial support from relatives or friends, accepting partial or full repayment, following up with legal representatives, and in some cases applying civil imprisonment mechanisms (Makwi, 2021; Naidu, 2018).

A comparative analysis of international practices reveals a flexible approach to defining reasonable steps. In the United States, there are no specific procedures required for charging off a debt; rather, any action that removes the debt from the FI's books may suffice (Naidu, 2018; United States Department of the Treasury, Internal Revenue Service, 2016). Similarly, the Australian Taxation Office emphasises that an FI need not exhaust all legal avenues but must make a bona fide assessment, based on sound commercial judgment, of the debtor's worthlessness (Australia Taxation Office, 1992). New Zealand Inland Revenue echoes this view, stating that the

extent of recovery action depends on the circumstances and that, in some cases, limited or no action may be justified if sufficient information exists to conclude the debt is bad (Inland Revenue, 2000; Naidu, 2018).

Regionally, Kenya's guidelines on bad debt deductibility outline conditions under which a debt may be deemed uncollectable but refrain from prescribing specific recovery steps (Kenya Revenue Authority, 2024). This omission likely reflects the practical challenges of standardising procedures across diverse loan types and default scenarios (Naidu, 2018). Empirical findings from this study strongly support a flexible, context-sensitive approach. Ninety respondents agreed that reasonable steps should be determined based on each FI's Debt Recovery and Arrears Management Policies, and that recovery strategies must be tailored to the complexity, size, and risk profile of each debt claim. This variation justifies the need for harmonisation between the ITA and existing prudential standards. Therefore, it is evident that codifying reasonable steps in alignment with the BoT-supervised recovery framework would enhance legal certainty, reduce interpretational inconsistencies, and ensure fair and practicable tax treatment for FI**.**

5.0 Conclusion and Policy Recommendations

The definition of FI should be aligned with BAFIA and the BoT Act, which define "financial institution" and "bank" separately, whereas the ITA refers primarily to traditional banks (Income Tax Act, Cap. 332 [R.E. 2023], s. 3; Banking and Financial Institutions Act, Cap. 342 [R.E. 2023]; Bank of Tanzania Act, Cap. 197 [R.E. 2023]). The proposed definition under the ITA should therefore explicitly include or exclude other credit entities to ensure certainty, since bad debts may be encountered by any credit-granting entity and not only by banks and FIs narrowly defined.

Debt claims as defined under the ITA currently limit the scope of debt claims by excluding other forms of credit accommodation that are properly recognised under the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014 (Income Tax Act, Cap. 332 [R.E. 2023], s. 3; Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014). Accordingly, the definition of debt claims under the ITA should be amended to align with the broader notion of credit accommodation under those Regulations.

There is also a pressing need to define "write-off" and "bad debt" so that the legislation explicitly indicates whether NPLs are included or excluded. Thus, the definition under the ITA should be amended to harmonise with the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014, which classify loans as substandard, doubtful, and loss, for purposes of applying the reasonable-steps test (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a)). The term "reasonable steps" can then refer to concrete actions an FI must undertake to prove it has made sufficient efforts to recover a debt before classifying it as bad for tax purposes, as ascribed under the relevant provisions determining bad debt (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a)).

Considering the comparative analysis and empirical findings, it is recommended that legislative reform through regulations codify a clear set of qualitative factors that justify the classification of a debt as uncollectable for tax purposes (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a); Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014). These factors should reflect both international best practices and the operational realities of FIs. The proposed qualitative factors include:

- Loss of legal capacity by the debtor or co-obligor to contract due to factors such as death, legal incapacity, insolvency, bankruptcy, or the claim becoming statute-barred (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; IFRS 9, para. B5.4.9).
- Significant financial difficulty of the debtor, impairing the ability to repay (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; IFRS 9, para. B5.4.9).
- Inability to trace the debtor's whereabouts or assets, supported by police reports or other official documentation (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014).
- Expiration of the statutory limitation period of 181 or more days from the day of default, rendering the debt legally unenforceable (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a); Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014).
- Debt being statute-barred under the applicable limitation laws (Income Tax Act, Cap. 332 [R.E. 2023];

Land Act, Cap. 197 [R.E. 2023], s. 127).

- Failed attempts at ADR, where litigation is either uneconomical or legally impractical (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014).
- Absence of realisable security (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; IFRS 9, para. B5.4.9).

These factors are consistently recognised across jurisdictions such as the United States, Australia, Malaysia, and Kenya, and in standards such as IFRS 9 and BoT regulations, and were strongly supported by most respondents in the study, confirming their relevance and applicability in the Tanzanian context (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; IFRS 9, para. B5.4.9; Makwi, 2021).

Considering the results and comparative analysis, it is recommended that the ITA be supported by subsidiary legislation made under section 129 to codify a clear and flexible framework for the reasonable steps required for the deduction of bad debts by FIs (Income Tax Act, Cap. 332 [R.E. 2023], s. 25(5)(a), s. 129). The steps should align with FI recovery strategy procedures, which are adopted depending on approved strategies that reflect both international practice and the operational realities of Tanzanian FIs (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; Makwi, 2021). The proposed steps include:

- Before initiating formal recovery, a series of written communications must be sent to the borrower, including: a statement of account to confirm whether payment has been overlooked; a follow-up letter requesting engagement with the FI; and a final demand letter insisting on immediate response where the debt is secured by mortgage, issued after the expiry of 60 days in line with the Land Act (Land Act, Cap. 197 [R.E. 2023], s. 127; Makwi, 2021). These steps must be initiated promptly to avoid unnecessary accumulation of interest and to uphold the FI's duty of care, as emphasised in *Exim Bank (Tanzania) Limited v. Daxcar Limited* (High Court Commercial Case No. 51 of 2008; Makwi, 2021).
- A recovery appraisal must be prepared to enable management to approve proposed recovery strategies. Depending on the complexity and specific circumstances of each recovery case, a combination of approaches may be adopted. Strategies include, but are not limited to: negotiating with customers to establish new repayment schedules; initiating court action; conducting auctions; placing a body corporate under receivership; engaging debt collectors; taking possession of secured assets; advising customers to refinance with another FI; peaceful seizure and sale; encouraging voluntary disposal of assets; urging customers to seek financial support from relatives or friends; accepting full or partial repayment; following up with appointed legal representatives; and, in some cases, using civil imprisonment mechanisms, each with its own due process (Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014; Makwi, 2021).
- The FI should obtain a board resolution formally approving the write-off, with the approved steps conforming to internal recovery policies and the board's oversight, as recognised in *Diamond Trust Bank Tanzania Limited v. TRA*, Civil Appeal No. 314 of 2021 (Diamond Trust Bank Tanzania Limited v. TRA, Civil Appeal No. 314 of 2021; Banking and Financial Institutions [Management of Risk Assets] Regulations, No. 287 of 2014).

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