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Bad Debts

Shane Ratigan • Mar. 22, 2017



For accrual method clients chalking up bad debts, a claim for refund of transactional taxes previously remitted can be a worthwhile engagement. Sales taxes are the most common form of transactional taxes for retailing vendors, and since the majority of retailers remit sales taxes on a monthly basis, sales taxes are often remitted in full to a taxing authority long before a vendor sees a penny. When the bills related to these sales go unpaid and uncollectible, your vendor-client, and you, are presented with an opportunity.

Here are some considerations:

What debts are “bad” for purposes of the transactional tax itself? General

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3. A refund claim submitted separately from regular monthly reporting forms.

Whether the process involves an adjustment (credit or deduction) or a refund, the challenges and opportunities for a requesting entity are similar.

Who can claim a credit, deduction or refund of transactional taxes paid on bad debt? In all cases, the vendor who paid and reported the taxes paid can advance a claim through any method available. In some states, firms who provide third-party financing for retailers or who purchase debt that becomes uncollectible may make a claim, but not in others. A key early determination in these situations is whether the party holding the bad debt has standing to make a claim.

What does it take to get this done? It shouldn't surprise you that states require extensive documentation and support whenever a claim or adjustment is made. However, the trail of a bad debt is usually easy to identify for a retailer. A business with their billing house in order should be in a good position to support a credit, deduction or refund claim.

In general, a company hoping to claim, and actually receive, a sales tax refund, or to support an adjustment for bad debts should record and be prepared to make available the following:

- name of the purchaser;
- date of the sale;
- price of the property or services;
- amount of sales tax charged;
- amount of interest, finance and service charges;
- whether the property was retained by the vendor or seller or repossessed;
- the dates and amounts of any payments made on the debt;

- records of the portions of the debt which represents charges not subjected to the

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If this short article has triggered interest in the possibility of a transactional tax refund or adjustment, rest assured, your work is just beginning ... once you have verified the debt is bad and that the taxes were actually remitted, gain a comfort level with the processes and paths available in the state(s) at issue. Since solving complex tax issues is already your specialty, a refund or adjustment of transactional taxes remitted can provide a lucrative engagement for you and provide a little reduction in your client's bad debt pain.

Sales Tax

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