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REVENUE TAX

NOTICE

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REBATE OF REVENUE TAX REMITTED ON UNCOLLECTIBLE ACCOUNTS

Introduction:

This guide is intended to provide vendors with information on claiming a rebate of revenue tax (PST) remitted on credit sales that later become uncollectible.

Effective April 5, 2008, the Regulations to the *Revenue Administration Act* related to the rebate of PST paid on uncollectible credit sales has been amended. The amendment changes the criteria for vendors to recover PST remitted on uncollectible accounts, and allows vendors to deduct the amount of the rebate from their PST liability account without submitting a request to the Provincial Tax Commissioner.

Criteria to be met:

- The vendor must have extended credit to the purchaser with respect to the sale of goods, together with PST payable by the purchaser.
- The purchaser must have defaulted in payment to the vendor of all or part of the amount payable to the vendor in respect of the sale.
- The vendor must have written off as a bad debt in the vendor's books of account the unpaid amount payable to the vendor in respect of the sale.
- The write-off of the unpaid amount payable to the vendor as a bad debt must be in accordance with generally accepted accounting principles, as recognized by the Canadian Institute of Chartered Accountants, applicable at the time of the write-off.
- The rebate must be claimed within four years of the effective date of the bad debt write-off.
- The vendor must not be entitled to off-set the bad debt against amounts owed by the vendor to the purchaser.
- The vendor must not have assigned the unpaid amount, other than for security purposes.
- The purchase was not made with the use of a credit card not issued by the vendor.

Calculation of the PST rebate

The amount of the PST rebate on bad debts is calculated using the following formula:

$$\text{Rebate} = A \times B/C$$

Where:

A is PST remitted on the uncollectible credit sale.

B is the unpaid balance on the sale less the items listed below.

C is the total amount of the sale, including all taxes.

The following items, to the extent they apply, must be deducted from the unpaid amount when calculating amount B in the above formula.

1. Interest, finance, collection or similar charges included in the unpaid amount.
2. All proceeds of sale resulting from the repossession and resale of the goods.
3. All amounts realized by the vendor on any security held on the debt.
4. If the goods sold to the purchaser are repossessed by the vendor and subsequently leased by or used by the vendor, the fair value of the goods at the time of leasing or change in use.

The amount of PST eligible for rebate on a bad debt cannot be greater than the full amount of the PST remitted on that sale.

Rules for Claiming a Rebate of Tax

The following rules apply for the purpose of claiming a rebate of tax.

- The vendor may claim only one rebate in respect of a sale.
- The vendor may claim the rebate by making an adjustment to the vendor's PST liability account for the amount of the rebate claimed.
- The vendor may make only one adjustment to the vendor's PST liability account during any 12 month period for all rebate claims of PST on uncollectible accounts, unless written consent is received from the Provincial Tax Commissioner to make additional adjustments.
- The vendor shall retain sufficient records, information and documentation to permit verification by the Provincial Tax Commissioner of the correct amount of the tax rebate.

Subsequent Recovery of Uncollectible Accounts

If, after claiming a rebate of PST on uncollectible accounts, a vendor recovers all or part of the amount on which the rebate was claimed, the vendor shall repay, by way of adjustment to the vendor's PST liability account, the same percentage of the rebate claimed that the amount recovered by the vendor is of the amount designated as "B" in the rebate formula.

The repossession of goods and the subsequent sale or use by the vendor or by others at the vendor's expense of the repossessed goods shall be considered to be a recovery of all or part of the uncollectible amount in respect of the sale of the goods to the extent of the lesser of the unpaid amount and,

(a) the proceeds from the sale, if the repossessed goods are the subject of a resale; or

(b) the fair value of the goods if the repossessed goods are used by the vendor or by others at the vendor's expense.

Further Information

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