

Ministry of Finance

Tax Bulletin



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Refunds of Tax Paid or Remitted on Sales Written Off as Bad Debts

Motor Fuel Tax Act, Carbon Tax Act, Tobacco Tax Act, Social Service Tax Act and Hotel Room Tax Act

Do you have an account that you have written off as a bad debt?

Do you need to know how to calculate and claim a refund?

This bulletin provides information on how to calculate and claim refunds of tax or security paid or remitted on sales written off as bad debts under the *Motor Fuel Tax Act*, *Carbon Tax Act*, *Tobacco Tax Act*, *Social Service Tax Act* and *Hotel Room Tax Act*.

Table of Contents

Overview.....	1
Calculating a Bad Debt Refund.....	2
Supporting Documentation	5
Payments Received After Receiving a Bad Debt Refund.....	6
Time Limit for Claiming a Refund.....	7

Overview

If you extend credit to a customer, you may be required to pay or remit the tax due on the sale before you collect the tax from your customer. If the account of a customer later becomes uncollectible and is written off as a bad debt, you are eligible for a refund of the amount of tax that you paid or remitted to the ministry but did not collect from your customer.

This bulletin has been completely rewritten and replaces the previous version dated July 2010.

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Please note: References to tax in this bulletin also apply to security (i.e. an amount equal to the amount of tax that would have been collected if the fuel was sold to a purchaser for their own use), if applicable.

The ministry cannot issue a refund of less than \$10.

Calculating a Bad Debt Refund

No Payment Received

If you paid or remitted the full amount of tax due on a credit sale that you received **no payment** on, and the account is written off as a bad debt, you may claim the **full** amount of tax paid or remitted for that sale. For example, if you paid or remitted \$34.09 in tax and received no payment on the sale, you are entitled to a refund of \$34.09.

Partial Payment Received

If you paid or remitted the full amount of tax on a credit sale but received **only a portion** of what is owed before writing the account off as a bad debt, you are entitled to a proportional refund of the tax that was paid or remitted (see formula and examples below).

For the purposes of claiming a bad debt refund:

- interest charges and service fees may not be included in the transaction price being written off as uncollectible, and
- any payments received from your customer should be applied against the oldest transactions, excluding any interest or service charges.

Formula for Calculating Partial Payment Refund

You calculate the amount of the proportional tax refund on a bad debt transaction as follows.

$$\begin{array}{l} \text{Tax paid or} \\ \text{remitted on the} \\ \text{transaction} \end{array} \quad \times \quad \frac{\begin{array}{l} \text{The amount of money remaining on the transaction} \\ \text{that was written off as uncollectible, } \mathbf{not} \text{ including} \\ \text{interest charges} \end{array}}{\begin{array}{l} \text{The total amount payable on the transaction} \\ \text{including all applicable taxes, } \mathbf{not} \text{ including interest} \\ \text{charges} \end{array}}$$

The total amount payable includes all taxes, including the HST if applicable, and all charges for shipping, duty, or any other charges payable by your customer to obtain title to the goods, but does **not** include any interest charges.

Example 1 – Motor Fuel Tax and Carbon Tax

Total amount of sale (\$1,000 diesel purchase, \$40 shipping charges, \$40 fuel excise tax, \$150 motor fuel tax, \$51.10 carbon tax, \$64.06 HST)	\$1,345.16
Received on account	\$ 500.00
*Interest charges	\$ 100.00
Amount being written off (\$1,345.16 - \$500)	\$ 845.16
Motor fuel tax refund	$\$150.00 \times \frac{\$ 845.16}{\$1,345.16} = \$94.24$
Carbon tax refund	$\$ 51.10 \times \frac{\$ 845.16}{\$1,345.16} = \$32.11$

*Note that the interest charge is **not** included in the calculation.

Example 2(a) - Tobacco Tax

Total amount of sale (\$28 tobacco product, \$30 tobacco tax, \$6.96 HST)	\$64.96
Provincial tobacco tax	\$30.00
Received on account	\$10.00
Amount being written off (\$64.96 - \$10)	\$54.96
Tobacco tax refund	$\$30 \times \frac{\$54.96}{\$64.96} = \25.38

Example 3 – Social Service Tax (PST)

Total amount of sale (\$380 purchase price, \$40 for after-purchase shipping, \$26.60 PST and \$21 GST)	\$ 467.60
Tax remitted (7% of \$380, no PST on after-purchase shipping)	\$ 26.60
Received on account	\$100.00
*Interest charges	\$ 20.00
Amount being written off (\$467.60 - \$100)	\$367.60
$\frac{\$26.60 \times \$367.60}{\$467.60} = \20.91 refund	
*Note that the interest charge is not included in the calculation.	

Claiming a Bad Debt Refund With a Tax Return

If you are a business that submits tax returns, you may claim a bad debt refund by making an adjustment on your tax return.

You enter the amount of the bad debt refund, as calculated above, on the appropriate Adjustments line on your return and subtract it from the amount of tax due.

This reduces the total amount of tax due and payable for the current reporting period by an amount equal to what you remitted in a previous reporting period but were unable to collect.

You need to include supporting documentation with your tax return (see section below, Supporting Documentation).

Please note: Vendors under the *Social Service Tax Act* and operators under the *Hotel Room Tax Act* (not including the municipal regional district tax) cannot claim an adjustment on a supplemental return. For detailed information on claiming an adjustment, see below, Claiming a Bad Debt Refund Without a Tax Return.

Claiming a Bad Debt Refund Without a Tax Return

If you are a business that is not required to submit tax returns, you may claim the tax paid or remitted but not collected on sales written off as bad debts by applying to the ministry for a refund. You apply for a refund by submitting a letter to the ministry, signed by a director or authorized employee, that includes:

- the reason for your claim,
- the amount of your claim,

- a mailing address, and
- supporting documentation (for detailed information, see section below, Supporting Documentation).

If your refund is approved, a cheque will be mailed to the address you provided.

Submit your letter and supporting documentation to:

Ministry of Finance
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

Supporting Documentation

When claiming a refund for an amount paid or remitted on accounts that have been written off as bad debts, you must include the following information with your refund application:

- a schedule that lists the following information for each account that has been written off as a bad debt:
 - the name and address of the account holder,
 - the date of each sales transaction,
 - the full amount of each sales transaction,
 - the tax invoiced on each sales transaction, and
 - the amount of payment, if any, received towards each sales transaction
- copies of each unpaid sales invoice,
- copies of the accounts receivable ledger or statement of account for each account written off, showing entries for each sales transaction, interest and service charges and payments received, if any,
- copies of general ledger entries showing the write off of each account as a bad debt,
- a statement signed by a director or authorized employee, certifying that:
 - either no payment or only partial payment was received on the account,
 - the amount of tax claimed for reimbursement has actually been written off as a bad debt and, in your opinion, is not collectable, and
 - in the event you receive payment, in whole or part, on the bad debt account after obtaining a refund, you will remit the tax due on the amount that you subsequently received on the account (see section below, Payments Received After Receiving a Refund).

Please note: A refund claim will not be processed if any of the above required supporting documentation is not provided.

Payments Received After Receiving a Bad Debt Refund

If you receive any subsequent payment on a bad debt account that you have already received a tax refund for from the ministry, you must remit the tax on the subsequent payment you receive.

To calculate how much tax you must remit, recalculate the amount of your refund as though the subsequent payment had been received before you wrote the account off as a bad debt.

Then, subtract this new refund amount from the amount you have already received from the ministry to arrive at the amount you must remit on the subsequent payment.

For example, if you received a \$15 subsequent payment on the bad debt written off in Example 2(a) above, recalculate the amount of your refund as follows.

Example 2(b)

Total amount of sale (\$28 tobacco product, \$30 tobacco tax, \$6.96 HST)	\$64.96
Provincial tobacco tax	\$30.00
Received on account (\$10 original payment plus \$15 subsequent payment)	\$25.00
Amount being written off (\$64.96 - \$25)	\$39.96
Tobacco tax refund $\$30 \times \frac{\$39.96}{\$64.96} = \18.45	
Initial refund received	\$25.38
Refund calculated	- <u>\$18.45</u>
Amount to be remitted	\$ 6.93

*Note that the interest charge is **not** included in the calculation.

Please note: Social service tax vendors and hotel room tax operators (not including the municipal regional district tax), that receive payments on accounts after June 30, 2010, must remit tax on the subsequent payments received. Social service tax vendors submit

the tax due by completing the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form ([FIN 428S](#)). Hotel room tax operators submit the tax due by completing the *Hotel Room Tax Return – Supplementary* form ([FIN432S](#)).

Time Limit for Claiming a Refund

Your refund claim must be received by the ministry within four years from the date that you paid or remitted the tax. For example, if you paid the tax on August 12, 2008, the ministry must receive your refund application by August 11, 2012.

Need more info?

Toll free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Motor Fuel Tax Act*, *Carbon Tax Act*, *Tobacco Tax Act*, *Social Service Tax Act* and *Hotel Room Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/consumer_taxes.htm