

Ministry of Finance

Tax Bulletin



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Refund of Tax Remitted on Sales Written Off as Bad Debts

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

This bulletin provides specific tax information to help businesses understand how to calculate and claim refunds of tax or security remitted on sales written off as bad debts.

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Overview

Under the *Social Service Tax Act*, the *Hotel Room Tax Act*, the *Motor Fuel Tax Act*, the *Tobacco Tax Act* and the *Carbon Tax Act*, tax must be collected at the time of retail sale.

When fuel wholesalers and retailers (other than propane and natural gas sellers) and tobacco retailers purchase fuel or tobacco for resale, they are required to pay a price that includes a security equal to the tax collectable on the retail sale. They are then reimbursed for the security paid when they collect security from the retailer or tax on the retail sale.

Where credit has been extended to a customer, the business may have remitted the tax or security due on the sale before it has been collected from the customer. If such an account, or portion of such an account, later becomes uncollectible and is written off as a bad debt, the business is entitled to a refund of the amount that was remitted or paid to the government but uncollected from their customer.

Please note: For clarity, a reference to tax in the following information also applies to security paid, if applicable.

Eligibility

You may claim a refund of provincial tax that you remitted, provided:

- no payment, or only a partial payment, was received on the account, and
- the account has been written off as a bad debt.

If you receive any payment, in whole or in part, on the bad-debt account after obtaining a refund, you are required to remit tax on the amount that you received (see the section below, *Payments Received After Obtaining a Refund*).

Calculating the Refund

No Payment Received

If you remitted the full amount of tax due on a credit sale for which you received **no** payment, and the account is written off as a bad debt, you may recover the full amount of tax remitted for that sale. For example, if you 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 remitted the full amount of tax on a credit sale but received only a portion of what is owing before writing the account off as a bad debt, you are entitled to a proportional refund of the tax that was remitted but which you were not able to collect.

Formula for Calculating Partial Payment Refunds

For the purposes of claiming a bad-debt tax refund:

- unpaid interest charges may not be included in the unpaid transaction price being written off as uncollectible, and
- any payments received from your customer must be applied against the transaction price, excluding any interest charges.

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

Provincial tax remitted on the transaction	X	$\frac{\text{The amount of money remaining unpaid on the transaction that was written off as uncollectible, not including interest charges}}{\text{The total amount payable on the transaction including all applicable taxes, not including interest charges}}$
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The total amount payable includes all taxes, including the GST 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 A - 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

$$\$26.60 \times \frac{\$367.60^*}{\$467.60^*} = \$20.91 \text{ refund}$$

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

Example B - Tobacco Tax

Total amount of sale (\$28 tobacco product, \$30 tobacco tax, \$2.90 GST)	\$ 60.90
Provincial tobacco tax	\$ 30.00
Received on account	\$ 10.00
Amount being written off (\$60.90 - \$10)	\$ 50.90

$$\begin{array}{r} \$30 \times \frac{\$50.90}{\$60.90} = \$25.07 \text{ refund} \end{array}$$

Claiming a Refund With a Tax Return

If you are a business that submits tax returns, you may obtain a bad-debt refund by claiming a reimbursement on your tax return. This applies to vendors under the *Social Service Tax Act*, operators under the *Hotel Room Tax Act*, marketable natural gas and propane retail dealers under the *Carbon Tax Act*, and to persons appointed as collectors under the *Motor Fuel Tax Act*, the *Tobacco Tax Act* and the *Carbon Tax Act*.

You enter the amount of the refund, as calculated above, on the appropriate Adjustments line (for motor fuel tax returns, enter the amount on the Authorized Adjustments or Assessments line) 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 the section below, Supporting Documentation).

Claiming a Refund Without a Tax Return

If you are a business that is not required to submit tax returns, you recover tax remitted on bad debts by applying for a tax refund. For example, motor fuel wholesalers, motor fuel retailers and tobacco retailers who purchase motor fuel or tobacco products from their suppliers at a price that includes a security equal to the tax to be collected from their customers, do not submit tax returns and must recover tax remitted on bad debts by applying for a refund.

You apply for a refund by writing to:

Consumer Taxation Branch
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

You must clearly indicate the reason for the claim and the amount being claimed.

You need to include the supporting documentation outlined below with your refund claim.

Supporting Documentation

When claiming a refund for an amount remitted on accounts being written off as bad debts, you must include the following information with your tax return or your refund application:

- names and addresses of purchasers whose accounts have been written off,
- the full amount of each sale and the tax or security involved,
- the payment received, if any, on each sale, and
- the date each sale took place.

Also, you must attach and sign a statement 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 in 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 the section below, *Payments Received After Obtaining a Refund*).

If you are claiming a refund of motor fuel, tobacco or carbon tax, you must also certify that a tax credit cannot be claimed from your fuel or tobacco supplier for the amounts being claimed.

Payments Received After Obtaining a Refund

If you receive any subsequent payment on an account that you have already written off and for which you have obtained a refund of tax, you must remit the tax on the subsequent payment you received.

To calculate how much you must remit, re-calculate the amount of your refund as though the subsequent payment had been received before you wrote the account off.

For example, if you received a \$120 subsequent payment on the bad debt written off, as in Example A above, recalculate the amount of your refund as follows.

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 original payment plus \$120 subsequent payment)	\$220.00
Amount being written off (\$467.60 - \$100)	\$247.60

$$\begin{array}{r} \$26.60 \times \frac{\$367.60^*}{\$467.60^*} = \$20.91 \text{ refund} \end{array}$$

Subtract this new refund amount from the amount you have already obtained to arrive at the amount you must remit on the \$120 subsequent payment.

$$\begin{array}{r} \$20.91 \\ - \underline{\$14.08} \\ \$ 6.83 \text{ to be remitted} \end{array}$$

Time Limits

You need to claim a refund for tax paid as soon as possible after the bad debts are written off your books. There is a four-year limitation period for refunds and only claims received within four years of the date you paid the tax are eligible for a refund.

Records

You must retain your provincial tax-related records for at least five years. You need written authorization from us to destroy any tax-related records that are less than five years old.

Penalties

Where a false statement is made that results in the wilful non-payment or non-remittance of tax due, the legislation imposes penalties in addition to an assessment for the tax that should have been remitted or paid. The courts may also impose fines and/or imprisonment. These sanctions include false statements used to obtain a refund.

Need more info?

Telephone (Vancouver): 604 660-4524

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 *Social Service Tax Act*, *Hotel Room Tax Act*, *Motor Fuel Tax Act*, *Tobacco Tax Act*, *Carbon Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/consumer_taxes.htm

References: *Social Service Tax Act*, Sections 80, 90 and 117, and Regulations 5.19; *Hotel Room Tax Act*, Sections 9, 12 and 32, and Regulations 7; *Motor Fuel Tax Act*, Sections 21 and 26, and Regulation 3.1; *Tobacco Tax Act*, Section 16 and Regulation 16.1; *Carbon Tax Act*, Section 38, 41 and 42, and Regulation 24