

ADMINISTRATIVE GUIDELINES
CLAIMING CREDIT FOR BAD DEBTS AFTER SALES TAX HAS BEEN REMITTED
Procedure 450

The Sales Tax ordinance requires merchants to report for sales tax purposes using the same method used to report their federal tax. CBJ 69.05.070(c). There is a difference between reporting on an accrual basis versus a cash basis.

Accrual Basis Accounting:

As an accrual basis filer, you are required to report your sales on the total billings to your customer. You are liable for the sales tax on your customers' accounts even if your customers' payments go NSF. It is not until the point that you determine a receivable account is uncollectible, that you may use the bad debt exemption. If the sales tax was remitted when the account was billed, you may take a bad debt exemption when you bad debt an account.

Report the gross amount of bad debts claimed on the front side of the Sales Tax Return, line 2 g and use "bad Debts" as the description (this will reduce your tax for the current period.

However, if after you take a bad debt exemption you are able to collect on the account, you are required to add the collected amount to your gross sales reported on line 1 of the sales tax return.

Cash Basis Accounting:

Cash basis merchants should only report the cash they receive. The receipt of an NSF check is not a bad debt. Merchants who report both federally and to the Sales Tax Office on a cash basis do not have bad debts. If you receive an NSF check, you should omit that sale from your gross sales. If you are later able to collect on the NSF check, you are required to include this collection in your gross sales and remit the sales tax due.

As with any exemption, you are required to maintain exemption documentation that clearly backs up the exemption claims you are reporting