

## 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*

Under the *Social Service Tax Act*, the *Hotel Room Tax Act*, the *Motor Fuel Tax Act*, and the *Tobacco Tax Act*, tax must be collected at the time of sale. Where credit has been extended to a customer, the business may have remitted the tax due on the sale before it has been collected from the customer. If such an account, or portion of such an account, is uncollectable and later written off as a "bad debt", the business is entitled to a refund of the tax that was remitted but uncollected.

Under the above statutes, sellers are eligible for a proportional refund of tax remitted to the province. This means that when a customer makes a partial payment of the debt before a sale is written off, the seller is eligible for a refund equal to the tax applicable to the portion of the purchase price that the seller is writing off.

This bulletin outlines how to calculate and claim refunds of tax remitted on bad debts.

The information in this bulletin is provided 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* and Regulations can be found on the web at [www.gov.bc.ca/sbr](http://www.gov.bc.ca/sbr)

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### **ELIGIBILITY**

#### **Who May Claim a Refund**

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.

In the event of a bad-debt account being paid in whole or in part in the future, you are required to remit tax on the amount that you subsequently received on the account (see page 3).

### **CALCULATING THE AMOUNT OF THE REFUND**

#### **No Payment Received**

If you remitted the full amount of tax due on a credit sale for which you received **no** payment whatsoever 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 whatsoever 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, you are entitled to a proportional refund of the tax that was remitted but which you were not able to collect before writing the account off as a bad debt.

## Formula for Calculating Partial Payment Refunds

Effective March 31, 1998, the formula used by sellers to calculate a bad debt tax refund was amended to specify that, for the purposes of claiming the refund:

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

The amount of the social service tax, hotel room tax, motor fuel tax, or tobacco tax refund on a bad-debt transaction is calculated as follows.

Provincial tax remitted on the transaction	X	$\frac{\text{The amount of money remaining unpaid on the transaction that was written off as unrealizable or uncollectable, not including interest charges}}{\text{The total amount payable on the transaction including all applicable taxes, but not including interest charges.}}$
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The total amount payable includes all taxes, including the GST if applicable, and all charges for shipping fees, duty, or any other charges payable by the purchaser 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 \$29.40 GST)	\$476.00
Tax remitted (7% of \$380, no PST on after-purchase shipping)	\$26.60
Received on account	\$100.00
*Interest charges	<u>20.00</u>
Amount being written off	\$376.00
\$26.60	X $\frac{\$376.00^*}{\$476.00^*}$ = \$21.01 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, \$4.06 GST)	\$62.06
Provincial tobacco tax	\$30.00
Received on account	<u>\$10.00</u>
Amount being written off	\$52.06
\$30	X $\frac{\$52.06}{\$62.06}$ = \$25.17 refund

## CLAIMING REIMBURSEMENT BY ADJUSTING YOUR TAX RETURN

### Who Qualifies for Reimbursement

All businesses that submit tax returns on a regular basis may obtain a bad-debt refund by claiming a reimbursement on their tax return. This applies to vendors under the *Social Service Tax Act*, operators under the *Hotel Room Tax Act*, and to persons appointed as collectors under the *Motor Fuel Tax Act* and the *Tobacco Tax Act*.

Enter the amount of reimbursement, as calculated above, on the appropriate "Adjustments" line (for motor fuel tax returns, enter the reimbursement 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 that which you remitted in a previous reporting period but were unable to collect.

You must attach to your tax return the same supporting documentation as is required for claiming a refund (see below).

## CLAIMING REIMBURSEMENT BY REFUND

### Who Must Apply for a Refund

Motor fuel wholesalers and retailers, and tobacco retailers who purchase fuel or tobacco products from their suppliers at a price that includes a security equal to the tax to be collected from their customers must recover tax remitted on "bad debts" through a tax refund. This is because such businesses do not submit a tax return.

A refund should only be claimed if a tax credit cannot be obtained from the oil company or tobacco supplier.

Apply for a refund by writing to the Director,

Consumer Taxation Branch  
PO Box 9442 Stn Prov Govt  
Victoria BC V8W 9V4

### Claiming a Refund

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

The supporting documentation outlined below must be submitted with the refund claim.

### Supporting Documentation

When claiming reimbursement for tax remitted on accounts being written off as bad debts, the following information must be submitted with your tax return or application for refund:

- names and addresses of purchasers whose accounts have been written off,
- the full amount of each sale and the tax 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 of a bad-debt account being paid in whole or in part in the future, you will remit the tax due on the amount that you subsequently received on the account (see the next section).

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

A vendor, lessor or other person carrying on business in British Columbia who is required to collect or pay tax under the legislation must retain books of account, records and documents required under the legislation for a period of seven years.

If a vendor, lessor or other person carrying on business in British Columbia makes a written application to the commissioner for permission to destroy a book of account, record or document, the commissioner may authorize the requested destruction prior to the expiry of the period described above.

## IF YOU RECEIVE PAYMENT AFTER RECEIVING A REFUND

### Remitting Additional Tax

If you receive payment on an account that you have already written off and for which you have received a refund of tax, you must remit the tax on the amount 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 in Example A on page 2, recalculate the amount of your refund as follows.

Total amount of sale (\$380 purchase price, \$40 for after-purchase shipping, \$26.60 PST, and \$29.40 GST)	\$476.00
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Tax remitted (7% of \$380, no PST on after-purchase shipping)	\$26.60
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Received on account (\$100 original payment plus \$120 subsequent payment)	<u>\$220.00</u>
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Amount being written off (\$476.00 - \$220)	\$256.00
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$$\begin{array}{r} \$26.60 \quad \times \quad \frac{\$256.00}{\$476.00} = \$14.31 \end{array}$$

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

$$\begin{array}{r} \$21.01 \\ -\$14.31 \\ \hline \$ 6.70 \text{ to be remitted} \end{array}$$

## ALL BUSINESSES PLEASE NOTE THE FOLLOWING INFORMATION

### Time Limits

You should seek reimbursement for tax paid as soon as possible after the bad debts are written off your books. There is a six-year limitation period, and only tax on accounts written off during the six years immediately prior to the reimbursement or refund request are eligible for reimbursement.

## 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 reimbursement or refund.

### NEED MORE INFO?

**This bulletin is provided for convenience and guidance. If you still have questions call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada or refer to the legislation.**

**Information is also on the web at [www.gov.bc.ca/sbr](http://www.gov.bc.ca/sbr) While there, you can subscribe to our free electronic update service.**

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