

8130.7400 UNCOLLECTIBLE DEBT DEDUCTION.

Subpart 1. **General rule.** Ordinarily, a deduction for uncollectible debts is allowed only for a person who is reporting on the accrual method of accounting for sales and use tax purposes. However, if a cash basis taxpayer accepts an unsecured check in payment for a sale, reports the sale, and subsequently determines that the check is uncollectible, the taxpayer is entitled to an uncollectible debt deduction. In addition, a certified service provider may claim a bad debt allowance on behalf of the provider's client. Uncollectible debts (commonly referred to as bad debts) will be recognized as a deduction for sales tax purposes only when given recognition by a direct charge-off for federal income tax purposes or, if the retailer is not required to file income tax returns, charged off in accordance with generally accepted accounting principles. Consequently, no anticipatory or statistical method of estimating future uncollectible debts will be allowed by the commissioner. See Minnesota Statutes, sections 289A.50, subdivision 2b, and 297A.81.

Subp. 2. **Deduction determination.** If a debt becomes uncollectible, either in whole or in part, in a reporting period subsequent to the period in which the transaction that gave rise to the uncollectible debt occurred, the retailer may deduct the uncollectible debt from the gross receipts for the reporting period in which the uncollectible debt is determined to be uncollectible in accordance with the following rules.

A. If the uncollectible debt arose in respect of a sale required to be included in gross receipts, subject to a tax imposed under the Sales and Use Tax Law, the entire amount of the debt remaining uncollected is allowed as a deduction.

B. If the uncollectible debt arose in respect of a sale partly subject to the tax imposed under the Sales and Use Tax Law and partly exempt thereunder, the amount of the uncollectible debt allowed as a deduction is the amount derived by multiplying the uncollectible debt by the percentage that the taxable sale bears to the total sales.

C. If the uncollectible debt arose in respect of two or more sales made at successive intervals, payments made before the date the debt became uncollectible must be applied, first to the earliest sale upon which there is an unpaid balance, and to following sales in successive order.

Subp. 3. **Excess carryover.** In the event that the seller is entitled to an uncollectible debt deduction in excess of the amount the seller is required to report for the month in which the debt is determined to be uncollectible, the balance of the deduction may be used in a subsequent month.

Subp. 4. **Repossessions.** In the case of repossessions, an uncollectible debt deduction is allowable only to the extent that the pro rata portion of all payments and credits, attributable to the cash sales price of the merchandise is less than the net contract balance (after excluding unearned insurance and finance charges) at the date of repossession.

Subp. 5. **Recovery of uncollectible debts previously deducted.** If an uncollectible debt deduction is taken and the taxpayer subsequently collects the debt in whole or in part, the amount collected must be included in the first return filed after collection, and the amount of tax thereon must be paid with the return.

Statutory Authority: *MS s 14.388; 270C.06; 297A.25; 297A.27; 297A.29*

History: *15 SR 693; L 2005 c 151 art 1 s 114; 31 SR 449*

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