

ALABAMA DEPARTMENT OF REVENUE - SALES AND USE TAX RULES
Code of Alabama 1975, Sections 40-23-31 and 40-23-83

810-6-4-.01. Accounts Charged Off (Bad Debts) and Repossessions.

(1) The term "bad debt or uncollectible account" as used in this rule shall mean any portion of the sales price of a taxable item which the retailer cannot collect. Bad debts include, but are not limited to, worthless checks, worthless credit card payments, and uncollectible credit accounts. Bad debts, for sales and use tax purposes, do not include finance charges, interest, or any other nontaxable charges associated with the original sales contract, or expenses incurred in attempting to collect any debt, debts sold or assigned to third parties for collection, or repossessed property.

(2) The term "repossessions" as used in this rule shall mean the repossession of taxable items from the purchaser by the retailer because of the purchaser's default in the payment of the amount owed.

(3) The term "credit sale" shall include all sales in which the terms of the sale provide for deferred payments of the purchase price. Credit sales include installment sales, conditional sales contracts, and revolving credit accounts.

(4) Sections 40-23-8 and 40-23-68(e), Code of Alabama 1975, require that any person taxable under the law having cash and credit sales may report the cash sales, and the retailer shall include in each report all credit collections made during the preceding tax reporting period and shall pay the taxes due on the cash sales and the credit collections at the time of filing the tax report, but in no event shall the gross proceeds of credit sales be included in the measure of tax to be paid until collections of the credit sales have been made.

(5) In the event a retailer reports and pays the sales or use tax on credit accounts which are later determined to be uncollectible, the retailer may take a credit on a subsequent tax report or obtain a refund for any tax paid with respect to the taxable amount of the unpaid balance due on the uncollectible credit accounts within three years following the date on which the accounts were charged off as uncollectible for federal income tax purposes.

(6) If a retailer recovers in whole, or in part, amounts previously claimed as bad debt credits or refunds, the amount collected shall be included in the first tax report filed after the collection occurred. (Sections 40-23-8 and 40-23-68(e))

(7) If taxable items upon which sales or use tax has been paid by the retailer are repossessed, the retailer is allowed a credit or deduction for that portion of the actual purchase price remaining unpaid. The deduction must not include any nontaxable charges which were a part of the original sales contract. Any payments made by the purchaser prior to repossession must be applied ratably against the various charges in the original sales contract. (Adopted November 3, 1980, amended August 10, 1982, readopted through APA effective October 1, 1982, amended September 25, 1992, amended October 20, 1998)