

City and County of Denver, Colorado

TAX GUIDE

Topic No. 17

CREDIT SALES, INSTALLMENT SALES, AND CONDITIONAL SALES

Credit sales, installment sales and conditional sales are all included in the definition of "purchase" or "sale." The tax is due on the total purchase price at the time of the sale and is to be remitted with the tax return for the month of the sale. In the case of a returned good, if the vendor refunds the full sales price to the purchaser, that amount may be deducted from gross sales on the sales tax return.

Bad checks and unsecured uncollectible amounts originally subject to sales tax are allowable bad debt deductions if the seller has previously remitted sales tax to the City and if the debt is worthless and properly written off for state income tax purposes.

A vendor may not take a bad debt deduction on his/her sales tax return for uncollectible accounts resulting from a secured sale. If a bad debt arises from a conditional sales contract on which the vendor retains title to the property or possesses a chattel mortgage, no deduction from gross sales is allowed.

STATE OF COLORADO POSITION

For the State of Colorado, gross sales from an installment contract more than sixty (60) days in length includes only that portion of the sale amount actually collected in the period being reported. In addition, a credit is allowed for bad debts written off for income tax purposes even when the seller retains title to the property to secure the sale price. (CRS 39-26-102(5))

EXAMPLES

1. XYZ Beds of Denver sells Tom a waterbed on an installment basis. The bed is collateral for the installment contract. Tom and a friend pick up the bed at XYZ's store. XYZ must report the full amount of the sale in the month the contract was entered into and must remit the sales tax due on the entire sales amount. Two months later, Tom defaults on the payments and XYZ repossesses the waterbed. XYZ may not take a bad debt deduction on its sales tax return for the uncollectible amount of the installment sale nor is XYZ entitled to a refund or credit of the tax remitted. Three months later, XYZ sells the same bed to Bill. Bill had the bed delivered to his apartment in Denver. XYZ must collect sales tax on the full amount of the sale to Bill and no adjustment is allowed for the prior events related to the default and repossession.
2. ABC Cars is a used car dealership that provides financing for all its non-cash sales. On a financed sale, ABC retains title to the car until the selling price is paid in full. Because ABC retains a security interest on those vehicles, no bad debt deduction is allowed should the customer fail to make the required payments. This is true even if the vehicle is repossessed.
3. One of Acme Office Supply's customers, who had an open account, files bankruptcy. Acme may take a deduction for the amount of the bad debt representing taxable sales on which tax had been remitted. Acme subsequently files a claim with the bankruptcy court. Four years later, Acme recovers

5% of the amount due from the customer. The amount of the recovery which represents taxable sales previously deducted as bad debts must now be reported as taxable bad debts collected.

- * DRMC Section 53-24(14),(23). Definitions.
- * DRMC Section 53-25. Imposition of tax.
- * DRMC Section 53-28. Retailer responsible for payment of tax.
- * DRMC Section 53-34. Tax on credit sales, etc.
- * DRMC Section 53-95(16),(26). Definitions.
- * DRMC Section 53-96. Imposition of tax.
- * DRMC Section 53-99. Retailer responsible for payment of tax.
- * DRMC Section 53-104. Tax on credit sales, etc.
- * CRS 39-26-102(5). Definitions.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT DENVER TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE DRMC AND APPLICABLE RULES AND REGULATIONS.

Revised 07/17