

Sales/Use/Indirect:

California: Special Notice Addresses New Law that Repeals Bad Debt Deduction for Lenders and Retailer Affiliates

Special Notice: Bad Debt Deductions for Lenders and Affiliated Entities Will Change on January 1, 2025, Cal. Dept. of Tax & Fee Admin. (9/24). The California Department of Tax and Fee Administration (CDTFA) issued a special notice addressing recently enacted legislation [see S.B. 167, signed by gov. 6/27/24, and *State Tax Matters*, Issue 2024-28, for more details on this new law], which makes the following changes regarding bad debt deductions under California's sales and use tax:

URL: <https://www.cdtfa.ca.gov/formspubs/L951.pdf>

URL: https://leginfo.legislature.ca.gov/faces/billHistoryClient.xhtml?bill_id=202320240SB167

URL: https://dhub.deloitte.com/Newsletters/Tax/2024/STM/240712_7.html

1. Lenders may no longer take a bad debt deduction or file a refund claim for accounts found worthless on and after January 1, 2025; and
2. Affiliated entities (as defined under Internal Revenue Code section 1504) of a retailer may no longer take a bad debt deduction or file a refund claim for accounts found worthless on and after January 1, 2025.

The notice clarifies that a retailer that has incurred bad debts generally may continue to take bad debt deductions for California sales or use tax paid that is later found worthless and written off for income tax purposes, because the new law “does not impact a retailer’s ability to take a bad debt deduction on and after January 1, 2025.” Please contact us with any questions.

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