

Sales/Use/Indirect:

California: Special Notice Addresses Repeal of Bad Debt Deduction for Lenders and Retailer Affiliates

L-983: Reporting Tax Recoveries on Bad Debt Losses for Lenders and Retailer Affiliates Beginning January 1, 2025, Cal. Dept. of Tax & Fee Admin. (5/25). The California Department of Tax and Fee Administration (CDTFA) issued a notice addressing legislation enacted in 2024 [see S.B. 167 (2024), and *State Tax Matters*, Issue 2024-28, for more details on this 2024 legislation], which made the following changes regarding bad debt deductions under California's sales and use tax:

URL: <https://www.cdtfa.ca.gov/formspubs/L983.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 explains that for accounts found worthless and written off prior to January 1, 2025, lenders may still claim bad debt deductions and file refund claims – noting that most lenders will have claimed these bad debt deductions on their fourth quarter 2024 return. According to the notice, lenders may continue to file bad debt refund claims for up to three years from the date the account was found worthless, provided it was written off for income tax purposes prior to January 1, 2025. Moreover, the notice provides that if a lender later collects or recovers previously claimed bad debts (recoveries), wholly or partially, it must report to the CDTFA amounts recovered that were previously deducted; lenders can do this by “reporting the amounts on their return in the reporting period in which the loss was recovered or by estimating their future recoveries.” Please contact us with any questions.

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