

Sales/Use/Indirect:

Texas: Adopted Rule Changes Define “Bad Debt Credit” Terms and Reflect Underlying Policy

Amended Tex. Admin. Code Title 34 section 3.302, Tex. Comptroller (12/31/21). The Texas Comptroller of Public Accounts (Comptroller) adopted amendments to its rule (“Rule 3.302”) concerning accounting methods, credit sales, bad debt deductions, repossessions, interest on sales tax, and trade-ins in an effort “to incorporate longstanding agency guidance on bad debts, to revise agency requirements with respect to taking credits on sales and use tax reports and requesting refunds, and to define key terms used in the Tax Code and this section that are undefined.” Among the rule changes involving Texas’ sales and use tax “bad debt” deduction are the following definitions:

URL: <https://www.sos.state.tx.us/texreg/pdf/backview/1231/1231is.pdf>

- **Assignee:** A person to whom either a retailer who made the sale or a private label credit provider transfers the right to claim a credit or refund of Texas sales or use tax paid on a bad debt via a written assignment with specific language transferring the right to claim a bad debt credit or refund;
- **Bad Debt:** Any portion of the sales price of a taxable item that a retailer or private label credit provider cannot collect, and that has been determined to be worthless and actually charged off for federal income tax purposes, provided that the bad debt amount for calculation of the refund or credit is limited to bad debts related to sales that were made by the retailer with whom the person that extended credit entered into the private label credit agreement;
- **Credit Sale:** Any sale in which the terms of the sale provide for deferred payment of the sales price and includes installment sales, sales under conditional sales contracts and revolving credit accounts, and sales for which another person extends credit to the purchaser under a private label credit agreement; and
- **Private Label Credit Agreement:** An agreement by which a person agrees to extend credit to purchasers for credit sales with a retailer or the retailer’s affiliates, or franchisees, often using a credit card or other instrument bearing the name or logo of the retailer or the retailer’s affiliates or franchisees.

Please contact us with any questions.

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