

This Week in State Tax (TWIST)

October 14, 2024



California: CDTFA Clarifies Retailer Bad Debt Refunds Continue in 2025

The California Department of Tax and Fee Administration recently issued a [Special Notice](#) on Senate Bill 167, budget-related legislation, containing numerous tax changes, which was signed by Governor Newsom earlier this year.

Recall, California allows a bad debt deduction for sales and use taxes remitted to the state that relate to accounts that have been found to be worthless and charged off for income tax purposes or under GAAP. Lenders who purchase accounts from retailers are currently eligible to claim a bad debt deduction or refund under certain circumstances, and retailers are also able to assign their rights to claim a deduction or refund to an affiliated entity under certain circumstances.

In the Special Notice, the Department states that the provisions in SB 167 curtailing the availability of bad debt deductions apply only to lenders and affiliated entities of retailers. Those parties may no longer take a bad debt deduction or file a refund claim for accounts found worthless on and after January 1, 2025. For accounts found worthless prior to that date, lenders and affiliated entities of retailers may still take a bad debt deduction and file a refund claim for up to three years from the date that the account was found worthless. The Special Notice specifically states that the provisions of SB 167 do *not* affect a retailer's ability to take a bad debt deduction on and after January 1, 2025. For more information on SB 167, see our earlier [TWIST](#), and contact [Jim Kuhl](#) with questions.

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