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This Week in State Tax (TWIST)

June 16, 2025

Connecticut: Department Issues Policy Statement on Application of Payments to Bad Debts

The Connecticut Department of Revenue Services (Department) updated its policy for applying payments received from purchasers when claiming a credit for sales tax previously paid on worthless accounts receivable. When a retailer extends credit to a purchaser, the retailer is responsible for remitting sales tax on the total purchase price at the time of the sale. If the purchaser fails to pay the full amount due to the retailer, the retailer may claim a credit for sales tax paid on the bad debt once the receivable is written off as uncollectible for federal income tax purposes. If a retailer later collects any amount from an account for which a credit was previously claimed, the amount collected—up to the amount of the credit—must be reported on the sales tax return for the period in which the collection occurred. The guidance notes that in many cases retailers had been applying such payments first to their own charges like penalty, interest, or other fees and not the sales tax.

The Policy Statement indicates a law change has clarified that any payment made by a consumer with respect to such an account shall first be applied toward the amount of sales tax the retailer remitted at the time of the purchase, rather than any other charges. The Department also clarified that claims of bad debt submitted on and after July 8, 2019, must be calculated in such a manner that all payments received by a retailer are first applied toward the sales tax and that any claims that do not conform with Conn. Gen. Stat. § 12-408(2) will be adjusted and potentially denied by the Department. Please contact Cheryl Ladyzhets for more information on *Connecticut Policy Statement No. 2001(1.1)*.

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