

Ministry of Finance Tax Bulletin



Bulletin CTB 001

Issued: February 2014 Revised: November 2024

The **carbon tax was eliminated effective April 1, 2025**. This bulletin has not been updated to reflect this change. For more information on the elimination of carbon tax, see our [Carbon tax elimination](#) page.

Bad Debts

Carbon Tax Act, Motor Fuel Tax Act, Provincial Sales Tax Act, Tobacco Tax Act

Latest Revision: The revision bar (|) identifies changes to the previous version of this bulletin dated October 2015. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin explains how to calculate and claim adjustments or refunds of tax or security paid or remitted on transactions written off as bad debts for carbon tax, motor fuel tax, provincial sales tax (PST) and tobacco tax.

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Overview

If you extend credit to a customer, you may be required to pay or remit the tax due on the transaction before you collect the tax from your customer. If that customer's account later becomes uncollectible and is written off as a bad debt, you may be eligible to claim an adjustment on your tax return or apply for a refund for the amount of tax that you paid or remitted to us but did not collect from your customer.

Note: If you are applying for a refund, we cannot issue a refund of less than \$10.

Where applicable, references to tax in this bulletin also apply to security (i.e. an amount equal to the amount of tax that would have been collected if fuel or tobacco was sold to a purchaser for the purchaser's own use).

References to transaction in this bulletin includes:

- the sale of goods, software, fuel and tobacco,
- the lease of goods, and
- the provision of accommodation, legal services, telecommunication services, online marketplace services and related services.

Calculating a Bad Debt Adjustment or Refund

No Payment Received

If you paid or remitted the full amount of tax due on a credit transaction for which you received **no payment**, and the account is written off as a bad debt, you may claim the **full** amount of tax paid or remitted for that transaction. For example, if you paid or remitted \$34.09 in tax and received no payment on the transaction, you may be entitled to an adjustment or refund of \$34.09.

Partial Payment Received

If you paid or remitted the full amount of tax due on a credit transaction for which you received **only a portion** of what is owed before writing the account off as a bad debt, you may claim a **proportional** adjustment or refund of the tax paid or remitted for that transaction (see the formula and examples below).

For the purpose of claiming a bad debt adjustment or refund, apply any payments received from your customer against the oldest transactions first, and exclude any interest charges or service charges related to financing.

Formula for Calculating Partial Payment Adjustment or Refund

You calculate the amount of the proportional tax adjustment or refund on a bad debt transaction as follows:

Tax paid or
remitted on the
transaction

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The amount of money remaining on the transaction that was written off as uncollectible, **not** including interest charges or services charges related to financing

The total amount payable on the transaction including all applicable taxes, **not** including interest charges or services charges related to financing

For purchases of goods, the total amount payable includes all taxes, including the GST if applicable, and all charges for shipping, duty, or any other charges payable by your customer to obtain title to the goods, but does **not** include any interest charges or service charges related to financing.

Example 1 – Provincial Sales Tax (PST)

Total amount of sale (\$380 purchase price, \$40 taxable shipping, \$29.40 PST, \$21 GST)		\$470.40
Received on account or paid by your customer		<u>\$100.00</u>
Amount being written off (\$470.40 - \$100)		\$370.40
PST adjustment or refund	$\$29.40 \times \frac{\$370.40}{\$470.40} =$	\$23.15

Example 2 – Motor Fuel Tax and Carbon Tax

Total amount of sale (\$1,000 diesel purchase, \$150 motor fuel tax, \$76.70 carbon tax, \$61.34 GST)		\$1,288.04
Received on account or paid by your customer		<u>\$500.00</u>
Amount being written off (\$1,288.04 - \$500)		\$788.04
Motor fuel tax adjustment or refund	$\$150.00 \times \frac{\$788.04}{\$1,288.04} =$	\$91.77
Carbon tax adjustment or refund	$\$76.70 \times \frac{\$788.04}{\$1,288.04} =$	\$46.93

Example 3 - Tobacco Tax

Total amount of sale (\$28 tobacco product, \$30 tobacco tax, \$4.06 PST, \$2.90 GST)	\$64.96
Received on account or paid by your customer	<u>\$20.00</u>
Amount being written off (\$64.96 - \$20)	\$44.96
Tobacco tax adjustment or refund	$\$30.00 \times \frac{\$44.96}{\$64.96} = \20.76

Claiming a Bad Debt Adjustment or Refund

Adjustment – With a Tax Return

If you are a business that submits tax returns for carbon tax, motor fuel tax, PST or tobacco tax, you may claim a bad debt adjustment on your tax return.

PST

You must claim the bad debt adjustment on your PST return for the reporting period in which you wrote off the amount owing as unrealizable or uncollectible. If you do not claim the adjustment in the same reporting period, you cannot claim an adjustment on a later reporting period; you must apply for a refund.

For details on how to claim the adjustment on your PST return, see the [Guide to Completing the PST Return](#).

Carbon Tax

If you are a collector, you can claim a bad debt adjustment on your Carbon Collector Tax Return through your CTA account in eTaxBC.

If you are a natural gas retail dealer, you can claim a bad debt adjustment on your Carbon Natural Gas Tax Return, through your CNG account in eTaxBC.

Motor Fuel Tax

If you are a collector, you can claim a bad debt adjustment using the FTD-7 or FTG-7 tax adjustment (reason code 4) on your Motor Fuel Generic Return through your FCO account in eTaxBC, and:

- If you are claiming a bad debt adjustment for clear gasoline or clear diesel fuel sold **within the South Coast British Columbia transportation service region**, you also need to claim the bad debt on line 8 (tax adjustments) for the South

Coast British Columbia Transportation Tax portion, and line 4 (tax adjustments) for the Provincial Fuel Tax portion on your South Coast British Columbia Transportation Tax Return through your FSC account in eTaxBC

- If you are claiming a bad debt adjustment for clear gasoline or clear diesel fuel sold **within the Victoria regional transit service region**, you also need to claim the bad debt on line 8 (authorized adjustments) on your British Columbia Transit Tax Return (Victoria) through your FBT account in eTaxBC

Tobacco Tax

If you are a collector, you can claim a bad debt adjustment on your Tobacco Collector's Return through your Tobacco Wholesaler (TWS) account in eTaxBC. You must attach all documents to support this claim.

You must keep supporting documentation for any adjustments you claim (for detailed information, see Supporting Documentation below).

Refund – Without a Tax Return

If you are a business that is not required to submit tax returns, or if you are a PST collector and it is too late to make an adjustment to your PST return (see above), you may apply for a refund of the tax paid or remitted but not collected on transactions written off as bad debts.

Applying for a Refund – PST, Carbon Tax or Motor Fuel Tax

To claim a bad debt refund, complete and submit the appropriate form below along with a cover letter and all of the required supporting documentation (for detailed information, see Supporting Documentation below).

For a bad debt refund of:

- **PST**, complete an Application for Refund – General ([FIN 355](#))
- **Carbon tax**, complete an Application for Refund of Carbon Tax Deputy Collector or Retail Dealer ([FIN 143](#))
- **Motor fuel tax**, complete an Application for Refund of Motor Fuel Tax Deputy Collector or Retail Dealer ([FIN 152](#))

Each application **must include**:

- a cover letter, signed by a director or authorized employee, that contains a statement confirming:
 - either no payment or only partial payment was received on the account,

- the amount of tax for which you are claiming a refund has been written off as a bad debt and, in your opinion, is not collectable, and
- if a payment is received, in whole or part, on the bad debt account after obtaining a refund, the tax due will be remitted on the payment that was received (see Recoveries Made After Receiving a Bad Debt Adjustment or Refund below), and
- supporting documentation (see Supporting Documentation below).

Submit your application, cover letter and supporting documentation to the address on the form.

Applying for a Refund – Tobacco Tax

To claim a bad debt refund of tobacco tax as a tobacco retailer, please contact us at TobaccoTax@gov.bc.ca for information.

Supporting Documentation

Supporting Documentation for Bad Debt Adjustments on Tax Returns

If you are claiming a bad debt adjustment on your Motor Fuel Generic Return, you must submit supporting documentation through your FCO account in eTaxBC.

If you are claiming a bad debt adjustment on your Tobacco Collector's Return, you must submit all supporting documentation through your TWS account in eTaxBC.

You are not required to submit supporting documentation for bad debt adjustments on PST or carbon tax returns, but you must keep the supporting documents for your records. We may contact you to request these documents to verify adjustment amounts claimed or they may be requested during an audit.

Supporting Documentation for Bad Debt Refunds

If you are claiming a bad debt refund, you must include the following information with your refund application:

- a schedule that lists the following information for each account that has been written off as a bad debt:
 - the name and address of the account holder,
 - the date of each transaction,
 - the full amount of each transaction,
 - the tax invoiced on each transaction, and
 - the amount of payment, if any, received towards each transaction,
- copies of each unpaid invoice,
- copies of the accounts receivable ledger or statement of account for each account written off, showing entries for each transaction, interest and service charges and payments received, if any, and
- copies of general ledger entries showing the write off of each account as a bad debt.

Note: A refund claim will not be processed if the application is incomplete or any of the above required supporting documentation is not provided.

Recoveries Made After Receiving a Bad Debt Adjustment or Refund

If you receive any payment on a bad debt account (i.e. a bad debt recovery) and you have already claimed an adjustment or received a refund, you must remit the tax based on the proportional amount of the recovery.

To calculate how much tax you must remit, recalculate the amount of your adjustment or refund as though the recovery had been received before you wrote the account off as a bad debt. Then, subtract this revised adjustment or refund amount from the amount you have already claimed or received, to arrive at the amount you must remit on the recovery.

For example, if you recover an additional \$25 on the bad debt written off in Example 1 above, recalculate the amount of your adjustment or refund as shown in Example 4 below.

Example 4 – Payment received after refund or adjustment

Total amount of sale (\$380 purchase price, \$40 taxable shipping, \$29.40 PST, \$21 GST)	\$470.40
PST originally remitted	\$ 29.40
Received on account (\$100 original payment plus \$25 additional recovery)	\$125.00
Revised amount being written off (\$470.40 - \$125)	\$345.40
PST adjustment or refund	$29.40 \times \frac{345.40}{470.40} = 21.59$
Initial refund or adjustment (see Example 1 above)	\$23.15
Revised refund or adjustment	- <u>\$21.59</u>
PST to be remitted	\$ 1.56

How to remit the tax due on the recovery

PST

If you file PST returns, you must add the amount to box B to remit the tax due on your next PST return. If you do not file PST returns, you must remit the tax due on or before the last day of the month following the month that the recovery was made using a Casual Remittance Return ([FIN 405](#)).

Carbon Tax and Motor Fuel Tax

If you are a collector or natural gas retail dealer, you must remit the tax due on your next return using eTaxBC. If the period is not available in eTaxBC:

- Send us a message in eTaxBC and request us to validate that period for a bad debt recovery
- Once we advise the period is validated, you can file your return and pay the bad debt recovery

Note: If you require a financial adjustment due to a tax rate change or to request a waiver of penalty or interest, send us a message in eTaxBC before you pay your return. We will advise you once those adjustment have been made and when to make payment.

If you are a business that is not required to submit tax returns, you must remit a bad debt recovery using a self-assessor return as follows:

- For carbon tax, complete a Self Assessors Carbon Tax Return ([FIN 112](#)). To file online using eTaxBC, use your CSA account or contact us to open an account for you.
- For motor fuel tax, complete a Self Assessors Motor Fuel Tax Return ([FIN 135](#)). To file online using eTaxBC, use your FSA account or contact us to open an account for you.

Tobacco Tax

If you are a collector, you must report the security due as 'other' on your eTaxBC return for the reporting period in which the recovery was made.

If you are a tobacco retailer, you must remit the tax due on or before the last day of the month following the month that the recovery was made. Contact TobaccoTax@gov.bc.ca for information.

Time Limit for Claiming a Refund

The following time limits apply for claiming a refund of tax for bad debts:

- the bad debt must be written off within four years of the date you paid or remitted the tax, and
- we must receive your refund claim within four years from the date the bad debt was written off.

For example, you extended credit to a customer for a sale on April 12, 2018, and remitted the PST due on that sale on May 31, 2018. The purchaser never paid the amount owing. To apply for a refund, you must write off the bad debt by May 31, 2022. If you wrote the bad debt off on September 15, 2020, we must receive your refund claim by September 15, 2024.

Independent Sales Contractors

If you are an independent sales contractor of a direct seller seeking a refund of tax remitted following the sale of an exclusive product which you wrote off as a bad debt, see [Bulletin PST 004](#), Direct Sellers and Independent Sales Contractors.



Need more info?

Online: gov.bc.ca/salestaxes

Toll free: 1-877-388-4440

Email: CTBTaxQuestions@gov.bc.ca

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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

Latest Revision

November 2024

- Updated the tobacco tax example on how to calculate partial bad debt adjustments
 - Clarified how to claim bad debt adjustments on carbon tax, motor fuel tax and tobacco tax returns
 - Clarified how to report and pay bad debt recoveries after you have already received an adjustment or refund for motor fuel tax, carbon tax and tobacco tax
 - Other minor revisions
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References: Carbon Tax Act, sections 38 and 42; Carbon Tax Regulation, section 24; Motor Fuel Tax Act, sections 21 and 26; Motor Fuel Tax Regulation, section 3.1; Provincial Sales Tax Act, sections 159 and 166; Provincial Sales Tax Exemption and Refund Regulation, sections 134 and 145; Tobacco Tax Act, sections 16 and 19; Tobacco Tax Regulation, section 22.