



## Reporting Tax Recoveries on Bad Debt Losses for Lenders and Retailer Affiliates Beginning January 1, 2025

### Changes for bad debt deductions beginning January 1, 2025

Recent legislation changed how some bad debt deductions for sales and use tax are handled. Lenders and retailer affiliates (lenders) are prohibited from claiming bad debt deductions or filing refund claims for accounts found worthless and written off for income tax purposes on and after January 1, 2025.<sup>1</sup>

### Accounts found worthless prior to January 1, 2025

For accounts found worthless and written off prior to January 1, 2025, lenders may still claim bad debt deductions and file claims for refund. Most lenders will have claimed these bad debt deductions on their fourth quarter 2024 (4Q24) return. Lenders may continue to file claims for refund in order to claim bad debts 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.

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 as discussed in the section below.

### Calculating future recoveries using historical percentages

In lieu of reporting future recoveries on an actual basis in the period in which the loss was recovered, a lender may reduce the amount of its final claim for refund to account for anticipated recoveries. A lender must estimate its recoveries to the best of its ability, using historical recovery information and by including all anticipated future recoveries for all amounts previously claimed as bad debt deductions.

In the event a lender has filed its final claim for refund or return and now would like to estimate future recoveries, the lender should contact us at the phone number provided below for information on how to make this adjustment and payment.

The estimate must be representative of the lender's records and is subject to verification. If actual recoveries exceed the reported percentage, the difference must be reported and paid to us in the period in which recoveries exceeded the reporting percentage or such excess may be assessed by the CDTFA.

### Process for closing an account

Lenders that believe they will not make additional recoveries beyond those already reported on their return(s) or estimated on their claim for refund(s) can contact us to close their account. Additional recoveries collected after closing the account must be timely reported and paid. Please contact our Customer Service Center at the phone number provided below and request to speak to a tax advisor for assistance on reporting and paying additional recoveries.

### For more information

For information on these changes, please see Special Notice [L-951](#),<sup>2</sup> *Bad Debt Deductions for Lenders and Affiliated Entities Will Change on January 1, 2025*, available on our website.

If you have any questions, you may call our Customer Service Center at 1-800-400-7115 (TTY:711) and request to speak to a tax advisor regarding bad debt loss recoveries. Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

<sup>1</sup> Senate Bill 167 (Stats. 2024, ch. 34), [https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=202320240SB167](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240SB167)

<sup>2</sup> L-951, *Bad Debt Deductions for Lenders and Affiliated Entities Will Change on January 1, 2025*, [www.cdtfa.ca.gov/formspubs/L951.pdf](http://www.cdtfa.ca.gov/formspubs/L951.pdf)