



Deduction for Bad Debts

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Wyoming Department of Revenue

Wyoming allows a deduction for bad debts. Per *W.S. 39-15-107(a)(x)*: "Taxes paid on gross receipts represented by accounts found to be worthless may be credited against subsequent liability of the vendor. The vendor shall not take the credit for any bad debt until he has used the customary debt collection procedures as documented in writing by the vendor and has written off the debt... If any account is thereafter collected by the vendor, a tax shall be paid upon the amount collected." Any consideration paid by the purchaser will first be applied to the purchase price and reduce the amount subject to the bad debt deduction.

This means that prior to writing off the debt the vendor's business records must document the "customary debt collection procedures" undertaken. While we do not have a statutory definition of "customary debt collection procedures", the key word is "customary." Webster's Dictionary defines "customary" as "commonly practiced, used, or observed."

Such customary procedures include communicating with the debtor by telephone, sending billing notice(s), and sending demand letters to the debtor. We also recommend filing in small claims court or referral to an outside collection agency when in-house collection procedures have been unsuccessful. The department recognizes Internal Revenue Service's bad debt deduction criteria as meeting Wyoming's statutory requirements.

The vendor is allowed to credit any bad debt deduction taken against their subsequent tax liability. To take a credit for bad debt on a current tax return, the vendor must reduce the sales in the county where the tax was originally paid. For example, a bad debt credit for a sale in Laramie County would result in adjustment of applicable figures in Laramie County by the amount of the bad debt.

The vendor may amend the tax return for the period when the sale occurred in the same manner as credited against a subsequent liability as discussed above. When amending a previous sales tax return, the vendor should seek guidance and advice from the Department of Revenue Regional Service team that issued and administers their Sales/Use Tax License.

Per *W.S. 39-15-107(a)(x)*: "...Should the bad debt exceed the taxable sales for a subsequent period the vendor may request a refund of the tax on the bad debt from the department so long as the claim is made within three (3) years of the date of the return on which the bad debt could first be claimed."

Please be advised that this bulletin addresses issues in general terms and cannot be appropriate or applicable in all situations. If your situation is markedly different or you have concerns about this issue, please do not hesitate to contact this department. You can do so by e-mail directed to:
DOR_taxability@wyo.gov

Supporting Authority -

W.S. 39-15-107(a)(x)

Taxes paid on gross receipts represented by accounts found to be worthless may be credited against subsequent liability of the vendor. The vendor shall not take the credit for any bad debt until he has used the customary debt collection procedures as documented in writing by the vendor and has written off the debt; or until the debt qualifies as a bad debt under 26 U.S.C. section 166 excluding financing charges or interest, sales or use taxes charged on the purchase price, uncollectible amounts on property that remain in the possession of the seller until the full purchase price is paid, any expenses incurred in attempting to collect any debt, and repossessed property. If any account is thereafter collected by the vendor, a tax shall be paid upon the amount collected. The amount collected shall be applied proportionally first to the taxable price of the property or service and the sales tax thereon, and then to interest, service charges and any other charges. Should the bad debt exceed the taxable sales for a subsequent period the vendor may request a refund of the tax on the bad debt from the department so long as the claim is made within three (3) years of the date of the return on which the bad debt could first be claimed. A certified service provider under W.S. 39-15-401 through 39-15-408 acting on behalf of a vendor may claim the bad debt allowance for the vendor and shall remit the credit or refund received to the vendor. Should the bad debt apply to more than one (1) state, the debt may be allocated between the affected states.