

How do I manage the GST/HST on a bad debt?

You've been generous enough to extend your customers credit, and now one of those customer's debt has become uncollectible. Being able to recover the goods and services tax/harmonized sales tax (GST/HST) should help mitigate the sting out of the loss – but what is the process for that?

As a vendor, you are generally allowed to recover, via a bad debt adjustment claim, tax that was previously reported as tax collectible on a GST/HST return if:

- i. It is established that all or part of the accounts receivable regarding the sale in respect of which the GST/HST was collectible has become a bad debt; and
- ii. You have written off the debt in your books.

The CRA generally takes the view that a debt is considered a bad debt when all reasonable steps have been taken to obtain payment and it has become evident that the debt is uncollectible.

Unless a customer becomes bankrupt (in which case, clearly the debt is uncollectible), the CRA expects the vendor to maintain copies of written correspondence sent to the customer asking for payment. To establish that the debt has become bad, it is not sufficient to document the actions taken to recover the payment (e.g., phone calls and meetings) or for the accounts receivable to reach a certain age.

The CRA can deny a bad debt adjustment if the evidence presented does not support the claim that the debt had in fact, become bad. Should this be the case, it may be possible for the vendor to issue a credit note to the customer to recover the tax.

Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article. Contact your Crowe Soberman advisor for more information.

Crowe Soberman LLP
Chartered Professional Accountants

The information in our Tax Letter is current to DATE. The information contained here is of a general nature and is not intended to address the particular circumstances of an individual or entity. We endeavor to provide accurate and timely information; however, there is no guarantee that such information is accurate in the future. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this publication.