

HOUSE BILL No. 5554

December 21, 2001, Introduced by Reps. Bishop, Raczkowski, Vander Roest, Richner, Kuipers and Ehardt and referred to the Committee on Tax Policy.

A bill to amend 1933 PA 167, entitled
"General sales tax act,"
by amending section 4i (MCL 205.54i), as added by 1982 PA 23.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 4i. (1) As used in this section, "bad debt" means any
2 portion of a debt that is related to a sale at retail for which
3 gross proceeds are not otherwise deductible or excludable, that
4 has become worthless or uncollectible in the time period between
5 the date when taxes accrue to the state for the taxpayer's pre-
6 ceding sales tax return and the date when taxes accrue to the
7 state for the present return, and that is eligible to be claimed,
8 or could be eligible to be claimed if the taxpayer kept accounts
9 on an accrual basis, as a deduction pursuant to section 166 of
10 the internal revenue code. A bad debt ~~shall~~ DOES not include
11 any interest or sales tax on the purchase price, uncollectible

1 amounts on property that remains in the possession of the
2 taxpayer until the full purchase price is paid, expenses incurred
3 in attempting to collect any account receivable or any portion of
4 the debt recovered, any accounts receivable that have been sold
5 to a third party for collection, ~~and~~ OR repossessed property.

6 (2) In computing the amount of tax levied under this act for
7 any month, a taxpayer may deduct the amount of bad debts from his
8 or her gross proceeds used for the computation of the tax. The
9 amount of gross proceeds deducted must be charged off as uncol-
10 lectible on the books of the taxpayer. If the business consists
11 of taxable and nontaxable transactions, the deduction shall equal
12 the full amount of the bad debt if the bad debt is documented as
13 a taxable transaction in the taxpayer's records. If documen-
14 tation is not available, the maximum deduction from gross pro-
15 ceeds for any bad debt ~~shall equal~~ EQUALS the amount of the bad
16 debt multiplied by the quotient obtained by dividing the sales
17 taxed ~~pursuant to~~ UNDER this act during the preceding calendar
18 year by all sales during the preceding calendar year, whether or
19 not taxed under this act. If a consumer or other person pays all
20 or part of a bad debt with respect to which a taxpayer claimed a
21 deduction under this section, the taxpayer ~~shall be~~ IS liable
22 for the amount of taxes deducted in connection with that portion
23 of the debt for which payment is received and shall remit these
24 taxes in his or her next payment to the department.

25 (3) Any claim for a bad debt deduction OR REFUND under this
26 section shall be supported by that evidence required by the
27 department. The department shall review any change in the rate

1 of taxation applicable to any taxable sales by a taxpayer
2 claiming a deduction ~~pursuant to~~ OR REFUND UNDER this section
3 and shall ensure that the deduction on any bad debt does not
4 result in the taxpayer OR A PERSON DESCRIBED IN SUBSECTION (4)
5 claiming the deduction OR REFUND recovering any more or less than
6 the taxes imposed on the sale that constitutes the bad debt.

7 (4) IF A PERSON CONTRACTS WITH A TAXPAYER TO PROVIDE CREDIT
8 FINANCING TO THE TAXPAYER'S BUYERS FOR THE TAXPAYER'S SALES AT
9 RETAIL AND A BAD DEBT RESULTS FROM A TRANSACTION THAT THE TAX-
10 PAYER WOULD OTHERWISE HAVE BEEN ELIGIBLE TO CLAIM A DEDUCTION FOR
11 UNDER THIS SECTION EXCEPT FOR THAT CONTRACT, THEN THE DEPARTMENT
12 SHALL REFUND THE AMOUNT OF TAXES NOT PAID ON THE ACCOUNT, DEBT,
13 OR CONTRACT WITH THE TAXPAYER'S BUYER DETERMINED TO BE WORTHLESS
14 AND ACTUALLY CHARGED OFF FOR FEDERAL INCOME TAX PURPOSES.