City of Louisville
COLORADO ▪ SINCE 1878

Bad Debts

The Louisville Municipal Code (LMC) provides that each retailer shall add the tax imposed to the sale price or charge and that such tax must be shown as a separate and distinct item and included as part of the full purchase price. The price charged by a retailer constitutes a debt from the consumer until paid and is recoverable at law by the retailer in the same manner as other debts.

The City of Louisville permits a retailer to deduct any taxable sales from their gross sales that are found to be worthless when the same charges are properly charged off as bad debts for Federal income tax purposes. Secured sales are not eligible for write-off.

In order to deduct the bad debt, the retailer must have exhausted all remedies available to collect the debt, have sufficient documentation to support its collection activities, have sufficient documentation to support that the sale and related tax were included on a previous return within the statute of limitations, and provide evidence that the debt was charged-off on their Federal tax return.

If a retailer subsequently collects on the bad debt that credit was taken for, then the purchase price must be reported again on the next City sales/use tax return.

Retailers should be cautious when reporting a bad debt deduction and ensure that their accounting system is not already “netting out” bad debts from gross sales. If either a refund or a bad debt is being “netted” *and* a deduction is taken on the tax return, it would mean that the bad debt is incorrectly being deducted twice.

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