
Tax Compliance Guide

Credit, Installment, & Secured Sales Topic 336

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The *Westminster Municipal Code* defines “purchase and sale”, in part, to include capital leases, installment and credit sales, and property and services acquired by transfer, either conditionally or absolutely, of title or possession or both to tangible personal property, other taxable products, or taxable services.

Credit & Installment Sales

Retailers who sell tangible personal property or taxable services on account or on an installment payment basis are responsible for the collection and payment of applicable sales tax. Sales tax is due when delivery occurs and title for the item sold has been transferred to the purchaser. Such sales tax must be remitted on the next periodic City sales/use tax return regardless of whether or not the retailer has actually collected the debt.

If the goods are returned in a subsequent period, and a refund of the full purchase price and tax paid is issued, the retailer may take a returned goods deduction on the next periodic City sales/use tax return (line 3H) provided that the statute of limitations has not expired. A retailer that discovers a sale from a previous taxable period was improperly taxed, and refunds the tax to the purchaser, may not claim a returned goods deduction. In this case, the sole remedy is for the retailer to file a *Claim for Refund* form with supporting documentation.

Any tax added to the price by a retailer constitutes a debt from the purchaser to the retailer and is recoverable by law in the same manner as all other debts. Except for secured sales, if the debt is subsequently found to be worthless by the retailer, and is actually and properly charged off by the retailer for Federal Income Tax purposes, a bad debt deduction may be taken on the next periodic return (line 3D) provided that the statute of limitations has not expired.

In any case where either a bad debt deduction or returned goods deduction will exceed the gross sales, the retailer must file a *Claim for Refund* form, rather than claiming a returned goods or bad debt deduction. The total due for any period cannot be less than zero, nor

can the retailer divide the deduction amongst several returns.

Secured Sales

Whenever taxable tangible personal property is transferred under a lease-purchase agreement, capital lease, or other conditional sales contract whereby the seller retains title as security for all or part of the price, or whenever the seller takes a chattel mortgage on such tangible personal property to secure all or part of the price, the purchaser shall not be allowed a refund of the tax, nor shall the retailer be allowed a bad debt deduction in the case of repossession.

Examples

1. Company A sells office supplies on account with 60 day credit terms. Company A also sells large equipment on an installment basis. Company A is a licensed Westminster retailer, who remits tax to the City on a monthly basis.
 - a. Company A sells to Service Firm B an adding machine and 60 rolls of paper in May. Company A must remit the tax on this sale with its May return due June 20th, even though Service Firm B isn't expected to pay this invoice until July.
 - b. In June Service Firm B returns 30 rolls of paper to Company A for a refund of the purchase price paid plus tax. Company A may take a returned goods deduction for the purchase price on its June return due in July.
 - c. In July Company A sells to Service Firm B a copy machine on a 9 month installment plan. Company A must remit tax on the total purchase price on its July return due in August.

2. Company C sells home appliances and provides financing for its non-cash sales. Company C retains title to the appliances as security for the sale until the full purchase price is paid. Customer D buys a new washer and dryer and finances the sale. Company C must remit tax on the full purchase price at the time of the sale.

Three months later, Customer D stops making his payments and defaults. Company C repossesses the washer and dryer. Company C is not entitled to take a bad debt deduction when the washer and dryer are repossessed. Company C then sells the washer and dryer to Customer E for cash. Company C must remit tax on the full purchase price paid by Customer E.

Related Topics

Bad Debts
Leased & Rented Property
Restocking Fees

Citations

Westminster Municipal Code
§ 4-1-3. Deductions & Credits
§ 4-1-5. Retailer Responsible for Collection & Payment of Tax
§ 4-2-2. Definitions
§ 4-2-3. Rate; Imposition & Collection; Distribution
§ 4-2-8. Secured Sales Transactions

THIS GUIDANCE IS A SUMMARY IN LAYMEN'S TERMS OF THE RELEVANT WESTMINSTER TAX LAW FOR THIS TOPIC, INDUSTRY, OR BUSINESS SEGMENT. IT IS PROVIDED FOR THE CONVENIENCE OF TAXPAYERS AND IS NOT BINDING UPON THE CITY. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE WESTMINSTER MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

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