

17 NCAC 07B .4802 ACCRUAL BASIS

(a) A person that elects to report and pay tax on the accrual basis pursuant to 17 NCAC 07B .4801, or is required to report on the accrual basis pursuant to G.S. 105-164.20, shall keep records that disclose a separate accounting of taxable and nontaxable sales.

(b) The person shall pay tax on the total sales price of all taxable items, as the term item is defined in G.S. 105-164.3, sold during the period covered by the sales and use tax return as required by G.S. 105-164.16, whether or not such sales are cash, credit, installment, or conditional sales, and whether or not the person retains the installment and conditional sales contracts or sells or assigns them to others and without regard to any finance reserve withheld on finance paper sold or assigned to others.

(c) Interest, financing, and carrying charges from credit extended under conditional sales contracts providing for deferred payment are not subject to tax if the charges are separately stated on the invoice or similar billing document given to the purchaser at the time of sale and maintained in the person's records of sales.

(d) Bad Debts. Pursuant to G.S. 105-164.13, bad debts that meet the requirements of G.S. 105-164.13(15) may be deducted from gross taxable sales, during corresponding periods, if the person maintains records disclosing separately the amount of bad debts representing taxable sales and the amount representing nontaxable sales. A person shall make the deduction for sales and use tax purposes within three years of charging off an account for income tax purposes. A person who is not required to file income tax returns may deduct a bad debt on a return filed for the period in which the bad debt is charged off in its books and records as uncollectible and would otherwise be eligible for a bad debt deduction for income tax purposes if the person were required to file income tax returns. In this instance, the person shall make the deduction for sales and use tax purposes within three years of the date the account is recognized and finally expensed as a bad debt in its books and records. A person that does not deduct a bad debt within the time allowed shall not make any deduction for the bad debt. If a deduction is taken for a bad debt and the debt is subsequently collected, in whole or in part, the tax on the amount of debt collected must be paid and reported on the sales and use tax return filed for the period in which the collection occurs. For purposes of reporting collection of the bad debt subsequent to having charged off and deducted such bad debt, any payments on the debt shall be applied first proportionally to the taxable price of the item and sales tax thereon, and secondly to interest, services charges, and any other charges.

History Note: *Authority* G.S. 105-164.3; 105-164.13; 105-164.20; 105-164.22; 105-262; 105-264; 105-467; 105-468; 105-469; 105-483; 105-498; 105-507.2; 105-509.1; 105-510.1; 105-511.3; 105-537; 105-538;
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