

701—15.4 (422,423) Bad debts. Bad debts shall be allowed as a credit on tax when all the following facts have been shown:

15.4(1) Tax has been previously paid on the gross receipts from the accounts on which the taxpayer claims credit for tax.

15.4(2) The accounts have been found to be worthless.

15.4(3) The taxpayer has records to show that the accounts have actually been charged off for income tax purposes.

Credit for bad debts shall not be allowed on merchandise which was exempt from tax when sold.

When credit on tax has been taken on account of bad debts and the debts are subsequently paid, the proceeds from the collection of such accounts shall be included in the gross receipts for the period in which payment is made.

Effective July 1, 1992, the sales and use tax rate increased from 4 percent to 5 percent.

Bad debts which occur prior to July 1, 1992, and are charged off on or after July 1, 1992, may be charged off at the tax rate of 5 percent. Bad debts which have been charged off prior to July 1, 1992, and all or any part of the bad debt is recovered after July 1, 1992, will be subject to tax at the rate of 5 percent. All the provisions of this rule and rule 15.5(422,423) apply.

This rule is intended to implement Iowa Code sections 422.42(16), 422.46, and 423.1(10).