

City of Colorado Springs

# Tax Guide

## Credit Sales, Installment Sales, and Conditional Sales

Credit sales, installment sales, and conditional sales are different types of credit or financing arrangements that are all included within the definition of "sale." Regardless of the type of financing involved, city sales tax must be charged by the seller on the total selling price of the property and must be reported and paid by the seller with the sales tax return for the month of the sale. If the purchaser returns the property, and if the seller refunds the full sales price including city sales tax to the purchaser, the seller may deduct the amount as "returned goods" on the subsequent city sale tax return.

An uncollectible account that is **not secured** by a conditional sales contract or other security interest, and which is found to be worthless, is an allowable bad debt deduction for the seller if sales tax was previously remitted to the City and the debt is properly written off for State income tax purposes. The seller may not take a bad debt deduction for delinquent customer accounts that are sent to collections.

A sale that is **secured** by a conditional sales contract or other security interest, and which is found to be worthless, is not eligible to be taken as a bad debt deduction. The seller must collect the full amount of city sales tax from the purchaser at the time of the sale and remit the tax to the City. The seller may not take a bad debt deduction regardless if they do not enforce the recovery of the property.

### CS CODE SECTION

2.7.104 Words and Phrases:  
Gross Sales & Services  
Price or Purchase Price  
Purchase or Sale  
2.7.303, 2.7.403, 2.7.432  
2.7.602, 2.7.602 c

---

*This guide provides an overview of specific subject matter and is not intended to be substituted for the full text within the City of Colorado Springs Tax Code.*

---

01/2019

## Common Examples

1. A business sells cell phones to customers under installment contracts. The cell phone is identified as collateral in the contract and may be recovered by the seller if the purchaser defaults on the payments. The business must remit city sales tax on the full purchase price in the month the contract was signed.

If the customer defaults on the payments, the business may **not** take a bad debt deduction on the sales tax return for the uncollectible amount of the installment sale. In addition, the business is not entitled to a refund or credit of the tax remitted.

Question? email us at:  
salestax@springsgov.com

If the business sells the same cell phone back to the customer, the sale to the customer is a new taxable transaction. The



## Common Examples Continued

business must collect city sales tax on the full amount of the sale, and no adjustments are allowed for the prior events related to the default and or repossession.

2. A used car dealership provides financing for all its non-cash sales. Under a financed sale the dealership holds a lien on the title to the car until the selling price is paid in full. The dealership has a security interest in all cars it finances and thus no bad debt deduction is allowed if the customer fails to make the required payments and the vehicle has to be repossessed.
3. A customer of a home improvement center who has an open credit account files bankruptcy. The business may take a deduction for the amount of the bad debt representing taxable sales on which they had previously remitted sales tax. The business subsequently files a claim with the bankruptcy court. Four years later, the business recovers 50% of the amount due from the customer. The amount of the recovery which was previously deducted as a bad debt must now be reported as taxable bad debts collected.