

# Revenue Notice # 93-01 Special Taxes - Bad Debt Deduction on Cigarette and Tobacco Products Tax Returns

**This Revenue Notice was revoked by Revenue Notice #07-04.**

Minnesota Statutes, sections 297.031 and 297.321 provide a refund of the cigarette or tobacco products tax paid if the tax qualifies as a bad debt for federal income tax purposes. This law became effective July 1, 1992. This revenue notice is meant to highlight the department's policy on this subject.

## **1. What bad debts qualify?**

Bad debts qualify for a cigarette or tobacco products tax refund only if they qualify as bad debts for federal income tax purposes under section 166(a) of the Internal Revenue Code.

## **2. When can a claim for refund be filed?**

A claim can be made once the bad debt has been identified as one that will qualify as a federal income tax deduction. It must be filed no later than one year after the federal income tax return is filed on which the bad debt is claimed.

## **3. What if the bad debt is recovered?**

The tax attributable to the bad debt recovered must be returned to the department.

## **4. What if the Internal Revenue Service denies or reduces the federal bad debt deduction?**

If the bad debt deduction on the income tax return is denied or reduced, the amount of cigarette or tobacco products tax attributable to the adjustment must be returned to the department within 90 days of the federal adjustment.

## **5. Does the cigarette or tobacco products tax refund impact federal income tax liability?**

Yes, the amount of the federal income tax bad debt deduction should be reduced by the amount of cigarette or tobacco products tax recovered from the department.

## **6. Must the commissioner pay interest on a bad debt credit or refund?**

No, the tax does not become creditable or refundable until the taxpayer files a claim with the commissioner.

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JMT