



July 11, 2003 (Reissued July 11, 2008)
Pennsylvania Sales and Use Tax
No. SUT-03-038
Vendor Taking Credit For Erroneously Paid Sales Tax
(Revised November 18th, 2009)

ISSUE

Is the vendor taxpayer permitted to take a credit on a subsequent sales and use tax return for sales tax erroneously collected and remitted to the Department?

CONCLUSION

Provided certain procedures are followed, the vendor taxpayer is permitted to take a credit on a subsequent sales and use tax return for sales tax erroneously collected and remitted to the Department.

FACTS

For the past two and a half years, the taxpayer has performed repair services on busses for ("Customer"). Taxpayer collected sales tax of approximately \$16,000 and remitted that tax on its regular sales and use tax returns. Recently, Customer informed Taxpayer that the repair services were exempt from tax. Customer gave Taxpayer an exemption certificate. Customer also adjusted their balance due and owing to Taxpayer by subtracting the amount of sales tax previously paid.

ANALYSIS

You requested a ruling whether Taxpayer could adjust their next payment to the Department by taking a credit for the sales tax collected from Customer over the past two and a half years. Please be advised that Taxpayer can adjust their next payment to the Department, provided certain procedures are followed. Initially, the exemption certificate provided by Customer must be properly completed and disclose a valid exemption reason. Taxpayer must then issue a credit memorandum to Customer for the amount of sales tax previously collected. The credit memorandum must state that it is for erroneously collected sales tax. Taxpayer must also debit the sales tax account on the general ledger to reflect the credit memorandum. In addition, Taxpayer must be able to prove that Customer was reimbursed for the erroneously paid sales tax either by a cancelled check or a reduction in Customer's accounts receivable. Once these steps are completed and Taxpayer can completely document all of the required transactions, typically by keeping copies of the pertinent documents, Taxpayer may then take a credit on subsequent sales and use tax returns. The credit may only be taken against sales tax due, not use tax. Furthermore, the credit is available only for taxes overpaid in the three years prior to the date upon which the credit is taken. If Taxpayer has more credit than sales tax owed on a return, the sales tax should be zeroed out and the remaining credit may be used on subsequent returns until the credit is used in its entirety. If any of the above procedures are not followed, the Taxpayer may not take credit on any return and the proper procedure for the Customer to recover the sales tax erroneously paid is for Customer to file a Petition for Refund with the Department.