OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

ResearchReport

Sales Tax Refunds for Returned Goods

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Issue

Explain Connecticut's 90-day limit for sales tax refunds. Has the legislature considering eliminating this time limit? What would be the associated revenue loss? Do other states set time limits for sales tax refunds?

Summary

Under Connecticut sales tax law and Department of Revenue Services (DRS) guidance, when customers purchase a taxable item and return it to a retailer for cash or credit within 90 days after the purchase date, they are entitled to a refund of the sales tax paid on the original purchase. Customers must present a receipt showing the purchase date and the tax paid on the original sale. If they return the goods after 90 days from the purchase date or without a receipt, they are not entitled a refund of the sales tax (*Sales and Use Taxes on Returned Goods, Even Exchanges, and Trade-Ins*, DRS, IP 2011(17); CGS § 12-407(a)(8)(B) & (a)(9)(B)).

We identified at least seven proposals in the past 20 years to eliminate the 90-day time limit (HB 5597 (2019) and HB 5179 (2006) or extend it to one year after the date of purchase (SB 189 (2008), HB 6665 (2003), SB 1138 (2003), HB 5668 (2002), and HB 5082 (2002)). Only one of these bills, SB 1138 (2003), made it out of committee, but it ultimately died on the Senate calendar.

According to Evelyn Wisnieski in the Office of Fiscal Analysis (OFA), eliminating the 90-day time limit for sales tax refunds is anticipated to result in a state revenue loss of up to $1 million annually.

Across the states, we identified only four states and the District of Columbia that impose a time limit for sales tax refunds on returned goods. The limits range from 90 days in Connecticut, Massachusetts, and the District of Columbia; to 120 days in Rhode Island; and 180 days in Michigan.

Connecticut's 90-Day Time Limit

Sales Tax Refund Law and Guidance

Under state sales tax law and DRS guidance, when customers purchase a taxable item and return it to a retailer for cash or credit within 90 days after the purchase date, they are entitled to a refund of the sales tax paid on the original purchase. Customers must present a sales receipt showing the date of purchase and the tax paid on the original sale. The refund is based on the portion of the purchase price the retailer returns to the customer. The retailer, in turn, excludes from its taxable gross receipts any refunds it grants for goods returned within the 90-day limit.

If the goods are returned after 90 days from the purchase date or without a receipt, the customer is not entitled to a refund of the tax. Whether or not a retailer accepts returns or exchanges is subject to its store return policy, not state law (*Sales and Use Taxes on Returned Goods, Even Exchanges, and Trade-Ins*, DRS, IP 2011(17); CGS § 12-407(a)(8)(B) & (a)(9)(B)).

Estimated Revenue Loss for Eliminating the Time Limit

OFA estimates that eliminating the 90-day time limit would result in a state revenue loss of up to $1 million annually. This estimate is based on a survey of the top 100 retailers in the nation that indicates that most retail businesses impose a policy of 90 days or less for returns and exchanges (National Retail Federation, *Top 100 Retailers 2018*). As such, OFA anticipates that a minimal number of returns (less than 5% of all retail returns) would be subject to this policy change.

Sales Tax Refunds Laws Across States

Among the 45 states and the District of Columbia that impose a general sales tax, all but one (Indiana) has specific laws or regulations generally allowing retailers to deduct or exclude sales tax refunds for returned goods from their taxable sales (i.e., gross receipts). Only five of the jurisdictions, including Connecticut, impose a time limit on the deduction or exclusion for sales tax refunds.

Table 1 shows the five jurisdictions that impose a time limit on sales tax refunds on returned goods. As it shows, Connecticut, the District of Columbia, and Massachusetts impose a 90-day time limit (although Massachusetts allows 180 days for motor vehicle returns); Rhode Island imposes a 120-day time limit; and Michigan imposes a 180-day time limit.

Table 1: Sales Tax Refunds on Returned Goods

Jurisdiction	*Sales Tax Refunds on Returned Goods*
Connecticut	Not included in gross receipts if property is returned within 90 days from the purchase date (CGS § 12-407(a)(8)(B) & (a)(9)(B))
District of Columbia	Refund allowed if property is returned within 90 days of sale and full purchase price including tax is refunded to customer (D.C. Mun. Regs. tit. 9, § 409)
Massachusetts	Deductible if the property is returned within 90 days from the sale date (180 days for motor vehicles) and the entire amount charged, less vendor's handling fees, has been refunded (Mass. Gen. Laws Ann. ch. 64H, § 1)
Michigan	Deductible if the property is returned within the time period stated in the refund policy or 180 days, whichever is sooner (Mich. Comp. Laws Ann. § 205.60)
Rhode Island	Deductible if the full sale price and tax (excluding handling charges) is refunded to the customer and the merchandise is returned within 120 from the purchase date (44 R.I. Gen. Laws Ann. § 44-18-30(58))

Source: CCH Answerconnect and state statutes and regulations

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