Lesson 11

Tracking and Paying Sales Tax

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Lesson Objectives

- To get an overview of sales tax in QuickBooks (the steps involved in tracking, collecting, and paying it)

- To see how to set up QuickBooks to track sales tax

- To see how to apply sales tax to a sale

- To learn how to determine a business's sales tax liability

- To write a QuickBooks check to the appropriate tax agency for sales tax liability

Overview of Sales Tax in QuickBooks

To use QuickBooks to track and pay your sales tax:

1. Set up your tax rates and agencies

2. Indicate who and what gets taxed

3. Apply tax to each sale

4. Find out what you owe

5. Pay your tax agencies

NOTES

Setting Up your Tax Rates and Agencies

Some businesses need to apply more than one sales tax to their sales; for example, they may collect state sales tax as well as several county sales taxes. You need to create a separate sales tax item for each tax amount you must report (not necessarily for each tax you collect; some states want you to report state sales tax and county sales tax as separate items, while others let you report them as one item).

Even if you're paying more than one type of tax, you usually want your customers to see one overall tax amount, not separate taxes for the state and county. You'll learn how to do that in this lesson.

⟫ To add a sales tax item:

1. From the **Lists** menu, choose **Item List**.

2. Click the **Item** menu button then choose **New**.

3. In the **Type** field, choose **Sales Tax Item**.

4. In the **Sales Tax Name** field, type the appropriate name for the tax (e.g., Seattle City Tax, King County Tax, Washington State Tax, etc.)

5. In the **Description** field, enter an appropriate description for the tax.

6. In the **Tax Rate (%)** field, enter the sales tax rate as a percentage.

7. In the **Tax Agency** field, type the name of the department to which you remit the taxes (you might have to **Quick Add** or **Set Up** this new vendor/tax agency if it's not already in your vendor list).

8. Click **OK**

📝 NOTES

Grouping Single Taxes Together

Even if you collect a combination of sales taxes (for example, city tax and county tax) which you report separately, you probably don't want to confuse customers by showing separate taxes on your invoices or sales forms. QuickBooks lets you group some or all of your tax items so customers see a single combined tax amount. In addition to ensuring that you have created all sales tax items required, you'll be creating a sales tax group.

To create a sales tax group:

1. With the **Item List** displayed, click the **Item** menu button then choose **New**.

2. In the **Type** field, choose **Sales Tax Group**.

3. In the **Group Name/Number** field, enter an appropriate name for the group.

4. In the **Description** field, enter an appropriate description for the group.

5. Click in the **Tax Item** column then choose the taxes you wish to group together.

6. Click **OK**.

NOTES

Identifying Your Most Common Tax

If you want QuickBooks to apply sales tax to your invoices and sales receipts, you have to tell it which sales tax item or group is the one you use most often. Once you do that, QuickBooks applies that sales tax when you fill out an invoice or a sales receipt. (You can choose a different sales tax from the sales form if you don't want the default tax.)

⏩ To set up a default sales tax:

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure that they are not signed in and that you are in single-user mode.)

2. From the **Edit** menu, choose **Preferences**.

3. In the **Preferences** window, click the **Sales Tax** icon in the left panel then click the **Company Preferences** tab.

4. In the **Most common sales tax** field, choose the sales tax rate you want to be the default.

5. Click **OK**.

Indicating Who and What Gets Taxed

The next step in setting up sales tax is to indicate who and what gets taxed. You have to tell QuickBooks whether or not a customer is taxable and assign a default sales tax item or sales tax group to that customer.

You must also distinguish between taxable and non-taxable items on the Item list. When you add an item to the Item list, there's a place in the window to indicate whether you charge tax for the item. QuickBooks remembers this information and shows whether or not an item is taxable when you enter the item on a sales form.

⟫ To indicate a taxable item:

1. In the **Item** list, right-click the item you for which you wish to check taxable status, then click **Edit Item**.

2. Click the **Item** menu button then choose **Edit Item**.

   The code in the Tax Code field is a taxable code which tells you this item is taxable. When you choose the item to be included on a sales form, QuickBooks knows the item is taxable and automatically applies the default sales tax.

3. Click **OK** to close the Edit Item window.

4. Close the Item list.

> IMPORTANT: *Customer taxability will override item taxability. For example, if you have taxable items on an invoice to a customer marked as a non-taxable customer, sale tax will not be calculated on the invoice. See the next section re: taxable/non-taxable customers.*

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In the same way that you can specify an item in the Item list is taxable, you can indicate whether or not a particular customer is taxable or non-taxable in that customer's record.

⟫ To see an existing customer record:

1. Open the **Customer Center**.

2. Right-click on the name of the customer you wish to view, then click **Edit Customer**.

3. Click the **Sales Tax Settings** tab.

    In the image below, the tax code selected indicates transactions with this customer are subject to sales tax. When this customer was set up, the default tax rate for this customer was assigned automatically based on the company preference; however, you can manually set the sales tax item to be assigned to this customer.

4. To change the sales tax item, use the **Tax Item** drop-down and assign the proper rate.

5. Click **OK**.

6. Close the Customer Center.

NOTES

Applying Tax to Each Sale

If you've set up a default sales tax, assigned taxes to your customers, and marked items you sell as taxable, QuickBooks automatically calculates and applies the tax when you make a sale.

There are three factors affecting how sales tax is accrued on an invoice. First, the Item Taxability (the Tax column in the body of the invoice) will determine whether the item is subject to sales tax. Next, the Tax Item decides which rate is assigned and how the sales are grouped on the sales tax reports. Lastly, the Customer Tax Code determines if the customer is actually charged sales tax or if it is reported in the Non-taxable Sales column of the Sales Tax report.
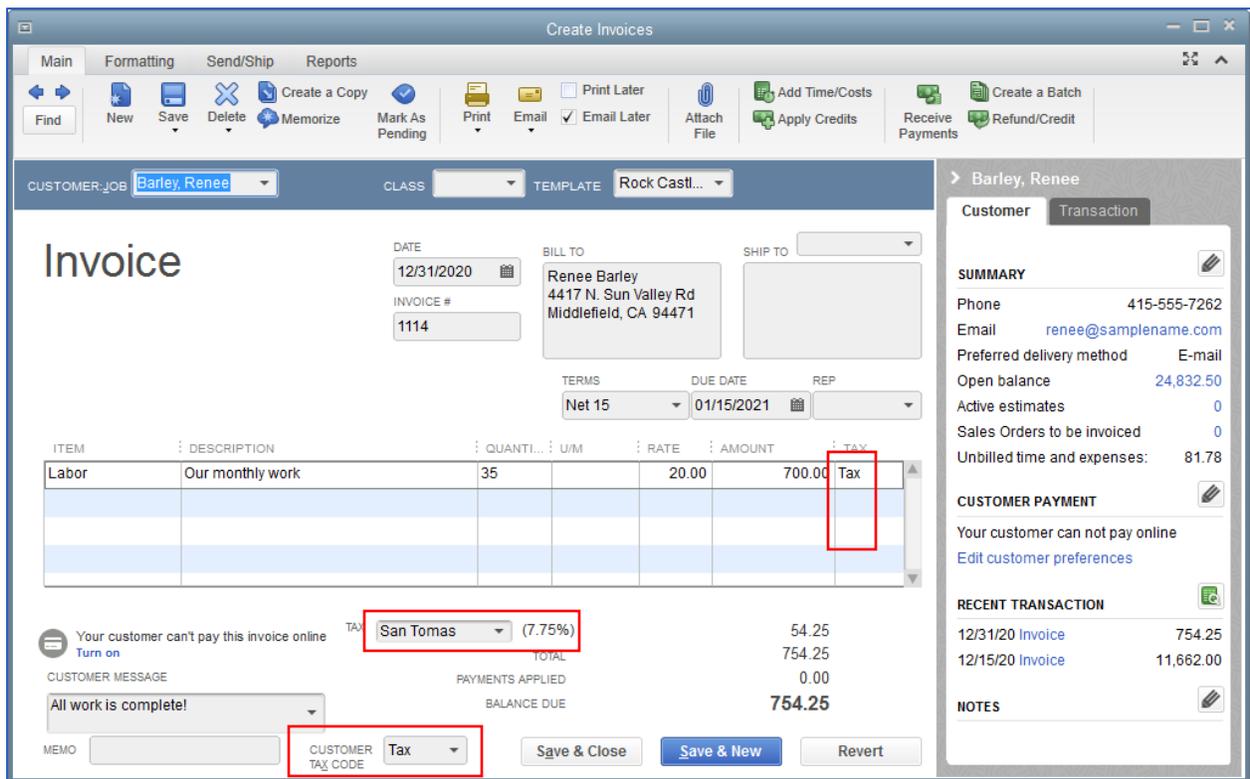
While there are places to set defaults for these tax settings, you can also overwrite what comes up tax-wise on each individual invoice accordingly. This is an important thing to understand if your business works in multiple states and if it is a combination wholesaler/retailer.

NOTES

Determining What You Owe

If you're required to collect sales tax from customers, you also have to make periodic payments of the sales tax you've collected. QuickBooks gives you three ways to determine the amount of your sales tax liability: the Sales Tax Liability report, the Sales Tax Payable register, and the Pay Sales Tax window.

⟫ To create the Sales Tax Liability report:

1. Click on the **Manage Sales Tax** icon from the **Home** page, and then click on the **Sales Tax Liability** hyperlink (or from the **Reports** menu, choose **Vendors & Payables**, and then choose **Sales Tax Liability**).

2. In the **Dates** field, set the parameters for the period you need to view.

The Sales Tax Liability report shows, for the date range you chose, the total taxable sales, total non-taxable sales, and the amount of sales tax you owe each tax agency as of the ending date in the date range. QuickBooks displays the Sales Tax Liability report on an accrual basis, unless you changed the default setting in the Sales Tax Preferences window. The report shows exactly how much sales tax you collected.

3. Close the **Sales Tax Liability** report.

4. If QuickBooks asks if you want to memorize the report, click **No**.

💡 BEST PRACTICE: *Compare the Profit & Loss report income total to the total sales in the Sales Tax report for the same time frame and on the same basis. This will help you find any discrepancies or mis-posted income.*

If you'd like to see where your sales tax revenue is coming from, you can run the Sales Tax Revenue Summary report, which shows you the sources of all taxable and non-taxable sales transactions broken down by individual sales tax codes. This report is especially helpful if you are using sales tax groups.

»   To run the Sales Tax Revenue Summary report:

1. Click on the **Manage Sales Tax** icon from the home screen then click on the **Sales Tax Revenue Summary** hyperlink (or from the **Reports** menu, choose **Vendors & Payables**, then choose **Sales Tax Revenue Summary**).

2. In the **Dates** field, set the parameters for the period you need to view.

3. Close the report.

Each time you write an invoice or sales receipt that includes sales tax, QuickBooks enters the information in the Sales Tax Payable register. QuickBooks keeps track of transactions for all tax vendors in the same Sales Tax Payable account.

⯈ To see the Sales Tax Payable register:

1. From the **Company** menu, choose **Chart of Accounts** (or press **CTRL+A**).

2. Double-click on **Sales Tax Payable** once to open the register.

DATE	NUMBER	VENDOR		DUE DATE	BILLED	✔	PAID	BALANCE
	TYPE	ACCOUNT	MEMO					
12/15/2020	1270	State Board of Equalization		12/31/2020	0.00			3,113.90
	INV	11000 · Accounts Receivable [sp CA sales tax, San Tomas County						
12/15/2020	3009	State Board of Equalization		12/31/2020	0.00			3,113.90
	RCPT	12000 · Undeposited Funds [sp CA sales tax, San Tomas County						
12/15/2020	516	State Board of Equalization					542.10	2,571.80
	TAXPMT	10100 · Checking [split]	ABCD 11-234567					
12/15/2020	516	State Board of Equalization					1,087.17	1,484.63
	TAXPMT	10100 · Checking [split]	ABCD 11-234567					
12/15/2020	1100	State Board of Equalization		12/31/2020			51.15	1,433.48
	CREDME	11000 · Accounts Receivable [sp CA sales tax, San Tomas County						
12/15/2020	1115	State Board of Equalization		12/31/2020			378.00	1,055.48
	CREDME	11000 · Accounts Receivable [sp CA sales tax, San Domingo Cou						
12/15/2020	1116	State Board of Equalization		12/31/2020	0.00			1,055.48
	CREDME	11000 · Accounts Receivable [sp CA sales tax, San Tomas County						
12/15/2020	bounce	City of East Bayshore					15.00	1,040.48
	GENJRN	70100 · Other Income	Sales Tax Adjustment					

ENDING BALANCE **1,420.23**

Sort by Date, Type, Number/Ref

Each entry in the register is a single tax transaction. Taxes you record on invoices and sales receipts appear as increases; payments you make to tax agencies appear as decreases. The ending balance of the register is your current tax liability. Notice how some transactions have the same invoice number. When you record two tax rates on the same invoice or cash sale, the register shows a separate transaction for each tax agency. (This is because you have to make separate payments to individual tax agencies.)

3. Close the register.

4. Close the Chart of Accounts.

📝 NOTES

Paying Your Tax Agencies

When it's time to pay sales tax, you use the Pay Sales Tax window to write a check to your tax agency or agencies. Suppose Rock Castle Construction is ready to make a sales tax payment.

» **To make a sales tax payment:**

1. Select **Vendors** from the icon bar, click **Sales Tax** then select **Manage Sales Tax** (or click on the **Manage Sales Tax** icon from the **Home** page).

2. In the **Manage Sales Tax** window, click the **Pay Sales Tax** button.

3. In the **Show sales tax due through** field, enter the ending date of the period you wish to pay.

    QuickBooks displays tax agencies and the amounts you owe as of that date.

4. To mark them for payment, click the **Pay All Tax** button.

5. Click **OK**. QuickBooks has now created transactions to pay the sales tax liability.

6. Close the **Manage Sales Tax** window.

⊘ IMPORTANT: *In some cases, you may have to make an adjustment to these amounts so your payment in QuickBooks matches your amount due to the tax agency. These adjustments are generally due to usage tax or other excise taxes. Use the Adjust button to add your adjustments before calculating the other rates as the adjusting transaction will reset all amounts in the window.*

NOTES

Tracking and Paying Sales Tax — Review Questions

1. Which of the following statements is false?

    a. You can set up both taxable and non-taxable items.

    b. You can associate different sales tax rates with different customers.

    c. QuickBooks automatically sets up your sales tax rates based on the city and state you enter in the Company Information window.

    d. All of the above

2. Use a _____ item to combine multiple sales tax items into one amount on sales forms.

3. Which of the following can you use to determine your sales tax liability?

    a. Sales Tax Payable Account register

    b. Pay Sales Tax window

    c. Sales Tax Liability report

    d. All of the above

4. To affect sales tax liability correctly, you should make payments to tax collecting agencies from which QuickBooks window?

    a. Write Checks

    b. Pay Sales Tax

    c. Either a or b

    d. None of the above

5. In what part of QuickBooks do you assign sales tax codes and items to customers?

    a. In the Sales Tax Code list

    b. On the Customer tab of the New or Edit Item window

    c. On the Sales Tax Settings tab of each customer's record in the Edit Customer window

    d. None of the above

Review Activities

1. Create an invoice for Pretell Real Estate's 155 Wilks Blvd. job for 10 interior wood doors and 2 exterior wood doors.

2. After you record the invoice, open the Sales Tax Payable register to see how QuickBooks has recorded the tax due from the invoice.

Answers to Review Questions

1. Which of the following statements is false?

    a. You can set up both taxable and non-taxable items

    b. You can associate different sales tax rates with different customers

    c. ✓ QuickBooks automatically sets up your sales tax rates based on the city and state you enter in the Company Information window.

    d. All of the above

2. Use a *sales tax group* item to combine multiple sales tax items into one amount on sales forms.

3. Which of the following can you use to determine your sales tax liability?

    a. Sales Tax Payable account register

    b. Pay Sales Tax window

    c. Sales Tax Liability report

    d. ✓ All of the above

4. To correctly affect sales tax liability, you should make payments to tax collecting agencies from which QuickBooks window?

    a. Write Checks

    b. ✓ Pay Sales Tax

    c. Either a or b

    d. None of the above

5. In what part of the program do you assign sales tax codes and items to customers?

    a. In the Sales Tax Code list

    b. On the Customer tab of the New or Edit Item window

    c. ✓ On the Sales Tax Settings tab of each customer's record in the Edit Customer window

    d. None of the above