



QUICKBOOKS DESKTOP 2017 STUDENT GUIDE

Lesson 11

Track and Pay Sales Tax

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Lesson Objectives

- Get an overview of sales tax in QuickBooks (the steps involved in tracking, collecting and paying it)
- See how to set up QuickBooks to track sales tax
- See how to apply sales tax to a sale
- Learn how to determine a business's sales tax liability
- Write a QuickBooks check to the appropriate tax agency for sales tax liability

Overview of Sales Tax in QuickBooks



Step-by-Step: 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

Set 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.



Step-by-Step: Add a Sales Tax Item

1. From the Lists menu, choose **Item List**.
2. Click the **Item** menu button then choose **New**.

New Item

TYPE
Sales Tax Item Use to calculate a single sales tax at a specific rate that you pay to a single tax agency.

Sales Tax Name
Washington State Tax

Description
Washington State Sales Tax

Tax Rate (%) **Tax Agency (vendor that you collect for)**
6.5% Washington Department of Revenue

OK
Cancel
Next
Notes
Spelling
☐ Item is inactive

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 choose to **Quick Add** or **Set Up** this new vendor/tax agency if it's not already in your vendor list).
8. Click **OK**.

NOTES

Group Single Taxes Together

Even if you collect a combination of sales taxes 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 you have created all sales tax items required, you'll be creating a sales tax group.



Step-by-Step: 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.

TYPE
Sales Tax Group Use to calculate and individually track two or more sales tax items that apply to the same sale. The customer sees only the total sales tax.

Group Name/Number
E. Bayshore Combined Tax

Description
East Bayshore combined sales tax rate for city/county tax

Enter each individual sales tax you need to charge in this district. QuickBooks will collect tax for these items as a group, but will report on each one individually.

TAX ITEM	RATE	TAX AGENCY	DESCRIPTION
East Bayshore	0.3%	City of East Bayshore	City Sales Tax
San Tomas	7.75%	State Board of Equali...	CA sales tax, San ...
Group Rate		8.05%	

☐ Item is inactive

Buttons: OK, Cancel, Next, Notes, Spelling

6. Click **OK**.

Identify 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.)



Step-by-Step: 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 they are not signed in and 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.

The screenshot shows the 'Preferences' window with the 'Company Preferences' tab selected. The 'Sales Tax' icon in the left sidebar is highlighted. The 'Do you charge sales tax?' section has 'Yes' selected. The 'SET UP SALES TAX ITEM' section includes a text box for adding sales tax items and a dropdown for 'Your most common sales tax item' set to 'San Tomas'. The 'ASSIGN SALES TAX CODES' section has 'Tax' for taxable item code and 'Non' for non-taxable item code, with a checkbox for 'Identify taxable amounts as "T" for "Taxable" when printing' checked. The 'WHEN DO YOU OWE SALES TAX?' section has 'As of invoice date (Accrual Basis)' selected. The 'WHEN DO YOU PAY SALES TAX?' section has 'Monthly' selected. Buttons for 'OK', 'Cancel', 'Help', and 'Default' are on the right, along with an 'Also See: General' link.

4. In the *Your most common sales tax* field, choose the sales tax rate you want to be the default.
5. Click **OK**.

Indicate 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.



Step-by-Step: Indicate a Taxable Item

1. In the Item List, right-click the item you wish to check taxable status for, 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.

NOTES

In the same way you can specify that 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.



Step-by-Step: 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

Apply 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 Revenue Summary and Sales Tax Liability reports.

Invoice
PAID 07/30/2021

CUSTOMER: Barley, Renee:Repairs
CLASS: Remodel
TEMPLATE: Custom Invoice

DATE: 01/17/2021
INVOICE #: 1021
BILL TO: Renee Barley
4417 N. Sun Valley Rd
Middlefield, CA 94471

TERMS: Net 15
DUE DATE: 02/01/2022

ITEM	QUANTITY	DESCRIPTION	U/M	RATE	AMOUNT	TAX
Subs.Electrical	12	Electrical work (12 Hour at \$55.00/hour)		50.00	600.00	Non
Electrical Mate...		Electrical Materials		2,400.00	2,400.00	Tax

TAX: San Tomas (7.75%)
186.00
TOTAL: 3,186.00
PAYMENTS APPLIED: 3,186.00
BALANCE DUE: 0.00

CUSTOMER TAX CODE: Tax

Customer Summary:
Phone: 415-555-7262
Email: renee@samplename.com
Preferred delivery method: E-mail
Open balance: 0.00
Active estimates: 0
Sales Orders to be invoiced: 0

Recent Transaction:
07/30/21 Payment: 2,786.00
01/17/21 Payment: 400.00

While there are places to set defaults for these tax settings, you can also overwrite what comes up tax-wise on each individual invoice. This is important to understand if your business works in multiple states and is a combination wholesaler/retailer.

NOTES

Determine 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.



Step-by-Step: Create the Sales Tax Liability Report

1. Click the **Manage Sales Tax** icon from the Home page then click on the **Sales Tax Liability** hyperlink (or from the Reports menu, choose **Vendors & Payables** then choose **Sales Tax Liability**).
2. In the Dates fields, set the parameters for the period you need to view.

Sales Tax Liability							
Customize Report	Commit on Report	Share Template	Memorize	Print	E-mail	Excel	Hide Header Collapse Refresh
Dates	Last Month	From	11/01/2021	To	11/30/2021	Sort By	Default
Show Applied Filters							
4:11 PM 12/15/21 Accrual Basis		Rock Castle Construction Sales Tax Liability November 2021					
	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable	
						As of Nov 30, 21	
▼ City of East Bayshore							
East Bayshore	0.00	0.00	0.00	0.3%	0.00	0.00	
Total City of East Bayshore	0.00	0.00	0.00		0.00	0.00	
▼ State Board of Equalization							
San Domingo	27,245.50	20,017.50	7,228.00	7.5%	542.10	542.10	
San Tomas	38,355.50	24,327.50	14,028.00	7.75%	1,087.17	1,087.17	
State Board of Equalization - O...	0.00	0.00	0.00		0.00	0.00	
Total State Board of Equalization	65,601.00	44,345.00	21,256.00		1,629.27	1,629.27	
TOTAL	65,601.00	44,345.00	21,256.00		1,629.27	1,629.27	

The Sales Tax Liability report shows 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.

- 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 incorrectly 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.



Step-by-Step: Run the Sales Tax Revenue Summary Report

- Click 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**).
- In the Dates fields, set the parameters for the period you need to view.

Sales Tax Revenue Summary

Customize Report | Comment on Report | Share Template | Memorize | Print | E-mail | Excel | Hide Header | Collapse | Refresh

Dates: Last Month | From: 11/01/2021 | To: 11/30/2021 | Show Columns: Sales Tax Code | Sort By: Default

Show | Applied Filters

4:13 PM
12/15/21
Accrual Basis

Rock Castle Construction
Sales Tax Revenue Summary
November 2021

	Taxable Sales	Non-Taxable Sales	TOTAL
State Board of Equalization			
San Domingo	7,228.00	20,017.50	27,245.50
San Tomas	14,028.00	24,327.50	38,355.50
Total State Board of Equaliza...	21,256.00	44,345.00	65,601.00
TOTAL	21,256.00	44,345.00	65,601.00

- 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.



Step-by-Step: 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** to open the register.

25500 - Sales Tax Payable								
Go to... Print... Edit Transaction QuickReport								
DATE	NUMBER	VENDOR		DUE DATE	BILLED	✓	PAID	BALANCE
	TYPE	ACCOUNT	MEMO					
12/15/2021	1111	City of East Bayshore		12/31/2021	0.00			2,586.90
	INV	11000 - Accounts Receivable [split]	City Sales Tax					
12/15/2021	1111	State Board of Equalization		12/31/2021	0.00			2,586.90
	INV	11000 - Accounts Receivable [split]	CA sales tax, San Tomas County					
12/15/2021	1112	State Board of Equalization		12/31/2021	0.00			2,586.90
	INV	11000 - Accounts Receivable [split]	CA sales tax, San Tomas County					
12/15/2021	1113	State Board of Equalization		12/31/2021	0.00			2,586.90
	INV	11000 - Accounts Receivable [split]	CA sales tax, San Tomas County					
12/15/2021	516	State Board of Equalization					542.10	2,044.80
	TAXPMT	10100 - Checking [split]	ABCD 11-234567					
12/15/2021	516	State Board of Equalization					1,087.17	957.63
	TAXPMT	10100 - Checking [split]	ABCD 11-234567					
15/2021	Number	Vendor			Billed		Paid	
		Account	Memo					
Splits								ENDING BALANCE
1-Line								957.63
Sort by Date, Type, Number/Ref								Record Restore

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

Pay 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.



Step-by-Step: Make a Sales Tax Payment

1. Select **Vendors** from the menu bar, click **Sales Tax** then select **Manage Sales Tax** (or click 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.

P...	ITEM	VENDOR	AMT. DUE	AMT. PAID
	East Bayshore	City of East Bayshore	0.29	0.00
	San Domingo	State Board of Equalization	114.19	0.00
	San Tomas	State Board of Equalization	843.15	0.00
Totals			957.63	0.00

☒ To be printed

Ending Bank Balance: 48,687.70

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.

Track and Pay 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 two 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