



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

Supporting materials

- Handout 7: Sales tax
- PowerPoint file: Lesson 11
- Video tutorial: Track and pay sales tax

Instructor preparation

- Review this lesson, including the examples, to make sure you're familiar with the material.
- Ensure that all students have a copy of qblesson.qbb on their computer's hard disk.
- Have Handout 7 ready for distribution.

To start this lesson

Before you perform the following steps, make sure you have installed the exercise file (qblesson.qbb) on your hard disk. See "Installing the exercise file" in the Introduction to this guide if you haven't installed it.

The following steps restore the exercise file to its original state so that the data in the file matches what you see on the screen as you proceed through each lesson.

To restore the exercise file (qblesson.qbb):

- 1** From the File menu in QuickBooks, choose Open or Restore Company.
QuickBooks displays the Open Company: Type window.
- 2** Select "Restore a backup copy (.QBB) and click Next.
- 3** In the Restore Backup: Method window, select Local Backup and click Next.
- 4** In the Open window, navigate to your c:\QBtrain directory.
- 5** Select the qblesson.qbb file, and then click Open.
- 6** In the "Restore Backup: To Location" window, click Next.

- 7 Navigate to your c:\QBtrain directory.
- 8 In the File name field of the Restore To window, type **lesson 11** and then click Save.
- 9 Click OK when you see the message that the file has been successfully restored.

Overview of sales tax in QuickBooks

If you have a business where you need to collect sales tax, you already know how complicated the process can be. These are some of the issues you may have to deal with:

- You may have to collect and pay more than one tax (for example, one rate for local taxes and one rate for state taxes).
- You may have some items that are taxable and some that aren't.
- You may tax some customers while others are non-taxable.

QuickBooks reduces some of the complication, because it lets you automatically apply sales tax on particular sales and keep track of how much you collect and from whom. Then, when you're ready to pay your taxes, QuickBooks can write a check for the correct amount.

Refer to Handout 7, "Sales tax," for the following discussion.

To use QuickBooks to track and pay your sales tax:

1 Set up your tax rates and agencies.

In the QuickBooks Item list, set up the separate tax rates you need to charge. In the Vendor list, set up the agencies to whom you submit the taxes you've collected.

You can also set up sales tax codes, which can help you classify why a transaction (or part of one) is either taxable or non-taxable.

2 Indicate who and what gets taxed.

Not all of the items you sell are taxable, and not all of your customers pay tax. In your Item and Customers & Jobs lists, you can indicate which items or customers are taxable.

3 Apply tax to each sale.

When you fill out an invoice or sales receipt form, and choose a taxable item from your Item list, QuickBooks applies the appropriate sales tax.

4 Find out what you owe.

As you record taxable sales, QuickBooks keeps track of the tax you've collected in your Sales Tax Payable account. When you're ready to pay your sales tax agency, you can open the Sales Tax Payable register to see how much you owe, or you can create a sales tax liability report.

5 Pay your tax agencies.

When you go to the Pay Sales Tax window, QuickBooks shows the amount you owe and writes a check to the tax agency for that amount.

This lesson walks you through each of these steps.

Setting up your tax rates and agencies

The first step is to enter your sales tax rates, and then provide information about the tax agencies to which you pay the taxes.

Creating a tax item for each single tax you apply

Some businesses need to apply more than one sales tax to their sales; for example, they may collect a state sales tax as well as several county sales taxes. You need to create a separate sales tax item for each tax whose 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.

On the Item list, you already have sales tax for San Tomas and San Domingo Counties. Because Rock Castle Construction now does business in the city of Bayshore, you need to add sales tax items for that city.

To add a sales tax item:

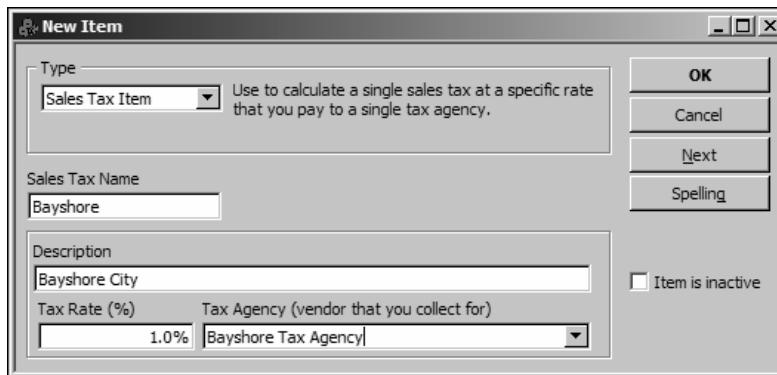
- 1 From the Lists menu, choose Item List.

QuickBooks displays the Item list.

Name	Description	Type	Account	On Hand	On Sales Order	Price
↳ Blueprint changes		Service	Construction:Miscellaneous			0.00
↳ Concrete Slab	Foundation slab - prep and pouring	Service	Construction:Labor			0.00
↳ Floor Plans	Floor plans	Service	Construction:Miscellaneous			0.00
↳ Framing	Framing labor	Service	Construction:Labor			55.00
↳ Installation	Installation labor	Service	Construction:Labor			35.00
↳ Labor		Service	Construction:Labor			0.00
↳ Mileage		Service	Mileage Income			0.365
↳ Removal	Removal labor	Service	Construction:Labor			35.00
↳ Repairs	Repair work	Service	Construction:Miscellaneous			35.00
↳ Subs	Subcontracted services	Service	Construction:Subcontractors			0.00
↳ Carpet	Install carpeting	Service	Construction:Subcontractors			0.00
↳ Drywall	Install drywall	Service	Construction:Subcontractors			0.00
↳ Duct Work	Heating & Air Conditioning Duct Work	Service	Construction:Subcontractors			0.00
↳ Electrical	Electrical work	Service	Construction:Subcontractors			0.00
↳ Insulating	Install insulation	Service	Construction:Subcontractors			0.00
↳ Metal Wrk	Metal Work	Service	Construction:Subcontractors			0.00
↳ Painting	Painting	Service	Construction:Subcontractors			0.00
↳ Plumbing	Plumbing	Service	Construction:Subcontractors			0.00

- 2 Click the Item menu button, and then choose New.
QuickBooks displays the New Item window.
- 3 In the Type field, choose Sales Tax Item from the drop-down list.
- 4 In the Sales Tax Name field, type **Bayshore**.
- 5 In the Description field, type **Bayshore City**.
- 6 In the Tax Rate (%) field, type **1**.

- In the Tax Agency field, type **Bayshore Tax Agency**.
Your New Item window should now resemble the following figure.



- Click OK.
QuickBooks displays a message telling you that Bayshore Tax Agency is not on your Vendor list.
- Click Quick Add.
- Click OK.
If QuickBooks prompts you to add 'Bayshore' to the dictionary, click Add.
QuickBooks adds Bayshore Tax Agency to the Vendor list.
Your Item list should resemble the following figure.

Name	Description	Type	Account	On Hand	On Sales Order	Price
Retainage 1	10% retainage to be billed after jo...	Othe...	Retainage			-10.0%
Retainage 2	Final billing for 10% retainage	Othe...	Retainage			0.00
Reimb Subt	Subtotal of Reimbursable Expenses	Subt...				
Subtotal	Subtotal	Subt...				
A1 Custom Sto...	Custom Storage Building - Model A1	Group				
A2 Custom Sto...	Custom Storage Building - Model A2	Group				
A3 Custom Sto...	Custom Storage Building - model A3	Group				
Door set	Exterior door and hardware set	Group				
Reimb Group	Time and materials	Group				
Room Addition/...	Project Total	Group				
Discount	10% Discount	Disco...	Construction:Discounts given			-10.0%
Payment	Down payment received	Paym...	Undeposited Funds			
Bayshore	Bayshore City	Sales...	Sales Tax Payable			1.0%
East Bayshore	City Sales Tax	Sales...	Sales Tax Payable			0.3%
Out of State	Out-of-state sale, exempt from sal...	Sales...	Sales Tax Payable			0.0%
San Domingo	CA sales tax, San Domingo County	Sales...	Sales Tax Payable			7.5%
San Tomas	CA sales tax, San Tomas County	Sales...	Sales Tax Payable			7.75%
E. Bayshore/C...	Sales Tax	Sales...	Sales Tax Payable			8.05%

Grouping single taxes together

Even if you collect a combination of sales taxes (for example, city tax and county tax) that 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 that customers see a single tax amount on your invoices and sales receipts. Instead of a sales tax item, 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, and then choose New.
- 2 In the Type field, choose Sales Tax Group.

The New Item window on your screen should resemble the figure below.

New Item

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:

Description:

Item is inactive

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
Group Rate 0.0%			

- 3 In the Group Name/Number field, type **Bayshore Group**.
- 4 In the Description field, type **Sales Tax, Bayshore**.
- 5 Click in the Tax Item column, and then choose Bayshore from the drop-down list.
- 6 Click on the second line in the Tax Item column, and then choose San Tomas.

Your New Item window should resemble the following figure.

New Item

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: **Bayshore Group**

Description: **Sales Tax, Bayshore**

Item is inactive

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
Bayshore	1.0%	Bayshore Tax Age...	Bayshore City
San Tomas	7.75%	State Board of Equ...	CA sales tax, San ...
Group Rate 8.75%			

Notice that the total Group Rate is 8.75%.

- 7 Click OK.
- QuickBooks adds the Bayshore Group to the Item list.

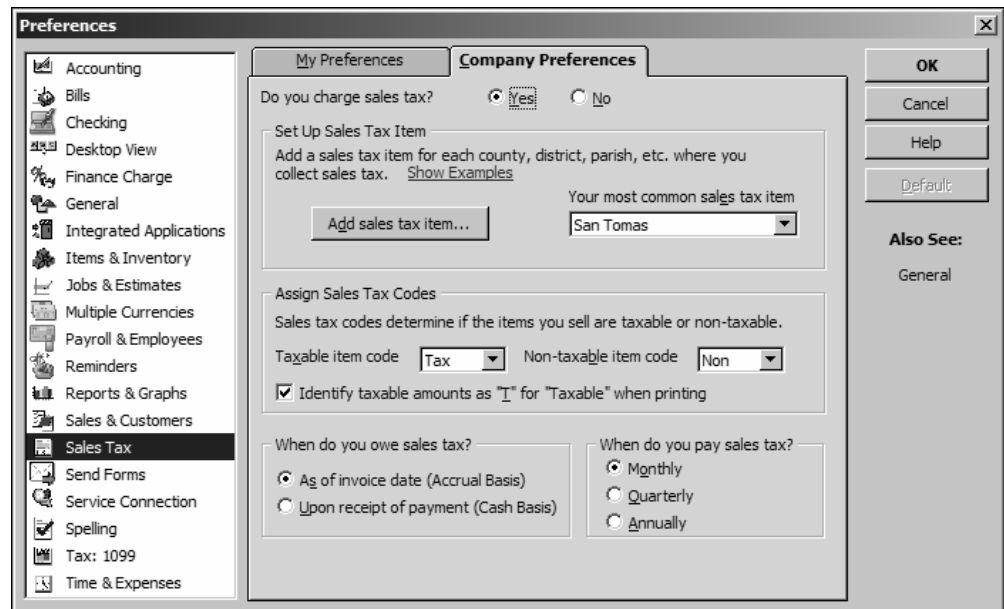
Identifying your most common tax

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.)

Assume Rock Castle Construction uses the San Tomas sales tax most often, and set that up as the default sales tax.

To set up a default sales tax:

- 1 From the Edit menu, choose Preferences.
QuickBooks displays the Preferences window.
- 2 In the Preferences window, click the Sales Tax icon in the left panel, and then click the Company Preferences tab.



- 3 In the "Your most common sales tax item" field, make sure San Tomas is selected.
- 4 Click OK.

If you're using sales tax codes, you can use the Preferences window to tell QuickBooks which sales tax codes to use as the default taxable and non-taxable codes. You can use the codes that come preset with QuickBooks, or define your own. You can also manage sales tax codes using the Sales Tax Code list, which is available on the Lists menu when the sales tax feature is turned on in a company data file.

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 tax item or 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 where you can 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.

In the next exercise, you'll take a look at an item on Rock Castle's Item list to see how to indicate that an item is taxable.

To indicate a taxable item:

- 1 In the Item list, select Doorknobs Std (under Hardware).
- 2 Click the Item menu button, and then choose Edit Item.

The screenshot shows the 'Edit Item' window with the following details:

- Type:** Inventory Part (Use for goods you purchase, track as inventory, and resell.)
- Item Name/Number:** Doorknobs Std
- Subitem of:** Hardware
- Manufacturer's Part Number:** (Empty)
- Unit of Measure:** (Empty)
- Item is inactive:**
- Purchase Information:**
 - Description on Purchase Transactions: Doorknobs Part # DK 3704
 - Cost: 27.00
 - COGS Account: Cost of Goods Sold
 - Preferred Vendor: Patton Hardware Su...
- Sales Information:**
 - Description on Sales Transactions: Standard Doorknobs
 - Sales Price: 30.00
 - Tax Code: Tax
 - Income Account: Construction:Materials
- Inventory Information:**

Asset Account	Reorder Point	On Hand	Avg. Cost	On P.O.	On Sales Order
Inventory Asset	50	103	27.00	0	0

The code in the Tax Code field is a taxable code, which tells you that this item is taxable. When you choose the item to be included on a sales form, QuickBooks knows that the item is taxable and automatically applies the default sales tax (San Tomas sales tax with a rate of 7.75%).

To indicate that an item is non-taxable, select a non-taxable code from the drop-down list.

- 3 Click OK to close the Edit Item window.
- 4 Close the Item list.

In the same way that 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.

To see an existing customer record:

- 1 Click Customer Center on the icon bar.
QuickBooks displays the Customer Center, including the Customers & Jobs list.
- 2 Select Jimenez, Cristina.
- 3 Click Edit Customer.
QuickBooks displays the Edit Customer window.

- 4 Click the Additional Info tab.
The tax code selected indicates that transactions with this customer are subject to sales tax. Because it is the default sales tax, the San Tomas tax item is assigned automatically. However, this customer is located in Bayshore, which has just instituted its city sales tax, so change the tax item to Bayshore Group.

- 5 In the Tax Item field, choose Bayshore Group from the drop-down list.

The screenshot shows the 'Edit Customer' window with the following details:

- Customer Name: Jimenez, Cristina
- Current Balance: 0.00
- How do I adjust the current balance? (link)
- Address Info, Additional Info (selected), Payment Info tabs
- Categorizing and Defaults:
 - Type: Residential
 - Terms: Net 30
 - Rep: [blank]
 - Preferred Send Method: E-mail
- Sales Tax Information:
 - Tax Code: Tax
 - Tax Item: Bayshore Group
 - Resale Number: [blank]
- Price Level: [blank]
- Custom Fields:
 - Contract #: [blank]
 - B-Day: [blank]
 - Spouse's Name: [blank]
- Define Fields button
- Customer is inactive checkbox (unchecked)
- Buttons: OK, Cancel, Notes, Help, Go to Client Manager

- 6 Click OK.
- 7 Close the Customer Center.

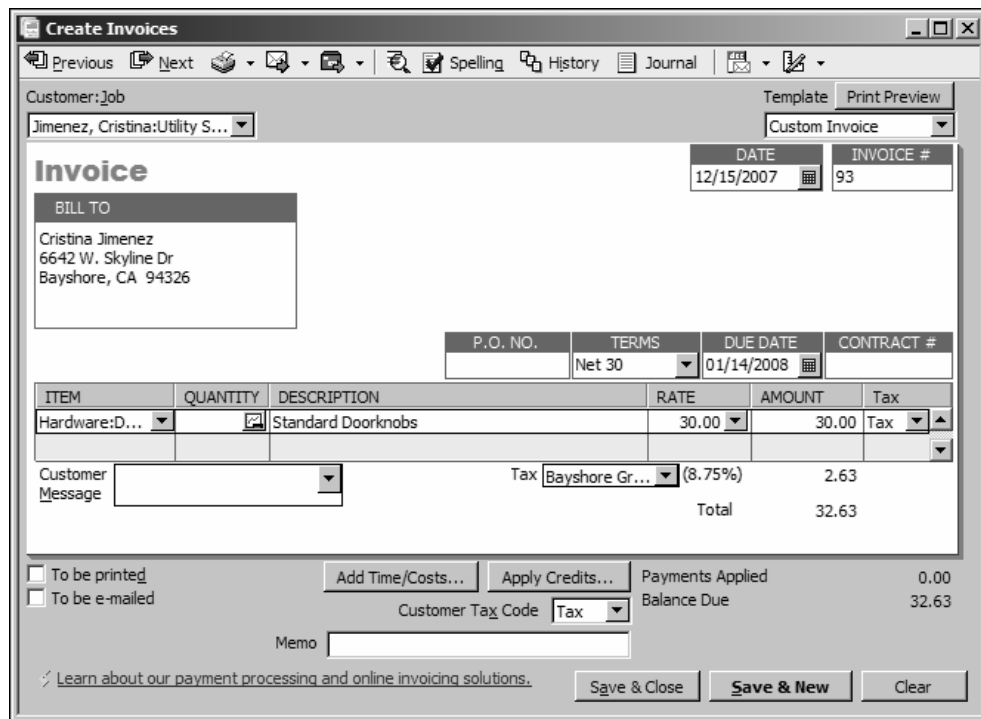
Applying tax to each sale

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

To apply tax to a sale:

- 1 On the Home page, click Create Invoices.
QuickBooks displays the Create Invoices window.
- 2 In the Customer:Job field, choose Jimenez, Cristina:Utility Shed from the drop-down list. (Select both the customer and the job.)
- 3 In the Template field, select Custom Invoice from the drop-down list.
- 4 Click in the Item column and select Doorknobs Std from the drop-down list and press Tab.

The Create Invoices window should resemble the figure below.



When you enter a taxable item, QuickBooks displays the tax code associated with that item in the Tax column (which appears to the right of the Amount column). If the customer is taxable, QuickBooks includes all items associated with a taxable tax code in its tax calculation.

Tip: You can select a different tax code from the list to turn taxable status on and off for unique situations. You can also change the customer’s taxable status by selecting a non-taxable code from the Customer Tax Code drop-down list.

Notice that QuickBooks applies to the Bayshore Group tax automatically because this is the sales tax you assigned to this customer.

Tracking and paying sales tax

- 5 In the Quantity column, type 4, and then press Tab.

The Create Invoices window should resemble the following figure.

- 6 Click Save & Close.

The following table shows the journal entry for the invoice.

Account Title	Debit	Credit
Accounts Receivable	\$130.50	
Materials		\$120.00
Inventory Asset		\$108.00
Cost of Goods Sold	\$108.00	
Sales Tax Payable		\$1.20
Sales Tax Payable		\$9.30

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.

Creating a sales tax liability report

The sales tax liability report provides complete information about the sales tax your company owes for a particular period of time.

To create the sales tax liability report:

- 1 From the Reports menu, choose Vendors & Payables, and then choose Sales Tax Liability.

Your report should resemble the following figure.

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Nov 30, 07
City of East Bayshore						
East Bayshore	0.00	0.00	0.00	0.3%	0.00	66.68
Total City of East Bayshore	0.00	0.00	0.00		0.00	66.68
State Board of Equalization						
Out of State	0.00	0.00	0.00	0.0%	0.00	0.00
San Domingo	23,483.50	16,675.00	6,808.50	7.5%	510.64	510.64
San Tomas	26,524.25	18,938.25	7,586.00	7.75%	587.91	4,938.37
State Board of Equalization - Other	0.00	0.00	0.00		0.00	0.00
Total State Board of Equalization	<u>50,007.75</u>	<u>35,613.25</u>	<u>14,394.50</u>		<u>1,098.55</u>	<u>5,449.01</u>
TOTAL	<u>50,007.75</u>	<u>35,613.25</u>	<u>14,394.50</u>		<u>1,098.55</u>	<u>5,515.69</u>

Tracking and paying sales tax

- In the Dates field, choose This Month-to-date from the drop-down list.
Your report should resemble the following figure.

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Dec 15, 07
Bayshore Tax Agency						
Bayshore	120.00	0.00	120.00	1.0%	1.20	1.20
Total Bayshore Tax Agency	120.00	0.00	120.00		1.20	1.20
City of East Bayshore						
East Bayshore	1,095.00	0.00	1,095.00	0.3%	3.29	69.97
Total City of East Bayshore	1,095.00	0.00	1,095.00		3.29	69.97
State Board of Equalization						
Out of State	0.00	0.00	0.00	0.0%	0.00	0.00
San Domingo	19,825.18	17,637.18	2,188.00	7.5%	164.10	132.64
San Tomas	48,264.16	34,357.75	13,906.41	7.75%	1,077.74	5,088.91
State Board of Equalization - Other	0.00	0.00	0.00		0.00	0.00
Total State Board of Equalization	68,089.34	51,994.93	16,094.41		1,241.84	5,221.55
Multiple taxes from different vendors	-1,215.00	0.00	-1,215.00		0.00	0.00
TOTAL	68,089.34	51,994.93	16,094.41		1,246.33	5,292.72

The sales tax liability report shows the total taxable sales as of a date you choose, total non-taxable sales, and the amount of sales tax you owe each tax agency. 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.

- Close the sales tax liability report.
- If QuickBooks asks if you want to memorize the report, click No.

Determining the source of sales tax revenue

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.

To run the sales tax revenue summary report:

- 1 From the Reports menu, choose Vendors & Payables, and then choose Sales Tax Revenue Summary from the submenu.

	◊ Taxable Sales	◊ Non-Taxable Labor	◊ Non-Taxable Sales	◊ TOTAL
State Board of Equalization				
San Domingo	6,808.50	0.00	16,675.00	23,483.50
San Tomas	7,586.00	1,005.00	17,933.25	26,524.25
Total State Board of Equalization	14,394.50	1,005.00	34,608.25	50,007.75
TOTAL	14,394.50	1,005.00	34,608.25	50,007.75

You can QuickZoom on the numbers in the report to get more information about specific sales transactions.

- 2 Close the report.

Using the sales tax payable register

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.
QuickBooks displays the chart of accounts.
- 2 Click Sales Tax Payable once to select it.
- 3 Click the Activities menu button and select Use Register.

QuickBooks displays the Sales Tax Payable register.

Date	Number	Vendor	Due Date	Billed	✓	Paid	Balance
Type	Account	Memo					
12/15/2007	92	State Board of Equalization	12/31/2007	0.00			5,282.22
	INV	Accounts Rec CA sales tax,					
12/15/2007	93	Bayshore Tax Agency	12/31/2007	1.20			5,283.42
	INV	Accounts Rec Bayshore City					
12/15/2007	93	State Board of Equalization	12/31/2007	9.30			5,292.72
	INV	Accounts Rec CA sales tax,					
12/15/2007	Number	Vendor		Billed		Paid	
	Account	Memo					
Ending balance							5,292.72

Each entry in the register is a single tax transaction. Taxes you record on invoices and sales receipts appear as increases, and 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.)

- 4 Close the register.
- 5 Close the chart of accounts.

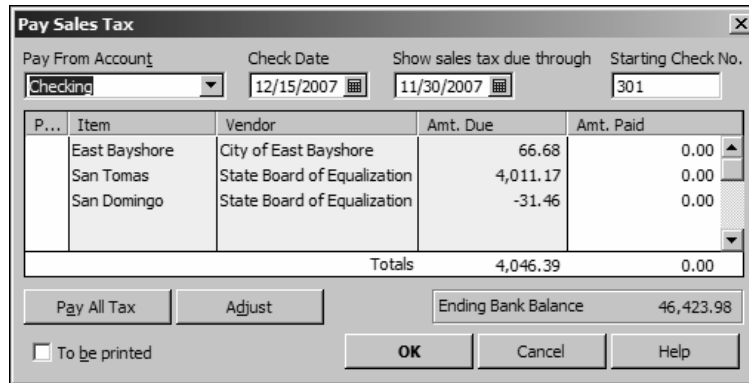
Paying your tax agencies

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.

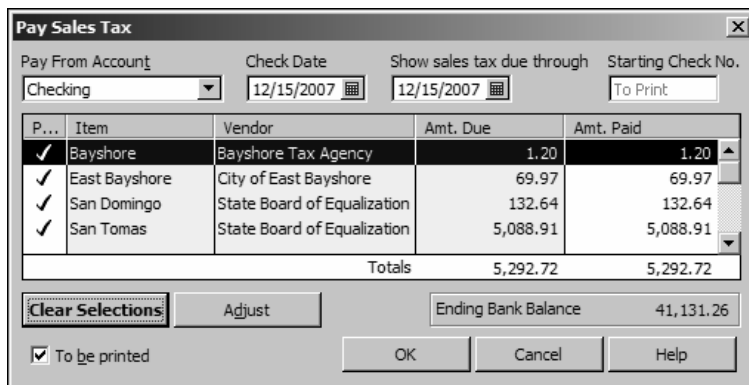
To make a sales tax payment:

- 1 On the Home page, click Manage Sales Tax.
- 2 In the Manage Sales Tax window, click the Pay Sales Tax button.

QuickBooks displays the Pay Sales Tax window.



- 3 Select the “To be printed” checkbox.
- 4 In the “Show sales tax due through” field, type **12/15/07**, and then press Tab. QuickBooks displays tax agencies and the amounts you owe.
- 5 To mark them for payment, click the Pay All Tax button. The Pay Sales Tax window should resemble the figure below.



- 6 Click OK.
- 7 Close the Manage Sales Tax window.

QuickBooks writes and records checks to the tax agencies you indicated. All you need to do is print the checks. QuickBooks updates the tax report and sales tax payable register to show that you’ve paid the tax agencies.

