



QUICKBOOKS 2015 STUDENT GUIDE

Lesson 11

Tracking and Paying Sales Tax

intuit.

Copyright

Copyright 2015 Intuit, Inc.
All rights reserved.

Intuit, Inc.
5601 Headquarters Drive
Plano, TX 75024

Trademarks

©2015 Intuit Inc. All rights reserved. Intuit, the Intuit logo, Intuit ProLine, Lacerte, ProAdvisor, ProSeries and QuickBooks, among others, are trademarks or registered trademarks of Intuit Inc. in the United States and other countries. Other parties' marks are the property of their respective owners.

Notice to Readers

The publications distributed by Intuit, Inc. are intended to assist accounting professionals in their practices by providing current and accurate information. However, no assurance is given that the information is comprehensive in its coverage or that it is suitable in dealing with a client's particular situation. Accordingly, the information provided should not be relied upon as a substitute for independent research. Intuit, Inc. does not render any accounting, legal, or other professional advice nor does it have any responsibility for updating or revising any information presented herein. Intuit, Inc. cannot warrant that the material contained herein will continue to be accurate nor that it is completely free of errors when published. Readers should verify statements before relying on them.

Table of Contents

Lesson Objectives	4
Overview of Sales Tax in QuickBooks	5
Setting Up your Tax Rates and Agencies.....	6
Grouping Single Taxes Together.....	7
Identifying Your Most Common Tax	8
Indicating Who and What Gets Taxed	9
Applying Tax to Each Sale.....	11
Determining What You Owe	12
Paying Your Tax Agencies.....	15
Tracking and Paying Sales Tax — Review Questions	16
Review Activities.....	17
Answers to Review Questions	18

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 you issue payments to.

The screenshot shows a 'New Item' dialog box with the following fields and values:

- TYPE:** Sales Tax Item (dropdown menu)
- Sales Tax Name:** Washington State Tax (text field)
- Description:** Washington State Sales Tax (text field)
- Tax Rate (%):** 6.5% (text field)
- Tax Agency (vendor that you collect for):** Washington Department of Revenue (dropdown menu)
- Item is inactive:** (checkbox)

Buttons on the right: OK, Cancel, Next, Notes, Spelling.

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 tax amount. 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 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

6. Click **OK**.



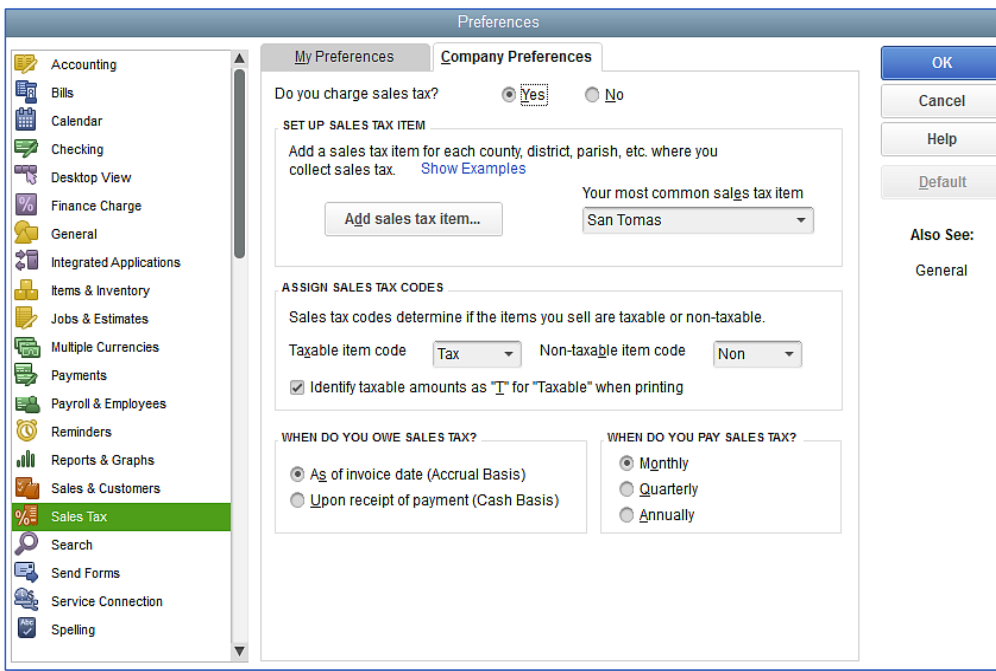
NOTES

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. From the **Edit** menu, choose **Preferences**.
2. In the **Preferences** window, click the **Sales Tax** icon in the left panel then click the **Company Preferences** tab.



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



NOTES

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 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 wish to check taxable status on 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.

***NOTE:** 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 next section re: taxable/non-taxable customers.*



NOTES

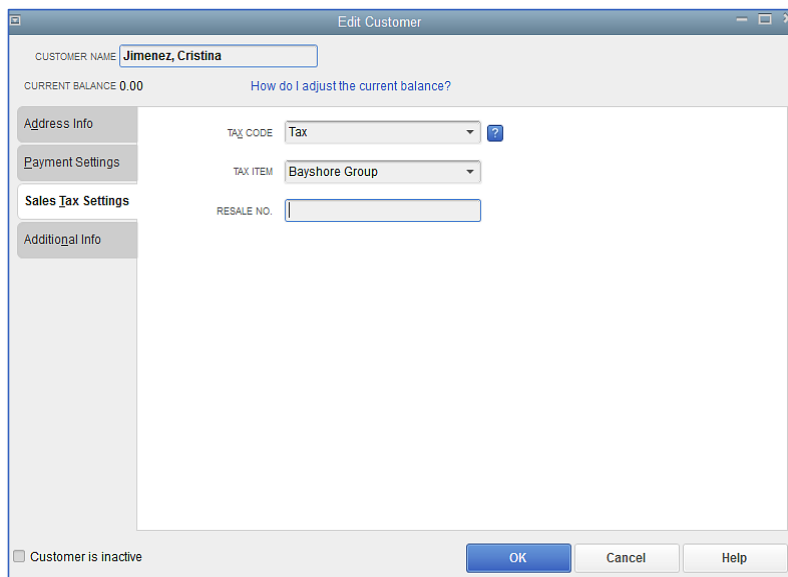
In the same way that you can specify an item in the Item list is taxable, you can indicate whether or not a particular customer is taxable or non-taxable in that customer's record.

To see an existing customer record:

1. Click **Customers** on the icon bar.
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. The default tax rate will be assigned automatically; 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.



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

- CUSTOMER NAME:** Jimenez, Cristina
- CURRENT BALANCE:** 0.00
- Address Info:** (tab selected)
- Payment Settings:** (tab selected)
- Sales Tax Settings:** (tab selected)
 - TAX CODE:** Tax
 - TAX ITEM:** Baysshore Group
 - RESALE NO.:** (empty field)
- Additional Info:** (tab selected)
- Customer is inactive:** (checkbox unchecked)
- Buttons:** OK, Cancel, Help

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 will determine 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.

The screenshot shows the 'Create Invoices' window in QuickBooks. The invoice is for 'Jimenez, Cristina.Utility Shed'. The invoice number is 1115, dated 12/15/2018. The bill-to address is 6642 W. Skyline Dr, Bayshore, CA 94326. The item 'Hardware.Doorknobs Std' is listed with a quantity of 4, a unit price of 30.00, and a tax amount of 10.50. The total amount is 130.50. The tax is identified as 'Baysshore Gro...' at 8.75%. The customer tax code is set to 'Tax'. The window also shows a summary of the customer's account, including phone, email, and recent transactions.

ITEM	DESCRIPTION	QUANTITY	U/M	RATE	AMOU..	TAX
Hardware.Doorknobs Std	Standard Doorknobs	4		30.00	120.00	T..

TOTAL 130.50
PAYMENTS APPLIED 0.00
BALANCE DUE 130.50

TAX: Baysshore Gro... (8.75%) 10.50

CUSTOMER TAX CODE: Tax

While there are places to set defaults for these tax settings, you can also modify each 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 screen 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** field, set the parameters for the period you need to view.

Comment [JU1]: Parameters?

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Nov 30, 19
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 as of the 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.

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.



NOTES

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**).

Sales Tax Revenue Summary

8:06 PM
12/15/19
Accrual Basis

Rock Castle Construction
Sales Tax Revenue Summary
July through September 2019

	Taxable Sales	Non-Taxable Sales	TOTAL
City of East Bayshore			
East Bayshore	12,097.10	3,245.80	15,342.90
Total City of East Bayshore	12,097.10	3,245.80	15,342.90
State Board of Equalization			
San Tomas	29,843.45	81,151.44	110,994.89
Total State Board of Equalization	29,843.45	81,151.44	110,994.89
Multiple taxes from different vend...	-12,097.10	-3,245.80	-15,342.90
TOTAL	29,843.45	81,151.44	110,994.89

2. 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. Click **Sales Tax Payable** once to select it.
3. Click the **Activities** menu button and select **Use Register** (or right-click on the account and choose **Use Register**).

DATE	NUMBER	VENDOR		DUE DATE	BILLED	PAID	BALANCE
	TYPE	ACCOUNT	MEMO				
12/15/2018	1115	Bayshore Tax Agency		12/31/2018	1.20		2,604.84
	INV	11000 - Accounts Receivable Bayshore City					
12/15/2018	1115	State Board of Equalization		12/31/2018	9.30		2,614.14
	INV	11000 - Accounts Receivable CA sales tax, San Toma					
12/15/2018	516	State Board of Equalization				542.10	2,072.04
	TAXPMT	10100 - Master Check ABCD 11-234567					
12/15/2018	516	State Board of Equalization				1,087.17	984.87
	TAXPMT	10100 - Master Check ABCD 11-234567					
2/15/2018	Number	Vendor			Billed	Paid	
		Account	Memo				

ENDING BALANCE **984.87**

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.)

4. Close the register.
5. 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 screen).
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 are trying to pay.
QuickBooks displays tax agencies and the amounts you owe.
4. To mark them for payment, click the **Pay All Tax** button.

P...	ITEM	VENDOR	AMT. DUE	AMT. PAID
<input checked="" type="checkbox"/>	East Bayshore	City of East Bayshore	0.29	0.29
<input checked="" type="checkbox"/>	San Tomas	State Board of Equalization	869.19	869.19
<input checked="" type="checkbox"/>	San Domingo	State Board of Equalization	114.19	114.19
Totals			984.87	984.87

Ending Bank Balance: 56,805.67

5. Click **OK**. QuickBooks has now created transactions to pay the sales tax liability.
6. Close the Manage Sales Tax window.

NOTE: 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 use 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.
 - a. Which of the following can you use to determine your sales tax liability?
 - b. Sales Tax Payable Account register
 - c. Pay Sales Tax window
 - d. Sales Tax Liability report
 - e. All of the above
3. To correctly effect 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
4. 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 Additional Info 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 Additional Info tab of each customer's record in the Edit Customer window
 - d. None of the above