

Intuit ProLine

**QuickBooks 2011 Student Guide**

**Tracking and Paying Sales Tax**

Lesson 11

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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

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## Notes

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## Overview of Sales Tax in QuickBooks

To use QuickBooks to track and pay your sales tax:

- Set up your tax rates and agencies.
- Indicate who and what gets taxed.
- Apply tax to each sale.
- Find out what you owe.
- Pay your tax agencies.

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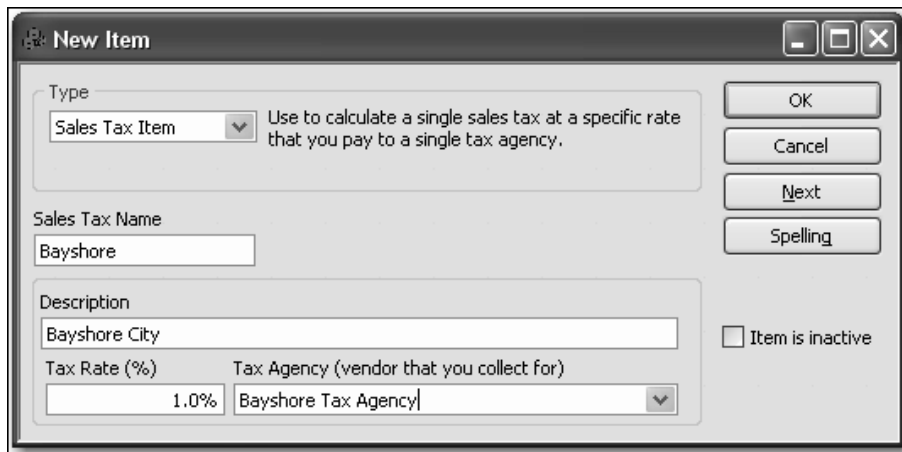
# Setting Up your Tax Rates and Agencies

Some businesses need to apply more than one sales tax to their sales; for example, they may collect 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.

### To add a sales tax item:

1. From the Lists menu, choose **Item List**.
2. Click the **Item** menu button, and then choose **New**.
3. In the Type field, choose **Sales Tax Item**.
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**.
7. In the Tax Agency field, type **Bayshore Tax Agency**.



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

- Type: Sales Tax Item (dropdown)
- Sales Tax Name: Bayshore (text field)
- Description: Bayshore City (text field)
- Tax Rate (%): 1.0% (text field)
- Tax Agency (vendor that you collect for): Bayshore Tax Agency (dropdown)
- Buttons: OK, Cancel, Next, Spelling
- Checkbox:  Item is inactive

8. Click **OK**.
9. Click **Quick Add**.
10. Click **OK**.

If QuickBooks prompts you to add “Bayshore” to the dictionary, click **Add**.

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## 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**.
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**.
6. Click on the second line in the Tax Item column, and then choose **San Tomas**.

**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

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%			

7. Click **OK**.

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## Notes

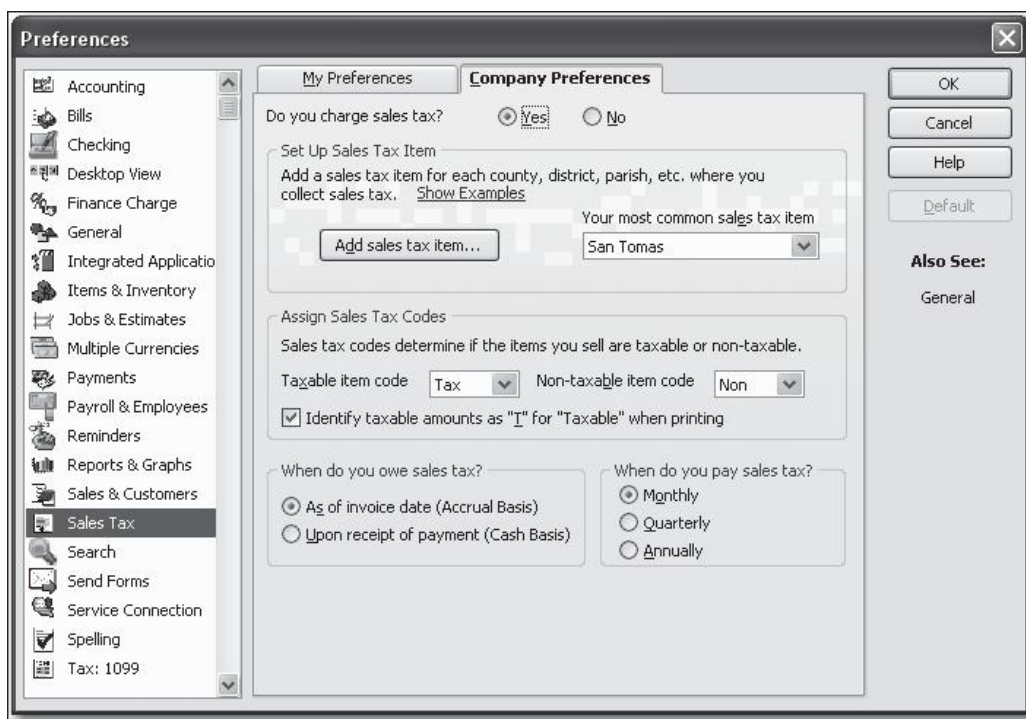
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## Identifying Your Most Common Tax

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, and then click the **Company Preferences** tab.



3. In the "Most common sales tax" field, make sure San Tomas is selected.
4. Click **OK**.

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## Notes

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## 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.

### 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 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%).

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

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## Notes

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## Indicating Who and What Gets Taxed

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.
2. Select **Jimenez, Cristina**.
3. Click **Edit Customer**.
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**.

The screenshot shows the 'Edit Customer' dialog box with the 'Additional Info' tab selected. The 'Customer Name' field contains 'Jimenez, Cristina' and the 'Current Balance' is '0.00'. The 'Additional Info' tab is active, displaying several sections: 'Categorizing and Defaults' with dropdowns for 'Type' (Residential), 'Terms' (Net 30), 'Rep', and 'Preferred Send Method' (E-mail); 'Sales Tax Information' with 'Tax Code' set to 'Tax' and 'Tax Item' set to 'Bayshore Group'; 'Price Level' with a dropdown; 'Custom Fields' with input fields for 'Contract #', 'B-Day', and 'Spouse's Name'; and 'Online Banking Alias Management' with a 'Manage Aliases' button. A 'Customer is inactive' checkbox is also visible on the right side of the dialog.

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

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## Notes

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# 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**.
2. In the Customer:Job field, choose **Jimenez, Cristina:Utility Shed**. (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**.
5. In the Quantity column, type **4**, and then press Tab.

The screenshot shows the 'Create Invoices' window in QuickBooks. The customer is 'Jimenez, Cristina:Utility Shed' and the template is 'Custom Invoice'. The invoice date is 12/15/2015 and the invoice number is 93. The 'BILL TO' address is Cristina Jimenez, 6642 W. Skyline Dr, Bayshore, CA 94326. The terms are 'Net 30' and the due date is 01/14/2016. The invoice table shows one line item: 'Standard Doorknobs' with a quantity of 4, a rate of 30.00, and an amount of 30.00. A tax of 2.63 is applied at a rate of 6.75%. The total amount is 32.63. The window also shows a summary of the customer's account, including phone, email, and recent transactions.

ITEM	QUANTITY	DESCRIPTION	RATE	AMOUNT	Tax
Hardware:D...	4	Standard Doorknobs	30.00	30.00	Tax
Customer Message		Tax Bayshore Gr...	(6.75%)	2.63	
Total				32.63	

6. Click **Save & Close**.

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## 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. From the Reports menu, choose **Vendors & Payables**, and then choose **Sales Tax Liability**.
2. In the Dates field, choose **This Month-to-date** from the drop-down list.

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Dec 15, 15
<b>Bayshore Tax Agency</b>						
Bayshore	120.00	0.00	120.00	1.0%	1.20	1.20
<b>Total Bayshore Tax Agency</b>	120.00	0.00	120.00		1.20	1.20
<b>City of East Bayshore</b>						
East Bayshore	1,095.00	0.00	1,095.00	0.3%	3.29	69.97
<b>Total City of East Bayshore</b>	1,095.00	0.00	1,095.00		3.29	69.97
<b>State Board of Equalization</b>						
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
<b>Total State Board of Equalization</b>	68,089.34	51,994.93	16,094.41		1,241.84	5,221.55
<b>Multiple taxes from different vendors</b>	-1,215.00	0.00	-1,215.00		0.00	0.00
<b>TOTAL</b>	<b>68,089.34</b>	<b>51,994.93</b>	<b>16,094.41</b>		<b>1,246.33</b>	<b>5,292.72</b>

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.

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

## Notes

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# Determining What You Owe

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.

7:37 PM  
12/15/15

**Rock Castle Construction**  
**Sales Tax Revenue Summary**  
November 2015

Accrual Basis

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

2. Close the report.

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## Notes

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# Determining What You Owe

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**.
2. Click **Sales Tax Payable** once to select it.
3. Click the **Activities** menu button and select **Use Register**.

Date	Number	Vendor	Due Date	Billed	✓	Paid	Balance
	Type	Account Memo					
12/15/2015	92	State Board of Equali	12/31/2015	0.00			5,282.22
	INV	Accounts CA sales t					
12/15/2015	93	Bayshore Tax Agenc	12/31/2015	1.20			5,283.42
	INV	Accounts Bayshore					
12/15/2015	93	State Board of Equali	12/31/2015	9.30			5,292.72
	INV	Accounts CA sales t					

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.

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## Notes

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## 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.
3. Select the **To be printed** checkbox.
4. In the “Show sales tax due through” field, type **12/15/15**, 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 screenshot shows the 'Pay Sales Tax' dialog box. At the top, there are fields for 'Pay From Account' (Checking), 'Check Date' (12/15/2015), 'Show sales tax due through' (12/15/2015), and 'Starting Check No.' (To Print). Below these is a table with the following data:

P..	Item	Vendor	Amt. Due	Amt. Paid
✓	Bayshore	Bayshore Tax Agency	1.20	1.20
✓	East Bayshore	City of East Bayshore	69.97	69.97
✓	San Domingo	State Board of Equalization	132.64	132.64
✓	San Tomas	State Board of Equalization	5,088.91	5,088.91
Totals			5,292.72	5,292.72

At the bottom of the window, there are buttons for 'Clear Selections', 'Adjust', 'Ending Bank Balance' (41,131.26), 'OK', 'Cancel', and 'Help'. A checkbox labeled 'To be printed' is checked.

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

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## Notes

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# Lesson 11: 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 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

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## 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.

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## 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