

Charge and pay sales taxes without expensive mistakes



Small businesses may need the most assistance with government-related matters such as taxation — which is why they go to you for help. Make sure you tutor clients to correctly charge sales tax to customers and then pay their sales tax to the appropriate government agency.

To maintain sales taxes in our company file, we'll:

- Review the importance of sales taxes and point out a few of their complications.
- Set up a sales tax item, code and group and explain the differences between them.
- Assign sales tax settings to customers and items for easier data entry.
- Pay sales taxes to the proper government agencies so that the payment appears in the Sales Tax Liability report for future reference

You know what they say — there are two certainties in life: death and taxes. QuickBooks can't do much about the certainty of taxes, but QuickBooks can lessen the stress taxes create by automating them as much as possible. We'll make sure you understand how QuickBooks tracks and pays company sales taxes so you can pass that expertise on to your clients.

Delve into the sales tax intricacies

Not all customers need to pay sales tax and not all products or services are taxable, which makes tracking and remitting sales tax a complicated matter. Also, in some states, only products are taxable, while in other states, both products and services are taxable.

There are also various government entities to address. Every state charges

some sales tax, and in many states, other municipalities, such as counties or cities, also charge a sales tax. You often need to collect sales tax for more than one of these municipalities.

Set up sales tax preferences

The first step to charging and paying sales tax through QuickBooks is enabling the feature in your company file and setting up certain preferences for how you want to deal with your sales tax.

Before you begin: Make sure you've entered all of the tax agencies to whom you need to pay sales tax as vendors in your company file. If you aren't sure what taxes you must pay, consult with us.

To enable sales tax tracking:

1. Launch QuickBooks and open your company file.

2. Choose Edit | Preferences from the menu bar to open the Preferences window.
3. Click the Sales Tax icon on the left side of the window and select the Company Preferences tab.
4. Select the Yes option button to inform QuickBooks that you plan to charge sales tax.
5. Choose either the Accrual option button or the Cash option button

How much sales tax do I need to charge?

The amount of sales tax you must charge depends on your jurisdiction's laws. In some states, you charge sales tax based on the customer's address (where the product will be used), while in other states, you must charge sales tax based on your address (where the product is sold).



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The Better Idea Group (BIG) is a software services firm with a focus on building, delivering and supporting solutions for organizations that want to outsource a portion of their business systems support requirements. We have experience in numerous tools including Visual Studio.Net, Office System, Microsoft Office Accounting, and Intuit QuickBooks.

in the When Do You Owe Sales Tax? panel. We'll select the Accrual option button.

6. Select the Monthly, Quarterly or Annually option button that corresponds to how often you pay sales tax. We'll choose the Quarterly option button, as shown in **Figure 1**.

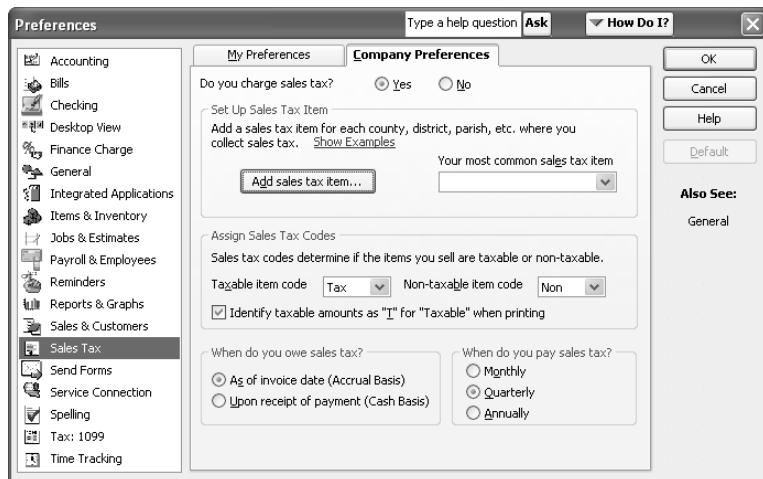
Further information: If you aren't sure about how often you should pay sales tax or which accounting method you should use, consult with us.

Create sales tax items and codes

There are two kinds of sales tax entities you need to add to your company file: sales tax items and sales tax codes. Items represent the sales tax rates for each municipality, whether it's state, county, city or some other agency. Sales tax codes help you identify taxable or nontaxable customers and items. For instance, you may charge sales tax on a part you sell, but the labor you charge to install it is nontaxable.

To add a sales tax item:

1. Click the Add Sales Tax Item button in the Preferences window to display the New Item dialog box.



1: Designate your sales tax settings in the Preferences window.

2. Choose Sales Tax Item from the Type dropdown list.
3. Enter a name in the Sales Tax Name text box. We'll create a state sales tax item called *NYState*.
4. Type further detail about the item in the Description text box, as shown in **Figure 2**.
5. Enter the tax rate percentage in the Tax Rate (%) text box.
6. Choose your tax agency from the Tax Agency (Vendor That You Collect For) dropdown list and click OK to add the sales tax item to your company file.
7. Repeat steps 1-6 for any sales tax you need to pay (i.e., county, city, state, etc.).
8. Select your most common sales tax item from the Your Most Common Sales Tax Item dropdown list in the Preferences window.

Review the default sales tax codes

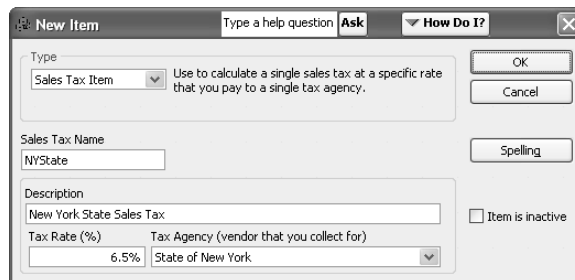
In the Assign Sales Tax Codes panel of the Preferences window, you'll see the two default tax codes — Tax and Non.

In most cases, you don't need any additional sales tax codes. However, there are times when you may want to specify more than just taxable or nontaxable. For example, your state may not tax labor and you may want to create a nontaxable code specifically for labor work. Or you might sell to wholesalers or government, who are nontaxable.

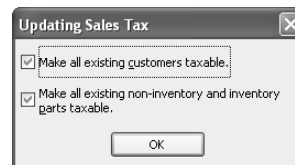
If you do want to add a sales tax code, you can choose New from either the Taxable Item Code or Nontaxable Item Code dropdown list. We'll stick to the defaults.

To finalize your sales tax info:

1. Click OK to dismiss the Preferences window and accept the changes you've made.
2. Review the Updating Sales Tax window that displays, as shown in **Figure 3**. By default, QuickBooks will make all existing customers and parts taxable.
3. Deselect either check box in the Updating Sales Tax window if you want to change the default settings and then click OK.



2: Give your sales tax items meaningful names so there's no confusion about which tax you're charging customers.



3: You can choose to automatically make existing customers and parts taxable.

Manage sales tax from a central hub

Once you set up sales tax in your company file, QuickBooks closes all of your windows. Now when you view your Home page, you'll notice a Manage Sales Tax icon. This icon takes you to the Manage Sales Tax window, where you can edit your current sales tax preferences, pay your sales tax and prepare state sales tax forms, as shown in **Figure 4**. The Manage Sales Tax window is a new addition to QuickBooks 2007.

Group your sales tax items for easy entry

A sales tax group is comprised of a set of sales tax items. Sales tax groups help you charge more than one sales tax rate on an invoice.

You set up sales tax groups to represent the various percentages of sales tax you must charge for different taxing authorities. For example, supposed you own and operate a business in New York. Customers in Monroe County, NY must pay 2 percent sales tax to Monroe County and 6.5 percent sales tax to the state of New York — a total of 8.5 percent. As a New York vendor, when you file a sales tax return, you must break down the amounts collected for the state versus the amounts collected for the county.

Pay sales tax correctly

If you're simply writing checks when it comes time to pay sales taxes to the proper authorities, your sales tax liability may not be recorded correctly. If you open the Manage Sales Tax window and click the Pay Sales Tax button, QuickBooks displays the Pay Sales Tax window. In this window, you'll see a list of sales taxes and their vendors due. You can quickly designate which ones you want to pay and which account you want to use. Then, you can pay all of your taxes at once. This method also ensures that QuickBooks records the payment in the Sales Tax Liability report.

Since there's only one Sales Tax field on an invoice, you must group the percentages into a sales tax group that includes both authorities if you want to charge a customer for both sales taxes. The other important part about a group is that it still tracks the sales tax authorities separately. When you print the Sales Tax Liability report, you will see separate amounts for Monroe County and the State of New York so you can complete your sales tax return accurately. Let's create a sample sales tax group.

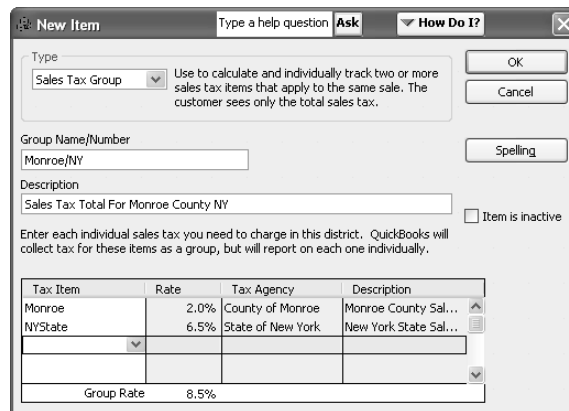
To group sales tax items:

1. Click the Manage Sales Tax icon on your Home page to open the Manage Sales Tax window.

2. Click the Sales Tax Preferences button to display the Preferences window where you originally set up your sales tax settings.
3. Click the Add Sales Tax Item button and choose Sales Tax Group from the Type dropdown list.
4. Type a name for the group in the Group Name/Number text box and then type a description in the Description text box.
5. Choose the tax items you want to include in the group from the Tax Item dropdown lists, as shown in **Figure 5**. The total percentage displays at the end of the list.



4: The Manage Sales Tax window is the go-to spot for all of your sales tax tasks.



5: Combine sales tax items into one group to save data entry time on your invoices.

6. Click OK to accept the sales tax group.

If you'd like, you can now choose this sales tax group as your most common sales tax item in the Preferences window. The new sales tax group is a good choice if you do most of your sales in Monroe County, New York.

Assign sales tax items

There are two ways you can save data entry time: assign sales tax codes to your taxable items and assign sales tax items/groups to customers.

Exemptions: Even when you assign a default tax code or tax item to a customer, service or product, you can still override the default by manually changing it on an invoice. The default isn't written in stone; it just saves you from selecting tax codes for every transaction.

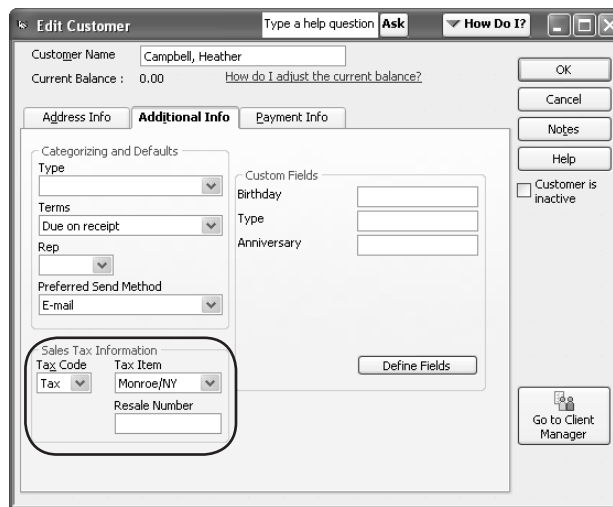
To specify a sales tax item/group for a customer:

1. Access the Customer Center through your Home page.
2. Select the customer to which you want to assign a sales tax item or group from the Customers & Jobs tab.

3. Click the Edit Customer button to display the Edit Customer dialog box.
4. Select the Additional Info tab and choose a sales tax group or item from the Tax Item dropdown list in the Sales Tax Information panel, as shown in **Figure 6**.
5. Choose a tax code from the Tax Code dropdown list and click OK to save your changes.

To assign tax codes to service or inventory items:

1. Click the Items & Services icon on your Home page to open the Item List.
2. Double-click on the item or service to which you want to assign a tax code to open the Edit Item window.
3. Choose a new code from the Tax Code dropdown list and click OK to save your changes.



6: Whenever you invoice this customer, QuickBooks will automatically assign the Monroe/NY sales tax group.

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