



The QuickBooks™ Client Newsletter

Helping You Grow a Profitable Business with QuickBooks™ Software

From the office of:

Accounting Connections, LLC

2624 Gladstone Terrace

Woodstock, Georgia 30189

Office (770) 516-5987 Cell (770) 846-7799

Website: www.AccountingConnections.ORG

Email: DianeOffutt@AccountingConnections.ORG

Setting Up Sales Taxes in QuickBooks, Part 1

If your business is required to collect and pay sales taxes, you can use QuickBooks' tools to help you meet those obligations.

Next to payroll, state sales taxes represent probably the most complex element of your accounting tasks. QuickBooks can help with the mechanics, but there is a lot you need to learn before you can start charging and paying them. For example:

- Is your company located in a *destination-based* or *origin-based* state where taxes are concerned (do you charge sales tax based on where your customers are or where *you* are)?
- Certain types of items and services are exempt from sales tax. Are yours?
- What local taxes (city, county, etc.) must you collect, if any?
- How often must you submit what you owe, and to what agency?

If you do not know your state's rules, search for your Department of Revenue (sometimes called the Department of Taxation) on Google, or talk to us about this complicated process. You cannot begin to work with sales taxes in QuickBooks until you know the answers to many questions.

First Steps

Once you know what your state's rules are, you can start setting up the sales taxes you are required to collect and pay. Open the **Edit** menu and select **Preferences**. Click on **Sales Tax**, then **Company Preferences**. Make sure the **Yes** button is highlighted next to **Do you charge sales tax?** Click on **Add sales tax item**. You will see this window:

The screenshot shows the 'New Item' dialog box in QuickBooks. The 'TYPE' dropdown is set to 'Sales Tax Item'. The 'Sales Tax Name' field contains 'State of IL sales tax'. The 'Description' field contains 'Sales Tax'. The 'Tax Rate (%)' field contains '6.25%'. The 'Tax Agency (vendor that you collect for)' dropdown is set to 'Illinois Department of Revenue'. There are buttons for 'OK', 'Cancel', 'Notes', and 'Spelling'. An 'Item is inactive' checkbox is also present.

In states where it is required, you may have to set up a state sales tax item in QuickBooks. You may also be responsible for local (city, county, etc.) taxes.

TYPE should already be set to **Sales Tax Item**. Enter a name for your tax in the **Sales Tax Name** field; the **Description** should automatically appear as **Sales Tax**. Type in the **Tax Rate (%)** and the name of the **Tax Agency** that will collect it (select **<Add New>** if it is not there already). Click **OK** to return to **Company Preferences** and continue to define additional tax rates. If there is a sales tax item you use frequently, you can select it from the **Your most common sales tax item** field.

***Tip:** Each sales tax rate is an **Item** in QuickBooks. When you have to edit or delete one, open the **Lists** menu and select **Item List**. Type **sales tax** in the **Look for** box, then **Search**. Right-click on your target and select your desired action from the local menu that appears.*

Sales Tax Groups

When you want to include multiple sales taxes as one item (state, county, etc.), click **Add sales tax item** again in **Company Preferences** and choose **Sales Tax Group**. Enter a **Group Name/Number** and **Description**. In the table below, click the down arrow in the field in the **TAX ITEM** column. Keep selecting individual tax rates until you are finished, and then click **OK**. When you use one of these groups in a transaction, the customer will only see the total tax, but reports will break them down into their individual parts.

Completing Your Preferences

The bottom half of the **Company Preferences** screen needs more information.

The screenshot shows the 'ASSIGN SALES TAX CODES' section of the QuickBooks Company Preferences screen. It includes a heading 'ASSIGN SALES TAX CODES' and a sub-heading 'Sales tax codes determine if the items you sell are taxable or non-taxable.' Below this, there are two dropdown menus: 'Taxable item code' set to 'Tax' and 'Non-taxable item code' set to 'Non'. A checkbox labeled 'Identify taxable amounts as "T" for "Taxable" when printing' is checked. Below this, there are two sections: 'WHEN DO YOU OWE SALES TAX?' with radio buttons for 'As of invoice date (Accrual Basis)' (selected) and 'Upon receipt of payment (Cash Basis)'; and 'WHEN DO YOU PAY SALES TAX?' with radio buttons for 'Monthly' (selected), 'Quarterly', and 'Annually'.

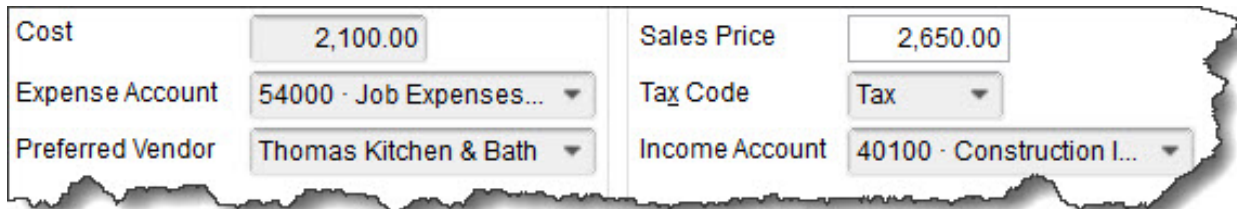
It is important that all the entries at the bottom of the Company Preferences screen are correct before you start working with sales taxes in QuickBooks.

The first two items here are simply field labels that will appear in transactions to indicate whether or not a line item should be taxed. You should leave them as is; they are automatically created by QuickBooks. If you want to **Identify taxable amounts as "T" for Taxable when printing**, click in that box to make a checkmark.

Is your QuickBooks company file set up on a cash or accrual basis? Click on the button in front of the correct choice. **WHEN DO YOU PAY SALES TAX** is a question that will be answered as you are learning about your state's sales tax requirements. When you have completed this section, click **OK**.

Assigning Tax Codes

As you create item and service records in QuickBooks, you will be asked to indicate whether or not they are taxable. The **Tax Code** field appears at the bottom of the window, like in the image below.



Cost	2,100.00	Sales Price	2,650.00
Expense Account	54000 - Job Expenses...	Tax Code	Tax
Preferred Vendor	Thomas Kitchen & Bath	Income Account	40100 - Construction I...

You will need to designate every item or service you sell as taxable or non-taxable.

There is much more you need to know about collecting and submitting sales taxes, like how to work with transactions and reports. We will cover those topics next month. In the meantime, let us know if you prefer we set up your QuickBooks company file for this complex task.

We hope you find this QuickBooks tip helpful. Please visit our company website often <http://www.accountingconnections.org> as we update it constantly and it offers a wealth of tax and accounting tips, along with links that will better serve your business needs. We archive our QuickBooks Tips newsletters on our website as well. They are printable PDFs for easy reference.

Accounting and Taxation is **our** business; making us a part of your team allows **you** to concentrate on **your** core business.



Diane Offutt, *Managing Partner at Accounting Connections, LLC*

*Enrolled Agent (EA), Master of Accounting (MAcc), Graduate of the National Tax Practice Institute Fellowship (NTPI)
And Certified QuickBooks™ ProAdvisor*

ENROLLED AGENT | AMERICA'S TAX EXPERT
NATIONAL ASSOCIATION OF ENROLLED AGENTS