The QuickBooks™ Client Newsletter

Helping You Grow a Profitable Business with QuickBooks™ Software

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Setting Up Sales Tax in QuickBooks, Part 2

Now that you have your sales taxes set up, you'll be able to use them in transactions and reports.

Last month, we talked about the process of setting up sales taxes in QuickBooks. To recap a bit, you first have to go to **Edit | Preferences | Sales Tax** to make sure the software is set up correctly for this use. This means you'll need to understand exactly what your state and local sales tax rules are. You can learn this by going to your state's Department of Revenue or Department of Taxation website.

State sales taxes are considered **Items** in QuickBooks; you create them like you would create product records. When local sales taxes are also required, you can set up **Sales Tax Groups**. You'll be assigning these **Items** as well as **Tax Codes** to customers.

Using Sales Taxes

Once you have sales taxes set up, you can start using them in transactions. You *can* create them on the fly from within transactions, but we recommend taking care of this important housekeeping task before you start.

QuickBooks applies the **Sales Tax Item** or **Sales Tax Group** that you assigned to the customer on your invoices. You can see the others that are available.

Start by creating an invoice. When you reach the **Tax** column for your first line item, you'll see that QuickBooks has already assigned **Tax** or **Non** to it based on the information in the item's record. You can mix taxable and non-taxable items on the same invoice. You can also add a new sales tax on the fly from the invoice itself. Click the down arrow in the **Tax** column and select **<Add New>**.

Be sure you're not required to pay sales tax on an item when **Non** is selected. You may not have to charge sales tax on, for example:
- Nonprofit organizations
- Out-of state sales
- Items that your customers will resell

*Tip: If you would like, you can create more specific sales tax codes for these situations. You could use **OOS** for out-of-state sales, for example, **LBR** for labor, and **NPO** for nonprofit organization. QuickBooks already includes Sales Tax Codes **Tax** and **Non**, but you can add additional ones that are more descriptive.*

Be very careful with your sales tax classifications in QuickBooks. As we said last month, such errors will be discovered in a sales tax audit, should you ever be subject to one.

Once you've entered all the line items in the invoice, look down toward the bottom of the screen, directly beneath the table containing invoiced items and above the **Total**. QuickBooks will have calculated the sales tax due using the **Sales Tax Item** or **Group** you assigned to that customer during setup, placing it in the **Tax** field.

Look to the left of those numbers, and you'll see the actual rate that was applied. To the left of that is a drop-down list containing the correct **Sales Tax Item** or **Sales Tax Group**. Click the down arrow if you want to see the list of other options. And in the lower left of the screen, you'll see the **Customer Tax Code**.

The Sales Tax Center

The **Manage Sales Tax** window

When it's time to pay sales taxes, you'll open the **Vendors** menu and select **Sales Tax | Manage Sales Tax**. From the screen that opens, you'll be able to:

- Access **Sales Tax Preferences**.
- Generate sales tax reports that will help you fill out required forms.
- Visit related screens.

There are two reports you'll need to run: **Sales Tax Liability** (displays total sales, amounts that are taxable and at what rates, taxes collected, and how much sales tax is due to each taxing agency) and the **Sales Tax Revenue Summary** (breaks down total sales into taxable and non-taxable). These reports are, of course, customizable, so you can filter them, for example, by **Sales Tax Code**.

A Delicate Balance

Collecting the correct amount of sales tax on taxable items and submitting the right tax totals to the right agencies takes vigilance. You don't want to charge customers for unnecessary taxes, but you also don't want to end up paying taxes you should have invoiced out of your own pocket.

We can help you get this straight from the start. It's much easier to spend some time setting up sales tax accurately in QuickBooks than it is to go back and untangle inaccurate records. Give us a call and we'll set up a consultation.

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.

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