

Improved Sales Tax Handling in QuickBooks 2008

Introduction

Over the last three years, Intuit has worked hard to redesign how sales tax is calculated and reported in QuickBooks. It's the biggest revamp of sales tax in our product since version 5.0.

In QuickBooks 2007 and earlier, sales tax was driven by **tax codes**. A tax code was made up of only two things: one percentage amount for GST and another for PST. That meant that you could not create other types of taxes like tire taxes or hotel room taxes – only GST and PST were allowed. Additionally, each tax code was tied to a specific sales tax liability account (or for PST outside of Quebec, an expense account). You could not change the account or split the tax collected on sales from the tax paid on purchases.

On the surface, sales tax works as it did before. But under the hood, a lot of the details have changed... and there's a whole new engine. Here's why we think you'll get excited about the changes:

- Easily set up the taxes you need
 - Taxes are automatically set up for new company files
 - Two clicks to add sales taxes for multiple provinces (R2 or higher)
 - Ability to create custom taxes such as import duties
- Track sales tax the way you want
 - Split tax collected on sales into a different account from tax paid on purchases
 - Use asset or COGS accounts for tax
 - Create bills (payables) for taxes owing (Pro and Premier editions)
 - Affect the exact return line you need to
- Sales tax reports always agree with sales tax liability accounts
- Handles prices that include tax
- Uses the combined GST/HST/QST return for Québec

The upgrade takes a bit of work, but once it's done, you will be ready to use the File Sales Tax feature, even if you didn't before.

Overview of the new sales tax model

Transactions

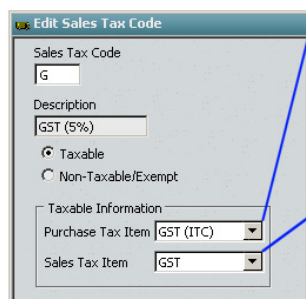
	Rate	Amount	Tax
	32.00	352.00	S
	28.00	28.00	G
PST on Sale 8.0%		28.16	
Reg GST on Sale 5.0%		19.00	
Total		427.16	

As before, assign sales tax codes to products and services and use them on transaction forms.

The code determines which taxes are calculated.

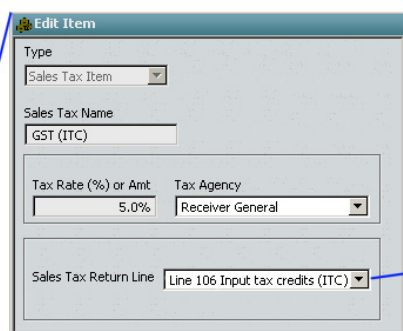
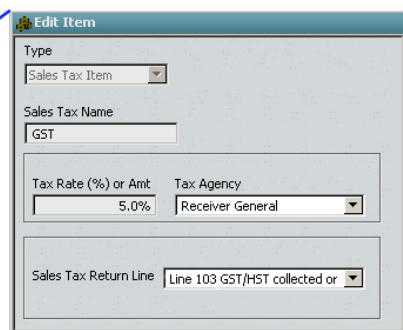
Using tax codes makes it easy to charge different rates of tax on the same transaction. If needed, change the code by clicking the drop-down arrow beside it.

Behind the Scene



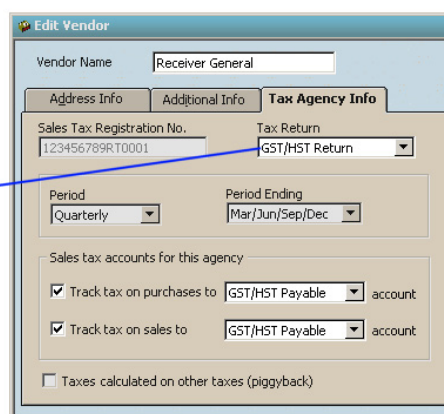
Sales Tax Code

Now represents sales tax items or groups of sales tax items

Sales Tax Item

Tells QuickBooks how much tax to calculate and what return line to put it on



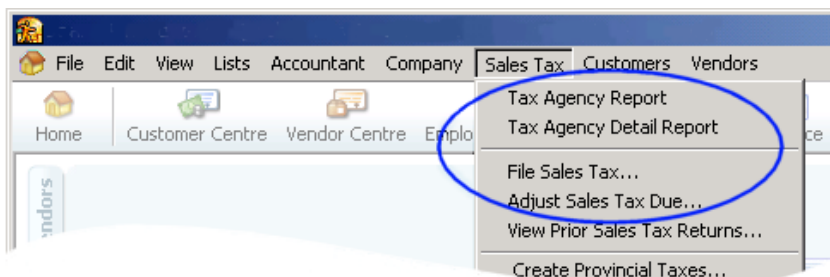
Sales Tax Agency

- The tax return determines the return lines that are available in the linked items
- Choose the tax accounts here for the linked items
- Choose or edit the tax reporting period

Reports and Filing

Reports always match the liability account balance

File at the end of each period to reset balances on sales tax items.



Details of the new system

Tax Codes –automatic calculations

A tax code represents a sales tax item (or a group of sales tax items) where the tax is calculated as a percentage of the sale or purchase.

To get sales tax amounts to calculate automatically, use **tax codes**. For example, assign a code to a good or service that you buy or sell. Then, when the tax code is used in a transaction, the associated sales tax items calculate the correct sales tax and report it on the right line of the sales tax return.

In addition to things in the Item list, you can assign tax codes to customers, vendors, and accounts. These override item tax codes, so only use them to indicate a special tax status. For example, assign a non-taxable code for customers who are tax-exempt, like governments and Indian bands.

Sales Tax Items – the horsepower of the system

Sales tax codes are used to represent sales tax items in transactions.

Sales tax items are the new engines for sales tax calculations. Their purpose is to perform **one** sales tax calculation and put the result into **one** line of a tax return for **one** tax agency.

This system is very flexible, but you need a lot of sales tax items:

- e.g. for GST at 5%, you need two sales tax items:
 - one to calculate 5% of sales and report it on line 103 of the GST/HST return
 - one to calculate 5% of purchases and report it on line 106 of the GST/HST return.

When you set up a sales tax item, you need to:

- Choose the tax agency for the item, so the item knows which sales tax return and account to use.
- Pick the right line of the sales tax return for the item. Now the results of all calculations done by this sales tax item end up being reported on that specific line of the agency's tax return.

When you file your return in QuickBooks, the balance for the sales tax items provides the amount for each line of the agency's sales tax return. This also means that it is now very important to use the File Sales Tax feature to reset the balance of these items at the end of each tax period.

Sales Tax Items and Uncategorized amounts

If an amount is posted to a sales tax account without using a sales tax item, QuickBooks doesn't know what line of the tax return it goes to. This results in an **uncategorized amount**. This can happen, for example, if the Make Deposits window is used to record a cash sale, since that window doesn't allow a tax code or tax item.

Similarly, if you upgrade your company file from a previous version, you may have transactions that posted to a sales tax account that did not use a sales tax code. These will also create uncategorized tax amounts when you upgrade.

You need to “categorize” these amounts by assigning them a sales tax item so that QuickBooks can include them on the correct lines of your sales tax return. You do this by making a sales tax adjustment. See the [sample upgrade](#) for details.

Sales Tax Group Items

Sales tax items can be combined to create a sales tax group item, which can then be represented by a single sales tax code. For example, in provinces that charge a provincial sales tax, a single tax code on an invoice or sales receipt (e.g. **S**) can represent the sales tax group item that combines GST on sales and PST on sales.

Tax Rate or Amount

Sales tax items also handle taxes that are fixed dollar amounts. Therefore, you can use them to set up special taxes that are a fixed fee. Rather than assigning a sales tax code to these, you use them as a line item on a transaction form, as you would add a product or service.

Tax Agencies – the foundation of the system

The **sales tax agency** is a vendor that represents the government agency that administers the tax. They map tax calculations in QuickBooks to a specific tax return.

You set them up like any other vendor, except that you

- Pick the tax return that the tax agency requires you to file. The return that is selected here determines the sales tax return lines that are available in the sales tax item.
- If QuickBooks doesn't have the return you need, leave the option blank to use a generic return. This allows you to set up your own taxes.
- Enter other information specific to the tax agency (these used to be in the preferences):
 - Enter your federal business number and QST registration number in the Company Information window. Enter provincial or other registration numbers in the agency record,
 - The reporting period,
 - What accounts to use to track the tax.

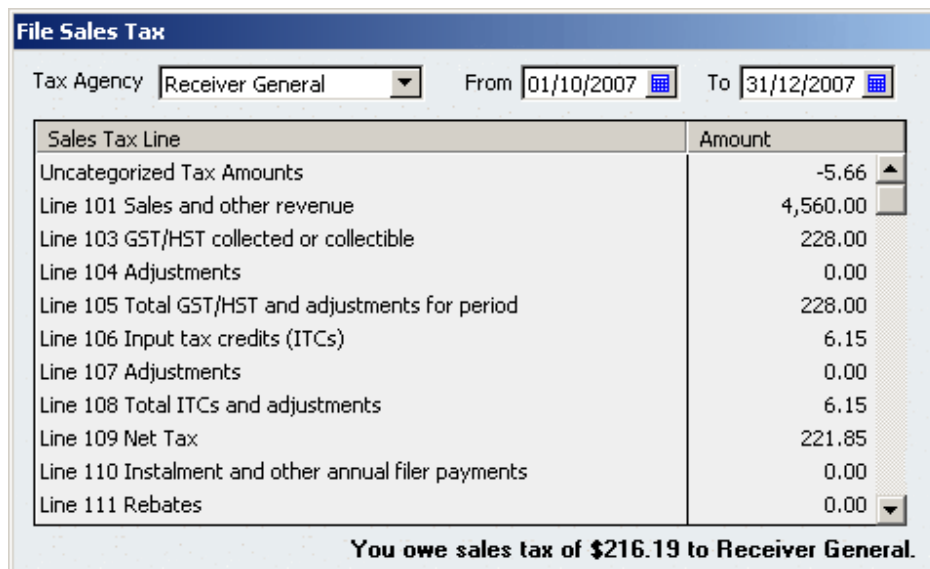
Reports

The Tax Agency Report is similar to the previous GST Liability and PST Liability report. Similarly, the Tax Agency Detail Report is similar to the GST Detail and PST Detail reports. As before, these reports are accrual-based, as required by CRA.

In these reports, the sales/revenue amounts are only for the period covered by the **From** and **To** dates at the top of the report.

However, the tax amounts (e.g. Lines 103 and 106 of the GST/HST return) are balance based. In other words, they include outstanding transactions from your QuickBooks start date (or upgrade date) until the **To** date at the top of the report. That way, any transactions that are entered in a previous sales tax period are accounted for properly in the reports and the return. This system also takes care of any change in sales tax liability caused by changing a transaction that was already included in a filed return.

Filing Sales Tax



Sales Tax Line	Amount
Uncategorized Tax Amounts	-5.66
Line 101 Sales and other revenue	4,560.00
Line 103 GST/HST collected or collectible	228.00
Line 104 Adjustments	0.00
Line 105 Total GST/HST and adjustments for period	228.00
Line 106 Input tax credits (ITCs)	6.15
Line 107 Adjustments	0.00
Line 108 Total ITCs and adjustments	6.15
Line 109 Net Tax	221.85
Line 110 Instalment and other annual filer payments	0.00
Line 111 Rebates	0.00

You owe sales tax of \$216.19 to Receiver General.

When you file a sales tax return for this tax agency, QuickBooks does these things:

- 1) It shows you the amount for each line of the paper return. What QuickBooks is actually showing on each line is the balance of the sales tax items that report to that line.
- 2) It clears out the balances of the sales tax items – empties the buckets – by creating a general journal entry that reverses the amounts in each line of the tax return.

- 3) It marks each transaction with a filed date so you can see when the tax was included in a return.

Taxes from backdated transactions come forward to the current sales tax period. But net amounts (i.e. sales amt. for line 101) are based only on the selected period.

- 4) It saves a copy of the sales tax reports in PDF format. You can find these reports later through an option on the Sales Tax menu.

Uncategorized Tax Amounts: If there is a balance (other than 0.00) in the Uncategorized Tax Amounts line of the File Sales Tax window, an amount was posted to a sales tax account without using a sales tax code or sales tax item. Therefore, QuickBooks doesn't know what line on the tax return to put the amount on.

The uncategorized amount affects the sales tax account balance and is therefore displayed on reports and in the File window. But it isn't included on any specific return line.

To fix this problem, do a sales tax adjustment for the net uncategorized amount. Or you can do an adjustment for each transaction that's included in the uncategorized bucket - see the [sample upgrade](#) for details.

In the adjustment, you move these amounts from the sales tax account back into the same sales tax account, but use a tax item. Afterwards, the uncategorized amounts should be 0.00 and the amounts on the tax return lines will be correct.

Other things you should know

Changes to registers

You can no longer enter or change sales tax in registers. Use forms (invoices, bills, sales receipts, etc.) to enter transactions that include sales tax. This ensures you don't create new uncategorized tax amounts when you use QuickBooks 2008.

If you create a general journal entry that affects a sales tax liability account, you categorize the tax portion by selecting a sales tax item (and therefore the return line) that applies.

Setting up company files

If you're creating a new company, when you enter an address for the company, the federal and provincial tax agencies, sales tax items, sales tax group items, and sales tax codes you need are set up automatically. You only need to set things up manually if you are adding a new custom tax, like a hotel room or tire tax.

You can easily add other provincial sales taxes through an option on the Sales Tax menu. If you don't see this option, check for product updates by going to the Help menu in QuickBooks and choosing Update QuickBooks.

Upgrading company files from a previous version of QuickBooks

During the upgrade

Old tax agencies are converted to new ones, and old tax codes are converted to sales tax items, sales tax group items, and sales tax codes.

Previous versions of QuickBooks attached a "filed" flag to transactions after they had been included in a sales tax return. However, the transactions could be "unfiled" in the sales tax account register. Unless these transactions were later marked as filed, they would be included again in the current period's sales tax reports.

Instead of relying on the presence of the filed flag to determine which tax amounts had been filed with the government, QuickBooks 2008 asks for the end date of your last sales tax period. It assumes that as of that date, all earlier transactions are filed. Therefore, backdated transactions should be brought to the current sales tax period before upgrading.

QuickBooks 2008 now uses the sales tax items, rather than a filed flag, to determine balances on reports.

After the upgrade

All sales tax amounts in transactions from your previous version of QuickBooks are brought forward, but QuickBooks 2008 will not include them in reports, other than for the immediate sales tax period.

This means that you cannot create sales tax reports for sales tax periods that you completed in your previous version of QuickBooks.

Also, past sales tax returns are not brought forward to QuickBooks 2008. To view sales tax returns created before upgrading, you need to open your older version of QuickBooks. For this reason, you should not delete the old QuickBooks software or company file.

Important note for Québec companies

There are some special steps you need to take when you upgrade because of the move to the single combined return. For details, open the Help window and click the Index tab. Enter QST and double-click the subheading "how to adjust after you upgrade".