QUICKBOOKS 2020 STUDENT GUIDE

Lesson 11

Tracking and Paying Sales Tax

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Lesson Objectives

- Learn how QuickBooks handles sales tax in QuickBooks (the steps involved in tracking, collecting, and remitting)
- Learn how to set up QuickBooks to track sales tax
- Learn how to apply sales tax to a sale
- Learn how to determine a business's sales tax liability
- To remit sales tax to an agency

Overview of Sales Tax in QuickBooks

Sales Tax Overview

If you collect sales tax, QuickBooks helps automate your sales tax tracking so you can keep accurate records about the sales tax you collect and pay. QuickBooks sets up sales tax for your location.

In this section you'll learn more about sales tax concepts. This will help you understand how QuickBooks uses sales tax items, rates, and codes to track the sales tax you collect from your customers and pay to your tax agency.

Sales Tax Agency: The government agency that sets the requirements for sales tax collection and payment, e.g., CRA. Sales tax agencies are set up as vendors, because you make payments to them. Separate vendors are set up for each tax agency depending on your province. For example, in Ontario you will have a "Receiver General" vendor and a "Ministry of Finance (ON)" vendor.

Sales Tax Code: The identifier that you use on forms to charge sales tax. Behind the scenes, the sales tax code represents a sales tax item, or a sales tax group item. You can see all of your sales tax codes in the Sales Tax Codes List.

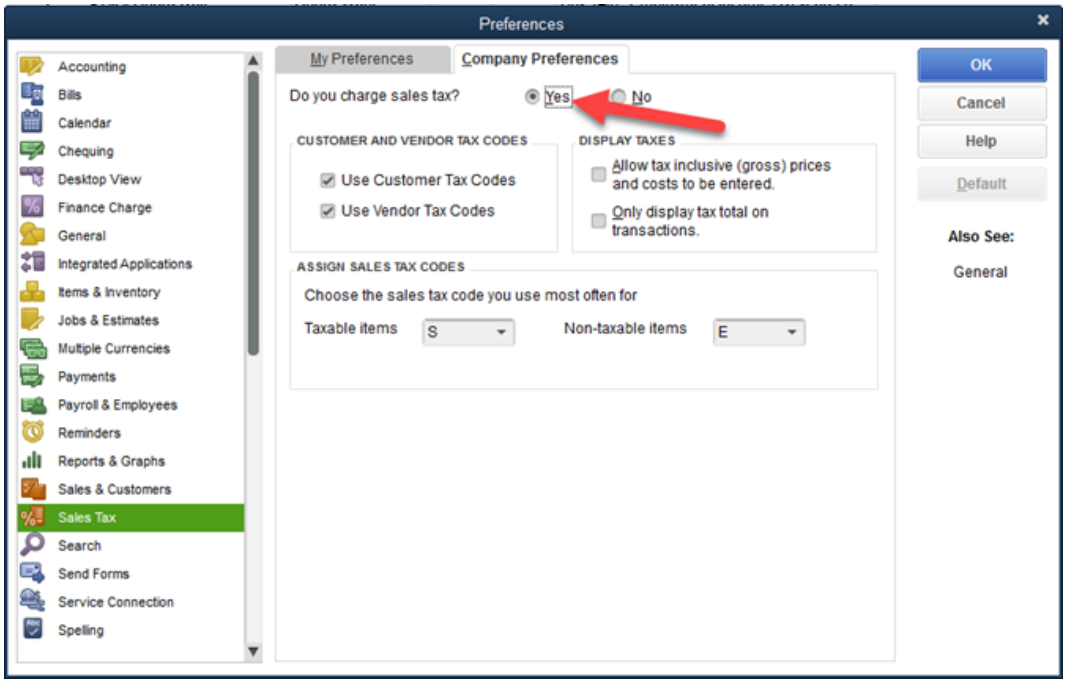
Sales Tax Item: A QuickBooks item (found in the Item List) that stores the sales tax rate or amount. It is used behind the scenes to calculate the appropriate sales tax for each transaction. Each sales tax item links to a specific line of the sales tax return, therefore there are separate sales tax items for things you sell and things you buy.

Sales Tax Group: A QuickBooks item that combines 2 or more sales tax items so you can represent the group by a single sales tax code. For example, Tax A of 5% on sales and Tax B of 8% on sales are combined in a sales tax group item. A sales tax code called "A+B" is used on sales forms to track and report each separate tax amount to its correct sales tax account and agency.

NOTE: All of this information is setup for you when you tell QuickBooks in which province your business is located during the company setup process (Interview Process). This information explains the terms that QuickBooks uses to track your sales tax behind the scenes.

If your sales tax is not enabled do the following:

1. Click **Edit** and then click **Preferences.**
2. Click **Sales Tax** and then click **Company Preferences.**
3. Select **Yes.**



4 Easy Steps to track and pay your sales tax:

1. **Set up your tax rates and agencies** – QuickBooks does this for you. Tax rates are the rates for GST, HST, PST and QST. Agencies are the Receiver General and the Minister of Finance for each province.
2. **Add sales tax to sales transactions** – you'll add sales tax codes to QuickBooks sales transactions like invoices and sales receipts. QuickBooks will track the sales tax collected.
3. Add sales tax to expense and purchase transactions.
4. Remit your sales tax.

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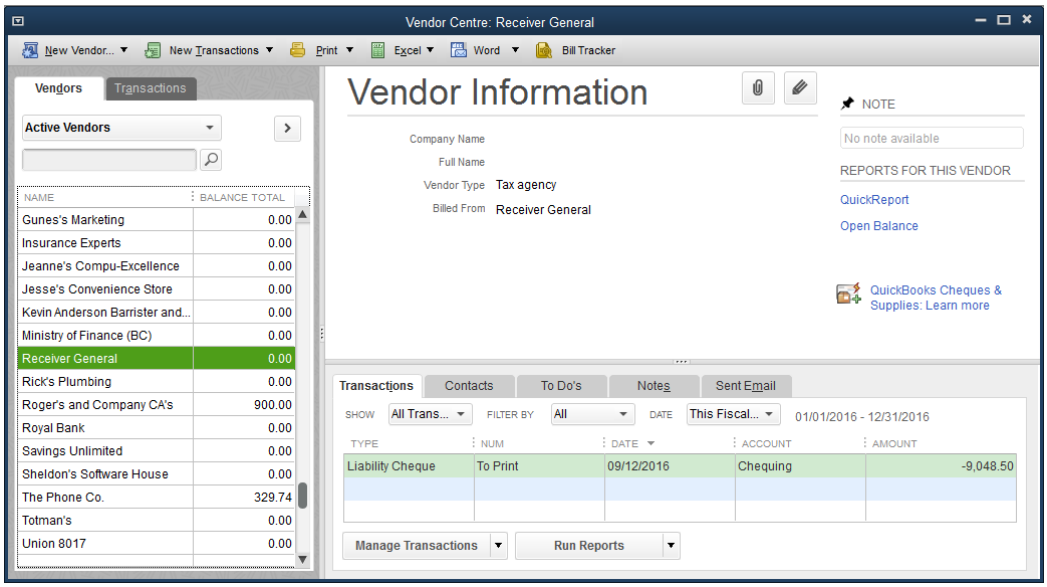
Set up Tax Agencies

QuickBooks does this for you. You can view the Receiver General in the **Vendor Centre**.



Adding Sales Tax to Sales Transactions

Here's how sales tax is used and calculated on a transaction form:

The **sales tax code**, shown in the Tax column of the transaction form, is the one you assigned to the product or service.

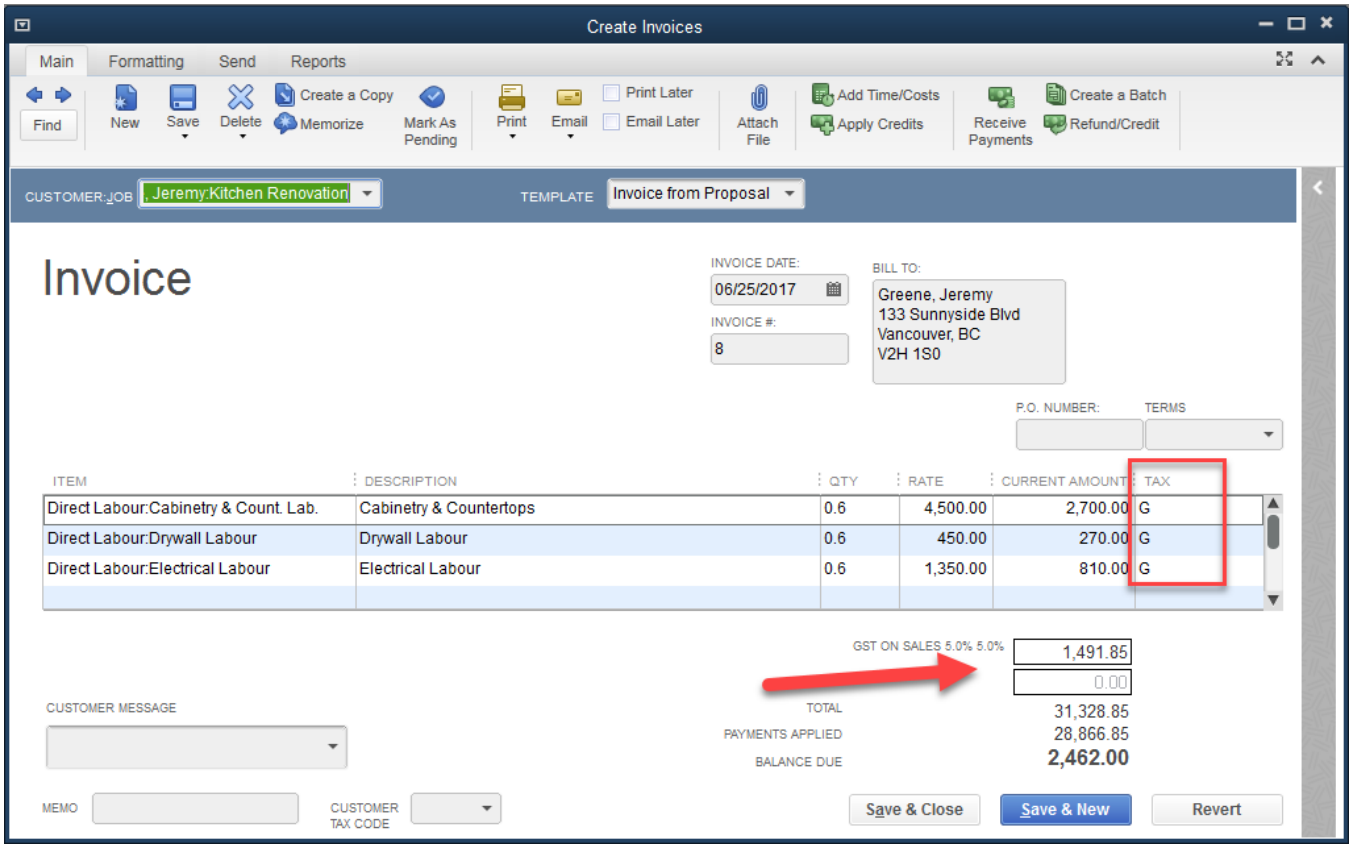
The sales tax code represents a **sales tax item** or **sales tax group item**, which contains the **sales tax rate** and other details. QuickBooks uses this information to calculate the sales tax and link it to a sales tax agency (e.g. the Receiver General), and a line on the agency's sales tax return.

The tax total area at the bottom of the line items shows the sum of the GST/HST and provincial sales tax, if applicable, for the entire transaction.

While there are places to set defaults for these tax settings, you can also modify each invoice accordingly. This is an important thing to understand if your business works in multiple states and if it is a combination wholesaler/retailer.

To add sales tax to a customer transaction:

1. Open the sales transaction form.
2. Add the **Customer**, **Date, Item**, **Quantity** and **Amount**.
3. In the **Tax** column choose the Tax code. The code will calculate the amount based on the % tax of the linked tax item (QuickBooks summarizes the total of the sales tax collected on this invoice in the GST on Sales field).
4. Save the transaction. QuickBooks now records the sales tax amount collected to the appropriate sales tax item and makes an entry in the appropriate sales tax liability account.

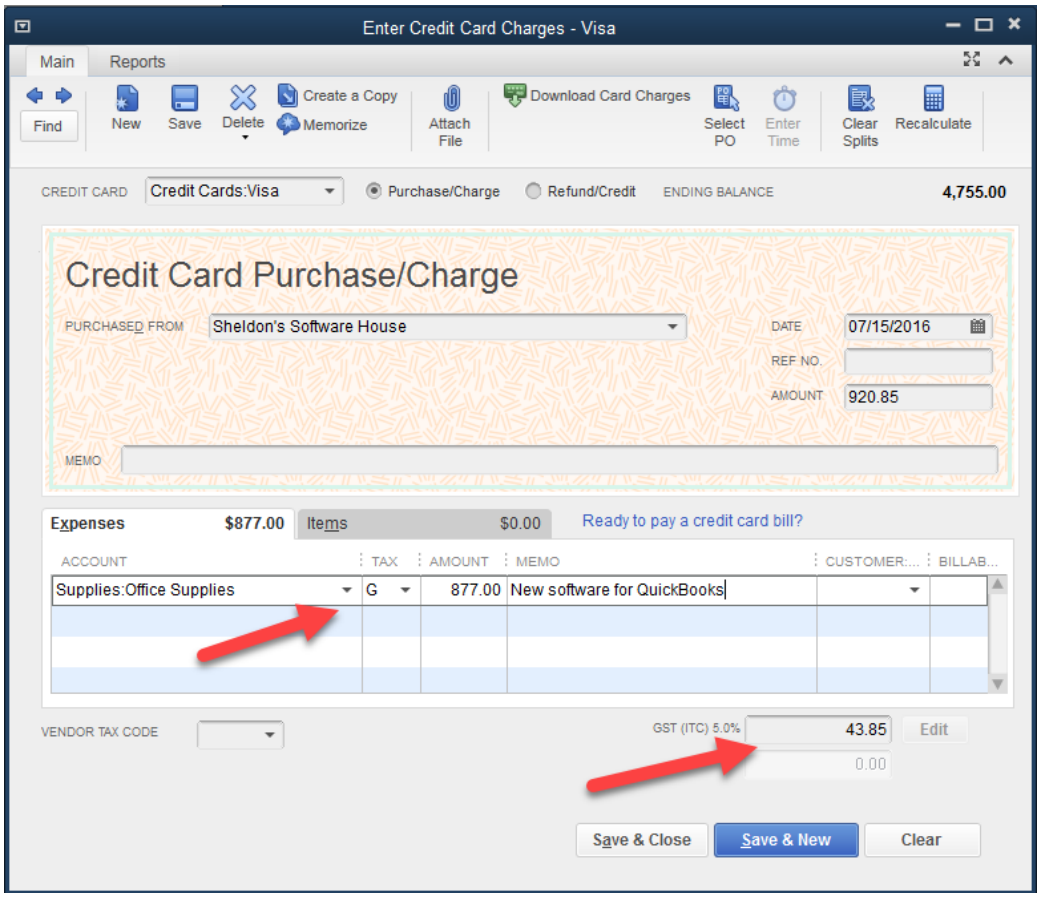


Adding Sales Tax to Expense and Purchase Transactions

In order to capture the sales tax portion of expense and purchase transactions, QuickBooks lets you record sales tax codes on all purchase transactions. This captures the "input tax credits" that will be used in the calculation of your sales tax payable to your tax agency.

To record sales tax on purchase transactions, do the following:

1. Open the expense or purchase transaction like a bill, credit card expense or cheque:
2. Choose the vendor in the **Purchased from** field, enter the **Date** and **Amount** in the top portion of the transaction.
3. Choose the **Account** to track the expense. **NOTE**: You can setup the expense account with a default tax code that will display each time you choose the account on an expense transaction. If the account has a default tax code, you are not required to do anything.
4. Choose the **Tax Code**. QuickBooks calculates the sales tax amount and it is displayed in the footer portion of the transaction.
5. Click **Save** to record the transaction.

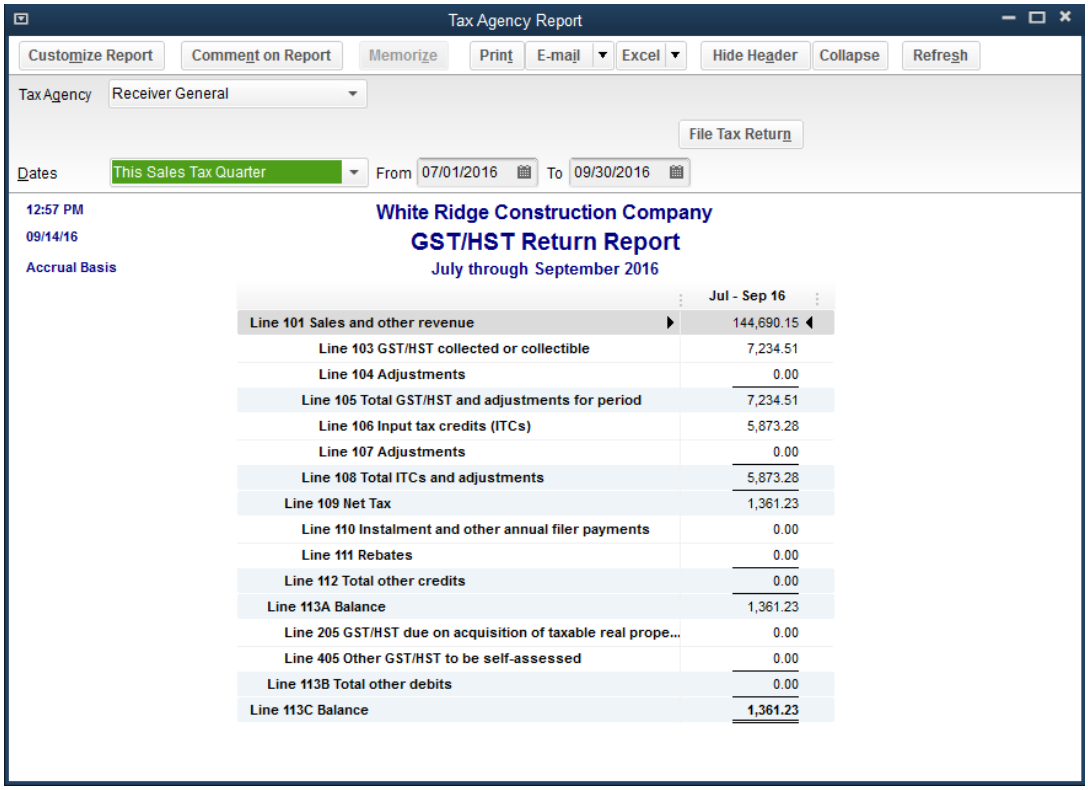


Sales Tax Reports

You can create several reports that help you understand your sales tax liabilities in QuickBooks. The most important report is the Tax Agency report. This report shows you the information for each line of the sales tax return. This will help you as you file your return in QuickBooks and then complete and submit your return to your sales tax agency. Sales tax reports are on an accrual basis, as required by CRA.

Sales Tax Agency Report – GST/HST Return Report

1. Go to the **Sales Tax** menu, then click **Tax Agency Report.**
2. Choose the **Agency** (**Receiver General**, **Minister of Finance**, etc.)
3. In the **Dates** field, set the date range of the sales tax filing. QuickBooks displays the report.



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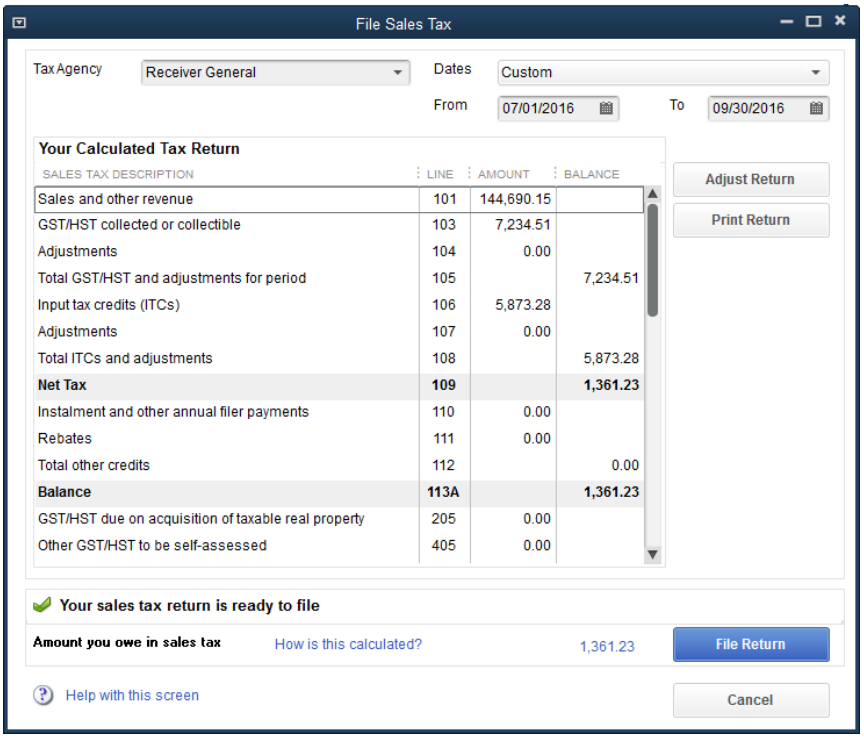
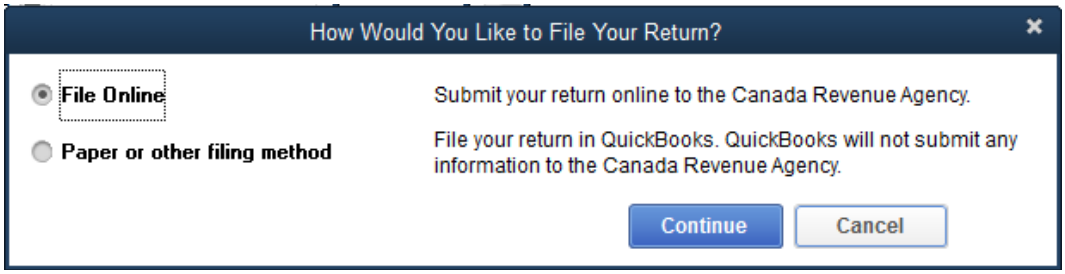
Filing Sales Tax

1. Go to the **Sales Tax** menu and click **File Sales Tax.**
2. Click the **Tax Agency** drop-down arrow and select the **Sales Tax Agency** (e.g. Receiver General).
3. Check the dates that QuickBooks shows in the From and To fields.
4. The detail area displays all the lines in the agency's sales tax return, with the balance owing or receivable at the bottom.
5. Click **File Tax Return**.

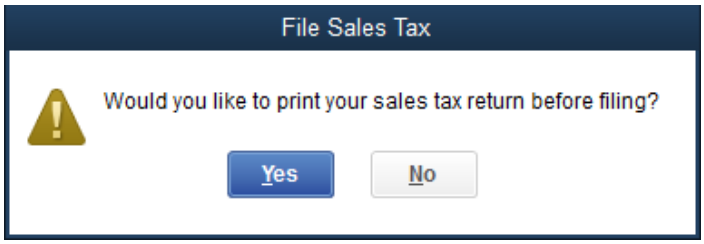


6. Select **How Would You Like to File Your Return?**

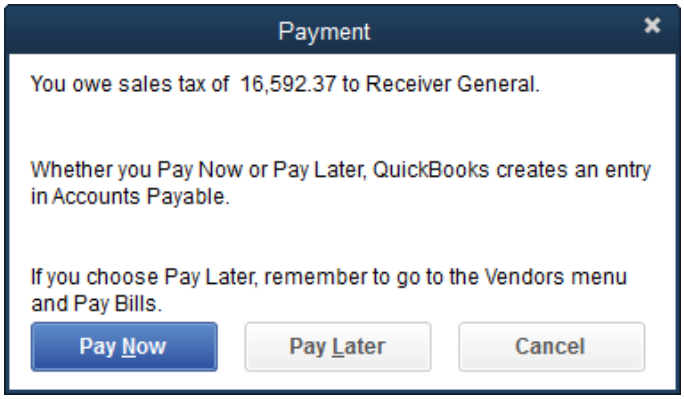
7. Click **Continue.**



8. Choose if you'd like to Print your return.



9. You can choose to **Pay Now** or **Pay Later**. **Pay Now** will record the payment immediately. Choosing Pay Later will make an entry in the Accounts Payable. You will pay later by going to the **Pay Bills** window and paying the bill.



Review Activities

1. From the **File menu** in QuickBooks, choose **Open or Restore Company**. QuickBooks displays the **Open or Restore Company window.**
2. Select **Restore a backup copy** and click **Next.**
3. Select **Local backup** and click **Next**.
4. In the **Open Backup Copy** window, navigate to the appropriate directory.
5. Select the **qblesson.qbb** file, and then click **Open**.
6. In the **Open or Restore Company** window, click **Next**.
7. Navigate to your directory.
8. In the **File Name** field of the **Save Company File As window**, type **Lesson11** and then click **Save**.
9. Enter the **Password: QBDT2020!**
10. Click **OK** when you see the message that the file has been successfully restored.

1. Create the GST/HST Report for the current sales tax quarter.
2. File a GST Return for the current sales tax quarter. (i.e. Jan. – Mar., April to June, etc.) Add the bill to be paid later.