

Product Tips

Handling Use Tax with QuickBooks Financial Software

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Product: QuickBooks Financial Software

Tip Category: Shortcut/Best Practice

Situation

While it can be a challenge making sure clients keep track of sales tax correctly in QuickBooks® financial software, yet another wrinkle is introduced when dealing with **Use Tax**.

Background

Sales Tax. Keeping track of sales taxes correctly in QuickBooks can be a daunting task for some clients. Yes, it's fairly simple to charge sales tax on **Invoices** and **Sales Receipts**, but the paying of sales taxes collected must be done in the proper manner through the **Pay Sales Tax** function for the **Sales Tax Liability** amount to be correct. In addition, you must properly enter any miscellaneous additions or subtractions from the amount due (such as early payment discounts, which in my state are called "*Sales Tax Collection Allowance*," or late payment penalties) as **Adjustments** in the **Pay Sales Tax** window.

Use Tax. In some or most states, sales tax is not just simply "Sales Tax" but a more aptly named "Sales and Use Tax". That means that entities are supposed to pay to their tax agencies any sales tax collected together with any "Use Tax" for articles purchased without tax for their own purposes, such as items from inventory used internally.

Response

While there is no automated way of treating Use Tax in QuickBooks, the following is one creative way to handle this:

Setup

- In the Item List, create the following:
 - **Sales Tax Item** called **Use Tax**, using the appropriate tax rate and tax agency.
 - **Other Charge** item called **Reversing Items Sold**, making it **Non-taxable**, and applying it to a **Sales Income** account, preferably the **Income** account used for your **Inventory Part** items (you'll see why in a minute).
 - **Other Charge** item called **Use Tax Expense**, making it **Non-taxable**, and applying it to an expense account, such as **Use Tax Expenses**.
 - **Subtotal** item if you don't already have one.
- In the Customer List, create a **Customer** for your own entity, using the **Use Tax** for the default sales tax item (in the **Additional Info** tab of the **Customer** record).

Usage

- Write **Invoices** to your own entity for the **Inventory Part** items used, using the items' costs as the selling prices, to properly relieve the items out of inventory.
 - If invoicing more than one item, then after the last item, use the **Subtotal** item to get the running total.
- On the next line, using the **Reversing Items Sold** item under **Other Charge**, enter the amount from the subtotal above in *negative* dollars
- On the next line, using the **Use Tax Expense** item under **Other Charge**, enter the amount of the calculated **Use Tax** from the bottom of the Invoice in *negative* dollars.

Example

Here is an example of such an invoice on some hardware items:

Quantity	Item Code	Description	Price Each	Amount
3	Brass hinges	Standard interior brass hinge	3.00	9.00T
2	Interior	Interior wood door	68.50	68.50T
1	Doorknobs Std	Standard Doorknobs	27.00	54.00T
		Subtotal		131.50
	Reversing Items Sold	Reversing Items Sold	-131.50	-131.50
	Use Tax Expense	Use Tax Expense	-7.89	-7.89
		Use Tax	6.00%	7.89

Total \$0.00

The end result is an invoice for a net amount of \$0.00, but with a correctly calculated "Use Tax", that you can then pay together with your other sales taxes collected.

Create Invoices | Ask a help question | Ask | How Do I? | Previous | Next | Spelling | History | Journal | Time/Costs...

Customer: Job
Rock Castle Construction | Template: Intuit Product Invoice | Date: 12/15/2007 | Invoice #: 93

Invoice | Bill To: Rock Castle Construction | Ship To: [Empty]

P.O. Number: [Empty] | Terms: [Empty] | Rep: [Empty] | Ship: 12/15/2007 | Via: [Empty] | F.O.B.: [Empty]

Quantity	Item Code	Description	Price Each	Amount	Tax
3	Hardware:Bras...	Standard interior brass hinge	3.00	9.00	Tax
1	Wood Door:Int...	Interior wood door	68.50	68.50	Tax
2	Hardware:Door...	Standard Doorknobs	27.00	54.00	Tax
	Subtotal			131.50	
	Reversing Item...	Reversing Items Sold	-131.50	-131.50	Non
	Use Tax Expense	Use Tax Expense	-7.89	-7.89	Non
				Total	0.00

Customer Message: [Empty] | Tax: Use Tax (6.0%) | Balance Due: 0.00

Memo: For own use | Save & Close | Save & New | Revert

Editor's Caution: Any workaround requires an understanding of all of its consequences and of the local regulatory environment. Practitioners should consider the following points if they pursue this approach:

- In using any item on the invoice, it will also show up in sales on the **Pay Sales Tax Window**.
- Consider the effect of this approach on the **Sales Tax Reports**, the **Profit and Loss Statement**, and the **Balance Sheet**.
- Each state may have unique requirements as to what they need to achieve in their reports.
- An alternative approach is to use the discounted amount of the invoice in the **Receive Payments** window.

We thank Mario for this useful tip. He may be reached as follows:

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