



March 30, 2010 Volume 10 – Issue #1

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QuickBooks® for Contractors Newsletter

Handling Sales Tax That Has A Cap or Maximum Value I.E. 1 ½% Sales Tax on the First \$5,000.00 In Addition to 6% on the Full Invoice

Question:

In addition to needing to charge 6% sales tax to a customer, I also must charge a 1 ½% Discretionary Tax on the first \$5,000.00. How do I accomplish this using QuickBooks?

Answer:

For the most part, QuickBooks does a good job of tracking taxable and non-taxable sales - even taxable and non-taxable items on an invoice. However, when it comes to tracking sales tax with a fixed rate on a fixed dollar amount of an entire sale - well, it fails miserably and causes a lot of frustration for QuickBooks users who encounter a situation of this nature.

The following workaround is rather complex, however, it will solve the problem while creating some extra calculations on your part when you file your Sales Tax Returns. You MUST follow these instructions carefully and completely. If someone other than yourself completes the tax returns, you MUST provide them with a copy of this article so they will understand what you have done and why. We recommend that you read this article completely and then in a test company file (or a copy of your own data file), run through the instructions before implementing these changes.

To demonstrate how this works, I have started with a sample QuickBooks file that has a \$0 balance in the Sales Tax Payable account.

Name	Type	Balance Total	Attach
♦VT Withholding	Other Current Liability	0.00	
♦2200 · Customer Deposits	Other Current Liability	0.00	
♦2201 · Sales Tax Payable	Other Current Liability	0.00	
♦2210 · Northside Library Own...	Other Current Liability	48,179.00	
♦2240 · Worker's Comp Payable	Other Current Liability	385.40	
♦2460 · Truck Loan	Long Term Liability	0.00	
♦3000 · Opening Balance Equity	Equity	0.00	
♦3100 · Owner's Capital	Equity	0.00	
♦3110 · Investments	Equity	0.00	

Step 1 Create a Sub-Account of your Sales Tax Payable Account for the Discretionary Tax

- From the Lists menu
- Choose Chart of Accounts
- Click the Account button (bottom lower left of the Chart of Accounts window)
- Select New
- Account Type = Other Account Types dropdown -> Other Current Liability

Add New Account: Choose Account Type

Choose **one** account type and click Continue.

Categorize money your business earns or spends

- Income
- Expense

Or, track the value of your assets and liabilities

- Fixed Asset (major purchases)
- Bank
- Loan
- Credit Card
- Equity

Other Account Types Other Current Liability

Other Current Liability Account

Tracks money your business owes and expects to pay within one year, such as:

- Sales tax
- Security deposits/retainers from customers
- Payroll taxes

[More...](#)

[Help me choose the right account type.](#)

- Click Continue
- Account Number = up to you (example 2202)
- Account Name = up to you (example 1.5% Discretionary Tax)
- Subaccount of = check box to activate and then select your existing Sales Tax Payable Account
- Description = up to you (example 1.5% Discretionary Tax)
- Account # = not applicable
- Routing # = not applicable
- Tax-Line Mapping = applicable to your business entity

Edit Account

Account Type: Other Current Liability Number: 2202

Account Name: 1.5% Discretionary Tax

Subaccount of: 2201 · Sales Tax Payable

Optional

Description: 1.5% Discretionary Tax

Account No.:

Routing Number:

Tax-Line Mapping: B/5-Liabs/Eq.: Other curre... [How do I choose the right tax line?](#)

[Should I enter an opening balance?](#)

Account is inactive

- Click on the Save & Close button to complete the account.

Your Chart of Accounts now has both the standard "pre-created" Sales Tax Payable Account AND the sub-account to track the Discretionary Tax.

Name	Type	Balance Total	Att...
♦VT Withholding	Other Current Liability	0.00	
♦2200 · Customer Deposits	Other Current Liability	0.00	
♦2201 · Sales Tax Payable	Other Current Liability	0.00	
♦2202 · 1.5% Discretionary Tax	Other Current Liability	0.00	
♦2210 · Northside Library Owner P...	Other Current Liability	48,179.00	
♦2240 · Worker's Comp Payable	Other Current Liability	385.40	
♦2460 · Truck Loan	Long Term Liability	0.00	
♦3000 · Opening Balance Equity	Equity	0.00	
♦3100 · Owner's Capital	Equity	0.00	

Step 2 Create an Other Charge Item in Your Item List for the Discretionary Tax

- Lists Menu
- Choose Item List
- Click Item button on the Lower Right
- Select New
- Type dropdown = Other Charge
- Item Name/Number = your choice (example is 1.5% Tax)
- Subitem of = Not Applicable
- This item is used in assemblies or is reimbursable charge = Not Applicable
- Description = your choice (example is 1.5% Discretionary Tax on first \$5,000.00)
- Amount or % = 75.00 (\$5000 x 1.5%)
- Sales Tax Code = Non (Non-Taxable). Reason being that you do not want to apply your standard across the board sales tax rate to this discretionary item.
- Account = Account Name that you created in Step 1 (example 2201 Sales Tax Payable:2202 1.5% Discretionary Tax)

New Item

Type: Other Charge (Use for miscellaneous labor, material, or part charges, such as delivery charges, setup fees, and service charges.)

Item Name/Number: 1.5% Tax

Subitem of

This item is used in assemblies or is a reimbursable charge

Description: 1.5% Discretionary Tax on first \$5,000.00

Amount or %: 75.00

Tax Code: Non

Item is inactive

Account: 2201 · Sales Tax Paya

- 1540 · Accumulated Depreciation
- 2010 · Accounts Payable
- 2100 · Payroll Liabilities
- VT Withholding
- 2200 · Customer Deposits
- 2201 · Sales Tax Payable
- ✓ 2202 · 1.5% Discretionary Tax
- 2210 · Northside Library Owner Purch
- 2240 · Worker's Comp Payable
- 2460 · Truck Loan
- 3000 · Opening Balance Equity
- 3100 · Owner's Capital
- 3110 · Investments
- 3130 · Draws
- 3910 · Retained Earnings
- 3999 · Owner's Time to Jobs
- Equipment Rental
- 4110 · Construction Income
- 4810 · Vendor Refunds
- 4910 · Workers' Comp Dividend
- Fixed Asset
- Accounts Payable
- Other Current Liability
- Other Current Liability
- Other Current Liability
- Other Current Liability
- Other Current Liability
- Other Current Liability
- Other Current Liability
- Long Term Liability
- Equity
- Equity
- Equity
- Equity
- Equity
- Equity
- Income
- Income
- Income
- Income

- Click the Ok button when you have finished the setup for the item that you will use to track the additional tax.

Step 3 Using the Item in Estimates

- Create your Estimate, as you normally would, letting Sales Tax accumulate on items that are normally taxable.

Customer: Job
Customer Three: Taxable...
Estimate Active
Class
Template: Custom Estimate
Print Preview

Date: 12/01/2003
Estimate #: 2

Bill To: Customer Three, Box 985644-B, City, CA 33251
Project Location: Project Location Street, City, CA 25510

Item	Description	Qty	Total	Tax
02 Site Work	Site Work		5,975.00	Tax
03 Excavation	Excavation		8,000.00	Tax
26 Landscaping & ...	Landscape & Paving		28,500.00	Tax
Customer Tax Code			CA Sales Tax (6.0%)	2,548.50
Total			45,023.50	

To be e-mailed: Customer Tax Code: Tax

Memo:

Buttons: Save & Close, Save & New, Revert

- BEFORE Saving & Closing your Estimate, add the Item created in Step 2. Notice that this will increase the overall total of the Estimate or Invoice BUT will not increase the normal Sales Tax.

Customer: Job
Customer Three: Taxable...
Estimate Active
Class
Template: Custom Estimate
Print Preview

Date: 12/01/2003
Estimate #: 2

Bill To: Customer Three, Box 985644-B, City, CA 33251
Project Location: Project Location Street, City, CA 25510

Item	Description	Qty	Total	Tax
02 Site Work	Site Work		5,975.00	Tax
03 Excavation	Excavation		8,000.00	Tax
26 Landscaping & ...	Landscape & Paving		28,500.00	Tax
1.5% Tax	1.5% Discretionary Tax on first \$5,000.00		75.00	Non
Customer Tax Code			CA Sales Tax (6.0%)	2,548.50
Total			45,098.50	

To be e-mailed: Customer Tax Code: Tax

Memo:

Buttons: Save & Close, Save & New, Revert

- Click Save & Close.

NOTE: Because an Estimate is a Non-Posting transaction, there will be no visible effect on the Chart of Accounts, in the Sales Tax Payable OR the sub-account created, to track the discretionary tax.

Step 4 Creating a Progress Invoice from the Estimate

- Follow your usual procedure for creating a Progress Invoice from an existing Estimate. (Customer:Job Center -> select this job -> double-click on Estimate -> Create Invoice ->
- On the Specify Invoice Amounts for Items on Estimate window - treat the Discretionary tax line item just as you would any of the other items - billing it at 100% if your total invoice is for more than \$5000.00 OR billing for a portion of the full \$75.00 if the invoice falls below \$5000.00. (Our example will demonstrate billing \$4000 plus the appropriate amount of discretionary tax \$60.00). Click OK when you have finished making your selections.

Specify Invoice Amounts for Items on Estimate

Progress Invoice for: **Customer Three:Taxable Job**

For each item below, specify the quantity, rate, amount or % of the estimate amount to have on the invoice.

Show Quantity and Rate Show Percentage

Item	Est Amt	Prior Amt	Prior %	Amount	Curr %	Tot %	Tax
02 Site Work	5,975.00		0.0%	2,000.00	33.47%	33.47%	Tax
03 Excavation	8,000.00		0.0%	2,000.00	25.0%	25.0%	Tax
26 Landscaping & Paving	28,500.00		0.0%	0.00	0.0%	0.0%	Tax
1.5% Tax	75.00		0.0%	60.00	80.0%	80.0%	N...
				Total (w/ taxes) 4,300.00			

Note: All items will transfer to the invoice. The quantities and amount will be as you indicated. Although items with a zero amount display on screen, they can be set not to print from the Jobs and Estimates Preferences.

- View your progress Invoice, noting the invoiced taxed amounts.

Previous Next [Icons] Spelling History Journal Progress [Icon]

Customer: Job Class Template Print Preview

Customer Three:Taxable... [Dropdown] Progress Invoice [Dropdown]

Invoice Date: 03/09/2010 Invoice #: 46

Bill To: Customer Three, Box 985644-B, City, CA 33251

Item	Description	Est Amt	Prior Amt	Qty	U/M	Rate	Total %	Class	Amount	Tax
02 Si...	Site Work	5,975.00		0.3...		5,975.00	33.47%		2,000.00	Tax
03 E...	Excavation	8,000.00		0.25		8,000.00	25.0%		2,000.00	Tax
26 L...	Landscape & Paving	28,500.00		0		28,500.00	0.0%		0.00	Tax
1.5...	1.5% Discretionary Tax on first \$5,000.00	75.00		0.8		75.00	80.0%		60.00	Non
									Tax CA Sales Tax (6.0%) 240.00	
									Total 4,300.00	

Customer Message [Dropdown] Tax [CA Sales Tax] (6.0%)

To be printed To be e-mailed

Add Time/Costs... Apply Credits... Payments Applied 0.00 Balance Due 4,300.00

Customer Tax Code Tax [Dropdown]

Memo [Text Box]

Learn about our payment processing and online invoicing solutions. Save & Close Save & New Clear

Step 5 – Review Your Chart of Accounts

Review your Chart of Accounts. Here, you will see that there is a TOTAL in the Sales Tax Payable Account of \$300.00 (\$240.00 + \$60.00). Out of that \$300.00 Total, \$60.00 has been placed in the sub-account for the Discretionary Tax.

2200 · Customer Deposits	Other Current Liability	0.00
2201 · Sales Tax Payable	Other Current Liability	300.00
2202 · 1.5% Discretionary Tax	Other Current Liability	60.00
2210 · Northside Library Owner Purch	Other Current Liability	48,179.00

Step 6 Affect on Profit & Loss Reports

- This work around has no effect on Accrual Based Profit & Loss Reports. The report simply indicates that \$4,000.00 has been recognized as Income AFTER issuing the Progress Invoice:

CPS/CAPS Construction, Inc.	
Profit & Loss	
March 1 - 9, 2010	
◊ Mar 1 - 9, 10 ◊	
Ordinary Income/Expense	
Income	
4110 · Construction Income ▶	4,000.00 ◀
Total Income	4,000.00
Gross Profit	4,000.00
Net Ordinary Income	4,000.00
Net Income	4,000.00

- This report has no effect on Cash Basis Profit & Loss Reports - Income remains at \$0.00

CPS/CAPS Construction, Inc.	
Profit & Loss	
March 1 - 9, 2010	
◊ Mar 1 - 9, 10 ◊	
Net Income ▶	0.00 ◀

Step 7 Affect on Profit & Loss Reports AFTER Receiving Payment on the Invoice

When you receive the \$4,000.00 payment on the invoice, a Cash Basis Profit & Loss Report accurately displays \$4,000.00 in income. You may be hard pressed to determine this yourself because of receiving payments on other invoices that do not involve this procedure.

CPS/CAPS Construction, Inc.	
Profit & Loss	
March 1 - 17, 2010	
◊ Mar 1 - 17, 10 ◊	
Ordinary Income/Expense	
Income	
4110 · Construction Income ▶	4,000.00 ◀
Total Income	4,000.00

When It's Time to File Your Sales Tax Reports

You must pay close attention to the following instructions or your Sales Tax Reports will not be accurate. The following steps are crucial for accurate filing of Sales Tax Reports with your State Tax Agency.

Step 1 With a Journal Entry, Move the Discretionary Tax into the main Sales Tax Account

- Open your Chart of Accounts (Lists menu -> Chart of Accounts)
- Note the balance in the Discretionary Tax account (\$60.00 in our example). You may need to open the Register for this account and determine the balance at the end of your Tax Liability period.

Date	Ref	Payee	Increase	Decrease	Balance
Type	Account	Memo			
03/09/2010	46	Customer Three:Taxable Job	60.00		60.00
	INV	1210 · Accounts Rec: 1.5% Discretionary			
03/18/2010	Ref	Payee	Increase	Decrease	
		Account			

- Right click on the Discretionary Tax account and choose Make Journal Entries (this opens the General Journal entry window)
- Change the date to be the ending date for your Sales Tax Report (3/31/10 in our example)
- Click into the **Account** column and select the **Discretionary Tax Account**
- In the **Debit** column, enter the balance in the Discretionary Tax Account as of the last day of your tax liability period
- In the **Memo** column, type in a note indicating that you are moving the discretionary tax
- Click into the **Account** column and select your main **Sales Tax Payable** account
- QuickBooks will automatically enter the amount in the **Credit** column and duplicate your memo
- Click into the **Name** column and from the drop down list, select the name of your **Sales Tax Vendor**

Name	Type	Balance Total	Att...
1540 · Accumulated Depreciation	Fixed Asset	0.00	
2010 · Accounts Payable	Accounts Payable	24,160.00	
2100 · Payroll Liabilities	Other Current Liability	4,876.12	
VT Withholding	Other Current Liability	0.00	
2200 · Customer Deposits	Other Current Liability	0.00	
2201 · Sales Tax Payable	Other Current Liability	300.00	
2202 · 1.5% Discretionary Tax	Other Current Liability	60.00	

Account	Debit	Credit	Memo	Name	B..	Class
2202 · 1.5% Discretionary Tax	60.00		move discretionary tax			
2201 · Sales Tax Payable		60.00	move discretionary tax	Sales Tax		
Totals	60.00	60.00				

- Click the **Save & Close** button (not displayed in the screenshot above)

TIP: Looking at your Chart of Accounts after making the Journal Entry, you will see that the balance in the Discretionary Account is now 0 while the Sales Tax Payable account still has a \$300.00 balance. See screenshot below.

Name	Type	Balance Total	Att...
1530 · Machinery & Equipment	Fixed Asset	0.00	
1540 · Accumulated Depreciation	Fixed Asset	0.00	
2010 · Accounts Payable	Accounts Payable	24,160.00	
2100 · Payroll Liabilities	Other Current Liability	4,876.12	
VT Withholding	Other Current Liability	0.00	
2200 · Customer Deposits	Other Current Liability	0.00	
2201 · Sales Tax Payable	Other Current Liability	300.00	
1.5% Discretionary Tax	Other Current Liability	0.00	
2210 · Northside Library Owner Pu...	Other Current Liability	48,179.00	

Step 2 Run a Profit & Loss Report for the Tax Period AND a Sales Tax Liability Report

Profit & Loss Report

- From the Reports menu, choose **Company & Financial** and then **Profit & Loss Standard**
- Click the **Modify Report** button and set appropriate **Report Date Range** (This Fiscal Quarter in our example) and **Report Basis** (Cash or Accrual - Cash Basis is used in our example)

9:41 AM
03/18/10

2008 CPS/CAPS Construction, Inc.
Profit & Loss
January through March 2010
Jan - Mar 10

Ordinary Income/Expense	
Income	
4110 · Construction Income ▶	4,000.00 ◀
Total Income	4,000.00
Gross Profit	4,000.00
Net Ordinary Income	4,000.00
Net Income	4,000.00

- Print this report

Sales Tax Liability Report

- From the Vendors menu
- Choose Sales Tax
- Select Sales Tax Liability
- Your Sales Tax Liability Report will look extremely odd and will not be accurate until you manually perform some calculations so that the Sales Tax Reports that you file with the state will be accurate.

9:47 AM
03/18/10
Cash Basis

2008 CPS/CAPS Construction, Inc.
Sales Tax Liability
January through March 2010

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Mar 31, 10
Sales Tax						
CA Sales Tax	4,060.00	60.00	4,000.00	6.0%	240.00	240.00
Exempt	0.00	0.00	0.00	0.0%	0.00	0.00
Sales Tax - Other	0.00	0.00	0.00		0.00	60.00
Total Sales Tax	4,060.00	60.00	4,000.00		240.00	300.00
TOTAL	4,060.00	60.00	4,000.00		240.00	300.00

The first thing to notice is that your Total Sales amount (\$4,060.00 per our example) is overstated in the report above - according to our Profit & Loss Report for the same period our Total Sales are \$4000.00.

TIP: You will need to Zoom in on the Total Sales amount to look at the details - if you then filter this report to show just the Discretionary Tax Item you will be in much better shape.

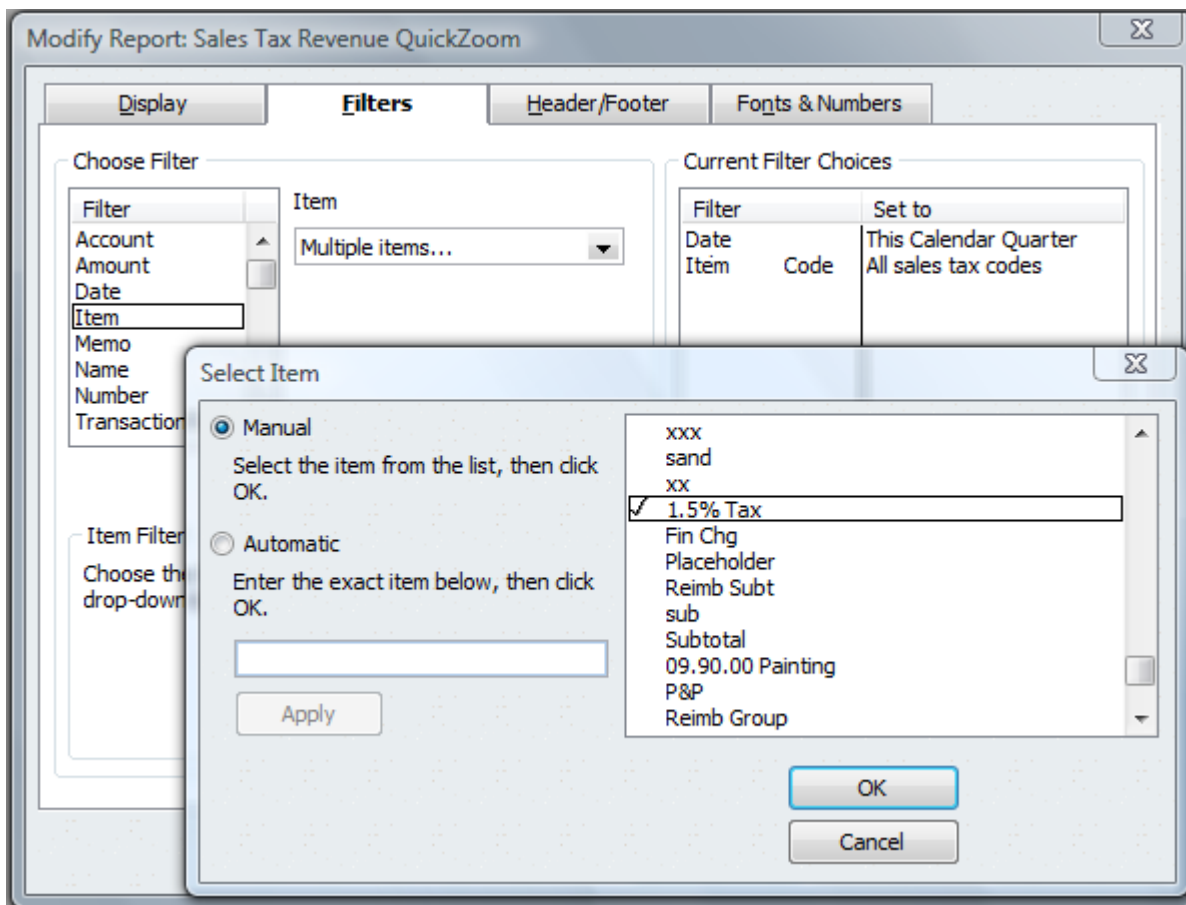
- Double-click on the 4,060.00 amount (this produces the following report)

10:38 AM
03/18/10
Cash Basis

2008 CPS/CAPS Construction, Inc.
Sales Tax Revenue QuickZoom
As of March 31, 2010

Type	Date	Num	Name	Memo	Original Amount	Paid Amount
Taxable Sales						
Invoice	03/17/2010	46	Customer Three:Ta...	Site Work	2,000.00	2,000.00
Invoice	03/17/2010	46	Customer Three:Ta...	Excavation	2,000.00	2,000.00
Total Taxable Sales						4,000.00
Non-Taxable Sales						
Invoice	03/09/2010	46	Customer Three:Ta...	1.5% Discre...	60.00	60.00
Invoice	03/09/2010	46	Customer Three:Ta...	1.5% Discre...	60.00	-60.00
Invoice	03/17/2010	46	Customer Three:Ta...	1.5% Discre...	60.00	60.00
Total Non-Taxable Sales						60.00
TOTAL						4,060.00

- Click the **Modify Report** button
- Click on the **Filters** tab
- In the **Filter** box, select **Item**
- From the **All Items** dropdown, choose **Multiple Items**; which displays the **Select Item Window**; on the right scroll down until you find the item that you created in your Item list to track the Discretionary Tax (1.5% Tax in our example)



Click the OK button, which takes you back to the Filters tab, where you will click the OK button again to display the report. You should then MEMORIZE this report for future use so that you can pull it up and just change the dates.

Type	Date	Num	Name	Memo	Original Amount	Paid Amount
Non-Taxable Sales						
Invoice	03/09/2010	46	Customer Three:Ta...	1.5% Discre...	-60.00	-60.00
Invoice	03/09/2010	46	Customer Three:Ta...	1.5% Discre...	-60.00	60.00
Invoice	03/17/2010	46	Customer Three:Ta...	1.5% Discre...	-60.00	-60.00
Total Non-Taxable Sales						-60.00
TOTAL						-60.00

TIP: Total Sales from the Sales Tax Liability Report (\$4060.00) MINUS the amount shown in this filtered report (\$60.00) should equal your "Construction Income" account (\$400.00) from your Profit & Loss Report. You can then rework the numbers displayed on your Sales Tax Liability Report.

Step 3 Paying Your Sales Tax Liability

Initiate the payment of your Sales Tax Liability as you always have.

- From the Vendors menu choose Sales Tax and Pay Sales Tax
- Select your **Pay From Account**, verify that the **Check Date** is correct, verify that the **Show sales tax due through** date reflects the last day of your reporting period
- You'll notice that the **Amt Due** column contains several entries
- Each entry is linked to an action that we have performed during the instructions contained in this document
- Verify that **Totals** in the **Amt Due** column is accurate (it should be if you followed these instructions)
- Click the **Pay All Tax** button

Pay	Item	Vendor	Amt. Due	Amt. Paid
			-60.00	0.00
	1.5% Tax	Customer Three:Taxabl...	60.00	0.00
	CA Sales Tax	Sales Tax	240.00	0.00
		Sales Tax	60.00	0.00
Totals			300.00	0.00

Buttons: **Pay All Tax** (circled), Adjust, Ending Bank Balance: 9,620.00, OK, Cancel, Help. To be printed

- Click the OK button and print your liability check as usual.

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A special "Thank you" to Denise Duplinski, CPA of 3 Blind Dogs Consulting <http://www.3blinddogs.com/> for reviewing this workaround for accuracy.



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