

Understanding and Using QuickBooks Tax Codes

Aim

The aim of this paper is to give the reader an understanding of how to correctly use Tax Codes in QuickBooks.

Versions

This paper was written using QuickBooks 2008-09. This version introduced a new tax structure in QuickBooks. In day-to-day use, it is broadly similar to previous versions, differing mainly in the setup rather than usage. This means that most of what is written here is also applicable to earlier versions.

The Tax Code List

The Tax Code List is accessed via Lists > Tax Code List.

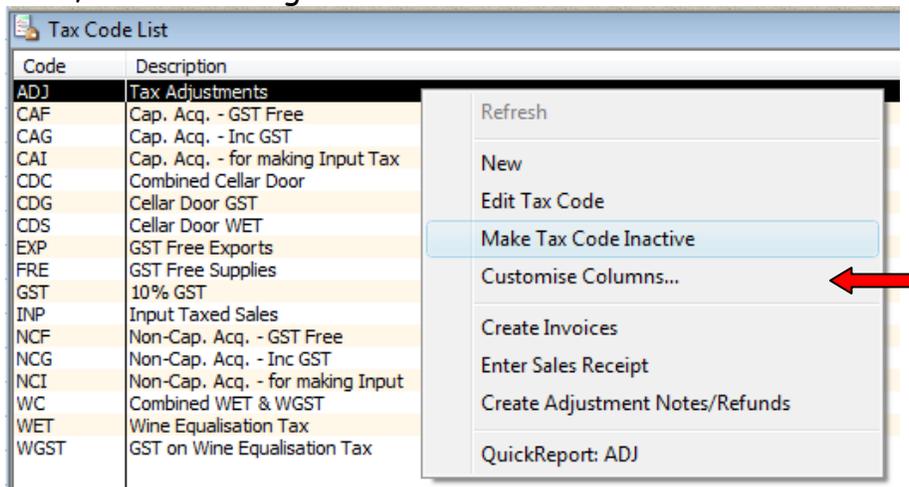
Code	Description	Taxable
ADJ	Tax Adjustments	✓
CAF	Cap. Acq. - GST Free	✓
CAG	Cap. Acq. - Inc GST	✓
CAI	Cap. Acq. - for making Input Tax	✓
CDC	Combined Cellar Door	✓
CDG	Cellar Door GST	✓
CDS	Cellar Door WET	✓
EXP	GST Free Exports	✓
FRE	GST Free Supplies	✓
GST	10% GST	✓
INP	Input Taxed Sales	✓
NCF	Non-Cap. Acq. - GST Free	✓
NCG	Non-Cap. Acq. - Inc GST	✓
NCI	Non-Cap. Acq. - for making Input	✓
WC	Combined WET & WGST	✓
WET	Wine Equalisation Tax	✓
WGST	GST on Wine Equalisation Tax	✓

It's a frightening list when you are first starting out. The key to understanding it is to look at what information is collected in the Business Activity Statement (BAS). The Simplified BAS collects 5 pieces of information:

<u>BAS Label</u>	<u>Information Collected</u>	<u>QuickBooks Tax Codes</u>
G1	Total Sales	EXP + FRE + GST + INP
G2	Export Sales	EXP
G3	GST Free Sales	FRE
G10	Capital Acquisitions	CAF + CAG + CAI
G11	Non-Capital Acquisitions	NCF + NCG + NCI

Simplifying the Tax Code List to suit your Business

The first thing to do is to simplify the list. I do this by making inactive any tax codes that you are unlikely to use. Tax Codes can be inactivated by right-clicking on the Tax Code, then selecting "Make Tax Code Inactive"



ADJ Tax Code

This code was used in boxes G7 and G18 on the original "Calculation Sheet" BAS. Those boxes are long gone, so this code is no longer required and can be made inactive.

All the other Tax Codes are used, but some may be made inactive if they are not applicable to your business. I am going to group them so they are easier to understand.

Cellar Door Sales Tax Codes - CDC, CDG and CDS

This is for wineries with cellar door sales - a complex topic that I am not going to cover in this paper. If you don't run a winery, make them inactive.

Wine Wholesaler Tax Codes - WC, WET and WGST

Again, a complex area I am not going to cover. Most businesses can make these inactive

Export Sales - EXP

This code is used for Export Sales, and is used to populate Box G2 on the BAS. Export Sales will use the EXP tax code (0%) when invoicing. If you don't export products, you can make this code inactive.

Input Taxed Supplies Tax Codes - INP, CAI & NCI

These codes are applicable if the business has income streams from Residential Rent Income, owns a Gold Mine, owns a Bank (or provides Financial Supplies), or runs a School Tuck Shop. Again, most businesses can make these inactive.

If you do have Input Taxed Supplies, use INP for Income (eg Rental Income), CAI for Capital Purchases (eg buying a new water heater) and NCI for Non-Capital Purchases (eg Management Fees, Rates). All these rates are 0%.

Most businesses will now have 6 active tax codes: GST, FRE, CAG, CAF, NCG, & NCF.

Tax Codes Used For Sales / Income - GST & FRE.

These Tax Codes are relatively straightforward: GST where 10% GST is applicable; and FRE where the product is GST Free. These codes are generally implemented via the Items List in QuickBooks.

The crucial thing to know about these codes is that they are used for Income.
Don't use these codes for purchases!

Tax Codes Used for Capital Acquisitions (Purchases) - CAG & CAF

Capital Purchases are things like Motor Vehicles, Plant & Equipment, Land & Building etc that are *used* by your business to generate income. Note that this does not include items that your business resells - eg a computer purchased for resale by a Computer Shop is not a capital acquisition. As a rule of thumb, they are generally the type of items that are normally depreciated by your accountant.

For BAS purposes, a Capital Acquisition is over \$1000 + GST: i.e. \$1100 for items with GST (use CAG) and \$1000 for items without GST (use CAF).

These purchases populate the G10 Box on the BAS.

Tax Codes Used for Non-Capital Acquisitions (Purchases) - NCG & NCF

Non-Capital Purchases are the day-to-day purchases that businesses make: inventory, office supplies, postage, rent, etc. Purchases are coded NCG for items with 10% GST, and NCF for GST Free purchases.

These purchases populate the G11 Box on the BAS.

Some Additional Tax Codes you should add.

It is my belief that it is good bookkeeping practice to code all transactions with a Tax Code, so I normally set up and use 2 additional tax codes:

- Tax Code SUS*: (short for Suspense) - for transactions where you need to clarify the GST status of the transaction.
- Tax Code X: for transactions that don't go on the BAS

* Note : Graham acknowledges that the SUS tax code has been blatantly stolen from Sue at Calculation in Melbourne.

Using the SUS Tax Code

The idea of the SUS Tax Code is that you can use it when entering transactions, but it flags the transaction for later follow-up:

Transactions where you can use it include:

- Where you have got a Tax Invoice (you may be entering data from a cheque book or credit card statement).
- Where you have a Tax Invoice but it is not valid and you need to chase up the supplier for a valid Tax Invoice (eg - they may not have quoted an ABN).
- Where you are simply unsure of the GST status and want to investigate further.

The SUS Tax Code has no GST and is not mapped to anywhere on the BAS.

Using the X Tax Code

GST is about Goods and Services. There are a number of transactions that a business has that aren't goods or services, and therefore don't belong on the BAS. Examples of this are Wages, Superannuation, Drawings, Transfers of Money, and Some Grants.

I use this Tax Code as to indicate that I have considered the transaction, and here is my decision. A blank tax code indicates an error.

Setting up the SUS and X Tax Codes

Set up Tax Items and Tax Codes as follows: The example uses SUS - X is set up in the same manner, only substitute SUS with X and use Description "Non-GST Transaction".

First, set up new Tax Items via List > Tax ITEM List > Item Button > New (QB08-09)

The image displays two side-by-side screenshots of the 'New Tax Item' form in QuickBooks. Both forms have the following fields: Type (Tax Item), Name (SUS-Sales and SUS-Purch), Description (Suspense Tax Code - Sales and Suspense Tax Item - Purchases), Tax Rate (0.0%), Tax Agency (Australian Taxation Office), and Tax Return Line (GST Free). The left form has the 'Use this item in sales transactions' radio button selected, while the right form has the 'Use this item in purchase transactions' radio button selected. Red arrows point to the description fields and the selected radio buttons in both screenshots.

Next, Set up the Tax Code using the Tax Items we have set up.

By now, the Tax Code List should look like this for most businesses.

Code	Description
CAF	Cap. Acq. - GST Free
CAG	Cap. Acq. - Inc GST
FRE	GST Free Supplies
GST	10% GST
NCF	Non-Cap. Acq. - GST Free
NCG	Non-Cap. Acq. - Inc GST
SUS	GST Suspense
X	Non-GST Transaction

A summary of what these codes are used for follow:

Taxcode	Used For	Examples
GST	Income with GST	Most Goods and Services you sell except GST FREE
FRE	Income GST Free	Goods deemed GST Free - Many Foods, Medical Supplies.
NCG	Purchases with GST	Inventory, Rent, Office Supplies, etc
NCF	Purchases No GST	Many Foods, Stamp Duty on Insurance, Water Rates, Bank Charges, Contractors not GST Registered who have an ABN.
CAG	Capital Purchases with GST	Vehicles, Computers, Machinery, Office Equipment over \$1100 including GST.
CAF	Capital Purchases NO GST	Water Rights, any of the above purchased from someone not registered for GST (ie - not in business)
SUS	Income/Purchases to investigate	No Tax Invoice Supplied. No ABN. Unsure
X	Income/Purchases Not Goods & Services	Wages, Super, Drawings, Transfers of Money, Drought Subsidies, Diesel Fuel Rebates.

USING TAX CODES IN TRANSACTIONS

The following transaction show common purchase scenarios. Note that only the allocation lines are shown. The Left Side shows the transaction with the "Amounts include tax" box ticked; the right side unticked. Ticked or unticked, it's the same.

Entering a Purchase with GST equal to an 1/11th of Total.

Telephone Bill \$330 incl. GST of \$30

Expenses		\$330.00	Items		\$0.00
Account	Tax	Gross Amt	Tax Amt	Memo	
Telephone	NCG	330.00	30.00		

Supplier Tax Code Amounts include tax:

Expenses		\$330.00	Items		\$0.00
Account	Tax	Net Amt	Tax Amt	Memo	
Telephone	NCG	300.00	30.00		

Supplier Tax Code Amounts include tax:

Entering a Purchase with GST less than an 1/11th of Total.

This will occur when some of the transaction is GST Free.

Food Purchases \$55.00 incl GST of \$3.50

Expenses		\$55.00	Items		\$0.00
Account	Tax	Gross Amt	Tax Amt	Memo	
Purchases	NCG	38.50	3.50		
Purchases	NCF	16.50	0.00		

Supplier Tax Code Amounts include tax:

Expenses		\$55.00	Items		\$0.00
Account	Tax	Net Amt	Tax Amt	Memo	
Purchases	NCG	35.00	3.50		
Purchases	NCF	16.50	0.00		

Supplier Tax Code Amounts include tax:

An easy way to data enter this is to untick "Amounts include tax", enter account, NCG, then enter 10 times the GST amount in net amount. The GST amount calculates at 10%, then tab down to the next line and enter the remainder as NCF.

Entering a Purchase with GST more than an 1/11th of Total.

This issue arises with Sensis. For example, a \$1200 + \$120 GST contract paid over 6 payments is presented as 1 payment of \$320 (\$200 + \$120 GST) followed by 5 payments of \$200 (\$200 plus \$0 GST).

According to the Australian Taxation Office, you are only entitled to claim 1/11th of the payment irrespective of what Sensis prints on their bill.

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