

Recipient Created Tax Invoices (RCTIs): Purchaser's Perspective

Background

In some businesses, it is practice for the purchaser of goods and services to provide the Tax Invoice rather than the usual case of the supplier of the goods doing this.

In general, these situations occur when it is the purchaser rather than the supplier who determines the price. This occurs because the goods may be subject to valuation determined on factors such as condition, weight or variable market rates. It may also occur when the public (non-businesses) sells goods to a business.

Some examples of this are:

- Purchasers of Rural Produce such as a stock agent, where the producer sends their stock to market without setting a price. The price is determined by auction.
- Providers of Grants, where the Grantee determines the amount of the Grant.
- Second-Hand shops, where the shop owner strikes a price with the supplier.
- Scrap Metal Dealers, where the price is determined by the buy-price of the metal and the weight.

In each of these cases, the purchaser is in a much better situation than the seller to provide the documentation for the transaction, and will provide a RCTI. An RCTI is simply a Tax Invoice produced by the recipient of the goods, but formatted as if the supplier of the goods created it.

Note that the [ATO](#) has requirements determining who can issue RCTIs.

Versions

Applicable to all versions of QuickBooks.

Aim

The aim of this paper is to show how businesses needing to produce RCTIs on behalf of sellers can do this in QuickBooks.

Example

For the purposes of demonstration, I will look at a Scrap Metal Dealer, and discuss how the business can run using QuickBooks.

This process involves a large number of processes, so I will not necessarily detail every step of the process. My aim is to give an overview of how it can be achieved. You may want to enlist the help of a [Quicken Accredited Consultant](#) if you don't understand the process or are uncomfortable with implementing the process.

SET-UP

Preferences

You will need to activate Purchase Orders via Edit > Preferences > Purchases and Suppliers > Company Tab > then tick Stock and Purchase Orders are Active.

Chart of Accounts Setup

A good starting point is to set up your Chart of Accounts to reflect the broad categories of metal you are buying and selling. I would normally create sub-accounts for Copper, Lead, Batteries etc under both the Sales and Cost of Goods Sold so the profit and loss reports have useful information on where I am making my sales and how much those sales are costing.

◆ Sales	Income
◆ Copper	Income
◆ Lead	Income
◆ Cost of Goods Sold	Cost of Goods Sold
◆ Copper	Cost of Goods Sold
◆ Lead	Cost of Goods Sold

You may also need to set up a "Cash Transactions" Bank Account. Many businesses running operations of this nature pay their suppliers Cash from monies held in a cash tin. You will need to set up a new Chart of Accounts Bank Account called "Cash Transactions" or "Cash Tin" for this.

The screenshot shows the 'New Account' window with the following details:

- Type: Bank
- Tab: General Info
- Name: Cash Tin
- Subaccount of: (unchecked)

I also recommend changing the colour of this account by opening the Register (Right Click on Account > Register then Edit > Change Account Colour).

Tax Code List Setup

As you will be purchasing from the public and from businesses, you may need to set up additional Tax Codes for situations where no ABN is quoted and you want to claim an input tax credit for the deemed GST.

Without going into the Tax technicalities (do a search for Scrap Metal on [ATO](#)), you may need to set up additional Tax Codes for tracking non-ABN purchases.

<u>TaxCode</u>	<u>Percent</u>	<u>Reason</u>
UNDER	10%	To track Input Tax Credits on amounts under \$300.
OVER	10%	To track Input Tax Credits on amounts over \$300

Additional Tax Codes can be setup via Lists > Tax Code List then Tax Code Button > New.

Edit Tax Code

Type: Goods and Services Tax

OK

Cancel

Tax Code	Rate	Description
UNDER	10.0%	ITC under \$300

Tax Code is inactive

No ABN Withholding Setup

In situations where it is necessary to withhold 46.5% tax, you will need to set up an item to process the amount withheld. This cannot be done as a taxcode, but can be setup as an Other Charge item linked to an Other Current Liability Account called No ABN Withholding Payable.

Edit Item

Type: Other Charge

Use for miscellaneous labour, material, or part charges, such as delivery charges, setup fees, and service charges.

OK

Cancel

Custom Fields

Spelling

Item Name/Number: Subitem of

No ABN Withhold

This is a reimbursable charge

Description: No ABN Withholding Tax Withheld

Amount or %: -0.465

Amts Inc Tax

Item is inactive

Sales Tax Code: []

Account: No ABN Withholding...

Barcode: []

Item Setup

The next step would be to setup the items. An example of Domestic Copper is below.

New Item

Type: **Non-stock Part** (Use for goods you buy but don't track, like office supplies, or materials for a specific job that you charge back to the customer.)

Item Name/Number: **CuDomestic** (Subitem of:) I buy/sell this item in: **Kgs**

This item is purchased for and sold to a specific customer:job

Purchase Information Description on Purchase Transactions: **Copper Domestic**

Sales Information Description on Sales Transactions: **Copper Domestic**

Cost: **0.50** per Kgs Sales Price: **2.00** per Kgs

Purch Tax Code: () Expense Account: **Cost of Goods Sold** Sales Tax Code: **GST**

Preferred Supplier: () Income Account: **Sales**

Barcode: ()

Buttons: OK, Cancel, Next, Custom Fields, Spelling, Amt's Inc Tax

There are a few things to notice with this:

- There is no default tax code for purchases as this will vary according to the ABN status of the supplier.
- "This item is purchased for..." is only available in QuickBooks Pro and above. Other versions will need to set up separate items for the purchasing and the sale of items.
- "I buy/sell this item in" only shows up where Units of Measure have been activated in the "Purchases & Supplies Preferences"

Template Setup

To generate the RCTI, we need to modify a Purchase Order Template to act as an RCTI.

The following page shows a Purchase Order that has been modified to act as an RCTI and incorporate a supplier statement.

Recipient Created Tax Invoice

RCTI No.	7
Date	15/12/2007

Supplier Details
John Smith 25 Main St City West 3333

Purchaser Details
Stadium Construction & Hardware Pty Ltd 17 Australia Street Homebush Sydney, 2058

SUPPLIER ABN	
--------------	--

PURCHASER ABN	14 003 348 730
---------------	----------------

Description	Qty	Rate	Amount
Copper Domestic	500	0.50	250.00
Total			\$250.00

Statement by supplier:

In accordance with the pay as you go (PAYG) legislation and Tax Office guidelines, I state that the supply made by me is in the course of an activity that is: (Tick appropriate boxes)

of a private recreational pursuit or hobby, or is wholly of a private nature for me, or

wholly exempt from income tax, or

a supply made in a circumstance under the Scrap metal Industry Code of compliance that would ordinarily require an ABN to be provided, and I supply specific reasons why the No ABN withholding provisions should not apply:

Therefore you should not withhold an amount from the payment you make to me for the supply.

Signature

--

Date / /

Proof of identity sighted (eg photo license)	Vehicle type	Vehicle registration details

I have sighted the above proof of identity information and have made reasonable enquiries on the reasons provided not to withhold from the payment. I am satisfied that the no ABN withholding provisions do not apply to this transaction.

No Yes

Name

Signature

--

Date / /

NAT 10010-07.2006

This statement must be retained for five years.

ONGOING USE

Ongoing use is fairly straightforward. The following example is a purchase under \$300 from a non-ABN supplier (John Smith), Payment is in Cash from the Cash Tin.

When a supplier sells you some products, the first step is to create a purchase order using the RCTI Template discussed above:

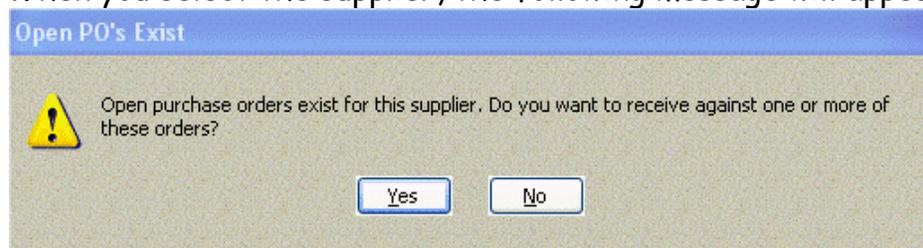
- Open the Purchase Order via Supplier Navigator > Purchase Order
- Ensure that the "Amts Inc Tax" box at the bottom of the form is ticked.
- Ensure that your RCTI Template is selected.
- Enter the Supplier's ABN if the supplier is a business.
- Enter items purchased, quantity, rate etc and ensure the Taxcode selected reflects the purchase: NCG for businesses or Under/Over for Non-ABN suppliers.
- Check that the total at the bottom of the form is correct.
- Print the form.
- Fill in the declaration at the bottom of the form for non-ABN supply.

Item	Description	Qty	Unit	Rate	TAX	Customer	Amount	TAX AMT
CuDomestic	Copper Domestic	500	Kgs	0.50	U...		250.00	22.73

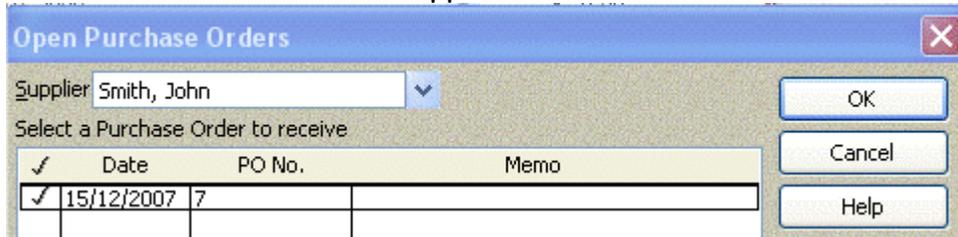
The next step is to pay the supplier:

- Banking Navigator > Cheques
- Change the Bank Account to the Cash Tin
- Enter Date, Cheque Number (use same # as RCTI for Cash) and name of supplier.

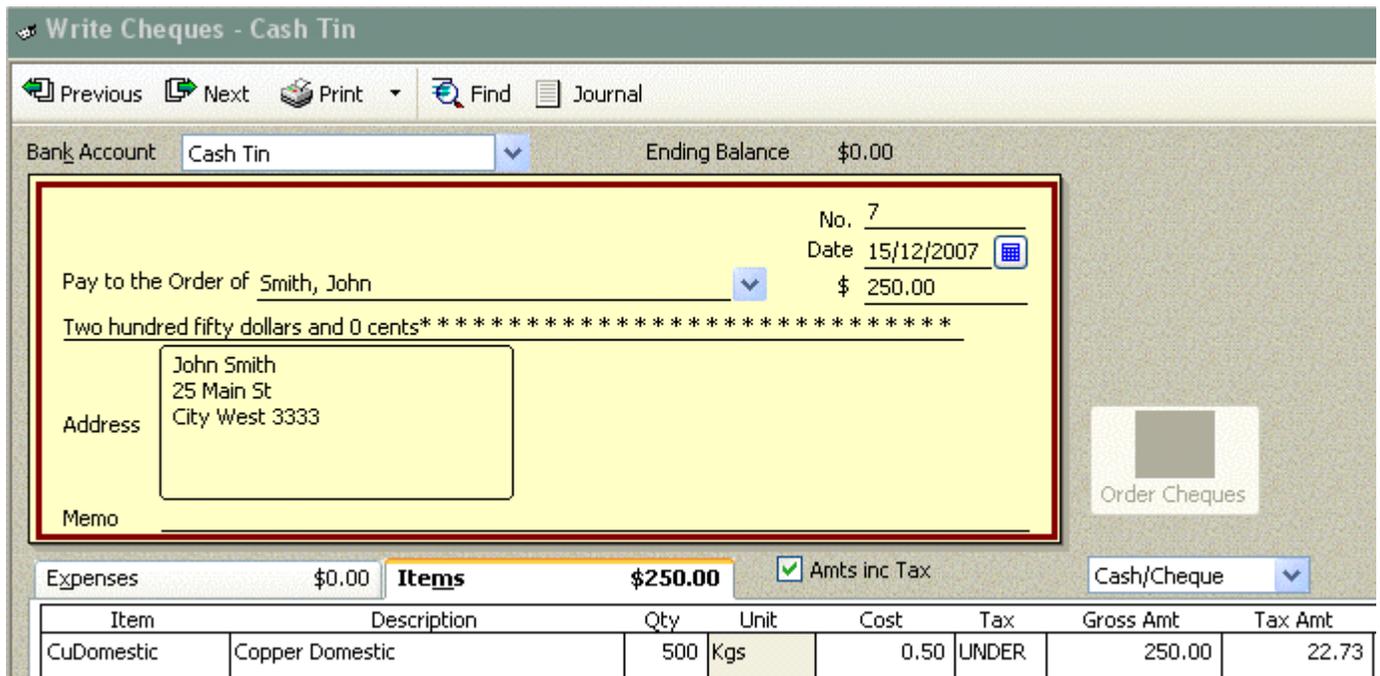
When you select the supplier, the following message will appear > Select Yes



- Another screen will now appear:



- Select the RCTI # (the "Purchase Order") then OK
- Purchase details will automatically transfer to the Cheque Items tab.
- Tick Amts Inc Tax



- Save and Close and pay the supplier.

Variations on the Theme

- The RCTI can be bought into the Business Cheque Account for payment via Cheque or Direct Debit
- The RCTI can be bought into a Bill for later payment.

The above example is fairly complex, but similar procedures apply to the other industries where purchases are made using RCTIs.

-- End --