SQL-Ledger®

Handling Sales Tax

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Introduction

SQL-Ledger[1] is a double-entry book-keeping system, and it automatically invoices for and records sales-tax collection once some initial set-up is completed.

The general procedure is as follows:

1. When starting the business, set up an account for each kind of sales tax to be collected.

2. When starting the business, and when sales tax rates change, tell the system what sales tax rate applies to each account, with start and end dates for each rate as it changes through time.

3. For each new part or service, select the taxes which apply to that part or service.

4. For each new customer or vendor, select the taxes which apply to that customer or vendor.

Once these steps are done, the system will automatically add sales tax to each invoice where appropriate. For each item in the invoice, each sales tax rate will be charged for that item only if the part/service and also the customer/vendor are both set to include that sales tax rate.

For each invoice, sales tax may be added to the total, or marked as already included in the total.

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[1]SQL-Ledger is a trademark of DWS Systems Inc.

Figure 1: Overview of SQL-Ledger Sales Tax Handling
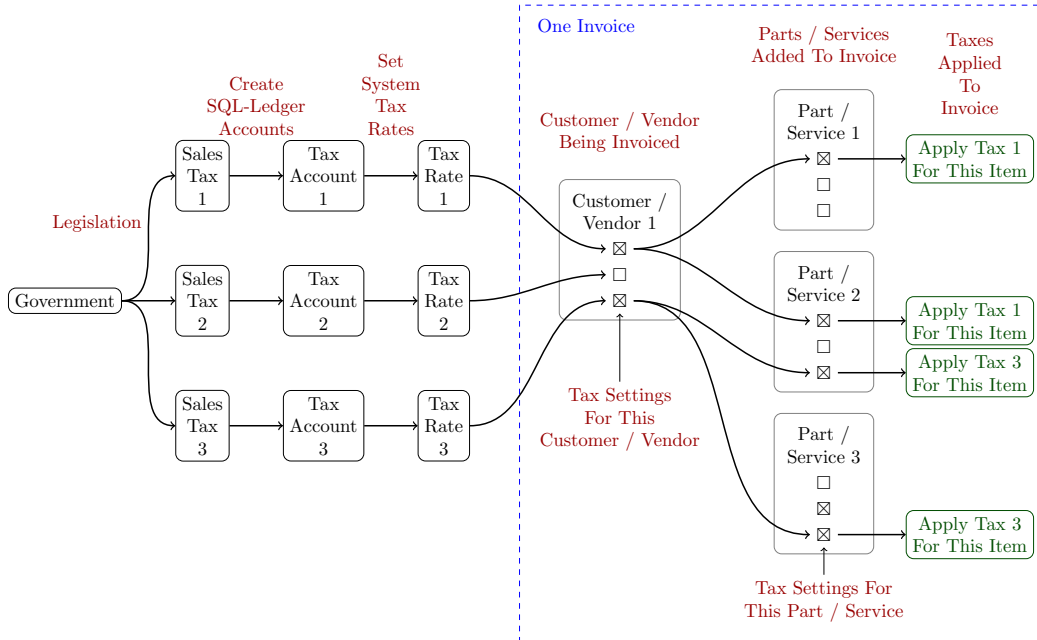
Creating the Tax Accounts

There must be one tax account for each type of sales tax to be collected. The examples given below are for Illinois sales tax, which as of this writing has a general sales tax for products, a special sales tax for products of photoprocessing, and no sales tax for services. Thus, there must be a tax account for the general sales tax, and another account for the special photoprocessing tax.

To set up the tax accounts, begin by selecting the [**System/Chart of Accounts/Add Accounts**] menu option to create a new tax account, or [**System/Chart of Accounts/List Accounts**] to select an existing tax account for editing.

Figure 2 shows the creation or editing of two tax accounts.

For each account, enable the tax buttons for each of the drop-down menus.

Figure 2: Creating / Editing Sales Tax Accounts

Setting the Tax Rates

To set the sales tax rate for each account, select [**System / Taxes**]. Figure 3 shows the rates for each sales tax account, and when each rate changes. In this example, the special "products of photoprocessing" tax is one tenth of the regular sales tax.

For each sales tax account, set the rate by typing it into the **"Rate (%)"** box. Put the government's tax number in the **"Number"** box. For current sales tax rates, leave the **"Valid To"** box empty.

When a new sales tax rate is due to come into effect, set the **"Valid To"** box for the current rate to the last day for which the current rate applies, and create a new line entry for the new rate with an empty **"Valid To"** box. The system will use the current rate until it expires, then use the new rate once it comes into effect.

Figure 3: Setting the Tax Rates for each Sales Tax Account

Taxes				
Account	Description	Rate (%)	Number	Valid To
2150	Sales Tax	7.25		12/31/2008
		7.75		06/30/2013
		7.25		
2152	Sales Tax – photographic products	0.725		12/31/2008
		0.775		06/30/2013
		0.725		

Update   Save

Creating Parts and Services

Before any invoices are issued, every part and service must be set-up for the appropriate tax rates. Different rates may apply to different parts or services, and each part or service may have all, some, or no sales tax. Examples might be untaxed services, or special rates for food/clothing. This is controlled by selecting or de-selecting each tax rate for each part/service, as seen in Figure 4.

Figure 4: Setting the Tax Rates for a Part or Service

Creating Customers and Vendors

Before any invoices are issued, every customer and vendor must be set-up for the appropriate tax rates. Different rates may apply to different customers or vendors, and each customer or vendor may have all, some, or no sales tax. Examples might be out-of-town or non-profit customers. This is controlled by selecting or de-selecting each tax rate for each part/service, as seen in Figure 5.

The **"Tax Included"** box may be selected for cases where the seller pays the sales tax instead of the purchaser. The seller's sales and profit go down by the amount of the sales tax.

Figure 5: Setting the Tax Rates for a Customer or Vendor

Creating Invoices

Having done the above steps, sales-tax handling on invoices then becomes almost automatic. Taxes will be applied per line-item depending on which part/service it is, and whether this customer/vendor pays those taxes.

If the person receiving the invoice is due to pay sales taxes, the sub-total for each type of tax is listed at the bottom of the invoice. If no sub-totals appear, it is because either the recipient of the invoice does not pay sales taxes, or none of the particular items on the invoice happens to be taxed.

Select the **"Tax Included"** box to cause the taxes to be paid by the seller instead of the buyer. When this is done, the sub-totals for the sales taxes will no longer appear, since they will be absorbed and will not be invoiced.

Figure 6: Sales Taxes on Invoices

New Sales Taxes

Changing sales tax rates have already been addressed above.

When an additional sales tax is created by the government, several things must be set-up before new invoices are generated:

1. A new account must be created for the new sales tax.

2. The new tax rate must be assigned to the new account. If the new tax rate is due to start at some future date:

   (a) Set the new account's tax rate to 0% at the current time, with a **"Valid To"** entry of a date just before the new tax is due to begin.

   (b) Create another line entry for the same tax account, with the new future tax rate in the **"Rate %"** box, and an empty **"Valid To"** entry so that, once it begins, the new rate will be effective indefinitely.

3. For every part and service in the system, select the new tax rate where appropriate.

4. For every customer and vendor in the system, select the new tax rate where appropriate.

The new tax will begin to appear on invoices at the date when the rate changes from 0% to the new tax rate, as set above. Until that time, the new sale tax's rate will still be 0%, and so it will not be collected even though various parts/services and customers/vendors will have the rate selected.