



QUICKBOOKS DESKTOP 2021 CLIENT TRAINING

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Lesson 11

**Track and Pay Sales Tax**

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## About the Author



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Esther Friedberg Karp is an internationally renowned trainer, writer, business consultant and speaker who has been repeatedly listed as one of Insightful Accountant's Top 100 QuickBooks ProAdvisors in the world. She has also been named to their Top 10 list on two occasions: as Top International ProAdvisor and Top Trainer/Writer ProAdvisor.

Based in Toronto, Canada, Esther has the unique distinction of holding ProAdvisor certifications in the United States, Canada and the United Kingdom. She has authored materials and delivered educational and certification courses for Intuit in all those countries, as well as Australia where she conducted live QuickBooks Online training. She has spoken at Scaling New Heights, QuickBooks Connect and other conferences, and has written countless articles for Intuit Global.

Esther's clients include companies worldwide and accounting professionals who seek her out on behalf of their own clients. She is sought out for her expertise in multicurrency and various countries' editions of QuickBooks Desktop and Online, and for her talent in customizing QuickBooks usage for different industries. She also teaches QuickBooks Core and Advanced certification classes to accounting professionals in Canada.

Esther holds a BSc from the University of Toronto in Actuarial Science and Mathematics, and an MBA in Marketing and Finance from York University's Schulich School of Business.

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## Lesson Objectives

- Get an overview of sales tax in QuickBooks (the steps involved in tracking, collecting and paying it)
- See how to set up QuickBooks to track sales tax
- See how to apply sales tax to a sale
- Learn how to determine a business's sales tax liability
- Write a QuickBooks check to the appropriate tax agency for sales tax liability

# Overview of Sales Tax in QuickBooks



## Step-by-Step: Use QuickBooks to Track and Pay Your Sales Tax

1. Set up your tax rates and agencies.
2. Indicate who and what gets taxed.
3. Apply tax to each sale.
4. Find out what you owe.
5. Pay your tax agencies.

### NOTES

# Set Up Your Tax Rates and Agencies

Some businesses need to apply more than one sales tax to their sales; for example, they may collect state sales tax as well as several county sales taxes. You need to create a separate sales tax item for each tax amount you must report (not necessarily for each tax you collect; some states want you to report state sales tax and county sales tax as separate items, while others let you report them as one item).

Even if you're paying more than one type of tax, you usually want your customers to see one overall tax amount, not separate taxes for the state and county. You'll learn how to do that in this lesson.



## Step-by-Step: Add a Sales Tax Item

1. From the Lists menu, choose **Item List**.
2. Click the **Item** menu button, and then choose **New**.

**TYPE**  
Sales Tax Item Use to calculate a single sales tax at a specific rate that you pay to a single tax agency.

**Sales Tax Name**  
San Domingo

**Description**  
CA sales tax, San Domingo County

**Tax Rate (%)**      **Tax Agency (vendor that you collect for)**  
7.5%      State Board of Equalization

**OK**  
**Cancel**  
**Next**  
**Notes**  
**Spelling**  
 Item is inactive

3. In the Type field, choose **Sales Tax Item**.
4. In the Sales Tax Name field, type the appropriate name for the tax (e.g., *Seattle City Tax*, *King County Tax*, *Washington State Tax*, etc.).
5. In the Description field, enter an appropriate description for the tax.

6. In the Tax Rate (%) field, enter the sales tax rate as a percentage.
7. In the Tax Agency field, type the name of the department to which you remit the taxes (you might have to choose to **Quick Add** or **Set Up** this new vendor/tax agency if it's not already in your vendor list).
8. Click **OK**.

## NOTES

# Group Single Taxes Together

Even if you collect a combination of sales taxes which you report separately, you probably don't want to confuse customers by showing separate taxes on your invoices or sales forms. QuickBooks lets you group some or all your tax items so customers can see a single combined tax amount. In addition to ensuring you have created all sales tax items required, you'll be creating a sales tax group.



## Step-by-Step: Create a Sales Tax Group

1. With the Item List displayed, click **Item** → **New**.
2. In the Type field, choose **Sales Tax Group**.
3. In the Group Name/Number field, enter an appropriate name for the group.
4. In the Description field, enter an appropriate description for the group.
5. Click in the **Tax Item** column then choose the taxes you wish to group together.

Use to calculate and individually track two or more sales tax items that apply to the same sale. The customer sees only the total sales tax.

Group Name/Number  
E. Bayshore County

Description  
Sales Tax

Enter each individual sales tax you need to charge in this district. QuickBooks will collect tax for these items as a group, but will report on each one individually.

TAX ITEM	RATE	TAX AGENCY	DESCRIPTION
East Bayshore	0.3%	City of East Bayshore	City Sales Tax
San Tomas	7.75%	State Board of Equali...	CA sales tax, San ...
Group Rate		8.05%	

Item is inactive

6. Click **OK**.

## NOTES

# Identify Your Most Common Tax



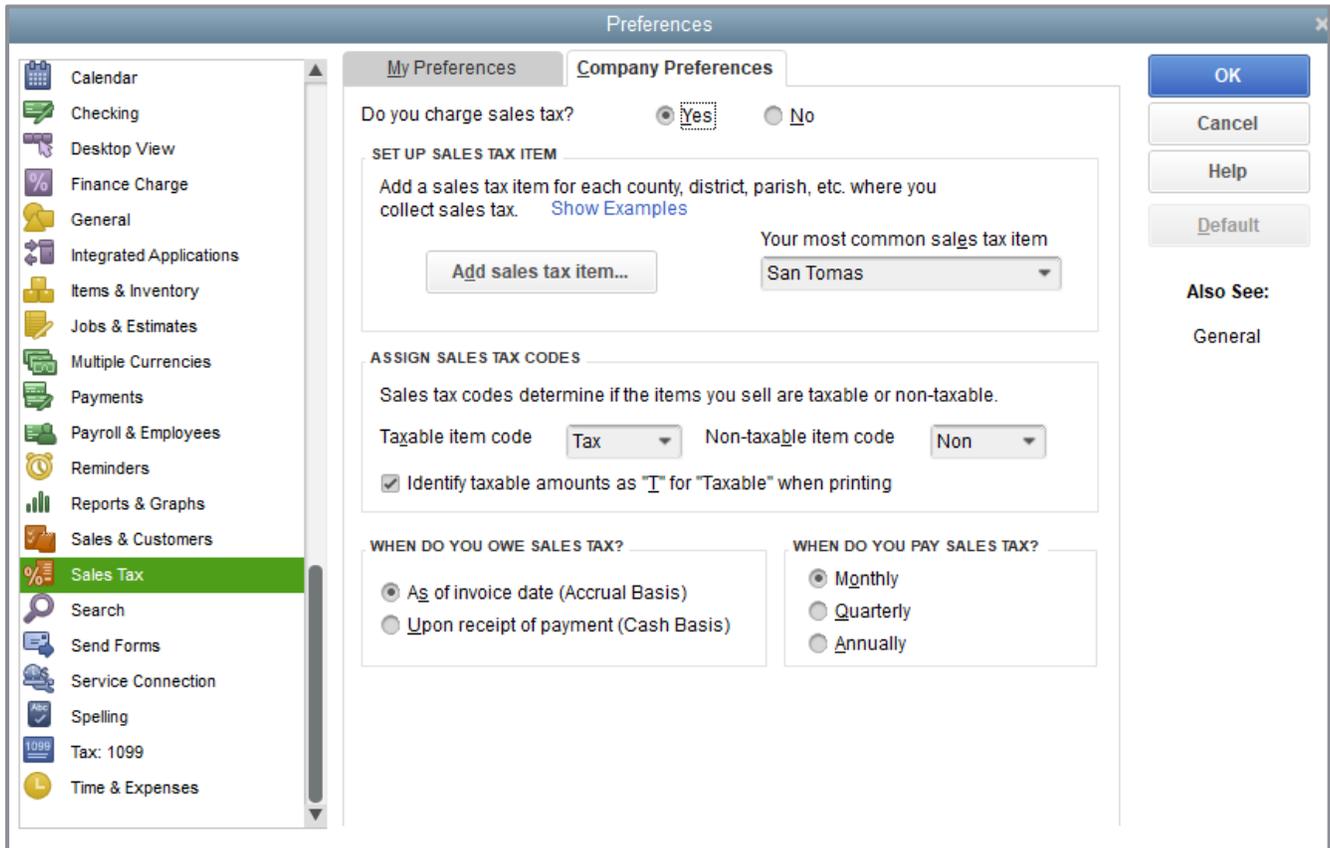
**BEST PRACTICE:** *If you want QuickBooks to apply sales tax to your invoices and sales receipts, you must tell it which sales tax item or group is the one you use most often. Once you do that, QuickBooks applies that sales tax when you fill out an invoice or a sales receipt. (You can choose a different sales tax on the sales form if you don't want the default tax.)*



## Step-by-Step: Set up a Default Sales Tax

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure they are not signed in and you are in single-user mode.)
2. From the Edit menu, choose **Preferences**.

- In the Preferences window, click the **Sales Tax** icon in the left panel, then click the **Company Preferences** tab.



- In the Your most common sales tax item field, choose the sales tax rate you want to be the default.
- Click **OK**.

## NOTES

# Indicate Who and What Gets Taxed

The next step in setting up sales tax is to indicate who and what gets taxed. You have to tell QuickBooks whether or not a customer is taxable and assign a default sales tax item or sales tax group to that customer.

You must also distinguish between taxable and non-taxable items on the Item List. When you add an item to the Item List, there's a place in the window to indicate whether you charge tax for that item. QuickBooks remembers this information and indicates whether or not an item is taxable when you enter that item on a sales form.



## Step-by-Step: Indicate a Taxable Item

1. In the Item List, right-click the item for which you wish to check taxable status, then click **Edit Item**. (Or highlight the item you want, and then click the **Item** menu button at the bottom, and then choose **Edit Item**.)

The code in the Tax Code field for this item tells you whether this item is taxable. When you choose the item to be included on a sales form, QuickBooks knows if this item is taxable and, if it is, automatically applies the default sales tax.

INVENTORY INFORMATION						
Asset Account	Reorder Point (Min)	Max	On Hand	Average Cost	On P.O.	On Sales Order
12100 - Invento...	15		10	169.00	0	0

2. Click **OK** to close the Edit Item window.
3. Close the Item List.



**IMPORTANT:** Customer taxability will override item taxability. For example, if you have taxable items on an invoice to a customer marked as a non-taxable customer, sale tax will not be calculated on the invoice. See the next section re: taxable/non-taxable customers.

In the same way you can specify that an item in the Item List is taxable, you can indicate whether a particular customer is taxable or non-taxable in that customer's record.



### Step-by-Step: See an Existing Customer Record

1. Open the Customer Center.
2. Right-click on the name of the customer you wish to view, then click **Edit Customer**.
3. Click the **Sales Tax Settings** tab.

In the image below, the tax code selected indicates transactions with this customer are subject to sales tax. When this customer was set up, the default tax rate for this customer was assigned automatically based on the company preference; however, you can manually set the sales tax item to be assigned to this customer.

4. To change the sales tax item, use the **Tax Item** drop-down and assign the proper rate.

The screenshot shows the 'Edit Customer' window for 'Jimenez, Cristina'. The 'Sales Tax Settings' tab is active. The 'TAX CODE' is 'Tax' and the 'TAX ITEM' is 'San Tomas', which is highlighted with a red box. The 'RESALE NO.' field is empty. At the bottom, there are 'OK', 'Cancel', and 'Help' buttons. A checkbox for 'Customer is inactive' is at the bottom left.

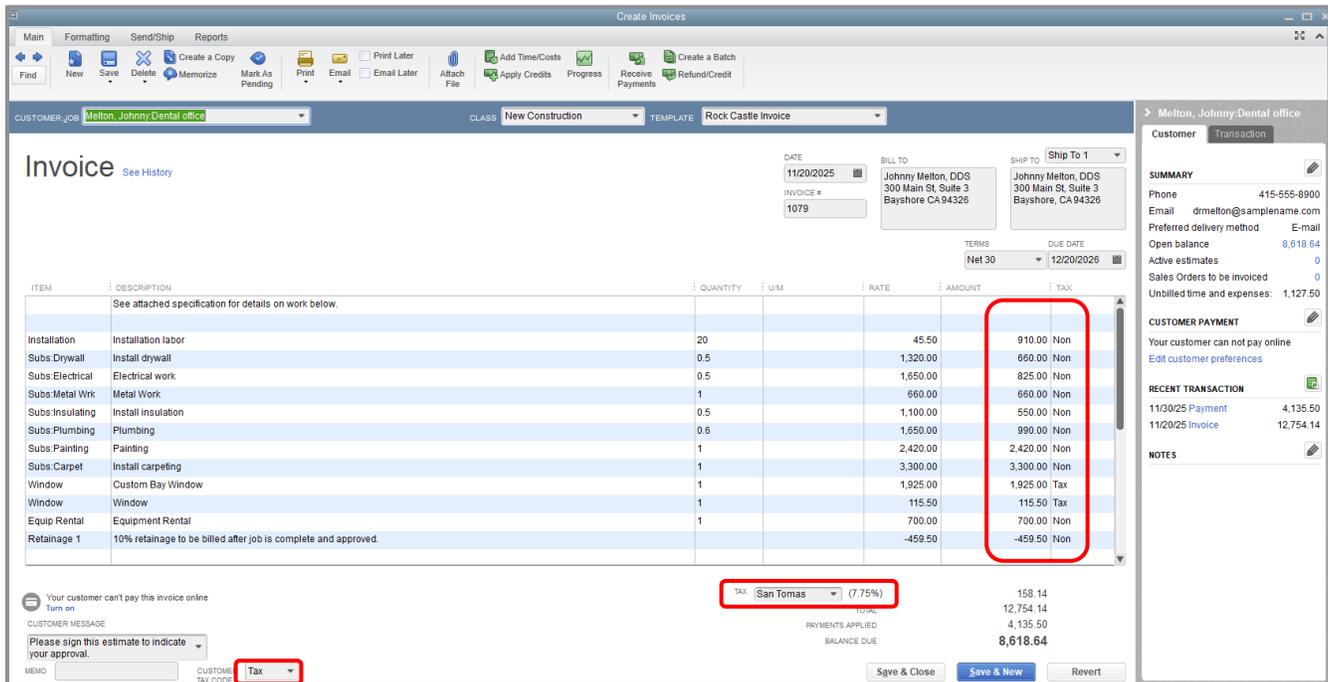
5. Click **OK**.
6. Close the Customer Center.

## **NOTES**

# Apply Tax to Each Sale

If you've set up a default sales tax, assigned taxes to your customers and marked items you sell as taxable, QuickBooks automatically calculates and applies the tax when you make a sale.

There are three factors affecting how sales tax is accrued on an invoice. First, the item taxability (the Tax column in the body of the invoice) will determine whether the item is subject to sales tax. Next, the Tax Item decides which rate is assigned to taxable items and how the sales are grouped on the sales tax reports. Lastly, the Customer Tax Code determines if the customer is actually charged sales tax or if it is reported in the Non-taxable Sales column of the Sales Tax Revenue Summary and Sales Tax Liability reports.



While there are places to set defaults for these tax settings, you can also overwrite what comes up tax-wise on each individual invoice. This is important to understand if your business works in multiple states and is a combination wholesaler/retailer.

## NOTES

# Determine What You Owe

If you're required to collect sales tax from customers, you also have to make periodic payments of the sales tax you've collected. QuickBooks gives you three ways to determine the amount of your sales tax liability: The Sales Tax Liability report, the Sales Tax Payable register and the Pay Sales Tax window.



## Step-by-Step: Create the Sales Tax Liability Report

1. Click the **Manage Sales Tax** icon from the Home page, and then click the **Sales Tax Liability** hyperlink (or from the Reports menu, choose **Vendors & Payables** → **Sales Tax Liability**).

The screenshot displays the QuickBooks Desktop 2021 Home page. At the top, a notification banner reads "1099 tax forms are changing" with a "Learn more" button. Below this, the "Home Page" is divided into three main sections: VENDORS, CUSTOMERS, and EMPLOYEES. In the VENDORS section, the "Manage Sales Tax" icon is highlighted with a red box. Other icons include Purchase Orders, Receive Inventory, Enter Bills Against Inventory, Enter Bills, and Pay Bills. The CUSTOMERS section includes Sales Orders, Estimates, Create Invoices, Accept Credit Cards, Create Sales Receipts, Receive Payments, Statement Charges, Finance Charges, Statements, Refunds & Credits, and Pay Bills. The EMPLOYEES section features Payroll Center, Enter Time, Pay Employees, Pay Liabilities, Process Payroll Forms, and HR Essentials and Insurance. On the right side, there are sections for COMPANY (Chart of Accounts, Inventory Activities, Items & Services, Calendar), BANKING (Record Deposits, Reconcile, Write Checks, Check Register, Print Checks, Enter Credit Card Charges), ACCOUNT BALANCES (a table showing balances for various accounts), DO MORE WITH QUICKBOOKS (Turn on Payroll, Accept Credit Cards, Order Checks & Supplies, Check Outgrowing QB Pro?), and BACKUP STATUS (Local: August 02, 2020, 9:01 AM; Online: Back up online with Intuit Data Protect).

NAME	BALANCE
10100 - Checking	-6,373.33
10300 - Savings	59,910.19
10400 - Petty Cash	1,000.00
11000 - Accounts ...	93,941.02
20000 - Accounts ...	26,155.92
20500 - QuickBook...	0.00

- In the Dates fields, set the parameters for the period you need to view.

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Rate	Tax Collected	Sales Tax Payable As of Nov 30, 25
<b>City of East Bayshore</b>						
East Bayshore	0.00	0.00	0.00	0.3%	0.00	0.00
<b>Total City of East Bayshore</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>
<b>State Board of Equalization</b>						
San Domingo	27,245.50	20,017.50	7,228.00	7.5%	542.10	542.10
San Tomas	38,355.50	24,327.50	14,028.00	7.75%	1,087.17	1,087.17
State Board of Equalization - O...	0.00	0.00	0.00		0.00	0.00
<b>Total State Board of Equalization</b>	<b>65,601.00</b>	<b>44,345.00</b>	<b>21,256.00</b>		<b>1,629.27</b>	<b>1,629.27</b>
<b>TOTAL</b>	<b>65,601.00</b>	<b>44,345.00</b>	<b>21,256.00</b>		<b>1,629.27</b>	<b>1,629.27</b>

The Sales Tax Liability report shows the total taxable sales, total non-taxable sales, and the amount of sales tax you owe each tax agency as of the ending date in the date range. QuickBooks displays the Sales Tax Liability report on an accrual basis, unless you changed the default setting in the Sales Tax Preferences window. The report shows exactly how much sales tax you collected.

- Close the **Sales Tax Liability** report.
- If QuickBooks asks if you want to memorize the report, click **No**.



**BEST PRACTICE:** Compare the Profit & Loss report income total to the total sales in the Sales Tax report for the same time frame and on the same basis. This will help you find any discrepancies or incorrectly posted income.

If you'd like to see where your sales tax revenue is coming from, you can run the Sales Tax Revenue Summary report, which shows you the sources of all taxable and non-taxable sales transactions broken down by individual sales tax codes. This report is especially helpful if you are using sales tax groups.



## Step-by-Step: Run the Sales Tax Revenue Summary Report

1. Click the **Manage Sales Tax** icon from the Home screen then click the **Sales Tax Revenue Summary** hyperlink (or from the Reports menu, choose **Vendors & Payables** → **Sales Tax Revenue Summary**).
2. In the Dates fields, set the parameters for the period you need to view.

The screenshot shows the 'Sales Tax Revenue Summary' report for 'Rock Castle Construction' for 'November 2025'. The report is based on 'Accrual' and covers the period from 11/01/2025 to 11/30/2025. The data is summarized in the following table:

	Taxable Sales	Non-Taxable Sales	TOTAL
<b>State Board of Equalization</b>			
San Domingo	7,228.00	20,017.50	27,245.50
San Tomas	14,028.00	24,327.50	38,355.50
<b>Total State Board of Equaliza...</b>	<b>21,256.00</b>	<b>44,345.00</b>	<b>65,601.00</b>
<b>TOTAL</b>	<b>21,256.00</b>	<b>44,345.00</b>	<b>65,601.00</b>

3. Close the report.

### NOTES

Each time you create an invoice or sales receipt that includes sales tax, QuickBooks enters the sales tax information in the Sales Tax Payable register. QuickBooks keeps track of transactions for all tax vendors in the same Sales Tax Payable account.



## Step-by-Step: See the Sales Tax Payable Register

1. From the Company menu, choose **Chart of Accounts** (or press **CTRL+a**).
2. Double-click **Sales Tax Payable** to open the register.

DATE	NUMBER	ACCOUNT	TYPE	VENDOR	MEMO	DUE DATE	BILLED	PAID	BALANCE
12/15/2025	1104	State Board of Equalization				12/31/2025	0.00		2,586.90
		11000 - Accounts Receivable (split)			CA sales tax, San Tomas County				
12/15/2025	516	State Board of Equalization	TAXPMT					542.10	2,044.80
		10100 - Checking (split)		ABCD 11-234567					
12/15/2025	516	State Board of Equalization	TAXPMT					1,087.17	957.63
		10100 - Checking (split)		ABCD 11-234567					
12/22/2025	1103	State Board of Equalization				12/31/2025	0.00		957.63
		11000 - Accounts Receivable (split)			CA sales tax, San Tomas County				
01/01/2026	1100	State Board of Equalization				01/31/2026	0.00		957.63
		11000 - Accounts Receivable (split)			CA sales tax, San Tomas County				
01/01/2026	1101	State Board of Equalization				01/31/2026	0.00		957.63
		11000 - Accounts Receivable (split)			CA sales tax, San Tomas County				
01/01/2026	1102	State Board of Equalization				01/31/2026	0.00		957.63
		11000 - Accounts Receivable (split)			CA sales tax, San Tomas County				
01/01/2026	3009	City of East Bayshore				01/31/2026	0.29		957.92
		12000 - Undeposited Funds (split)			City Sales Tax				
01/01/2026	3009	State Board of Equalization				01/31/2026	7.36		965.28
		12000 - Undeposited Funds (split)			CA sales tax, San Tomas County				
ENDING BALANCE									965.28

Each entry in the register is a single tax transaction. Taxes you record on invoices and sales receipts appear as increases; payments you make to tax agencies appear as decreases. The ending balance of the register is your current tax liability. Notice how some transactions have the same invoice number. When you record two tax rates on the same invoice or cash sale, the register shows a separate transaction for each tax agency. (This is because you have to make separate payments to individual tax agencies.)

3. Close the register.
4. Close the Chart of Accounts.

## NOTES

# Pay Your Tax Agencies

When it's time to pay sales tax, you use the Pay Sales Tax window to write a check to your tax agency or agencies. *Do not use a regular Write Check window.*



## Step-by-Step: Make a Sales Tax Payment

1. Select **Vendors** from the menu bar, click **Sales Tax → Manage Sales Tax** (or click the **Manage Sales Tax** icon from the Home page).
2. In the Manage Sales Tax window, click the **Pay Sales Tax** button.
3. In the Show sales tax due through field, enter the ending date of the period you wish to pay. Select **Tab**.

QuickBooks displays tax agencies and the amounts you owe as of that date.

4. To mark one or more for payment, click a checkmark in the far left Pay column. To mark them all for payment, click the **Pay All Tax** button.

P...	ITEM	VENDOR	AMT. DUE	AMT. PAID
	East Bayshore	City of East Bayshore	0.29	0.00
	San Domingo	State Board of Equalization	114.19	0.00
	San Tomas	State Board of Equalization	843.15	0.00
<b>Totals</b>			<b>957.63</b>	<b>0.00</b>

**Pay All Tax**        Ending Bank Balance: -6,373.33  
 **To be printed**           

5. Click **OK**. QuickBooks has now created transactions to pay the sales tax liability.
6. Close the **Manage Sales Tax** window.



**IMPORTANT:** *In some cases, you may have to make an adjustment to these amounts so your payment in QuickBooks matches your amount due to the tax agency. These adjustments are generally due to usage tax or other excise taxes. Use the Adjust button to add your adjustments before calculating the other rates as the adjusting transaction will reset all amounts in the window.*

## Track and Pay Sales Tax – Review Questions

1. Which of the following statements is false?
  - a. You can set up both taxable and non-taxable items.
  - b. You can associate different sales tax rates with different customers.
  - c. QuickBooks automatically sets up your sales tax rates based on the city and state you enter in the Company Information window.
  - d. All of the above
2. Use a \_\_\_\_\_ item to combine multiple sales tax items into one amount on sales forms.
3. Which of the following can you use to determine your sales tax liability?
  - a. Sales Tax Payable account register
  - b. Pay Sales Tax window
  - c. Sales Tax Liability report
  - d. All of the above
4. To affect sales tax liability correctly, you should make payments to tax collecting agencies from which QuickBooks window?
  - a. Write Checks
  - b. Pay Sales Tax
  - c. Either a or b
  - d. None of the above
5. In what part of QuickBooks do you assign sales tax codes and items to customers?
  - a. In the Sales Tax Code list
  - b. On the Customer tab of the New or Edit Item window
  - c. On the Sales Tax Settings tab of each customer's record in the Edit Customer window
  - d. None of the above

## Review Activities

Use Rock Castle Construction (sample product-based company) to do these activities:

1. Create an invoice for Pretell Real Estate's 155 Wilks Blvd. job for 10 interior wood doors and two exterior wood doors.
2. After you record the invoice, open the Sales Tax Payable register to see how QuickBooks has recorded the tax due from the invoice.

## Answers to Review Questions

1. Which of the following statements is false?
  - a. You can set up both taxable and non-taxable items
  - b. You can associate different sales tax rates with different customers
  - c. ✓ *QuickBooks automatically sets up your sales tax rates based on the city and state you enter in the Company Information window.*
  - d. All of the above
2. Use a *sales tax group* item to combine multiple sales tax items into one amount on sales forms.
3. Which of the following can you use to determine your sales tax liability?
  - a. Sales Tax Payable account register
  - b. Pay Sales Tax window
  - c. Sales Tax Liability report
  - d. ✓ *All of the above*
4. To correctly affect sales tax liability, you should make payments to tax collecting agencies from which QuickBooks window?
  - a. Write Checks
  - b. ✓ *Pay Sales Tax*
  - c. Either a or b
  - d. None of the above
5. In what part of the program do you assign sales tax codes and items to customers?
  - a. In the Sales Tax Code list
  - b. On the Customer tab of the New or Edit Item window
  - c. ✓ *On the Sales Tax Settings tab of each customer's record in the Edit Customer window*
  - d. None of the above