Setting Up Taxation

It is important to set up tax jurisdictions, codes, and exemptions before creating sales and purchase transactions.

Doing this ensures compliance with applicable state, local, city, and other tax laws.

Be sure to consult a tax professional to make sure your business complies with relevant laws.

We show how to set up tax jurisdictions based on local tax rules and add tax codes that determine the calculated rate.

Then we show how to set up tax exemptions and identify reasons for overriding sales tax at point-of-sale.

Select the Configure Tax Jurisdictions topic to begin.

Objectives

- Configure Tax Jurisdictions
- Add and Edit Tax Codes
- Add and Edit Tax Exemptions
- Add and Edit Tax Override Reasons

Configure Tax Jurisdictions

The first step in setting up taxation is to define Tax Jurisdictions.

These are the regions that enforce the tax code, such as a city, county, or state.

To set these up, select Setup from the Sales Dropdown.

Find the Taxation Setup header and choose Jurisdictions.

Select Add.

Give the Jurisdiction a detailed name and then enter the tax rate.

Then decide if the tax is Inclusive or Exclusive.

Once you have decided which option applies, press Save.

Add and Edit Tax Codes

Tax codes are vital to calculating your tax liability.

From the Sales menu, choose Setup.

Then find the Taxation setup header and select Codes.

Press Add.

Enter a descriptive code to identify this percentage. Then elaborate further with a detailed description.

We'll use code MNST to represent Minnesota State Sales Tax.

Search for the jurisdiction names that apply and select them.

Press Save.

The tax rate displays.

Products with this tax code will collect the rate indicated.

If you have multiple jurisdictions, the application adds these rates together.

If you need to edit a tax code, return to the Tax Codes page, choose the related checkbox, and then select Edit.

You can use the Action Menu option to delete a tax code.

Note: You can delete tax codes even if previously used in a transaction, but you cannot delete the jurisdiction behind the deleted code when referenced by a journal entry.

When finished, save your changes.

Add and Edit Tax Exemptions

Tax jurisdictions require businesses to collect tax on all transactions subject to them except when the jurisdiction's rules allow for the sale to be tax-exempt.

For example, direct sales to the federal government and many state and local governments are tax exempt as are sales to non-profit organizations.

For detailed information about tax-exempt organizations in your jurisdiction, consult with your tax professional.

When you are ready to define Tax Exemptions for your business, select the Sales menu and then choose Setup.

Under Taxation Setup, select Exemptions.

Press Add.

Enter a name for the tax exemption such as Reseller, or Non-Profit.

This tax-exempt reason can be used for many customers so make the entry general rather than specific.

Type a detailed description that explains when the exemption would be used.

Determine whether the transaction requires a signature at point-of-sale.

Then decide if the tax exemption reason should print on the receipt.

Enable the Exemption Certificate Required toggle if you want the customer to present their exemption certificate at point-of-sale.

This is important because if you do not collect the tax-exempt status information from the customer, your business may be liable for the unpaid taxes, and potential penalties, later.

Tax exemption certificates have expiration dates. They vary by state, so check with your tax professional to verify your state's requirements.

To further help you keep track of individual customers' tax-exempt status, enable the Exemption Certificate Expiration Date Required toggle.

When everything is correct, press Save.

To edit tax exemptions, return to the Exemptions page.

Find the name of the tax exemption you want to change and enable its checkbox.

Select Edit.

Use the Action Menu option: Delete Tax Exempt Reason to remove one.

When finished, save your changes.

Add and Edit Tax Override Reasons

In some sales transactions, you may need to override the tax amount.

For example, a customer that is not flagged as tax-exempt provides you with a certificate, or your tax jurisdiction gives a tax holiday for items such as school supplies.

The reasons and descriptions you create in the application when selected at point-of-sale, print on invoices and receipts.

From the Sales menu, choose Setup.

Then select Tax Override Reasons from the Taxation Setup section.

Choose Add.

Enter a name that explains the reason for the tax override.

And then give the override reason a good description.

When finished, press Save.

When you want to edit tax-exempt override reasons, return to the Tax Override Reasons page, enable the checkbox and choose Edit.

Delete Tax Exempt Reason is available from the Actions menu.

Remember to save your changes.

Recap

As you can see, it’s easy to set up and edit sales tax specifications.

We showed how to set up tax jurisdictions and tax codes.

We also showed how to add and edit tax exemptions and override reasons.

For more information on these procedures, refer to online Help.

And because taxation is a complex topic, remember to consult with your tax professional to make sure you cover applicable laws.

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