

How to Setup Sales Tax

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There are five steps to setting up sales tax:

[Step A: Setup Sales Tax Categories](#)

[Step B: Setup Sales Tax Jurisdictions](#)

[Step C: Assign Sales Tax Categories to Items](#)

[Step D: Setup Sales Taxes](#)

[Step E: Assign Sales Taxes to Customers](#)

Once these steps are complete, one can begin invoicing customers and the system will automatically calculate and report sales tax.

Step A: Setup Sales Tax Categories

Sales tax categories provide a way to group various sales (inventory) items for tax calculations. You determine if the sales tax category is taxable by selecting the sales tax jurisdictions to apply. If all of your items' taxes are calculated at the same rate for all jurisdictions, then only one Sales Tax Category is needed.

1. Select **Setup > Sales > Sales Tax Categories**. Click the **New** button to add a new category.
2. Enter a short **Abbreviation** and **Name** for this tax, for example; general merchandise, fuel or food.
3. Ignore the **Sales Tax Jurisdictions to calculate this sales tax category on** area at this time. Click **Save**.

Step B: Setup Sales Tax Jurisdictions

Sales tax jurisdictions are used to track individual sales taxes. For example, you would create a sales tax jurisdiction for each state, county and city tax applicable for your customers. Sales tax jurisdictions are also used to calculate different rates for different types of products being sold within a jurisdiction. For example if the state charges a different rate for agriculture products vs normal retail, then you would need a sales tax jurisdiction for each.

1. Select **Setup > Sales > Sales Tax Jurisdictions**. Click the **New** button to add a new jurisdiction.
2. Enter a short **Abbreviation** and **Name** for this tax, for example; CO and Colorado Sales Tax.
3. Choose a **Liability Account** which will be credited when a taxable customer invoice is entered with this tax.
4. Select the appropriate **Vendor**. The vendor will normally be the state that governs the tax. Sales tax jurisdictions will be grouped by vendor on the sales tax report.
5. Enter the sales tax percentage in the **Rate** field. Then select how the tax should be calculated in the **Calculate On** field.

The options for Calculate On are:

- » Cost: The sales tax percent is multiplied by the cost.
- » Markup: The sales tax percent is multiplied by the markup (the difference between cost and selling price).
- » Quantity: The sales tax percent is multiplied by the quantity.
- » Selling Price: The sales tax percent is multiplied by the selling price.

6. Check the **Calculate Tax on Freight** and/or **Calculate Tax on Miscellaneous Charges** boxes if those charges are subject to sales tax. These options will be used if amounts are entered in the Miscellaneous Charges and/or Freight fields in invoice entry.
7. If this tax jurisdiction will be grouped together with others and should be calculated using tax on previously calculated tax, select the **Calculate Tax on Tax** box. For example, Canada's national sales tax is subject to tax by Canada's provincial taxes.
8. The **Sales Categories to calculate this tax item on** box will display all Sales Categories. Enter a check in the box for each sales categories that is taxable by this Sales Tax Jurisdiction.
9. Click **Save**. If this will be the only sales tax jurisdiction in this sales tax, at the *Do you want to add a new sales tax for this sales tax jurisdiction?* message, click Yes to create the sales tax. If this sales tax jurisdiction will be combined with others, (for example, Colorado state tax and Denver city tax) then skip this step. See Step B: Setup Sales Taxes below for more information.

Step C: Assign Sales Tax Categories to Items

A sales tax category is assigned to each sales item.

1. Select **Setup > Sales > Items** or **Setup > Inventory > Items**.
2. Select a customer and click **Edit**.
3. Select the appropriate **Sales Tax Category** for this item. Click **Save**.

Step D: Setup Sales Taxes

Sales taxes provide a way to group sales tax jurisdictions. Sales taxes are assigned to customers. For example, if you have a city, state and school district tax that you need to use for the customers in your area. Those would all be setup as jurisdiction and a sales tax would then be setup to group them together. The sales tax Denver City Tax may be a combination of Colorado State Tax, RTD Tax, and Denver City Tax which are all sales tax jurisdictions. Sales taxes are assigned to customers and used when entering sales invoices. Sales taxes must be used for sales tax calculations (rather than the underlying sales tax jurisdictions). Therefore, if you have a state sales tax jurisdiction and no other taxes, you must still create a sales tax that includes only that state.

1. Select **Setup > Sales > Sales Taxes**. Click on **New**.
2. Enter a short **Abbreviation** and **Name** for this Sales Tax, for example; CO-DEN (abbreviation) and CO state & Denver city taxes (Name).
3. The **Available Sales Tax Jurisdiction** box will contain all Sales Tax Jurisdictions. Move each jurisdiction that should be a part of this Sales Tax to the **Selected Sales Tax Jurisdiction** box on the right. For example, if you created the above example (Co-DEN) you would then want both the Colorado State & Denver City tax jurisdictions moved to the Selected Sales Tax Jurisdiction.
4. Click **Save**.

Step E: Assign Sales Taxes to Customers

A default sales tax is assigned to each customer. Customer invoices will use this sales tax when entering an invoice for this customer. The customers default sales tax can be overwritten during invoice entry.

1. Select **Setup > Customers**.
2. Select a customer and click **Edit**.
3. Select the appropriate **Sales Tax** as the default for this customer. Click **Save**.