

Tracking and Remitting Use Tax

What is Use Tax and why does it matter?

Use Tax is the sister to Sales Tax.

When you purchase an item for resale, you should not pay sales tax on it because you will be selling it to the end user. When you sell the item to that end user, you charge sales tax based on the location of delivery.

The same concept applies with Use Tax. When you purchase something from a vendor – **and you are the end user** – and that vendor does not charge you sales tax, you must pay Use Tax. It is the sales tax that you should have paid at the point of purchase.

It matters because in a sales tax audit, this is the second question they ask. States are fully aware that companies often purchase items for internal use from vendors who do not charge tax. They want to ensure you are paying your fair share. THEY WILL ASK.

Why didn't the vendor charge sales tax?

There are a few reasons why vendors do not charge sales tax legitimately.

1. You have a resale certificate on file with them because you typically purchase items from them for resale.
2. The vendor does not have nexus in your taxing jurisdiction and is not registered to collect or remit sales tax.
3. You drove across state lines (or ordered online from someone in another state) to buy a product for the sole purpose of avoiding paying the sales tax.

What records do you need to keep?

Any time you make a purchase for use in your business, you should keep records. If you did not pay sales tax on an item that you are using in your business, you should track that amount separately so you can report Use Tax Purchases.

This document will help you track and report Use Tax Purchases in QuickBooks in simple steps.



STEP 1 – CREATE AN “OTHER EXPENSE” ACCOUNT TO TRACK YOUR USE TAX PURCHASES

Account Type: Other Expense

Account Name: Use Tax Purchases [Select from Examples](#)

Subaccount of

OPTIONAL

Description

Note

Tax-Line Mapping: <Unassigned> [How do I choose the right tax line?](#)

STEP 2 – ENTER YOUR PURCHASES

Purchases can be entered in any number of ways – credit card, write check, enter bill, etc. Remember these purchases are NOT for resale, so you don't want to bring them into inventory. Use the Expenses tab to enter these purchases.

Be sure to put in the memo what account you would normally post this purchase to. This will help you move it easier later.

Bill

VENDOR: Ingram Micro

ADDRESS: 1759 Wehrle Drive
Williamsville, NY 14221

DATE: 07/15/2018

REF. NO.: IM-34891

AMOUNT DUE: 1,592.00

BILL DUE: 07/25/2018

TERMS:

MEMO:

Expenses	\$1,592.00	Items	\$0.00
ACCOUNT	AMOUNT	MEMO	
Use Tax Purchases	1,592.00	New computer for office manager (move to Fixed Assets - Computer Equipment)	



STEP 3 – RUN REPORT FOR FILING

Each month or reporting period, run a report to determine on how much in Use Tax purchases you owe.

Run a P&L report for the month.

Byte IT 2017
Profit & Loss
July 2018

	Jul 18
Ordinary Income/Expense	
Income	
Recurring Revenue	26,085.00
Hardware as a Service Income	374.00
Non-Recurring Revenue	12,250.00
Total Income	38,709.00
Cost of Goods Sold	
Hardware as a Service Costs	134.37
Total COGS	134.37
Gross Profit	38,574.63
Net Ordinary Income	38,574.63
Other Income/Expense	
Other Expense	
Use Tax Purchases	2,535.52
Total Other Expense	2,535.52
Net Other Income	-2,535.52
Net Income	36,039.11

NOTE: THIS IS THE TOTAL AMOUNT OF PURCHASES – NOT THE AMOUNT OF TAX YOU OWE.

You will owe your state/local sales tax rate on this amount.
For instance, in Pinellas County, Florida, our sales tax rate is 7%.

$$\$2,535.52 \times 7\% = \$177.49$$

I owe \$177.49 in use tax for the month of July.

Use this information to file your sales and use tax return with your taxing jurisdictions.

Samples of returns in various states are at the end of this document.



STEP 4 – RECLASSIFY THE TRANSACTIONS

Once you have paid the tax on these purchases, you can now move them to the proper expense account or balance sheet account.

Zoom in on the Use Tax Purchases account from the P&L

Byte IT 2017
Transaction Detail By Account
July 2018

Type	Date	Num	Name	Memo	Debit
Use Tax Purchases					
Bill	07/15/2018	IM-34...	Ingram Micro	New computer for office manager (move to Fixed Assets - Computer Equipment)	1,592.00
Bill	07/15/2018	SX-1...	Synnex	SonicWall for office (move to Fixed Assets - Computer Equipment)	943.52
Total Use Tax Purchases					2,535.52
TOTAL					2,535.52

The best way to move these transactions is with a journal entry. This will provide you with a clear trail that you reported the use tax on these purchases.

Date the transaction for the last day of the month for which you paid the tax.

You can see that the original purchase posted to Use Tax was a debit. To move the purchases to their proper account, you need to debit the new account and credit the Use Tax Purchases account to zero/close it out.

In this case, both items are going to the same account. I still want to break out the items into their own lines for easy spotting at year end. Your tax preparer will need to know what you bought and the month in which you purchased it.

DATE: 07/31/2018 ENTRY NO.: 180701 ADJUSTING ENTRY

ACCOUNT	DEBIT	CREDIT	MEMO
Computer Equipment	1,592.00		new computer for office manager
Computer Equipment	943.52		SonicWall for office
Use Tax Purchases		2,535.52	reclassify use tax purchases

The result is a clean Use Tax Purchases account at the end of the month:



PM
18

Byte IT 2017
Transaction Detail By Account
July 2018

Journal Basis

Type	Date	Num	Name	Memo	Debit	Credit	Balance
Use Tax Purchases							
Bill	07/15/2018	IM-34...	Ingram Micro	New computer for office manager (move to Fixed Assets - Computer Equipment)	1,592.00		1,592.00
Bill	07/15/2018	SX-1...	Synnex	SonicWall for office (move to Fixed Assets - Computer Equipment)	943.52		2,535.52
General Journal	07/31/2018	1807...		reclassify use tax purchases		2,535.52	0.00
Total Use Tax Purchases					2,535.52	2,535.52	0.00
TOTAL					2,535.52	2,535.52	0.00

You can run an updated P&L to see the figures are no longer interfering with your operating profit.

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Profit & Loss
July 2018

	Jul 18
Ordinary Income/Expense	
Income	
▶ Recurring Revenue	26,085.00
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Total Income	38,709.00
Cost of Goods Sold	
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Total COGS	134.37
Gross Profit	38,574.63
Net Ordinary Income	38,574.63
Other Income/Expense	
Other Expense	
Use Tax Purchases	0.00
Total Other Expense	0.00
Net Other Income	0.00
Net Income	38,574.63

If you are not comfortable making journal entries, you can open the individual transactions and change the posting account on the original bill, expense, etc.

This works just fine. There is simply no easy to follow trail should you ever need it in the future.



APPENDIX

Below are samples of sales and use tax reports from a variety of states. I do not have all states represented here, so please review your state to ensure you properly report use tax purchases.

California

Secure | https://onlineservices.cdtfa.ca.gov/_/#7

Name: GREAT LITTLE BOOK PUBLISHING CO., INC.
 Account Number: XXXXXXXXXX
 Filing Period: 30-Jun-2018

1. Business Location Updates

2. Business Updates

3. Business Activities

4. Sales and Purchase Information

Sales and Purchase Information

Total Gross Sales (i.e. Taxable and nontaxable sales for the reporting period, including lease and rental receipts)	0.00
Purchases subject to use tax (i.e., items removed from inventory for business or personal use, out of state purchases, etc.)	0.00
Sales of fixtures and equipment (i.e. Sales of business assets)	0.00
Total Sales and Purchases:	0.00

Save Draft
Cancel

< Previous
Next >

Connecticut

Column A 6.35% Tax Rate

1. Gross receipts from sales of goods	1.	\$	31.00
2. Gross receipts from leases and rentals	2.	\$	0.00
3. Gross receipts from labor and services	3.	\$	16,607.00
4. Purchases of goods by your business subject to use tax	4.	\$	0.00
5. Leases and rentals by your business subject to use tax	5.	\$	0.00
6. Purchases of services by your business subject to use tax	6.	\$	0.00
7. Total of Lines 1 through 6	7.	\$	16,638.00




Florida

Florida	1. Gross Sales	2. Exempt Sales	3. Taxable Amount	4. Tax Collected
A. Sales/Services	\$ 150040.61	\$ 34610.18	\$ 115430.43	\$ 8017.85
B. Taxable Purchases			\$ 3000.00	\$ 210.00
C. Commercial Rentals	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
D. Transient Rentals	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
E. Food & Beverage Vending	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
5. Total Amount of Tax Collected				\$ 8227.85
6. Less Lawful Deductions				\$ 0.00
7. Total Tax Due				\$ 8227.85
8. Less Est Tax Pd/DOR Cr Memo				\$ 7181.21
8(a). Owner Credit Memo				\$ 0.00
9. Plus Est. Tax Due Current Month				\$ 4936.71
10. Amount Due				\$ 5983.35
11. Less Collection Allowance				\$ 30.00
12. Plus Penalty				\$ 0.00

You have chosen not to donate your collection allowance to education.

Illinois



Illinois Department of Revenue
ST-1 Sales and Use Tax and E911 Surcharge Return

Legal Name: [REDACTED]
 DBA Name: [REDACTED]
 Account ID: [REDACTED]
 Filing Period: 07/01/2016 - 7/31/2016
 Due Date: 08/22/2016

REV 07 FORM 002 (R-6/16)

Step 1: Alcoholic Liquor Purchases
If you are not required to report your purchases, go to Step 2.
Note: Distributors will also report your total purchases to us.

A Total dollar amount of alcoholic liquor purchased (Invoiced and delivered) 0.00

Step 2: Taxable Receipts

1	Total receipts (include tax.)	1	121,246.00
2	Deductions - Include tax collected (From Schedule A, Line 30.)	2	72,850.00
3	Taxable receipts (Subtract Line 2 from Line 1.)	3	48,396.00

Step 3: Tax on Receipts
Sales from locations within Illinois

General merchandise
4a 48,396.00 x 0.0800 = 4b 3,872.00

Food, drugs, and medical appliances
5a 0.00 x 0.0100 = 5b 0.00

Sales from locations outside Illinois

General merchandise
6a 0.00 x .0625 = 6b 0.00

Food, drugs, and medical appliances

Step 5: Tax on Purchases

General merchandise
12a 0.00 x .0625 = 12b 0.00

Food, drugs, and medical appliances
13a 0.00 x .01 = 13b 0.00

Purchases at other rates
14a 0.00 = 14b 0.00

15 Tax due on purchases (Add Lines 12b, 13b, and 14b.) = 15 0.00

Step 6: Net Tax Due

16	Tax due from receipts and purchases (Add Lines 11 and 15.)	16	3,804.00
16a	Manufacturer's Purchase Credit	16a	0.00
17	Prepaid sales tax	17	0.00
18	Quarter-monthly (accelerated) payments	18	0.00
19	Total prepayments (Add Lines 16a, 17, and 18.)	19	0.00
20	Net tax due (Subtract Line 19 from Line 16.)	20	3,804.00





Louisiana

Filing Period: **Jun 2018**

Filing Status: **Monthly**

U.S. NAICS Code 541519

Do not use this form for filing periods prior to July 2016.

1 Gross sales of tangible personal property	1	48491
2 Cost of tangible personal property <small>(Used, consumed, or stored for use or consumption in Louisiana).....</small>	2	0.00
3A Motor vehicles leases and rentals	3A	0.00
3B All other leases, rentals and services	3B	0.00
3C Total leases, rentals and services	3C	0.00
4 Total (Add Lines 1 through 3C)	4	48491

Massachusetts

Massachusetts Department of Revenue

Amended

ST-9 — Sales and Use Tax Return

File this return online at mass.gov/masstaxconnect.

Account ID Number	Tax Filing Period
██████████	May 31, 2018
1. Gross sales	106,485.60
2. Sales for re-sale/exempt sales or other adjustments	87,522.33
3. Exempt sales of materials, tools and fuel	0.00
4. Exempt sales of machinery and replacement parts.	0.00
5. Total nontaxable sales (add lines 2 through 4)	87,522.33
6. Total taxable sales. Subtract line 5 from line 1 (not less than "0")	18,963.27
7. Total sales tax. Multiply line 6 by .0625.	1,185.20
8. Use tax purchases.	0.00
9. Total use tax. Multiply line 8 by .0625.	0.00
10. Total sales and use tax. Add lines 7 and 9.	1,185.20
11. Credit for prepaid sales tax on tobacco products (tobacco retailers only).	0.00
12. Total amount due or refund.	1,185.20



Ohio

Universal Use Tax Return

Company Name ██████████ Company ID **-***7466
Filed By ██████████ Filed On 7/13/2018 1:09:51 PM
Confirmation Number 100151351

Please print this page for your records

Filing Information	
Account Number	██████████
Reporting Period	6/1/2018-6/30/2018
Due Date	07/23/2018
Return Type	Original
Cancel Vendor License?	No

Tax Information	
Net Tax Liability	\$77.92
Less Accelerated Payment from Previous Period and Current Period Credits	\$0.00
Plus Accelerated Payment for Next Reporting Period	\$0.00
Interest Owed	\$0.00
Balance Due	\$77.92

County Name	Co. No.	Tax Rate Code	Tax Rate	Taxable Purchase	Tax Liability
Mercer	54	30	1.50%	\$1,074.75	\$16.12
State	89	23	5.75%	\$1,074.75	\$61.80
				Total	\$77.92

