## 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.

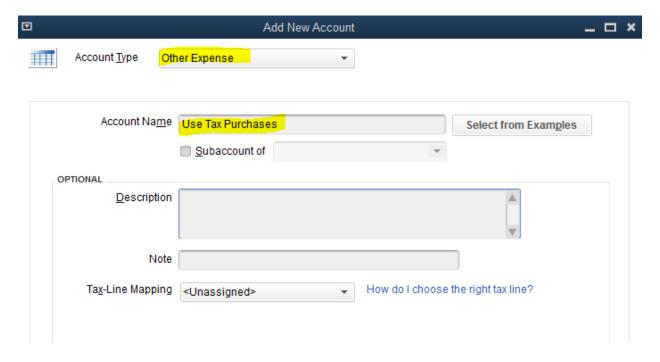
### What records do you need to keep?

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.



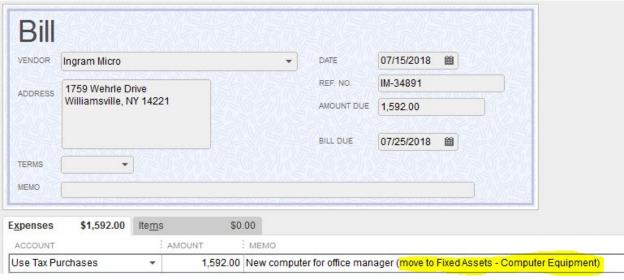
#### STEP 1 - CREATE AN "OTHER EXPENSE" ACCOUNT TO TRACK YOUR USE TAX PURCHASES



#### **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.





#### 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	1
▼ Ordinary Income/Expense			
▼Income			
Recurring Revenue		26,085.00	
Hardware as a Service Income		374.00	4
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 x 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 07/15/2018 IM-34... Ingram Micro New computer for office manager (move to Fixed Assets - Computer Equipment) 1,592.00 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.



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



#### Byte IT 2017 **Transaction Detail By Account** July 2018

	Туре	Date	Num	Name	Memo	Debit	Credit	Balance :
Use	Tax Purchases							
В	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 ◀
В	Bill	07/15/2018	SX-1	Synnex	SonicWall for office (move to Fixed Assets - Computer Equipment)	943.52		2,535.52
G	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.

## Byte IT 2017 **Profit & Loss** July 2018

	- 1	Jul 18	:
▼ Ordinary Income/Expense			
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Recurring Revenue		26,085.00	
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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.



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## **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: 657-558 Filing Period: 30-Jun-2018 4. Sales and Purchase Information 1. Business Location Updates 2. Business Updates 3. Business Activities Sales and Purchase Information Total Gross Sales (i.e. Taxable and nontaxable sales for the reporting period, including lease and rental receipts) 0.00 0.00 Purchases subject to use tax (i.e., items removed from inventory for business or personal use, out of state purchases, Sales of fixtures and equipment (i.e. Sales of pusiness assets) 0.00 Total Sales and Purchases 0.00 Save Draft ∢ Previous Next >

## Connecticut

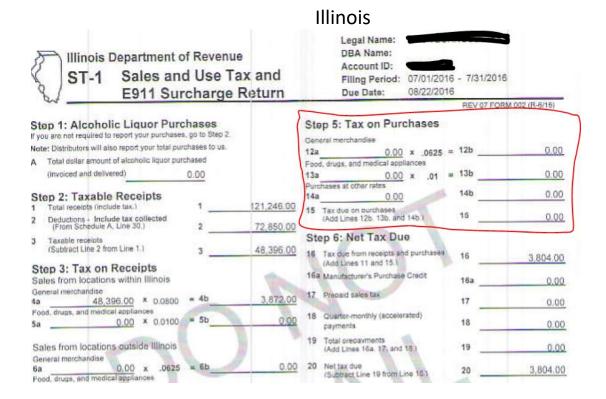
#### Column A 6.35% Tax Rate

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/DO	R Cr Memo	\$	7181.21
			8 Owner Credit Memo			\$	0.00	
				9. Plus Est. Tax	Due C	ırrent Month	\$	4936.71
			1	0. Amount Due			\$	5983.35
You have chosen not to donate your collection allowance to education.			11. Less Collection Allowance			wance	\$	30.00
			1	2. Plus Penalty			\$	0.00







## Louisiana

Filing Period: Jun 2018 Filing Status: Monthly U.S. NAICS Code Do not use this form for filing periods prior to July 2016. 541519 48491 1 Gross sales of tangible personal property ..... 2 Cost of tangible personal property 0.00 (Used, consumed, or stored for use or consumption in Louisiana).... 0.00 0.00 0.00 3C Total leases, rentals and services ..... 48491 4Total (Add Lines 1 through 3C) ......

## Massachusetts

Massachusetts Department of Revenue		Amende
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
Sales for re-sale/exempt sales or other adjustments	87,522.33
3. Exempt sales of materials, tools and fuel	0.00
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
<ol> <li>Credit for prepaid sales tax on tobacco products (tobacco retailers only).</li> </ol>	0.00
12. Total amount due or refund.	1,185.20



## Ohio

## Universal Use Tax Return

Company Name

100151351

Company ID

\*\*-\*\*\*7466

Filed By Confirmation Number

Filed On

7/13/2018 1:09:51 PM

## 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	Tax	Taxable	Tax Liability
		Code	Rate	Purchase	
Mercer	54	30	1.50%	\$1,074.75	\$16.12
State	89	23	5.75%	\$1,074.75	\$61.80
				Total	\$77.92

