Sales Tax Charged Under Wrong Tax Code

Procedure for Sales Tax Charged Under the Wrong Tax Code

This document explains what to do when an Accounts Receivable customer was charged sales tax under the wrong tax code and the order has been closed. The example used below will assume the customer was billed at a higher tax rate than he/she should have been and has subtracted the amount overcharged when paying the A/R invoice.

Two orders will be entered. The first order will reverse the taxable sales under the original incorrect tax code. The second order will re-bill the taxable sales under the proper tax code.

1. Make note of the customer ID, order number and tax code used on the original invoice. Write down the Taxable amount of the order. The Taxable amount of the order can be found on the "Totals page" or "Closing screen."

2. Open a new "L" type order for the customer <u>using the same tax code that was used on the original invoice</u>. Enter the customer's name, address and telephone number on the order heading screen if needed. Go to the Line Items screen.

3. A line item will be entered to "back out" or "reverse " the taxable sales dollars billed on the original order.

   - Enter a Qty of negative 1.

   - Enter a not-on-file item "TAX ADJUST" with a miscellaneous vendor code or use a sales tax adjustment item you have set up in the inventory master file.

   - Enter the Taxable amount (identified in Step 1) in the Price field. In the example below, $1000.00 was the taxable amount of the original order. Enter .001 in the cost field.

   - A note can be entered on the Info line such as "**REFUND TAX CHARGED ON ORDER 123456**" with an "I" flag to print on the credit invoice. Enter a description for the item, such as "**SALES TAX ADJUSTMENT**."

   - Be sure there is a "Y" in the Tax field indicating the item is taxable.

   - Press <F10> to sell the item.

```
                                                    Must be Y for taxable.


   1 Qty: -1       Item: TAX ADJUST              VC: MSC  Tax: Y Prc:_   1000.000
Stk:_ _ ___ ___   Room:                     Loc:        Flg: N Cost:       0.001
Info: REFUND TAX CHARGED ON ORDER 123456_____ I__     Net:   Disc:       0.000
Desc: SALES TAX ADJUSTMENT                                    LBR :        0.00
F2=TO QTY  F3=INQUIRY  F4=ALT/SUPER  F7=UPC TOGGLE  F8=AUTO TOGGLE   TAB=TOTAL
```

Sales Tax Charged Under Wrong Tax Code

4. Press TAB to go to the Totals Screen, close the order and print the credit invoice.

5. Open another new "L" type order for the customer **using the correct tax code** at the lower rate. Enter the customer's name, address and telephone number on the order heading screen if needed. Go to the Line Items screen.

6. A line item will be entered for the taxable sales dollars billed on the original order.

   - Enter a positive Qty of 1.

   - Enter a not-on-file item "TAX ADJUST" with a miscellaneous vendor code or use a sales tax adjustment item you have set up in the inventory master file.

   - Enter the Taxable amount (identified in Step 1) in the Price field. In the example below, $1000.00 was the taxable amount of the original order. Enter .001 in the cost field.

   - A note can be entered on the Info line such as "**REBILL ORDER 123456 AT 6% TAX**" with an "I" flag to print on the invoice. Enter a description for the item, such as "**SALES TAX ADJUSTMENT**."

   - Be sure there is a "Y" in the Tax field indicating the item is taxable.

   - Press <F10> to sell the item.

```
                                                        Must be Y for taxable.

 ___ Qty: 1          Item: TAX ADJUST          VC: MSC  Tax: Y Prc:_    1000.000
Stk:_ _ ___ ___  Room:                         Loc:_____ Flg: N Cost:     0.001
Info: REBILL ORDER 123456 AT 6% TAX            I          Net: _ Disc: _____
Desc: SALES TAX ADJUSTMENT                     _____ LBR :_ _____
F2=TO QTY  F3=INQUIRY  F4=ALT/SUPER  F7=UPC TOGGLE  F8=AUTO TOGGLE  TAB=TOTAL
```

7. Press TAB to go to the Totals screen, close the order and print the invoice.

8. The next daily close will update the sales tax file (reducing the taxable sales and tax for the original tax code and increasing the taxable sales and tax for the correct tax code). The credit invoice and the re-bill invoice will post to the customer's account. The Accounts Receivable person in your company who handles payment application on A/R customer accounts can select the following three transactions (which should "net out" to zero) and apply them:

   (1) Select the original invoice billed to the customer at the wrong tax rate that has an "Unpaid Ttl" in the amount of the tax that was overcharged. (2) Select the credit invoice (which reverses the sales dollars billed at the wrong tax rate). (3) Select the re-bill invoice (at correct tax rate). The debits & credits should equal.

   Press [F3]=Apply and **S** for Selected Transactions.