



# Improved VAT Handling in QuickBooks 2008

## Introduction

Over the last three years, Intuit has worked hard to redesign how VAT and sales tax is calculated and reported in QuickBooks. It's the biggest revamp of VAT in our product since version 5.0 in 1998.

In QuickBooks 2006 and earlier, VAT calculations were driven by **VAT codes**. A VAT code consisted of a percentage amount and was tied to the VAT Control account. You could not change the account or split the VAT collected on sales from the VAT paid on purchases. Also, you could not create other types of taxes such as a landfill or other environmental tax.

On the surface, tracking VAT works as it did before for accrual-based VAT. But under the cover, a lot of the details have changed... and there's a whole new engine. Here's why we think you'll get excited about the changes:

- Easily set up the taxes you need
  - VAT and EC VAT are automatically set up for new company files
  - Ability to create custom taxes such as import duties
- Track VAT the way you want
  - Split VAT collected on sales into a different account from VAT on purchases
  - Use asset or COGS accounts for VAT
  - Create bills (payables) for VAT owing (Pro and Premier editions)
  - Affect the exact return box you need to
- VAT reports always agree with the VAT liability account balance
- Changes to transactions (additions, modifications and deletions) in previous VAT periods are automatically brought forward to the current periods VAT reports
- File VAT feature is now supported for cash-basis VAT reporting
- Filing date is recorded in VAT account register
- In addition to the VAT 100, the VAT Detail report is also now saved as a PDF when you file to create a permanent record of the transactions included in the filing
- Easily access VAT functions using the new VAT menu
- Adjust for small rounding differences right on your bills
- Dedicated Irish VAT codes, return, and reports

If you're new to QuickBooks, everything is set up for you and ready to go. If you are currently using an earlier version of QuickBooks, the upgrade takes some work, but once it's done, you will be ready to use the File VAT feature, even if you didn't before.

The new model also gives Intuit the ability to add support for other VAT schemes in the future, such as the Flat Rate scheme.

# Overview of the new VAT model – cash and accrual

## Transactions

	Rate	Amount	VAT
	32.00	352.00	S
	28.00	28.00	R
Total VAT		63.00	<input type="button" value="Edit"/>
Total		443.00	

As before, assign VAT codes to goods and services and use them on transaction forms.

The code determines the VAT rate (e.g. R for reduced rate).

Using VAT codes makes it easy to charge different rates of VAT on the same transaction. If needed, change the code by clicking the drop-down arrow beside it.

NEW - Adjust small rounding differences here.

## Behind the Scene

### VAT Code

Now represents VAT items or groups of VAT items

### VAT Item

Tells QuickBooks how much tax to calculate and what return line to put it on

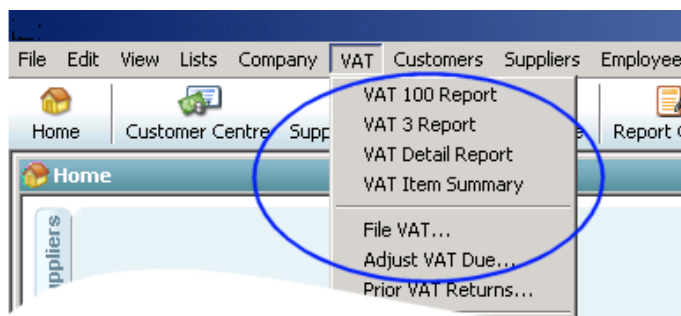
### VAT Agency

- The return selected here controls the boxes in the linked items
- Choose the tax accounts here for the linked VAT items
- Contains the reporting period

## Reports and Filing

Reports will always match the liability account balance

File at the end of each period to reset balances on VAT Items



# Details of the new system

## VAT Codes –automatic calculations

A VAT code represents a VAT item (or a group of VAT items) where the tax is calculated as a percentage of the sale or purchase.

To get VAT to calculate automatically, use **VAT codes**. For example, you assign codes to goods and services that you buy or sell. Then, when you select the good or service on a form, the VAT items for that code are used to calculate VAT and report it in the right box of the VAT return.

In addition to things in the Item list, you can assign VAT codes to customers, suppliers, and accounts. These override VAT codes attached to goods and services, so only use them to indicate a special tax status. For example, assign a non-taxable code for customers who are tax-exempt, like qualifying visiting armed forces members.

## VAT Items – the horsepower of the system

VAT codes now represent VAT items. **VAT items** are the new engines for tax calculations. Their purpose is to perform **one** VAT calculation and put the resulting VAT into **one** box of the VAT return (Box 1, 2 or 4). The item can also report the net value of the sale or purchase to one box of the VAT return (Box 6, 7, 8, or 9).

For example, if you use the S (standard) code on an item line of a sales form, the standard sales VAT item calculates and reports the VAT.

The image shows a screenshot of a VAT form and its 'Edit Item' dialog box. The form on the left has a table with columns for Ship Date, Ship via, FOB, Rate, Amount, and VAT. A blue arrow points from the 'S' in the VAT column to the 'Edit Item' dialog box on the right. The dialog box has the following fields:

- Type: VAT Item
- VAT item Name: Standard Sales
- Description: Standard Sales
- VAT Rate (% or Amt): 17.5%
- VAT Agency: HMRC VAT
- Assign this item to a box of the VAT agency's VAT return: Domestic Sales <Box 1,Box 6>

Ship Date	Ship via	FOB	Rate	Amount	VAT
03/25/2008			100.00	100.00	S
Total VAT				17.50	
Total				117.50	

Payments Applied: 0.00  
Balance Due: 117.50

In this case, the balance for Box 1 would be increased by 17.50 and the balance for Box 6 would be increased by 100.00.

This system is very flexible, but you need a lot of VAT items. For example, for standard-rate domestic VAT, you need two VAT items:

- one for sales transactions, as shown above, and
- one to report 17.5% of a purchase in Box 4 and to report the net amount of the purchase in Box .7.

When you set up a VAT item, you need to:

- Choose the agency for the item, so the item knows which return and account to use.
- Pick the right boxes of the VAT return. Now the results of all calculations done by this VAT item are reported in the specific boxes you chose.

When you file VAT in QuickBooks, the balance for the VAT items provides the amount for each box of the VAT return. This also means that it is now very important to use the File VAT feature to reset the balance of these items at the end of each VAT period.

## VAT Items and Uncategorized amounts

If an amount is posted to the VAT liability account without using a VAT code or VAT item, QuickBooks doesn't know what box of the VAT return it goes in. This results in an **uncategorised amount**. This can happen, for example, if the Make Deposits window is used to record a cash sale, since that window doesn't allow a VAT code or VAT item.

Similarly, if you upgrade your company file from a previous version, you may have transactions that posted to the VAT Control account that did not use a VAT code. These will also create uncategorised tax amounts when you upgrade.

Read [this FAQ](#) to learn how to resolve uncategorised tax amounts after upgrading or search the in-product Help for "uncategorised tax amounts."

## Fixed Fee Taxes

VAT items also handle taxes that are fixed pound amounts. Therefore, you can use them to set up special taxes that are a fixed fee. Rather than assigning a VAT code to these, you use them as a line item on a transaction form, as you would add a product or service.

## VAT Groups, EC VAT and Reverse Charge codes and items

VAT items can be combined to create a VAT group item, which can then be represented by a single VAT code.

Because rules for EC VAT transactions sometimes require VAT to be reported in more than two boxes of the VAT return, the EC VAT codes actually represent VAT Group items. For example, on a sales form (e.g. on an invoice), the EGS (EC goods standard) code represents a VAT Group where:

- one VAT item reports the net amount of the sale in Box 8
- one VAT item reports the net amount of the sale in Box 6

VAT is calculated at a rate of zero, so there is no change in VAT liability. Two separate items are needed because a VAT item can only report to one net value box, while the net amount of sales needs to be reported in two VAT return boxes.

On sales, the EGS code is designed to be used when selling goods:

- to a customer in an EC-member state, where
- the customer is registered for VAT in their own country, and
- the requirements are met for zero-rating as described in HMRC's Notice 725, and
- you would normally charge the standard rate of VAT domestically on the goods.

On a purchase (e.g. on a bill), the EGS code is designed to be used for the acquisition of goods:

- from a VAT-registered supplier in an EC-member state, where
- the requirements are met for zero-rating as described in HMRC's Notice 725, and
- you are also eligible to claim the full amount of VAT as input tax, and
- you would pay a standard rate of VAT if you were to purchase the goods domestically.

On a purchase, the EGS code represents a VAT Group where

- one item, the standard purchase item, reports the VAT as an input credit in Box 4 and reports the net value of the purchase in Box 7,
- the other, called EC Purch Goods Standard, reports the amount of the VAT that would have been charged in Box 2 and reports the net amount of the purchase in Box 9.

Why is the rate negative in the EC VAT purchase item?
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If you open the item or look in the item list, the VAT rate shows as -17.5%. This prevents any VAT from showing on your bill. However, QuickBooks changes this in the background to ensure the amount is reported correctly as a positive value in Box 2 of your reports and in the File window.
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QuickBooks does not currently support EC service transactions.

**Reverse Charges** - The Reverse Charge code, RC, is designed to be used when the purchaser has to account for the VAT, for example on certain UK transactions involving mobile phone or computer chips.

When you use the RC code on a purchase form (e.g. on a bill) the code represents a VAT Group where:

- one item, the standard purchase item, reports the VAT as an input credit in Box 4 and reports the net value of the purchase in Box 7,
- the other item, called Reverse Charge Purch Standard, reports the amount of the VAT that would have been charged in Box 1.

When you use the RC code on a sales form (e.g. on a bill) the code represents a VAT item that:

- charges no VAT but reports the net value of the sale in Box 6

## ***VAT Agencies – the foundation of the system***

The **VAT agency** is a supplier that represents the government agency that administers the tax. They map tax calculations in QuickBooks to the VAT return (or to a generic tax return).

You set them up like any other supplier, except that you

- Pick the return that the agency requires you to file. The return that is selected here determines the VAT return boxes that are available in the VAT item.
- If QuickBooks doesn't have the return you need, leave the option blank to use a generic return. This allows you to set up your own taxes.
- Enter other information specific to the agency (these used to be in the preferences):
  - The reporting period,
  - What accounts to use to track the tax.

## Reports

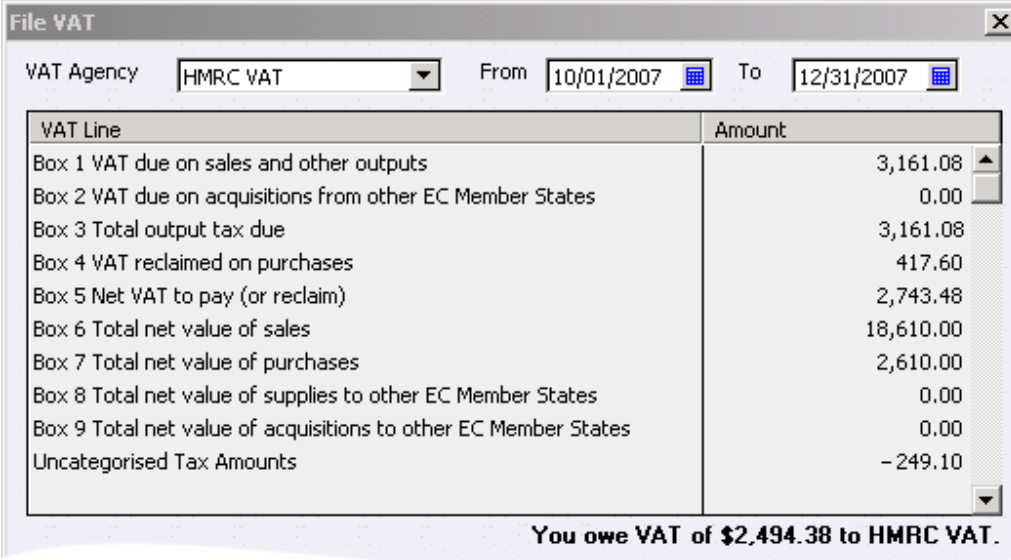
The VAT 100 and VAT Detail reports are similar to those in previous versions. For companies having to file an Irish VAT return, there is the VAT 3 Report.

The reports will cash based if the VAT preference is set to track VAT on a cash basis. Or, if the VAT preference is set to track VAT on an accrual basis, these reports will be accrual based.

In these reports, the VAT amounts (e.g. Boxes 1 through 4 of the UK VAT return) are balance-based. In other words, they include outstanding transactions from your QuickBooks start date (or upgrade date) until the **To** date at the top of the report. That way, anything entered into, or changed in, a previous VAT period is accounted for properly in the reports.

In QuickBooks 2008 versions R1 and R2, the total net value of sales and purchase amounts (Boxes 6 through 9) are only for the period covered by the **From** and **To** dates at the top of the report. In QuickBooks 2008 version R3 or higher, these sales and purchase figures become cumulative and match how the VAT amounts are calculated. This ensures that the net value of transactions changed in prior periods are also brought forward and reported correctly.

## Filing VAT



VAT Line	Amount
Box 1 VAT due on sales and other outputs	3,161.08
Box 2 VAT due on acquisitions from other EC Member States	0.00
Box 3 Total output tax due	3,161.08
Box 4 VAT reclaimed on purchases	417.60
Box 5 Net VAT to pay (or reclaim)	2,743.48
Box 6 Total net value of sales	18,610.00
Box 7 Total net value of purchases	2,610.00
Box 8 Total net value of supplies to other EC Member States	0.00
Box 9 Total net value of acquisitions to other EC Member States	0.00
Uncategorised Tax Amounts	- 249.10

**You owe VAT of \$2,494.38 to HMRC VAT.**

When you file your VAT return, QuickBooks does these things:

- 1) It shows you the amount for each box of the paper return. What QuickBooks is actually showing in each box is the balance of the VAT items that report to that box, including any outstanding balance from previous VAT periods.
- 2) It clears out the balances of the VAT items – empties the buckets – by creating a general journal entry that reverses the amounts in each box of the return.
- 3) It marks each transaction with a filed date so you can see when the VAT was included in a return.
- 4) It saves a copy of the VAT reports in PDF format. You can find these reports later through an option on the VAT menu.

**Uncategorised Tax Amounts:** If there is an uncategorised balance (other than 0.00) in the File VAT window, an amount was posted to the VAT liability account without using a VAT code or VAT item. Therefore, QuickBooks doesn't know what box of the return to put the amount in.

You can see details on uncategorised amounts created in QuickBooks 2008 in the VAT Detail report. To prevent uncategorised transactions, use VAT codes or VAT items for every transaction that affects the VAT liability account. For example, use invoices or sales receipts to enter all sales transactions.

The uncategorised amount is accounted for in the balance, but is not included in any specific box. In the example above, the net VAT payable for Box 5 ( 2,743.48 ) plus the uncategorised tax amount ( -249.10 ) equals the total balance payable (i.e. the balance in the VAT Liability account) of 2,494.38.

To move the uncategorised amounts into a VAT box, do a VAT adjustment for the net uncategorised amount. Or you can do an adjustment for each transaction that's included in the uncategorised bucket.

In the adjustment, you move these amounts from the VAT liability account back into the VAT liability account, but use a VAT item to put it in a specific box. Afterwards, the uncategorised amounts should be 0.00 and the amounts in the return boxes will be correct.

## **Other things you should know**

### ***Changes to registers and journal entries***

You can no longer enter or change VAT in registers. Use forms (invoices, bills, sales receipts, etc.) to enter transactions that include VAT. This ensures you don't create new uncategorised tax amounts when you use QuickBooks 2008.

If you create a general journal entry that affects the VAT liability account, you categorise the VAT portion by selecting a VAT item (and therefore the return box) that applies. In QuickBooks 2008 version R3 or higher, you can also assign a VAT item to a net purchase or sale amount so it will be included on the VAT return.

### ***Setting up company files***

If you're creating a new company, when you enter an address for the company, the VAT agency, VAT items, VAT group items, and VAT codes you need are set up automatically. You only need to set things up manually if you are adding a new custom tax, like an environmental tax.

## **Cash VAT**

In QuickBooks 2008, the way you track and file VAT is now the same whether you report VAT on a cash or an invoice (accrual) basis.

For example, those who now track VAT on a cash basis also need to use the File VAT feature at the end of each VAT period.

A new invoice will not be included in the File VAT window until payment (or a partial payment) has been received. Once a payment has been received, the next time you File in QuickBooks, the transaction will show that filing date in the VAT liability account register.

For partial payments that span different VAT periods, the filing date will be updated to show the last VAT return which contained the latest payment applicable to that transaction.

## ***Upgrading company files from a previous version of QuickBooks***

### **During the upgrade**

The old agency is converted to the new format, and old VAT codes are converted to VAT items and VAT codes.

Previous versions of QuickBooks attached a “filed” flag to transactions after they had been included in a VAT return. However, the transactions could be “unfiled” in the VAT Control account register. Unless these transactions were later marked as filed, they would be included again in the current period’s VAT reports.

Instead of relying on the presence of the filed flag to determine which VAT amounts had been filed with HMRC, QuickBooks 2008 asks for the end date of your last VAT period. It assumes that as of that date, all earlier transactions have been filed with HMRC.

QuickBooks 2008 now uses the balance of VAT items, rather than a filed flag, to determine the value of the VAT boxes and your VAT liability.

### **After the upgrade**

Because of the changes to how VAT works, you must not create VAT reports in QuickBooks 2008 for VAT periods that you completed in your previous version of QuickBooks.

Also, past VAT returns are not brought forward to QuickBooks 2008.

To view VAT returns created before upgrading, or VAT reports for those periods, you need to open your older version of QuickBooks. For this reason, you should not delete or uninstall the old QuickBooks software or delete your original (pre-upgrade) company file. The upgrade process takes a copy of your company file and upgrades that copy, leaving your original company file intact and in the same location. Therefore, you can always access your older reports using your older version of QuickBooks.