

Chapter 10

Understanding GST

In This Chapter

- ▶ Getting your head around tax items and tax codes (and how they hang together)
- ▶ Persuading QuickBooks to second-guess tax codes
- ▶ Getting a grip on how QuickBooks handles Business Activity Statements
- ▶ Configuring your Business Activity Statement
- ▶ Finalising your BAS — printing the form in less than 10 seconds (well, maybe)
- ▶ Uploading your BAS to the tax office with GovConnect
- ▶ Recording your BAS payment

For one brief moment, put yourself in my shoes. Here I am, a warm-blooded, relatively normal member of the human race (although my family may disagree with the ‘normal’ part), writing books about accounting software. Sounds tough? It certainly has its moments.

Now picture my situation in a little more detail. Late at night, James Taylor is crooning away in the background, and I’m trying to come up with a chirpy, Dummies-kind-of-style introduction to this chapter about working with GST in QuickBooks. Is it possible to make GST sound fun? And if I did, what sensible Aussie would ever believe me?

No more ramblings (after all, it is late). I’m going to ditch this whole cheerful introductory business and leap in.

It’s Elemental, my dear Watson

A few definitions about GST to pave the way:

- ✓ **Taxable supplies:** Taxable supplies are any goods or services that attract GST. Examples include computers, consultancy fees, electrical goods and clothes.

- ✓ **GST-free supplies:** GST-free supplies are goods or services that are GST-free. Examples include fresh food, many medical services and products, many educational courses, childcare, exports and a range of religious supplies.
- ✓ **Input-taxed supplies:** Input-taxed supplies are supplies that don't have GST added to the final selling price. Examples include bank charges and residential rents. If your business sells an input-taxed supply (maybe you're a landlord of residential property), then you can't claim input tax credits for related expenses.

Preparing QuickBooks for GST

Like the perfect beef bourguignon (no prizes for spotting the influence of *MasterChef* here), the art of managing GST using QuickBooks lies in the preparation. So grab a wooden spoon, don your apron and get cooking ...

Step 1: Customise your accounts for GST

By default, QuickBooks comes with only one account for tracking tax, called Tax Payable. However, one of the neat things about the latest versions of QuickBooks is the way you can create subaccounts to track GST Collected and GST Paid separately. I love working in this way, because the separate accounts make troubleshooting much easier.

Unfortunately, the moment you record your first transaction in QuickBooks, the default tax settings are locked in. In other words, if you've already been working in QuickBooks and you've only just arrived at this chapter, you're already too late to set up subaccounts for tracking GST. Never mind. You can skip this step and instead, jump ahead to 'Step 2: Tell the ATO where to go' later in this chapter.

So, with this preamble in mind, here's how to set up subaccounts for tracking GST:

1. **From the Account button in your Chart of Accounts, click New.**
QuickBooks opens a window displaying a list of account types.
2. **As the Account Type, select Other Account Types, followed by Other Current Liability.**

3. As the Account Name, type GST Collected on Sales, and as the Subaccount Of, select your Tax Payable account.

You can ignore the other guff in this window, such as the Description and Account No. fields.

4. Click Save & New, then create another account called GST Paid on Purchases. Make this account a Subaccount of Tax Payable as well.

5. Click Save & Close.

When you click Save & Close, you return to your Chart of Accounts. Now, the GST accounts within the liability section of your Chart of Accounts should look similar to Figure 10-1.

Figure 10-1:
Setting up
separate
GST
Collected
and GST
Paid
accounts.

Name	Type	T.	Balance Total
+Cheque Account	Bank		0.00
+Accounts Receivable	Accounts Receivable		0.00
+Inventory	Other Current Asset		0.00
+Plant & Equipment	Fixed Asset		0.00
+Accounts Payable	Accounts Payable		0.00
+Credit Card	Credit Card		0.00
+Payroll Liabilities	Other Current Liability		0.00
+Superannuation Payable	Other Current Liability		0.00
+Tax Payable	Other Current Liability		0.00
+GST Collected on Sales	Other Current Liability		0.00
+GST Paid on Purchases	Other Current Liability		0.00
+Opening Bal Equity	Equity		0.00
+Retained Earnings	Equity		0.00

Step 2: Tell the ATO where to go

By default, QuickBooks always creates a supplier called Australian Taxation Office. This is fabulous, but you have a little more tweaking to do:

- 1. Select Australian Taxation Office from your Supplier List, then click the Tax Agency Info tab.**
- 2. If you haven't done so already, enter your ABN as the Tax Rego ID.**
- 3. As the Reporting Period, select Monthly or Quarterly.**

Which option you choose here depends on how often you lodge Business Activity Statements.

4. If possible, click the option to Track Tax On Purchases Separately and select GST Paid on Purchases as the liability account.

Hopefully, you've already created an account called GST Paid on Purchases (see 'Step 1: Customise your accounts for GST' earlier in this chapter.)

Unfortunately, you may find that this option is no longer available: As soon as you record your first transaction in QuickBooks, the default tax settings are locked in. Unless you tweak your tax settings *before* recording your first transaction, you end up with the QuickBooks' default, meaning that both GST Paid and GST Collected are combined in a single Tax Payable account. To my mind this way of working isn't ideal, but on the other hand you need to be pragmatic: It's certainly not worth starting QuickBooks again from scratch in order to change this setting.

5. Click the option to Track Tax On Sales Separately and select GST Collected on Sales as the liability account.

Again, if this option is no longer available to you because the default settings are already locked in, don't worry — just skip this step.

6. Click OK.



Spot the difference: Tax code or tax item?

In the latest versions of QuickBooks, every transaction requires a *tax code*. This tax code indicates whether the transaction is GST-free, input-taxed or taxable, and whether or not it's a capital acquisition. Each of these tax codes hooks back to *tax items*. Tax items also indicate whether a transaction is GST-free, input-taxed or taxable, but the difference with tax items is that for each one, you have to specify whether this item is used for sales or purchase transactions.

For example, you almost certainly already have a tax code called FRE. In the latest version of QuickBooks, you can use this tax code both for sales that are GST-free, and for purchases that are GST-free. Behind the scenes, this tax code hooks back to two separate tax items: FRE and NCF. The FRE tax item relates to sales

that are GST-free and the NCF item relates to purchases that are GST-free.

Tax items come into their own when it's time to produce your BAS (Business Activity Statement), because it's on this statement that you need to differentiate between sales and purchase transactions. Tax items hook back to each box on the BAS, producing a statement that not only makes perfect sense, but is accurate to boot.

If you find this rather academic distinction between tax codes and tax items a tad confusing, don't sweat: 99 per cent of the time you only have to worry about tax codes. The only occasions you have to worry about tax items is early on when you first set up QuickBooks and then later, when you produce your first Business Activity Statement.

Step 3: Set up your Tax Item List

The next step in configuring GST in QuickBooks is to review your Tax Item List. To do this, go to Lists and select Tax Item List.

The standard Tax Item List in QuickBooks includes a motser of pretty obscure taxes (how many businesses do you know that calculate wine equalisation tax or combined cellar door tax?). With this in mind, one of your first tasks is to give this list a good old spring-clean. Most businesses can chop this list down from a whopping 18 different tax items to a relatively modest — and much easier to follow — five.



In Figure 10-2, I show the five items that make up my suggested Tax Item List. Each of these items already exists in the default Tax Item List that comes with QuickBooks, but it's worth double-clicking on each one in turn, and then checking these three points: First, that the Australian Taxation Office is the Tax Agency; second, that the Tax Rate is correct; and third, that the tax item is linked correctly to either sales or purchases.

Figure 10-2:
Culling the Tax Item List — most businesses need only five tax items.

Name	Description	Type	Account
+CAG	Cap. Acq. - Inc GST	Tax Item	Tax Payable:GST Paid on Purchases
+GST	10% GST	Tax Item	Tax Payable:GST Collected on Sales
+INP	Input Taxed Sales	Tax Item	Tax Payable:GST Collected on Sales
+NCF	Non-Cap. Acq. - GST Free	Tax Item	Tax Payable:GST Paid on Purchases
+NCG	Non-Cap. Acq. - Inc GST	Tax Item	Tax Payable:GST Paid on Purchases

Here's a wee explanation on the five suggested tax items:

- ✓ **CAG.** This tax item stands for *capital acquisitions*, meaning capital purchases such as new equipment, new motor vehicles and so on. Check that the Tax Rate is 10 per cent and that the option to Use This Item In Purchase Transactions is selected.
- ✓ **GST.** This tax item relates to GST on sales. If your business charges GST on anything that it sells, then you need this code. Check that the Tax Rate is 10 per cent and that the option to Use This Item In Sales Transactions is selected.
- ✓ **INP.** This tax item relates to all input-taxed sales, such as interest or residential rental income. Check that the Tax Rate is 0 per cent and that the option to Use This Item In Purchase Transactions is selected.

- ✓ **NCF.** This tax item relates to all purchases that are GST-free, such as bank fees, interest expense, coffee and tea and medical supplies. Check that the Tax Rate is 0 per cent and that the option to Use This Item In Purchase Transactions is selected.
- ✓ **NCG.** This tax item relates to all purchases that have GST on them, which sadly includes most things. Check that the Tax Rate is 10 per cent and that the option to Use This Item In Purchase Transactions is selected.

After you have these five tax items in place, I suggest you plunge in and delete all the other tax items that QuickBooks includes as standard, but that — in my humble opinion, at any rate — you don't really need. However, before you hit that red-hot Delete button, check that none of the following situations apply to you:

- ✓ If you make sales that are GST-free (maybe you're a childcare or medical services provider, for example), then don't delete the tax item called FRE (this tax item should have a rate of 0 per cent and be linked to sales transactions).
- ✓ If you sell stuff overseas, don't delete the tax item called EXP (this item should have a rate of 0 per cent and be linked to sales transactions).
- ✓ If you have residential real estate properties, don't delete the tax items CAI and NCI, both which should have rates of 0 per cent and be linked to purchase transactions.
- ✓ If you sell liquor, ask your accountant before deleting the tax items CDG, CDS, WC, WET or WGST.

By the way, to delete a tax item, simply highlight it in the list, then from the Tax Item List select Delete. If QuickBooks tells you that you can't delete these tax item, choose to edit this item instead and make the item inactive.

Step 4: Set up your Tax Code List

If you haven't recorded any transactions in QuickBooks yet, and you're still at the setup stage, then I recommend you keep your setup real simple. However, if you've already recorded transactions in QuickBooks, the default tax settings will be locked in and your options are slightly different. I cover both scenarios below.

New to the game? Creating four tax codes, lean and mean

If you're new to QuickBooks and haven't entered any transactions yet, I recommend an elegant sufficiency of just four tax codes, as featured in Figure 10-3:



- ✓ **CAG.** Use this tax code for capital acquisitions, such as new equipment, furniture and motor vehicles. Ensure this tax code is linked to CAG as the Purchase Tax item, but leave the Sales Tax Item blank (you only ever use the CAG tax code on purchase transactions).
- ✓ **FRE.** My preference, for simplicity's sake, is to use the FRE code for both sales and purchases. I simply link this tax code to NCF as the Purchase Tax item, and FRE as the Sales Tax Item. (If you don't make any sales that are GST-free, you can leave the Sales Tax Item blank.)
- ✓ **GST.** No prizes for guessing — use this tax code for anything that has GST on it, regardless of whether it's a sale or a purchase. The Purchase Tax Item should be NCG and the Sales Tax Item should be GST.
- ✓ **INP.** Use this tax code for any transaction that's input-taxed. For most people, the only regular transaction that falls into this category is interest income, which is always part of a sales transaction. For this reason, you can leave the Purchase Tax Item blank, and select INP as the Sales Tax Item. (However, if you receive income from residential real estate, don't leave the Purchase Tax Item blank. Select NCI instead.)

Figure 10-3: Streamlining your Tax Code List — you may be able to get by with only four tax codes.

Code	Description	Taxable
CAG	Cap. Acq. - Inc GST	✓
FRE	GST Free Supplies	✓
GST	10% GST	✓
INP	Input Taxed Sales	✓

Been around a while? You need a couple more ...

If you've already recorded transactions in QuickBooks, you won't be able to link the NCF tax item to the FRE tax code, nor will you be able to link the NCG tax item to the GST tax code. Instead, you need to run with the following:



- ✓ **CAG.** Use this tax code for capital acquisitions, such as new equipment, furniture and motor vehicles. Ensure this tax code is linked to CAG as the Purchase Tax item, but leave the Sales Tax Item blank (you only ever use the CAG tax code on purchase transactions).
- ✓ **FRE.** You only need this code if you make any sales that are GST-free. Select FRE as the Sales Tax Item and leave the Purchase Tax Item blank.
- ✓ **GST.** This code is for taxable sales. Select GST as the Sales Tax Item and leave the Purchase Tax Item blank.
- ✓ **INP.** Use this tax code for any transaction that's input-taxed. For most people, the only regular transaction that falls into this category is interest income, which is always part of a sales transaction. For this reason, you can leave the Purchase Tax Item blank, and select INP as the Sales Tax Item. (However, if you receive income from residential real estate, don't leave the Purchase Tax Item blank. Select NCI instead.)
- ✓ **NCF.** Use this code for all GST-free purchases. Select NCF as the Purchase Tax Item and leave the Sales Tax Item blank.
- ✓ **NCG.** Use this code for all purchases that attract GST. Select NCG as the Purchases Tax Item and leave the Sales Tax Item blank.

Adding a code for non-taxable transactions

I recommend creating an extra tax code called NR, with the description Not Reportable. The distinction between tax codes that are GST-free (such as the FRE tax code or the NCF tax code) and the NR tax code is that transactions coded FRE or NCF are reported on your Business Activity Statement, whereas transactions coded NR are not.

Figure 10-4 shows how to set up this tax code: Simply type 'NR' as the Tax Code and 'Not Reportable' as the Description. You can leave the Purchase Tax Item and Sales Tax Item blank.

Figure 10-4:
The NR tax code is handy for identifying transactions that aren't reportable on your BAS.

Deleting the tax codes you can do without

QuickBooks comes with a whole swag of additional tax codes you can probably do without, such as ADJ, CAI, CDC, CDG, WC and more. I suggest you get rid of these extra codes, unless any of the following situations apply:

- ✓ If you export goods overseas, don't delete the tax code called EXP.
- ✓ If you have residential real estate investments, don't delete the tax codes CAI and NCI.
- ✓ If you sell liquor, you may want to retain the tax codes CDC, CDG, CDS, WC, WET or WGST (ask your accountant for details).

Step 5: State your preferences

To get QuickBooks playing along in tune, a little groundwork is in order.

Navigate to Preferences, go to the Tax section and click the Company Preferences tab. Work through the following:

- ✓ Assuming that you are registered for GST, answer Yes to the question that asks whether you track tax.
- ✓ Select either Accrual or Cash as your Tax Reporting Basis (if you're not sure which one to choose, either ask your accountant or look at the front page of your most recent Business Activity Statement).
- ✓ With Sales figures, you're usually best to report them Net (exclusive of GST).





- ✓ QuickBooks also asks when your return is due. If you report quarterly, your Business Activity Statements are due 28 days after the end of each quarter, although you may receive an extension if you lodge your statement through your accountant.
- ✓ Assuming you're registered for GST, the best Default Tax Code to choose is — you guessed it — GST.
- ✓ Finally, either tick or untick whether you want to be able to enter prices Tax Inclusive, or not. I strongly suggest you tick this preference, because the flexibility of being able to enter either tax-exclusive or tax-inclusive prices is very handy.

Step 6: Enter opening balances

I explain how to enter opening balances for GST accounts back in Chapter 9 (refer to the section “Taxing torture — made easy”). If you don't have time to enter opening balances right now, that's okay, but I do suggest you enter this information in QuickBooks before you do your first Business Activity Statement.



One code for both sales and purchases

In older versions, QuickBooks used tax codes not only to identify the tax status of all transactions, but also to indicate what went where on your Business Activity Statement. The problem with this system was that when it came to producing a Business Activity Statement, QuickBooks had no way of knowing whether a transaction was a sale or a purchase. This meant that you had to use a different tax code for GST on a sale (usually the tax code GST) and on a purchase (usually the tax code NCG).

Sounds okay, but in practice people got confused, and often used the code GST on purchase or expense transactions (meaning that these transactions were reported incorrectly as negative sales on their Business Activity Statements). To put an end to this

confusion, the newer versions of QuickBooks take a different approach.

You still require a tax code for every transaction, and this code indicates whether the transaction is GST-free or taxable. Each tax code then hooks back to one *tax item* (notice the word ‘tax item’ not ‘tax code’) for sales, and another tax item for purchases.

The outcome — so long as you set up a QuickBooks company file from scratch — is that you can simplify things a whole lot. For example, instead of using GST for taxable sales and NCG for taxable purchases, you can use GST as the tax code on both sales and purchases. (Behind the scenes, this GST *tax code* links to the *tax items* GST and NCG, which link to the correct boxes on your Business Activity Statement.)

Cracking the Code

The secret to producing an accurate Business Activity Statement is to ensure that the tax codes are right on every transaction. Fortunately, this is pretty easy when you know how.

Mapping tax codes in your Chart of Accounts

Every income, cost of sales and expense account in your Chart of Accounts links to a tax code. Take a look: Go to your Chart of Accounts, highlight any income account and select Edit Account from the Edit menu. This Tax Code column comes up every time you select an account on a transaction. For example, if the tax code for your Advertising Expense account is NCG, then every time you allocate a transaction to Advertising Expense, NCG is inserted automatically in the Tax Code field.



If you set up the correct tax code on every income, cost of goods sold and expense account in your Chart of Accounts, as I do in Figure 10-5, you're almost guaranteed to code all transactions correctly, every time. Perfection and nirvana are but moments away. Here's an indication of which codes to use for each account, although I suggest you check all of these settings with your accountant before you begin.

Income accounts

Use GST as the tax code for all income accounts that relate to taxable services or items, and use FRE as the tax code for all income accounts that relate to GST-free services or items. Use INP as the tax code for interest income or income from residential real estate investments.

Cost of goods sold accounts

Unless you have a simplified GST configuration (refer to 'New to the game? Creating four tax codes, lean and mean' earlier in this chapter for more details), use NCG as the tax code for all cost of goods sold accounts that are taxable, and use NCF as the tax code for all services or items that are GST-free.

Figure 10-5: Checking your Chart of Accounts to see that every income, cost of sales and expense account has a tax code.

Name	Type	Tax
• Business Account	Bank	
• Accounts Receivable	Accounts Receivable	
• GST Payable	Other Current Liability	
• PAYG Payable	Other Current Liability	
• Super Payable	Other Current Liability	
• Opening Bal Equity	Equity	
• Retained Earnings	Equity	
• Income from Consulting	Income	GST
• Income from Product Sales	Income	GST
• Interest Income	Income	INP
• Cost of Materials for Jobs	Cost of Goods Sold	NCG
• Advertising	Expense	NCG
• Bank charges	Expense	NCF
• Computer Consumables	Expense	NCG
• Couriers	Expense	NCG
• Depreciation	Expense	NR
• Electricity	Expense	NCG
• Filing Fees	Expense	NCF
• Motor Vehicle Fuel & Oil	Expense	NCG
• Motor Vehicle Registration	Expense	NCF
• Printing & Stationery	Expense	NCG
• Superannuation	Expense	NR
• Wages	Expense	NR
• Estimates	Non-Posting	

Expense accounts

Unless you have a simplified GST configuration (refer to 'New to the game? Creating four tax codes, lean and mean' earlier in this chapter for more details), use the following tax codes as your defaults:

- ✓ Use NCG as the tax code for all expense accounts that are taxable. Most regular business purchases are taxable — in other words, they attract GST — including things such as advertising, computer expenses, electricity, office stationery, rent and telephone.
- ✓ Use NCF as the tax code for all expense accounts that don't attract GST. Typically, expenses that don't attract GST include bank charges (with the exception of merchant fees), government charges, interest expense, medical supplies, motor vehicle registration, rates and stamp duty.
- ✓ Use NR as the tax code for expenses that are non-reportable in the main part of your Business Activity Statement. Usually, superannuation and wages are the only accounts that fall into this category.



TIP

You may have expense accounts in your Chart of Accounts that sometimes attract GST, and sometimes don't. Staff Amenities is an expense like this: You don't pay GST on tea and coffee, but you do on biscuits and loo paper. Hire Purchase Expense, Insurance Expense and Subcontractor Expense are additional examples of expenses that don't always attract GST. I suggest you use QUE as the default tax code for these kinds of accounts. This way, whenever you see the tax code QUE appear against a transaction, you'll be prompted to double-check the correct GST treatment with your accountant or supplier. (For more information on setting up and using this code, see 'Coding transactions when you don't have a clue' later in this chapter.)

Keeping everything squeaky-clean

Here's a summary of the most common coding mistakes. And guess what? Because they're so common, these are the mistakes that the ATO watches out for in any audit.

- ✓ **Bank fees and merchant fees.** Although merchant fees (for credit cards and hire of EFTPOS machines) have GST on them, regular bank fees don't.
- ✓ **Government charges.** Council rates, filing fees, land tax, motor vehicle rego and stamp duty are all GST-free. So don't be tempted to claim back 10 per cent!
- ✓ **Insurance.** Insurance is tricky because almost every insurance policy is a mixture of taxable and GST-free components (stamp duty doesn't have GST on it). Don't get caught out. Instead, check the exact amount of GST on every single insurance payment.
- ✓ **Overseas travel.** Overseas travel is GST-free.
- ✓ **Personal stuff.** You can't claim the full amount of GST on expenses that are partly personal — motor vehicle and home office expenses are the obvious culprits. See 'Getting personal' a little later in this chapter for hints on coding personal transactions.
- ✓ **Petty cash.** Another trap for the unwary, petty cash is usually a mixed bag. Coffee and tea are GST-free, postage and sticky tape aren't.
- ✓ **Small suppliers.** Watch out for small suppliers who have an ABN, but aren't registered for GST. Record these purchases as GST-free.



REMEMBER

Coding transactions when you don't have a clue

When you don't know the right tax code for something, it gets tempting just to pick any old code and ignore the problem. However, you're best to use a special query code called QUE instead. When you use this code you can still record the transaction and continue working on your accounts, but later on, you can review all transactions that have this code, and ask your accountant to help you fix them up.

Here's how to create the QUE tax code:

1. **From the top menu bar, choose Lists→Tax Code List.**
2. **From the Edit menu, select New Tax Code.**
3. **Enter QUE as the Tax Code and as the Description enter Don't Know.**
4. **Select NCF as the Purchase Tax Item and FRE as the Sales Tax Item.**

Relate this code to tax-free items, because it's better to under-claim GST, rather than over-claim. You can always make an adjustment later if this query ends up attracting GST.

5. **Click OK to save your tax code.**

Coding transactions even if they're not reportable

If you started reading this chapter from the beginning, you probably noticed that I recommend creating an extra tax code called NR, with the description Not Reportable. The distinction between tax codes that are GST-free (such as the FRE tax code or the NCF tax code) and the NR tax code is that transactions coded FRE or NCF are reported on your Business Activity Statement, whereas transactions coded NR are not.

Use NR as the tax code for any transactions you allocate to an asset, liability or equity account — such as tax payments, loan settlements, private drawings or transfers between bank accounts. (The only exception to this rule relates to assets: When you purchase new capital items, you need to use the CAG code, as I explain earlier in this chapter.)

Also, if your version of QuickBooks doesn't include payroll, use NR as the tax code for all wages and superannuation payments. (Although you report wages on your Business Activity Statement, they appear separately from other expenses.)

Recording transactions when GST isn't 10 per cent

Let me get one thing straight: GST is *always* 10 per cent. That's the rate set by Australia's wonderful federal government. However, sometimes you come across a transaction where it seems GST *isn't* 10 per cent. When you look closer, you find that the transaction is actually a combination of taxable items (which are 10 per cent) and GST-free items (which are 0 per cent).

An example may help. Say you get an insurance bill for \$550 and you enter the payment. QuickBooks calculates the GST to be \$50 but when you look at the bill, you notice that GST is actually \$49.09. That's because there's \$10 stamp duty included in the bill.



Getting QuickBooks to do the right thing

Did you know that you can assign default tax codes to both customers and suppliers? When invoicing a customer or recording a bill from a supplier, this default tax code overrides whatever the tax code is for the item or account. This feature is really handy if you sell to customers or buy from suppliers who are located overseas, or if you buy from suppliers who aren't registered for GST.

For example, in my Chart of Accounts, I have NCG selected as the tax code for Repairs & Maintenance. However, one of my suppliers isn't registered for GST and so I select NCF as the tax code for this supplier. What this means

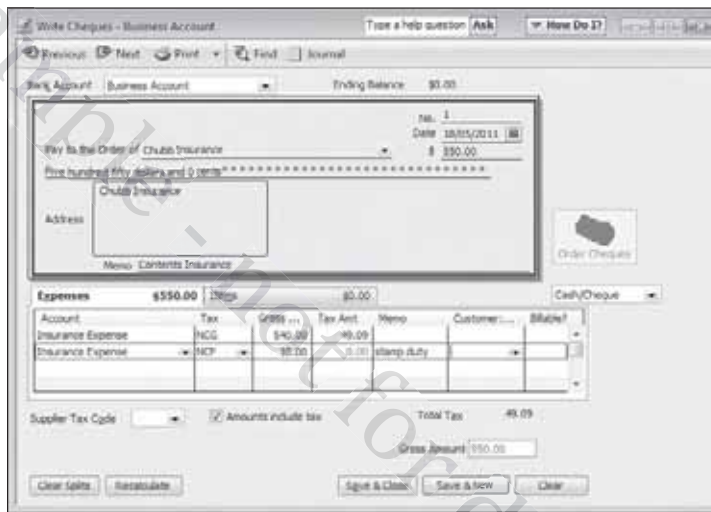
is that when I record a payment to this supplier, even though I allocate the payment to Repairs & Maintenance, QuickBooks knows to select NCF rather than NCG as the tax code.

Another example is when I sell to customers overseas. Even though all the book titles that I sell have GST as the tax code, whenever I create a new overseas customer in QuickBooks, I select EXP as the tax code on the Additional Info tab of the customer's record. Then, whenever I invoice this customer, QuickBooks knows to select EXP (standing for export sales) as the tax code, rather than GST.



The solution is this: Record the insurance bill as normal, but split the transaction over two lines. With the insurance example (assuming you've ticked the Amounts Include Tax button), you'd allocate \$540 to Insurance Expense with NCG as the tax code, and then allocate \$10 to Insurance Expense with NCF as the tax code. Clear as mud? The illuminating Figure 10-6 shows how this works.

Figure 10-6: Dealing with payments when GST doesn't equal 10 per cent.



Getting personal

If your business purchases goods or services that you use partly for private purposes, then be careful not to claim the GST on the private component.



For example, if you run your car through your business but your log book shows 20 per cent personal use, it works best if you only claim 80 per cent of the GST when recording the transaction. Check out Figure 10-7, which shows that I'm paying for motor vehicle repairs on my Mercedes sports car (ha ha). The total bill comes to \$1,000 but I allocate \$800 to Motor Vehicle Repairs, then the remaining \$200 to Personal Drawings.

Write Cheques - Business Account

Bank Account: Business Account Ending Balance: -850.00

Pay to the Order of: Mulligan Repairs No. 2 Date: 28/05/2011 \$ 1,000.00

One thousand dollars and 0 cents

Mulligan Repairs

Address

Memo: Clutch repair on Mercedes sports car 80% business 20% personal

Account	Tax	Gross	Tax Amt.	Memo	Customer	Billable?
Mobile Vehicle Repairs	NRG	800.00	72.73	80% biz		
Personal Expenses	NR	200.00	0.00	20% personal		

Supplier Tax Cycle: Amounts include tax Total Tax: 72.73

Gross Amount: 1,000.00

Figure 10-7:
Dealing
with GST
on personal
expenses.

Psyching Up to Produce Your Business Activity Statement

Before plunging into the ugly business of producing your Business Activity Statement (BAS for short) for the Australian Taxation Office, take a few moments to check that everything is sweet.

Making sure the raw data is right

Before cooking up a Business Activity Statement, check that your figures and tax codes are as perfect as a ripe mango in mid-summer. To help you in this quest, QuickBooks comes with its very own auditor, ready to spot every single mistake:

1. From the Company area of your home page, select Audit Company.

Sounds kinda scary, but you're better off auditing your own stuff, rather than some anonymous pale-faced chap from the tax office. The Audit Company File window appears on-screen and on the left-hand side you see four menus: Company File Information, Company File Actions, Account Reconciliation Summary and Data Auditor.

2. Click the Data Auditor menu.

QuickBooks displays a list of ten different checks. The sixth, seventh, eighth and ninth checks are important from a GST perspective, although arguably you want a clean bill of health on the whole deal before completing your Business Activity Statement (Chapter 18 explains more about the other checks involved in the Data Auditor).

3. Enter a Date Range and click Audit Company File.

QuickBooks generates a series of green ticks and red question marks, as shown in Figure 10-8. Your mission is to address the very scary number of question marks.

4. To deal with any red question marks that appear against an item in the list, click Display Exception Report to view what's wrong.

Read on to find out more about these reports and what they mean.



Figure 10-8:
The Data Auditor is an excellent tool for checking your work.

Tax reporting basis different from default reporting basis

The Data Auditor marks an alert if your tax reporting preferences are inconsistent.

The first possible alert is if your Reports & Graphs preferences and your Tax preferences don't match (that is, you select Accrual for one, and Cash for the other). I usually don't worry about this alert. Like many businesses, I report for GST and income tax on a cash basis but prefer to generate financial reports on an accruals basis, because accrual reporting is more accurate from a management perspective.



Cash is king

Lots of people ask me whether they can use accrual accounting for their finances, but cash accounting for GST. The answer is yes, no problem. It's fine to set your Reports preferences to report on an Accrual basis but at the same time set your Tax preferences to report for GST on a Cash basis.

How does this work? Imagine you only had two transactions during a quarter, one being a sale to a customer and other being a bill from a supplier, and that by the end of the quarter,

the customer still hasn't paid, nor have you paid the supplier. On your Profit & Loss report, QuickBooks still shows both the income and the expense (in other words, reporting on an accrual basis). However, your Business Activity Statement comes up blank, because this statement (assuming you've selected to report for GST on a Cash basis) only includes transactions when your customers pay you or you pay your suppliers.



The second alert occurs if you select Net reporting for Sales figures in your Tax preferences, but select Gross reporting for Tax figures in your Reporting preferences. This alert is of concern. Unless your accountant advises you otherwise, reports make most sense on a Net basis, and you're best to select Net reporting in all areas of your preferences.

Sales or purchase tax amount exceptions

This exception report identifies if you (or anyone else) have edited the tax calculations on any transactions (a mistake that's no longer possible to do in the latest versions of QuickBooks). If any transactions recorded prior to upgrading come up with tax amount variances, zoom in and fix 'em up. This may mean splitting the transaction across two lines: One line for the taxable bit and another line for the tax-free bit (to do this, refer to the section 'Recording transactions when GST isn't 10 per cent' earlier in this chapter).

Tax code exceptions

The Tax Code Exception report picks up any transactions in which the default tax code for an account differs from the code on the transaction. For example, if you have NCG as the tax code for Telephone Expense, but you record the payment of a telephone bill with the NCF code, then this transaction is flagged on your Tax Code Exceptions report.

Obviously, just because something appears on a Tax Code Exceptions report that doesn't mean to say you've made a mistake. For example, you may have GST as the tax code for Staff Amenities Expense and most staff amenities

really do attract GST. However, every now and then you buy coffee and tea, and these beverages, being defined by the powers-that-be as a *necessity* (how wise for once), are GST-free. The fact that you allocated this purchase to Staff Amenities and it's GST-free doesn't mean you got it wrong.



Alternatively, the problem may be that the tax code for the account is wrong in your Chart of Accounts. To fix this up, go to your Chart of Accounts and edit the offending account.

Running reports, considering the results

Before printing your GST reports and Business Activity Statement, don't forget to reconcile your bank account right up to the last day of the period for which you're reporting. Your accountant is the best person to ask about printing reports for your Business Activity Statement, but here are the reports I suggest you print, along with why they're important:

- ✓ **Tax Summary report (go to Reports → Tax).** Print this report for the quarter that you're doing the BAS on. (In the top-left corner, QuickBooks states whether this report has been generated on an Accrual Basis or Cash Basis. If this basis isn't correct, skip to the Tax area of your Preferences menu and fix up your tax reporting basis.)
- ✓ **Profit & Loss Standard report (go to Reports → Company & Financial).** Your Profit & Loss is a vital reference. Read this report and ensure it makes sense!
- ✓ **Balance Sheet report (go to Reports → Company & Financial).** Your Balance Sheet is the litmus test for whether your GST accounts reconcile. See 'Making sure the whole deal is spot on' later in this chapter for more details on reconciling these accounts.
- ✓ **Payroll Summary report (go to Reports → Employees & Payroll).** This report is important because it provides a check for Questions W1 (total wages) and W2 (total PAYG tax) on your Business Activity Statement.



Setting Up Your Business Activity Statement

Set up correctly, QuickBooks generates a report that looks almost identical to the pink Business Activity Statement form you receive from the ATO (except that your version comes complete with the correct figures, of course).



If you recently upgraded from an earlier version of QuickBooks, you may need to 'reconfigure' your Business Activity Statement. See the next section to find out how.

Configuring your BAS (hey ho, what fun)

The first step in preparing your Business Activity Statement is to tell QuickBooks what kind of taxes you pay on your statement — every business is a little different — and also how often you report to the ATO. If you're not sure about any settings in the BAS Configuration window, look carefully at your most recent Business Activity Statement (you know, the pink form that the ATO sends you every month or quarter), or, if in real doubt, ask your accountant.

1. Go to Reports → Tax → Simplified BAS/IAS.

If QuickBooks displays a message about preparing Instalment Activity Statements, click OK to skip to the Simplified BAS window.

2. Click the Config button and review the settings on the GST Configuration tab, as shown in Figure 10-9.

As your BAS Reporting Period, select Annually, Quarterly or Monthly (most businesses report for GST quarterly).

Also, tell QuickBooks whether, aside from GST and PAYG, you normally pay any other taxes on your BAS. For example, if WET, LCT, FBT or FTC taxes apply to you, click the relevant boxes.



Figure 10-9: Configuring your Business Activity Statement in QuickBooks.

3. Still in the BAS Configuration window, review the settings on the PAYG Instalment and PAYG Withholding tabs, then click OK.

Again, choose between Annually and Quarterly and select your starting month. If you're not sure whether your Accounting Basis is Cash or Accrual, ask your accountant.

Linking items to each box (slightly scary, but essential)

When you open your Simplified BAS/IAS report (found on your Reports menu in the Tax section), the report divides into three tabs:

- ✓ Supplies & Acquisitions
- ✓ Taxes & Amounts Withheld
- ✓ Debits & Credits

Your job is to work through each tab, linking tax items and accounts to every grey box (the ones that say G1, G2, G3 and so on). This rite of passage gets a tad technical, but be comforted that you only need to endure it once.

Supplies and Acquisitions

When you click the Supplies and Acquisitions tab on your Business Activity Statement, you see three reporting options (Option 1, Option 2 and Option 3). Depending on which option you pick — ask your accountant if you're not sure — you either have to set up G1 only, or G1, G2, G3, G10 and G11. You do this by clicking the grey button itself (for example, G1) and then selecting the tax items from whatever list QuickBooks offers.



Here are some G-force tips on what to select and where:

- ✓ **G1.** You report all sales in this question, so select every tax item you ever use for sales. Usually, this is simply FRE, GST and INP, but if you export goods overseas or sell liquor wholesale, you also require the EXP or WET items.
- ✓ **G2.** You report all export sales here, so EXP is the item you need (if this applies to you).
- ✓ **G3.** You report all GST-free sales here, so FRE is the name of the game (of course, you may not have FRE in your tax item list, because you don't make any GST-free sales).

- ✓ **G10.** You report all capital acquisitions here. CAG is usually the one and only item to select. (The rare exception is if you make capital acquisitions that are GST-free or bought for the purpose of making input-taxed sales, in which case you need the CAF or CAI codes as well.)
- ✓ **G11.** You report all other expenses (with the exception of capital acquisitions) here. Select every tax item other than CAG that you use for purchases and expenses (usually just NCF and NCG).

Taxes and Amounts Withheld

The next tab along on your BAS is the Taxes and Amounts Withheld tab. This is where you have to specify the total value of employee wages and PAYG Withholding tax, as well as details regarding PAYG Instalment tax and FBT.

- ✓ **W1.** Select all payroll items that relate to wages (typically Gross Payments, Allowances and Lump Sums).
- ✓ **W2.** Select your Payroll Liabilities: PAYG Withholding tax account. Early in Chapter 12, I recommend you split your payroll liabilities into two accounts so that you can report for superannuation and PAYG Withholding separately. If you haven't made this change yet, I suggest you do so now.
- ✓ **W3.** You can usually ignore this box, unless you withhold tax from distributions made to investors.
- ✓ **W4.** Again, ignore this box. If a supplier can't provide you with an ABN, don't bother going through the hoo-haa of withholding tax from them. Just don't give them any business. (Remember that a supplier can choose not to be registered for GST; however, they must have either an ABN or a hobby exemption certificate.)

You also need to choose whether you pay PAYG Instalment tax as a set amount every time, or as a percentage of income. (Check the printed Activity Statement that the ATO sends you if you're not sure.) If you pay a set amount, enter this figure in T7. If you pay a percentage of income, click the T1 button, select every income account, then enter the rate from your BAS in T2.

If you don't pay any PAYG Instalment tax at all, something that's quite possible if your business is new or you're a partnership, then click the Config button and under the PAYG Instalment tab, unclick the option to include PAYG on this BAS.

Finally, complete any FBT obligations by typing the amount that you're due to pay in F1.

Debits and Credits

The last tab in your Business Activity Statement is the Debits and Credits tab. Again, click each of the grey boxes in turn and tell QuickBooks which tax items belong where.

- ✓ **1A.** Click against any tax items that relate to GST you've collected (normally simply the GST tax item code).
- ✓ **1B.** Click against any tax items that relate to GST you've paid (normally CAG and NCG).
- ✓ **1C and 1D.** Only select tax items here if you pay or collect Wine Equalisation Tax.

Saving your settings (easy, but important)

To save your settings, click the Save button and when prompted, save your Activity Statement in a logical folder (for my business, I have a folder called Activity Statements that lives inside a folder called My Accounts).

Lodging your Business Activity Statement

After you've endured the brutal initiation rite of configuring your Business Activity Statement (thankfully, a one-off process), you're ready to print your statement, check everything balances and then either lodge your statement electronically, or send it by post to the Australian Taxation Office.

Generating your first activity statement

With the configuration of your Business Activity Statement complete, you're ready to print the beastly thing, a process that's surprisingly painless:

1. Go to Reports → Tax → Simplified BAS/IAS.

If QuickBooks displays a message about preparing Instalment Activity Statements, click OK to skip to the Simplified BAS window, as shown in Figure 10-10.

Figure 10-10:
The BAS report in QuickBooks looks similar to your regular Business Activity Statement.

2. Click the Config button and check that all your date settings are correct.



Make sure that QuickBooks has selected the first month of your reporting period correctly. (That is, if you're reporting for the period July to September, ensure July is selected.) Also, check that the Current Year is correct (QuickBooks refers to calendar years, not financial years).

Review all the settings on the GST Configuration, PAYG Instalment and PAYG Withholding tabs, checking details with your accountant if you're not sure about what options to choose.

Also, click on the BAS Lodgement tab. Choose the ATO Business Portal Lodgement option if you intend to send your Business Activity Statement by post or if you want your accountant to lodge it for you. Alternatively, choose the Standard Business Reporting option if you have an AUSkey and want to lodge your Business Activity Statement electronically.

3. Review the figures that QuickBooks offers. Do they make sense?

Double-check the GST totals against your Tax Summary report for the same period, and double-check the wages totals against your Payroll Summary for the same period.



Check the figures on every page (that's each separate tab) of the statement.

4. Click the Save button to save your statement, choosing a filename that makes sense.

I always suggest you save a copy of your Business Activity Statement on file. QuickBooks stores this backup on your hard disk in your Company Files folder, but if you want to make an additional backup onto a removable disk, then do so now.



If you have more than one company, devise a file naming system that makes sense — for example, BAS_Trust_June11, BAS_Company_June11, BAS_Trust_Sep11 and so on.

5. Click the Print button.

Although QuickBooks prints out a form that looks almost identical to the Business Activity Statement, you can't actually use this form for lodgement purposes. Unless you intend to use electronic lodgement, copy the figures (using black ink only) onto the Business Activity Statement form that the Australian Taxation Office sends you.

**6. Click Cancel to close the statement.**

Always ensure you keep a copy of your BAS, because you need a record of what figures you lodged with the ATO.

Making sure the whole deal is spot on

Getting accounts to balance is a cinch if you report for GST on an accruals basis. Simply print a Balance Sheet for the last day of the reporting period printed on your BAS, and look at the balance of your Tax Payable account, or the balances of your GST Collected from Sales and GST Paid on Purchases accounts. In the perfect world (hey, who said it wasn't?), whatever amounts appear here should be the amounts that appear on your BAS for the same period.

Things get a little trickier if you report on a cash basis, because you have to allow for the GST that you haven't paid on outstanding customer invoices, or you haven't claimed from outstanding supplier bills. In this situation,

you first print the following three reports for the last day of your reporting period:

1. A/R Ageing Detail report, modified to include the Tax Amount and to show Split Detail.
2. A/P Ageing Detail report, modified in the same manner.
3. Balance Sheet report.

The amounts for GST Collected and GST Paid on your Balance Sheet, *less* the total of the Tax Amount column on the Receivables and Payables reports, should equal the amounts that appear on your BAS for the same period.

I talk more about balancing GST in *Bookkeeping For Dummies*, also published by Wiley Publishing Australia, and which offers some of the best bedtime reading ever.

Lodging your statement with Reckon GovConnect

Until recently, the only way to lodge your Business Activity Statement was to first print the statement out of QuickBooks, and then either copy the figures onto the form that the ATO sends you and post this form, or go online and re-key each figure, one by one.



One neat thing about the latest release of QuickBooks is that you can connect QuickBooks with the ATO AUSkey portal so that your Business Activity Statement populates automatically.

To get this whole deal to work, you must first do three things:

1. Register for an *AUSkey* at the ATO portal (www.ato.gov.au). (An AUSkey is a single logon and password that enables you to access multiple government online services.)
2. Subscribe to Reckon Advantage (the support plan that goes with QuickBooks).
3. Go to Reports⇨Tax⇨Simplified BAS/IAS, click the Config button and then go to the BAS Lodgement tab. Select the Standard Business Reporting option.

With these three things in place, you're ready to get QuickBooks and the ATO to play a sweet duet. Follow these instructions to lodge your Business Activity Statement online, without rekeying a single figure:

- 1. Generate your Business Activity Statement as normal, checking that all the figures are correct.**

For more details, refer to 'Generating your first activity statement' earlier in this chapter.

- 2. When you're confident all the information is correct, click the Lodge button.**

QuickBooks automatically saves your statement information and then transports you to the Reckon GovConnect welcome window.

- 3. Enter your AUSkey location, along with your AUSkey password.**

You may also be prompted for your QuickBooks Customer ID and PIN number if this is the first time you're using the GovConnect service.

- 4. If you are lodging your own BAS, select Reporting Party as your Identity. If you're a BAS Agent lodging a BAS on behalf of a client, select Intermediary as your Identity.**

- 5. Enter the dates when prompted, click Current Obligations as your Search Criteria, and click OK to view the BAS that you're due to lodge.**

- 6. Click Prefill.**

If the ATO has any messages waiting for you — and don't you just hang out for those little sweet nothings? — you'll see these now.

- 7. Select Import from the top menu.**

Rather miraculously, you arrive at the folder where you saved the electronic version of your BAS earlier in this process.

- 8. Highlight your BAS data file and click Open.**

Your entire Business Activity Statement now populates automatically, without you having to rekey a single digit. I suggest you have one last check of this info and ensure you're happy with these figures.

- 9. Click Send PreLodge from the top menu, then click Next.**

- 10. Click Lodge BAS and when prompted, click Commit.**

Do you suspect that the process of clicking the Commit button means that 50 per cent of the population will proceed no further?

- 11. Click Logout.**

The deed is done.

Recording Your BAS Payment or Refund

One of the trickier transactions to record in QuickBooks is your Business Activity Statement payment or, if you're lucky, refund. This is because when you lodge your BAS, you report on a whole range of taxes — GST Collected, GST Paid, PAYG Withholding tax and PAYG Instalment tax, to name but a few. Therefore, when you pay your tax (or receive a refund), you need to allocate your payment or deposit to all the different tax accounts.

I can't be definitive about how to record this transaction, because each business has a different combination of taxes to pay, but I can give a few pointers about how to proceed.

Paying the piper — when you owe them

If you owe money on your Business Activity Statement, then you record the payment by going to Suppliers ⇨ Tax Activities ⇨ Pay Tax.

If you have a single account for GST called Tax Payable, allocate the net amount of GST (that's the amount from 1A less the amount from 1B) to Tax Payable. (In tax speak, 1A is where you report GST Collected, and 1B is where you report GST Paid.)

If you have separate accounts for GST Collected and GST Paid, then you record the GST part of your payment using two transaction lines: On the first line of the transaction, enter the amount from 1A against your GST Collected on Sales account as a *positive* figure; on the second line of the transaction, enter the amount from 1B against your GST Paid on Purchases account as a *negative* figure.

Last, if you're remitting PAYG Withholding tax as part of this payment, enter the amount from W2 — as a *positive* figure — to an account called Payroll Clearing. (Skip ahead to 'Getting PAYG to balance' later in this chapter for more info about this Payroll Clearing account.)

Figure 10-11 shows how this transaction looks.

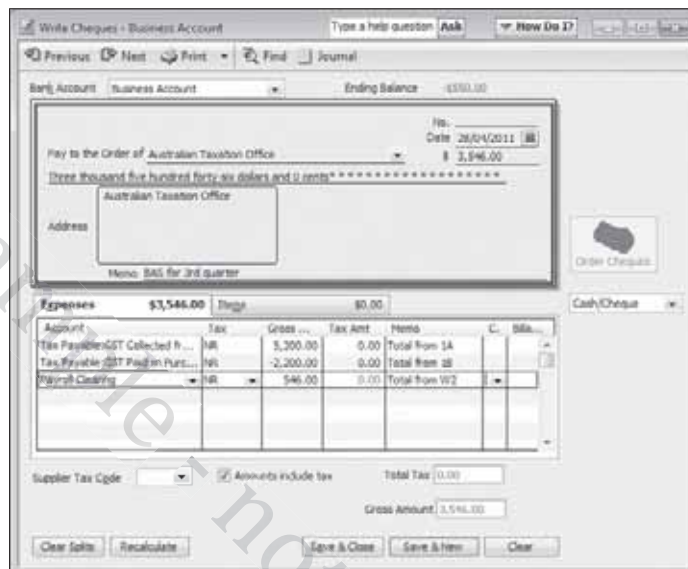


Figure 10-11:
Recording
the payment
of GST.



Even if everything balances, you'll always end up with a few stray cents, because the BAS rounds every field to the nearest dollar. Simply allocate these few cents to Bank Charges and everything will be just fine.

Claiming the dosh — when they owe you

Recording a refund on your Business Activity Statement is similar to recording a payment, except that the whole equation is flipped on its head:

1. Go to **Suppliers** → **Tax Activities** → **Manage Tax**, and click the **Receive Refund** button.
2. Click **OK** to arrive unscathed (hopefully) at the **Make Deposits** window.
3. Enter 'Australian Taxation Office' in the **Received From** column.
4. If you have a single account for GST called **Tax Payable**, allocate the net amount of GST (that's the amount from 1A less the amount from 1B) to **Tax Payable**.

Or

If you have separate accounts for GST Collected and GST Paid, then record the GST part of your payment using two transaction lines, as per Figure 10-12.

On the first line of the transaction, enter the amount from 1B against your GST Paid on Purchases account as a *positive* figure; on the second line of the transaction, enter the amount from 1A against your GST Collected on Sales account as a *negative* figure;

5. Allocate any PAYG Withholding tax by entering the amount from W2 as a minus figure to an account called Payroll Clearing.

Skip ahead to 'Getting PAYG to balance' next in this chapter for more about this Payroll Clearing account.

Received From	From Account	Memor.	C. Post Refs.	Amount
Australian Taxation Office	Tax Payable: GST Paid on Purchases	Amount from 1B	107,500.00	
Australian Taxation Office	Tax Payable: GST Collected from Sales	Amount from 1A	-6,620.00	
Australian Taxation Office	Payroll Clearing	Amount from W2	980.00	
Deposit Subtotal				8,860.00

To get cash back from this deposit, enter the amount below. Indicate the account where you want the money to go, such as your Petty Cash account.

Cash back goes to:	Cash back name:	Cash back amount:
<input type="text"/>	<input type="text"/>	<input type="text"/>

Deposit Total: 8,860.00

Figure 10-12:
Recording a
BAS refund.

Getting PAYG to balance

QuickBooks expects you to record PAYG Withholding tax in the Create Custom Liability Payments window. That's okay, but things become tricky when you have PAYG Withholding tax as part of your Business Activity Statement.

The trick to getting everything to come out clean in the wash is to create a special account called Payroll Clearing, and use this account as your bank account to record the payment of PAYG Withholding tax. Here's how:

1. Go to your Chart of Accounts and create a new asset account called Payroll Clearing, selecting Bank as the Account Type.

2. **When you record your BAS payment or refund, allocate the PAYG Withholding tax component to this new Payroll Clearing Account.**

I show how this is applied in Figures 10-11 and 10-12.

3. **Go to Create Custom Liability Payments and record the PAYG Withholding tax part of your BAS payment as if you're paying it a second time, but as the Bank Account select your new Payroll Clearing Account.**

Hopefully, if you select your payroll dates carefully, QuickBooks should come up with exactly the same Amount to Pay for PAYG Tax as what you actually paid on the BAS.

4. **Go to your Payroll Clearing Account in your Chart of Accounts and check that this account now has a \$0.00 balance.**

The idea is that when you record your BAS payment, you *credit* this clearing account. When you record paying the PAYG Withholding tax component in the Payroll Liabilities account, you *debit* this clearing account. If all goes smoothly, this account always returns to zero.