



# Improved VAT in QuickBooks 2008 & Later

## Introduction

With QuickBooks 2008, we redesigned how VAT is calculated and reported. QuickBooks 2010 brings additional improvements, such as tools to help you upgrade to the new system, additional VAT reports, the ability to file VAT online, and more.

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
- More flexible system means you track VAT the way you want
  - Split VAT collected on sales into a different account from VAT on purchases
  - 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 in previous VAT periods are automatically brought forward to the current period's 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 saved as a PDF when you file, creating a permanent record of the transactions included
- Easily access VAT functions using the new VAT menu
- Adjust for small rounding differences right on your transactions, and, in QuickBooks 2010, choose how you want the VAT to round on transactions
- 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 QuickBooks 2006, 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 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

**Edit VAT Code**

VAT Code: S

Description: Standard (17.5%)

☒ Taxable  
☐ Tax Exempt

Taxable Information:  
VAT Item for Purchases: Standard Purchases  
VAT Item for Sales: Standard Sales

### VAT Code

Now represents VAT items or groups of VAT items

**Edit Item**

Type: VAT Item

VAT item Name: Standard Purchases

VAT Rate (%) or Amt: 17.5%  
VAT Agency: HMRC VAT

Return Box: <4, 7> VAT on Purchases, Net Purch

**Edit Item**

Type: VAT Item

VAT item Name: Standard Sales

VAT Rate (%) or Amt: 17.5%  
VAT Agency: HMRC VAT

Return Box: <1, 6> VAT on Sales, Net Sales

### VAT Item

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

**Edit Supplier**

Vendor Name: HMRC VAT

VAT Agency Info

VAT Registration No.: 111 1111 11  
VAT Return: UK VAT

Period: Quarterly  
Period Ending: Mar/Jun/Sep/Dec

VAT accounts for this agency:  
☒ Track VAT on purchases to: VAT Liability  
☒ Track VAT on sales to: VAT Liability

### 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

File Edit View Lists Company VAT Customers Suppliers Employees

Home Company Snapshot

Home

VAT 100 Report  
VAT Detail Report  
Unassigned VAT Amounts Detail Report  
VAT Exception Report  
VAT Item Summary  
File VAT...

# 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 a sales form, the Standard Sales VAT item calculates and reports the VAT.

The image shows a VAT form on the left and an 'Edit Item' dialog box on the right. A blue arrow points from the 'S' code in the VAT column of the form to the 'Edit Item' dialog.

	Rate	Amount	VAT
	100.00	100.00	S
Total VAT		17.50	
Total		117.50	

Payments Applied: 0.00  
Balance Due: 117.50

**Edit Item**

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

VAT Return Box: <1, 6> VAT on Sales, Net Sales

In the case above, the balance for Box 1 of the VAT 100 would increase by 17.50 and the balance for Box 6 would increase 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 for purchases, which reports 17.5% of the purchase in Box 4 and 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 assign amounts to return lines**

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 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.

QuickBooks calls these amounts of VAT **unassigned** (or, in QuickBooks 2008, uncategorised).

To make prevent unassigned amounts, always use forms (invoices, receipts, bills, etc.) to record your transactions and use VAT codes on forms and cheques. If unassigned amounts appear on your VAT reports, [read this FAQ](#) for what to do.

## **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 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 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 Purchases 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 Purch Goods Standard item?
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.

QuickBooks 2010 also adds EC VAT codes for 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. Use this code only for these specific transactions.

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 Purchases 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.

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 and tax:
  - The reporting period,
  - What accounts to use to track the tax.
  - In QuickBooks 2010, the accounting basis (cash or invoice/accrual)

## 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) and the net sales amounts 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.

QuickBooks 2010 adds the Exception report for cash and accrual basis VAT. This report shows any changes that were made that affected a VAT return which was already filed.

## Filing VAT

 **Your VAT return is ready to file**

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.
- 5) It closes the period covered by the return. Users will then receive a warning when attempting to change a transaction included in the return, or when they try to add a transaction within the closed period.

**Tip:** When you file in QuickBooks 2010, you have the option to file your VAT 100 return directly with HMRC online.

## Unassigned Amounts:

**File VAT**

VAT Agency: **HM Revenue & Customs** | Dates: **Last VAT Quarter**  
From: **01/04/2010** | To: **30/06/2010**

**Your Calculated VAT Return**

VAT Description	Box	Amount	Balance
VAT due on sales and other outputs	1	3,675.00	
VAT due on acquisitions from other EC Member St...	2	0.00	
Total output VAT due	3		3,675.00
VAT reclaimed on purchases	4	610.40	
<b>Net VAT to pay (or reclaim)</b>	<b>5</b>		<b>3,064.60</b>
Total net value of sales	6	21,000.00	
Total net value of purchases	7	3,488.00	
Total net value of supplies to other EC Member St...	8	0.00	
Total net value of acquisitions from other EC Mem...	9	0.00	

**⚠ Your VAT return is NOT ready to file**

In addition to the balance of **3,064.60** above, there are mis-entered transactions that you should include with your return.

VAT Amount not assigned a line on your VAT return [Explain](#) **-3.40** [Move to VAT Line](#)

**Amount you owe in VAT** [How is this calculated?](#) **3,061.20** [File Return](#)

[Cancel](#)

If an amount was posted to the VAT liability account without using a VAT code or VAT item, you'll see unassigned amounts (uncategorised in QuickBooks 2008) in your VAT reports and in the File VAT window. You can see details in the Unassigned VAT Amount Detail report.

The unassigned amount is included in the balance, but not in any specific box. In the example above, the net VAT payable for Box 5 ( 3064.60 ) plus the unassigned amount ( -3.40 ) equals the total amount payable (i.e. the balance in the VAT Liability account) of 3,061.20.

To assign the amounts to a VAT box, you can do a VAT adjustment. Or you can replace or modify the original transactions so that they use a VAT code or VAT item.

For details on assigning these amounts [read this FAQ](#). Or search the in-product help for unassigned VAT (QuickBooks 2010) or uncategorised VAT (QuickBooks 2008).

## 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, etc.) to enter transactions that have VAT - then QuickBooks knows where to report the VAT on your return.

If you create a general journal entry that affects the VAT liability account, you assign the VAT portion to a return box by selecting a VAT item. 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, 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 2010, 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.

On a cash VAT basis, a new invoice only be included in the File VAT window once payment (or partial payment) has been received. Then, 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 QuickBooks 2006***

### ***During the upgrade***

If you're upgrading from QuickBooks 2006, the old VAT agency is converted to the new format, and old VAT codes are converted to VAT items and VAT codes.

QuickBooks 2006 and earlier 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.

During the upgrade, instead of relying on the presence of the filed flag to determine which VAT amounts had been filed with HMRC, QuickBooks 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 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 the newer version for VAT periods that you completed in your previous version of QuickBooks - they would be incorrect.

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.