How do I set up the Meals and Entertainment HST tax code for my Ontario business?

For the Meals and Entertainment Tax code there is a manual set up required before QuickBooks will allocate your HST on those purchases correctly. There are 4 main steps for setting up the tax code in your QuickBooks file.

STEP 1 - Create a Tax Vendor

Create a vendor to track the portion of HST that is the nontaxable and RITC portion on your GST/HST return. How to create this tax vendor:

Set up a tax vendor to track the nontaxable and RITC portion

1. Go to the **Vendor Centre** and click **New Vendor**.
2. In the **Vendor Name** field, assign a name such as "Meals & Entertainment".
3. On the right side of the New Vendor window, check **Vendor is a Sales Tax Agency**. A new tab called **Tax Agency Info** appears.
4. Click on the **Tax Agency Info** tab.
5. Leave the **Tax Return** field blank.
6. Enter a **Tax Label** of "NO TAX"
7. Check **Track tax on purchases to**, and select or create an expense account to track tax on purchases, for example "Meals & Entertainment Expenses". (*note: if you do not choose the "track tax on purchases" option in step 1 the RITC amount will automatically be added to the purchase expense)*
8. Click **OK**.
9. (QuickBooks 2010 only) Click **Continue Anyway** on the warning pop up.

Then, proceed to Step 2, where you will create sales tax items that make up the sales tax code.

STEP 2 - Create new Sales Tax Items

Create 6 new sales tax items that make the HST and RITC amount calculate correctly and reflect properly on your transactions as per Revenue Canada's standards.

Create a Sales Tax Item called "GST 2.5% taxable", which is the 50% portion of the 5% GST that is claimed on the GST/HST Return. How to create this sales tax item:

Create the GST 2.5% taxable sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "GST 2.5% taxable ".
5. In the **Tax Rate** field, enter "2.5%".
6. From the **Tax Agency** drop-down, select **Receiver General**.
7. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
8. Click **OK**.

Create a Sales Tax Item called "GST 2.5% non-taxable", which is the 50% portion of the GST that is not claimable on the GST/HST Return. How to create this sales tax item:

Create the GST 2.5% non-taxable sales tax item

1. Click on the **Lists** menu and click **Item List**.
1. Click the **Item** button and select **New**.
2. From the **Type** drop-down arrow, select **Sales Tax Item**.
3. In the **Sales Tax Name** field, enter "GST 2.5% non-taxable ".
4. In the **Tax Rate** field, enter "2.5%".
5. From the **Tax Agency** drop-down, select the new **Meals & Entertainment** Vendor.
6. From the **Sales Tax Return Line**, select **Tax Paid on Purchases**.
7. Click **OK**.

Create a Sales Tax Item called "PST 4% Taxable ", which is the 50% portion of the PST that is claimed on the GST/HST Return. How to create this sales tax item:

Create the PST 3.5% taxable sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "PST 4% taxable ".
5. In the **Tax Rate** field, enter "4%".
6. From the **Tax Agency** drop-down, select **Receiver General**.
7. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
8. Click **OK**.

Create a Sales Tax Item called "PST 4% Non-Taxable ", which is the 50% portion of the PST that is not claimable on the GST/HST Return and is a RITC. How to create this sales tax item:

Create the HST sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter " PST 4% Non-Taxable ".
5. In the **Tax Rate** field, enter "4%".
9. From the **Tax Agency** drop-down, select the new **Receiver General**.
10. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
6. Click **OK**.

Create a Sales Tax Item called "RITC 4% PST" which will remove the RITC portion from the GST/HST payable account.

Create the RITC 3.5% PST sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "RITC 4% PST".
5. In the **Tax Rate** field, enter "-4%" *note you are creating a <u>negative</u> 4% item to remove the RITC from your sales tax payable account.
6. Say **Yes** to the message "...are you sure you want a rate of -4%...".
7. From the **Tax Agency** drop-down, select **Receiver General.**
8. **F**rom the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs).**
9. Click **OK**

Create a Sales Tax Item called "RITC Meals & Entertainment Expense" which will allocate the RITC amount to the expense account created when you created the new vendor in step 1. (*note: if you did not choose the "track tax on purchases" option in step 1 the RITC amount will automatically be added to the purchase expense)* How to create this sales tax item:

Create the "RITC Meals & Entertainment Expense" sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "RITC Meals & Entertainment Expense".
5. In the **Tax Rate** field, enter "4%".
6. From the **Tax Agency** drop-down, select **Receiver General Non-Taxable.**

7. From the **Sales Tax Return Line**, select **Tax Paid on Purchases**.

8. Click **OK**.

Then, proceed to Step 3 and use these items to create a sales tax group.

STEP 3 - Create a Sales Tax Group

Create a sales tax group that includes the sales tax items you just created in Step 2. This makes up the 13% HST Rate.
How to create this sales tax group:

Set up a sales tax group

1. Click on the **Lists** menu and click **Item List**.

2. Click the **Item** button and click **New**.

3. From the **Type** drop-down arrow, select **Sales Tax Group**.

4. In the **Group Name/Number** field, enter an easily identifiable name, such as "Meals and Entertainment tax".

5. Enter a **Description**, if desired.

6. Add the sales items from the previous Step 2:

   - Click the first line in the **Item** drop-down arrow and select "GST 2.5% taxable".

   - Click the second line in the **Item** drop-down arrow and select "GST 2.5% non-taxable".

   - Click the third line in the **Item** drop-down arrow and select "PST 4% Taxable ".

   - Click the fourth line in the **Item** drop-down arrow and select "PST 4% Non-Taxable".

   - Click the fifth line in the **Item** drop-down arrow and select "RITC4% PST".

   - Click the sixth line in the **Item** drop-down arrow and select "RITC Meals & Entertainment Expense"

7. Click **OK**.

Proceed to Step 4 and assign this group to your sales tax code.

STEP 4 - Create Sales Tax Code

Create a new sales tax code that tracks the sales tax group you just created. How to create this sales tax code.

Set up a sales tax code

1. Click on the **Lists** menu and click **Sales Tax Code List**.

2. Click the **Sales Tax Code** button and click **New**.

3. In the **Sales Tax Code** field, enter "M&E"

4. Select **Taxable**.

5. From the **Tax Item for Purchase** drop-down menu, select the sales tax group you created in Step 3 named "Meals and Entertainment tax ".

6. Click **OK**.

The code is now ready to be assigned to Purchase items, accounts, Vendors or used in a transaction.