**QuickBooks: Set up sales tax to track meals and entertainment expenses?**

**\*\*\*Please note that this article should be used for provinces that participate in HST. This document uses Ontario tax rates for example purposes only. The steps are applicable to British Columbia as well.**

**STEP 1 - Create a Tax Vendor**

**Follow the steps below to create a vendor to track the portion of HST that can't be claimed as an input tax credit on your HST return.**

**Set up a tax vendor to help you track meals and entertainment expenses**

1. Go to the **Vendor Centre** and click **New Vendor**.
2. In the **Vendor Name** field, assign a name such as "Receiver General Non-Taxable".
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. Check **Track tax on purchases to**, and select an expense account to track tax on purchases (for example "HST Meal and Entertainment Expense").   
   Note: The expense account you use to track tax on purchases should be a sub-account of your Meals and Entertainment expense account. For information on creating sub-accounts, search the in-product Help for "accounts (managing), subaccounts".
7. Click **OK**.

**Proceed to Step 2, where you will assign this vendor to the ineligible HST sales tax item and create an eligible sales tax item.**

**STEP 2 - Create two Sales Tax Items**

**Follow the steps below to create two sales tax items that make up the 13% HST Tax Rate.**

* The first item will be called "HST Eligible 6.5%", which is the portion of the HST that is **claimable** on the HST Return.
* The second sales tax item will be called "HST Ineligible 6.5%", which is the portion of the HST that is **not claimable** on the HST Return.

**Create the HST Eligible 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 "HST Eligible 6.5%".
5. In the **Tax Rate** field, enter "6.5%".
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 the HST Ineligible 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 "HST Ineligible 6.5%".
5. In the **Tax Rate** field, enter "6.5%".
6. From the **Tax Agency** drop-down, select **Receiver General Non-Taxable.**   
   Note: Creating the vendor "Receiver General Non-Taxable" is step 1 in setting up Sales Tax to track meals and entertainment expenses.
7. From the **Sales Tax Return Line**, select **Tax Paid On Purchases**.
8. Click **OK**.

**Proceed to Step 3 and use these two items to create a sales tax group.**

**STEP 3 - Create a Sales Tax Group**

**Follow the steps below to create a sales tax group that includes the two sales tax items you just created. This makes up the 13% HST Rate.**

**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 & Entertainment".
5. Enter a **Description**, if desired.
6. Click the first line in the **Item** drop-down arrow and select "HST Eligible 6.5%". Click the second line in the **Item** drop-down arrow and select "HST Ineligible 6.5%".
7. Click **OK**.

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

**STEP 4 - Create Sales Tax Code**

**Follow the steps below to create a new sales tax code that tracks the sales tax group you just created.**

**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 a code that is three characters in length. For example, "M&A"
4. Select **Taxable**.
5. From the **Tax Item for Purchase** drop-down menu, select the sales tax group you created in Step 3 of setting up Sales Tax to track meals and entertainment expenses.
6. Click **OK**.
7. **Go to Chart of Accounts, add a new HST Meals and Entertainment Expense account**

**Proceed to Step 5 and apply this code to your Meals & Entertainment Expense account.**

**STEP 5 - Assign the Sales Tax Code to your Meals & Entertainment Expense account**

Assign the sales tax code to your Meal & Entertainment Expense account, so the code automatically applies to all transactions related to meals and expenses.

If you do not have a Meals & Entertainment Expense account, create one. Search the in-product Help for "accounts, adding".

http://intuitglobal.intuit.com/iq/quickbooks/images/icons/important.gif**NOTE: HST should not be calculated on tips. An input tax credit cannot be claimed on tips that did not include HST.**