



Sales Tax User Guide

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Highlights

- * Taxable or non-taxable status flagging at the customer level
- * State and Federal sales tax exemption numbers by customer; Either or both numbers may be optionally printed on invoices and credit memos
- * Reporting and rate assignment for an unlimited number of tax authorities
- * Up to six tax authorities per invoice
- * Up to six tax rates (including non-taxable) per authority based on a flag in the location item record
- * Maximum tax amount assigned by authority and line item
- * Applicable tax authorities are automatically assigned based on location where goods are sold or location where goods are delivered; User may override system default at the order header level
- * Taxable and non-taxable overrides by line item within an order
- * Taxable and non-taxable items may be processed on the same order.
- * The contribution of any core value to the taxable amount is independently set by authority with separate flags for sales versus credits
- * Customer level coding provides ability to subtotal tax reports by customer classification
- * Sales tax history file contains total sales, taxable sales, non-taxable sales and amount of tax charged by month for each authority and customer class
- * Sales tax history is retained for user specified period of time
- * On-line inquiries and reports provide data current as of the last day close
- * Full interface to General Ledger through the optional G/L Bridge Module



Overview

The sales tax calculation and reporting features of the AS/400 are designed to meet the needs of all currently identified requirements in the USA and Canada in both single and multi-site environments.

Sales tax authorities are defined in the data base to represent each taxing agency. Within each authority, up to five different taxation rates can be assigned based on a tax classification flag in the location item file. Maximum tax amounts or ceilings can be set for each classification within an authority. Separate flags in the authority file dictate whether sales tax is charged on the core value of an invoice or refunded on a credit.

Up to six authorities are linked to a tax table. Customers are assigned to a specific tax table and are further designated with a taxable or non-taxable status flag. Two fields are provided in the customer master file for sales tax exemption numbers.

The tax authorities applicable to an order are based on the combination of tax table and tax location. The table value is retrieved from the customer master file while the location value may be either the default location from the customer master (if tax is based on customer's location) or the location from the order header (if tax is based on selling location).

Order entry uses the default tax table and taxable status flag from the customer master file to compute sales tax. The taxable status flag can be overridden for each line item within an order. When an order is invoiced, the taxable value is summarized for each authority in the tax table and the tax is calculated using the applicable rate(s).

The daily closing process updates the tax history summary file with the gross amount, taxable amount and amount of tax charged for each location, tax table and tax authority by month and year. For audit purposes, the invoice level detail with specific tax authorities and amounts is stored in a separate file. All files can be retained for a user specified number of years.

Sales tax reports can be requested at any time and within any month and year date range. An inquiry feature is also available.



Terminology

The following terms should be thoroughly reviewed to insure an understanding of the sales tax setup and calculation routines.

Location item tax code: A single character flag, maintained in the location item file, with possible values of Y, N, A, B, C or D. It defines the tax class of each item which determines the taxation rate within a sales tax authority.

In most environments, assuming that the customer is taxable, each item on a given invoice is either taxable or non-taxable (labor charges and other service type fees are generally but not always tax exempt). Further, those items that are taxable will be subject to the same tax rate. In this situation, the 'location item tax code' should be set to "Y" for taxable items and to "N" for non-taxable items.

In a few instances, a particular class of goods may be taxed at a different rate than other items on the same invoice. The system will handle up to five different taxation rates per tax authority. A, B, C and D can be assigned in addition to Y in the 'location item tax code' field to classify items for different rates.

Sales tax authority: Any government agency (state, county, city, metro etc.) that, under certain pre-defined conditions, requires the vendor to collect and report a percentage of each invoice in the form of a sales tax. The system supports an unlimited number of sales tax authorities. The key word here is 'report'. Many states have both state and local tax rates and, although the local rate may vary within the state, it may not be necessary to create unique tax authority codes for the state and county or city. Even if county "X" has a two percent rate, county "Y" a rate of one percent and the state rate is at three percent, you may be able to create two codes (one at four percent and one at five percent) rather than three if reporting is required at the rate rather than authority level.

Each sales tax authority can have up to five different tax rates plus a zero rate based on the tax code assigned to the item in the location item file.

Sales tax rate: The applicable tax rate expressed as a percentage between .001 and 99.999. A tax rate of 10 and 1/3 percent is entered as 10.333.

Sales tax table: A code associated with up to six sales tax authorities. Typically, a unique tax table is created for each combination of applicable authorities; i.e. tax table "NCED" would be assigned to any customer subject to sales tax in North Carolina and Edgecombe County and table "NCNA" would be assigned to any customer subject to sales tax in North Carolina and Nash County.

Some authorities require that sales tax reports be broken down into customer classifications, particularly when reporting nontaxable sales activity. A farmer and a wholesale distributor in the same county might both be exempt from sales tax at one or more authority levels but any sales to these businesses may have to be segregated on the sales tax reports. In this case, separate tax tables must be created, i.e. "NCED-A" (North Carolina, Edgecombe County - Agricultural exemption) and "NCED-W" (North Carolina, Edgecombe County - Wholesaler exemption)



Customer tax status: A flag assigned to each account in the customer master file indicating the sales tax status (Y=Taxable or N=Non-taxable).

Order header tax status: A Y/N flag set at the order header level. This value is originally defaulted from the 'customer tax status' flag but may be overridden by the order entry user if the order header control file is set to allow access to this field.

Order line item tax status: A Y/N flag assigned to each line item in an order. The default setting for this value is retrieved from value assigned to the 'order header tax status'. This is the critical value in determining if a line item is taxable or non-taxable. If the item is taxable, the actual tax amount is calculated from the tax rate assigned for the tax code within each authority defined for the tax table.

Sales tax ID numbers: Two fields, each twenty characters in length, are carried in the customer master file. One is typically used as the state sales tax exemption number and the second is available for any other assignment such as a federal ID. These fields may not be left blank if the customer is designated as non-taxable.



Concepts

When defining sales tax requirements, an understanding of the following guidelines and concepts will be beneficial.

Assume every customer is taxable. When determining what authorities must be established, tax authority codes should be created even if all customer(s) that might be affected by that authority are normally non-taxable. The customer tax status code can be set to "N" so that the account defaults to an exempt status but, if the need arises to override the tax flag in order entry, the proper structure is in place to calculate and report the tax accurately.

Items assigned a location item tax flag of 'N' will never be taxed. This flag cannot be overridden at order entry. Do not use the 'N' tax code unless the item is never subject to sales tax by any authority. If a charge such as labor is taxable at the state level but not by the local authorities, set labor items up with a location tax code of 'A' and assign a zero rate for this item class in the local tax authority.

If possible, develop a system for assigning tax authority and tax table codes. If three or fewer authorities are required, use a two character code for each authority. For example, NC for North Carolina, NA for Nash County, NS for Nashville City etc. The tax table code for a customer subject to these three authorities can then be created with a value of NCNANS.

Do not create a tax authority at a zero rate, assign it to a tax table and then assign that table to all non-taxable customers. Create all necessary tables and authorities, assign them properly and use the tax status flag to control whether or not an account is taxable.

Multi-location users must insure that a tax table is set up for all possible combinations of locations and tables if tax is based on the location selling the item. Although a given customer may trade primarily with a single location, the possibility exists that an order will be generated for that account from another store or warehouse. If the tax table assigned to that customer does not exist, the order entry operator will have to override the default table to a table that is valid at this location in order to complete the sale.

The location used in combination with the tax table to determine applicable tax authorities is set up in the departmental control record. Either the order entry location or the default location from the customer master file may be used to retrieve the tax authorities. In some states, the tax rate is based on where the order is actually delivered to the consumer. Where this is in effect and where a customer may pick up some items and have others shipped directly to a business address, there is potentially a need to assess different tax rates or to record the sale under different sales tax authorities. The system will automatically handle this if different departments are used to distinguish walk in sales from outbound shipments.



How Sales Tax is Computed

The sales tax calculation is a subroutine nested within the invoicing jobstream. It is also called by the point of sale jobstream to calculate the amount of an order for tender processing and by the order inquiry job if the option to display tax on an open order is taken (If the order has been invoiced the data is displayed from the actual sales tax records associated with the order).

There are three key points in understanding the sales tax computation process:

1. The “**sales tax table**” assigned on the order header record determines which sales tax authorities are applicable
2. The “**line item taxable flag**” in the order detail record determines whether or not an order entry transaction is **subject** to sales tax.
3. The “**line item tax code**” in the order detail record determines which rate

The process flow is outlined below:

1. When an order is initiated, the system reads the customer master file to retrieve the default values for the customer's tax table code and taxable status. These values are written to the header record associated with this order.
 - a. A setting in the order header control file dictates whether or not the user can change these values from the order header screen.
 - b. The sales tax table assigned at the order header level will be applied to all items within the order and cannot vary from one line item to another. Valid sales tax tables are user defined.
 - c. Valid values for the customer taxable status parameter are “Y” (the customer is normally subject to sales tax) or “N” (the customer is not normally subject to sales tax).
2. As each line item is entered on an order, the system writes two flags to the order detail record.
 - a. The customer taxable status flag defaults from the setting in the order header file but may be overridden on each line item within the order. Accessing the order header screen and changing this value will **not** affect any items that were previously entered on the order. The customer taxable status flag that is assigned when the item is entered can only be changed through the review mode process. The customer taxable status flag indicates only that the item is (Y) or is not (N) taxable.



- b. The second flag, the item tax status, is retrieved from the location item file using the order entry location. The possible values for this field are "Y", "A", "B", "C", "D" or "N". All values except "N" can have a different tax rate for each sales tax authority. Items with a tax code of "N" will never be taxed even if the customer is taxable. In most environments an item is either taxable or non-taxable and all taxable items are usually subject to the same tax rate. In a few states however, the sales tax rate for products (merchandise) differs from the sales tax rate for services (labor). In these cases, merchandise items are generally assigned an item tax code of "Y" and labor items are assigned a code of "A". Codes "B", "C" and "D" may be used if there is a need for additional rates within a sales tax authority.
- c. The item tax status is **not** accessible from order entry and cannot be changed by the user. If the item itself is flagged as non-taxable (N), the tax rate is assumed to be zero and tax will not be calculated even if the customer taxable flag is overridden to a "Y".
3. When a release code that will execute the invoicing jobstream is assigned, the system will calculate any applicable sales tax by:
- Using the location and department code assigned to the order, the system reads the order entry departmental control record to determine if the Tax Table will be retrieved based on the order entry location or on the location assigned in the customer master file.
 - The system retrieves the "Tax table" value from the order header file. This code was originally defaulted from the corresponding value in the customer master file but it is possible to override it during the order entry process if the order header control file is set to allow access.
 - The tax authorities assigned to the tax table are then retrieved to determine the applicable rates for each item tax code within each authority. Up to six tax authorities can be assigned to a tax table. Each authority has a unique tax rate for each of the five item tax codes (Y, A, B, C and D). Each authority also has a flag indicating if the core value of any items sold on the order are subject to sales tax or not and a separate flag indicating if the core value of any items credited on the order are subject to sales tax or not.
 - Each line item within the order is then extended by multiplying the ship quantity times the selling price to get one subtotal and the ship quantity by the core selling price (if applicable) to get a second subtotal.
 - These subtotals are then accumulated to separate fields for each item tax code within each authority

Location ???? Tax Table ??????

| Item flag | Auth | Gross sales | Taxable sales | Max taxable amt per itm | Tax rate | Tax amount |
|-----------|------|-------------|---------------|----------------------------|----------|------------|
| "Y" | #1 | _____. | _____. | _____. | _____% | _____. |
| | #2 | _____. | _____. | _____. | _____% | _____. |
| | #3 | _____. | _____. | _____. | _____% | _____. |
| | #4 | _____. | _____. | _____. | _____% | _____. |
| | #5 | _____. | _____. | _____. | _____% | _____. |
| | #6 | _____. | _____. | _____. | _____% | _____. |