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GST (Goods and Services Tax) issues

Q: Should I rely on the default "GST Liability Report" or the "PST Liability Report" that QuickBooks ® prints?

A: No. Do not rely solely on these default reports to prepare your GST or PST tax return. Although these reports are an improvement over what they were five years ago, they are not necessarily correct. To use only these reports could skew your tax liability to the tune of thousands of dollars over time. You might end up paying MORE THAN you actually owe and not be the wiser (you give out your own money needlessly). Or, you might end up paying LESS THAN you actually owe, in which case Canada Revenue Agency (CRA) would impose penalties and interest if the business was audited.

There are four steps you need to implement (three reports). Where these reports and the "GST Liability" report differ, these reports take precedence:

Step 1, LINE 101 SALES AND OTHER REVENUE: From the "Reports" menu, select "Company & Financial", "Profit & Loss Standard". Set the dates for the reporting period. Click on "Modify Report", click on "Filters", click on "Transaction Type", scroll to the top of the resulting list and click on "Selected Transaction Types"; place a checkmark beside "Invoice", "Sales Receipt" and "Credit Memo". Click "OK", click "OK". Use the TOTAL INCOME amount for Line 101 on your GST return. Note that this step as outlined will not satisfy Line 101 if you use Journal Entries to post your sales.

Print the report for reference and keep it with the GST return in your files.

Step 2, LINE 109 NET TAX: Open the Chart Of Accounts. Right-click on the "GST Payable" account. Click "QuickReport". Set the dates for the reporting period. Click "Refresh". The value showing at the bottom of the "Balance" column is the amount of GST you owe (Line 109). If the amount is a "minus" it means you have a GST refund. In order for this value to be correct, you must have consistently:

- 1) Posted any remittance cheques for GST owing and/or any bank deposits for GST refunds ***of prior periods***
- 2) Used the ***"GST Payable"*** account when posting GST remittance cheques and GST refunds
- 3) Posted any remittance cheques and refunds using ***dates that fall within or before the reporting period you wish to file***

Print the report for reference and keep it with the GST return in your files.

Step 3, LINE 103/105, GST/HST COLLECTED: With the report from step 2 still on the screen, click on "Modify Report", click on "Filters", click on "Transaction Type", scroll to the top of the resulting list and click on "Selected Transaction Types", place a checkmark beside "Invoice", "Sales Receipt" and "Credit Memo". Click "OK", click "OK". The value at the bottom of the "Amount" column is the GST you have collected.

Print the report for reference and keep it with the GST return in your files.

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Step 4, LINE 106/108 INPUT TAX CREDITS (ITC's): The ITC's are essentially the **difference** between Line 105 (step 3) and Line 109 (step 2). Where the net GST in step 2 is a refund, the ITC's are the **sum** of Line 105 (step 3) and Line 109 (step 2). Note that because of the many variables in the way each business posts its transactions, it would take 500 words or more to explain how to print a report for Line 108.

It is important to note that Canada Revenue Agency (CRA) policy requires both Line 101 and Line 105 on your GST return be exact and reflect the transactions of each reporting period. If a GST return is later found to be incorrect, you must resubmit the figures for Line 101 and Line 105, with a potential change in the net tax. The value for Line 108 ITC's **cannot be changed** once a GST return is submitted. Any discrepancies for Line 108 ITC's can, however, be addressed on a subsequent GST return.

Q: Why does QuickBooks® posts all GST (Goods and Services Tax) to the same Other Current Liability account even though I usually have a GST refund?

A: Businesses are required to collect GST tax on behalf of the Federal Government of Canada. The tax applies to specific goods and services as well as food snacks (basic foods are exempt from GST). The premise is that businesses will *usually* collect more tax than they have tax credits, thus the end result is a "liability" to the Canada Revenue Agency (CRA).

Simply Accounting and other accounting software's have one account for each of "GST Collected" and "GST ITC Credits". In that regard, the accounting community is accustomed to having two distinct accounts - one for GST Collected (owing to CRA) and one for GST ITC Credits (owing from CRA). Intuit Canada Ltd. is working to implement more features for customizing the Chart of Accounts - and thus the data entry - for sales taxes. We can expect these features to be implemented within the next two years so that preparing the GST return and other Sales Tax returns is easier.

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