User Guide | PUBLIC
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How to Manage Sales and Purchasing Tax in the US Localization

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1 Document History

Version	Date	Change
1.0	2020-02-10	First version.
1.1	2024-11-10	Guide converted from PDF to HTML format for viewing on the SAP Help Portal.
1.2	2026-06-17	Description for *Flat Tax Amount* is updated in Setting Up Tax Jurisdictions [page 6].

2 Introduction

This how-to-guide will help you to configure, use and manage sales and purchase tax in the US localization in SAP Business One version 10.0 and higher, and SAP Business One, version for SAP HANA. The guide is also applicable for previous versions.

In SAP Business One, you can maintain multiple jurisdictions with corresponding tax rates. These jurisdictions compile tax codes, where the sum of tax rates represents the total tax % of these tax codes.

A tax jurisdiction can be a city, county, state and any additional value defined by the user. Generally, US tax is determined by the location to which the goods or services are provided; therefore, SAP Business One determines the appropriate tax code for sales documents based on the assigned tax code of the selected *Ship To* address for the customer. On the purchasing side, the tax code is determined based on selected warehouse.

Tax thresholds can be identified for a min/max taxable amount, as well as for flat tax amounts. This will be explained in this guide.

Expectations are handled via the *Tax Code Determination* rules, where you can configure up to 3 conditions for assigning tax codes.

This guide is aimed at the US localization; however, it can be used for the Canada localization as well. For more information, see Tax in Canada [page 24].

3 Setting Up Tax Jurisdiction Types

Upon the creation of a new company database, 3 jurisdictions are created: City, County, and State. You can create additional jurisdictions on the path *Main Menu* > *Administration* > *Setup* > *Financials* > *Tax* > *Sales Tax Jurisdiction Types* >.

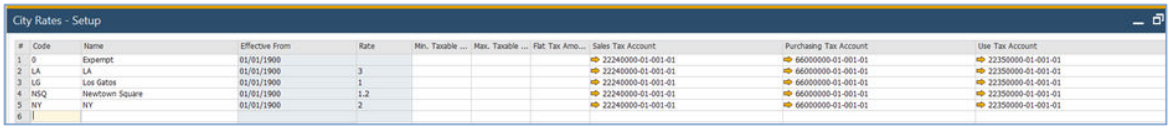
4 Setting Up Tax Jurisdictions

Context

The next step is to create jurisdiction values and assign tax rates to each one. For the *State* jurisdiction, the rates are automatically assigned. For the other jurisdictions, you need to create the ones that are relevant for the company and will be used in tax codes.

Procedure

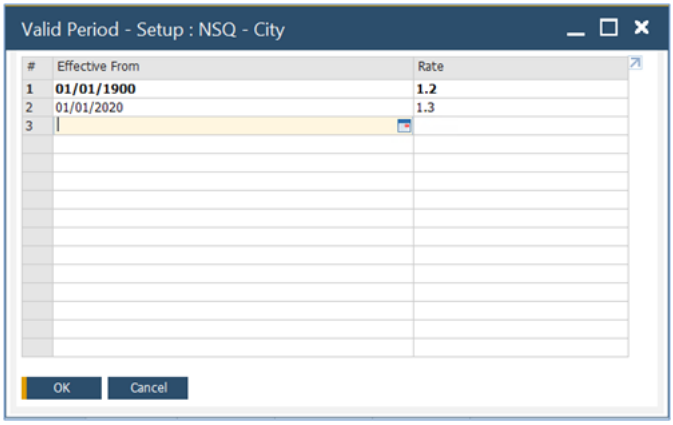
1. From the SAP Business One *Main Menu*, choose *Administration* > *Setup* > *Financials* > *Tax* > *Sales Tax Jurisdiction Types*. Select the jurisdiction type or define a new one.



2. Specify these fields:
   - *Code* – enter a code of up to 8 characters
   - *Name* – enter a jurisdiction name
   - *Min Taxable Amount* – if the amount in the document is lower than this amount, no tax will be calculated.
   - *Max Taxable Amount* – if the amount in the document is higher than this amount, tax will not be calculated on the amount above the maximum defined here.
   - *Flat Tax Amount* – enter a flat tax amount for the jurisdiction. If the calculated tax exceeds the flat tax amount, the flat tax amount is applied instead. This approach is suitable for handling the flat tax in South Carolina, where a maximum tax of USD 300.00 is imposed on certain items at the line level.
   - *Sales Tax Account* – define the account to be used for the tax in sales documents.
   - *Purchase Tax Account* - define the account to be used for the tax in purchase documents.
   - *Use Tax Account* - define the account to be used for the tax amount in purchase documents, when *Use Tax* is configured. Use tax is a scenario whereby the vendor doesn't charge you sales tax; however, you still need to pay these taxes. See the Use Tax [page 18] section for more information.
   - *Deferred Tax Account* - define the tax account to be used in sales or purchasing, when the document is marked as *Deferred Tax*, and for a journal entry posted as *Managed Deferred Tax*.

> **Note**
>
> If an amount is entered in the min/max taxable amount fields, the *Flat Tax Amount* is grayed out.

3. To define tax rates and periods, double-click the row number, or highlight it, and choose *Valid Periods* at the bottom right.
4. Define an *Effective From* date and the corresponding tax rate.
5. Often rates are updated; in such a case enter a new effective date and the tax rate in the next row. Based on the document posting date, the appropriate tax rate will be used.



5 Creating Tax Codes

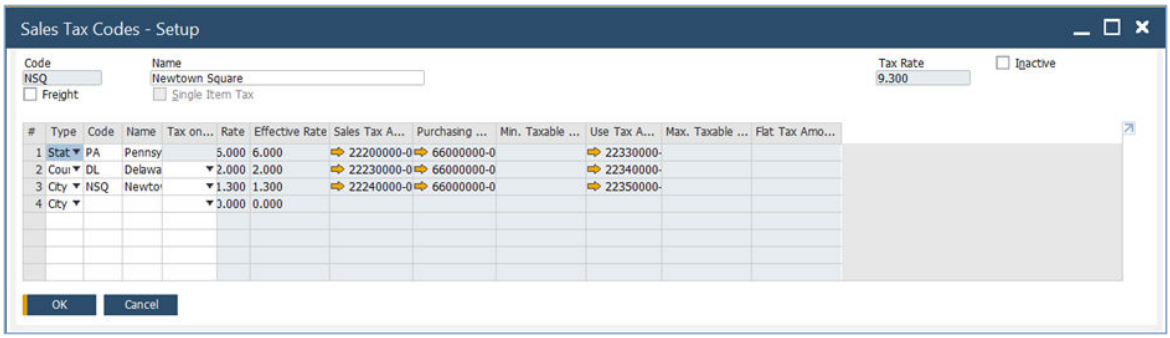
Context

Once all the jurisdictions are defined, you can create *Tax Codes*. The tax codes can contain multiple jurisdictions, where the sum of rates will be the total tax rate for this tax code.

These tax codes are used in both sales and purchasing documents, as well as for calculating tax on freight.

Procedure

1. From the SAP Business One *Main Menu*, choose *Administration* > *Setup* > *Financials* > *Tax* > *Tax Codes*.



2. Provide a *Code* and a *Name* for the tax code.
3. Select the *Freight* check box to calculate tax on the freight amount entered in the document when this tax code is used.
4. When one or more of the jurisdictions have thresholds (min/max or flat tax amount), the *Single item tax* check box is enabled. Select it if you want the thresholds to be calculated on the line level rather than on the document level.
5. Next define the jurisdictions, by specifying these fields:
   - *Type* - Select the jurisdiction type.
   - *Code/Name* - Choose one of the jurisdictions that are defined for this type.
   - *Tax on Tax* - Choose the previous row's jurisdiction, or *All*. This means the system adds tax on the tax amount calculated on the previous row or rows. For example, if you define tax on tax for the second row, 2% tax will be calculated on the 6% tax amount from the first row.

Next Steps

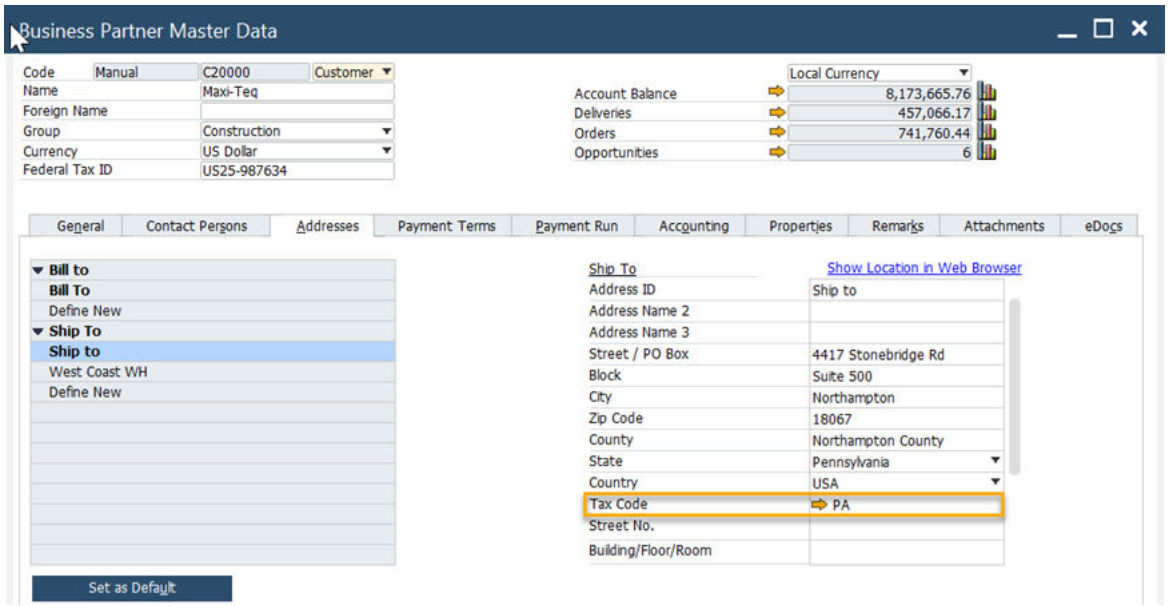
> **Note**
>
> Since tax codes cannot be removed, a code can be set as Inactive to indicate that it is no longer in use.

6 How Tax Codes Are Determined and Tax Amounts Calculated

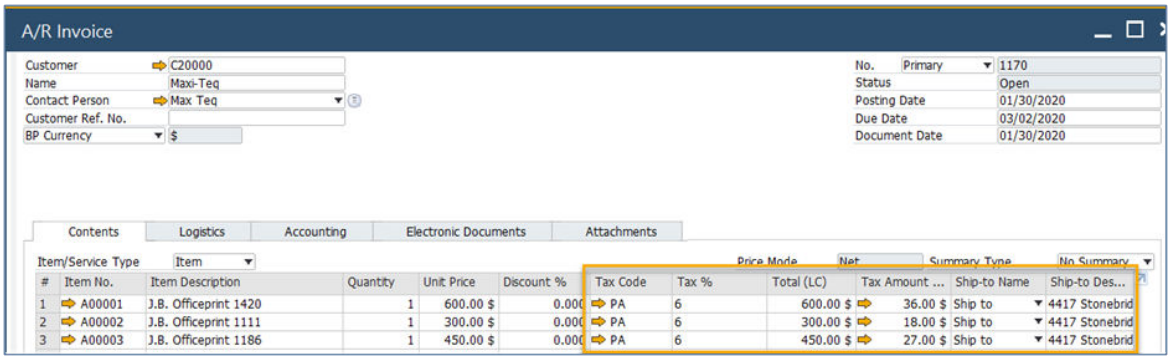
6.1 Sales

In sales documents, the system pulls the tax code to the document rows from the selected *Ship To* address of the customer.

1. In *Business Partner Master Data*, *Addresses* tab, select a *Ship To* address and assign the appropriate tax code:



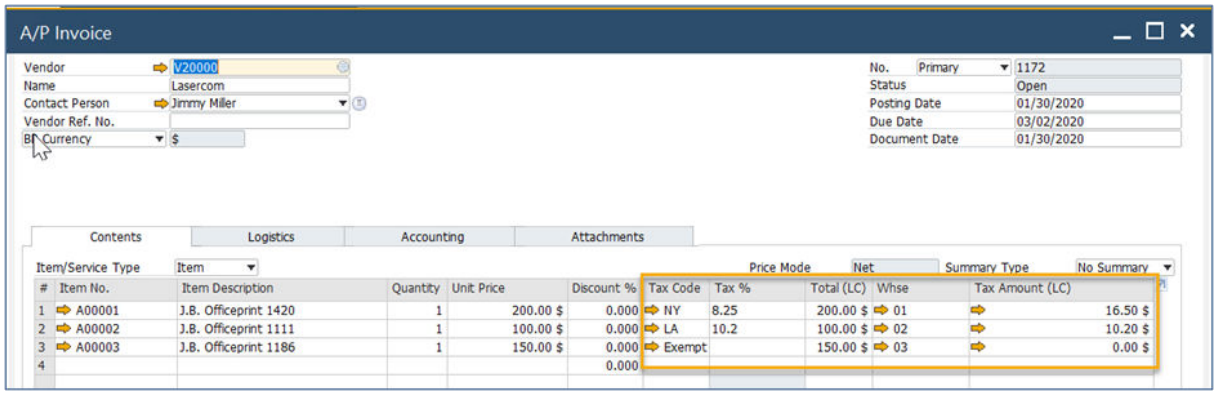
2. To modify the tax code in the document row, you can either replace it manually or change the ship-to address on the *Addresses* tab of the marketing document. In this case, the system asks for user confirmation.
3. The tax % and the tax amount can also be displayed. Drill down to the *Tax Amount* field to see the tax amount distribution among the jurisdictions included in this tax code.



> **Note**
>
> As of SAP Business One 9.3 PL11, it is possible to update the tax amount when the document is brought in from an external application via the DI API/Service Layer. A new check box *Allow External Calculation of Sales Tax* is available in *Company Details* > *Accounting Data*. See SAP Note 2771989 for more information.

6.2 Purchasing

On the purchasing side, the tax code is determined based on the warehouse used in the purchase document. When you define your company warehouses and their location, you assign a tax code based on where they are located. If you replace the warehouse code in the document, the tax code will be changed automatically.



> **Note**
>
> Tax amounts are not calculated until you enter a posting date since the application needs to know what effective rates to use for that date range.

In purchasing documents, the tax amount can be modified in the document itself. Click the drill down icon next to the *Tax Amount* column and you can adjust the tax amount by jurisdiction in *Define Tax Amount Distribution*.

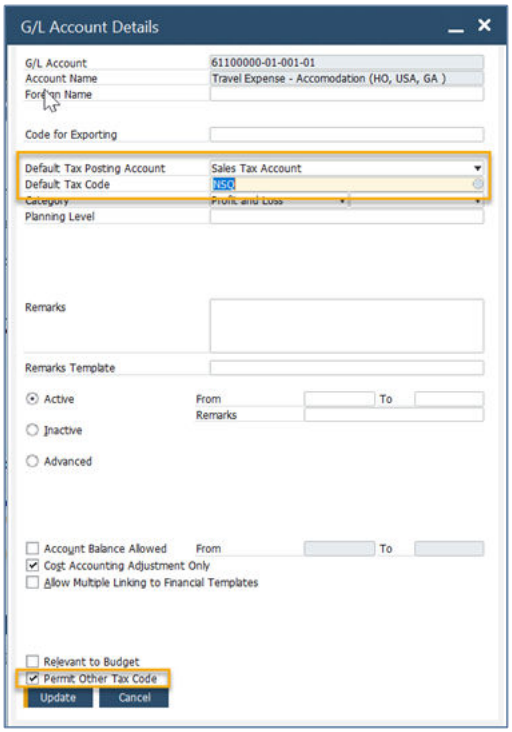
6.3 Automatic Tax in Journal Entries

You can calculate taxes for G/L accounts in a manual journal entry.

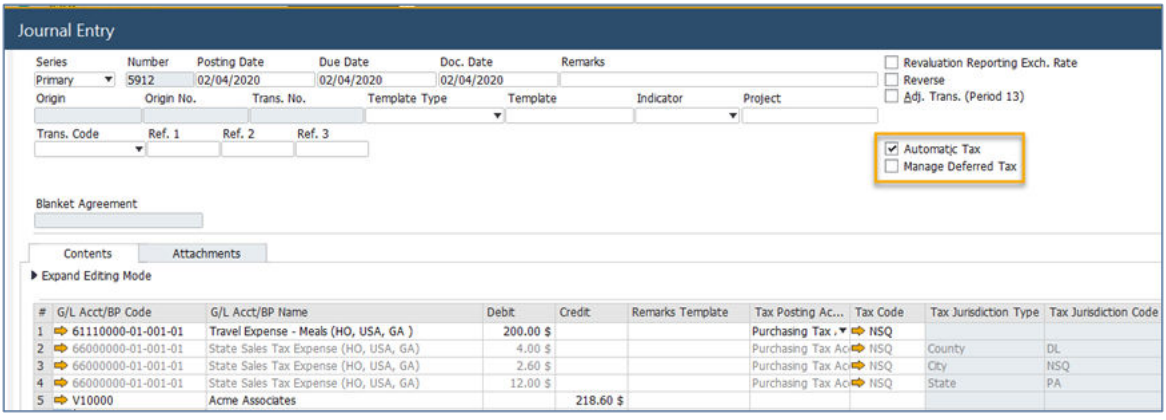
If the *Automatic Tax* option is selected, once you create a row in the journal entry for a G/L account for which a default tax code was defined, SAP Business One automatically creates rows for the tax information. The checkbox is not editable once the journal entry is added. In *Administration* > *System Initialization* > *Document Settings* > *Per Document* > *Journal Entry*, choose *Use Automatic Tax*.

To define default tax codes for a G/L account, open the *Account Details* page from the chart of accounts and specify the following:

- If the account is a *Sales* or *Purchasing Account*
- The tax code
- Whether to permit selecting a different tax code in the *Journal Entry*

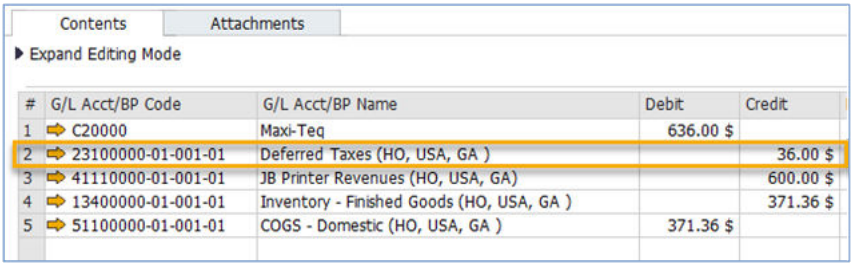


In case no default tax code is defined, you can manually select it in the Journal Entry. The system adds rows for each jurisdiction depending on the tax code, and the tax amount is calculated based on the amount entered for the G/L account. Based on the selected *Tax Posting Account*, the sales or purchasing tax accounts, as defined in the jurisdictions, will be used. The journal entry must include a business partner.



6.4 Deferred Tax

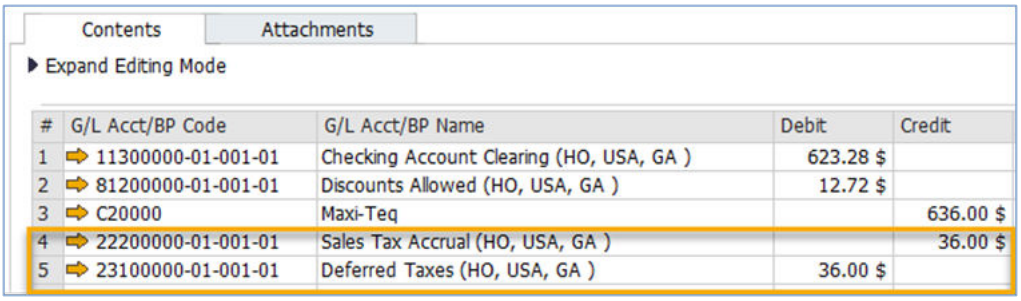
A/R Invoice, *A/R Credit Memo*, *A/P Invoice* and *A/P Credit* can be set as *Deferred Tax* on the *Accounting* tab. Use this scenario if tax is recorded during the payment, rather than during the invoicing step. In this case the *Deferred Tax Account* is used. Here is an example of an A/R invoice set as *Deferred Tax*:


Contents | Attachments

Expand Editing Mode

#	G/L Acct/BP Code	G/L Acct/BP Name	Debit	Credit
1	C20000	Maxi-Teq	636.00 $	
2	23100000-01-001-01	Deferred Taxes (HO, USA, GA)		36.00 $
3	41110000-01-001-01	JB Printer Revenues (HO, USA, GA)		600.00 $
4	13400000-01-001-01	Inventory - Finished Goods (HO, USA, GA)		371.36 $
5	51100000-01-001-01	COGS - Domestic (HO, USA, GA)	371.36 $	

When the invoice is paid with an *Incoming Payment* or the *Outgoing Payment*, the deferred tax account is cleared, and the standard tax accounts are credited/debited for each jurisdiction:


Contents | Attachments

Expand Editing Mode

#	G/L Acct/BP Code	G/L Acct/BP Name	Debit	Credit
1	11300000-01-001-01	Checking Account Clearing (HO, USA, GA)	623.28 $	
2	81200000-01-001-01	Discounts Allowed (HO, USA, GA)	12.72 $	
3	C20000	Maxi-Teq		636.00 $
4	22200000-01-001-01	Sales Tax Accrual (HO, USA, GA)		36.00 $
5	23100000-01-001-01	Deferred Taxes (HO, USA, GA)	36.00 $	

> **Note**
>
> The *Deferred Tax* check box cannot be selected in an A/P invoice or A/P credit memo, if rows set as *Use Tax* are included in the document. For more information on use tax, see Use Tax [page 18].

An *Automatic Tax* journal entry can be set to *Manage Deferred Tax*. In this case the *Deferred Tax Account* is used, rather than the sales/purchasing tax accounts. When the journal entry is marked to be paid, in a payment document, the deferred tax amount is cleared and moved to the standard tax account. Journal entries set to *Manage Deferred Tax* are not included in the *Tax Report*.

6.5 Tax Code Determination

You can set up tax code determination rules that take precedence over the standard sales and purchasing determination rules explained above. The system checks if any rules that match the document parameters apply and assign the tax code accordingly.

Tax Code Determination is located in *Administration* > *Setup* > *Financials* > *Tax*.

The following criteria are available for setting up tax code rules:

- *Document type* - choose either Item or Service, or both.
- *Business Area* - choose either Sales or Purchase, or both.
- *Condition* - choose up to 3 conditions per rule, using a list of system fields, as well as user-defined fields, from the master data or marketing documents.
- *Value* - the values vary based on the condition selected. It can be Filled/Empty, Choose from list of existing values, or *Not Defined*.
- *Description* - optionally add a description for the rule.
- *Line Tax Code* - select the tax code to match the conditions defined.
- *Line/Header Freight Tax* - select the tax code to be used for line and header freight.

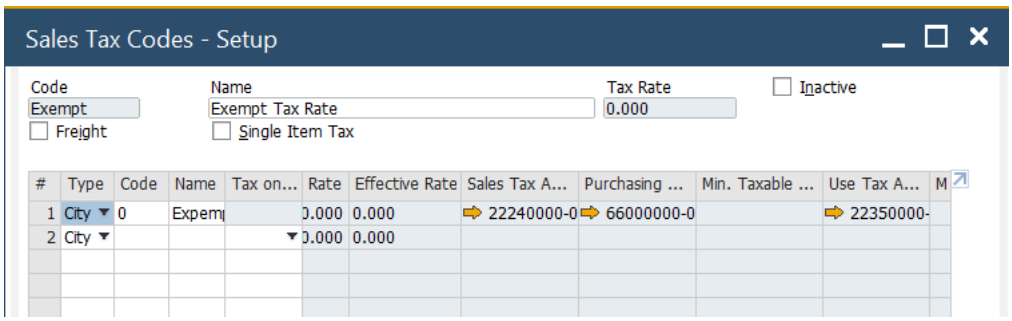
6.6 Tax Amount Allocation On Document Rows

The tax amount calculation is created on the basis of document totals per Tax code. Calculated tax totals are then distributed back to the document rows. Thus, you might see discrepancies or mismatches when the same items are used in different documents, resulting in different tax calculation amounts per row, or when using items in different combinations, or in negative rows.

When the document is based on another document, the tax calculated in base documents is independently recalculated and not connected to the tax calculation of the originating document. Therefore, the tax is calculated separately per target document, according to the above tax calculation concept. See Knowledge Base Article https://me.sap.com/notes/3535537 for additional information.

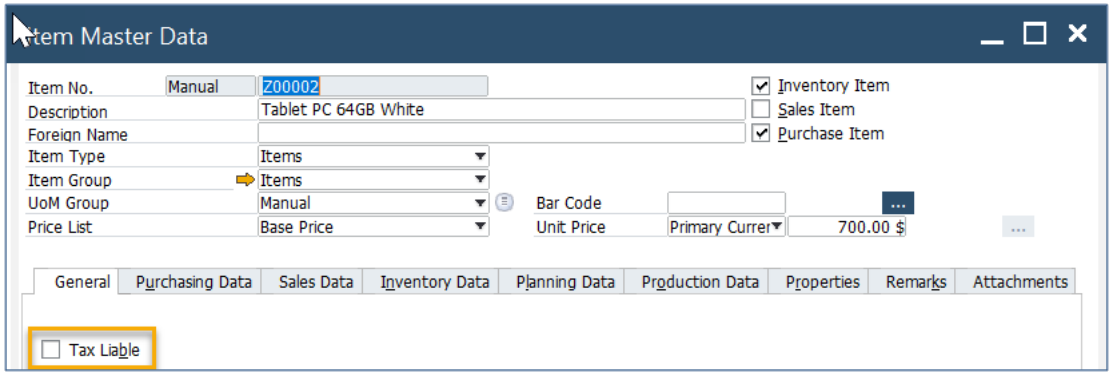
7 How to Handle Tax Exemption

In cases where tax should not be calculated, create a tax code with 0%. To do so, use one of the jurisdictions and create an entry with 0%. Create a tax code using this jurisdiction and use it as explained in the previous section.



> ### ✤ Example
>
> Tax nexus is a situation where the company is selling to a customer located in an area where the company has a significant presence. As such, it is not required to collect sales tax. Choose the exempt tax code for all ship-to addresses in that location.

Item master data can also be marked as tax exempt. In this case, no tax is calculated when these items are sold or purchased, no matter what tax code is used in the document.



Customers and vendors can also be marked as exempt in *Business Partners Master Data* > *Accounting* > *Tax* > *Tax Status*.

For a "one time" tax exemption, use the *Tax Liable* column in the document row, and set it to *No*, to make that row tax exempt.

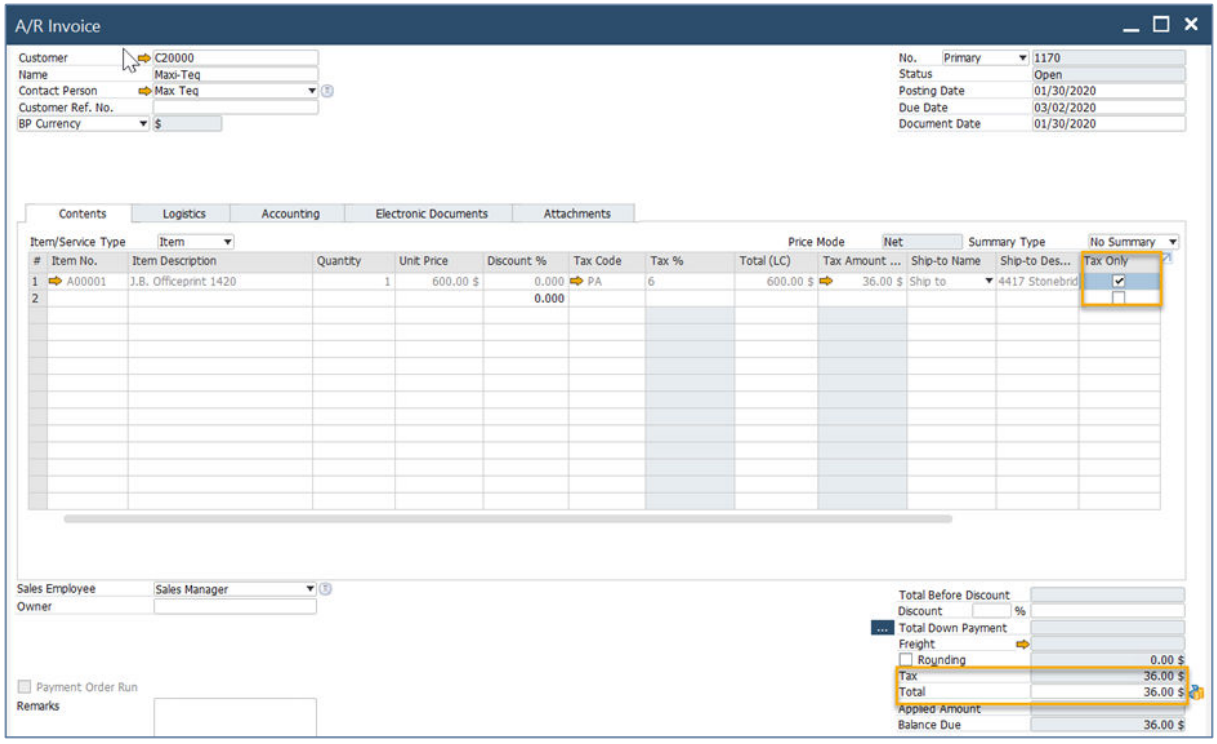
> ### ⚠ Caution
>
> The way you handle tax exemption affects your tax reports. If you use a 0% tax code, the amount from the document will appear in the *Taxable Amount* column. However, if you mark the item or customer as

exempt, the amount shows as a *Non-Taxable Amount*. See the section Tax Report [page 21] for more information.

8 Tax Only Documents

When an item is given for free, but you need to collect tax, or you need to adjust tax amount only, you can mark a sales or a purchasing document row as *Tax Only*.

Note how the row is grayed out and only tax is calculated:



> ⓘ Note
>
> *Tax Only* rows can only be used in a document that is not based on another.

9 Use Tax/ No Tax

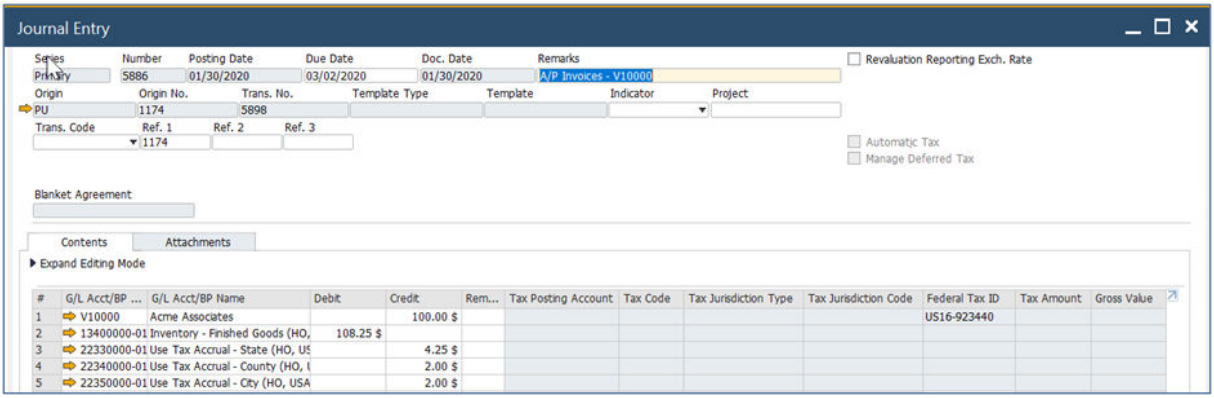
9.1 Use Tax

Use tax is a scenario where you, as a company, purchase items with no tax, but you do need to pay the taxes to your state.

In SAP Business One, there are 3 settings to activate a Use Tax calculation:

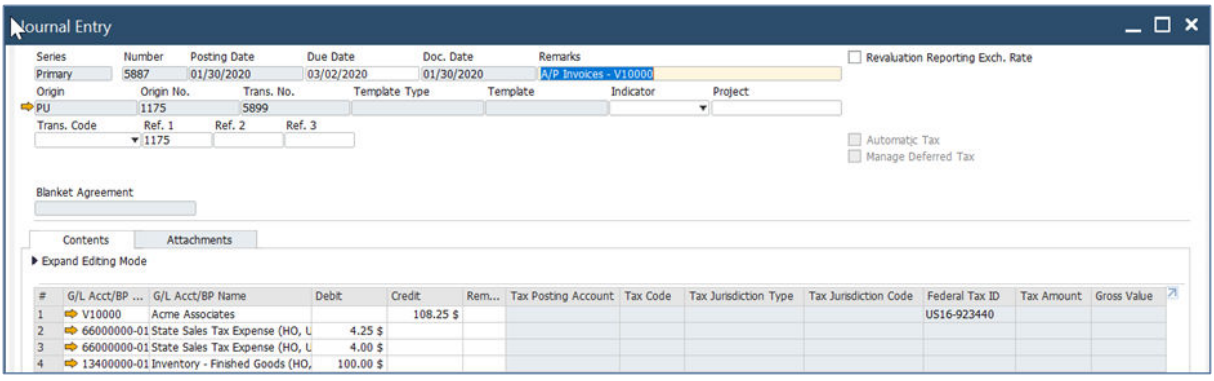
- *Item Master Data* > *Purchasing Data* > *Tax Type* > *Use Tax*. The default value is *Regular Tax*.
- *Warehouse Master Data* > *Allow Use Tax* checkbox.
- *Administration* > *System Initializations* > *Company Details* > *Accounting Data* > *Use Tax* checkbox.

When all 3 settings are activated, an A/P invoice's journal entry, including an item with a cost of 100 and a tax rate of 8.25, is as below:



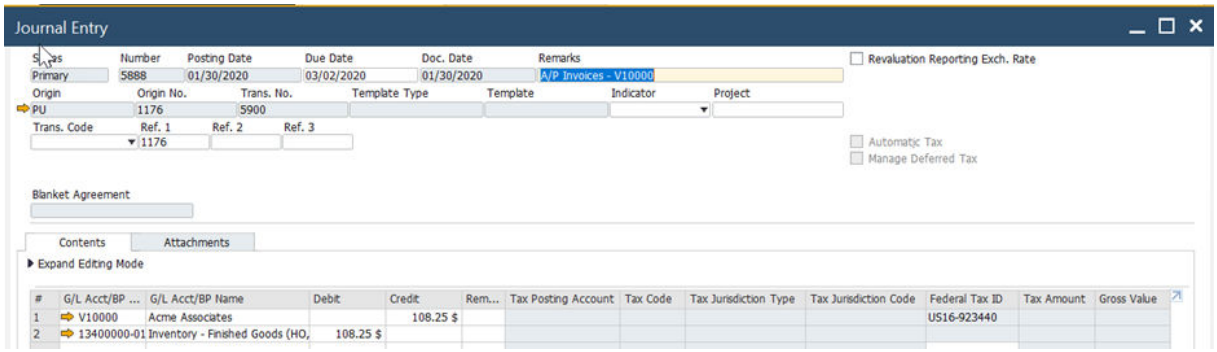
As you can see, the vendor is credited for the amount without tax, inventory value includes tax, and the tax is on the credit side.

Now let us compare the same amounts, but with a standard item:



Here, your vendor collects the taxes directly, and inventory value is the net cost of the item.

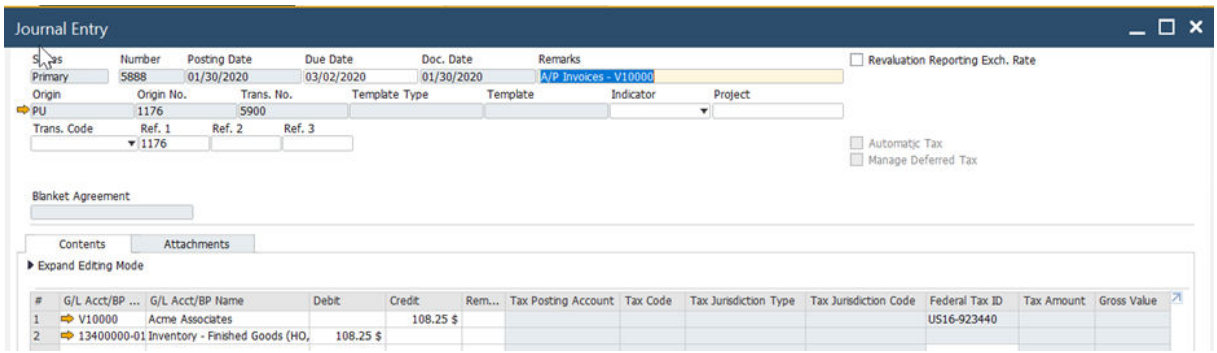
Use tax can be used for other scenarios. If the item is marked as use tax, but not the warehouse, tax is calculated; however, it is not posted to the tax accounts:



9.2 No Tax

Items can be marked as *No Tax* in *Item Master Data* > *Purchasing Data Tab* > *Tax Type*.

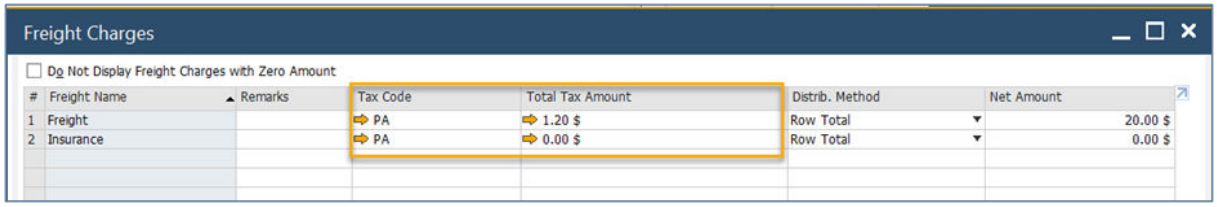
Use this option in a scenario where tax is calculated but not recorded in the accounting system. A/P invoice rows marked as *No Tax* are not displayed in the *Tax Report*. The tax amount is credited to the vendor and the inventory account gets debited as well for the full amount. The journal entry created is the same as for the scenario where the item is marked as *Use Tax*, but the warehouse is not:



> **Note**
>
> Any item can be marked as *Use Tax/No Tax* in a one-time scenario, using the *Tax Type* column in the purchasing document row.

10 Tax on Freight

Tax can be calculated on the freight amount entered in the document. Freight on the lines and header inherits the tax code entered in the document rows; however you can override it if needed. As explained above, if Tax Code Determination rules exist for freight, and the rules apply, the defined tax code will be used.



Remember that tax amount is calculated only if the tax code is marked as Freight.

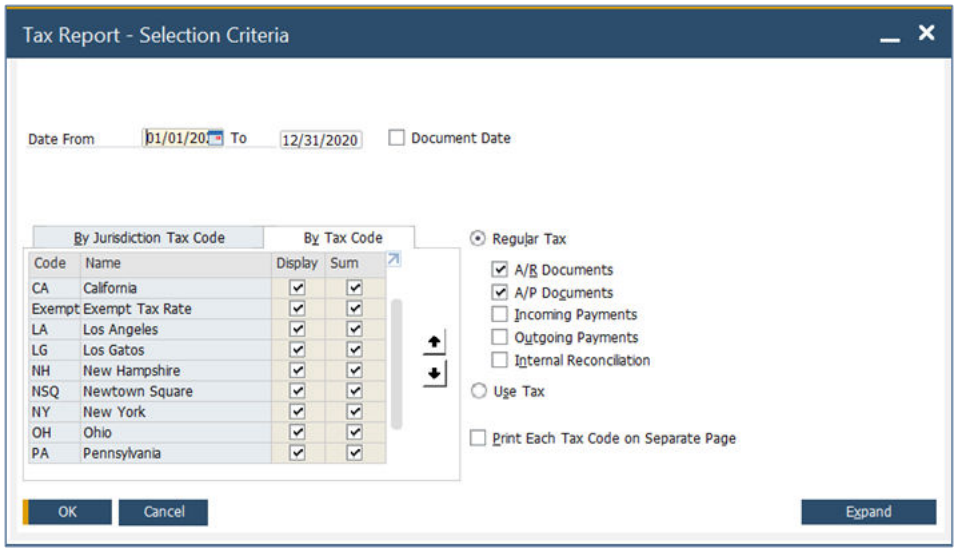
> → Recommendation
>
> As a best practice, customers prefer to separate the tax on freight by creating a tax code dedicated for freight; however this is not necessary.

11 Tax Report

Use the tax report to summarize tax paid and tax collected each month from sales and purchasing documents with *Tax Type* of *Regular* or *Use Tax*. Include outgoing and incoming payments that cleared deferred tax invoices/journal entries. Purchasing documents with *No Tax* rows are not displayed in the report.

You can run the report by jurisdiction or by tax codes, as well as select which documents to include and whether to *Print Each Tax Code on Separate Page*.

Access the tax report from *Financials* > *Financial Reports* > *Accounting* > *Tax* > *Tax Report*.



If you select the *Use Tax* option, only purchasing documents are included in the report.

Once the report opens, depending on your preference, the following is displayed:

In this example, the report is displayed by tax codes.

- Expand each tax code to see the details of the transactions, with drill down.

- Sales transactions appear as a positive amount and purchasing as negative.
- *Manual Journal Entries* with *Automatic Tax* are displayed. Depending on whether it was set as a sales or purchasing account, it will be displayed as a positive or negative amount.
- Payments that cleared *Deferred Tax* invoices are displayed.
- *Total Amount* is the total document amount before tax.
- *Taxable Amount* is the amount in the document that is subject to tax.
- *Taxable Freight* is the freight amount with tax code assigned to it, which is marked as applicable to *Freight*.
- *Non-Taxable Amount* is document rows marked as *Use Tax*, or those that are not *Tax Liable*.
- *Tax Amount* is the tax paid or collected in the document. Note that use tax A/P invoice rows show as zero amount.
- A/R and A/P credit memos are included in the report.

> **Note**
>
> Documents assigned to a tax code set with zero percent rate show as taxable amount in the tax report. If you need to show these amounts as non-taxable, mark the rows as *Tax Liable = No*. For more information, see How to Handle Tax Exemption [page 15].

12 Tax as a Service (TaaS)

TaaS is a free service available for the US localization which automatically creates and assigns tax codes for sales and purchasing, based on the shipping address selected in the document. *SAP Localization Hub, Tax Service (TaaS)* connects SAP Business One to a tax service hub used across SAP to keep up to date with tax changes throughout the world.

Once activated in *Administration* > *System Initialization* > *Company Details* > *Accounting Data*, and configured, then during creation of the marketing document, a tax code is created with the relevant jurisdictions, rates, and validity dates, and is assigned the document row.

You can exclude certain *Ship To* locations, for example if tax nexus exists, by setting the value as *No* in the *Tax Enabled* field for that *Ship To* address, in the *Business Partner Master Data*.

You can find additional information on configuration and usage of TaaS in the guide How to Use Tax Service in the US Localization of SAP Business One.

13 Tax in Canada

Although this guide is aimed for the US localization, the Canadian tax system is very similar to that of the US, with some differences:

- Two default jurisdictions are provided: *Federal* and *Provincial*.
- No thresholds functionality (Min/Max and flat tax amount).
- *Non-Deductible %* and *Account* - you can define a % of the tax calculated in the document as nondeductible, and post it to a separate account. The tax report shows a separate column for this amount.
- Tax codes are pre-delivered. New ones can be created.
- Deferred tax is not supported.
- TaaS is not supported.

Important Disclaimers and Legal Information

Hyperlinks

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