MYOB Exo Business White Paper

Taxation Features

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Contents

Introduction

The taxation features in MYOB Exo Business centre on the ability to have multiple tax rate definitions, with these rates optionally having separate tax control accounts, and being able to assign a tax rate to a transaction. The tax rate functions assist in tracking areas such as Standard, Exempt and Zero-rated tax, as well as specialised areas such as importers requiring tax from customs to be coded separately on the tax return.
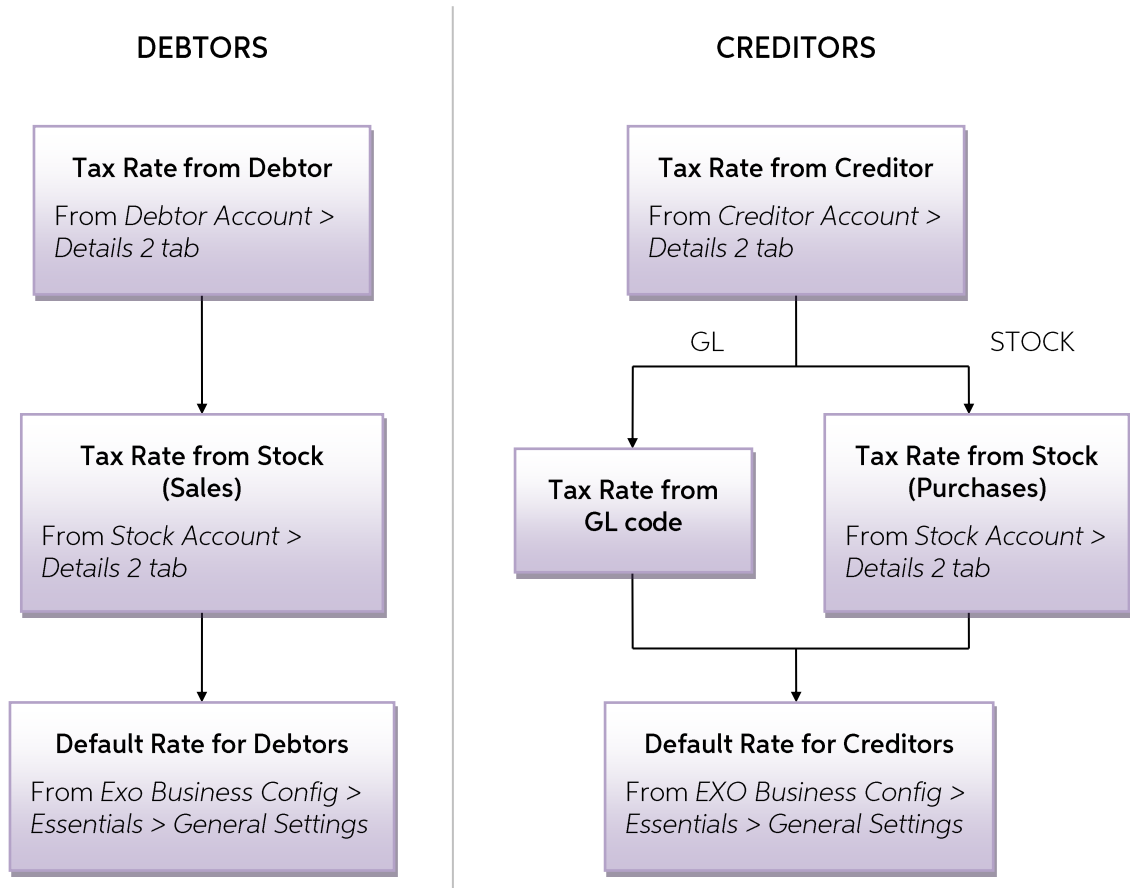
The default tax rate on a transaction is configurable in the system through a hierarchical rate selection process. If the user has been granted permission they may then optionally override the suggested default rate with a manually selected tax rate.

Generic Tax by Tax Rate reports can be run regardless of the country of origin. Alternatively, tax rates can be used in conjunction with tax return key points to generate specialised tax reports such as the Australian BAS Return and the New Zealand GST Return. Using the integrated reports also marks source transactions with the tax return they were reported on to assist with prior period postings.

Tax Processing Hierarchy

When a transaction is entered, the tax rate used is automatically determined by a hierarchical structure. The user can accept this setting or manually override it.

The following diagram depicts the hierarchy procedure for processing transactions:

DEBTORS	CREDITORS

Tax Rate from Debtor
From *Debtor Account > Details 2 tab*

Tax Rate from Creditor
From *Creditor Account > Details 2 tab*

GL · STOCK

Tax Rate from Stock (Sales)
From *Stock Account > Details 2 tab*

Tax Rate from GL code

Tax Rate from Stock (Purchases)
From *Stock Account > Details 2 tab*

Default Rate for Debtors
From *Exo Business Config > Essentials > General Settings*

Default Rate for Creditors
From *EXO Business Config > Essentials > General Settings*

For example, when performing a Debtor's invoice function, the tax rate is automatically selected by using the hierarchy as follows:

1. Account – the tax rate of the Debtor account is used, if explicitly specified on the Debtor account.

2. Stock – if no tax rate has been set at the Debtor account level, the rate applicable to the stock item is selected, if explicitly set on the stock item.

3. Default Rate – if no tax rate has been set on the account or the stock item, then the default Debtor's rate from **Exo Business Config > Business Essentials** is used.

In the case of a Creditor's invoice that uses General Ledger (GL) codes instead of stock items, if the Creditor's account default rate is not set, the rate from the GL account is used, and if a rate is not set on the GL account, the default Creditor tax rate in Exo Business Config is used.

Once the tax rate is chosen by the above hierarchy, the user can also manually override this rate and specifically set the **Tax rate number** and **Tax rate** using the periscope function.

Setup

Setting up MYOB Exo Business for tax involves setting up the default configuration in Exo Business Config, configuring individual tax rates (and their matching tax return key points), and then setting any individual "automatic overrides" on the accounts and stock items.

Company Defaults

The tax system in Exo Business is customised based on the country selected in the main Company setup screen.

This setting determines settings such as the available tax return key points, as well as cosmetic display information such as the local tax system name (e.g. GST, VAT).

To select the country for the system:

1. Go to **Exo Business Config > Company > Company Details**:

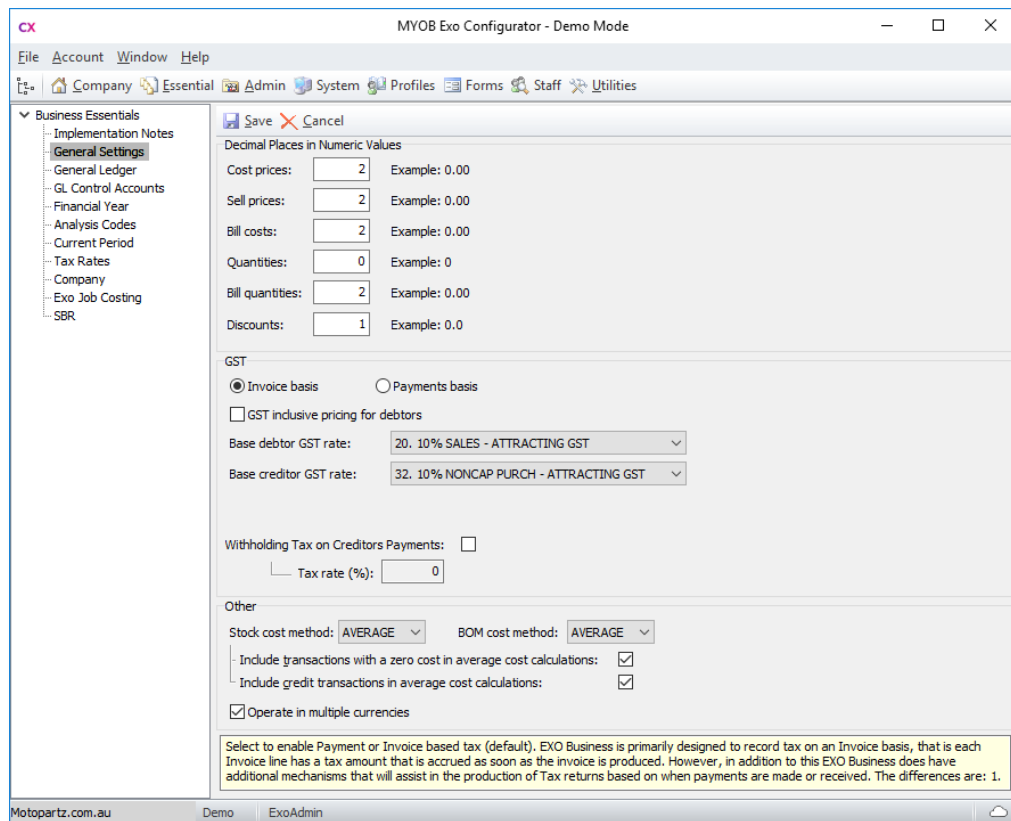2. Select the appropriate country from the **Country** drop-down list.

> **Note:** When the country of operation is changed, the default tax rates and the tax rate settings must also be reviewed and set to the appropriate country settings. Changing the country also alters the available tax return key points, used to configure the integrated tax returns. See the following sections for more detail.

Essential Defaults

Tax basis

Invoice or payments-based tax determines how taxation reports are run, and also if extra tax rate functions must be enabled (e.g. whether an overriding tax rate is required on a payment with payments-based tax systems).

The tax basis is set at **Exo Business Config > Essential > General Settings**:

MYOB Exo Business recommends and supports Invoice-based tax only.

MYOB Exo Business allows for a variety of tax rates to be recorded on each line of an invoice. When a payment is made it is only possible to record a single tax rate. Many functions that are controlled by profile preference settings in Exo Business Config (such as tax rate overrides at invoice line level) are suited only for invoice-line-based taxes.

While it is possible to operate Exo Business and report tax on a payment basis, there are certain logical paradoxes that can occur related to the fact that, by default, Exo Business allows tax to be recorded at a finer level of detail than on a payment basis. For example, care should be taken to disable functionality that promotes individual invoice line level control over tax rates. If multiple tax rates do occur on the same invoice, (or in fact to the same customer or supplier) then the only logical method of reconciling tax on a payment basis is to ensure that payments received or made are consistently allocated against invoices, and to produce estimates of tax by reports that calculate the tax content of invoices that are paid during the period.

Note that some features, such as the Australian BAS Return cannot support payment-based tax because fundamental linking is done at an invoice line level.

Debtor pricing

A setting is made to determine whether the sell pricing of stock is entered as tax inclusive or tax exclusive.

To set the tax inclusive/ exclusive settings for debtor pricing:

1. Go to **Exo Business Config > Essential > General Setting**s.
2. Tick or clear the **Tax inclusive pricing for debtors** option to state whether the sell prices of stock items are entered as tax inclusive or tax exclusive.

Default tax rates

Default tax rates are the lowest level in the tax hierarchy of tax rate defaults, and will be used on transactions unless specifically set by rates on the account or the stock item, or manually overridden. These default rates could be thought of as the "fall-back" rate if there are no other overrides on the transaction.

To set the default tax rates:

1. Go to **Exo Business Config > Essential > General Settings**.
2. Set the **Default debtor tax rate** and **Default creditor tax rate**.

Valid tax rates must be configured before the tax rate defaults can be set. See the following section for details on configuring tax rates.

It is critical that the default tax rates be set correctly. Invalid tax rates may also prevent transactions from being entered.
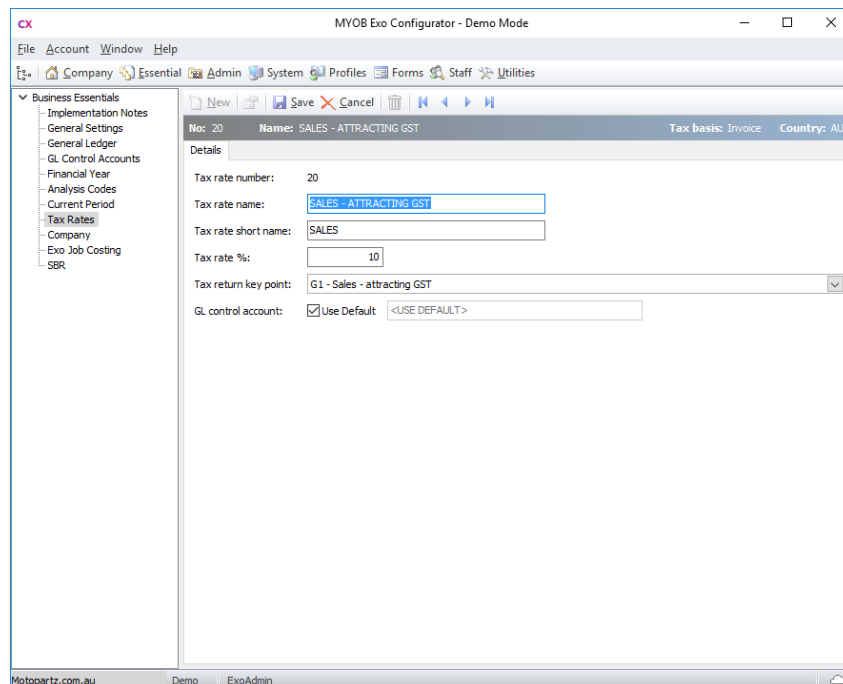
Tax Rates

Tax rates are used to group the purpose of the tax on an invoice or payment. It is these tax rates that can be reported on for tax returns, and when linked with tax return key points form the basis of the Tax Return systems.

To set up tax rates:

1. Open the tax rates table from **Exo Business Config > Essential > Tax Rates**:
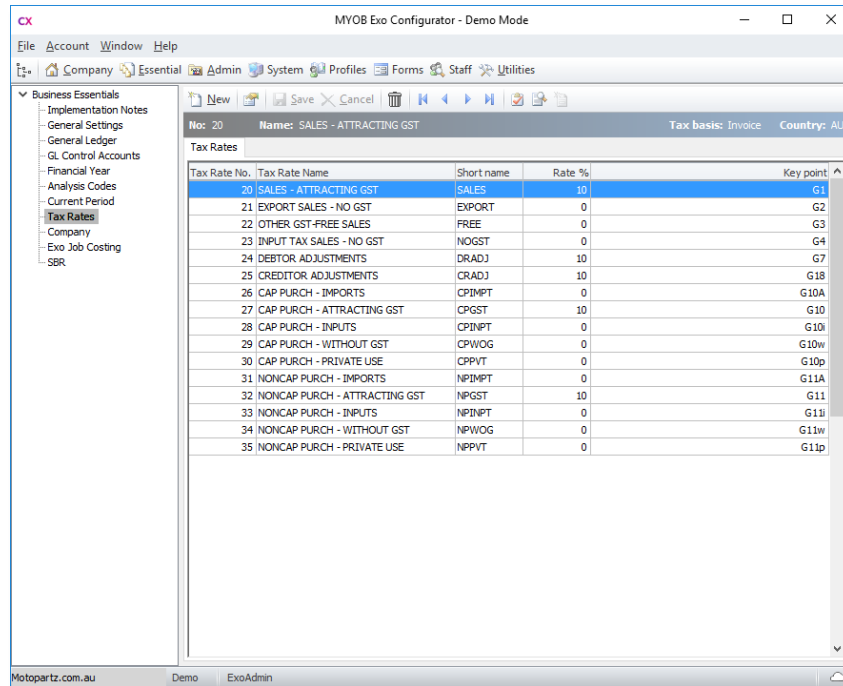
2. Create a new tax rate by clicking **New**, or double-click an existing rate to view and edit it.

3. Enter the following information, and click **Save** to save the tax rate.

    - Short Name and Name – user-friendly names used to reference the tax rate.
    - Tax Rate % – the percentage rate of tax to be recorded.
    - Tax Return Key Point – used to identify the corresponding field on the Tax Return, using this tax rate as part of the calculation. See "Tax Return Key Points" on page 8.
    - GL Control Account – leave as <USE DEFAULT> to use the GL control account specified in **Exo Business Config > Essentials > GL Control Accounts** for the Debtors and/or Creditors tax account, or select a specific GL account for the rate.

4. To verify that the tax rates have valid key points, and to also check that only valid tax rates exist on debtor, creditor, stock and GL accounts, click the **Check Rates** button on the toolbar. This will perform a check, and report errors and warnings.

5. In a new implementation, the suggested default rates for the selected country can be loaded by clicking the **Load Rates** toolbar button. This button will only be available if the tax rate table is empty, and therefore can only be used if no transactions containing tax rates have been entered in the system. See the Suggested Tax Rate Settings at the end of this document.

For more information on assigning tax rates to account or stock records, see "Tax Processing Hierarchy" on page 2, and "Tax Rate Hierarchy Setup" on page 9.

Tax Rate Utilities

If tax rates already exist, functions are available at **Exo Business Config > Utilities > Tax Rates > Load Suggested Rates**. This utility has the ability to optionally delete unused tax rates, set any remaining tax rates to "Disabled", and load the default tax rates for the country.

The Check Rates function can also be performed at **Exo Business Config > Utilities > Others > Exo Config Verification**.

The most common reason for the Check Rates function reporting "null key point values" is because there is no tax return key point setting on a tax rate. Note that a blank tax rate description will also make a tax rate invalid—if the rate number is shown in the table, it is expected to have a matching tax key point. It is suggested that blank description tax rates be avoided (or deleted), and that all tax rates point to a key point to confirm they have not been mis-configured. The tax return point "NA –Not recorded on return" can be used if the rate is not to be entered on a tax return.

Common causes of invalid tax rates include incorrect initial setting of default tax rates, or data imported directly to the database that has not set the tax rate fields. The following fields must be set when importing data:

- dr_accs.taxstatus
- cr_accs.taxstatus
- stock_items.salestaxrate
- stock_items.purchtaxrate
- glaccs.taxstatus

Tax Return Key Points

Tax return key points are the references to the key points on the country's tax return system. Tax return key points are predefined, relevant to each country, and are viewable but not user-editable. It is the assigning of the key point to a tax rate that controls what will appear on the tax return. More than one tax rate may be added to the same tax return key point.

To view the pre-defined tax return key points:

1. Go to **Exo Business Config > Admin > Finance > Tax Return Key Points**:
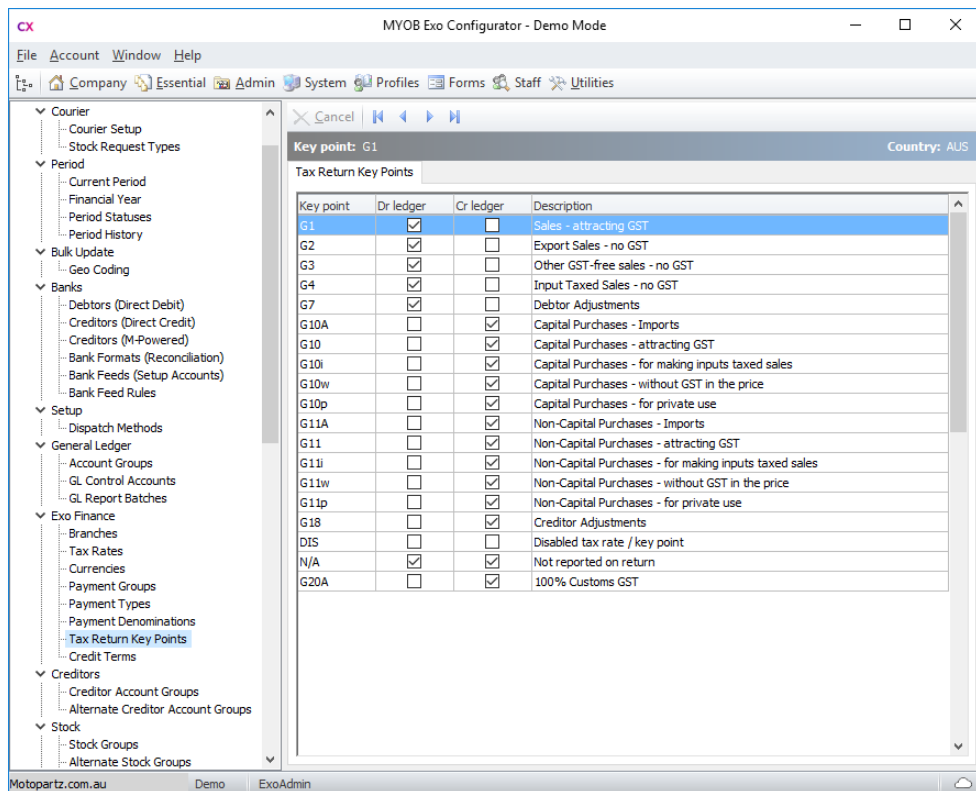
2. An item may be double-clicked to show more information on the item, such as the full description.

3. See the Suggested Tax Rate Settings on page 15 for suggested settings for linking the tax rate with the tax return key points.

Tax return key points list the items as Creditor and/or Debtor. These properties carry through when assigned to tax rates, and therefore helps prevent incorrect tax rates being entered on the wrong transaction types.

 "DIS" and "N/A" are special key points that can be used to disable a tax rate to prevent data entry, or to not display the rate on a tax return.

The Tax Return Key Points are stored in the TAX_KEY_POINT table, and are filtered by the country code selected in the Exo Business user's company setup (see page 3).

Tax Rate Hierarchy Setup

Once the tax rates have been linked to the tax return key points, and the default rates setup, optional tax rate overrides by debtor/ creditor account and stock item can be set up. These settings will then override the default rate specified in **Exo Business Config > Essential > General Settings**, as shown in the Tax Processing Hierarchy on page 2.

Tax Rate on Debtors/ Creditors

The default tax rate used on a transaction can be determined by a rate set on a Debtor or Creditor account. This is useful, for example, if the tax rate charged to a foreign Debtor is different to local accounts, or if the tax rate paid to a foreign Creditor is different. Setting the tax rate on an account will set the tax rate on a transaction line to that account's default rate.

The Debtor/Creditor default rate is the highest overriding level in the hierarchy, (with the exception of manually overriding the rate during transaction entry).

To override the tax rate on a debtor:

1. Select the Debtor or Creditor from the **Account > Debtor** or **Account > Creditor** windows.

2. Enter the **Override Tax Rate** on the Details 2 tab:

3. Leaving the Default tax rate setting as "-1. No tax rate" will disable any overriding of the tax rate by the account, so the next level down the hierarchy will be used (which is the tax rate on the stock item).

Tax Rate on Stock Items

The default tax rate used on a transaction can also be determined at a stock item level, e.g. to accommodate various tax rates are applied specifically by stock item.

Note that a tax rate set on a stock item will be not be used if a tax rate is also set on the Debtor/Creditor account, or if manually set during transaction entry, as they have higher priority.
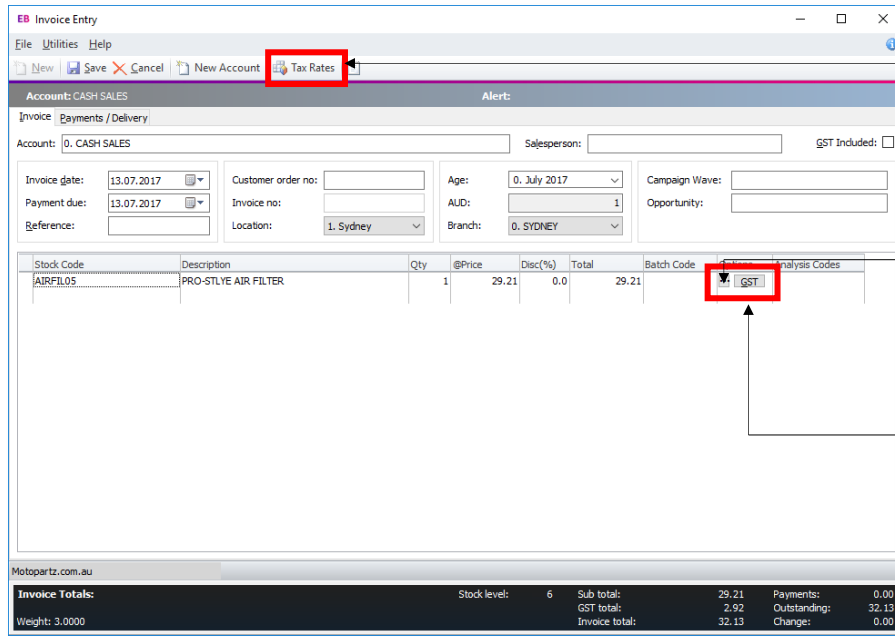
To set the tax rate on a specific stock item:

1. Select the stock item from the **Stock > Account** window.

2. Enter the required **Sales Tax** and **Purchases Tax** rates on the Details 2 tab.

3. Leaving the Sales or Purchases tax rate set as "-1. No tax rate" will disable any automatic overriding of the tax rate by the stock item, so the next level down the tax rate hierarchy will be used (which is the default tax rate of the system).
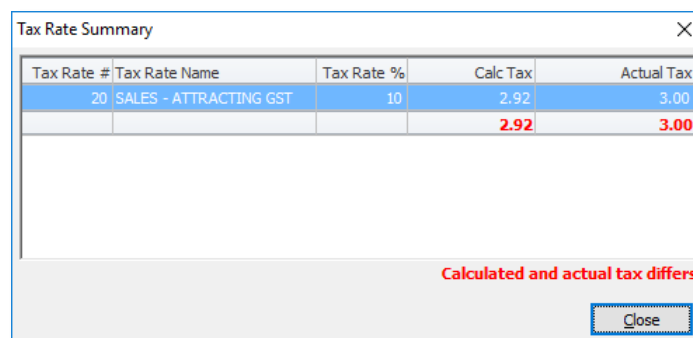
Manually Overriding Transactions

When entering the lines on an invoice, the tax rate hierarchy is used to automatically select the tax rate on the line. This automatic selection may then be optionally overridden by the user, if they are set up with permission to do so.

Tax Rates button: Compares the calculated amount of tax using the automatic tax rate hierarchy structure with the tax amount actually entered.

Periscope button: Allows overriding of the default tax rate, or tax amount

Tax toggle: Allows changing price options between tax inclusive and tax exclusive.

On invoices where a rate other than the default rate is needed, the periscope button can be used on that line to manually enter the rates and value. (Use with caution when using a payment-based tax system.)
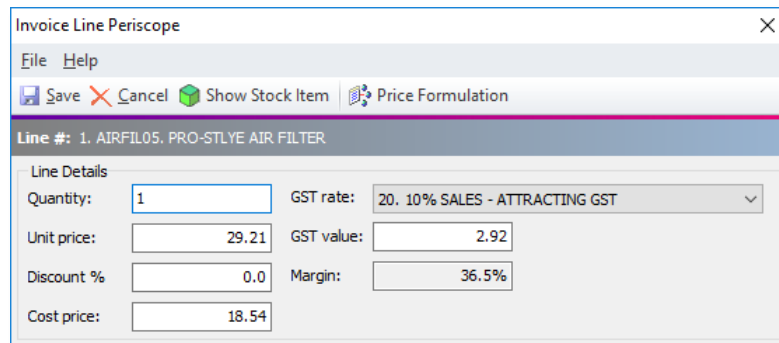
To compare the tax calculated by the default tax rate hierarchy with the rate manually overridden, click the **Tax Rates** button on the toolbar.

The ability to override the rates on debtor invoices is controlled by the user profile **Allow override of tax amount for invoice lines**.

Overriding the tax value on Debtors transactions is <u>not recommended</u>. If the client manually overrides the **Tax value** field, this will result in a discrepancy between the Gross on the invoice and the Gross on the Tax Return. Instead of changing the tax value, clients should change the **tax rate**.

Changing the Tax Rate

In some circumstances clients may want to change the tax, e.g. from 15% to 0%, because the tax on a transaction is for a "Zero Rated" supply such as exported goods.

In this case, clients should change the **Tax rate** using the drop down of available rates to a rate that is set to 0%, and let the system recalculate the tax amount to $0.00. **Do not simply override the Tax value to $0.00.**

This way MYOB Exo Business will correctly calculate the Gross to be shown on the Tax Return.

Changing the GST Value (Creditors Invoices)

In some rare circumstances, clients may want to change the **Tax value** on a Creditors transaction, e.g. when entering a Creditors Invoice, the tax as calculated by Exo Business may differ slightly to that as charged by the Supplier.

In this circumstance, it is acceptable to override the **Tax value** to agree with the supplier's documentation.

Existing Transactions

Databases with existing transactions will need to be checked before using the automatic tax return features if they have not been configured previously. For new transactions entered going forward, this should not be an issue as long as the settings are correct.

Historical information should be marked so that this information will not be picked up when the **Include previous** option is selected on a new tax return, (i.e. when the intention is to include transactions added to a prior period that has already had a tax return created, in whatever format was used previously). This historical information could be captured by creating a "dummy" tax return to mark all the transactions in the historic data's date range.

Reporting

Tax reporting is normally performed using the tax rates on transactions. This may be done manually using a Tax by Rate Type report, or the more 'interactive' tax return functions that are country specific.

Tax by Rate Type Report

A tax by rate type report can be used to create "manual" tax returns, or to allow auditing of data. Two reports exist: a tax rate report for payment transactions and a tax rate report for invoice transactions.

The Clarity report for payment transactions is **TAXByRateType_Payment.CLR**, and the report for invoice transactions is **TAXByRateType.CLR**.

A historic Tax by Rate Type inbuilt report is also available to show tax.

Tax Return Operation

Tax returns designed for specific countries are available, which connect tax rates to their relevant tax return key points.

See the separate whitepapers on specifically running the tax return for the required region.

Tax Rate Exceptions

A Tax Rate Exceptions report can be added to the Exo Business menu to help identify incorrect coding, or invalid codes. (This option can also be run directly from the NZ GST Return or BAS Tax return windows by selecting **Utilities > Tax Rate Exceptions**.)

This report can help identify tax rates set up or used on the incorrect ledger if changes are made to the tax rate settings.

Various other tax rate utilities and verification tools can be accessed from **Exo Business Config > Utilities > Tax Rates**, if the **Show Utilities in Exo Business Config** user profile option is enabled.

Suggested Tax Rate Settings – Australia

Tax Rates				Tax Return Key Points			
Short code	Rate name	%		Key point	Key point description	For Dr	For Cr
SALES	SALES - ATTRACTING GST	10		G1	Sales - attracting GST	Y	N
EXPORT	EXPORT SALES - NO GST	0		G2	Export Sales - no GST	Y	N
FREE	OTHER GST-FREE SALES	0		G3	Other GST-free sales - no GST	Y	N
NOGST	INPUT TAX SALES – NO GST	0		G4	Input Taxed Sales - no GST	Y	N
DRADJ	DEBTOR ADJUSTMENTS	10		G7	Debtor Adjustments	Y	N
CRADJ	CREDITOR ADJUSTMENTS	10		G18	Creditor Adjustments	N	Y
CPIMPT	CAP PURCH – IMPORTS	0		G10A	Capital Purchases – Imports	N	Y
CPGST	CAP PURCH – ATTRACTING GST	10		G10	Capital Purchases - attracting GST	N	Y
CPINPT	CAP PURCH – INPUTS	0		G10I	Capital Purchases - for making inputs taxed sales	N	Y
CPWOG	CAP PURCH – WITHOUT GST	0		G10W	Capital Purchases - without GST in the price	N	Y
CPPVT	CAP PURCH – PRIVATE USE	0		G10P	Capital Purchases - for private use	N	Y
NPIMPT	NONCAP PURCH – IMPORTS	0		G11A	Non-Capital Purchases - Imports	N	Y
NPGST	NONCAP PURCH – ATTRACTING GST	10		G11	Non-Capital Purchases - attracting GST	N	Y
NPINPT	NONCAP PURCH – INPUTS	0		G11I	Non-Capital Purchases - for making inputs taxed sales	N	Y
NPWOG	NONCAP PURCH – WITHOUT GST	0		G11W	Non-Capital Purchases - without GST in the price	N	Y
NPPVT	NONCAP PURCH – PRIVATE USE	0		G11P	Non-Capital Purchases - for private use	N	Y

Some of the Tax Return Key Points on the Australian system point to multiple places on the BAS Return. See the *Australian BAS Return* whitepaper for information on how these key points correspond to the actual return sheet.

Suggested Tax Rate Settings – NZ

Tax Rates		
Short code	Rate name	Rate%
DR	DEBTORS STANDARD GST RATE	15
DR-EX	DEBTORS GST EXEMPT	0
DR-ZR	DEBTORS ZERO RATED	0
CR	CREDITORS STANDARD GST RATE	15
CR-EX	CREDITORS GST EXEMPT	0
CR-ZR	CREDITORS ZERO RATED	0
BAD	BAD DEBTS	15
BADREC	BAD DEBTS RECOVERED	15
CUSTOM	CUSTOMS GST	0

Tax Return Key Points			
Key point	Key point description	For Dr	For Cr
5	Sales and income where GST has been charged	Y	N
6	Zero-rated supplies	Y	N
6	Zero-rated supplies	Y	N
11	Purchases and expenses for which tax invoicing requirements have been met, excluding any imported goods	N	Y
11Z	Purchases and expenses - with no GST	N	Y
11Z	Purchases and expenses - with no GST	N	Y
13D	Other (such as: bad debts written off, GST content shown on Customs' invoices)	Y	Y
9G	Other (such as: barter, bad debts recovered, exported second-hand goods, insurance payments received)	Y	Y
13D	Other (such as: bad debts written off, GST content shown on Customs' invoices)	Y	Y

Special Tax Return Key Points

The following may be useful "Tax Return Key Points" that could be assigned to redundant tax rates when upgrading and rationalising pre-existing systems. They can be used for any country.

Key point	Key point description	For Dr	For Cr
DIS	Disabled tax rate / key point	N	N
N/A	Not reported on return	Y	Y

The "DIS" key point explicitly sets both the Debtor and Creditor ledgers to "N", therefore preventing it from appearing in the rate selection list of either ledger.

The "N/A" key point is not a valid Tax Return Key Point reference, and therefore will not show on the return.