**Procedure for USE TAX setup and how it works on AP Documents**

1. Check the Box for Use Tax in Company Setup

Define the default tax code to be used for the company:

- In Service and A/P invoices if the company was defined as tax-liable.

- In A/P invoices when choosing an item that is not defined as an inventory item.

Administration >> System Initialization >> Company Details



2. Make the warehouse setup as below. Tick the Box Allow Use Tax

And also select the appropriate tax code if needed or select Exempt tax code

If not there. This is only a default setup. However you could select the desired Tax Code on the Line item of the AP Invoice.

Administration>>Setup>>Inventory>>Warehouse



3. For the NON Inventory Item which is ticked for only Purchase tick Tax Liable box in the general setting as below:

Inventory >> Item Master Data



4. Tick the Tax Type “USE TAX” under the purchasing tab of the item master



5. In the AP Invoice, after selecting the Non Inventory Item, the Tax Code and the Tax Type (Use Tax) is picked up automatically.

You would notice that the total of the doc shows only the actual cost of the Expensed Item (e.g. $400) and not including the Use Tax for the total payable to the Vendor.



6. Finally create the AP-INVOICE as below. You could notice in the screen below on the Journal Entry. On the Debit Side the tax is already taken care in the expense account and while on the Credit side the Vendor is billed only for the Cost of the product and the USE TAX value goes to the liability account.



7. In case of Inventory Item the posting of accounts is slightly difference, wherein the USE TAX value is posted to the Inventory Account and not as Expense Account as shown below and everything else works the same way as Non Inventory Item.

