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INTUIT Certified ProAdvisor Point of Sale
INTUIT Certified ProAdvisor QuickBooks Advanced
INTUIT Certified ProAdvisor Enterprise

Overpaid Sales Tax - Found Out Customer Was Exempt

Our customer underpaid the invoice we sent them and just notified us that they are tax exempt. We've already paid the Sales Tax Liability. How can we properly report this in QuickBooks© so we get the Sales Tax we paid refunded to us?

Following these instructions will reduce your *current* Sales Tax Liability (thus refunding the Sales Tax you've already paid in by mistake). Run and print a Sales Tax Liability report for *this month* before starting the process so you can proof the result.

1. Go to the payment that was applied to the original invoice. If the customer underpaid you, this payment was leaving an amount due on your Accounts Receivables. Unlink the payment (remove the checkmark) from the invoice and Save and Close.
2. Enter a Credit Memo dated today for the entire original invoice (using the same items and amounts). Then apply this credit to the original invoice which will show it paid in full and remove the balance from your Accounts Receivables.
3. Change the Customer's Sales Tax code to your non-taxable (exempt) code.
4. Now create a non-taxable (exempt) invoice dated today again using the same items and amounts from the original invoice. The only difference between this invoice and the original one is that Sales Tax is not being assessed.
5. Go back to the original payment (from step #1) and apply that payment (put a checkmark next to) to the new invoice which is dated today.
6. Run another Sales Tax Liability report for *this month* to see the result. Your Sales Tax liability for this month will be reduced by the amount of the Sales Tax that was on the Credit Memo and your Accounts Receivable report will be corrected. Voila!