Overview of Tax Profiles

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> This guide provides information and best practices for working with tax profiles. It is intended for system administrators.

aACE provides thorough, flexible control over tax calculations (http://aace6.knowledgeowl.com/help/understanding-tax-rate-calculations). This robust control is created by the interaction of aACE tax profiles with established postal codes and customer company information. These elements enable you to calculate, collect, and store taxes until it's time to remit them.

If your company needs additional tax handling, the aACE+ AvaTax integration (https://aace6.knowledgeowl.com/help/understanding-aace-plus-avatax-integration) provides advanced tax support.

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Understanding Tax Profiles

Tax profiles are important for tax calculations in aACE. They should be based on postal codes and focused on a jurisdiction. A jurisdiction might include multiple tax entities (e.g. state, county, city, etc). Tax profiles can be created for different date ranges and types of taxes (e.g. NY2022, NY2023, Use Tax, etc). You can set up as many tax profiles as needed.

The tax profile applied for a specific transaction is determined by the postal code of the shipping destination. For tax exempt organizations, you can also link a tax profile directly to the customer's company record (http://aace6.knowledgeowl.com/help/linking-tax-profiles-to-company-records).

aACE applies the tax profile when an LIC is selected in an order. The tax rates are identified and tax amounts are calculated. When the order is invoiced, the tax amounts are posted against the corresponding GL accounts.

aACE Software

Navigating a Tax Profile

To access a tax profile, go to Main Menu > Accounting > Tax Profiles, then select on an existing profile:

1. General Info

The Start Date and End Date fields are optional for a tax profile. If your system has the Rate Card / Tax Profile Reminder notice setup is activated, this End Date will trigger an automatic expiration notice. For example, if a tax rate will change effective January 1st, you can set the End Date on the current tax profile to December 31st and the team assigned on the notice setup will be notified on the end date.

2. Settings

The Settings section has four preferences available for tax profiles:

- Default Tax Profile — Indicates the tax profile is the system default. Only one tax profile can be the system default.
- Use Tax Profile — Calculates use tax amounts. Only one tax profile can have the Use Tax Profile preference enabled.

- EU Tax Profile — Addresses European Union taxation. Only one tax profile can have the EU Tax Profile preference enabled.
- Enable for tax automation — Used with the aACE+ AvaTax integration

Team members can manually change the assigned tax profile on a Pending or Open order based on these preferences. However if your team regularly has to make these changes, then your tax profiles might need to be set up differently.

In the Description field, you can comment further on details of the tax profile.

3. Tax Setup

Identifies up to four taxing entities (e.g. state, county, city, other) that will share in the total tax value. These labels are automatically transferred to the Default Rates section as column titles. You can specify a General Ledger account for each entity and default tax rates for the four general types of LICs. You can also record exceptions to the default rates for certain LICs.

When an invoice is opened, the tax amount calculated for each entity is posted to the specified GL Account. The GL account reflects the amounts you collect as you process order payments. Eventually, these amounts will accumulate to a balance you can remit to the appropriate tax authority.

4. Default Rates

The relevant taxing authorities should provide the actual rates or the percentages that each entity will receive from the total tax collected in the tax profile jurisdiction. The rates you enter here will be used to calculate tax amounts.

Each of the four main types of LICs can be taxed at a different rate. A service might be taxed at a different rate than a tangible item. Other type LICs are generally not taxed.

Each line item type can also have a different tax rate for each taxing entity.

5. Exceptions

Use the Code field to identify any LICs that do not conform to the default rates you entered

elsewhere on the tax profile. Exception items can carry their own rates or can be completely exempt.

You can add (or remove) exception LICs to multiple tax profiles at one time:

1. From the Tax Profiles list view, use the Quick Search bar to locate all the relevant tax profiles.
2. Select **Edit** > **Add (or Remove) Exceptions to List**.
3. Select **Add**.
4. Select the relevant LICs.
5. Select **Save**, then select **OK**.

Identifying Required Tax Profiles

The simplest tax setup would be for a retail operation where all customers come to your store. All transactions would take place at that single location, so only a single tax jurisdiction would be applicable (i.e. the location of the store) and only a single tax profile would be needed. However, there are other complicated tax setups that require additional tax profiles.

Shipping Tax Profiles

More common business operations involve shipping products to customers. The tax obligations are determined by the ship-to address, but a single destination might need multiple tax jurisdictions. For example, if you ship to customers in Chicago, you would need a tax profile that accounts for taxes for Illinois state, Cook County, Chicago, and the Regional Transportation Authority. On the tax profile, you would enter each of these tax authorities, their separate tax percentages, and their corresponding GL Accounts.

In contrast, you only need to create separate tax profiles when there are different tax percentages to account for. For example, many counties and towns in Alabama have identical tax percentages. You might only need one tax profile to account for the majority of the counties and cities, then another profile to account for a major metropolitan area.

No Tax Collection Requirement Profiles

You might ship products to locations where you don't have any tax collection requirements. This could be for online orders, out-of-state locations, or even out of the country. You can create a single tax profile with the tax percentages set to zero. Often this will become your default tax profile because the postal codes linked to your customers will determine the tax profiles used on each order. Oftentimes a tax profile with zero percentage is more appropriate than a tax profile for your most common shipping destination.

Setting a zero tax percentage tax profile as the default can also simplify your tax profile process. You only need to configure the postal codes where you have tax collection obligations. All other locations can use the zero percentage default profile.

Read more details about understanding tax rate calculations (https://aace6.knowledgeowl.com/help/understanding-tax-rate-calculations) or read the AvaTax Feature Highlight (https://www.aacesoft.com/resources/easily-and-accurately-collect-sales-taxes-with-aace-avalara-avatax) to see an example of tax integration in action.