**HOW SHOULD SALES TAXES AND OTHER DERIVED TAX**

**REVENUES BE ACCOUNTED FOR?**

Sales taxes, along with income taxes, are categorized as derived tax revenues. They are derived from exchange transactions, such as the sale of goods or services, or other income-producing commercial transactions.

Sales taxes are imposed on customers who purchase goods or services. The merchant (sellers) providing the goods or services is responsible for collecting, reporting, and transmitting the taxes(sellers act as a collection agent on behalf of government). Unlike property taxes, which are government assessed, sales taxes are taxpayer assessed; the tax base is determined by parties other than the beneficiary government. Thus, the government must wait for, and rely on, merchant tax returnsالأاقرار الضريبي to become aware of the proceeds to which it is legally entitled.

**SIGNIFICANT EVENTS IN THE “EARNINGS PROCESS”**

Three significant dates underlie sales tax transactions:

• The date of the sales transaction and the collection of the tax by the merchant

• The date the merchant is required to file the tax return and transmit the taxes (generally the same)

• The date the merchant actually files the return and transmits the taxes

The date of the sale is the most significant of the three dates because the transaction producing the tax takes place then, the amount of the tax is established, and the liability of the merchant to transmit the tax is created.

Current standards, as set forth in GASB Statement No. 33, require that revenues from sales taxes and other derived nonexchange revenues would be recognized at the time the underlying exchange transaction takes place. For sales taxes, this would be the date of the sale.

In the fund statements, the sales taxes must also satisfy the “available” test to be recognized as revenue.

**Example 1**

A State requires merchants to report and transmit sales tax within 3 months of the end of each month in which sales occur . You are given the following table for period of sales and amount of sales tax for each period:

|  |  |  |
| --- | --- | --- |
| Month of sale | Sales tax | Remmiting\transferring cash |
| October/2018 | $5000 | Jan,2019 |
| November/2018 | $8000 | Feb,2019 |
| December/2018 | $10,000 | March ,2019 |
| January/2019 | $1000 | April,2019 |

**Required**

1. **Revenue from sales taxes in the general fund for 2018 and make the summarized journal entry for 2018?**

**Answer:13000**

**Journal entry**

**Sales taxes receivable $23000**

**Sales tax revenue $13000**

**Deferred revenue 10000**

**To summarize Oct, Nov , and Dec,2018 sales taxes**

1. **Revenue from sales taxes in the government wide statement for 2018 and make the summarized journal entry for 2018?**

Answer:23000

Journal entry

Sales taxes receivable $23000

Sales tax revenue $23000

To summarize Oct, Nov , and Dec,2018 sales taxes

**Example 2 :**

In December 2017 merchants collect $20 million in sales taxes. Of these, $12 million are collected prior to December 15 and must be remitted by February 15, 2018; the remaining $8 million must be remitted by March 15, 2018 . record the entries related 2017

|  |  |  |
| --- | --- | --- |
| Month of sale | Sales tax | Remmiting\transferring cash |
| Dec.2017 | 12 m | Feb.15.2018 |
| Dec.2017 | 8 m | March .15.2018 |
|  |  |  |
|  |  |  |

Sales taxes receivable $20

Sales tax revenue $12

Deferred revenue 8

*To summarize December sales tax*

**Under FAB \G.W.S\:**

Sales taxes receivable $20

Sales tax revenue $20

**SALES TAXES COLLECTED BY ANOTHER GOVERNMENT**

Sales Taxes Collected by State on behalf of a city:

Example 3:

Assume a slight variation of the previous example. In November and December 2017, merchants collect $20 million in sales taxes. Of these, $5 million is remitted to the state as due by December 15, 2017; the remaining $15 million is due on January 15, 2018. The state remits the taxes to the city 30 days after it receives them.

|  |  |  |  |
| --- | --- | --- | --- |
| Date of sale | S.T | Remitting to state from sellers | Remitting from state to city |
| Nov,2017 | 5 | 15,Dec,2017 | 15,Jan,2018 |
| Dec,2017 | 15 | 15,march ,2018 | 15,Feb,2018 |

|  |  |
| --- | --- |
| State: agency fund : | City |general fund |
| Nov\Dec,2017:  Dr sales tax rec 20 m  Cr a/p 20 m  15. dec. Dr cash 5 m  Cr sales tax rec 5m | 2017 :  Dr sales tax rec 20 m  Cr sales tax rev 5 m  Cr deferred 15 m |
| Jan.2018  AP 5  CASH 5  CASH 15  Receivable from merchant 15 | 2018 :   15 jan . Dr cash 5 m  Cr sales tax rec 5m |
| Feb,2018:  AP 15  CASH 1 5 | Feb,2018:  CASH 1 5  Receivable from state 1 5 |

Next lecture : grants