

Understanding Tax Rate Calculations

Last Modified on 02/01/2022 2:51 pm EST

Tax is automatically calculated based on the tax profile associated with an order. Because taxes are based on where the goods are going (rather than where they originate), aACE determines which tax profile to use by checking the postal code associated with the shipping destination:

- If the Delivery Type is set to "Pick Up", then aACE uses the tax profile associated with the order office's postal code.
- If the order is going to be shipped *and* the ship-to company has a tax profile established in the Customer Details tab of the company record, then aACE uses that tax profile. (Note: Tax profiles configured for a customer should only be for special cases, such as resale. The primary driver for setting an order's tax profile should be the postal code.)
- If the order is going to be shipped *and* the ship-to company does *not* have a tax profile established in the Customer Details tab, then aACE uses the tax profile associated with the ship-to company's postal code.
- If the preceding options are not relevant, then aACE uses the default tax profile.

Your aACE solution is set up with [postal codes and associated tax profiles](#)

(<http://aace5.knowledgeowl.com/help/linking-tax-profiles-to-postal-codes>) to ensure taxes are properly calculated. You can also have [tax profiles associated with a company record](#) (<http://aace5.knowledgeowl.com/help/linking-tax-profiles-to-company-records>).

Tax Exemptions

Tax exemptions for a company should be [flagged at the company record](#)

(<https://aace5.knowledgeowl.com/help/flagging-companies-as-tax-exempt>).

Tax exemptions for an order should be flagged on that order record (see below).

Tax exceptions for a line item code (LIC) should be [flagged at the relevant tax profile record](#)

(<https://aace5.knowledgeowl.com/help/overview-of-tax-profiles#TaxProfileExceptions>).

Manually Setting a Tax Profile on an Order

On an order, you can manually update the tax profile used for tax calculations. However, if your team is regularly updating tax profiles on orders, it is usually a sign that your tax profile setup can be improved.

Edit the order, click the Tax drop-down field in the Totals section, and select the needed tax profile.

Manually setting the tax profile can include assigning a 'tax exempt' profile. Similarly, you can mark the Exempt flag at the totals section of the order record.

Correcting the Tax Profile on an Order with an Open Invoice

Your system may be set up to automatically generate and open certain orders. If you later identify an incorrect tax rate applied to an order, system administrators can correct it while the invoices are in Open status.

1. Make any needed updates to your tax profiles to ensure the correct rates will be applied going forward.
2. Edit the order and manually set the correct tax profile (or mark the Exempt flag).
3. At the related open invoice, click **Admin Actions > Void and Replace**.

This process voids the current invoice, then automatically generates a new invoice that shares the same ID. Because the originating order now includes the correct tax settings, the new invoice also includes those settings.

This process may result in a credit issued to the customer. However, you can [move the funds from the original invoice to the new one](https://aace5.knowledgeowl.com/help/applying-a-customer-credit-to-an-invoice) (<https://aace5.knowledgeowl.com/help/applying-a-customer-credit-to-an-invoice>).

For orders with multiple open invoices, you must replace each invoice and address each credit that is issued.

Understanding Tax Variances

Variances from Rounding Logic

If you manually calculate taxes on an order (e.g. the order's subtotal * the relevant tax rate), you may notice a minor difference between your manual calculation and aACE's calculation. This discrepancy arises because aACE calculates and rounds taxes at the line item level, then sums those individual amounts.

For example, suppose that aACME Education received a sales order for two items at \$45.00 each, with a subtotal of \$90.00. The order is using the default tax profile, which calculates taxes at 8.8755%. If we calculate the tax manually on the subtotal, the result would be $\$90.00 * 8.8755\% = \7.99 . However, aACE calculates the tax for each *individual item* on the

order ($\$45.00 * 8.8755\% = \3.99), then adds those two tax values together for a tax total of $\$3.99 + \$3.99 = \$7.98$.

If required, you can change this default preference for calculating tax values: Navigate to Accounting > Preferences > Data Entry. In the Invoicing (Sales Tax) section, clear the flag to 'Round taxes at the line item'. If you clear this flag, the tax calculations will be based on the *order subtotal*.

Please note, changing this preference will also impact how orders can be entered and invoiced:

- All items in an order *must* use a single tax profile.
- Invoices *cannot* cover multiple orders that have different tax profiles.
- Invoices *cannot* cover multiple orders that have different exemption statuses.

Variations from Multiple Invoices

Another situation that may result in imbalances between order and invoice tax totals is when a single order is billed across multiple invoices. If an item is split across the invoices (e.g. two on the initial invoice and the remaining three on a following invoice), there may be a few pennies difference in the tax.
