



## **WHY DO POINT of SALE PLATFORMS (POS) REPORT TWO DIFFERENT SALES TAX AMOUNTS?**

Calculating sales tax seems quite simple on the surface. Set your POS to the correct tax rate and forget about it. But when you dive below the waves of day to day commerce, sales tax can get confusing. Since DAVO is **the** sales tax solution for POS, we are often the go-to resource for questions about sales tax. One we get asked quite often is “Why is my POS reporting two different amounts of sales tax collected for the same time period?” The answer is simple once you understand how most POS systems calculate sales tax. The POS reports sales tax two different ways depending on whether you are looking at the Payments Report or Sales Tax Report.

First, let’s consider the Payments Report which reports the total sales for a given period along with the Transactional Sales Tax. Transactional Sales Tax is the sales tax calculated and collected on each sale, rounded up or down to the nearest two decimal places. The Transactional Sales Tax on the Payments Report is the sum of sales tax collected on each transaction during a given period such as a day or month. The thing to keep in mind is that when you calculate percentages you create rounding errors and the POS systems rounds up or down to the nearest two decimal places. For example, if the tax rate is 7.75% and you sell an item for \$10.00, the POS will multiply  $\$10.00 \times .0775$  which will equal seventy seven and one half cents (\$.775) of sales tax. But because we are dealing in dollars and cents and two decimal places, the POS rounds the sales tax up to \$.78 (seventy eight cents). Now multiply this by 10 transactions in a day at \$10 per transaction equaling \$100 in total sales. The amount of tax collected would be \$.78 per transaction multiplied by 10 transactions in a day, totaling \$7.80 (7.8%) in sales tax collected even though the tax rate is 7.75%. This \$7.80 is the Transactional Sales Tax Total or the sum of the sales tax collected for each sale. And this is different from the \$7.75 which should have been actually collected had there been just one sale for \$100.00. Therefore, when viewing sales tax from the Payments Report of the POS at the end of the day, the total sales tax is shown as the Transactional Sales Tax Total or the sum of sales tax collected on each transaction including the rounding up and down to two decimal places. This amount can be slightly different than what should have been collected.

Now let’s look at the second way the POS calculates sales tax using the Sales Tax Report. When viewing the sales tax from the Sales Tax Report, the POS calculates the percentage of tax on total sales for a given period such as a day or month. Using our example above, if you have \$100 in total sales for the day at a tax rate of 7.75%, the Sales Tax Report will calculate the sales tax as  $.0775 (7.75\%) \times \$100$  total sales or \$7.75 of sales tax. The Sales Tax Report shows sales tax as a percentage of total sales versus the

Payments Report which shows the total of sales tax collected on each transaction. You will notice a difference between the Transactional Sales Tax total and the Percentage Sales Tax total.

Here is an illustration:

TRANSACTIONAL – rounding up or down

$$\$10 \times 7.75\% (.0775) = \$10.78 \quad \times \quad 10 \text{ transactions} = \quad \$107.80$$

PERCENTAGE - % of total sales

$$\begin{aligned} 10 \text{ transactions} \times \$10 &= \$100 \text{ total sales} \times 7.75\% (.0775) = && \underline{\$107.75} \\ \text{Difference between Transactional and Percentage} &= && \$ \quad .05 \end{aligned}$$

When reporting sales tax, States are well aware of rounding errors and the difference between the Transactional and the Percentage Sales Tax Totals. The majority of States require merchants remit the Percentage of Total Sales based on the rate in their taxing jurisdiction. States realize there is generally a small amount of sales tax over collected by merchants due to rounding errors.

When the DAVO Sales Tax App is installed on your POS, it sets aside the Transactional Sales Tax Total daily and files the Percentage Sales Tax Total when due. DAVO does reconciliations when filing and refunds the difference between the Transactional Sales Tax collected and the Percentage Sales Tax paid to the merchant.

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