

Overhead and Profit Settings on Sales Tax in Xactware Products

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This document describes the various ways sales taxes are calculated within Xactware's estimating products (Xactimate, XactContents, XactValue) and to further explain the available settings which define whether General Overhead and Profit (O&P) should be calculated on sales tax or sales tax should be calculated on O&P.

When using the zip/postal code matching feature in Xactimate, the system will attempt to automatically default the corresponding tax jurisdiction to the estimate based on the location of the loss and tax tables Xactware has received, or will list the possible options from which the user can choose, if more than one rate or type of sales tax jurisdiction exists. It is important to remember that individual states can change both sales tax rates and rules during the periods between the publication of pricing information by Xactware. As such, each estimator should be aware of and verify sales tax rates and rules to ensure that the system default is correct.

General Overview of Sales Tax Rates and Rules for Application

The governing authority of each state / province in the USA and Canada determine the laws concerning how sales tax should be applied to an estimate. While most states and provinces use similar rules, there is a wide variety of the application of sales taxes in many states and provinces. A general overview of who defines the rules and rates in the US and Canada is as follows:

USA

- The governing authority of each state defines the laws for the application of sales tax (i.e. what items in an estimate are subject to tax).
 - *A base sales tax rate is also defined at the state level and is applied in all zip codes throughout the state.*
- The governing authority of each individual jurisdiction (county, city, etc.) within the state may also apply additional sales tax by increasing the base rate applied by the state.
 - *While individual jurisdictions may modify the rate to be used, they do not generally modify the laws which define the items that are subject to tax (this is done only at the state level).*
- The laws defining how sales tax should be applied, as well as the rates, may be revised or amended by the authorities in control. This is generally done on an annual basis.

Canada

- The governing authority at the federal government level defines the laws for the application of federal sales tax (i.e. what items in an estimate are subject to tax) and the rates which are to be applied.
- The governing authority of each province defines the laws for the application of provincial sales tax (i.e. what items in an estimate are subject to tax).
 - *The provincial government authority also defines the sales-tax rates that are to be used throughout the province. (Provincial sales tax does not vary among cities or towns within the province.)*
- The laws defining how sales tax should be applied, as well as the rates, may be revised or amended by the authorities in control. This is generally done on an annual basis.

The Application of Sales Tax (i.e. Which Items Are Subject to Sales Tax)

As stated earlier, there are a wide variety of laws which define the items in an estimate (real or personal property) that are subject to sales tax. In general, however, the application of sales tax falls into one of two categories:

- Sales tax on the goods purchased to effect the repair or replacement (e.g. building materials or personal property items).
- Sales tax on an entire service (including all labor, material, equipment, markup, etc.).

The most common application used by many states / provinces is the first option. Meaning, in most areas, when effecting a repair or replacement of real or personal property, only the materials purchased (or products in the case of personal property) are subject to sales tax.

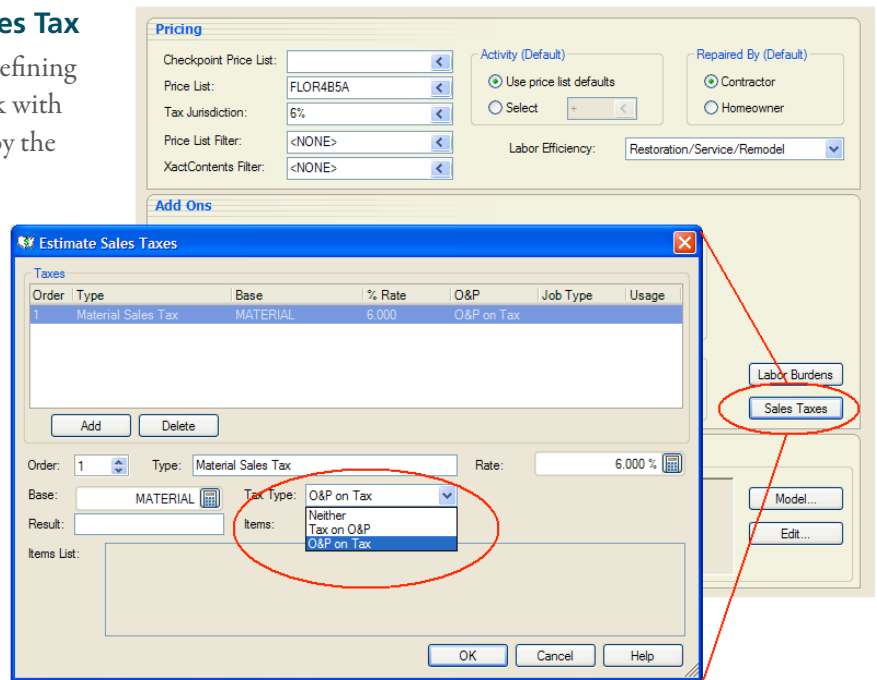
What is becoming more common is a mixture of the two methods. This is done when the governing authority designates that all materials or products are subject to sales tax as well the entire charge resulting from and related to specific activities defined by the authority. For example, the governing authority may require that sales tax apply to the total services dealing with Cleaning and/or Mitigation or Floor Covering; for all other services, sales tax only applies to materials or product purchases. Some states in the US even separate the type of job further by defining different rules for Commercial vs. Residential losses, or Improvements vs. Repairs.

Xactware Settings for O&P Related to Sales Tax

Xactware products offer the user three options for defining how General Overhead and Profit (O&P) is to work with the applied sales tax. These options are modifiable by the user in both Xactimate and XactContents within the estimate Parameters screen (see image).

A summary of the three options is as follows:

- **O&P on Tax** – includes the sales tax amount in the base calculation of the Overhead and Profit (i.e. applies O&P to sales tax).
- **Tax on O&P** – includes the O&P amount in the base calculation of sales tax (i.e. applies sales tax to the O&P).
- **Neither** – calculates no sales tax on O&P, nor O&P on sales tax.



Default O&P Settings Provided by Xactware

The application of “Tax on O&P” for sales tax jurisdictions within Xactware estimating products are set according to the laws which the respective state or province has defined. The application of “O&P on Tax” is set based upon general industry guidelines and/or tradition regarding the job expenses and the application of general overhead and profit.

For states which mandate that sales tax be applied to the entire repair (labor, material, equipment, markup, etc.) the default setting is set to “Tax on O&P.” In states whose laws specify that only a portion of the line item cost be subject to tax (i.e. building materials and products), Xactware has set the default setting to “O&P on tax.” Xactware does not by default set any tax jurisdiction to “Neither.”

The default settings are based on the consideration that both Sales Tax and General Overhead and Profit are real expenses or costs related to a job.

Ultimately, the settings chosen are up to each individual estimator or are directed by a company, based upon its policy or normal practices. Xactware recommends that prior to changing any sales-tax setting, you first verify with the governing authority in your state or province to ensure you are complying with the intended application of sales tax law.