



What are Tax Rules and How Do I Use Them?

Tax Rules are defined as a combination of a Customer Tax Class and a Product Tax Class with a Tax Rate (see What are tax classes? (product and customer)). Each customer will be assigned a class and each product is assigned a tax class. Each region is assigned a set of up to five tax rates. Based on the class of the customer and the class of the products in the shopping cart, and the region (this can be the shipping address, billing address, or shipping origin) the system will calculate out the appropriate tax.

To create a Tax Rule go to **Sales -> Tax -> Manage Tax Rules**. Once there you will see a grid list of the Tax Rules you have created. To create a Tax Rule you will also have to create Tax Rates, along with the Tax Classes. See How do I define tax rates? for more on setting Tax Rates.

Once you have created your Tax Classes and Tax Rates you can create rules. In this case we are going to create four rules. We have two different customer types, Retail customers and Wholesale Customers, and two different types of products, taxable and downloadable.

In this example we are a store in California and we have created a tax rate of 8.25%. (NOTE: This is for example purposes only. Consult your state laws for tax rates). We have also left a rate as being 0%.

The first Tax Rule we create is for Retail Customers buying taxable goods.

Edit Tax Rule

Tax Rule Information

Customer Tax Class *	<input type="text" value="Retail Customer"/>
Product Tax Class *	<input type="text" value="Taxable Goods"/>
Rate	<input type="text" value="Rate 1"/>

We select the Customer and Product class from the dropdowns and then select the Rate we want to use for this combination. In this case we want to use the first rate, 8.25%.

Select Save Rule and Retail customers with a shipping address in California will be charged a rate of 8.25% on all items marked as being Taxable Goods. That is set, but let's say we have downloadable items we don't want charge tax on. We create a new rule with the combination of the Retail Customer Tax Class and the Downloadable Items Product Tax Class and select the rate we want to charge.

In this case the rate is the second we created, 0.0%, so customers will not be charged tax on these items.

Now that we have our retail customers set up with tax rates we need to set up the two rules for Wholesale Customers. We select the Wholesale Customer from the tax class, select Taxable Items and Rate 2. Then we do the same for Downloadable Items and we have our four tax rates created:

Tax Rules

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ID	Customer Tax Class	Product Tax Class	Tax Rate
1	Retail Customer	Taxable Goods	Rate 1
2	Retail Customer	Downloadable Goods	Rate 2
3	Wholesale Customer	Taxable Goods	Rate 2
4	Wholesale Customer	Downloadable Goods	Rate 2

If you need to charge tax on shipping, you can do so by creating a Tax Rule for shipping. This means that you should create a Product Tax Class that will be applied to shipping. Navigate to **System -> Configuration**, and click the Sales tab. In the Tax Calculation section, you can select which product tax class will be applied to the shipping, if you choose to tax shipping. You can also determine whether tax will apply before or after discounts, and how the region of the Tax Rate will be determined (billing address, shipping destination, or shipping origin).