

This Tax Facts is designed to explain how sales and use tax applies to drop shipment sales transactions. If this Tax Facts does not answer your specific question, please call the Department's toll-free Helpline at 1-800-829-9188 between 8 AM – 5 PM CST, Monday through Friday.

Information found in this document rescinds and replaces all previous written information on this subject. All readers and users of this publication are responsible for keeping informed about changes in tax laws and regulations by reading the Department of Revenue newsletters, press releases, Tax Facts, and other documents published by the Department of Revenue.

Tax Liability

Any business that has nexus in South Dakota is required to have a South Dakota sales tax license and must collect and remit sales tax on taxable transactions. For information on nexus and licensing requirements see Tax Facts License Requirements for Sales, Use & Contractors' Excise Tax available at <http://dor.sd.gov> or by calling 1-800-829-9188.

The typical drop shipment sale involves three parties:

1. A supplier
2. A retailer
3. A customer

Drop shipments occur when a retailer accepts an order from a customer and then places the order with a supplier, such as a manufacturer or wholesaler, and the supplier delivers the product directly to the retailer's customer.

The supplier may deliver the product in its own truck, by common or contract carrier, or over-the-counter at the supplier's location.

Products include tangible personal property and products transferred electronically.

Supplier's Tax Liability

The supplier that delivers products in South Dakota must charge South Dakota sales tax unless their customer, the retailer, provides an exemption certificate claiming resale. The retailer may provide their tax permit number from their state on the exemption certificate. When the retailer provides the supplier an exemption certificate, the supplier does not owe sales or use tax. A supplier that does not have nexus in South Dakota is not required to collect and remit South Dakota sales tax.

Retailer's Tax Liability

The retailer must collect and remit sales tax in the state the product is delivered, unless an exemption applies. If the customer provides an exemption certificate to the retailer, the retailer does not owe sales or use tax. If the retailer does not have a South Dakota sales tax license because they do not have nexus, they are not required to collect and remit South Dakota sales tax.

Customer's Tax Liability

When the retailer does not collect and remit the applicable sales tax due on a drop shipment sale based on where the product is delivered, the retailer's customer must remit use tax directly to the department unless the customer is an exempt entity or purchased the product for resale.

Example 1

Company A, from Mitchell, SD, sells a product to Sarah to be delivered to Wall, SD. Company A orders the product from Company B. Company B delivers the product directly to Wall, SD.

Company A provides Company B with an exemption certificate using their South Dakota tax permit number. Company B does not owe South Dakota sales tax.

Company A is responsible for 4.5% South Dakota state sales tax plus Wall municipal tax because the product was delivered to Wall, SD.

Example 2

Company K, from Wyoming, sells a product to Sarah to be delivered to Wall, SD. Company K orders the product from Company B. Company B delivers the product directly to Wall, SD.

Company K provides Company B an exemption certificate using their Wyoming tax permit number. Company B does not owe South Dakota sales tax.

In this example, Company K is not licensed to collect South Dakota sales tax because they do not have nexus in South Dakota. Company K does not collect sales tax on this transaction.

Sarah owes South Dakota state use tax plus applicable Wall use tax on this purchase.

Example 3

Company Y, from South Dakota, sells a product to Joe to be delivered to Omaha, NE. Company Y orders the product from Company B. Company B delivers the product directly to Omaha, NE.

Company Y provides Company B an exemption certificate using their South Dakota sales tax permit number. Company B does not owe South Dakota sales tax because the delivery is outside South Dakota and Company Y has provided an exemption certificate. Tax liability on this transaction is to Nebraska.

For further information on exemption certificates please review the Exemptions Tax Facts available online at <http://dor.sd.gov> or by calling 1-800-829-9188.

Talk to Us!

If you have a tax problem or question, call the South Dakota Department of Revenue toll-free at 1-800-829-9188. Visit us on the web at <http://dor.sd.gov>, email us at bustax@state.sd.us or write us: