



Drop Shipments

<http://dor.sd.gov/> 1-800-829-9188

The purpose of this tax fact is to provide general guidelines on how South Dakota taxes apply to drop shipments. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

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Drop Shipments

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

- A typical drop shipment sale involves three parties: supplier, retailer, and customer.
- Products include items and services delivered electronically.
- The supplier may deliver the product in their own truck, by common or contract carrier, or over-the-counter at the supplier's location.

**Apply for a sales tax license
[online](#) or through the
Streamlined system at
www.streamlinedsalestax.org.**

Sales and Use Tax Liability

A business is required to have a South Dakota sales tax license and must collect and remit sales tax on taxable transactions if:

- the business has a physical presence in South Dakota.

If the business does not have physical presence but meets one or both of the following criteria in the previous or current calendar year, the business is required to license their business and remit applicable sales tax:

- gross sales into South Dakota exceeding \$100,000; or
- 200 or more separate transactions into South Dakota.

Gross sales or transactions include selling, renting or leasing products or services (including products delivered electronically) into South Dakota. ([SDCL ch. 10-64](#))

For more information on licensing requirements, review the [Licensing Requirements Tax Fact](#).

For more information on sales and use tax, review the [Sales Tax Guide](#).

- **Supplier's Tax Liability**—if the supplier meets the criteria listed above, the supplier that delivers products in South Dakota must collect and remit 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.
 - ⇒ If the retailer provides the supplier an exemption certificate, the supplier does not owe sales or [use tax](#).

Sales and Use Tax Liability (cont.)

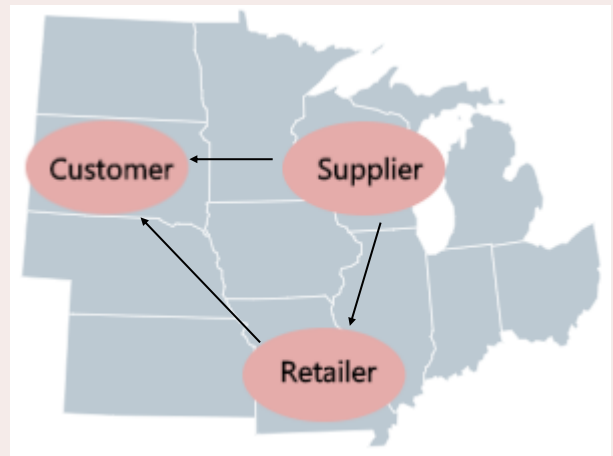
- **Retailer's Tax Liability** — if the retailer meets South Dakota's sales tax license criteria, a retailer must collect and remit sales tax based on where the product is delivered, unless an exemption applies.
 - ⇒ The retailer does not owe sales or use tax if the customer provides an exemption certificate to the retailer.
 - ⇒ If the retailer does not have a South Dakota sales tax license because they do not meet the criteria, they are not required to collect and remit South Dakota sales tax.
- **Customer's Tax Liability** — if the retailer does not collect sales tax, the customer must remit use tax directly to the Department of Revenue unless the customer is an exempt entity or purchased the product for resale.
 - ⇒ To submit a use tax payment online, click [here](#) or complete the [use tax form](#).

Example

Supplier in Wisconsin sells a product to Retailer in Missouri. Retailer sells a product to Customer in South Dakota. Supplier ships directly to Customer in South Dakota.

Sales Tax Application:

- Point of Receipt is in SD - SD Laws apply.
- Retailer is not licensed in SD because they don't have a physical presence and don't meet the remote seller criteria - can give Supplier a valid exemption certificate from their own state. (MO in this case)
- Supplier invoices Retailer for product plus delivery - no SD tax (resale).
- Retailer bills Customer for product plus delivery - no tax collected because they are not licensed in SD



Use Tax Application:

- The customer is the END USER so the customer owes South Dakota use tax

Contact Us

If you have any questions, please contact the **South Dakota Department of Revenue**.

Call toll-free: 1-800-829-9188

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Website: <http://dor.sd.gov/>

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