

Delivery Charges

155

Fact
Sheet

Sales Tax Fact Sheet 155

This fact sheet explains how Minnesota sales and use tax applies to delivery charges, including transportation, shipping, postage, handling, crating, and packing.

Legislation was passed adopting the Uniform Sales and Use Tax Administration Act proposed by the multistate Streamlined Sales Tax Project. The Act allows Minnesota to enter into the Streamlined Sales and Use Tax Agreement that sets out uniform definitions for administration of the sales and use tax law. Minnesota has adopted those definitions necessary to bring our law into conformance with the agreement.

The definition of *sales price* has changed as part of this project. Delivery charges are now included as part of the taxable sales price.

Delivery charges

Delivery charges means charges by the seller for preparation and delivery to a location designated by the purchaser of personal property or services including, but not limited to, transportation, shipping, postage, handling, crating, and packing.

Beginning January 1, 2002, if the item being sold is taxable, charges by the seller to deliver it are also taxable. Delivery charges are part of the sales price of the item, even if separately stated. Before January 1, 2002, separately stated charges to deliver items to a customer were not taxable.

Transportation and shipping charges and postage fees billed by the seller, including both incoming and outgoing freight or delivery charges, are part of the sales price of the taxable item.

Handling charges are a way for a seller to recover costs that occur when getting a product ready to be shipped. These costs include activities such as retrieval of the item from storage, checking the product before shipment, cleaning a product that has been in storage, crating the product, and packing the product. All of these charges are part of the sales price of the taxable item and are taxable.

Delivery charges for nontaxable items are not taxable.

Examples of items that are not taxable include:

- food, clothing and prescription drugs for humans;
- items purchased with a valid exemption certificate for production or resale;
- items sold to certain nonprofit organizations and some government agencies; and
- items shipped directly to customers outside Minnesota.

If the delivery charge is one lump sum for both taxable and nontaxable items, tax applies to the entire delivery charge. If there are separate delivery charges, only the delivery charge for taxable items is taxable.

Delivery services *furnished and billed* by a third party are not taxable.

Capital equipment may require delivery. If the capital equipment qualifies for a refund of tax, the tax paid on delivery charges also qualifies for the refund.

Example 1. A furniture store sells a sofa and delivers it to the customer. The sofa is taxable and beginning January 1, 2002, the delivery charge is also taxable.

Example 2. A furniture store sells a sofa but delivery is made by an independent contractor who bills the customer directly for the delivery. The delivery charge is not taxable because it is not a part of the sales price of the taxable item.

Example 3. An office supply store sells paper to a school and charges separately for delivery. The school gives the store an exemption certificate to claim exemption on the paper. Since the paper is not taxable to the customer, the delivery charge is also not taxable.

Example 4. A grocery store sells box lunches through their deli and charges a separate delivery fee. Beginning January 1, 2002 the delivery fee is taxable.

Example 5. A grocery store sells and delivers groceries to a customer. The groceries contain nontaxable food items and some taxable items, such as candy and paper products. Since there is one delivery charge for both taxable and nontaxable items, the entire delivery charge is taxable. If the groceries contain only nontaxable food items, the delivery fee is not taxable.

Example 6. A manufacturing firm buys capital equipment and pays sales tax to the seller on the equipment and delivery charges. Since the capital equipment qualifies for a refund of the sales tax, sales tax paid on the delivery charge also qualifies for the refund.

Example 7. A manufacturer buys a piece of equipment. The manufacturer hires a trucking company to pick up and deliver the equipment. The trucking company bills the manufacturer directly. The equipment is taxable, but the delivery fees by the trucking company are not, because they are not part of the sales price.

Example 8. A contractor buys ready-mixed concrete sold from a ready-mixed concrete truck to be delivered to a construction site. Any transportation, delivery and other service charges are part of the sales price of the concrete and are taxable.

Example 9. A contractor buys building materials that are to be used on a construction contract. The supplier delivers the materials to the Minnesota job site. The charge for delivery is taxable.

Freight companies, messenger or delivery services

Freight companies and messenger or delivery services are not required to collect sales tax on their delivery charges. Delivery charges are only taxable when billed by the seller as part of the sales price of a taxable item.

References

M.S. 297A.61, Subd. 3(v), Definitions
M.S. 297A.61, Subd. 7, Sales price
M.S. 297A.61, Subd. 30, Delivery charges

Other fact sheets that you may need:

Items for Business Use Outside Minnesota, #110
Local Sales and Use Taxes, #164
Sales to Government, #142
Use Tax for Businesses, #146
Use Tax for Individuals, #156