

## Drop Shipments

*This fact sheet is designed to explain how sales and use tax applies to drop shipment sales transactions.*

### **Tax Liability**

Any business that has nexus in Mississippi is required to have a Mississippi sales tax permit and must collect and remit sales tax on taxable transactions. Nexus is created when a business or organization owns business property in a state, has employees soliciting sales in a state or services customers in a state.

The typical drop shipment 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. 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.

### **Supplier's Tax Liability**

The supplier delivering products to a Mississippi location must charge Mississippi sales tax unless the retailer provides a valid exemption certificate claiming resale. The retailer may provide a copy of their Mississippi exemption certificate directly to the supplier. The supplier is not required to collect sales or use tax if the retailer provides the supplier a valid exemption certificate. The supplier is not required to collect and remit Mississippi sales tax, regardless of the retailer's exemption status, if the supplier has not created nexus in Mississippi.

### **The "Flow-Through" Process**

In the event that an out-of-state retailer does not have a valid Mississippi resale certificate but the Mississippi customer does have a valid tax exemption, the supplier may use the customer's exemption in lieu of a valid resale certificate from the retailer. The Mississippi customer's exemption may "flow-through" the retailer and exempt them from being charged tax by the supplier. To qualify for this exemption, a valid copy of one of the following documents must be provided to the supplier:

- A copy of the Mississippi customer's sales or use tax permit, if the product being shipped is intended for resale.
- A copy of the Mississippi customer's direct pay permit.
- A copy of the Mississippi customer's Material Purchase Certificate, if the customer is a contractor performing a qualified job and purchasing component materials for the qualified job.
- Verification of the customer's exemption status under Miss. Code Ann. Sections 27-65-101 through 27-65-111.

### **Retailer's Tax Liability**

Retailers with nexus in Mississippi must collect and remit Mississippi sales tax on product shipped or delivered to locations in Mississippi unless a valid exemption applies. If the customer provides an exemption certificate (anything from the list above) to the retailer, the retailer is not required to collect sales or use tax. The retailer is not required to collect and remit Mississippi sales tax if the retailer has not created nexus in Mississippi unless the retailer has voluntarily registered to collect Mississippi sales or use tax. The fact that the retailer is not required to be registered does not relieve the supplier from charging the retailer Mississippi sales or use tax.

### **Customer's Tax Liability**

When the retailer does not collect and remit the applicable sales tax due on a drop shipment, either because the retailer does not have nexus in the state or the customer provided a valid exemption certificate, the customer must then remit any use tax due on the purchase directly to the Mississippi Department of Revenue.

