CITY OF ARVADA

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# DROP SHIPMENTS

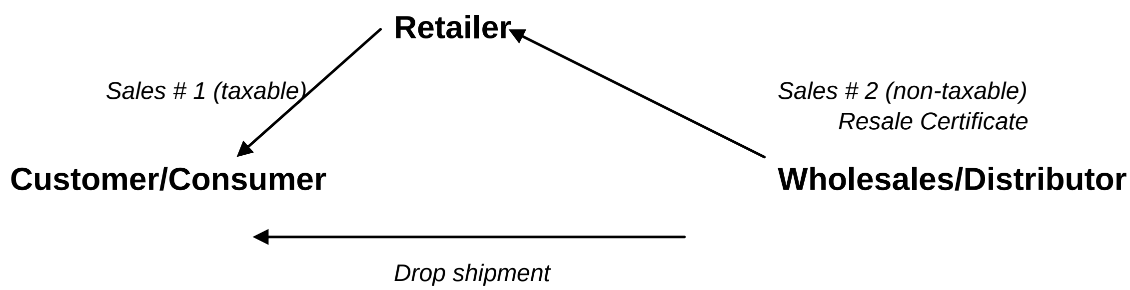
A drop shipment is a shipment of property from a seller directly to the purchaser's customer, at the direction of the purchaser.  There are, at arm's length, three parties and two separate sales transactions. Generally, a retailer accepts an order from an end user/consumer, places this order with a third party, usually a manufacturer or wholesaler distributor, and directs the third party to ship the goods directly to the end purchaser/consumer.  Drop shipments are examined as two transactions:

1. The retailer collects sales tax on the sale to its customer.

2. The retailer furnishes a resale certificate to the primary seller/wholesaler – rending the sale a nontaxable transaction.

Problems arise when the parties are in different states, particularly when the retailer, the party generally held responsible for collection, is in a different state from the transaction state.  In these multistate sales, taxpayers need to know whether either sales or both sales are taxable and who is responsible for collection.  Questions emerge as to what constitutes nexus, what determines the location of the sales, when is a supplier treated as an agent.

**Example**:




Sales #1
ABC Company (customer) purchases a computer system from XYZ Company (retailer). XYZ Company then bills ABC Company (customer) for the computer system along with sales tax.

Sales #2
XYZ Company (retailer) places an order and provides a (resale certificated) to Computer Distributors for the computer system to be drop shipped to ABC Company (customer).  Computer Distributors bills YYZ Company (retailer) for the computer system once shipped.

*THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT.  IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.*