

2020-05 INTERPRETATION

SOURCING FOR GOODS

This includes drop shipments, freight forwarding from out of state, and delivery of goods via a common carrier in state. This interpretation only applies to the sourcing of sales of goods. It is not intended to address the sourcing of services.

Issue:

Many companies do not ship directly to Alaska. To get products, residents instruct the company to deliver merchandise to a freight-forwarding company (usually) in Washington which then ships the merchandise to the Alaskan community. Inside Alaska, many companies supply products to remote communities but deliver the products to a local common carrier which then shippings the merchandise to the Alaskan community.

Is delivery made when the remote seller transfers the goods to a third-party shipping company per the customer's request or when the shipping company transfers the goods to the purchaser?

Discussion:

Point of Delivery is the location where the purchaser receives the goods. Goods are "received" when the purchaser takes possession of the property. The Code specifically explains that transferring goods to a shipping company does not constitute receipt. Accordingly, the point of delivery occurs when the shipping company transfers the goods to the purchaser in the taxing jurisdiction. Because the point of delivery is in a taxing jurisdiction, the remote seller must collect the taxing jurisdiction's sales tax on the remote sale.

Recommendation:

The remote seller must collect and remit the sales tax for the final destination as known to the seller regardless of delivery to a certified shipping company (common carrier).

Rationale:

The Code addresses this question in Section 230 – Sellers with Physical Presence and Section 250 – Definitions

SECTION 230 – Sellers with a physical presence in the taxing jurisdiction

- A. Sellers with a physical presence in a Taxing Jurisdiction and no remote or internet-based sales shall report, remit, and comply with standards, including audit authority, of the Taxing Jurisdiction.
- B. Sellers with a physical presence in a Taxing Jurisdiction that also have remote or internet-based sales where the Point of Delivery is in a different Taxing Jurisdictions shall
 - i. report and remit the remote or internet sales to the Commission; and
 - ii. report and remit the in-store sales to the Taxing Jurisdiction.
- C. Sellers with a physical presence in a Taxing Jurisdiction that also have remote or internet-based sales where the Point of Delivery is in the same Taxing Jurisdictions shall report and remit those remote sales to the Taxing Jurisdiction.
- D. Sellers and marketplace facilitators that do not have a physical presence in a Taxing Jurisdiction must report and remit all remote sales to the Commission.
- E. For all purchases the tax rate added to the sale price shall be as provided in the Taxing Jurisdiction's sales tax code, based on point of delivery.
- F. A marketplace facilitator is considered the remote seller for each sale facilitated through its marketplace and shall collect, report, and remit sales tax to the Commission. A marketplace facilitator is not considered to be the remote seller for each sale or rental of lodging facilitated

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through its marketplace, wherein the seller is considered to have a physical presence in the Taxing Jurisdiction.

Section 250 – Definitions

Point of Delivery: means the location at which property or a product is delivered or service rendered.

- A. When the product is not received or paid for by the purchaser at a business location of a remote seller in a Taxing Jurisdiction, the sale is considered delivered to the location where receipt by the purchaser (or the purchaser's recipient, designated as such by the purchaser) occurs, including the location indicated by instructions for delivery as supplied by the purchaser (or recipient) and as known to the seller.

Receive or Receipt:

- A. Taking possession of property;
- B. Making first use of services;
- C. Taking possession or making first use of digital goods, whichever comes first.

The terms “receive” and “receipt” do not include temporary possession by a shipping company on behalf of the purchaser.

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Examples: *Examples assume companies have already met the economic threshold for remote sales.*

1. A Wasilla resident travels to Anchorage (which is a non-sales tax jurisdiction) to buy a snowmachine from AAA Sports. The buyer purchases the machine at the store in Anchorage and loads the machine on a trailer and drives back to Wasilla. AAA Sports does not charge sales tax since the transfer of goods happened at the storefront which is in a non-sales tax jurisdiction.
2. A Palmer resident purchases a snowmachine via AAA Sports online store and arranges to have a friend pick up the machine at the storefront. AAA Sports does not charge sales tax since the transfer of goods to the purchaser's recipient, designated as such by the purchaser, happened at the storefront which is in a non-sales tax jurisdiction and the machine was not delivered to a known shipping company.
3. A Bethel resident purchases a snowmachine via AAA Sports online store. AAA Sports does not offer delivery to Bethel and instead delivers the snowmachine to TTT Transport Company at the local airport. AAA Sports knows they are delivering to a shipping company that will ship the machine to Bethel. AAA Sports charges Bethel sales tax and remits through the Commission.
4. A Houston resident purchases a snowmachine via AAA Sports online store and arranges for TTT Transport Company pick up the machine at the storefront and deliver it to Houston. AAA Sports knows a shipping company is picking up the machine and will deliver it to Houston. AAA Sports charges Houston sales tax and remits through the Commission.
5. A Girdwood resident purchases a snowmachine via AAA Sports online store and arranges for TTT Transport Company pick up the machine at the storefront and deliver it to Girdwood. AAA Sports knows a shipping company is picking up the machine and delivering it to Girdwood which is a non-sales tax jurisdiction. AAA Sports does not charge sales tax since the transfer of goods happened in a non-sales tax jurisdiction.
6. A Yakutat resident orders from XYZ Furniture who do not deliver to Alaska. The resident has the product delivered to FFF Freight Company in Kent, Washington. XYZ Furniture knows that they are delivering to a shipping company that will ship the product to Yakutat. XYZ Furniture charges sales tax for Yakutat and remits through the Commission.
7. A tourist visits HHH Company storefront in Homer and makes a purchase for herself. She also purchases five separate gifts and has the store deliver the goods to friends around Alaska. HHH Company charges the Homer and Kenai Peninsula Borough sales taxes for all sales purchased at the storefront, regardless of destination, and remits directly to the Kenai Peninsula Borough.
8. A Saint Paul resident purchases a product via HHH Company online store and has it delivered to Saint Paul. HHH Company charges Saint Paul sales tax and remits through the Commission.
9. A Seattle, Washington resident purchases a product via HHH Company online store and has it delivered to Seattle. Since this is an out-of-state sale, the Commission's remote seller sales tax rules do not apply. HHH Company must check with Washington state's sales tax office to ascertain if there is a remote seller nexus requirement. If so, HHH Company needs to assess if they are required to collect and remit sales tax for that state.

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10. A Ketchikan resident purchases building supply material from SSS Supply which is located in Juneau. SSS Supply does not offer delivery to Ketchikan and instead delivers the materials to CCC Cargo Company at the local dock. SSS Supply knows they are delivering to a shipping company that will ship the materials to Ketchikan. SSS Supply charges sales tax for Ketchikan and Ketchikan Gateway Borough and remits through the Commission.
11. A Craig resident purchases building supply material from SSS Supply and arranges for SSS Supply to deliver the materials to the local dock where his friend will load them onto a private boat returning to Craig. SSS Supply charges local Juneau sales tax since the transfer of materials to the purchaser's recipient, designated as such by the purchaser, happened in the local jurisdiction and were not delivered to a known shipping company and remits directly to Juneau.
12. A Seldovia resident buys furniture from ABC Furniture which is located in Anchorage. ABC Furniture delivers the furniture to the buyer in Seldovia. ABC Furniture charges Seldovia and Kenai Peninsula Borough sales tax and remites through the Commission.
13. An Adak resident buys furniture from ABC Furniture and arranges to have TTT Transport Company pick up the furniture at the storefront and deliver it to Adak. ABC Furniture knows a shipping company is picking up the furniture. ABC Furniture charges Adak sales tax and remits through the Commission.