



## Interpretation 2022.01

### Transactions involving Drop-Shipments into ARSSTC Member Jurisdictions

#### **Issue:**

What is a drop-shipment and how are each of the parties involved in the drop-shipment affected by sales tax collection requirements on remote sales?

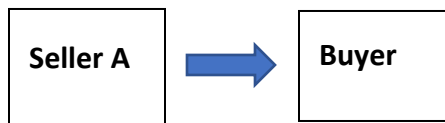
#### **Background:**

The typical drop-shipment involves three parties:

1. The customer
2. Seller A
3. Seller B aka “the shipper/supplier”

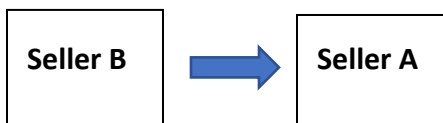
Very simply, the customer makes a purchase from the seller. The seller then purchases from the shipper/supplier and directs the shipper/supplier to ship the good(s) directly to the customer. This in essence creates two separate transactions as outlined below:

#### **Transaction #1**



In Transaction #1, Seller A makes a sale to the buyer. Seller A collects the buyer’s delivery / shipping address information.

#### **Transaction #2**



In Transaction #2, Seller A purchases good(s) from Seller B to fulfill the order placed in Transaction #1. Seller A provides the buyer’s delivery / shipping address from Transaction #1. Seller B is considered the drop shipper.

#### **Guidance for Transaction #1**

Transaction #1 is relatively simple as there are only two factors that must be considered:

1. Does Seller A meet the economic nexus threshold for collecting sales tax as a remote seller, and
2. Is the buyer’s delivery/shipping address in an ARSSTC member jurisdiction?



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Section 040(A) of the Uniform Remote Seller Sales Tax code sets the economic nexus threshold at \$100,000 in gross sales delivered statewide into Alaska, in either the current or previous calendar year. A remote seller would only be required to register with the Commission and collect sales tax once it reaches either of those economic nexus measures.

Furthermore, any sales tax to be collected by the remote seller is based on the point of delivery. Please see [Interpretation 2020.05 – Sourcing of Goods](#) or Interpretation 2021.05 – Remote Services & Sourcing for more information on point of delivery and sourcing of a transaction.

### Transaction #1 Summary

In the transaction #1 scenario, Seller A would only be required to collect sales tax as a remote seller if it meets the economic nexus threshold outlined above and if the final point of delivery is in a jurisdiction that is a member of the ARSSTC.

## **Guidance for Transaction #2**

Transaction #2 is more complicated as it brings in the question of resale exemption.

1. Does Seller B meet the economic nexus threshold for collecting sales tax as a remote seller,
2. Is the delivery/shipping address in an ARSSTC member jurisdiction, and
3. What resale exemption documentation should Seller B obtain from Seller A to exempt transaction #2 from sales tax?

The economic nexus threshold and the delivery/shipping address questions have the same implications as outlined for Transaction #1. However, Transaction #2 has the added element of possible resale exemption claim by Seller A on its purchase from Seller B.

Following are the possible types of resale documentation that are acceptable for Seller B to exempt its sale to Seller A:

- **Resale exemption certificate issued to Seller A by the local Alaskan taxing authority** where the transaction is sourced.
  - For more discussion on local Alaskan taxing authority exemption certificates, please see [Interpretation 2020.10 – Entity Based Exemption Certificates](#).
  - If Seller A is not located in a local Alaskan jurisdiction with a sales tax, it will not be able to obtain a resale certificate from its local jurisdiction.
- **ARSSTC Remote Reseller Sales Tax Exemption Certificate** issued to Seller A by the ARSSTC.
  - [ARSSTC Remote Reseller Certificate application](#)
  - An ARSSTC Remote Reseller exemption certificate may only be issued to Seller A if:
    - Seller A is not located in an Alaskan taxing jurisdiction and,
    - Seller A conducts remote sales across AK.



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- If Seller A conducts remote sales across AK, it will need to register with the ARSSTC regardless of economic nexus threshold if it desires to obtain the ARSSTC Remote Reseller Exemption certificate.
- If Seller A does not conduct remote sales across AK, it will not be entitled to obtain the ARSSTC Remote Reseller Exemption certificate.
- **Uniform Sales & Use Tax Resale Certificate – Multijurisdiction** (from the Multistate Tax Commission) presented by Seller A.
  - Claims for resale exemption by Seller using the Uniform Sales & Use Tax Resale Certificate will be accepted for audit purposes by ARSSTC as appropriate documentation.

#### Transaction #2 Summary

In the Transaction #2 scenario, Seller B would only be required to collect sales tax on its sale to Seller A if the following two conditions are met:

- Seller B has exceeded the economic nexus threshold outlined in the Uniform Code and,
- Transaction #2 has a point of delivery located in an ARSSTC member jurisdiction.

If both of these conditions are met, Seller B has a requirement to charge sales tax on its sale to Seller A, **unless** Seller A provides appropriate documentation supporting their claim for resale.

Multiple forms of resale exemption documentation may be accepted by Seller B, including the ARSSTC Remote Reseller Exemption Certificate, the Uniform Sales & Use Tax Resale Certification from the MTC or a resale certificate issued to Seller A by the local Alaskan taxing authority.

The following page outlines several resale transaction scenarios discussing the possible resale certificate options for each scenario.



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### **Resale Transaction Scenarios**

These scenarios are intended to provide several common examples of resale transactions. The presumption in each of these scenarios is that the purchaser is making the purchase solely for resale in Alaska.

#### **Scenario #1 - Alaskan business in local taxing jurisdiction being charged WA sales tax based on WA point of delivery**

- Alaskan business would fill out the MTC Multi-jurisdiction resale certificate with their local resale certificate number.
- This would be sufficient evidence to exempt the Alaskan business from the WA sales tax in accordance with WA state guidance.

#### **Scenario #2 - Alaskan business in non-taxing jurisdiction being charged WA sales tax based on WA point of delivery.**

- If Alaskan business is remote seller, i.e., conducts remote sales across AK, the business should register with ARSSTC regardless of economic nexus threshold.
  - Business should apply for ARSSTC remote reseller certificate and complete the MTC Multi-jurisdiction resale certificate with their ARSSTC Remote reseller certificate number.
- If Alaskan business is not a remote seller, i.e., does not conduct remote sales across AK, the business does not qualify for the ARSSTC remote reseller certificate and will not be able to use the MTC Multi-jurisdiction resale certificate.

#### **Scenario #3 - Alaskan business in local taxing jurisdiction being charged their local sales tax by remote seller.**

- Business should provide their local resale certificate to the remote seller to obtain exemption.

#### **Scenario #4 – Alaskan business located outside local taxing jurisdiction, being charged their local sales tax by remote seller based on point of delivery inside city.**

- Business is not entitled to local exemption certificate due to not conducting business in local taxing jurisdiction.
- If business is remote seller, i.e., conducts remote sales across AK, the business should register with ARSSTC regardless of economic nexus threshold.
  - Business should apply for ARSSTC remote reseller certificate and complete the MTC Multi-jurisdiction resale certificate with their ARSSTC Remote reseller certificate number.
- If Alaskan business is not a remote seller, i.e., does not conduct remote sales across AK, the business does not qualify for the ARSSTC remote reseller certificate and will not be able to use the MTC Multi-jurisdiction resale certificate.

#### **Scenario #5 - non-Alaskan business being charged AK sales tax by supplier / drop-shipper due to point of delivery in AK taxing jurisdiction.**

- Business should register with the ARSSTC as remote seller regardless of economic nexus threshold.
  - Business should apply for ARSSTC remote reseller certificate and complete the MTC Multi-jurisdiction resale certificate with their ARSSTC Remote reseller certificate number.