



**Revenue Ruling
No. 05-006
October 17, 2005
Sales Tax**

Louisiana Sales and Use Taxation of Drop Shipments

The purpose of this Revenue Ruling is to discuss requirements for the collection of Louisiana state sales tax on sales of tangible personal property when a wholesaler dealer sells property to a retail dealer and “drop ships” the property directly to the retail dealer’s Louisiana customer. The Ruling will discuss requirements for collection of both the advance sales tax on the sale from the wholesale dealer to the retail dealer, and the retail sales tax on the sale from the retail dealer to the Louisiana retail customer.

A drop shipment is a shipment of goods by a manufacturer or wholesaler directly to the customer of the person to whom the manufacturer or wholesaler sold the goods. Such an arrangement typically will avoid the expense and time delays of an intermediate shipment to a retailer who purchased the goods from the manufacturer or wholesaler, and who would otherwise be required to arrange a second shipment to the retailer’s customer, the final consumer of the property.

Unless the property purchased or the final retail customer is exempt from tax by law, the retail customer will owe the sales or use tax on the “sales price” or “cost price” of the property. The retail customer will pay that sales or use tax, either to the vendors from whom he bought the property, or directly to the Louisiana Department of Revenue on a monthly sales or use tax return. The advance sales tax is typically paid by Louisiana retail sellers on their purchases of tangible personal property for resale. Advance sales tax collection and payment is required by all sellers and buyers who operate as “dealers” in Louisiana as that term is defined by La. Rev. Stat. Ann. § 47:301(4).

What Is Advance Sales Tax?

The advance sales tax is a provision in the Louisiana state sales tax law that requires manufacturers, wholesalers, jobbers, and suppliers to collect sales tax on their sales to other dealers of tangible personal property for resale. The law provides that the advance sales tax is required only as a means of facilitating collection of the sales tax. Dealers who have paid the advance sales tax can claim credit for the same against the tax due on their retail sales of tangible personal property.

La. Rev. Stat. Ann. §47:306(B) provides as follows:

B. Collection by wholesalers. **(1)(a)** Notwithstanding the provisions of Subsection A above or any other provision of this Chapter, every manufacturer, wholesaler, jobber, or supplier who sells to anyone for sale at retail any article of tangible personal property, the retail sale of which is taxable under this Chapter, shall collect as advance sales tax a per centum of the sales price of such article equal to the rate of the sales tax levied on such article by this Chapter.

Advance Tax Requirements When Both the Manufacturer-Wholesaler and Retailer are “Dealers”

If both the manufacturer-wholesaler and the retailer qualify as “dealers”, the manufacturer-wholesaler will collect advance sales tax from the retailer. The retailer will collect the sales or use

tax on the “sales price” or “cost price” charged to the final retail customer. When filing his return and remitting the tax, the retailer will claim credit for the advance sales tax paid to the manufacturer-wholesaler.

Advance Tax Requirements When The Manufacturer-Wholesaler Is A “Dealer”, But the Retailer Is Not a “Dealer”

Interstate Shipments. Because he is a “dealer”, the manufacturer-wholesaler will normally collect advance sales tax or sales or use tax on all sales of property delivered into Louisiana. However, if the manufacturer-wholesaler sells and delivers into Louisiana from outside the state to a retailer who has not established the minimum business connection with Louisiana to require the retailer to register as a “dealer” in Louisiana, the manufacturer-wholesaler is not required to collect the advance sales tax from the retailer and the retailer is not required to collect the use tax on the sale to the final retail customer. (A retail seller who is not otherwise operating as a “dealer” does not become a “dealer” solely by virtue of having made a wholesale purchase of tangible personal property from a wholesale supplier who is a “dealer” in the state.) In this case, the final consumer will be required to remit the use tax directly to the department.

The non-dealer retailer will be required to document his non-dealer status in the records of the manufacturer-wholesaler in order that the manufacturer-wholesaler will not be held liable for not having collected the advance sales tax. The necessary documentation can be presented in a letter addressed to the manufacturer-wholesaler.

Intrastate Shipments. If the shipment from the manufacturer-wholesaler is one in the intrastate commerce of Louisiana, as would be the case when the manufacturer-wholesaler ships from a Louisiana-based inventory directly to the retail consumer’s Louisiana destination, such activity will establish the retailer as a “dealer” in Louisiana, even if the retailer does not otherwise conduct business activities in Louisiana that would establish the retailer as a “dealer” in the state. The manufacturer-wholesaler will be required to collect the Louisiana advance sales tax from the retailer, and the retailer will be required to collect the sales tax from the retail consumer.

Questions concerning this matter can be directed to the department’s Taxpayer Services Division at 225.219.7356 or to any of the department’s regional offices.

Cynthia Bridges
Secretary of Revenue

By: Raymond E. Tangney
Senior Policy Consultant
Policy Services Division

A Revenue Ruling is written to provide guidance to the public and to Department of Revenue employees. It is issued under LAC 61:III.101.C to apply principles of law to a specific set of facts. A Revenue Ruling does not have the force and effect of law and is not binding on the public. It is a statement of the Department’s position and is binding on the department until superseded or modified by a subsequent change in statute, regulation, declaratory ruling, or court decision.