



Town of Windsor
Finance Department - Sales Tax Division

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FREQUENTLY ASKED QUESTIONS

Are Shipping and Delivery Charges and Drop Shipping Taxable?

And,

When are Shipping Charges allowed to be taken as a deduction on a Monthly, Quarterly, or Annual Sales Tax Return?

Sometimes it becomes confusing when a business is trying to determine if shipping charges are taxable or exempt from sales tax on a sale. The charge can be either taxable or exempt from tax, *depending on who assumes responsibility for loss or damage during shipping.*

Generally, when the business assumes responsibility for the property loss or damage during shipping, then shipping charges are taxable. If the buyer or common carrier is assuming the responsibility for property loss or damage, then it is not taxable.

TERMINOLOGY USED IN THIS FYI:

Shipping Charges can be referred to as "shipping", "shipping & handling", "freight", "delivery", or "transportation fees". Shipping includes common carrier freight and transportation or delivery in the vehicle of the seller and drop shipping.

Property is referring to "tangible personal property" or "merchandise" or "inventory" that is sold in a retail transaction.

Seller is referring to "the company", "the business", "the merchant", "the retailer", "the vendor", or "the person who is releasing ownership of the property".

Buyer can be referred to as "the customer", "the purchaser", or "the person acquiring the property". They have become the end user of the merchandise when they assume title or ownership of the property.

Common Carrier is referring to a company whose business it is to only perform a delivery service. Examples could be the US Mail, UPS, or FedEx. Private courier companies also fall into this category.

TAXABLE SHIPPING CHARGES

When the act of shipping is combined with a retail sale of tangible property, the charge for shipping becomes part of the selling price of the product.

1. If the seller assumes responsibility for loss or damage to the property during shipping and the seller recovers that expense from the buyer, it becomes part of the selling price of the property; whether or not it is billed as a separate charge.
2. If the charge for shipping appears on the invoice, the charge is presumed to be taxable, unless the seller can demonstrate that they did not assume responsibility for loss or damage of the property during shipping. Otherwise, the seller is held liable for sales tax not billed on the receipt for shipping.
3. Freight charges appearing on the purchase invoice are presumed taxable, unless it can be shown that the buyer has no recourse to the seller if the merchandise is damaged during shipping.
4. If shipping charges are combined with any other taxable charges, such as "shipping and handling", then the entire charge is taxable.

EXEMPT SHIPPING CHARGES

The act of shipping tangible personal property is generally a service when it is performed as a "stand-alone" transaction, then the shipping charge is exempt from sales tax.

1. Sometimes, as a convenience to the customer, the merchant will arrange for shipping on behalf of the buyer. If this service is arranged separate from the sale of the property, and the seller assumes no responsibility after it leaves the seller's premises, then the charge for shipping is exempt. The seller has assumed no risk for the merchandise during shipping and the customer must go to the shipping company to recover the cost if the property is lost or damaged.
2. If the buyer is arranging for transportation, then the shipping cost is an exempt service. That shipper is an agent of the buyer and the buyer pays for shipping directly to the shipping company. This cost is not part of the purchase price of the property.

DROP SHIPPING

The Drop Ship method of merchandising allows anyone to sell products without buying and stocking any inventory of those products. Generally, these are internet sales. In short, the internet retailer takes orders and payment for the property; then forwards those orders to the supplier, who then ships the property directly to the customer. Under this system, the retailer does not have to invest any money in stock or inventory before it is sold. The advantages of this system include: minimal space requirements, elimination of loss on unsalable goods, and zero packing and shipping expenses.

However, if the internet retailer is located in Windsor and they make a sale to a Windsor resident or business, then a *physical presence* has been made and he has created "Nexus" or "Agency" or "a connection" with the wholesaler. Therefore the retailer must be licensed and collect and remit the Windsor sales tax in these sales.

WHEN ARE SHIPPING CHARGES ALLOWED TO BE TAKEN AS A DEDUCTION ON MY MONTHLY, QUARTERLY, OR ANNUAL SALES TAX RETURN?

Taxable shipping charges are part of the GROSS SALES value on Line 1 of the Windsor sales tax return.

Windsor retailers can deduct shipping charges on Line 3(c) of the Windsor sales tax return when the property is *shipped out of Windsor and delivered by a common carrier*.

Windsor retailers who deliver property to customers living in Windsor are not allowed to deduct delivery charges on the tax return because the cost of delivery is part of the sale and are not a "stand alone" service.

Shipping Charges that are recovered by the retailer cannot be taken as a deduction on the Monthly, Quarterly or Annual sales tax return.

Detailed record keeping is mandatory on all shipping and delivery charges. In all cases, it is the retailer that must be able to prove who is responsible for property loss or damage during shipping.

The Town of Windsor is a Home Rule city which requires all sales and use tax collected for Windsor to be remitted directly to the Town of Windsor and each Vendor to be licensed.

A blank Town of Windsor sales tax return can be printed from the local website at www.windsorgov.com. Click on **Doing Business, Sales Tax, Applications and Forms** and select the appropriate document.

The complete Municipal Code may be viewed at the same website. Click on **Our Government**, then select **Municipal Code** and **Chapter 04 - Revenue and Finance** contains sales and use tax regulations.

You may also find sales tax information pertaining to Colorado by logging onto the Colorado Department of Revenue website at www.revenue.state.co.us. State regulations, documents, FYIs and other good information can be located in the Sales Tax section.