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## Drop Shipments

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### Introduction

This bulletin explains the New York State sales tax treatment of drop shipment sales. In a drop shipment situation, a primary seller (generally a retailer):

- accepts an order from a customer;
- places the order with a third-party seller (usually a manufacturer or wholesale distributor); and
- directs the third-party seller to ship the goods directly to the primary seller's customer or to the primary seller's unaffiliated fulfillment services provider (see *Unaffiliated fulfillment services providers* below).

For sales tax purposes, drop shipments consist of two transactions:

- the sale from the third-party seller to the primary seller; and
- the sale from the primary seller to the primary seller's customer.

### Use of Form ST-120, *Resale Certificate*

When the primary seller is registered for New York State sales tax purposes, and the third-party seller and the primary seller's customer are located in New York State, the primary seller should furnish [Form ST-120, Resale Certificate](#), to the third-party seller. The third-party seller then delivers the order to the primary seller's customer or to the seller's unaffiliated fulfillment services provider. The primary seller collects the sales tax from the customer, reports the sale and remits the sales tax to the department on the appropriate sales tax return.

If the primary seller is a *qualified out-of-state purchaser* he or she can also use [Form ST-120](#) to make tax-exempt purchases of tangible personal property for resale. A *qualified out-of state purchaser* is one that:

- is not registered or required to be registered for sales tax purposes with the New York State Tax Department; and
- is registered with another state, the District of Columbia, a province of Canada, or other country, or has its only location in a state, province, or country that does not require registration; and
- is purchasing items for resale that will be either:
  - delivered to the purchaser's customer or unaffiliated fulfillment services provider located in New York State; or
  - delivered to the purchaser in New York State, but resold from a business located outside the state.

**Note:** A qualified out-of-state purchaser may use [Form ST-120](#) **only** for purchases of tangible personal property for resale, as described above. A qualified out-of-state purchaser **may not use** [Form ST-120](#) to purchase any taxable services for resale within New York State, since making such a purchase would cause the out-of-state purchaser

to qualify as a vendor and require it to register for New York State sales tax purposes. See Tax Bulletin [Do I Need to Register for Sales Tax? \(TB-ST-175\)](#) for more information.

### Unaffiliated fulfillment services providers

A seller who has a place of business or salespeople in New York State, or that owns or leases tangible personal property in New York, is required to register for New York State sales tax purposes.

However, a seller who is not otherwise required to register in New York State may purchase fulfillment services from a New York fulfillment services provider who is not an *affiliated person* without being required to register in New York State.

A New York fulfillment services provider may provide one or more of the following services for a seller that is not an *affiliated person* and that is not otherwise required to be registered without causing that seller to have to register for New York State sales tax purposes:

- store the seller's inventory on its premises;
- accept orders electronically or by mail, telephone, fax, or Internet;
- respond to consumer correspondence and inquiries electronically or by mail, telephone, fax, or Internet;
- perform billing or collection activities; and
- ship orders from an inventory of products offered for sale by the seller.

Fulfillment services providers located in New York State must be registered for New York State sales tax purposes to collect sales tax or accept resale or other exemption certificates.

Persons are *affiliated persons* with one another if:

- one person has an ownership interest (direct or indirect) of more than five percent (5%) in the other, or
- an ownership interest (direct or indirect) of more than five percent (5%) is held in each of such persons by another person, or by a group of other persons who are *affiliated persons* with respect to each other.

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

#### References and other useful information

**Tax Law:** Sections 1101(b)(8) and 1101(b)(18)

**Regulations:** Section 526.5

**Memoranda:** [TSB-M-98\(3\)S](#), *Nonregistered Out-of-State Purchaser's Use of Resale Certificate Form ST-120*

**Bulletins:**

[Do I Need to Register for Sales Tax? \(TB-ST-175\)](#)  
[Exemption Certificates for Sales Tax \(TB-ST-240\)](#)