

Drop shipments

What is a drop shipment?

A drop shipment occurs when a customer orders an item from a seller who does not have the item in stock. The seller then orders the item from another business and has that business deliver the item directly to the customer.

For example, a customer purchases an item from an online furniture store called Furniture Four, but the item is not in stock. Furniture Four arranges for its wholesale vendor, Chair Maker, to “drop ship” the item by directly shipping it to the customer.

How do Washington taxes apply to these arrangements?

In the above scenario, Chair Maker is making a wholesale sale to Furniture Four. Therefore, Chair Maker is not required to collect retail sales tax on the sale, even if Chair Maker delivers the goods to Furniture Four’s customer in Washington. Chair Maker must document the wholesale nature of the sale by obtaining one of the following from Furniture Four:

- Reseller Permit.
- Streamlined Sales Tax (SST) Exemption Certificate.
- Multi-State Tax (MTC) Exemption Certificate. 

If Furniture Four does not have a valid reseller permit or does not provide an approved exemption certificate, Chair Maker must collect and submit sales tax.

If Chair Maker has nexus with Washington, Chair Maker owes wholesaling business and occupation (B&O) tax on the drop shipment delivered to the customer in Washington.

If Furniture Four has nexus with Washington, Furniture Four owes retailing B&O tax and is required to collect and submit retail sales tax from the customer in Washington.

What if the customer is located outside of Washington?

If Chair Maker has nexus with Washington, Chair Maker is making an interstate sale to Furniture Four. Chair Maker must document the exempt nature of the sale by keeping shipping records that demonstrate the goods were delivered to Furniture Four's customer outside of Washington. Chair Maker would report the sale under the wholesaling B&O tax classification and take an interstate and foreign sales deduction for the sale.

If Furniture Four has nexus with Washington, Furniture Four is making an interstate sale to its customer. They would report the sale under both the retailing B&O and the retail sales tax classifications, with deductions for interstate and foreign sales. Furniture Four must document the exempt nature of the sale by keeping records that demonstrate Chair Maker was instructed to deliver the goods directly to its customer outside of Washington.

Resources

[WAC 458-20-193 – Interstate sales of tangible personal property](#)

[Out of state businesses reporting thresholds and nexus](#)



[Español](#) | [Русский](#) | [한글](#) | [Tiéng Viét](#) | [More languages](#)

[Subscribe to receive notifications](#) | [Taxpayer Rights and Responsibilities](#)

[Your Privacy](#) | [Accessibility](#) | [DOR Staff only](#) | © 2022 Washington State Department of Revenue and its licensors. All rights reserved.