

## DELIVERY CHARGES

Notice #07-20

Sales and Use Tax

December 2007



➤ *Effective 1/1/2008 "sales price" includes delivery charges*

➤ *Delivery charges are defined in T.C.A. § 67-6-102*

➤ *The delivery charge is taxable only if the sale of the product is taxable*

➤ *If third-party delivery is charged directly to the buyer, the delivery charge is not subject to sales tax*

➤ *EXAMPLES*

**INTRODUCTION**

This notice is intended to provide taxpayers and the general public with information concerning Public Chapter 602, Acts of 2007, which makes substantial changes to Tennessee sales and use tax statutes in order to comply with the Streamlined Sales and Use Tax Agreement.

**Effective January 1, 2008, the definition of "sales price" and "purchase price" has been amended to include delivery charges made by the seller for delivery of tangible personal property and services.**

**DISCUSSION**

"Delivery charges" means charges by the seller of personal property or services for preparation and delivery to a location designated by the purchaser of personal property or services, including but not limited to, transportation, shipping, postage, handling, crating, and packing.

Delivery charges include charges for transportation, delivery, shipping, shipping and handling, incoming freight, outgoing freight, packing, crating, and postage. Delivery charges that are billed by a seller of tangible personal property or services are part of the sales price or purchase price of the product, regardless of the shipping terms and regardless of whether the delivery charges are separately itemized on the invoice. Sales or use tax applies to the total sales price or purchase price of the product, including the delivery charges. This statutory change supersedes Sales and Use Tax Rule 1320-5-1-.71, which dealt with the treatment of freight charges.

Handling charges are charges billed by the seller to recover costs that occur when preparing products for shipping. Such handling costs charged by the seller are delivery charges that are a part of the sales price or purchase price of a product. Often these costs include:

- Retrieval of products from inventory
- Cleaning products that have been stored
- Inspecting products before shipment
- Crating or packing products

**When delivery charges are subject to sales and use tax**

- If an item of tangible personal property or service is subject to Tennessee sales or use tax, then the delivery charge made by the seller for delivering the property or service is subject to sales or use tax.
- If an item of tangible personal property or service is not subject to Tennessee sales and use tax, then the delivery charge made by the seller for delivering the property or service is not subject to sales or use tax. Examples include: sales for resale; sales to nonprofits and governmental agencies; and sales shipped out of state.
- If an item of tangible personal property or service is delivered by an independent third-party hired by the buyer and the delivery charges are made to the buyer, then delivery charges are not made by the seller and are not subject to sales or use tax.

**Examples of transactions with delivery**

1. An appliance store sells a refrigerator for \$500 and delivers it to the customer in Tennessee. The customer is billed \$20 for delivery of the refrigerator. The total sales price subject to Tennessee sales or use tax is \$520.

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Nashville area and out-of-state call (615) 253-0600  
Email [TN.Revenue@state.tn.us](mailto:TN.Revenue@state.tn.us)

2. An appliance store sells a refrigerator for \$500 to a customer in Tennessee. An independent delivery company delivers the refrigerator and bills the customer \$20 for delivering the refrigerator. The seller did not bill the delivery charge to the customer; therefore, the delivery charge is not a part of the sales price of the refrigerator. The total sales price subject to Tennessee sales or use tax is \$500.
3. A Tennessee sporting goods store sells athletic equipment to a boys club and charges separately for delivery. The boys club gives the store a Tennessee exemption certificate to purchase the athletic equipment free of tax. Since the athletic equipment is exempt from tax when sold to the boys club, the delivery charge is also exempt from tax.
4. A Tennessee resident sends a laptop to a Tennessee computer repair shop for repairs. The repair shop replaces the hard drive and charges the Tennessee resident \$150 for replacement parts, \$100 for repair service, and \$50 for shipping and handling. The total sales price subject to Tennessee sales tax is \$300.

If a single delivery charge is made for a shipment that includes both taxable and nontaxable tangible personal property or services, then the seller or purchaser must allocate a percentage of the delivery charge to the taxable tangible personal property or service to include in the amount that is subject to sales or use tax.

The seller or purchaser should allocate delivery charges for combined shipments using:

1. A percentage based on the total sales price of the taxable property compared to the sales prices of all property in the shipment; or
2. A percentage based on the total weight of the taxable property compared to the total weight of all property in the shipment.

### **Delivery charges for direct mail**

Delivery charges, including postage and mailing services, for direct mailing of printed materials to a mass audience or to addressees on a mailing list provided by a customer are not subject to sales and use tax if the delivery charges are separately itemized on the invoice and the recipients of the printed materials are not charged for the printed materials.

**Example:** A printer sells 1,000 coupon booklets for \$500 and mails the booklets to Tennessee addressees on a mailing list provided by the customer. The printer itemizes on the customer's invoice an additional \$350 for postage and \$100 for preparing the booklets for mailing. The postage and preparation for mailing charges are itemized delivery charges for direct mail and are not part of the total sales price. The total sales price subject to Tennessee sales or use tax is \$500.

### **Stand-alone shipping services**

Delivery, freight, or transportation services provided by passenger or cargo transportation companies or messenger services are nontaxable services in Tennessee.

**Example:** A Memphis resident sends a package to her sister in Kingsport via "One Day Delivery Company," a common carrier. The delivery or freight charge by "One Day Delivery Company" is not a taxable service in Tennessee, and no Tennessee sales tax is due on the charge for the delivery service.

➤ *Delivery charges are allocated to combined shipments of taxable and non-taxable property or services using a percentage*

➤ *Itemized postage and mailing services for direct mailing printed material to a mass audience is not subject to sales tax*

➤ *Charges for stand-alone shipping services are not taxable*



### **References:**

PC 602 (2007)  
T.C.A. § 67-6-102

The information provided here is current as of the date of publication but may change as a result of new statutes, regulations, or court decisions. While this notice is intended to be comprehensive, events and situations unanticipated by this notice may occur. In such cases you should contact the department or your tax professional for further guidance.