

**This notice was revoked on February 23, 2009 by Revenue Notice # 09-02.**

## **MINNESOTA DEPARTMENT OF REVENUE**

### **Revenue Notice # 05-13: Sales and Use Tax – Sales Price – Allocation of Delivery Charges**

#### **Introduction**

This revenue notice sets forth the department's position on the sales tax treatment of a lump sum delivery charge when a delivery includes both exempt goods and taxable goods.

Minnesota Statutes, section 297A.61, subdivision 7, defines "sales price" and provides that certain items are part of the sales price, and therefore subject to sales tax. Delivery charges are included in the sales price of taxable goods and services under Minnesota Statutes, section 297A.61, subdivision 7, paragraph (a)(4). Minnesota Statutes, section 297A.61, subdivision 30, defines delivery charges as "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."

#### **Department Position**

If a delivery includes exempt property and taxable property, the seller should allocate the delivery charge by using:

1. a percentage based on the total sales prices of the taxable property compared to the total 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.

The seller must tax the percentage of the delivery charge allocated to the taxable property but does not have to tax the percentage allocated to the exempt property.

Any other method used to allocate the delivery charge between exempt and taxable property must be consistent with reasonable business practices.

**Allocation Method #1:** Divide the amount charged for the taxable goods by the amount charged for all of the goods being shipped, then multiply the resulting number by the total delivery charge.

**Example:** A delivery of goods that cost \$400 contains \$300 worth of taxable goods and \$100 worth of exempt goods. The total delivery charge is \$30. Using allocation method #1 to determine the taxable percentage of the delivery charge, divide \$300 by \$400, for a result of 75%. Seventy-five percent of \$30 (the total delivery charge) is \$22.50. Adding the taxable delivery charge to the cost of the taxable goods means the seller should collect state and local tax on a total of \$322.50.

**Allocation Method #2:** Divide the weight of the taxable goods by the total weight of the shipment, then multiply the resulting number by the total delivery charge.

**Example:** Same as the example above except that it is also noted on the invoice that the delivery consists of 3 pounds of taxable goods and 9 pounds of exempt goods, and allocation method #2 is used to determine the taxable percentage of the delivery charge (using method #2 is optional; the seller may use method #1 even if seller gives and separates out the weight). Divide 3 pounds by 12 pounds, for a result of 25%. Twenty-five percent of \$30 (the total shipping charge) is \$7.50. Adding the taxable delivery charge to the cost of the taxable goods means the seller should collect state and local tax on a total of \$307.50.

JOHN H. MANSUN, Assistant Commissioner  
for Tax Policy and External Relations

Publication Date: November 21, 2005