

Department of Revenue

Revenue Notice # 09-07: Corporate Franchise Tax - Property Factor; Drop Shipping

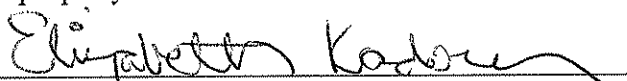
This revenue notice explains the situs of inventory for the purpose of determining the property factor under *Minnesota Statutes*, section 290.191, subdivision 10 when the inventory is delivered by drop shipping.

Drop shipping occurs when a taxpayer provides its customer orders and shipment details directly to a manufacturer, wholesaler or shipper. The manufacturer, wholesaler or shipper then delivers or has delivered inventory directly to the taxpayer's customer on behalf of the taxpayer. The taxpayer takes ownership of the inventory during shipment to the taxpayer's customer even though the taxpayer does not accept physical delivery of the inventory at a facility that it owns.

Under *Minnesota Statutes*, section 290.191, subdivision 2(2), the numerator of the property factor includes the taxpayer's "total tangible property used in this state in connection with the trade or business during the tax period." The tangible property included in the property factor is the average of the total property used by the taxpayer in connection with its business during the tax period in accordance with *Minnesota Statutes*, section 290.191, subdivision 9. Under *Minnesota Statutes*, section 290.191, subdivision 10(a), tangible property includes "inventories" and "other tangible personal property actually used by the taxpayer."

For inventory being delivered by drop shipment the place most closely connected to the taxpayer's use of the inventory is the place most connected to the taxpayer's economic benefit – the point of destination. Thus, it is appropriate that such inventory is included in the numerator of the taxpayer's property factor based on the destination state. Therefore, inventory in transit to a Minnesota destination is inventory used in Minnesota by the taxpayer in carrying on its business activities and is included in the numerator of the taxpayer's Minnesota property factor.

Publication Date: AUG 24 2009


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