

Direct Mail and Fulfillment Services

Sales Tax Fact Sheet 173

What's New in 2017

We made the layout of this fact sheet easier to use.

This fact sheet applies only to sales of printed materials that meet the definition of direct mail as described below and to fulfillment services described on page 3.

Direct mail

Direct mail is printed material that meets the following three criteria:

- it is delivered or distributed by U.S. Mail or other delivery service
- it is sent to a mass audience or to addresses on a mailing list provided by the purchaser or at the direction of the purchaser
- the cost of the items is not billed directly to recipients

Direct mail includes items supplied by the purchaser to include in the mailing, such as shampoo samples to be included with shampoo coupons.

Direct mail does not include multiple items of printed material delivered to a single address. For information about general printing jobs, see Fact Sheet 109, *Printing Industry*.

Printing

Charges for printing are generally taxable. This includes all charges to prepare a piece for printing, such as designing field placement or statement layouts, or any other design or layout functions. For example, the charge to manipulate customer furnished data so that it fits a preprinted "shell" is taxable. Also taxable are any of the steps to complete the printed piece, such as cutting, folding and binding.

There is an exemption for materials used or consumed in production of printed materials that will be sold ultimately at retail. Inputs to printing, such as paper and ink, may be purchased exempt by giving the seller a completed Form ST3, *Certificate of Exemption*. Specify the industrial production exemption.

For information about when printing may not be taxable, see Fact Sheet 109, *Printing Industry* and Fact Sheet 133, *Advertising*.

Direct mail delivery exemption

Normally, delivery charges for sales of taxable goods, including printed products, are part of the selling price of the product and are taxable. However, the sales tax law has a specific exemption for charges to deliver or distribute direct mail, if the charges are separately stated on the invoice to the purchaser. Exempt delivery charges for direct mail include charges for transportation, shipping, postage, handling, crating, and packing.

Mailing services

Separately stated fees for services that are performed primarily to prepare direct mail for delivery or distribution qualify for the exemption. The following services sometimes referred to in the industry, as “mail entry services,” are examples of services that may be part of the nontaxable delivery charges for direct mail if they are separately stated. These charges are taxable if they are part of the production of the printed product.

- Affixing postage or labels
- Boxing (putting in shipping boxes)
- Bursting (separate at perforations, e.g., separating dividend checks to mail individually)
- Collating
- Folding (for mailing or distribution purposes)
- Gluing (to hold the piece together during mailing)
- Inserting
- Metering (applying postage)
- Shrink wrapping
- Tabbings (affixing a tab to hold the piece together during mailing)

Nonreturnable materials used in production

Nonreturnable materials used in production that are used to package and mail items that you have printed for sale at retail may be purchased exempt from sales tax. These items are inputs used in the production of the printed goods. Use the industrial production exemption code, on the Form ST3, *Certificate of Exemption*, to claim exemption. Examples of exempt items are:

- Banding
- Cartons
- Chipboard/slip sheets (packaging between layers)
- Envelopes
- Glue
- Packaging
- Pallet tops
- Pallets/skids
- Poly bags
- Shrink wrap
- Tabs
- Tape

Address printing

Sometimes the only printing done for a direct mail service is printing the address/bar code. If the charge for this printing is separately stated, it is taxable. However, if it is not separately stated and if the cost of this printing is insignificant compared to the total cost of the mailing service, it is a nontaxable service.

Materials used in performing services

If all items to be mailed are furnished by the customer, and no significant printing is done, the materials you use to complete the mailing are all taxable. Since you are performing a service, you are required to pay sales or use tax on your cost of all materials used to perform the service.

Direct mail taxing rules

Sales or use tax is due based on the locations to which the direct mail is delivered. However, the printer often does not have enough information to properly source the direct mail to the appropriate jurisdictions. The fact that the printer had possession of a mailing list to perform the mailing service is not sufficient to assume that the printer can properly source the direct mail. Most mailing lists are proprietary information belonging to a customer and printers are generally not allowed to keep the mailing lists once the printing job is completed.

The purchaser has two options for direct mail purchases:

1. They may provide the printer with a completed Form ST3, *Certificate of Exemption*, claiming either the direct mail exemption or providing their direct pay authorization number (issued by the Minnesota Department of Revenue, if one has been issued). In this case, the seller does not charge any sales tax, and it is the purchaser’s responsibility to pay use tax to the appropriate taxing jurisdictions.
2. They may provide delivery information to the printer – documentation showing the taxing jurisdictions where the direct mail will be delivered. The seller must charge tax according to the delivery information provided. The purchaser must retain this information in their business records. However, if the printer is not registered or required to be registered to collect sales tax in the state(s) in which the items are shipped, it becomes the responsibility of the purchaser to pay use tax to these states.

If the purchaser does not provide the printer with either of the items listed above, the printer must charge the rate of sales tax imposed in the location from which the mail was shipped. However, the purchaser remains liable for paying the correct use tax to the taxing jurisdictions to which the direct mail is delivered.

Examples

- A printer located in St. Paul does a direct mail service for a client located in Maplewood. The printer prints the documents and mails them all over the country, as indicated in the mailing list provided by the client. The printer charges sales tax on the printing and includes the Minnesota general rate sales tax, .5 percent St. Paul local sales tax and .25 percent Transit Improvement sales tax – because the client did not give the printer delivery information or a fully completed exemption certificate. The client remains liable for any tax due on the jurisdictions to which the direct mail is delivered.
- Same example as above, except the client gives the printer a fully completed exemption certificate indicating the direct pay exemption code. The printer does not charge any sales tax. The client is required to pay applicable taxes to the jurisdictions where the direct mail is delivered.
- An insurance agent has 5,000 pocket calendars printed at a business located in Rochester, Minnesota and provides a mailing list for the printer to use to ship the calendars. The insurance agent gives the printer a fully completed exemption certificate indicating that 20 percent of the calendars are advertising that will be shipped outside of Minnesota, but no other information about the mailing. Twenty percent of the total charge is exempt from Minnesota tax since that portion will be shipped outside of Minnesota. The remaining 80 percent, less separately stated delivery charges, is subject to the Minnesota general rate sales tax and 0.5 percent Rochester local sales tax. The insurance agent remains liable for any tax due to the jurisdictions to which the direct mail is delivered.

Mailing lists

Separately stated charges for mailing lists are not taxable. However, if the mailing list itself is in a useable format, such as pre-gummed labels, it is taxable.

Mailing list maintenance is not taxable if separately stated from taxable printing charges. This includes services done for the purpose of determining postal classifications, presorting, merge/purge, address standardization, address updating, duplicate elimination, and other similar services.

Advertising exemption

Advertising or promotional materials that are used outside Minnesota are exempt from sales tax. This exemption includes the charges for printing the advertising materials. To claim exemption on the portion of the printing that applies to advertising materials used outside Minnesota, the purchaser must give the printer a completed Form ST3, *Certificate of Exemption*, using the advertising exemption code and indicating the percentage of advertising that will be used out of state. Also, see the section Direct mail taxing rules.

Capital equipment

Equipment used for printing and mail entry services for direct mail may qualify for the capital equipment refund. To qualify for the capital equipment refund, the equipment must be used primarily (50 percent or more of its operating time) to manufacture tangible personal property for sale at retail.

Equipment used for mail entry services when no taxable printing is done, and equipment used for fulfillment services does not qualify for the capital equipment refund.

For more information, see Fact Sheet 103, *Capital Equipment*.

Fulfillment services

Fulfillment services usually involve sending out products to individuals or businesses to fulfill an order. The products are owned by a business (i.e., manufacturer or retailer), but stored by the fulfillment service company so that they product can be sent when requested. When the fulfillment service company mails the product, other printed materials may also be included.

Separately stated charges for fulfillment services are not taxable. Printing done as part of the fulfillment service is taxable if it is separately stated. However, if it is not separately stated and if the cost of this printing is insignificant compared to the total cost of the mailing service, it is a nontaxable service.

Address/bar code

For fulfillment services, often the only printing done is the address and bar code label. If the charge for printing the address or bar code is separately stated from other charges, the charge is always taxable. However, if it is not separately stated and it is the only printing done, the fulfillment service charge is not taxable if the cost of printing is insignificant compared to the total cost of the fulfillment service.

Fulfillment materials

Since fulfillment is a nontaxable service, all materials and supplies used to provide the service are taxable. Tax applies to items such as boxes, envelopes, tape, ink and labels used to provide the service.

Examples

- A book publisher sells books online. The books are stored at a fulfillment service company. Whenever a customer orders a book online, the order is processed and mailed to the customer by the fulfillment service company.

The company charges the publisher each month for the fulfillment service, and does not separately state the charge for printing mailing labels. The charge for the fulfillment service is not taxable if the cost of the printing the mailing label is insignificant compared to the cost of the fulfillment service. The fulfillment service company must pay tax on all materials and supplies used to perform the fulfillment service.

- A furniture store hires a fulfillment service company to store its fabric samples. Whenever a customer requests some fabric samples, the requested samples, along with promotional materials are packaged and sent to the customer by the fulfillment service company. The fulfillment service company also prints promotional materials that are sent along with the samples.

The fulfillment service company charges the furniture store a monthly fee, based on how many orders were sent out. The printing charges for printing the promotional materials, and for printing the address labels, are itemized separately from the other charges for filing the orders. The monthly charge to the furniture store for fulfillment services is not taxable. The charges for printing are taxable.

- A car dealer sends a kit containing a customer color bottle of paint and repair kit to each customer who buys a new car. These kits are stored at the fulfillment service company. Each month, the car dealer gives the fulfillment service company preaddressed mailing labels of the car buyers, and the company mails the car buyers a repair kit. No sales tax applies to the charge for the fulfillment service.

Miscellaneous services

Storage

Charges to store a customer's items are not taxable if they are separately stated from printing charges.

E-mail services

E-mail services are not taxable (messages sent by e-mail instead of paper mailing).

Fax services

Fax services are taxable (messages sent by traditional fax or electronic fax instead of paper mailing).

Automatic data processing

Services that process a client's data are not taxable, even though a printed document may be produced. Processing a client's data means developing original information from raw data furnished by the customer through processes such as summarizing, computing, extracting, sorting, and sequencing. Examples of exempt automatic data processing services are:

- A payroll service that computes paychecks and produces a monthly pay stub and yearly W-2's.
- A company who compiles information from a bank each month to generate statements for the bank's customers.

- A billing service who complies information from a doctor's office each month to generate monthly billing statements for each patient.

Legal References

Minnesota Statute 297A.61

subd. 30, Delivery charges

subd. 35, Direct mail

Minnesota Statute 297A.668, subd. 7, Direct mail sourcing

Minnesota Statute 297A.68

subd. 11, Advertising materials

subd. 36, Delivery or distribution charges; direct mail

Minnesota Rule 8130.9700, Automatic data processing

Revenue Notices

03-10, Telecommunications Services

Other Fact Sheets

103, *Capital Equipment*

109, *Printing Industry*

133, *Advertising*

146, *Use Tax for Businesses*

164, *Local Sales and Use Taxes*