Sales Tax Rate Change

The New Jersey Sales and Use Tax rate will be reduced in two phases between 2017 and 2018. P.L. 2016, c.57 decreases the Sales and Use Tax rate from 7% to 6.875% on and after January 1, 2017. The tax rate will decrease to 6.625% on and after January 1, 2018.

The information in this publication has not yet been updated to reflect the change in the sales tax rate from 7% to 6.875% that takes effect January 1, 2017.

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Technical Services

Arts & Crafts Businesses & New Jersey Sales Tax

Publication ANJ–11

Introduction

Sellers doing business in New Jersey must comply with the State's tax laws whether they sell their products from shops, at flea markets, at craft shows, by mail, or from home. All sellers, even seasonal businesses, are required to register with the State for tax purposes at least 15 business days before starting business. To register, a **Business Registration Application (Form NJ-REG)** must be filed. Form NJ-REG may be filed online through the Division of Revenue's New Jersey Business Gateway Registry Services at: **www.state.nj.us/treasury/revenue/.** If the application indicates that the business will collect sales tax or purchase materials for resale, a **New Jersey Certificate of Authority (Form CA-1)** for sales tax is sent to the seller. This certificate provides authorization from the State of New Jersey to collect sales tax and to issue or accept exemption certificates, and it must be displayed at the business location at all times. A seller **must** always be registered with New Jersey to accept exemption certificates. A Public Records Filing may also be required depending upon the type of business ownership. More information on Public Records Filing is available in the New Jersey Registration Package (**NJ REG**) or by calling 609-292-9292.

Sales

New Jersey imposes a 7% tax on every retail sale of tangible personal property or digital property and the sale of certain services within this State, except as otherwise provided in the Sales and Use Tax Act (e.g., most clothing and footwear are exempt). Arts and crafts business owners registered in New Jersey who sell taxable items must collect sales tax on all taxable transactions and remit it to New Jersey.

Retail Sales. Sellers must collect sales tax on the purchase price, including delivery charges, of all taxable items sold if the retail customer (end user) or someone acting for the customer picks up the merchandise in New Jersey or asks to have it shipped to a New Jersey address, even if the items are later shipped out of State. *Exception:* Delivery to a package shipper or freight company located in New Jersey who will in turn ship the item out of State. Items shipped to a destination outside New Jersey are generally not subject to New Jersey sales tax. For more information, see publication **ANJ-10**, *Out-of-State Sales & New Jersey Sales Tax.*

Sales for Resale to Other Businesses. If another registered business purchases a product for *resale*, the purchaser is not considered to be the end user and no tax is due if the purchaser provides a valid **Resale Certificate (Form ST-3)** or **Streamlined Sales and Use Tax Certificate of Exemption (Form ST-SST).** If the purchaser does not provide the seller with an exemption certificate, the seller *must* collect sales tax.

Qualified Out-of-State Sellers. Qualified out-of-State sellers may make tax-exempt purchases in New Jersey of goods and services purchased for resale. When the qualified out-of-State seller carries the goods away from the point of sale, or sends its own vehicle or messenger to pick them up in New Jersey, the qualified out-of-State seller may use the **Resale Certificate for Non-New Jersey Sellers (Form ST-3NR)** or **Streamlined Sales and Use Tax Certificate of Exemption (Form ST-SST).** "Qualified out-of-State sellers" are sellers that (1) are not registered with New Jersey (2) are not required to be registered with New Jersey *and* (3) are registered with another state. An out-of-State seller may not use an ST-3NR unless the purchase qualifies for exemption under New Jersey law.

If a qualified out-of-State business that is not registered in New Jersey makes a purchase and asks to have the product shipped directly to its customer in New Jersey, the out-of-State business may use the resale certificate of its home state. This *drop-shipment* transaction is the only time a New Jersey seller may accept an exemption certificate of another state. The out-of-State business may also use **Form ST-3NR**, **Form ST-SST,** or **Uniform Sales and Use Tax Certificate – Multijurisdiction** published by the Multistate Tax Commission. If no resale certificate is provided, the seller must charge New Jersey sales tax. For more information on drop shipments, see **ANJ-10**, *Out-of-State Sales & New Jersey Sales Tax.*

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Exempt Organizations. Many churches, hospitals, volunteer fire departments, and other nonprofit organizations are exempt from paying sales tax on items purchased for the exclusive use of the organization. The Division of Taxation issues an **Exempt Organization Certificate (Form ST-5)** to those organizations which qualify for exempt status. When selling products to these organizations, the seller must obtain a photocopy of their ST-5 certificate to document why sales tax was not collected.

Lessons. Fees for lessons and instructions are not taxable. If materials or supplies are provided to the students as part of the lessons without a separate charge, the entire fee for the lessons (including materials or supplies) is nontaxable. The instructor must pay sales tax on the materials and supplies when they are purchased. However, if there is a separate charge for materials and supplies, the instructor must collect sales tax from the students on those items. In this case, the instructor may provide the supplier with a valid resale certificate instead of paying sales tax when the items are purchased.

For more information on exemption certificates, see Tax Topic Bulletin **S&U-6**, *Sales Tax Exemption Administration.*

Purchases

Materials. When sellers buy materials which will become a component part of the products that they make and sell, they may use a valid resale certificate instead of paying sales tax.

Supplies and Tools. Sales tax must be paid on purchases of supplies and tools. Items such as paint brushes, knives, scissors, tools, detergents, and disposable paper products for business use differ from materials because they do not become component parts of the finished product.

Example: Amy designs and makes hand-crafted wooden toys and sells them at a local flea market. She may issue a valid resale certificate to her New Jersey supplier when she buys the wood, nails, string, paint, and glue that ultimately become part of the toys she sells. She does not pay sales tax on these materials. However, Amy may not use a resale certificate when purchasing the paint brushes and scissors she needs to make her toys since the tools do not become component parts of her finished product. She must pay sales tax on the tools.

Packaging/Wrapping. Nonreturnable items used to contain, protect, wrap, and ship products to customers are exempt from New Jersey sales tax. To qualify for exemption, the packaging items must be incidental to the delivery of the products and an **Exempt Use Certificate (Form ST-4)** or **Streamlined Sales and Use Tax Certificate of Exemption (Form ST-SST)** must be provided to the supplier of the packaging items.

Production Equipment. Some machinery and equipment used directly and primarily in the production of tangible personal property by manufacturing, processing, assembling, or refining are also exempt. For example, a lathe used to make hand-crafted toys or a sewing machine used by a clothing manufacturer are types of exempt production equipment. By issuing **Form ST-4** or **Form ST-SST** to the supplier, the purchaser would pay no sales tax on qualified equipment. For more information on exempt production equipment, see Tax Topic Bulletin **S&U-6**, *Sales Tax Exemption Administration.*

Use Tax

Out-of-State Purchases. If a seller buys supplies or tools outside New Jersey for use in this State, the seller owes 7% use tax to New Jersey *if no sales tax was paid on the purchase.* If sales tax was paid at a rate lower than 7% and the other state has sales tax reciprocity with New Jersey, the seller owes use tax on the difference between the amount of sales tax that would have been due in New Jersey and the amount of sales tax paid in the other state. This provision of the law protects home-State sellers from unfair competition. If materials that become a component part of the seller's product are purchased out of State, no use tax is due to New Jersey. For more information on New Jersey use tax, see publication **ANJ-7**, *Use Tax in New Jersey*.

Note: If a seller buys materials with a valid resale certificate and decides to use them for personal purposes (and not to resell them), use tax at 7% of the purchase price must be remitted to New Jersey.

Records & Returns

Records. Copies of the exemption certificates accepted from customers and copies of invoices and other records, such as those that verify out-of-State deliveries (shipping receipts, bills of lading, etc.), should be kept in case of an audit for at least four years.

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Sales Tax Returns. Every three months a **New Jersey Sales and Use Tax Quarterly Return (Form ST-50)** must be filed, even if no sales and use tax was collected in that particular quarter. In addition, sellers that collected more than $30,000 in New Jersey sales and use tax during the preceding calendar year must file a **Sales and Use Tax Monthly Remittance Statement (Form ST-51)** for the first and/or second month of each calendar quarter (January, February, April, May, July, August, October, and November) and make the required payment if the amount of tax due for that month exceeds $500. If $30,000 or less in New Jersey sales and use tax was collected during the preceding calendar year, Form ST-51 is not required regardless of the amount of tax due for that particular month. Credit is taken on the quarterly return for any payment(s) made in months one and/or two of the quarter. For more information, see Tax Topic Bulletin **S&U-7**, *Filing Sales and Use Tax Returns*.

Seasonal Businesses. Sellers who intend to do business only during particular seasons indicate on the **Business Registration Application (Form NJ-REG)** the months in which they will be doing business. They must file the required quarterly returns and monthly remittance statements for the period the business is open.

For More Information

For more information on arts and crafts businesses and New Jersey sales tax, contact the Division's Customer Service Center at 609-292-6400, e-mail us at nj.taxation@treas.state.nj.us, or write to:

New Jersey Division of Taxation
Technical Information Branch
PO Box 281
Trenton NJ 08695-0281

Many State tax forms and publications are available by fax and on our Web site. Call NJ TaxFax at 609-826-4500 from your fax machine's phone, or access the Division's home page at: **www.state.nj.us/treasury/taxation/**