



Notice of Funding Opportunity

Title: Manufacturing and Research & Development Equipment Exemption
Website: <https://www.cdtfa.ca.gov/industry/manufacturing-exemptions.htm#Purchasers>
Dates: Partial sales and use tax exemptions accepted on a continual basis

Summary: California is home to many innovative businesses and organizations that create jobs and contribute positively to the state's economy. A partial sales and use tax exemption allows certain manufacturers, researchers and developers to pay a lower sales or use tax rate on qualifying equipment purchases and leases. Beginning on July 1, 2014, manufacturers and certain research and developers may qualify for a partial exemption of sales and use tax on certain manufacturing and research and development equipment purchases and leases. The sunset date of the law was also extended from July 1, 2022, to July 1, 2030.

Industry Topic Areas:

Eligible industry areas include the following: Useful Life; Special Purpose Building; Solar Power Equipment; Pollution Control; Agricultural Trade or Business; Construction Contractors; Electric Power Generators or Distributors (**new topic**); Research and Development; Manufacturers; Leases; Repair Parts; Cement Trucks; Material Handling Equipment; Paying Use Tax on Qualifying Purchases; Shipping and Delivery Charges; and Filing a Claim for Refund.

Funding:

Qualified persons pay only 3.3125% sales or use tax plus any applicable district imposed taxes until June 30, 2030, on qualifying purchases and leases. Qualifying purchases are limited to \$200 million in a calendar year.

Purchasers

There is no need to apply to the CDTFA for the exemption. When you make qualifying purchases or leases, you must provide the seller with a timely partial exemption certificate to obtain the reduced tax rate. Construction contractors performing a contract to construct or improve a special purpose building for a qualifying person may generally purchase materials and sell fixtures and machinery and equipment subject to the partial exemption.

Partial Exemption Certificate

There are two sample certificates available for the exemption.

- Partial Exemption Certificate for Manufacturing and Research and Development Equipment
- Construction Contracts – Partial Exemption Certificate for Manufacturing, Research and Development Equipment

You may provide the certificate for each purchase, or you may issue blanket certificates. If you issue a blanket certificate, you must advise the retailer on the purchase order, sales agreement, etc. regarding any purchases that are not subject to the partial exemption.

Exemption Limitations

The law provides that a single taxpayer or combined reporting unit cannot exceed \$200 million in purchases subject to the partial exemption in a calendar year. There is no proration when you are a qualified person for only a portion of the year. You may not carry over any unused amount to a following year. Each year you are limited to the total maximum of \$200 million in purchases subject to the partial exemption. You are responsible for tracking the amount of purchases you make per calendar year. If your purchases exceed the \$200 million annual cap, you will be held liable for the full sales tax amount on the purchases exceeding the limit.

If, at the time of purchase, you do not know whether you will meet the qualifications, but anticipate you will meet the qualifications in the one year period following the date of purchase, you may issue a partial exemption certificate. If, however, you do not fulfill the requirements within that one year period, you will be liable for the difference to equal the full payment of tax, with applicable interest as if you were a retailer making the sale at the date of purchase.



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If you pay the full amount of sales tax reimbursement at the time of purchase, and later discover that you have met all of the qualifications, you may issue a partial exemption certificate to your retailer. The retailer may then file a claim for refund for the overpaid portion of sales tax on your behalf. If the transaction was subject to use tax, the purchaser may file a claim directly with the CDTFA.

Project Requirements:

QUALIFIED PERSONS

Qualified persons are generally persons or establishments that are primarily engaged 50% or more of the time in specified: Manufacturing; Research and Development in biotechnology, physical, engineering, and life sciences; or Electric power generation or distribution (beginning January 1, 2018).

To be primarily engaged as a legal entity or as an establishment you must, in the prior financial year, either derive 50% or more of gross revenue (including inter-company charges) from, or expend 50% or more of operating expenses in a qualifying line of business. For purposes of research and development activities, gross revenues could be derived from, but are not limited to, selling research and development services or licensing intellectual property resulting from research and development activities.

QUALIFIED TANGIBLE PERSONAL PROPERTY

Qualified tangible personal property generally includes: Machinery and equipment; Equipment or devices used or required to operate, control, regulate, or maintain the machinery together with all repair and replacement parts; Specified tangible personal property used in pollution control; Special purpose buildings and foundations used as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, or that constitute a research or storage facility used during those processes; Special purpose buildings and foundations used as an integral part of electric power generation or production or storage and distribution (beginning January 1, 2018).

The qualified tangible personal property must generally be treated as having a useful life of one or more years for state income or franchise tax purposes. Leases of qualified personal property may also qualify for the partial exemption. If the lease qualifies, any payments that are due and paid in the eligible period, July 1, 2014 through June 30, 2030, qualify for the partial exemption regardless of the lease inception date.

QUALIFIED USES

Qualified uses include when the qualified tangible personal property is used primarily (more than 50% of the time) in specified: Manufacturing, processing, refining, fabricating, or recycling of tangible personal property; Electric power generation or production or storage and distribution; To maintain, repair, measure, or test any qualified tangible personal property described by the above; Research and development; or For use by a contractor purchasing that property for use in the performance of a construction contract for a qualified person, provided that the qualified person will use the resulting improvement to real property as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, the generation or production, or storage and distribution, of electric power, or as a research or storage facility for use in connection with those processes.

The law provides that operational equipment (i.e. computers, tablets, printers, servers) used to run the manufacturing equipment are eligible for the exemption under this program provided they are used for qualifying activities. Even though your primary NAICS code is eligible for the exemption, purchases made for other activities of your operations (i.e. distribution, sales) are not eligible for the exemption.

Eligible Applicants:

The partial exemption is available to anyone who meets the qualifications. You do not need to apply.

To be eligible for this partial exemption, you must meet all three of these conditions:

- Be primarily engaged in certain types of business, also known as a "qualified person."
- Purchase "qualified tangible personal property."
- Use that "qualified tangible personal property" in a qualified manner.