

STATE & LOCAL TAX ALERT

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California's New Partial Sales Tax Exemption for Manufacturers and Certain Biotechnology Companies

The State of California has enacted a new law effective July 1, 2014, allowing manufacturers and certain Research and Development ("R&D") companies a partial sales/use tax exemption on certain manufacturing and R&D equipment purchases.

How much Sales or Use Tax is Exempt? – The partial exemption applies to the state sales and use tax rate portion which is currently at 4.1875%. The exemption does not apply to any local, city, county, or district tax. For example, a taxpayer could receive a partial sales tax exemption of approximately \$42,000 on every \$1 million of qualified purchases.

Who is Eligible? – Eligible taxpayers must meet all three of these conditions:

1. Be a "qualified purchaser"
2. Must purchase "qualified property"
3. Must use the "qualified property" in the manufacturing or R&D process

Non eligible businesses include certain financial institutions, agricultural taxpayer and extractive taxpayers

Who is a Qualified Purchaser? – A qualified purchaser is someone engaged in one of the following types of businesses:

1. Any form of manufacturing as described in the North America Industry Classification System (NAICS) codes 3111 to 3399
2. R&D in biotechnology, engineering, physical sciences, or life sciences

What is Qualified Property? – Generally, qualified property will include the following types of property purchased and used between July 1st, 2014 and December 31, 2018:

1. Machinery and Equipment
2. Equipment or devices (e.g. computers) required to operate, control, regulate or maintain the machinery

3. Tangible personal property used in pollution control

4. Special purpose buildings and foundations used as integral part of the manufacturing process, or that constitute a research or storage facility other than for warehousing of product

Note that businesses that operate within certain Enterprise Zones may be eligible to claim the partial sales tax exemption for purchases between July 1st, 2014 and June 30, 2021.

What Process must the Property be Used In? – The property must be primarily (greater than 50% of the time) used in the following way:

1. Manufacturing, processing, refining, fabricating, or recycling of tangible personal property; or
2. Research and Development; or
3. To maintain, research, or test property in 1) or 2) above

Green Hasson Janks' Recommendation – We encourage our clients involved in the manufacturing or research and development process to discuss the partial sales tax exemption with their tax advisors. This exemption may also be available on asset purchases as a result of an acquisition of an existing business. This exemption could provide meaningful benefit to clients and should be a decision making factor in the purchasing process of all California manufacturers regardless of industry over the next few years. &

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