

TAX INFORMATION BULLETIN

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New partial exemption for manufacturing equipment to take effect on July 1, 2014

Beginning on July 1, 2014, and extending until June 30, 2022, “qualified” purchasers of manufacturing, and research and development equipment will be eligible to obtain a partial exemption of the sales and use tax rate. This partial tax exemption is the result of the passing of Assembly Bill 93 as amended by Senate Bill 90 that were signed by the Governor on July 11, 2013. (Visit our Industry Guide on the Manufacturer’s Exemption for details.)

For the period beginning July 1, 2014, through December 31, 2016, the exemption will reduce the state sales and use tax rate by 4.1875 percent. For the period beginning January 1, 2017, through June 30, 2022, the exemption reduces the state sales and use tax rate by 3.9375 percent to coincide with the 0.25 percent state rate reduction. The exemption applies to the state tax portion only. It does not apply to any local, city, county, or district tax. The exemption on qualifying purchases is limited to \$200 million per year per qualified person.

A “qualified person” means a person who is primarily engaged (50 percent or more of the time) in those lines of business described in the North American Industry Classification System (NAICS) Codes 3111 to 3399, inclusive, 541711, or 541712 published by the United States Office of Management and Budget (OMB), 2012 edition.

In order to qualify for the exemption, the property must be used primarily in manufacturing, processing, refining, fabricating, recycling of tangible personal property; research and development; maintaining, repairing, measuring, or testing any qualified tangible personal property; or used by a contractor in the performance of a construction contract for a qualified person that will use the property as an integral part of the process as described above or as a research and storage facility in connection with those processes.

Qualified property includes:

Tangible personal property used in pollution control that meets established state or local government agency standards.

Machinery and equipment, including component parts and contrivances; equipment or devices used or required to operate, control, regulate, or maintain the machinery.

Special purpose buildings and foundations used as an integral part of the manufacturing process, or that constitute a research or storage facility.

Qualified property does not include:

Buildings used solely for warehousing.

Consumable property with a useful life of less than one year.

Furniture, inventory, and equipment used in the extraction process or storage of finished products that have completed the manufacturing, processing, refining, fabricating, or recycling process.

Property used primarily in administration, general management, or marketing.

Property used in any other aspect of the business other than those qualifying uses. Leases regarded as “continuing sales and purchases” of “qualified property” by “qualified” lessees also qualify for the exemption.

The California Board of Equalization (BOE) is currently drafting Regulation 1525.4, Manufacturing and Research & Development. For further information, see our Business Taxes Committee calendar for a link to the issue paper and Interested Party meeting dates.