

Sales and Use Tax Exemption for Manufacturing and Research & Development Equipment

Revenue & Taxation Code section 6377.1

Sales and Use Tax Exemption – RTC section 6377.1

- Applies to purchases on or after July 1, 2014 and before July 1, 2022
- 3.3125% plus any applicable district taxes

Qualified Person

Primarily engaged in business in the lines of business described in:

- NAICS Codes 3111 to 3399 (manufacturing)
- NAICS Codes 541711 (R&D in biotechnology) or 541712 (R&D in physical, engineering, and life sciences)

Qualified Tangible Personal Property (TPP)

- Machinery and equipment including component parts for equipment
- Equipment used to operate, control, regulate or maintain the equipment
- TPP used in pollution control (CA or local standards)
- Special purpose buildings and foundations used as an integral part of manufacturing process

Qualifying Purpose

The property must be used:

- In any stage of the manufacturing
- In research & development
- To maintain, repair, measure or test equipment used in manufacturing or R&D
- By a construction contractor in the performance of a construction contract for the qualified person

When the Exemption Does Not Apply

- Certain business do not qualify
- If the property is removed from CA or used in a non-qualifying manner
- Qualifying purchases exceed \$200 million in a calendar year

How to Claim

- Complete a partial exemption certificates
- Provide the exemption certificate to your retailer
- Sellers will retain certificates and claim the partial exemption on the return where they report the sale
- Purchasers reporting purchases subject to use tax will claim the partial exemption on the return they report the purchase

For More Information

- <http://www.boe.ca.gov/industry/>
 - Manufacturing Exemption

Sales and Use Tax Exclusion (STE) Program

Advanced Manufacturing, Advanced
Transportation, and Alternative Source
Manufacturing



**CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY**

8/13/2014

Presentation Overview

- About CAEATFA
- How the STE Program Works
 - Program Eligibility
 - How the Sales and Use Tax Exclusion Works
- How to Apply for the STE
- Application Review Process
- Requirements After Application is Approved

About CAEATFA

- **California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)**
- Created in 1980 to provide credit support, access to low-cost financing through private activity tax-exempt bonds, loans, and other forms of financial assistance
- Established to advance the state's goals of:
 - reducing greenhouse gas emissions,
 - increasing the deployment of sustainable and renewable energy sources,
 - implementing measures that increase the efficiency of the use of energy,
 - creating high quality employment opportunities, and lessening the state's dependence on fossil fuels.



About CAEATFA

CAEATFA Board Members:

- **Bill Lockyer**, State Treasurer and Chair of CAEATFA Board
- **John Chiang**, State Controller
- **Michael Cohen**, Director, Department of Finance
- **Dr. Robert Weisenmiller**, Chair, California Energy Commission
- **Michael R. Peevey**, President, California Public Utilities Commission



How the STE Program Works

The Program excludes from sales and use taxes purchases of equipment for a project that involves an advanced manufacturing process or the manufacture of alternative source products or advanced transportation technologies if the project will ultimately provide a net benefit to the state, both fiscally and environmentally.



Eligibility

Who may apply?

- Alternative Source (AS) Product Manufacturers:
 - Biogas production, solar panel manufacturing, renewable fuel production, etc.
 - e.g. Bloom Energy, Biofuels Point Loma
- Advanced Transportation (AT) Technologies Manufacturers:
 - Electric vehicle manufacturing
 - e.g. Tesla, Electric Vehicles International
- Advanced Manufacturers (new):
 - Eligibility is determined by the manufacturing process rather than the product that is manufactured
 - Utilizes: micro and nano-electronics, advanced materials, integrated computational materials engineering, nanotechnology, additive manufacturing, or industrial biotechnology
 - Process is sustainable and better than the current industry standard
 - e.g. Boxer Industries



How the Tax Exclusion Works

What is excluded from sales and use tax?

- **“Qualified Property”** (Section 10031(u) , Title 4 of the California Code of Regulations)
 - Tangible personal property
 - to be utilized in an Advanced Manufacturing process or necessary for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems
 - to be purchased for use in the Facility.
- This definition includes manufacturers of alternative source electricity generation equipment such as solar panels or wind turbines, but excludes the purchase of that equipment for power generation.
- To use the exclusion, the Qualified Property cannot have already been put to functional use.
- ❖ Note: The exclusion applies to both state and local taxes.
(approximately 8.42%)



How the Tax Exclusion Works

What does “exclusion” mean?

- Pursuant to Revenue and Taxation Code section 6010.8, the Qualified Property purchases do not constitute a “sale” or “purchase” and are therefore not subject to sales and use taxes.
- Importance: Because there was no sale or purchase for purposes of determining sales and use tax liability, the same item of property cannot also be exempt from sales or use taxes.

How to use the exclusion

- Board of Equalization (BOE) oversees the process for using the exclusion.
- Present vendor with a certificate made pursuant to BOE specifications.
- For purchases made before application approval, must seek reimbursement from BOE or the vendor.



How to Apply for the STE

- Application consists of two parts:
 - Part A: a project narrative, legal questionnaire, an applicant certification, and additional project details, such as the status of required permits and the estimated project timeline.
 - Part B: an excel worksheet designed to measure and quantify the fiscal and environmental benefits of the project.
- Deadline: application and application fee must be submitted at least 60 days prior to a scheduled CAEATFA Board meeting.
- Application fee is .0005 (or .05%) of the total amount of Qualified Property identified in the application (min. of \$250 and a max. of \$10,000)

Application Review Process

- CAEATFA staff will review applications for completeness and reasonableness of the assumptions provided by the applicant.
- Particularly with Part B, staff may ask the applicant to provide supporting documentation and to make adjustments to the application based on questions or comments provided by staff.
 - It is not unusual for the application to have been revised once or twice during this process.
- Applicants who meet the minimum scoring threshold are recommended to the CAEATFA Board for approval.



Application Review Process

Scoring:

- Projects receiving a sales and use tax exclusion must provide a net benefit to the State as determined by:
 - Marginal increase in equipment purchased and ultimate production by the applicant;
 - Fiscal Benefits: Increased corporate/income and sales tax revenue from the marginal increase in production and sales ;
 - Environmental Benefits: Estimated benefits from pollution reduction including reduced greenhouse gas emissions.
- Applications must receive a total score of 1,000 or more points.
- Alternative Source and Advanced Transportation applicants must also receive an environmental score of at least 100 points.
- Advanced Manufacturing applicants must also receive an environmental score of at least 20 points to be recommended for approval to the Board.



Requirements After Application is Approved

➤ Sign a Master Agreement

- Contract between CAEATFA and the applicant defining the terms and conditions for using the exclusion.

➤ Pay an Administrative Fee

- Upon execution of the Master Agreement, the applicant must pay \$15,000 towards the total administrative fee.
- The total administrative fee is .004 (or .4%) of the total purchase price of the Qualified Property (min. of \$15,000 and a max. of \$350,000).

➤ Submit Semi-Annual Reports

- Details the actual Qualified Property purchases made, if any, during the reporting period.

➤ Submit Annual Compliance Reports and Certifications

- Includes information about payroll, California sales, compliance details regarding the Qualified Property, and project status.
- Certifies that the Qualified Property was used for approved purposes.

❖ Note: All Qualified Property must be purchased within three years.



What is the difference between the BOE and CAEATFA Programs?

	BOE Exemption	CAEATFA Exclusion
Eligible Participants	NAICS Codes 3111 to 3399, inclusive, 541711, or 541712	Advanced manufacturers and manufacturers of AS/AT Products
Exempt Tax Rate	4.1875%	Full rate, including local and district taxes
Legal Mechanism	Exemption from the state's share of sales tax	Transaction excluded from being considered a sale
Application Requirement	No	Yes
Fee Requirement	None	Application Fee (.0005) and Administrative Fee (.004), if approved, of the total amount of Qualified Property
Program Cap	\$200 million in purchases per year per business	\$100 million in exclusions per calendar year for the entire program
Program Sunset Date	June 30, 2022	Adv. Manufacturing: July 1, 2016 AS/AT: January 1, 2021

Useful Resources

➤ STE Program Website:

- <http://www.treasurer.ca.gov/caeatfa/ste/index.asp>

➤ STE application materials, including application documents, deadlines, fees, and sample applications:

- <http://www.treasurer.ca.gov/caeatfa/ste/application/index.asp>

➤ Information and materials for approved applicants:

- <http://www.treasurer.ca.gov/caeatfa/ste/applicants/index.asp>

➤ BOE information on using the STE:

- <http://www.boe.ca.gov/sutax/gme.htm>



Additional Funding Sources

- California Capital Access Program (e.g., collateral support and loan loss reserves for small businesses):
 - <http://www.treasurer.ca.gov/cpcfa/calcap/>
- Tax-exempt Bond Financing for Pollution Control Projects:
 - <http://www.treasurer.ca.gov/cpcfa/bondfinancing.asp>



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