

Welcome!

Agenda

- Background re: the Partial Exemption
- Procedure
- Q&A
- Next Steps

State of California

Partial Exemption From Sales and Use Tax

In an effort to promote and keep Manufacturing and Research and Development within the state, California legislators have enacted Regulation 1525.4 Partial Exemption for Property Purchased for use in Manufacturing and Research and Development.

Here at Caltech, we're calling it the "Partial Sales & Use Tax Exemption" or the "1525.4 Exemption" – Reflecting our research & development mission.

State of California

Partial Exemption From Sales and Use Tax

This is a partial exemption from sales and use taxes at the rate of 4.1875% from July 1, 2014 to December 31, 2016, and at the rate of 3.9375% from January 1, 2017 to June 30, 2022.

This partial exemption also applies to lease periods occurring on or after July 1, 2014 and before July 1, 2022, for leases of qualified tangible personal property even if the lease agreement was entered into prior to July 1, 2014.

You are not relieved from your obligation for applicable local and district taxes on a transaction. This exemption applies only to the 7.25% state wide base rate.

Potential Savings on Purchases

Because local and district tax rates vary within California, the best way to understand potential savings is with a simple example using a full tax rate.

Example:

If you purchase qualified items from a vendor in Pasadena, where the total combined Sales tax rate is 9.50%, and the reduction of 3.9375% is applied, the rate the award will pay is 5.5625%, or about 42% less than the full tax rate.

What is Eligible for the Exemption

Machinery and Equipment that meets Caltech's definition of equipment, including stand-alone and fabricated items. In the case of fabrications, all costs that are captured in the fabrication account qualify.

Caltech defines equipment as an item that meets all of the following criteria:

- **Has an acquisition cost of \$5,000 or more**
 - Includes: Invoice amount, sales tax, freight costs, installation costs, costs for the initial complement of supplies needed to place the asset into service, accessory and auxiliary apparatus necessary to make it usable for the purpose for which it was acquired; less trade or trade-in discounts and/or educational allowances
 - Excludes: Federal Excise tax, duty, insurance, maintenance and warranty costs

And

- **Has a useful life of two or more years**
 - If the item will not have a useful life of more than two years it is considered expendable material, even if it costs more than \$5000.

What is Eligible for the Exemption (Continued)

And

- **Is a stand-alone item**
 - The item is not permanently attached to or integrated into a building or structure.

Occasionally, when government or other sponsors retain title to assets they impose a lower threshold for tagging and tracking assets. The award document and the award resume prepared by the Office of Sponsored Research will specifically state if a threshold other than \$5,000 applies.

What is Eligible for the Exemption (Continued)

Equipment or devices used to operate or maintain the machinery, including but not limited to computers, data processing equipment, and computer software.

All of the above must be used more than 50 percent of the time for research and development in biotechnology, or the physical, engineering, and life sciences.

What is Not Eligible for Exemption

- P-Card purchases.
- Any form of services.
- Supplies (general office, general laboratory, or shop equipment, anything not specifically purchased for the exemption purpose).
- Consumables with a useful life of less than one year.
- Property used primarily in administration, general management, or marketing.
- Property that will be removed from California within one year of the date of purchase or lease.
- Any property converted or used in a manner that does not qualify for the exemption.

California Partial Sales & Use Tax (1525.4) Exemption

Eligibility Matrix

Item	Eligible	Not Eligible
Stand-alone equipment and machinery that has an acquisition cost of \$5,000 or more ¹ to be used more than 50% of the time for research and development in biotechnology or in the physical, engineering and life sciences.	✓	
Fabricated components of equipment or machinery ² to be used more than 50% of the time for research and development in biotechnology or in the physical, engineering and life sciences.	✓	
Equipment or devices used to operate or maintain the equipment and machinery. ³	✓	
Other tangible goods that do not meet Caltech's definition of equipment or equipment fabrication.		✓
P-Card purchases.		✓
Any form of services.		✓
Supplies (general office, general laboratory, or shop equipment, anything not specifically purchased for the exemption purpose).		✓
Consumables with a useful life of less than one year.		✓
Property used primarily in administration, general management, or marketing.		✓
Property that will be removed from California within one year of the date of purchase or lease.		✓
Any property converted or used in a manner that does not qualify for the exemption.		✓

¹ Caltech's equipment and machinery policy:
<https://finance.caltech.edu/PropertyServices/PolicesandProcedures/EquipmentThreshold>

² Caltech's equipment fabrication policy:
http://www.researchadministration.caltech.edu/documents/201-equip_fab_policy_may09.pdf

³ Equipment and devices (including, but not limited to, computers, data processing equipment and computer software) must be used more than 50% of the time for research and development in biotechnology or in the physical, engineering and life sciences. Must also meet Caltech's definition of equipment or be included in an equipment fabrication.

California Partial Sales and Use Tax (1525.4) Exemption – Eligibility Matrix

Available Online

Ordering Process

Each Division has identified Staff (herein referred to as “Custodian”) who, upon training by Caltech’s Tax Department and Procurements Services, will be responsible for processing qualifying orders in accordance with the following procedures:

1. For each purchase that may qualify for the partial exemption, the Custodian will request the appropriate individual (i.e. Faculty, PI, etc.) certify the order by completing the *California Partial Sales and Use Tax (1525.4) Exemption – Certification Form*
2. Each Division will work with the supplier to verify the tax status of the order – is all or a part of the order taxable? Will the supplier charge CA sales tax or will use tax need to be accrued?
3. The Custodian will access the non-catalog form in TechMart named: *Partial Sales & Use Tax Exemption*. Note: access to this form is limited to those who have been trained as a Custodian:
 - a. Complete the non-catalog form as usual
 - b. Select “Yes” under Certification Acknowledgement. Note: Custodian will not be able to place the order if he/she does not select “Yes.” Acknowledgement: *I hereby acknowledge that a Partial & Use Tax Exemption Certification for this purchase, signed by an appropriate individual, has been attached to this requisition.*
 - c. In Advanced Checkout, select “CA Reduced Tax” from the Tax Information list of values
 - d. Attach the completed and signed *California Partial Sales and Use Tax (1525.4) Exemption – Certification Form* to the requisition
 - e. Complete the order by clicking “Place Order.” Note: The *Partial Sales & Use Tax Exemption* form in TechMart cannot be combined in a single shopping cart with any other non-catalog form (i.e. Spot Buy, Invoice Attached, etc.)

California Partial Sales & Use Tax (1525.4) Exemption

Certification Form

I have been made aware of the regulations surrounding the State of California’s partial sales and use tax exemption for Manufacturing and Research and Development under Board of Equalization Regulation 1525.4 (“the exemption”) and the Institute’s guidelines for implementing the exemption. Members of my Division have received training regarding the exemption.

I understand that the Institute is relying on my certification in securing a partial exemption from California sales and/or use tax. I understand that knowing misrepresentation of the information on this form is a violation of California tax laws and Caltech’s financial policies.

I hereby certify that the qualified tangible personal property described below and purchased or leased from _____ :
Insert Supplier’s Name

- Meets Caltech’s definition of equipment, including standalone and fabricated items, or
- Consists of equipment (meeting Caltech’s definition) or devices used to operate or maintain equipment purchased under this exemption, and
- Will be used more than 50% of its service time for research and development

I also hereby certify that I am required to report any of the following promptly to Procurement Services and that the occurrence of any of the following may require payment of California sales and use tax on this purchase;

- Removal of the property from California within one year of the date of purchase or lease;
- Conversion of the property for use in a manner not qualifying for the exemption;
- Use of the property in a manner not qualifying for the partial exemption.

Description of Qualified Tangible Personal Property:

Signature

Date

Print Name

Title

**California Partial Sales
and Use Tax (1525.4)
Exemption – Certification
Form**

Available Online

Buyer Process

Upon Division approval in TechMart, a Purchasing Agent in Purchasing Services will:

1. Review the Requisition for a signed *Certification Form* and correct tax information
2. Attach a completed *BOE-230 Partial Exemption Certificate* that will go to the supplier
3. Add a note to the supplier that the order qualifies for the partial tax exemption
4. Create corresponding “tax” lines in TechMart for each item on the order
 - a. Use the Excel template to calculate tax amount
 - b. Naming convention for new tax lines: “CA Reduced Tax: Line XX – ” plus copy the corresponding item description. **Example: CA Reduced Tax: Line 1 – Helium Detectors”**
5. In Oracle
 - a. Change the tax status to “EXMPT - CA Reduced Tax” for all lines
 - b. The PO comes in “incomplete.” Approve

Note: Orders placed using the *Partial Sales & Use Tax Exemption* form in TechMart cannot be assigned to an SOS Buyer. They must be processed by a Purchasing Agent in Purchasing Services.

**PARTIAL EXEMPTION CERTIFICATE FOR
MANUFACTURING, RESEARCH AND DEVELOPMENT EQUIPMENT****Section 6377.1¹**

This is a partial exemption from sales and use taxes at the rate of 4.1875% from July 1, 2014 to December 31, 2016, and at the rate of 3.9375% from January 1, 2017 to June 30, 2022. You are not relieved from your obligations for the remaining state tax and local and district taxes on this transaction. This partial exemption also applies to lease periods occurring on or after July 1, 2014 and before July 1, 2022, for leases of qualified tangible personal property even if the lease agreement was entered into prior to July 1, 2014.

I hereby certify that the tangible personal property described below and purchased or leased from:

SELLER'S/LESSOR'S NAME

SELLER'S/LESSOR'S ADDRESS (street, city, state, zip code)

is qualified tangible personal property and will be used by me primarily (please check one):

1. for manufacturing, processing, refining, fabricating, or recycling;
2. for research and development;
3. to maintain, repair, measure, or test any property being used for (1) or (2) above; or
4. as a special purpose building and/or foundation.

Description of qualified tangible personal property purchased or leased²

If this is a specific partial exemption certificate, provide the purchase order or sales invoice number and a precise description of the property being purchased. If you want this certificate to be used as a blanket certificate for future purchases, describe generally the type of property you will be purchasing and ask your vendor to keep this certificate on file.

I, as the undersigned purchaser, hereby certify I am primarily engaged in manufacturing, processing, refining, fabricating, or recycling as described in codes 3111 to 3399 in the North American Industry Classification System (NAICS)³ or I am primarily engaged in biotechnology, or physical, engineering, and life sciences research and development as described in codes 541711 and 541712 of the NAICS.

I understand that by law, I am required to report and pay the state tax (calculated on the sales price/rentals payable of the property) at the time the property is purchased, removed, converted, or used if:

- the purchase exceeds the \$200 million limitation;
- the property is removed from California within one year of the date of purchase or lease;
- the property is converted for use in a manner not qualifying for the exemption; or
- the property is used in a manner not qualifying for the partial exemption.

NAME OF PURCHASER	SIGNATURE OF PURCHASER, PURCHASER'S EMPLOYEE, OR AUTHORIZED REPRESENTATIVE
PRINTED NAME OF PERSON SIGNING	TITLE
ADDRESS OF PURCHASER	
PERMIT NUMBER (if you are not required to hold a permit, explain why)	TELEPHONE NUMBER ()
EMAIL ADDRESS OF PERSON SIGNING	DATE

¹ The Sales and Use Tax Department is making this sample form available for industry's use. However, please note that the Board of Equalization (BOE) is prescribing the form of the certificate as part of Regulation 1525.4, which is pending adoption by the BOE and approval by the Office of Administrative Law. Until the regulation is adopted and approved, the form is subject to change.

² See Regulation 1525.4 (b)(9) for a description of what is included and excluded from "qualified tangible personal property."

³ Official 2012 US NAICS Manual, U.S. Office of Management and Budget, 2012 edition.

BOE-230 Partial Exemption Certificate

Using the *Partial Sales & Use Tax Exemption* Purchase Requisition

- Eligible items only
- California Supplier (or nexus in California) OR
- Out of state supplier (use tax)
- All items must be taxable
- Note: The *Partial Sales & Use Tax Exemption* form does not allow you to add items from Hosted/Punch-Out Catalogs.

Points to Consider

- Invoice Variances
 - If a Supplier bills a higher tax amount, Payment Services will send the invoice back to the Supplier requesting a correction.
 - If a Supplier bills a lower tax amount, Payment Services will accrue the difference and notify the Buyer to remove the encumbrance.
- Cost Transfers
 - Oracle EBTax rules are not applicable (manual process)
 - This means that related taxes are not automatically linked to the item cost – Instead they must be manually transferred
 - Identify when related tax lines must also be transferred and
 - Locate the related tax lines
 - Look for 'CRT' in the PO number on:
 - Cognos 'PTA Cost Details for Cost Transfer' report
 - On-Line Cost Transfers Expenditures form

How to Cost Transfer Tax Lines

- Run the 'PTA Cost Detail for Cost Transfer' report to get the 'Expenditure Item IDs' needed for cost transfers.
 - Both the expenditure item id for the item cost and the expenditure item id for the related tax line are needed.
 - Sort by PO number to find all lines for that PO and then look in the Cost Comments column to find the related tax line.
 - Related tax for an item should have the same description as the item prefixed with 'CA Reduced Tax'.

Sep 11, 2015

California Institute of Technology												
PTA Cost Detail for Cost Transfer - Campus Use												
Period Name:	Funding Source Award #:	Project Number:	Task Number:	Award Number:	Expenditure Category:							E
SEP-FY2015	All	FIN.00006	All	All	All							S
Funding Source Award #:9900010Overspent:N/A												
PTA: FIN.00006:1.1-GB.000007PTA Status: ActivePTA End: 30-Sep-2019DC Rate: 0.00%												
Exp Item ID	Supplier/Employee	Invoice #	PO Number	mis W/	Expenditure Category	Expenditure Type	PA Period	Exp Item Date	Cost Comment	> 90	Prev Trns	Exp Amount
35414667	STANFORD RESEARCH	11111test	T002897CRT		Materials and Supplies	Supplies - Allocable	SEP-FY2015	14-Sep-2015	Test Run - Internal review			5,100.00
35414668	STANFORD RESEARCH	11111test	T002897CRT		Materials and Supplies	Supplies - Allocable	SEP-FY2015	14-Sep-2015	CA Reduced Tax Line 1 Test Run Internal Review			245.44
35414669	STANFORD RESEARCH	22222test	T002898CRT		Materials and Supplies	Supplies - Allocable	SEP-FY2015	14-Sep-2015	Test Run - Internal review			5,100.00
35414670	STANFORD RESEARCH	22222test	T002898CRT		Materials and Supplies	Supplies - Allocable	SEP-FY2015	14-Sep-2015	CA Reduced Tax Line 1 Test Run Internal Review			245.44

How to Cost Transfer Tax Lines

- Enter both the expenditure item id of the item line and the expenditure item id of the related tax line.

CALTECH Cost Transfer

Non-Labor Requests

Pending Request List

Selected batch deleted.

Search Archived Requests Create New Request

<u>Request Number</u>	<u>Request Status</u>	<u>Submission Date</u>	<u>Preparer</u>	<u>From PTA</u>
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This screenshot shows the 'Pending Request List' interface. It includes a search bar with a magnifying glass icon, a 'Go' button, and an 'Actions' button. There are two buttons: 'Search Archived Requests' and 'Create New Request'. Below the search bar is a table with five columns: 'Request Number', 'Request Status', 'Submission Date', 'Preparer', and 'From PTA'. All column headers are underlined.

CALTECH Cost Transfer

Non-Labor Requests

Pending Request List > Data Load Source for New Batch

Load Expenditure IDs

You are creating a new cost transfer request.

* Copy and Paste Expenditure Item IDs: 35414667 35414668

Cancel Load Data

This screenshot shows the 'Load Expenditure IDs' interface. It features a text area where two expenditure item IDs, '35414667' and '35414668', have been entered. A message above the text area states 'You are creating a new cost transfer request.' To the right of the text area are 'Cancel' and 'Load Data' buttons. A note '* Copy and Paste' is positioned above the text area.

How to Cost Transfer Tax Lines

- ‘CRT’ POs will be highlighted in ‘red’ and a reminder message to transfer related tax amounts will display if a ‘CRT’ PO related expenditure is selected for cost transfer.’
- Reminder message: **“Related tax amounts (expenditure lines) must be transferred for costs related to Partial Sales & Use Tax Exemption (CA Reduced Tax) Purchases”**

CALTECH Cost Transfer Welcome: Cher

Non-Labor Requests

Pending Request List > Justification Form > Edit Request EI List

Edit Request EI List

Reminder: Related tax amounts (expenditure lines) must be transferred for costs related to Partial Sales & Use Tax Exemption (CA Reduced Tax) purchases.

Request Number: CTR-08516
From PTA: FIN.00006-1.1-GB.000007

Period Name	Over 90 Days	Transferred Before	Item Date	Exp Category	Exp Type	Transaction Source	PO Number	Exp Amt	Transfer Amt	Wait for Ora Split	Comment	Trans ID	Validation Message
SEP-FY2015	N	N	14-SEP-15	Materials and Supplies	Supplies - Allocable	Supplier Invoice	T002897CRT	5,100.00	5,100.00		Test run - Internal review	35414667	
SEP-FY2015	N	N	14-SEP-15	Materials and Supplies	Supplies - Allocable	Supplier Invoice	T002897CRT	245.44	245.44		CA Reduced Tax Line 1 Test Run Internal Review	35414668	
								5,345.44					

1 - 2 of 2

TechMart Demo

Partial Sales & Use Tax Exemption Available Actions: Save Go Close

Form History ?

Supplier Info ?

Supplier CONSOLIDATED ELECTRICAL DISTRIBUTORS dba COLUMBIA ELECTRIC SUPPLY [PO-PASADENA1]
[more info...](#)
[select different supplier](#)

Fulfillment Address Fulfillment Address 1: (preferred)
2180-B East Walnut Street
Pasadena, CA 91107-3277 US

Supplier Phone +1 (626) 793-1158

Distribution
The system will distribute purchase orders using the method(s) indicated below.
Check this box to customize order distribution information.

Email (HTML Body) PSTeamLeads@Caltech.edu
Manual

General Info ?

General Instructions State of California Partial Sales and Use Tax Exemption Request per California State Board of Equalization Regulation 1525.4. Click here to access FAQs for Partial Sales & Use Tax Exemption.

Form Type Partial Sales & Use Tax Exemption

Item No. 123-456

Product Description Equipment A
243 characters remaining [expand](#) | [clear](#)

Quantity 1

Product Packaging EA - Each

Estimated Price 5,100.00

Certification Acknowledgement I hereby acknowledge that a Partial & Use Tax Exemption certification for this purchase, signed by an appropriate individual, has been attached to this requisition.
Yes

New Supplier Info.

Process Recap

1. Identify equipment/fab items for the exemption (before ordering)
2. Determine eligibility (matrix – website)
3. Obtain PI certification (website)
4. Route to Division Custodian → Place TechMart requisition (attaching PI certification).
5. Review tax lines when purchase is costed
6. Notify Procurement if use changes within 1 year
7. (If necessary) Follow cost transfer guidelines carefully

References

Purchasing Webpage

<http://procurement.caltech.edu/departments/purchasinghome>

Caltech Procurement Services

Departments Travel Services Forms Policies & Procedures Supplier/Vendor Info Photos Contact

Events News

Purchasing Services | Payment Services | Support Services | Supplier Management | Risk Management | Small Business Program | CardQuest

CardQuest | P-Card | TechMart

PURCHASING SERVICES

*****ANNOUNCEMENTS*****

NEW California Partial Sales and Use Tax (1525.4) Exemption
For more information please [click here](#)

Please [click here](#) to view Procurement Services' **2015 Fiscal Year End Closing Memo**

Welcome to Caltech's Purchasing Services' site.

Purchasing Services exists to support Caltech's mission by employing effective and innovative methods in the purchasing process. Our foremost goal is to respond to the needs of our campus customers in an efficient and timely manner. Our team of dedicated buyers is

- ✓ BOE Announcement
- ✓ Program FAQs
- ✓ Eligibility Matrix
- ✓ Certification Form