



Sales and Use Tax Overview

What is sales tax?

- Tax billed on purchases of tangible personal property or TPP (can be seen, measured, weighed or touched such as supplies, equipment, etc.)
- Tax billed on certain taxable services (such as fabrication labor)
- Charged by CA suppliers or out-of-state suppliers registered to do business in CA
- The supplier collects the sales tax and remits payment directly to the State

What is use tax?

California imposes use tax on TPP stored or used in the State. Use tax applies when the supplier does not bill sales tax on an invoice with TPP.

- Common reasons
 - ✓ Foreign vendors generally do not collect CA sales tax
 - ✓ Out-of-State retailers may not be registered to collect sales tax in CA
 - ✓ In-State suppliers in other CA counties are unable to collect district sales tax from other districts. They would only charge rate applicable in their area. AP accrues the difference.

Caltech's Tax Status

- Caltech is NOT exempt from sales/use tax in:
 - ✓ California, Hawaii
 - ✓ Washington (LIGO exemption)
- Caltech is exempt in:
 - ✓ Louisiana
 - ✓ New York
 - ✓ Illinois
 - ✓ Massachusetts
 - ✓ Texas



Important: DO NOT confuse exemption from Federal and State income tax with sales/use tax application.

Offsite Locations and Rates

Caltech has a business presence in the following locations.

Important: Select the correct Ship-To site!

1. Inyo County (OVRO) = 7.75%
2. San Diego County (Palomar) = 7.75%
3. Hawaii (CSO) = 4.166%
4. Benton County, WA = 8.6%
(LIGO, Hanford)



Pasadena Tax Breakdown

- Voter approved measure to impose Pasadena district sales tax of 0.75%
- Applies to all taxable orders shipped to campus

Tax Rates Effective 4/1/2019

Allocation	4/1/2019	1/1/2017- 3/31/2019
CA State	7.25%	7.25%
LA County	2.25%	2.25%
Pasadena	0.75%	0.00%
Total Tax	10.25%	9.50%



CRT Tax Breakdown

- Special reduced rate for purchases related to research and development (R&D)
- Rates for shipment to Pasadena

R & D Reduced Tax		
Allocation	4/1/2019	1/1/2017- 3/31/2019
CA State	3.3125%	3.3125%
LA County	2.25%	2.25%
Pasadena	0.75%	0.00%
Total Tax	6.3125%	5.5625%

Taxable Purchases

In general, tangible goods are taxable EXCEPT for resale purchases or property titled to the government.

Examples:

- Office supplies
- Lab supplies
- Books
- Furniture



Nontaxable Purchases

Examples:

- Unprepared food
- Utilities (internet, electricity, etc.)
- Software license/tokens (download)
- Copyright use/Royalties
- Tangible goods shipped to or used in exempt locations (Louisiana and New York)
- Services, in general

Inventory Purchases

Caltech is subject to sales and use tax EXCEPT for the following categories:

Resale Purchases

- ✓ Bookstore and Caltech Wired
- ✓ Convenience Store
- ✓ Athenaeum
- ✓ Broad Café
- ✓ Chandler Dining

Equipment Title

- Title transfers to the government
- Generally coded with E-Type, “Equipment-Gov’t

Not all government Awards are tax exempt!

- Check Financial Query
- Award Status = Title to Gov’t

Analyzing Orders

- Services
- Canned/Custom Software
- Labor
- Maintenance Contract/Warranty
- Lump Sum Contracts
- Progress Payments



Services

Services are generally not taxable UNLESS performed as part of the sale of tangible personal property.

Nontaxable Services:

- Consulting, Accounting, IT Services (programming, tech support, etc.)
- Design, Editing Services, Engineering (without fabrication)

Taxable Services:

- Photography – generally includes developed pictures or digital images on portable drive
- Filming/Videos – finished documentary delivered on DVD, BluRay or portable drive

Canned Software

Definition: Prewritten program manufactured for general sale (Microsoft Office, Photoshop, etc.)

Taxable

- If received on tangible form such as CD, flash drive, or other external storage device

Nontaxable

- If received by e-mail, downloaded from the seller's website, or transferred from PC to PC

Custom Software

Definition: Software developed with certain specifications as required by the customer (Oracle, TechMart, CardQuest, etc.)

Nontaxable:

- Customized software even if received on tangible media
- Includes modification of canned software (if separately stated)
- Software license/tokens

Custom Software

Nontaxable:

- Software maintenance
- Software updates received electronically
- Updates/maintenance bundled into one price AND received electronically

Reminder: Always confirm the software delivery method to determine taxability. Contact the supplier, Procurement Services or end-user.

Custom Software

Taxable:

- Software updates received in tangible form such as CD or portable USB drive
- Bundled updates/maintenance received in tangible form
- If taxable, only 50% of the price is subject to sales/use tax

Labor

Taxable:

- Fabrication
- Assembly
- Machining service
- Final product is different from original parts



Nontaxable:

- Repair (if taxable parts are separately stated)
- Installation
- Services related to tax exempt purchase (Equipment – Govt)

Service Contracts & Warranty

Warranty and service agreements are sometimes offered by suppliers along with the purchase of the lab/office equipment. Technicians would then perform repair and maintenance service onsite (copiers, MRI, X-ray, etc.)

Taxable:

- Mandatory warranty
- Mandatory service agreement
- Replacement parts, separately stated

Service Contracts & Warranty

Nontaxable:

- Optional warranty
- Optional service agreement
- Repair labor/service if separately stated

Reminder: Always confirm if the warranty or maintenance agreement is required upon the purchase of the equipment to determine taxability.

Construction Invoices

Lump sum contracts with contractors for repairing and remodeling real property are exempt from sales and use tax. Contractors are liable for taxes on cost of materials and fixtures because they are the consumers of those purchases, not Caltech.



Examples:

- New buildings (e.g. Bechtel Housing, Chen Neuroscience Lab)
- Rehab projects
- Lab improvements



Construction Invoices

Contractor examples:

- Electrical work, plumbing, roof replacement
- Cement jobs/masonry
- A/C installation and duct work

Equipment/Appliances

With some remodeling projects, a contractor may sell and install appliances to be used in the facility. These specific items are taxable and the contractor should charge sales tax on the invoice.

Examples: Stove, refrigerator, etc.

Progress Payments

- Applies to custom/fabricated equipment
- Deposits on furniture, appliances and lab equipment
- Sales and use tax is due when the title transfers to Caltech which generally occurs after installation and final acceptance by the end-user.

Checklist

Obtaining accurate information is critical to preventing tax errors.

- ✓ Request more info from end-user/supplier
- ✓ Check for exempt PTA and E-Types
- ✓ No lump sum entry of taxable/nontaxable lines
- ✓ Verify Ship-To site
- ✓ Document, document, document

Checklist

- Software – tangible or electronic delivery?
- Warranty – optional or mandatory?
- Service contract – optional or mandatory?
- Construction – tax paid by vendor!
- Service – is it fabrication labor?

Resources

- Procurement Services Hotline x8900
- Purchasing Services – Contact your buyer
- Accounts Payable – Lilly Mendez x2654
- General Tax Inquiries – Tess Perez x2855