



Special Notice

STATE BOARD OF EQUALIZATION

450 N STREET
SACRAMENTO, CA 95814

BOARD MEMBERS

BETTY T. YEE
First District
San Francisco

SEN. GEORGE RUNNER (RET.)
Second District
Lancaster

MICHELLE STEEL
Third District
Orange County

JEROME E. HORTON
Fourth District
Los Angeles

JOHN CHIANG
State Controller

EXECUTIVE DIRECTOR CYNTHIA BRIDGES

BOE WEBSITE AND
BOARD MEMBER CONTACT
INFORMATION
www.boe.ca.gov

CUSTOMER SERVICE
CENTER
1-800-400-7115

TTY
711

New Manufacturing Exemption

A [new law](#) allows certain businesses in manufacturing or in the fields of biotechnology or physical, engineering, and life sciences to purchase or lease manufacturing or research and development equipment at a reduced sales and use tax rate for purchases occurring on or after July 1, 2014.

For a detailed list of requirements and qualifications, please see the following page of this notice.

Partial Exemption Rate

The partial exemption reduces the tax rate to 3.3125 percent plus applicable district taxes. This exemption applies to the state general fund portion of the sales and use tax rate, but does not apply to any local, city, county or district taxes.

Sellers

If you make qualifying sales or leases, you must obtain a timely exemption certificate from the purchaser. You will be able to claim the deduction for sales subject to the manufacturing exemption on your sales and use tax return.

Purchasers

There is no need to apply to the BOE for the exemption. When you make qualifying purchases, you must provide the seller with a timely exemption certificate to obtain the reduced tax rate. The BOE will make exemption certificates available in the forms section on our website by July 2014. If you make qualifying purchases and did not pay tax to the seller, you must report the use tax on your sales and use tax return. You may claim a deduction for purchases subject to the manufacturing exemption.

Qualifying purchases cannot exceed \$200 million in a calendar year per qualified person or combined reporting unit. The exemption will not apply if, within one year from the date of purchase, you use the property in a manner not qualifying for the exemption, you convert the property from an exempt use to a non-qualifying use, or you remove the qualifying property from California.

For More Information

The BOE is developing proposed Regulation 1525.4, *Manufacturing and Research & Development Equipment*, for this new exemption. For more information, please see our [manufacturing exemption](#) webpage¹ or call our Customer Service Center at 1-800-400-7115 (TTY:711), Monday through Friday, 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.

*New Manufacturing
Exemption*

To be eligible for the manufacturing exemption you must meet all of the following conditions:

- Be primarily engaged in certain lines of business, also known as a “qualified person” which includes:
 - Any form of manufacturing described in the North American Industry Classification System (NAICS) Codes 3111 to 3399.
 - Research and development in biotechnology, physical, engineering, and life sciences described in the NAICS codes 541711 or 541712.
- Purchase “qualified tangible personal property.”
- Use that qualified tangible personal property in a manner qualifying for the exemption.

“Qualified tangible personal property” generally includes:

- Machinery and equipment, including component parts and contrivances such as belts, shafts, moving parts and operating structures.
- Equipment or devices used to operate, regulate, or maintain the machinery, including but not limited to, computers, data processing equipment, and computer software.
- Tangible personal property used in pollution control that meets standards established by this state or any local or regional government agency within this state.
- Special purpose buildings and foundations used as an integral part of the manufacturing, processing, refining, fabricating, or recycling process or that constitute a research or storage facility used during those processes. Buildings used solely for warehousing after completion of the processes are not included.

“Qualified tangible personal property” does not include:

- Consumables with a useful life of less than one year.
- Furniture, inventory, and equipment used in the extraction process, or equipment used to store finished products.
- Items used primarily in administration, general management, or marketing.

The property must be purchased to be used primarily for the following uses:

- Manufacturing, processing, refining, fabricating, or recycling of tangible personal property.
- Research and development.
- Maintaining, repairing, measuring or testing property listed above.
- By a contractor purchasing that property for use in the performance of a construction contract for the qualified person that will use that property as an integral part of the processes above, or as a research or storage facility for use in connection with those processes.