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California Enacts Sales Tax Exemptions for Manufacturing and R&D

STATE AND LOCAL TAX
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California Governor Jerry Brown, as part of his Economic Development Initiative, signed legislation enacting a sales and use tax exemption for manufacturing and research and development (R&D) activities in California. The legislation is effective July 1, 2014. The exemption applies to “qualified tangible personal property” purchased by a “qualified person” as defined by the law.

Qualified persons may utilize the exemption and are defined to include businesses with a primary business activity listed in the North American Industry Classification System (NAICS) under codes 3111 to 3399 and R&D NAICS codes 541711 and 541712. The qualified property must be used primarily in manufacturing or R&D. The exemption also applies to contractors that purchase qualified property for a construction contract with a manufacturer or R&D business.

Items qualifying for the exemption include: machinery, equipment and component parts, repair and replacement parts with a useful life of one or more years, pollution control equipment and special purpose buildings and foundations used in manufacturing. The exemption excludes: consumables with a useful life of less than one year or any property used to store finished product or property used in administration, management or marketing activities. The exemption is also limited to the first \$200 million of purchases made during a calendar year.

Taxpayers with manufacturing or R&D operations should prepare to take advantage of the opportunity offered by the exemption. The exemption requires that the entity claiming the exemption supply the vendor with an exemption certificate. The exemption does not apply to local sales and use tax. Please review future Insight articles for containing more information on the exemption and the expected guidance/regulation from the California Board of Equalization.

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