

Overview

Effective from July 01, 2014 through June 30, 2022, California State Board of Equalization's Regulation 1525.4 - *Manufacturing and Research & Development Equipment* allows "[partial sales and use tax exemption](#)" on certain manufacturing and research and development equipment purchases and leases.

- To be eligible under this law, UCSF must meet all three of these conditions:
 1. Be engaged in certain types of business, also known as a "[qualified person](#)."
 2. Purchase "[qualified property](#)" valued at \$5,000 and over.
 3. Use that "[qualified property](#)" for the "[qualified activity](#)" allowed by this law.
- The R&D activities must either be in (1) biological sciences (NAICS code 541711), or (2) physical science (NAICS code 541712).

Instruction

- Determine if your purchase is qualified for partial sales and use tax exemption.
- If your purchase is qualified, please complete the required California State Board of Equalization "[partial exemption certificate](#)" for all purchases from California and out-of-state vendors when placing your purchase order.

Note: Capital Accounting will apply the full use tax rate on your voucher if the partial exemption certificate is not completed for the records.

- Have your department principal investigator or department financial manager sign and certify the Partial Exemption Certificate.
 - The reason for completing the required partial exemption certificate for purchases from California and out-of-state vendors is to:
 - Comply with California sales and use tax law by providing the seller a timely partial exemption certificate.
 - Apply the correct sales tax code when processing payment.
 - Reduce audit risk, potential tax underpayment, interest, and penalties.
 - Control risk at front end
 - Note: Since out-of-state vendors do not collect sales tax on invoice, it is the University's responsibility to accrue use tax on purchase of taxable tangible personal properties. It is highly recommended by California State Board of Equalization auditors that the University should complete the partial exemption certificate for the records and audit defense purpose.
- BearBuy process (see link)
<http://supplychain.ucsf.edu/ca-partial-sales-tax-rate-exemption>

Additional information

To find out if your purchase is qualified please see below links for information regarding the California State Board of Equalization Regulation and UC Guidelines:

1. [http://controller.ucsf.edu/capital/files/BOE230m-Partial Exemption Certificate for Manufacturing Research and Development Equipment.pdf](http://controller.ucsf.edu/capital/files/BOE230m-Partial%20Exemption%20Certificate%20for%20Manufacturing%20Research%20and%20Development%20Equipment.pdf)
2. [http://controller.ucsf.edu/fin_statements/files/UC_Guidelines-Partial Sales and Use Tax Exemption.pdf](http://controller.ucsf.edu/fin_statements/files/UC_Guidelines-Partial_Sales_and_Use_Tax_Exemption.pdf)
3. <http://www.boe.ca.gov/lawguides/business/current/btlg/vol1/sutr/1525-4.html>

Qualifications

1. Qualified Person:

A "qualified person" is an organization primarily engaged (50% or more) in a "qualified activity". A "qualified person" may be "primarily engaged" either as a legal entity or as an "establishment" within a legal entity.

2. Qualified Property:

Qualified property includes machinery and equipment valued at \$5,000 and over with a useful life **greater than one year** that is used in a "qualified activity".

Qualified property also includes-

- a) Qualified property that is being leased;
- b) Machinery and equipment, including component parts and contrivances such as belts, shafts, moving parts, and operating structures;
- c) Equipment and devices used or required to operate, control, regulate, or maintain the machinery (e.g. computers, data-processing equipment, computer software, etc.) in conjunction with all repair and replacement parts with a useful life of one or more years (even if the equipment and devices are purchased separately or in conjunction with the repair and replacement parts);
- d) Special purpose buildings and foundations including but not limited to clean rooms, climate controlled facilities, wind tunnels, linear accelerators;
- e) Non-depreciable property like leased computers used more than 50% for qualified activities, and catalysts.

Qualified property **does not** include-

- a) Consumables with a useful life of less than one year;
- b) Tangible personal property used primarily for administration, general management, or marketing;
- c) Furniture, inventory, and equipment used in the extraction process; or
- d) Equipment used to store finished products that have completed the manufacturing, processing, refining, fabricating, or recycling process.

3. Qualified Activity

"Qualified activity" means using "qualified property" primarily (more than 50%) in manufacturing, processing, fabricating, refining or recycling of tangible personal property, as well as research and development, anywhere in California. "Qualified activity" also includes using "qualified property" primarily to maintain, repair, measure, or test any qualified tangible personal property described in the previous sentence. The qualified activity can be found in the business activities described in 2012 North American Industry Classification System (NAICS) codes 3111-3399, or 541711 and 541712.

4. Partial Sales and Use Tax Exemption Rate

- July 1, 2014 through December 31, 2016, the partial exemption rate is 4.1875%, making partial sales and use tax rate equals to 4.5625% for San Francisco County and 5.3125% for San Mateo County.
- January 1, 2017 through June 30, 2022, the partial exemption rate is 3.9375%, making partial sales and use tax rate equals to 4.5625% for San Francisco County and 5.3125% for San Mateo County.

- **What is California partial sales and use tax exemption?**
Effective from July 01, 2014 through June 30, 2022, California State Board of Equalization's Regulation 1525.4 - *Manufacturing and Research & Development Equipment* allows "**partial sales and use tax exemption**" on certain manufacturing and research and development equipment purchases and leases. The R&D activities must either be in (1) biological sciences (NAICS code 541711), or (2) physical science (NAICS code 541712).
- **What type of Property is "qualified activity"?**
"Qualified activity" means using "qualified property" primarily (more than 50%) in manufacturing, processing, fabricating, refining or recycling of tangible personal property, as well as research and development, anywhere in California. "Qualified activity" also includes using "qualified property" primarily to maintain, repair, measure, or test any qualified tangible personal property described in the previous sentence. The qualified activity can be found in the business activities described in 2012 North American Industry Classification System (NAICS) codes 3111-3399, or 541711 and 541712.
- **What type of Property is "qualified property"?**
Qualified property includes machinery and equipment valued at \$5,000 and over with a useful life **greater than one year** that is used in a "qualified activity".

Qualified property also includes-

- a) Qualified property that is being leased;
- b) Machinery and equipment, including component parts and contrivances such as belts, shafts, moving parts, and operating structures;
- c) Equipment and devices used or required to operate, control, regulate, or maintain the machinery (e.g. computers, data-processing equipment, computer software, etc.) in conjunction with all repair and replacement parts with a useful life of one or more years (even if the equipment and devices are purchased separately or in conjunction with the repair and replacement parts);
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- **What is the partial sales and use tax exemption rate?**
July 1, 2014 through December 31, 2016, the partial exemption rate is 4.1875%, making partial sales and use tax rate equals to 4.5625% for San Francisco County and 5.3125% for San Mateo County.

January 1, 2017 through June 30, 2022, the partial exemption rate is 3.9375%, making partial sales and use tax rate equals to 4.5625% for San Francisco County and 5.3125% for San Mateo County.

- **Does the University have to issue exemption certificates to its vendors?**
Yes. If your purchase is qualified, please complete the required [BOE Partial Exemption Certificate](#) for all purchases from California and out-of-state vendors when placing your purchase order.

Note: Capital Accounting will apply the full use tax rate on your voucher if the partial exemption certificate is not completed for the records.