



PARTIAL SALES AND USE TAX EXEMPTION FOR EQUIPMENT USED IN RESEARCH & DEVELOPMENT

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Partial Exemption Overview

- The partial exemption became effective July 1, 2014
 - Sales or use tax reduction of 4.1875% through 12/31/2016, and a reduction of 3.9375% after that, through 6/30/2022.
- Three requirements to obtain exemption:
 - qualified property
 - purchased by a qualified person,
 - property used more than 50% of the time in qualifying R&D areas.
- The exemption applies to aggregate purchases of \$200,000,000 per calendar year.
 - Currently we are applying this limit to UC system wide.

Partial Exemption -Qualified Person

- UCOP and UCD's outside tax consultants have advised that UC is a "qualified person" for purposes of the exemption, and we are working on gathering the documentation necessary to support this position.
- However, only certain Departments may use partial exemption.
 - Departments conducting research in qualifying areas may be eligible. (e.g. hard sciences)

Partial Exemption - Qualifying R&D Areas

- The exemption applies to R&D areas which fall under NAICS (North American Industry Classification System) codes 541711 and 541712, and are described below:

NAICS code 541711 –

- R&D in biotechnology, involving the study of the use of microorganisms and cellular and bio-molecular processes to develop or alter living or non-living materials.

• NAICS code 541712 –

- R&D in physical, engineering and life sciences
 - agriculture, electronics, environmental, biology, botany, computers, chemistry, food fisheries, forests, geology, health, mathematics, medicine, oceanography, pharmacy, physics, veterinary and allied subjects.

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Accounting and Financial Services

Partial Exemption -Qualified Property

Qualified property can be owned or leased and must meet the following requirements:

- It must have a useful life of a year or more.
- It must be used primarily to conduct research (i.e. must not be used primarily for instruction, patient care, administration, general management or marketing).
- It must be used in California for at least 12 months after purchase.

Process for Claiming Partial Exemption

We have developed a checklist to help determine if an equipment purchase qualifies for exemption. If your department is making an equipment purchase over \$5K that may qualify, please send the following information to Purchasing with the requisition (and copy Tax Services at afs-trcmail@ucdavis.edu):

- Completed checklist (The checklist should be completed by the person who is most familiar with the research and development uses of the equipment.)
- Copy of existing information summarizing the purpose of the research and development being undertaken (e.g. grant document, proposal, article etc.)

PARTIAL SALES AND USE TAX EXEMPTION FOR MANUFACTURING AND R&D EQUIPMENT

EQUIPMENT ELIGIBILITY CHECKLIST

Complete this form and attach to your KFS Requisition document.

Add the Tax Processor group as an Ad Hoc approval routing prior to submitting the document.

Providing this information will enable Contracting Services to evaluate whether the equipment qualifies for a sales tax reduction. Completing the form is not a guarantee of receiving the sales tax reduction.

Department _____

Department contact name _____ Phone _____

E-mail _____ KFS Document # _____

Vendor _____ Is the vendor collecting California sales tax? YES NO

Is the purchase in fulfillment of a federal contract? YES NO

If yes, will the federal government take title to the equipment upon purchase? YES NO

OVERVIEW OF EQUIPMENT AND RESEARCH ACTIVITIES

1. Description of the equipment.

2. Briefly describe the research and development uses of the equipment.

3. Specify the areas of research and development (Check all research areas which apply):

NAICS Code 541711 - Research and development in Biotechnology (involves the study of the use of Microorganisms and cellular and bio-molecular processes to develop or alter living or non-living materials) -

NAICS Code 541712 – Research and development in the physical, engineering and life sciences (other than biotechnology):

- | | | | |
|-----------------|--------------------------|----------------|--------------------------|
| • Agriculture | <input type="checkbox"/> | • Forests | <input type="checkbox"/> |
| • Electronics | <input type="checkbox"/> | • Geology | <input type="checkbox"/> |
| • Environmental | <input type="checkbox"/> | • Health | <input type="checkbox"/> |
| • Biology | <input type="checkbox"/> | • Mathematics | <input type="checkbox"/> |
| • Botany | <input type="checkbox"/> | • Medicine | <input type="checkbox"/> |
| • Computers | <input type="checkbox"/> | • Oceanography | <input type="checkbox"/> |
| • Chemistry | <input type="checkbox"/> | • Pharmacy | <input type="checkbox"/> |
| • Food | <input type="checkbox"/> | • Physics | <input type="checkbox"/> |
| • Fisheries | <input type="checkbox"/> | • Veterinary | <input type="checkbox"/> |

OTHER EQUIPMENT INFORMATION

1. Will equipment be purchased or leased ?
2. Does the equipment have a useful life of one year or more? (Supplies and other consumables with a useful life of less than one year do not qualify). YES NO
3. Will special facilities need to be built or special building modifications made to install, use or maintain the equipment? If yes, please explain.
4. Will the equipment be used outside California? If so, please explain.
5. Will the equipment be used in non-research activities (e.g. instruction, patient care, administration, management, marketing etc)? YES NO
6. Please indicate the estimated percentage of time that the equipment will be used for research vs. non-research activities:

Research activities: _____%
Non-research activities _____%

For more information on this sales tax reduction program, from the State of California, go to:
http://www.boe.ca.gov/sutax/manufacturing_exemptions.htm



Description of Department's Research Activities

- For the purpose of documenting UCD's eligibility as a “qualified person” we need a description of the R&D activities conducted by each department engaged in qualifying research, to confirm that the activities fall within NAICS codes 541711 or 541712.

Disclaimer

- **Because this is such a new exemption, there is little legal authority on the matter.**
 - **First, we and our outside consultants believe that UCD is a qualified purchaser with respect to R&D equipment**
 - **Taxing authority could disagree with the position.**
 - **Please be advised that if the exemption for a particular equipment purchase is disallowed, the department will be responsible for paying any tax assessed.**

Help & Resources

- [Partial Sales & Use Tax Exemption Checklist](#)
- [Partial Exemption Certificate for R&D Equipment](#)
- [KFS Use Tax Accrual Correction Form](#)
- [SBOE Regulations for Manufacturing and R&D](#)
- [UC Guidelines – Partial Sales and Use Tax Exemption](#)

- **Contact Tax Reporting & Compliance**
 - afs-trcmail@ucdavis.edu
 - 530-754-1829
 - http://afs.ucdavis.edu/our_services/tax-rep-comp/index.html