



# Special Notice

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## Amendments to the Manufacturing and R&D Partial Exemption

Beginning July 1, 2014, Revenue and Taxation Code (R&TC) section 6377.1 allows for a partial sales and use tax exemption on qualifying purchases or leases of manufacturing or research and development equipment by certain businesses. [Assembly Bill 398](#) (Ch. 135, Stats. 2017), which was signed into law on July 25, 2017, makes some amendments to R&TC section 6377.1.

### Background

R&TC section 6377.1 generally provides a partial exemption from the sales and use tax for persons that:

- Are primarily engaged in specified types of business, referred to as a “qualified person,”
- Purchase or lease “qualified tangible personal property,” and
- Primarily use the “qualified tangible personal property” in a qualified manner.

For a detailed list of requirements and qualifications, please see our online guide, [Manufacturing and Research & Development Equipment Exemption](#) on our website at [www.cdtfa.ca.gov/industry/](http://www.cdtfa.ca.gov/industry/) listed under Tax and Fee Guides.

### Changes to the law

[Assembly Bill 398](#) amends the partial exemption provided in R&TC section 6377.1 and these amendments include:

1. Expands the partial exemption to “qualified tangible personal property” purchased for use by a qualified person to be used primarily in the generation or production, or storage and distribution, of electric power.
2. Beginning January 1, 2018, expands the definition of “qualified tangible personal property” to include special purpose buildings and foundations used as an integral part of the generation or production or storage and distribution of electric power.
3. Beginning January 1, 2018, expands the definition of a “qualified person” to include businesses primarily engaged in operating electric power generation facilities, as described in the North American Industry Classification System, 2012 edition, (NAICS) codes 22111 to 221118, inclusive, or primarily engaged in electric power distribution as described in NAICS code 221122.
4. Beginning January 1, 2018, removes the exclusion from the definition of a “qualified person” for certain persons engaged in agricultural business activities that were previously excluded as an apportioning trade or business under R&TC [section 25128](#).
5. Amends the definition of “useful life” to state that tangible personal property that is deducted on the California state franchise or income tax return under R&TC sections [17201](#) and [17255](#) or [section 24356](#), is deemed to have a useful life of one or more years.
6. Extends the sunset date from July 1, 2022, to July 1, 2030.

*Amendments  
to the  
Manufacturing  
and R&D  
Partial  
Exemption*

**You may be eligible for a refund or a cancellation of a billing under amended “useful life” definition**

If you are a “qualified person” that received a billing (referred to as a notice of determination [NOD]) for qualified property that was purchased or leased on or after July 1, 2014, and before January 1, 2018, on the basis that the partial exemption does not apply because you deducted the property under R&TC sections 17201 and 17255 or section 24356, then you may be eligible to have the NOD cancelled and you may be eligible for a refund of payments made under the NOD. However, you, as the qualified person, must make a request for the cancellation or refund to the CDTFA by June 30, 2018. For instructions on making a request for a cancellation or a refund, please see our online guide, *Manufacturing and Research & Development Equipment Exemption* on our website at [www.cdtfa.ca.gov/industry/](http://www.cdtfa.ca.gov/industry/) listed under Tax and Fee Guides, and see the new information on the Overview tab.

**CDTFA Regulatory Process**

The CDTFA may revise Regulation 1525.4, *Manufacturing and Research & Development Equipment*, to implement the changes to R&TC section 6377.1. If you would like to receive notices of interested parties meetings and other materials for this issue, please email your request to: [BTfD-BTC.InformationRequests@cdtfa.ca.gov](mailto:BTfD-BTC.InformationRequests@cdtfa.ca.gov).

**For more information**

We recently updated our online guide, *Manufacturing and Research & Development Equipment Exemption* on our website at [www.cdtfa.ca.gov/industry/](http://www.cdtfa.ca.gov/industry/) listed under the Tax and Fee Guides, with information about the law changes. You may also 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.