



# **Manufacturing and Research & Development Exemption**

## **TAX GUIDE**



**California Department of  
Tax and Fee Administration**



California is home to many innovative businesses and organizations that create jobs and contribute positively to the state's economy.

A partial sales and use tax exemption allows certain manufacturers, researchers and developers to pay a **lower sales or use tax rate** on qualifying equipment purchases and leases.

## PARTIAL TAX EXEMPTION LAW CHANGES

Beginning January 1, 2018, the partial tax exemption law changed to include:

- Specified electric power generation or distribution businesses as “qualified persons.”
- Special purpose buildings and foundations used as an integral part of the generation or production or storage and distribution of electric power as “qualified tangible personal property.”
- Certain persons engaged in agricultural business activities as “qualified persons.”

The sunset date of the law was also extended from July 1, 2022, to July 1, 2030.

To see all of the changes to the partial exemption law and additional information about the changes, read our online guide, *Manufacturing and Research & Development Equipment Exemption* on our website at [www.cdtfa.ca.gov/industry/manufacturing-exemptions.htm](http://www.cdtfa.ca.gov/industry/manufacturing-exemptions.htm).

## REDUCED TAX RATE

Qualified persons pay only 3.3125 percent sales or use tax plus any applicable district imposed taxes until June 30, 2030, on qualifying purchases and leases.

Qualifying purchases are limited to \$200 million in a calendar year.

## NO PREAPPROVAL NEEDED

The partial exemption is available to anyone who meets the qualifications. You do not need to apply.

## ELIGIBILITY FOR EXEMPTION

In general, to be eligible for this partial exemption, **you must meet all three of these conditions:**

1. You must be primarily engaged in certain types of businesses, also known as a “qualified person,”
2. You must purchase “qualified tangible personal property,” and
3. You must use the “qualified tangible personal property” in a qualified manner.

## QUALIFIED PERSONS

Qualified persons are generally persons or establishments that are primarily engaged in specified:

- Manufacturing
- Research and Development
- Electric power generation or distribution (beginning January 1, 2018)

## QUALIFIED TANGIBLE PERSONAL PROPERTY

Qualified tangible personal property generally includes:

- Machinery and equipment,
- Equipment or devices used or required to operate, control, regulate, or maintain the machinery together with all repair and replacement parts,
- Specified tangible personal property used in pollution control,
- 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,

- Special purpose buildings and foundations used as an integral part of electric power generation or production or storage and distribution (beginning January 1, 2018).

The qualified tangible personal property must generally be treated as having a useful life of one or more years for state income or franchise tax purposes.

## USEFUL LIFE

In general, qualified tangible personal property has a useful life of one or more years when the property is:

- Capitalized and depreciated on the state income tax return, or
- Deducted under Revenue and Taxation Code (R&TC) sections [17201](#) and [17255](#) or [24356](#).

Some examples of property that does not have a useful life of one or more years include:

- Tools and other supply items.
- Property placed in service and disposed of in the same year.
- Items replaced on a regular basis of less than one year.

## QUALIFIED USES

Qualified uses include when the qualified tangible personal property is used primarily (more than 50 percent of the time) in specified:

- Manufacturing, processing, refining, fabricating or recycling of tangible personal property,
- Electric power generation or production or storage and distribution, or
- Research and development.

## IF YOU ARE A QUALIFIED PERSON

When you make a qualifying purchase or lease, you must provide the seller with a partial exemption certificate in order for the seller to claim the partial exemption. Qualified persons may use a [CDTFA-230-M](#), *Partial Exemption Certificate for Manufacturing Equipment, Research and Development Equipment*.

Construction contractors performing a contract to construct or improve a special purpose building for a qualifying person may generally purchase materials and sell fixtures and machinery and equipment subject to the partial exemption.

Construction contractors may use a [CDTFA-230-MC](#), *Construction Contracts—Partial Exemption Certificate For Manufacturing, Research and Development Equipment*.

To print a partial exemption certificate, visit our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov), select *Forms and Publications* and then choose *All Forms* to find forms [CDTFA-230-M](#) or [CDTFA-230-MC](#).

## FOR MORE INFORMATION

Go to our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov), scroll down and select [View All Industry Guides](#). Under the *Tax and Fee Guides*, choose the online guide, [Manufacturing and Research & Development Equipment Exemption](#).

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Do you need help filing your return or have a general tax question?

Call our Customer Service Center  
1-800-400-7115 (TTY:711)  
Monday through Friday  
8:00 a.m. to 5:00 p.m.

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## GET IT IN WRITING

The Sales and Use Tax Law can be complex, and you are encouraged to put your tax questions in writing. If you have specific questions about this partial exemption, we recommend that you get answers in writing from us.

Requests for written advice can be mailed or emailed directly to the CDTFA office nearest you.

Our contact information is also on our website at [www.cdtfa.ca.gov/contact.htm](http://www.cdtfa.ca.gov/contact.htm).

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