



Sales and Use Tax Exclusion (STE) Program

Frequently Asked Questions

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Basic Program Structure

1. What is the Sales and Use Tax Exclusion Program?

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) Sales and Use Tax Exclusion (STE) Program (the “Program”) excludes from sales and use taxes purchases of Qualified Property:

- if its use is either to process Recycled feedstock or using Recycled feedstock in the production of another product or soil amendment, or
- that is used in an Advanced Manufacturing process, or
- that is used to manufacture Alternative Source products or Advanced Transportation Technologies.

Eligible manufacturers planning to construct a new manufacturing facility or expand or upgrade a currently existing manufacturing facility may apply to CAEATFA for an STE award, and if approved, the purchases of Qualified Property for the project are not subject to state and local sales and use tax.

2. What purchases are excluded from sales and use tax? What is “Qualified Property”?

The exclusion applies to Qualified Property purchases:

- tangible personal property if at least 50 percent of its use is either to process Recycled feedstock that is intended to be reused in the production of another product or using Recycled feedstock in the production of another product or soil amendment, or

- tangible personal property that is used in the state in an Advanced Manufacturing process, or
- for the design, manufacture, production, or assembly of Advanced Transportation Technologies, or Alternative Source products, components, or systems.

Generally, Qualified Property includes manufacturing machinery and equipment with an estimated useful lifespan of over one year, as well as information technology used to operate or control the machinery and equipment. Qualified purchases may also include tangible personal property required for infrastructure improvements to the manufacturing facility, such as foundation, reinforcement, piping, and fire safety.

Qualified Property does not include consumables or the raw materials of which the product being manufactured is composed; typically this will include items with an estimated useful lifespan of less than one year.

The property must be used to process Recycled feedstock or create another product or soil amendment utilizing Recycled feedstock, or in an Advanced Manufacturing process or for the manufacturing of the Alternative Source product or Advanced Transportation Technology for more than 50% of the time.

3. How does a manufacturer receive an STE award?

Eligible manufacturers may apply for an STE by submitting an [application](#) to CAEATFA. CAEATFA staff will review the application for completeness and reasonableness of assumptions provided in the application, and then make a recommendation to the CAEATFA Board. CAEATFA's Board considers and votes on the STE applications at Board meetings.

4. What is the maximum award amount?

Statute limits the Program to awarding \$100 million in sales and use tax exclusions in each calendar year.

Applicants are limited to \$10 million of STE in a given calendar year. However, during the first application period of the calendar year, \$15 million of STE is available for the Board to award to applicants seeking more than the \$10 million cap in STE. The \$15 million in STE is awarded on a competitive basis on top of the \$10 million cap, and requests are limited to \$10 million in STE, for a total potential award of up to \$20 million in STE.

Also, \$20 million in STE will be set aside for smaller Projects, those seeking an STE award of \$2 million or less. If any of the \$20 million in sales and use tax exclusion remains after September, it will be made available to award to all applicants.

Applicants may also receive more than the \$10 million individual cap at end of the calendar year if STE allocation is available after all other Applications are considered.

5. What are the fees associated with the Program?

The Program has two types of fees: Application Fees and Administrative Fees.

The [fee calculator](#) on CAEATFA's website will assist in calculating the potential fees associated with an application.

Application Fee

- The Application Fee is 0.0005 (0.05%) of the total amount of Qualified Property identified in the application (minimum \$250, maximum \$10,000), and is due with the application submission.

Administrative Fee

- The Administrative Fee is 0.004 (0.4%) of the total amount of Qualified Property actually purchased (minimum \$15,000, maximum \$350,000). The minimum Administrative Fee of \$15,000 is due after approval, upon execution of the Master Regulatory Agreement. The remaining Administrative Fee payments are made with each semi-annual report in an amount equal to 0.004 of the Qualified Property purchase amount made during the applicable reporting period, until the total Administrative Fee amount is paid.

Other Fees

In addition to the fees required of all applicants, there are fees intended to cover costs incurred due to specific requests from Applicants.

- Except as provided below, an applicant that requests a modification to its Regulatory Agreement or authorizing resolution that must be approved by the Authority shall pay an additional administrative fee of \$500.
- An applicant that requests a modification to its Regulatory Agreement or authorizing resolution to waive or extend the 15% purchase requirement timeframe pursuant to Section 10035(b)(1) shall pay an additional fee of \$1,500.
- An applicant that requests a modification to its Regulatory Agreement or authorizing resolution to waive or extend the three-year initial term pursuant to Section 10035(b)(1) shall pay an additional fee of \$2,000.
- An applicant that requests a modification to its Regulatory Agreement or authorizing resolution to waive or extend the 15% purchase requirement timeframe and the three-year initial term pursuant to Section 10035(b)(1) for consideration at the same Board meeting shall pay an additional fee of \$2,250.
- An applicant that requests a modification to its Regulatory Agreement or authorizing resolution that requires a revised Application to be considered by the Authority shall pay 0.00005 (0.005%) of the total amount of Qualified Property identified in the Authority resolution approved by the Board (minimum \$500, maximum \$2,000).

6. Where can I find information on applications considered and approved by the Board?

Staff summaries prepared for each application brought before the Board, as well as data on each approved application, may be found on the [Meeting Agendas, Staff Reports and Minutes](#) page.

A list of all projects approved and considered can also be found on the [STE Program](#) page.

Program Eligibility

7. Who may apply for a sales and use tax exclusion (STE)?

The STE is available to the following four categories of manufacturers in California:

- Alternative Source product manufacturers,
- manufacturers of Advanced Transportation Technologies,
- Advanced Manufacturers, and
- manufacturers that process Recycled feedstock or utilize Recycled feedstock in the production of another product or soil amendment.

Manufacturers of components of Alternative Sources and Advanced Transportation Technologies are also eligible if the component constitutes a “Green Component”, defined as the component or system within

Advanced Transportation Technologies or Alternative Source products that is responsible for or required to enable the increase in energy efficiency, Alternative Source generation, or pollution reduction.

8. What is an Alternative Source?

Alternative Sources are defined in Public Resources Code Section 26003(a)(3) as:

- devices or technologies used for a renewable electrical generation facility,
- a combined heat and power system,
- distributed generation and energy storage technologies eligible under the self-generation incentive program pursuant to Section 379.6 of the Public Utilities Code, as determined by the Public Utilities Commission,
- a facility designed for the production of renewable fuels, the efficient use of which reduce the use of fossil or nuclear fuels, or
- energy efficiency devices or technologies that reduce the need for new electric generation and reduce emissions of toxic and criteria pollutants and greenhouse gases

Examples of past Alternative Source manufacturing projects approved include: solar photovoltaic, biogas, biomass, landfill gas, and renewable fuels. Equipment used to manufacture these products is eligible under the STE award.

9. What are Advanced Transportation Technologies?

Advanced Transportation Technologies are defined in Public Resources Code Section 26003(a)(2) as emerging commercially competitive transportation-related technologies capable of creating long-term, high value-added jobs for Californians while enhancing the state's commitment to energy conservation, pollution and greenhouse gas emissions reduction, and transportation efficiency.

10. What is Advanced Manufacturing?

To qualify as an Advanced Manufacturer, the manufacturing process must meet all of the following requirements:

1. Improve existing, or create entirely new materials, products, **and** processes through:
 - the use of science, engineering, or information technologies,
 - high-precision tools and methods,
 - a high-performance workforce, **and**
 - innovative business or organizational models.
2. Use any of the following technology areas:
 - Micro- and nanoelectronics, including semiconductors.
 - Advanced materials.
 - Integrated computational materials engineering.
 - Nanotechnology.
 - Additive manufacturing.
 - Industrial biotechnology.
3. Result in a substantive advancement, whether incremental or breakthrough, beyond the current industry standard, in the production of materials and products.
4. Be a sustainable manufacturing system that minimizes the use of resources while maintaining or improving cost and performance (not including systems or technologies required to be undertaken pursuant to state or federal law or regulations).

11. What is Recycled feedstock?

Recycled feedstock is defined as stated in Public Resources Code Section 26011.8(b)(2) as materials that would otherwise be destined for disposal, having completed their intended end use and product lifecycle.

To qualify as a recycling project, the tangible personal property purchased for the project must be used at least 50% of the time to process Recycled feedstock that is intended to be reused in the production of another product or using recycled feedstock in the production of another product or soil amendment.

- Soil amendments may include "compost," as defined in Section 14525 of the Food and Agricultural Code, "fertilizing material," as defined in Section 14533 of the Food and Agricultural Code, "gypsum" or "phosphatic sulfate gypsum," as those terms are defined in Section 14537 of the Food and Agricultural Code, or a substance distributed for the purpose of promoting plant growth or improving the quality of crops by conditioning soils through physical means.

Application & Approval Process

12. What is the Program's application process?

The application consists of two parts:

- [Part A](#) includes a project narrative, legal questionnaire, and applicant certification. The project narrative includes information about the applicant and the proposed project, including timeline and status of required permits.
- [Part B](#) consists of a self-scoring Excel spreadsheet designed to measure and quantify the net fiscal and environmental benefits of the proposed project. Based on the inputs provided by the applicant, the spreadsheet calculates the number of points received by the project. The formulas for determining the points awarded may be found in CAEATFA Regulation Section 10033(c).

CAEATFA staff review each application for completeness and reasonableness of the assumptions provided in the application. To that end, staff may request supporting documentation and more detailed calculations for inputs. To help expedite the review process, applicants may submit supporting documentation relied upon, such as business plans, pro forma financial statements or other comparable documents used for the purpose of soliciting investors, environmental reports, third party price quotes, etc., with the application.

13. Where do I submit an STE Application?

Applications must be submitted electronically via e-mail to CAEATFA@treasurer.ca.gov; the Application Fee must be received at the CAEATFA office within five business days of submission of the electronic version of the application. The mailing address is:

CAEATFA
915 Capitol Mall, Rm 538
Sacramento, CA 95814

The Application Fee is .0005 (or .05%) of the total amount of Qualified Property identified in the application. The minimum Application Fee is \$250 and the maximum Application Fee is \$10,000.

14. What is the timeline for consideration of an application?

The Executive Director will announce the application periods for the sales and use tax exclusion prior to the start of each calendar year on CAEATFA's website: www.treasurer.ca.gov/CAEATFA.

The announcement will include the (1) application periods, (2) deadline to submit Applications for each application period, (3) tentative dates when the Authority will hold Board meetings to consider Applications, and (4) amount of sales and use tax exclusion available to award during each application period.

The Executive Director may reschedule or amend any previously announced application period by providing notice on the Authority website and may reschedule or relocate any previously announced Authority Board meeting so long as the information is posted on the Authority website at least ten (10) days before the scheduled meeting.

15. Who approves the applications and grants the STE award?

CAEATFA staff review each application and make a recommendation to the CAEATFA Board. The Board then considers and votes whether to approve an application at scheduled Board meetings.

[CAEATFA's Board](#) consists of the following members: State Treasurer, State Controller, Director of the Department of Finance, Chair of the California Energy Commission, and President of the Public Utilities Commission.

16. What point threshold must an applicant meet to be recommended for approval by CAEATFA staff?

Applicants must receive a total score of at least 1,000 points on the net benefits test in Part B of the application. Additionally, all applicants must receive an environmental benefits score of over 20 points.

17. In what order will applications be heard?

The order in which Applications are considered by the Authority will be based on a ranking of competitive criteria.

The competitive process will be handled as follows:

- The projects with the greatest point score will be reviewed and presented to the CAEATFA Board.
- In the event of a tie, the application representing the smaller STE award will move forward to consideration before the Authority.
- If the STE amounts are identical, the completed application that was received by CAEATFA first shall be heard first.
- When the amount requested in the Application exceeds the STE available in the calendar year, the Authority may award the remaining STE request using STE from the following calendar year, up to \$2 million in STE.
- Any remaining Applications will be placed on the waiting list.

Additionally, Applications considered under the Small Project Pool (the \$20 million in STE set-aside for Applications requesting \$2 million or less in STE) will be heard before Applications being considered for an award under the general pool of STE.

18. What are the competitive criteria?

(1) Total Pollution Benefits Score

- 100 points will be awarded for Applicants with Recycled Resource Extraction Projects or Projects that produce an Advanced Transportation Technology or an Alternative Source product, component, or system.

(2) Unemployment Score

- Points will be awarded based on the employment rate of the county in which the Project is located, as calculated pursuant to Section 10033(c)(5)(A), also found on the Scoring tab of Part B of the application.

(3) New Jobs Score

- A maximum of 75 points will be awarded based on the amount of STE per estimated number of jobs created, as calculated pursuant to Section 10033(c)(5)(B), also found on the Scoring tab of Part B of the application.

(4) Project Relocation or Rebuild due to Natural Disaster

- 50 points will be awarded if the Project is to be relocate or rebuild due to a fire, storm, or earthquake identified in a state of emergency proclamation by the California State Governor within two years of the time of application.

(5) Corporate Headquarters in California

- 15 points will be awarded to an applicant that has its corporate headquarters located in California.

(6) Applicant does not qualify for Manufacturing and Research & Development Equipment Exemption

- 50 points will be awarded if an applicant is not eligible to use the Manufacturing and Research & Development Equipment Exemption established pursuant to Section 6377.1 of the Revenue and Taxation Code.

(7) Emerging Strategic Industry

- 75 points will be awarded in the Project's industry is in an [Emerging Strategic Industry](#).

For more details about Competitive Criteria, see STE Program Regulation Section 10032(a)(7).

19. Should a representative for the applicant be present during the CAEATFA Board meeting?

CAEATFA Board meetings are open to the public, and applicants are strongly encouraged to have a representative who is familiar with the project in attendance. Board members may pose clarifying questions about proposed projects that the applicant should address.

Using the STE Award

20. How does an approved applicant use the exclusion?

To use the exclusion, approved applicants must present Qualified Property vendors with a certificate made pursuant to the [California Department of Tax and Fee Administration \(CDTFA\)](#) – the agency that oversees the process of using the exclusion. CAEATFA does not provide a template form or offer guidance as to the drafting of a certificate.

No money is given to approved applicants, rather approved applicants do not pay the tax at the time of purchase, or, under specific circumstances, seek reimbursement from the vendor or CDTFA for sales and use tax paid on Qualified Property purchases prior to approval.

For additional guidance on how to use the exclusion, please consult with tax counsel or visit [CDTFA's website on the STE Program](#).

21. When can an approved applicant begin using the STE award?

Approved applicants must execute a Regulatory Agreement with CAEATFA within 30 days of Board approval and pay the minimum Administrative Fee of \$15,000. Once the Regulatory Agreement is effective, the approved applicant may use the exclusion.

22. How soon must an approved applicant start making purchases?

Approved applicants are required to purchase or execute purchase orders of no less than 15% of the total amount of Qualified Property listed in the approval resolution within 18 months of Board approval. The Board may waive or extend this requirement upon a finding of extraordinary circumstances and that it is in public interest and advances the purposes of the Program. Regulatory Agreements for facilities not meeting these requirements will be subject to termination, and if the Regulatory Agreement is terminated, no further purchases will be excluded from the imposition of the sales and use tax.

23. What about purchases made prior to receiving the award?

In some situations, applicants may seek reimbursement for purchases made prior to approval and execution of the Master Agreement. The applicant would seek reimbursement for sales tax from the vendor, and for use tax from CDTFA. Equipment must be eligible under Program guidelines and cannot be put to functional use at the time the refund is sought. For more details on eligibility and procedure for refunds, visit the [CDTFA website](#).

24. Can a contractor for an approved applicant use the exclusion?

Yes, effective September 21, 2018, pursuant to Revenue and Taxation Code Section 6010.8(a)(2), as amended by AB 1547 (Quirk-Silva, Ch. 645, Statutes of 2018), “sale” and “purchase” do not include any lease or transfer of title of tangible personal property constituting any project to any contractor for use in the performance of a construction contract for an approved applicant that will use that property as an integral part of the approved project. If a contractor purchases Qualified Property to be used for the construction of the approved Project, they should provide their vendors with a certificate made pursuant to [CDTFA requirements](#).

25. How long do approved applicants have to use the exclusion?

Generally, approved applicants must make all Qualified Property purchases within three years of application approval. Depending on the circumstances, applicants may request additional time in the initial application.

At the end of the purchasing term, if there are extenuating circumstances, this requirement may be waived and the period may be extended beyond three years if the Authority finds that a waiver is in the public interest and advances the purposes of the Program.

26. Can Qualified Property purchases be used for purposes outside of the approved project?

Qualified Property must be used more than 50% of the time to process Recycled feedstock that is intended to be reused in the production of another product or for the production of another product or soil amendment using Recycled feedstock, or for the design, manufacture, production, or assembly of Advanced Manufacturing, Advanced Transportation Technologies, or Alternative Source products, components, or systems. Time during which the Qualified Property remains temporarily idle does not affect this calculation. However, time during which the Qualified Property is being used to produce ineligible products, as may be the case for facilities that create multiple products, some of which do not meet the requirements above, must be taken into account.

Qualified Property must be used for the purpose stated in the application for a period equal to the longer of (a) one year or (b) one-half the estimated useful lifespan of the Qualified Property item.

27. Can Qualified Property purchases be moved out of state?

Up to a total of 15% of the dollar volume of reported Qualified Property purchases may be relocated if the CAEATFA Executive Director determines relocation is part of an improvement, upgrade, or increase in the economic efficiency of the project and that approval is likely to continue or increase the anticipated net benefits of the project. Requests to relocate Qualified Property amounts over the 15% threshold must be approved by CAEATFA's Board.

Any amount of Qualified Property may be relocated outside of California if the approved applicant voluntarily pays an amount equal to the original purchase price of the Qualified Property to be relocated multiplied by the average statewide sales tax rate at the time of the proposed relocation.

28. Is the award assignable or transferrable?

The STE award may only be used by the legal entity and specific project approved by the Board. If an approved applicant wishes to have the award transferred to another entity, such as the approved applicant or the project has been sold or if the approved applicant has changed its legal name, then a request for transfer of the award may be brought to the Board for consideration.

After Approval

29. What are the steps after an applicant is approved?

Once approved, applicants will:

- Sign a Regulatory Agreement
- Use the award

- Fulfill reporting requirements
Information on approved applicant next steps is available on the [CAEATFA website](#).

30. What is the Regulatory Agreement?

The Regulatory Agreement is a legal contract between CAEATFA and the approved applicant that lays out all the terms and conditions of the award. After approval, staff will request additional information and documents from the applicant in order to draft the Regulatory Agreement. The applicant has 30 days from the date of approval to execute the Regulatory Agreement.

31. What are the on-going reporting requirements in order to retain the STE award?

[Approved applicants](#) have two reporting requirements: semi-annual reports and annual reports.

Approved applicants must report [semi-annually](#) on the actual Qualified Property purchases made, if any, during the reporting period, and certify that all Qualified Property purchases will be used in the State of California.

- The semi-annual report covering the first two calendar quarters of the year must be submitted to the CAEATFA on or before July 31; the semi-annual report covering the last two calendar quarters of the year must be submitted to CAEATFA on or before January 31 of the immediately following calendar year.

All approved applicants must submit [annual reports](#), which are due on or before January 31 of the immediately following calendar year, and include information about payroll, California sales, compliance details regarding the Qualified Property, and project status.

32. How long must I continue to submit reports?

Approved applicants must submit the semi-annual reports throughout the initial term of the Regulatory Agreement (typically the three years within which the STE award must be used).

Annual reports are required for a number of years equal to one-half the estimated useful lifespan of the Qualified Property item identified in the Application with the longest estimated useful lifespan.

- For example, if the Qualified Property item with the longest estimated useful lifespan has an estimated lifespan of 20 years, the annual reporting requirement will last for 10 years.

33. How do I report purchases made prior to approval?

Purchases made prior to approval should be reported on the first semi-annual report to be submitted after approval.

34. What happens if a reporting requirement is missed?

If the applicant fails to comply with statute, regulations, or the terms of the Regulatory Agreement, the Executive Director may suspend the Regulatory Agreement until the applicant is once again in compliance. Purchases made during any suspension will not be excluded from the imposition of sales and use tax.