

What is the Use Tax Incentive Program?

The Use Tax Incentive Program is a collaborative effort between business owners and the City, where they work together for mutual benefit in allocating use tax dollars back to the City of Morgan Hill. In exchange for undertaking the tax liability and reporting to the State of California, the City of Morgan Hill will reimburse you a portion of the local tax that was collected.

This program results in:

- Your tax liability in terms of allocation errors from 3rd Party vendors being reduced
- You enhance City revenue without increasing additional tax liabilities
- Provides you the additional opportunity to publicly recognize the important contributions that you make to our community.



Process

Firms making purchases of equipment, materials, and fixtures from out of state will remit use tax to the State of California through either a:

- Direct Pay Permit
- Sub Seller's Permit

Firms designate "Morgan Hill" as the first function use of the equipment. The City will reimburse you for the administrative burden of monitoring and allocating the tax.

Use Tax Example

Purchase Price of Widget	\$5,000,000
Santa Clara Co. Tax Rate	9%
Total Tax Collected by Buyer	\$450,000
Use Tax Rec'd by SBOE	\$450,000
State of CA Portion 6%	\$300,000
County/VTA Portion 2%	\$100,000
City of Morgan Hill Portion 1%	\$50,000
You are Reimbursed 20%	\$10,000
Resulting Morgan Hill Share	\$40,000

FAQ

Is this Common in other communities?

Yes, the CA State Board of Equalization has provided the two avenues, Sub-Sellers Permit and Direct Pay Permit to allocate use tax to communities.

Is there a cost?

There is no cost to obtain a Direct Pay Permit. There is also, no cost to acquire a sub seller's permit.

Do I pay more tax?

No. You will not pay any more tax than you would normally. The difference is you accrue the liability and remit the tax instead of having a reseller accrue and remit the tax.

Getting Started

Getting started with the Use Tax Incentive Program is simple as 1-2-3.

1. **Contact Economic Development regarding your interest in the Program BEFORE you make specific purchases of equipment or machinery.**
2. The City will determine if your purchase is subject to use tax and works within the State approved allocation process
3. The City will assist you with either acquiring a sub-sellers permit or direct pay permit

Once a sub-sellers permit or direct pay permit is in place, you are now ready to accrue and remit the appropriate tax liability.

Claims Process

Participating companies in the Use Tax Incentive Program will request in writing 45 days after the close of the reporting quarter a claim for rebate to the City. City staff will verify the claim to ensure the California State Board of Equalization has received the use tax allocation. Upon verification, the City will process the appropriate rebate for the participating company as outlined below.

Net New Use Tax Received by the City of Morgan Hill	Rebate Percentage
Tier 1: 0-\$100,000	20%
Tier 2: \$100,001-\$200,000	25%
Tier 3: \$200,001 and greater	30%

If the total allocation for four consecutive quarters exceeds Tier one or Tier two, there will be a one-time true up payment in the fourth quarter from the City at the next higher Tier. However, if a firm over four consecutive quarters does not exceed Tier one threshold, they receive the minimum 20%.

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