

**DEPARTMENT OF TAXATION
2012 Fiscal Impact Statement**

- 1. **Patron** Ryan T. McDougle
- 3. **Committee** Senate Finance
- 4. **Title** Retail Sales and Use Tax Exemption;
Computer Equipment for Data Centers

- 2. **Bill Number** SB 112
House of Origin:
 Introduced
 Substitute
 Engrossed
Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would change the job creation requirement in order for a data center to qualify for the Retail Sales and Use Tax exemption by allowing new jobs created by tenants of the data center to count towards the threshold job creation requirement, in addition to new jobs created by the owner of the data center. The bill would also extend the exemption to tenants of the data center if the data center and the tenants collectively meet the requirements to qualify for the data center exemption and the data center operator enters into a memorandum of understanding with the Virginia Economic Development Partnership Authority on behalf of itself and its tenants. The exemption for such data centers and tenants would be effective for purchases or leases made on or after July 1, 2012 for use in a data center that meets the requirements and enters into the memorandum of understanding on or after January 1, 2009.

The current data center exemption is available for data centers that i) are located in a Virginia locality; ii) result in a new capital investment of at least \$150 million on or after January 1, 2009; and iii) create, on or after July 1, 2009, at least 50 new jobs paying at least one and one-half the prevailing average wage in the locality, or 25 new jobs paying at least one and one-half the prevailing average wage in the locality if the data center is located in a locality that has an unemployment rate for the preceding year of at least 150 percent of the average statewide unemployment rate or is located in an enterprise zone. The exemption currently applies only to purchases made by the data center, and does not apply to purchases made by tenants of the center.

The effective date of this bill is not specified.

- 6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)
- 7. **Budget amendment necessary:** Yes.
ITEM(S): Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs Impact

The Department considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

To the extent that companies that do not currently qualify for the Retail Sales and Use Tax exemption for computer equipment and enabling hardware purchased or leased for use in a data center would qualify for the expanded exemption, this bill would result in a unknown, but potentially significant, loss of state and local revenues beginning in Fiscal Year 2013.

9. Specific agency or political subdivisions affected:

Department of Taxation
Virginia Economic Development Partnership Authority

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under current law, beginning July 1, 2010 and ending June 30, 2020, computer equipment purchased or leased by certain data centers for the processing, storage, retrieval or communication of data, including but not limited to servers, routers, connections and other enabling hardware, is exempt from the Retail Sales and Use Tax. Purchased or leased upgrades, additions to, or replacement of the computer equipment in a qualifying facility are equally exempt. The exemption does not apply to separately sold computer software or general building improvements or fixtures.

In order to be eligible for this exemption, the data center must be located in a Virginia locality and must result in new capital investment of at least \$150 million on or after January 1, 2009. The data center must also create on or after July 1, 2009, at least 50 new jobs paying at least one and one-half the prevailing average wage in the locality or at least 25 new jobs paying at least one and one-half the prevailing average wage if the locality has an unemployment rate for the preceding year of at least 150 percent of the average statewide unemployment rate or is located in an enterprise zone. The investment would need to be made in accordance with a memorandum of understanding with the Virginia Economic Development Partnership Authority.

Proposal

This bill would change the job creation requirement in order for a data center to qualify for the Retail Sales and Use Tax exemption by allowing new jobs created by tenants of the data center to count towards the threshold job creation requirement, in addition to new

jobs created by the owner of the data center. The bill would also extend the exemption to tenants of the data center if the data center and the tenants collectively meet the requirements to qualify for the data center exemption and the data center operator enters into a memorandum of understanding with the Virginia Economic Development Partnership Authority on behalf of itself and its tenants. The exemption for such data centers and tenants would be effective for purchases or leases made on or after July 1, 2012 for use in a data center that meets the requirements and enters into the memorandum of understanding on or after January 1, 2009.

The effective date of this bill is not specified.

Similar Legislation

House Bill 216 and **Senate Bill 232** are identical to this bill.

cc : Secretary of Finance

Date: 1/28/2012 AM
DLAS File Name: SB112F161