

VIRGINIA ACTS OF ASSEMBLY — CHAPTER

*An Act to amend and reenact § 58.1-609.3 of the Code of Virginia, relating to sales and use tax exemption; pollution control equipment and facilities.*

[H 1399]

Approved

**Be it enacted by the General Assembly of Virginia:**

**1. That § 58.1-609.3 of the Code of Virginia is amended and reenacted as follows:**

**§ 58.1-609.3. Commercial and industrial exemptions.**

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Personal property purchased by a contractor which is used solely in another state or in a foreign country, which could be purchased by such contractor for such use free from sales tax in such other state or foreign country, and which is stored temporarily in Virginia pending shipment to such state or country.

2. (i) Industrial materials for future processing, manufacturing, refining, or conversion into articles of tangible personal property for resale where such industrial materials either enter into the production of or become a component part of the finished product; (ii) industrial materials that are coated upon or impregnated into the product at any stage of its being processed, manufactured, refined, or converted for resale; (iii) machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy, or supplies, used directly in processing, manufacturing, refining, mining or converting products for sale or resale; (iv) materials, containers, labels, sacks, cans, boxes, drums or bags for future use for packaging tangible personal property for shipment or sale; or (v) equipment, printing or supplies used directly to produce a publication described in subdivision 3 of § 58.1-609.6 whether it is ultimately sold at retail or for resale or distribution at no cost. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their use is directly in processing, manufacturing, refining, mining or converting products for sale or resale. The provisions of this subsection do not apply to the drilling or extraction of oil, gas, natural gas and coalbed methane gas. In addition, the exemption provided herein shall not be applicable to any machinery, tools, and equipment, or any other tangible personal property used by a public service corporation in the generation of electric power, except for raw materials that are inputs to production of electricity, including fuel.

3. Tangible personal property sold or leased to a public service corporation engaged in business as a common carrier of property or passengers by railway, for use or consumption by such common carrier directly in the rendition of its public service.

4. Ships or vessels, or repairs and alterations thereof, used or to be used exclusively or principally in interstate or foreign commerce; fuel and supplies for use or consumption aboard ships or vessels plying the high seas, either in intercoastal trade between ports in the Commonwealth and ports in other states of the United States or its territories or possessions, or in foreign commerce between ports in the Commonwealth and ports in foreign countries, when delivered directly to such ships or vessels; or tangible personal property used directly in the building, conversion or repair of the ships or vessels covered by this subdivision. This exemption shall include dredges, their supporting equipment, attendant vessels, and fuel and supplies for use or consumption aboard such vessels, provided the dredges are used exclusively or principally in interstate or foreign commerce.

5. Tangible personal property purchased for use or consumption directly and exclusively in basic research or research and development in the experimental or laboratory sense.

6. Tangible personal property sold or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing scheduled air service on a continuing basis to one or more Virginia airports at least one day per week, for use or consumption by such airline directly in the rendition of its common carrier service.

7. Meals furnished by restaurants or food service operators to employees as a part of wages.

8. Tangible personal property including machinery and tools, repair parts or replacements thereof, and supplies and materials used directly in maintaining and preparing textile products for rental or leasing by an industrial processor engaged in the commercial leasing or renting of laundered textile products.

9. (†) Certified pollution control equipment and facilities as defined in § 58.1-3660, except for any equipment that has not been certified to the Department of Taxation by a state certifying authority pursuant to such section and (ii) effective retroactive to July 1, 1994, and ending July 1, 2006, certified

57 pollution control equipment and facilities as defined in § 58.1-3660 and which, in accordance with such  
58 section, have been certified by the Department of Mines, Minerals and Energy for coal, oil and gas  
59 production, including gas, natural gas, and coalbed methane gas.

60 10. Parts, tires, meters and dispatch radios sold or leased to taxicab operators for use or consumption  
61 directly in the rendition of their services.

62 11. High speed electrostatic duplicators or any other duplicators which have a printing capacity of  
63 4,000 impressions or more per hour purchased or leased by persons engaged primarily in the printing or  
64 photocopying of products for sale or resale.

65 12. From July 1, 1994, and ending July 1, 2016, raw materials, fuel, power, energy, supplies,  
66 machinery or tools or repair parts therefor or replacements thereof, used directly in the drilling,  
67 extraction, or processing of natural gas or oil and the reclamation of the well area. For the purposes of  
68 this section, the term "natural gas" shall mean "gas," "natural gas," and "coalbed methane gas" as  
69 defined in § 45.1-361.1. For the purposes of this section, "drilling," "extraction," and "processing" shall  
70 include production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a  
71 usable condition consistent with commercial practices, and the gathering and transportation of raw  
72 natural gas to a facility wherein the gas is converted into such a usable condition. Machinery, tools and  
73 equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their  
74 use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or  
75 in well area reclamation activities required by state or federal law.

76 13. Beginning July 1, 1997, (i) the sale, lease, use, storage, consumption, or distribution of an orbital  
77 or suborbital space facility, space propulsion system, space vehicle, satellite, or space station of any kind  
78 possessing space flight capability, including the components thereof, irrespective of whether such  
79 facility, system, vehicle, satellite, or station is returned to this Commonwealth for subsequent use,  
80 storage or consumption in any manner when used to conduct spaceport activities; (ii) the sale, lease, use,  
81 storage, consumption or distribution of tangible personal property placed on or used aboard any orbital  
82 or suborbital space facility, space propulsion system, space vehicle, satellite or space station of any kind,  
83 irrespective of whether such tangible personal property is returned to this Commonwealth for subsequent  
84 use, storage or consumption in any manner when used to conduct spaceport activities; (iii) fuels of such  
85 quality not adapted for use in ordinary vehicles, being produced for, sold and exclusively used for space  
86 flight when used to conduct spaceport activities; (iv) the sale, lease, use, storage, consumption or  
87 distribution of machinery and equipment purchased, sold, leased, rented or used exclusively for  
88 spaceport activities and the sale of goods and services provided to operate and maintain launch facilities,  
89 launch equipment, payload processing facilities and payload processing equipment used to conduct  
90 spaceport activities.

91 For purposes of this subdivision, "spaceport activities" means activities directed or sponsored at a  
92 facility owned, leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority.

93 The exemptions provided by this subdivision shall not be denied by reason of a failure,  
94 postponement or cancellation of a launch of any orbital or suborbital space facility, space propulsion  
95 system, space vehicle, satellite or space station of any kind or the destruction of any launch vehicle or  
96 any components thereof.

97 14. Semiconductor cleanrooms or equipment, fuel, power, energy, supplies, or other tangible personal  
98 property used primarily in the integrated process of designing, developing, manufacturing, or testing a  
99 semiconductor product, a semiconductor manufacturing process or subprocess, or semiconductor  
100 equipment without regard to whether the property is actually contained in or used in a cleanroom  
101 environment, touches the product, is used before or after production, or is affixed to or incorporated into  
102 real estate.

103 15. Semiconductor wafers for use or consumption by a semiconductor manufacturer.

104 16. Railroad rolling stock when sold or leased by the manufacturer thereof.

105 17. Computer equipment purchased or leased on or before June 30, 2011, used in data centers  
106 located in a Virginia locality having an unemployment rate above 4.9 percent for the calendar quarter  
107 ending November 2007, for the processing, storage, retrieval, or communication of data, including but  
108 not limited to servers, routers, connections, and other enabling hardware when part of a new investment  
109 of at least \$75 million in such exempt property, when such investment results in the creation of at least  
110 100 new jobs paying at least twice the prevailing average wage in that locality, so long as such  
111 investment was made in accordance with a memorandum of understanding with the Virginia Economic  
112 Development Partnership Authority entered into or amended between January 1, 2008, and December  
113 31, 2008. The exemption shall also apply to any such computer equipment purchased or leased to  
114 upgrade, add to, or replace computer equipment purchased or leased in the initial investment. The  
115 exemption shall not apply to any computer software sold separately from the computer equipment, nor  
116 shall it apply to general building improvements or fixtures.

117 18. (Effective until June 30, 2020) Beginning July 1, 2010, and ending June 30, 2020, computer

118 equipment or enabling software purchased or leased for the processing, storage, retrieval, or  
 119 communication of data, including but not limited to servers, routers, connections, and other enabling  
 120 hardware, including chillers and backup generators used or to be used in the operation of the equipment  
 121 exempted in this paragraph, provided that such computer equipment or enabling software is purchased or  
 122 leased for use in a data center that (i) is located in a Virginia locality, (ii) results in a new capital  
 123 investment on or after January 1, 2009, of at least \$150 million, and (iii) results in the creation on or  
 124 after July 1, 2009, of at least 50 new jobs by the data center operator and the tenants of the data center,  
 125 collectively, associated with the operation or maintenance of the data center provided that such jobs pay  
 126 at least one and one-half times the prevailing average wage in that locality. The requirement of at least  
 127 50 new jobs is reduced to 25 new jobs if the data center is located in a locality that has an  
 128 unemployment rate for the preceding year of at least 150 percent of the average statewide  
 129 unemployment rate for such year as determined by the Virginia Economic Development Partnership or is  
 130 located in an enterprise zone. This exemption applies to the data center operator and the tenants of the  
 131 data center if they collectively meet the requirements listed in this section. Prior to claiming such  
 132 exemption, any qualifying person claiming the exemption, including a data center operator on behalf of  
 133 itself and its tenants, must enter into a memorandum of understanding with the Virginia Economic  
 134 Development Partnership Authority that at a minimum provides the details for determining the amount  
 135 of capital investment made and the number of new jobs created, the timeline for achieving the capital  
 136 investment and new job goals, the repayment obligations should those goals not be achieved, and any  
 137 conditions under which repayment by the qualifying data center or data center tenant claiming the  
 138 exemption may be required. In addition, the exemption shall apply to any such computer equipment or  
 139 enabling software purchased or leased to upgrade, supplement, or replace computer equipment or  
 140 enabling software purchased or leased in the initial investment. The exemption shall not apply to any  
 141 other computer software otherwise taxable under Chapter 6 of Title 58.1 that is sold or leased separately  
 142 from the computer equipment, nor shall it apply to general building improvements or other fixtures.

143 18. (Effective June 30, 2020) Beginning July 1, 2010, and ending June 30, 2020, computer  
 144 equipment or enabling software purchased or leased for the processing, storage, retrieval, or  
 145 communication of data, including but not limited to servers, routers, connections, and other enabling  
 146 hardware, including chillers and backup generators used or to be used in the operation of the equipment  
 147 exempted in this paragraph, provided that such computer equipment or enabling software is purchased or  
 148 leased for use in a data center that (i) is located in a Virginia locality, (ii) results in a new capital  
 149 investment on or after January 1, 2009, of at least \$150 million, and (iii) results in the creation on or  
 150 after July 1, 2009, of at least 50 new jobs associated with the operation or maintenance of the data  
 151 center provided that such jobs pay at least one and one-half times the prevailing average wage in that  
 152 locality. The requirement of at least 50 new jobs is reduced to 25 new jobs if the data center is located  
 153 in a locality that has an unemployment rate for the preceding year of at least 150 percent of the average  
 154 statewide unemployment rate for such year as determined by the Virginia Economic Development  
 155 Partnership or is located in an enterprise zone. Prior to claiming such exemption, any qualifying person  
 156 claiming the exemption must enter into a memorandum of understanding with the Virginia Economic  
 157 Development Partnership Authority that at a minimum provides the details for determining the amount  
 158 of capital investment made and the number of new jobs created, the timeline for achieving the capital  
 159 investment and new job goals, the repayment obligations should those goals not be achieved, and any  
 160 conditions under which repayment by the qualifying person claiming the exemption may be required. In  
 161 addition, the exemption shall apply to any such computer equipment or enabling software purchased or  
 162 leased to upgrade, supplement, or replace computer equipment or enabling software purchased or leased  
 163 in the initial investment. The exemption shall not apply to any other computer software otherwise  
 164 taxable under Chapter 6 of Title 58.1 that is sold or leased separately from the computer equipment, nor  
 165 shall it apply to general building improvements or other fixtures.

166 **2. That the provisions of this bill are declaratory of existing law.**