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HOUSE BILL NO. 1698

Offered January 17, 2020

A BILL to amend and reenact § 58.1-609.3 of the Code of Virginia, relating to sales and use tax; exemption for railroad rolling stock.

Patron—Byron

Referred to Committee on Finance

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, or for machinery, tools, and equipment used to generate energy derived from sunlight or wind. The exemption for machinery, tools, and equipment used to generate energy derived from sunlight or wind shall expire June 30, 2027.

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. Notwithstanding the provisions of subdivision 20 of § 58.1-609.10, all 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

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59 products.

60 9. Certified pollution control equipment and facilities as defined in § 58.1-3660, except for any
61 equipment that has not been certified to the Department of Taxation by a state certifying authority
62 pursuant to such section.

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

65 11. High speed electrostatic duplicators or any other duplicators which have a printing capacity of
66 4,000 impressions or more per hour purchased or leased by persons engaged primarily in the printing or
67 photocopying of products for sale or resale.

68 12. From July 1, 1994, and ending July 1, 2022, raw materials, fuel, power, energy, supplies,
69 machinery or tools or repair parts therefor or replacements thereof, used directly in the drilling,
70 extraction, or processing of natural gas or oil and the reclamation of the well area. For the purposes of
71 this section, the term "natural gas" shall mean "gas," "natural gas," and "coalbed methane gas" as
72 defined in § 45.1-361.1. For the purposes of this section, "drilling," "extraction," and "processing" shall
73 include production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a
74 usable condition consistent with commercial practices, and the gathering and transportation of raw
75 natural gas to a facility wherein the gas is converted into such a usable condition. Machinery, tools and
76 equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their
77 use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or
78 in well area reclamation activities required by state or federal law.

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

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

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

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

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

107 16. Railroad rolling stock when sold or leased by the manufacturer thereof, *provided that no*
108 *exemption shall be allowed under this subdivision for purchases on and after July 1, 2021.*

109 17. Computer equipment purchased or leased on or before June 30, 2011, used in data centers
110 located in a Virginia locality having an unemployment rate above 4.9 percent for the calendar quarter
111 ending November 2007, for the processing, storage, retrieval, or communication of data, including but
112 not limited to servers, routers, connections, and other enabling hardware when part of a new investment
113 of at least \$75 million in such exempt property, when such investment results in the creation of at least
114 100 new jobs paying at least twice the prevailing average wage in that locality, so long as such
115 investment was made in accordance with a memorandum of understanding with the Virginia Economic
116 Development Partnership Authority entered into or amended between January 1, 2008, and December
117 31, 2008. The exemption shall also apply to any such computer equipment purchased or leased to
118 upgrade, add to, or replace computer equipment purchased or leased in the initial investment. The
119 exemption shall not apply to any computer software sold separately from the computer equipment, nor
120 shall it apply to general building improvements or fixtures.

121 18. Beginning July 1, 2010, and ending June 30, 2035, computer equipment or enabling software
122 purchased or leased for the processing, storage, retrieval, or communication of data, including but not
123 limited to servers, routers, connections, and other enabling hardware, including chillers and backup
124 generators used or to be used in the operation of the equipment exempted in this paragraph, provided
125 that such computer equipment or enabling software is purchased or leased for use in a data center that
126 (i) is located in a Virginia locality, (ii) results in a new capital investment on or after January 1, 2009,
127 of at least \$150 million, and (iii) results in the creation on or after July 1, 2009, of at least 50 new jobs
128 by the data center operator and the tenants of the data center, collectively, associated with the operation
129 or maintenance of the data center provided that such jobs pay at least one and one-half times the
130 prevailing average wage in that locality. The requirement of at least 50 new jobs is reduced to 25 new
131 jobs if the data center is located in a locality that has an unemployment rate for the preceding year of at
132 least 150 percent of the average statewide unemployment rate for such year as determined by the
133 Virginia Economic Development Partnership or is located in an enterprise zone. This exemption applies
134 to the data center operator and the tenants of the data center if they collectively meet the requirements
135 listed in this section. Prior to claiming such exemption, any qualifying person claiming the exemption,
136 including a data center operator on behalf of itself and its tenants, must enter into a memorandum of
137 understanding with the Virginia Economic Development Partnership Authority that at a minimum
138 provides the details for determining the amount of capital investment made and the number of new jobs
139 created, the timeline for achieving the capital investment and new job goals, the repayment obligations
140 should those goals not be achieved, and any conditions under which repayment by the qualifying data
141 center or data center tenant claiming the exemption may be required. In addition, the exemption shall
142 apply to any such computer equipment or enabling software purchased or leased to upgrade, supplement,
143 or replace computer equipment or enabling software purchased or leased in the initial investment. The
144 exemption shall not apply to any other computer software otherwise taxable under Chapter 6 of Title
145 58.1 that is sold or leased separately from the computer equipment, nor shall it apply to general building
146 improvements or other fixtures.

147 19. If the preponderance of their use is in the manufacture of beer by a brewer licensed pursuant to
148 subdivision 1 or 2 of § 4.1-208, (i) machinery, tools, and equipment, or repair parts therefor or
149 replacements thereof, fuel, power, energy, or supplies; (ii) materials for future processing, manufacturing,
150 or conversion into beer where such materials either enter into the production of or become a component
151 part of the beer; and (iii) materials, including containers, labels, sacks, cans, bottles, kegs, boxes, drums,
152 or bags for future use, for packaging the beer for shipment or sale.