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HOUSE BILL NO. 148

Offered January 12, 2022

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A BILL to amend and reenact §§ 58.1-609.3 and 58.1-3660 of the Code of Virginia, relating to certified pollution control equipment; certification by subdivisions.

Patrons—Runion, Avoli, Fowler, Walker and Wiley

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-609.3 and 58.1-3660 of the Code of Virginia are 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

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59 leasing by an industrial processor engaged in the commercial leasing or renting of laundered textile
60 products.

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

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

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

69 12. From July 1, 1994, and ending July 1, 2022, raw materials, fuel, power, energy, supplies,
70 machinery or tools or repair parts therefor or replacements thereof, used directly in the drilling,
71 extraction, or processing of natural gas or oil and the reclamation of the well area. For the purposes of
72 this section, the term "natural gas" shall mean "gas," "natural gas," and "coalbed methane gas" as
73 defined in § 45.2-1600. For the purposes of this section, "drilling," "extraction," and "processing" shall
74 include production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a
75 usable condition consistent with commercial practices, and the gathering and transportation of raw
76 natural gas to a facility wherein the gas is converted into such a usable condition. Machinery, tools and
77 equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their
78 use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or
79 in well area reclamation activities required by state or federal law.

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

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

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

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

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

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

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.

18. a. Beginning July 1, 2010, and ending June 30, 2035, computer equipment or enabling software purchased or leased for the processing, storage, retrieval, or communication of data, including but not limited to servers, routers, connections, and other enabling hardware, including chillers and backup generators used or to be used in the operation of the equipment exempted in this paragraph, provided that such computer equipment or enabling software is purchased or leased for use in a data center, which includes any data center facilities located in the same locality as the data center that are under common ownership or affiliation of the data center operator, that (i) is located in a Virginia locality; (ii) results in a new capital investment on or after January 1, 2009, of at least \$150 million; and (iii) results in the creation on or after July 1, 2009, of at least 50 new jobs by the data center operator and the tenants of the data center, collectively, associated with the operation or maintenance of the data center provided that such jobs pay at least one and one-half times the prevailing average wage in that locality. The requirement of at least 50 new jobs is reduced to 10 new jobs if the data center is located in a distressed locality at the time of the execution of a memorandum of understanding with the Virginia Economic Development Partnership Authority. Additionally, the requirement of a \$150 million capital investment shall be reduced to \$70 million for data centers that qualify for the reduced jobs requirement.

This exemption applies to the data center operator and the tenants of the data center if they collectively meet the requirements listed in this section. Prior to claiming such exemption, any qualifying person claiming the exemption, including a data center operator on behalf of itself and its tenants, must enter into a memorandum of understanding with the Virginia Economic Development Partnership Authority that at a minimum provides the details for determining the amount of capital investment made and the number of new jobs created, the timeline for achieving the capital investment and new job goals, the repayment obligations should those goals not be achieved, and any conditions under which repayment by the qualifying data center or data center tenant claiming the exemption may be required. In addition, the exemption shall apply to any such computer equipment or enabling software purchased or leased to upgrade, supplement, or replace computer equipment or enabling software purchased or leased in the initial investment. The exemption shall not apply to any other computer software otherwise taxable under Chapter 6 of Title 58.1 that is sold or leased separately from the computer equipment, nor shall it apply to general building improvements or other fixtures.

b. For purposes of this subdivision 18, "distressed locality" means:

1. From July 1, 2021, until July 1, 2023, any locality that had (i) an annual unemployment rate for calendar year 2019 that was greater than the final statewide average unemployment rate for that calendar year and (ii) a poverty rate for calendar year 2019 that exceeded the statewide average poverty rate for that year; and

2. From and after July 1, 2023, any locality that has (i) an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year and (ii) a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

c. For so long as a data center operator is claiming an exemption pursuant to this subdivision 18, such operator shall be required to submit an annual report to the Virginia Economic Development Partnership Authority on behalf of itself and, if applicable, its participating tenants that includes their employment levels, capital investments, average annual wages, qualifying expenses, and tax benefit, and such other information as the Virginia Economic Development Partnership Authority determines is relevant, pursuant to procedures developed by the Virginia Economic Development Partnership Authority. The annual report shall be submitted by the data center operator in a format prescribed by the Virginia Economic Development Partnership Authority. The Virginia Economic Development Partnership Authority shall share all information collected with the Department.

The Department, in collaboration with the Virginia Economic Development Partnership Authority, shall publish a biennial report on the exemption that shall include aggregate information on qualifying expenses claimed under this exemption, the total value of the tax benefit, a return on investment analysis that includes direct and indirect jobs created by data center investment, state and local tax revenues generated, and any other information the Department and the Virginia Economic Development Partnership Authority deem appropriate to demonstrate the costs and benefits of the exemption. The report shall not include, and the Department and the Virginia Economic Development Partnership Authority shall not publish or disclose, any such information if it is unaggregated or if such report or publication could be used to identify a business or individual. The Department shall submit the report to the Chairmen of the Senate Committee on Finance and Appropriations and the House Committees on Appropriations and Finance. The Virginia Economic Development Partnership Authority may publish on its website and distribute annual information indicating the job creation and ranges of capital investments made by a data center operator and, if applicable, its participating tenants, in a format to be developed in consultation with data center operators.

19. (Effective until January 1, 2022) If the preponderance of their use is in the manufacture of beer

182 by a brewer licensed pursuant to subdivision 1 or 2 of § 4.1-208, (i) machinery, tools, and equipment, or
183 repair parts therefor or replacements thereof, fuel, power, energy, or supplies; (ii) materials for future
184 processing, manufacturing, or conversion into beer where such materials either enter into the production
185 of or become a component part of the beer; and (iii) materials, including containers, labels, sacks, cans,
186 bottles, kegs, boxes, drums, or bags for future use, for packaging the beer for shipment or sale.

187 19. (Effective January 1, 2022) If the preponderance of their use is in the manufacture of beer by a
188 brewer licensed pursuant to subdivision 3 or 4 of § 4.1-206.1, (i) machinery, tools, and equipment, or
189 repair parts therefor or replacements thereof, fuel, power, energy, or supplies; (ii) materials for future
190 processing, manufacturing, or conversion into beer where such materials either enter into the production
191 of or become a component part of the beer; and (iii) materials, including containers, labels, sacks, cans,
192 bottles, kegs, boxes, drums, or bags for future use, for packaging the beer for shipment or sale.

193 20. If the preponderance of their use is in advanced recycling, as defined in § 58.1-439.7, (i)
194 machinery, tools, and equipment, or repair parts therefor or replacements thereof, fuel, power, energy, or
195 supplies; (ii) materials for processing, manufacturing, or conversion for resale where such materials
196 either are recycled or recovered; and (iii) materials, including containers, labels, sacks, cans, boxes,
197 drums, or bags used for packaging recycled or recovered material for shipment or resale.

198 **§ 58.1-3660. Certified pollution control equipment and facilities.**

199 A. Certified pollution control equipment and facilities, as defined herein, are hereby declared to be a
200 separate class of property and shall constitute a classification for local taxation separate from other such
201 classification of real or personal property and such property. Certified pollution control equipment and
202 facilities shall be exempt from state and local taxation pursuant to Article X, Section 6 (d) of the
203 Constitution of Virginia.

204 B. As used in this section:

205 "Certified pollution control equipment and facilities" means any property, including real or personal
206 property, equipment, facilities, or devices, used primarily for the purpose of abating or preventing
207 pollution of the atmosphere or waters of the Commonwealth and which the state certifying authority *or*
208 *subdivision certifying authority* having jurisdiction with respect to such property has certified to the
209 Department of Taxation as having been constructed, reconstructed, erected, or acquired in conformity
210 with the state program or requirements for abatement or control of water or atmospheric pollution or
211 contamination, except that in the case of equipment, facilities, devices, or other property intended for use
212 by any political subdivision in conjunction with the operation of its water, wastewater, stormwater, or
213 solid waste management facilities or systems, including property that may be financed pursuant to
214 Chapter 22 (§ 62.1-224 et seq.) of Title 62.1, the state certifying authority *or subdivision certifying*
215 *authority* having jurisdiction with respect to such property shall, upon the request of the political
216 subdivision, make such certification prospectively for property to be constructed, reconstructed, erected,
217 or acquired for such purposes. Such property shall include, but is not limited to, any equipment used to
218 grind, chip, or mulch trees, tree stumps, underbrush, and other vegetative cover for reuse as mulch,
219 compost, landfill gas, synthetic or natural gas recovered from waste or other fuel, and equipment used in
220 collecting, processing, and distributing, or generating electricity from, landfill gas or synthetic or natural
221 gas recovered from waste, whether or not such property has been certified to the Department of
222 Taxation by a state certifying authority *or subdivision certifying authority*. Such property shall include
223 solar energy equipment, facilities, or devices owned or operated by a business that collect, generate,
224 transfer, or store thermal or electric energy whether or not such property has been certified to the
225 Department of Taxation by a state certifying authority *or subdivision certifying authority*. Such property
226 shall also include energy storage systems, whether or not such property has been certified to the
227 Department of Taxation by a state certifying authority *or subdivision certifying authority*. All such
228 property as described in this definition shall not include the land on which such equipment or facilities
229 are located.

230 "Energy storage system" means equipment, facilities, or devices that are capable of absorbing energy,
231 storing it for a period of time, and redelivering that energy after it has been stored.

232 "State certifying authority" means the State Water Control Board or the Virginia Department of
233 Health, for water pollution; the State Air Pollution Control Board, for air pollution; the Department of
234 Energy, for solar energy projects, energy storage systems, and for coal, oil, and gas production,
235 including gas, natural gas, and coalbed methane gas; and the Virginia Waste Management Board, for
236 waste disposal facilities, natural gas recovered from waste facilities, and landfill gas production facilities,
237 and shall include any interstate agency authorized to act in place of a certifying authority of the
238 Commonwealth.

239 "Subdivision certifying authority" means the body of a political subdivision responsible for
240 administering the political subdivision's water, wastewater, stormwater, or solid waste management
241 facilities or systems. A subdivision certifying authority may only certify property pursuant to this section
242 if the property being certified is equipment, facilities, devices, or other property intended for use by the
243 political subdivision in conjunction with the operation of its water, wastewater, stormwater, or solid

waste management facilities or systems. If property is certified by a subdivision certifying authority, it shall not be required to be certified by a state certifying authority.

C. For solar photovoltaic (electric energy) systems, this exemption applies only to (i) projects equaling 20 megawatts or less, as measured in alternating current (AC) generation capacity, for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization on or before December 31, 2018; (ii) projects equaling 20 megawatts or less, as measured in alternating current (AC) generation capacity, that serve any of the public institutions of higher education listed in § 23.1-100 or any private college as defined in § 23.1-105; (iii) 80 percent of the assessed value of projects for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization (a) between January 1, 2015, and June 30, 2018, for projects greater than 20 megawatts or (b) on or after July 1, 2018, for projects greater than 20 megawatts and less than 150 megawatts, as measured in alternating current (AC) generation capacity, and that are first in service on or after January 1, 2017; (iv) projects equaling five megawatts or less, as measured in alternating current (AC) generation capacity, for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization on or after January 1, 2019; and (v) 80 percent of the assessed value of all other projects equaling more than five megawatts and less than 150 megawatts, as measured in alternating current (AC) generation capacity for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization on or after January 1, 2019.

D. The exemption for solar photovoltaic (electric energy) projects greater than five megawatts, as measured in alternating current (AC) generation capacity, shall not apply to any such project unless an application has been filed with the locality for the project before July 1, 2030, regardless of whether a locality assesses a revenue share on such project pursuant to the provisions of § 58.1-2636. If a locality adopts an energy revenue share ordinance under § 58.1-2636, the exemption for solar photovoltaic (electric energy) projects greater than five megawatts, as measured in alternating current (AC) generation capacity, shall be 100 percent of the assessed value. If a locality does not adopt an energy revenue share ordinance under § 58.1-2636, the exemption for solar photovoltaic (electric energy) projects greater than five megawatts, as measured in alternating current (AC) generation capacity, for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization, shall be 80 percent of the assessed value when an application has been filed with the locality prior to July 1, 2030. For purposes of this subsection, "application has been filed with the locality" means an applicant has filed an application for a zoning confirmation from the locality for a by-right use or an application for land use approval under the locality's zoning ordinance to include an application for a conditional use permit, special use permit, special exception, or other application as set out in the locality's zoning ordinance.

E. For pollution control equipment and facilities certified by the Virginia Department of Health, this exemption applies only to onsite sewage systems that serve 10 or more households, use nitrogen-reducing processes and technology, and are constructed, wholly or partially, with public funds.

F. Notwithstanding any provision to the contrary, for any solar photovoltaic project described in clauses (iii) and (v) of subsection C for which an initial interconnection request form has been filed with an electric utility or a regional transmission organization on or after January 1, 2019, the amount of the exemption shall be as follows: 80 percent of the assessed value in the first five years in service after commencement of commercial operation, 70 percent of the assessed value in the second five years in service, and 60 percent of the assessed value for all remaining years in service.

G. Notwithstanding any provision to the contrary, the exemption for energy storage systems provided under this section (i) shall apply only to projects greater than five megawatts and less than 150 megawatts, as measured in alternating current (AC) storage capacity, and (ii) shall be in the following amounts: 80 percent of the assessed value in the first five years of service after commencement of commercial operation, 70 percent of the assessed value in the second five years in service, and 60 percent of the assessed value for all remaining years in service.

H. The exemption for energy storage systems greater than five megawatts, as measured in alternating current (AC) storage capacity, shall not apply to any such project unless an application has been filed with the locality for the project before July 1, 2030, regardless of whether a locality assesses a revenue share on such project pursuant to the provisions of § 58.1-2636. If a locality adopts an energy revenue share ordinance under § 58.1-2636, the exemption for energy storage systems greater than five megawatts, as measured in alternating current (AC) storage capacity, shall be 100 percent of the assessed value. If a locality does not adopt an energy revenue share ordinance under § 58.1-2636, the exemption for energy storage systems greater than five megawatts, as measured in alternating current (AC) storage capacity, shall be as set out in subsection G when an application has been filed with the locality prior to July 1, 2030. For the purposes of this subsection, "application has been filed with the locality" means an applicant has filed an application for a zoning confirmation from the locality for a

305 by-right use or an application for land use approval under the locality's zoning ordinance to include an
306 application for a conditional use permit, special use permit, special exception, or other application as set
307 out in the locality's zoning ordinance.