

# HOUSE BILL REPORT

## HB 3260

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to providing partial state sales and use tax exemptions in respect to the purchase or use of server equipment comprising only the server chassis and all computer hardware and software contained within the server chassis, where the server equipment replaces existing server equipment in certain buildings constructed or refurbished to house servers and located in a rural county as defined in RCW 82.14.370(5).

**Brief Description:** Providing partial sales and use tax exemptions for certain computer server equipment.

**Sponsors:** Representatives Grant, Santos, Eddy, Springer, Goodman, Warnick, Hinkle, Armstrong, Orcutt, Kelley, McIntire and Ross; by request of Governor Gregoire.

**Brief History:**

**Committee Activity:**

Finance: 2/5/08, 2/12/08 [DPS].

**Brief Summary of Substitute Bill**

- Provides a 50 percent state sales and use tax exemption for replacement computer server equipment.
- Requires the filing of an annual survey by businesses claiming the sales and use tax exemption.
- Requires the Joint Legislative Audit and Review Committee to study the exemption and report to the Legislature in 2012 and 2015.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hunter, Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Minority Report:** Do not pass. Signed by 1 member: Representative Hasegawa, Vice Chair.

**Staff:** Jeff Mitchell (786-7139).

**Background:**

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent depending on the location.

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**Summary of Substitute Bill:**

An exemption from the state portion of the sales and use tax is provided for replacement server equipment, and for labor and services rendered in respect to installing such replacement server equipment in an eligible computer data center for a qualifying business. A qualifying business claiming the exemption must first pay the sales tax and then may apply for a remittance of 50 percent of the state tax paid. The exemption does not apply to any local sales or use taxes.

The Department of Revenue must remit on a quarterly basis the amount of the exemption to a qualifying business that submitted applications during the previous quarter.

A data center is a facility comprised of one or more buildings constructed or refurbished specifically, and used primarily, to house servers. It must have at least 20,000 square feet of floor space dedicated to housing working servers located in a rural county.

A qualifying business is a business entity that exists for the primary purpose of engaging in commercial activity for a profit. It means a corporation, other than any public entity or an association, limited liability company, partnership, or other legal entity.

Replacement server equipment is server equipment that replaces existing server equipment located at the eligible data center.

Businesses claiming a sales and use tax exemption are required to file an annual survey. The Joint Legislative Audit and Review Committee is required to study the sales and use tax exemption and provide a report to the Legislature by December 1, 2012, and December 1, 2015.

**Substitute Bill Compared to Original Bill:**

Businesses claiming a sales and use tax exemption are required to file an annual survey. The Joint Legislative Audit and Review Committee is required to study the sales and use tax exemption and provide a report to the Legislature by December 1, 2012, and December 1, 2015.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on July 1, 2008.

**Staff Summary of Public Testimony:**

(In support) Other states have been facing significant competition for locating for computer server farms. Many companies are looking at central Washington because of the inexpensive power. Server farms are extremely capital intensive. The replacement cost for equipment is also significant. This bill addresses this unique aspect by providing a sales and use tax remittance. Many businesses looking at Washington for the placement of server farms have indicated their decision will likely be negative without some type of tax incentive. Server farms will provide an anchor in the state. Server farms will create a higher level of information technology and research and development investment. High wage jobs will also be created. As these facilities are built, they are a great driver for construction jobs. These facilities also provide long-term, well paying jobs once they are built. Server farms increase the tax base in the rural areas where they are built. This bill only provides a partial exemption for replacement equipment. It does not provide an exemption for the initial purchase of the equipment or the construction activity. These additional incentives are critical in making this an effective tool for the state.

(Opposed) None.

**Persons Testifying:** Cindi Holmstrom, Department of Revenue; Craig Larsen, Wenatchee Valley Chamber; Catherine Holestine, Big Bend Community College; and Scott Hazlegrove, Yahoo!

**Persons Signed In To Testify But Not Testifying:** None.