

SENATE BILL REPORT

ESB 6550

As Passed Senate, February 28, 2014

Title: An act relating to providing a sales and use tax exemption for sales and uses related to eligible server equipment and power infrastructures installed in eligible computer data centers.

Brief Description: Providing a sales and use tax exemption for sales and uses related to eligible server equipment and power infrastructures installed in eligible computer data centers.

Sponsors: Senators Holmquist Newbry, Hobbs, Parlette, Liias, Hewitt, Hatfield, Fain, Conway, McAuliffe and Mullet.

Brief History:

Committee Activity: Ways & Means: 2/10/14, 2/11/14 [DP, DNP, w/oRec].

Passed Senate: 2/28/14, 35-13.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Bailey, Becker, Braun, Conway, Dammeier, Hatfield, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

Minority Report: Do not pass.

Signed by Senators Hargrove, Ranking Member; Ranker, Assistant Ranking Member on the Operating Budget; Billig, Fraser and Hasegawa.

Minority Report: That it be referred without recommendation.

Signed by Senators Keiser, Assistant Ranking Member on the Capital Budget; Frockt and Kohl-Welles.

Staff: Dean Carlson (786-7305)

Background: Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or services when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state

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sales and use tax rate is 6.5 percent. Local sales and use tax rates vary from 0.5 percent to 3.0 percent, depending on the location.

Sales and Use Tax Exemption for Eligible Server Equipment. In 2010 Engrossed Substitute Senate Bill 6789 provided a sales and use tax exemption for server equipment and power infrastructure for computer data centers. The exemption was to expire on April 1, 2018. In order to qualify, a data center must be located in a rural county, have at least 20,000 square feet dedicated to housing servers, and have commenced construction between April 1, 2010, and before July 1, 2011. Additionally, within six years of construction, a qualifying business must have created 35 family wage employment positions or three family wage jobs per 20,000 square feet of space. Construction of a data center includes the expansion, renovation, or other improvements made to existing facilities, including leased or rented space.

The exemption applied to the original server equipment installed after April 1, 2010, and replacement server equipment which replaces servers originally exempt from tax and installed prior to April 1, 2018.

In 2012 legislation was enacted that extended the time for eligible data centers and qualifying tenants of data centers to qualify for the sales and use tax exemption on server equipment and power infrastructure to those that commenced construction between April 1, 2012, and July 1, 2015. The exemption time is extended for eligible replacement server equipment placed in new data centers and for qualifying tenants until April 1, 2020.

Summary of Engrossed Bill: A sales and use tax exemption is provided for eligible server equipment and eligible power infrastructure located in data centers in which construction commences between July 1, 2014, and July 1, 2025.

Eligible server equipment affected by this act is equipment installed in a data center built after July 1, 2014, and includes original server equipment and replacement server equipment installed prior to April 1, 2025.

Substations do not qualify as eligible power infrastructure.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: We have put thousands of hours on the books for our union members on these data centers. In eastern Washington, construction of data centers is good for electrical workers. Washington is not competitive with Oregon in building data centers without this bill. We will not be able to decide if the incentives work until our customers do. When this incentive expired in 2011, customers walked away and

moved to Oregon. When we reinstated this in 2012, data centers began locating here again. Washington State is well positioned in the cloud computing boom.

Persons Testifying: PRO: Terry Tilton, NW Carpenters; Nicole Grant, International Brotherhood of Electrical Workers; Patrick Boss, Port of Quincy; John Sabey, President, Sabey Data Center Properties; Scott Cave, city of Quincy.