

# SENATE BILL REPORT

## SB 6666

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As of February 5, 2008

**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:** Senators Murray, Zarelli, Eide, Holmquist, Hobbs, Parlette and Shin; by request of Governor Gregoire.

**Brief History:**

**Committee Activity:** Ways & Means: 1/30/08.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**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.

**Summary of Bill:** An exemption from the state portion of the sales and use tax is provided for replacement server equipment and for labor and service 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 tax paid. The exemption and remittance do 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.

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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.*

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.

**Appropriation:** None.

**Fiscal Note:** Requested on January 21, 2008.

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony:** PRO: This will expand the new economy to the east side of the state. These businesses could take the high paying jobs elsewhere. Recently Washington has been getting competition from other states for server farms. Many other states are also providing incentives. These farms are very capital intensive. The equipment needs to be replaced often. Businesses have indicated that they will not locate here unless there is some sort of sales tax incentive. These will provide high paying jobs in an economically depressed region of Washington. Big Bend Community College has been able to respond to the employment demands of these industries. This will give the area economic diversification. The port of Chelan already houses one of these data centers. Diversification is important in this part of the state. The construction jobs for these facilities is significant. These will also have good paying long-term jobs. The tax base will really help the region. This raises the tax base of Grant County, and provides \$70,000 – \$80,000 jobs when the average is now \$35,000. These use recycled water for their cooling from food processing industries. Yahoo has made many investments in Washington. Yahoo would like to fulfill its existing plans to grow here. We would like a full sales tax exemption to include construction and equipment used for the data centers.

**Persons Testifying:** PRO: Senator Murray, prime sponsor; Cindi Holmstrom, Department of Revenue; William Bonaudi, Big Bend Community College; Craig Larsen, Wenatchee Valley Chamber, Port of Chelan; Jonathan Smith; Grant County EDC; Scott Hazlegrove, Yahoo.