

Chapter 412

H.B. No. 2712

AN ACT

relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter H, Chapter 151, Tax Code, is amended by adding Section 151.3595 to read as follows:

Sec. 151.3595. PROPERTY USED IN CERTAIN LARGE DATA CENTER PROJECTS; TEMPORARY EXEMPTION. (a) In this section:

(1) "County average weekly wage" means the average weekly wage in a county for all jobs during the most recent four quarterly periods for which data is available, as computed by the Texas Workforce Commission, at the time a large data center project creates a job used to qualify under this section.

(2) "Large data center project" means a project that:

(A) is located in this state;

(B) is composed of one or more buildings comprising at least 250,000 square feet of space located or to be located on a single parcel of land or on contiguous parcels of land that are commonly owned or owned by affiliation with the qualifying operator;

(C) is specifically constructed or refurbished and actually used primarily to house servers and related equipment and support staff for the processing, storage, and distribution of

1 data;

2 (D) is used by a single qualifying occupant for
3 the processing, storage, and distribution of data;

4 (E) is not used primarily by a telecommunications
5 provider to place tangible personal property used to deliver
6 telecommunications services; and

7 (F) has an uninterruptible power source, a backup
8 generator, a fire suppression and prevention system, and physical
9 security that includes restricted access, video surveillance, and
10 electronic systems.

11 (3) "Permanent job" means an employment position that
12 will exist for at least five years after the date the job is
13 created.

14 (4) "Qualifying job" means a full-time, permanent job
15 that pays at least 120 percent of the county average weekly wage in
16 the county in which the job is based. The term includes a new
17 employment position staffed by a third-party employer if a written
18 contract exists between the third-party employer and a qualifying
19 owner, qualifying operator, or qualifying occupant that provides
20 that the employment position is permanently assigned to an
21 associated qualifying large data center project.

22 (5) "Qualifying large data center project" means a
23 large data center project that meets the qualifications prescribed
24 by Subsection (d).

25 (6) "Qualifying operator" means a person who controls
26 access to a qualifying large data center project, regardless of
27 whether that person owns each item of tangible personal property

1 located at the qualifying large data center project. A qualifying
2 operator may also be the qualifying owner.

3 (7) "Qualifying owner" means a person who owns a
4 building in which a qualifying large data center project is
5 located. A qualifying owner may also be the qualifying operator.

6 (8) "Qualifying occupant" means a person who:

7 (A) contracts with a qualifying owner or
8 qualifying operator to place, or cause to be placed, and to use
9 tangible personal property at the qualifying large data center
10 project; or

11 (B) in the case of a qualifying occupant who is
12 also the qualifying owner and the qualifying operator, places or
13 causes to be placed and uses tangible personal property at the
14 qualifying large data center project.

15 (b) Except as otherwise provided by this section, tangible
16 personal property that is necessary and essential to the operation
17 of a qualifying large data center project is exempted from the taxes
18 imposed by this chapter if the tangible personal property is
19 purchased for installation at, incorporation into, or in the case
20 of electricity, use in a qualifying large data center project by a
21 qualifying owner, qualifying operator, or qualifying occupant, and
22 the tangible personal property is:

23 (1) electricity;

24 (2) an electrical system;

25 (3) a cooling system;

26 (4) an emergency generator;

27 (5) hardware or a distributed mainframe computer or

1 server;

2 (6) a data storage device;

3 (7) network connectivity equipment;

4 (8) a rack, cabinet, and raised floor system;

5 (9) a peripheral component or system;

6 (10) software;

7 (11) a mechanical, electrical, or plumbing system that

8 is necessary to operate any tangible personal property described by

9 Subdivisions (2)-(10);

10 (12) any other item of equipment or system necessary

11 to operate any tangible personal property described by Subdivisions

12 (2)-(11), including a fixture; and

13 (13) a component part of any tangible personal

14 property described by Subdivisions (2)-(10).

15 (c) The exemption provided by this section does not apply

16 to:

17 (1) office equipment or supplies;

18 (2) maintenance or janitorial supplies or equipment;

19 (3) equipment or supplies used primarily in sales

20 activities or transportation activities;

21 (4) tangible personal property on which the purchaser

22 has received or has a pending application for a refund under Section

23 151.429;

24 (5) tangible personal property not otherwise exempted

25 under Subsection (b) that is incorporated into real estate or into

26 an improvement of real estate;

27 (6) tangible personal property that is rented or

1 leased for a term of one year or less; or

2 (7) notwithstanding Section 151.3111, a taxable
3 service that is performed on tangible personal property exempted
4 under this section.

5 (d) Subject to Subsection (j), a large data center project
6 may be certified by the comptroller as a qualifying large data
7 center project for purposes of this section if, on or after June 1,
8 2015:

9 (1) a single qualifying occupant:

10 (A) contracts with a qualifying owner or
11 qualifying operator to lease space in which the qualifying occupant
12 will locate a large data center project; or

13 (B) occupies a space that was not previously used
14 as a data center in which the qualifying occupant will locate a
15 large data center project, in the case of a qualifying occupant who
16 is also the qualifying operator and the qualifying owner; and

17 (2) the qualifying owner, qualifying operator, or
18 qualifying occupant, independently or jointly:

19 (A) creates at least 40 qualifying jobs in the
20 county in which the large data center project is located, not
21 including jobs moved from one county in this state to another county
22 in this state;

23 (B) on or after May 1, 2015, makes or agrees to
24 make a capital investment of at least \$500 million in that
25 particular large data center project, the amount of which may not
26 include a capital investment to replace personal property
27 previously placed in service in that large data center project,

1 over a five-year period beginning on the earlier of:

2 (i) the date the large data center project
3 submits the application described by Subsection (e); or

4 (ii) the date the large data center project
5 is certified by the comptroller as a qualifying large data center
6 project; and

7 (C) agrees to contract for at least 20 megawatts
8 of transmission capacity for operation of the large data center
9 project.

10 (e) A large data center project that is eligible under
11 Subsection (d) to be certified by the comptroller as a qualifying
12 large data center project shall apply to the comptroller for
13 certification and for the issuance of a registration number or
14 numbers by the comptroller. The application must be made on a form
15 prescribed by the comptroller and must include the information
16 required by the comptroller. The application must include the name
17 and contact information for the qualifying occupant, and, if
18 applicable, the name and contact information for the qualifying
19 owner and the qualifying operator who will claim the exemption
20 authorized under this section. The application form must include a
21 section for the applicant to certify that the capital investment
22 required by Subsection (d)(2)(B) will be met independently or
23 jointly by the qualifying occupant, qualifying owner, or qualifying
24 operator within the time period prescribed by Subsection (d)(2)(B).

25 (f) The exemption provided by this section begins on the
26 date the large data center project is certified by the comptroller
27 as a qualifying large data center project and expires on the 20th

1 anniversary of that date, if the qualifying occupant, qualifying
2 owner, or qualifying operator, independently or jointly makes the
3 capital investment of at least \$500 million as provided by
4 Subsection (d)(2)(B).

5 (g) Each person who is eligible to claim an exemption
6 authorized by this section must hold a registration number issued
7 by the comptroller. The registration number must be stated on the
8 exemption certificate provided by the purchaser to the seller of
9 tangible personal property eligible for the exemption.

10 (h) The comptroller shall revoke all registration numbers
11 issued in connection with a qualifying large data center project
12 that the comptroller determines does not meet the requirements
13 prescribed by Subsection (d). Each person who has the person's
14 registration number revoked by the comptroller is liable for taxes,
15 including penalty and interest from the date of purchase, imposed
16 under this chapter on purchases for which the person claimed an
17 exemption under this section, regardless of whether the purchase
18 occurred before the date the registration number was revoked.

19 (i) The comptroller shall adopt rules consistent with and
20 necessary to implement this section, including rules relating to:

21 (1) a qualifying large data center project, qualifying
22 owner, qualifying operator, and qualifying occupant;

23 (2) issuance and revocation of a registration number
24 required under this section; and

25 (3) reporting and other procedures necessary to ensure
26 that a qualifying large data center project, qualifying owner,
27 qualifying operator, and qualifying occupant comply with this

1 section and remain entitled to the exemption authorized by this
2 section.

3 (j) A data center is not eligible to receive an exemption
4 under this section if the data center is subject to an agreement
5 limiting the appraised value of the data center's property under
6 Subchapter B or C, Chapter 313.

7 SECTION 2. Section 151.317(a), Tax Code, is amended to read
8 as follows:

9 (a) Subject to Sections 151.1551, 151.359, and 151.3595
10 [~~151.1551~~] and Subsection (d) of this section, gas and electricity
11 are exempted from the taxes imposed by this chapter when sold for:

12 (1) residential use;

13 (2) use in powering equipment exempt under Section
14 151.318 or 151.3185 by a person processing tangible personal
15 property for sale as tangible personal property, other than
16 preparation or storage of prepared food described by Section
17 151.314(c-2);

18 (3) use in lighting, cooling, and heating in the
19 manufacturing area during the actual manufacturing or processing of
20 tangible personal property for sale as tangible personal property,
21 other than preparation or storage of prepared food described by
22 Section 151.314(c-2);

23 (4) use directly in exploring for, producing, or
24 transporting, a material extracted from the earth;

25 (5) use in agriculture, including dairy or poultry
26 operations and pumping for farm or ranch irrigation;

27 (6) use directly in electrical processes, such as

1 electroplating, electrolysis, and cathodic protection;

2 (7) use directly in the off-wing processing, overhaul,
3 or repair of a jet turbine engine or its parts for a certificated or
4 licensed carrier of persons or property;

5 (8) use directly in providing, under contracts with or
6 on behalf of the United States government or foreign governments,
7 defense or national security-related electronics, classified
8 intelligence data processing and handling systems, or
9 defense-related platform modifications or upgrades;

10 (9) use directly by a data center or large data center
11 project that is certified by the comptroller as a qualifying data
12 center under Section 151.359 or a qualifying large data center
13 project under Section 151.3595 in the processing, storage, and
14 distribution of data;

15 (10) a direct or indirect use, consumption, or loss of
16 electricity by an electric utility engaged in the purchase of
17 electricity for resale; or

18 (11) use in timber operations, including pumping for
19 irrigation of timberland.

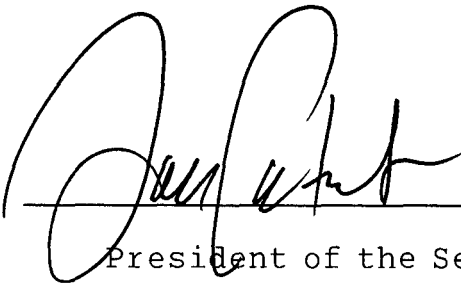
20 SECTION 3. Section 313.010, Tax Code, as added by Chapter
21 1274 (H.B. 1223), Acts of the 83rd Legislature, Regular Session,
22 2013, is amended to read as follows:

23 Sec. 313.010. CERTAIN ENTITIES ELIGIBLE. An entity that
24 has been issued a registration number under Section 151.359 or
25 Section 151.3595 is not eligible to receive a limitation on
26 appraised value under this chapter.

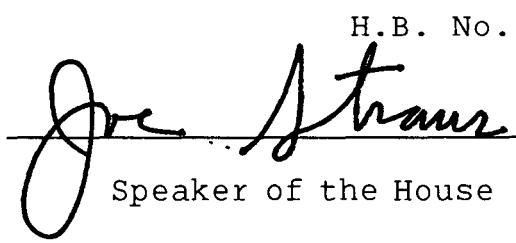
27 SECTION 4. The change in law made by this Act does not

1 affect tax liability accruing before the effective date of this
2 Act. That liability continues in effect as if this Act had not been
3 enacted, and the former law is continued in effect for the
4 collection of taxes due and for civil and criminal enforcement of
5 the liability for those taxes.

6 SECTION 5. This Act takes effect immediately if it receives
7 a vote of two-thirds of all the members elected to each house, as
8 provided by Section 39, Article III, Texas Constitution. If this
9 Act does not receive the vote necessary for immediate effect, this
10 Act takes effect September 1, 2015.



President of the Senate

H.B. No. 2712


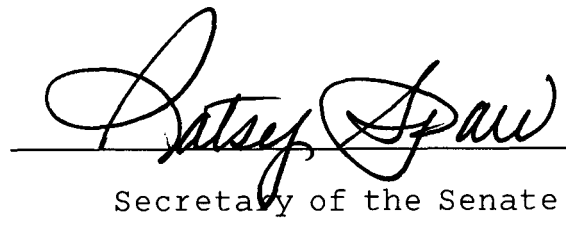
Speaker of the House

I certify that H.B. No. 2712 was passed by the House on May 12, 2015, by the following vote: Yeas 114, Nays 26, 3 present, not voting; and that the House concurred in Senate amendments to H.B. No. 2712 on May 27, 2015, by the following vote: Yeas 130, Nays 11, 2 present, not voting.



Chief Clerk of the House

I certify that H.B. No. 2712 was passed by the Senate, with amendments, on May 25, 2015, by the following vote: Yeas 23, Nays 8.

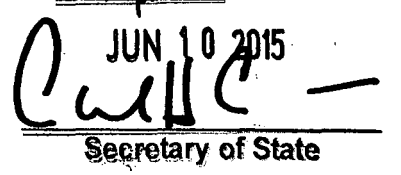


Secretary of the Senate

APPROVED: 6-10-2015
Date



Governor

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
7:45 P.M. O'CLOCK
JUN 10 2015


Secretary of State

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 26, 2015

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2712 by Geren (Relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.), **As Passed 2nd House**

<p>No significant fiscal implication to the State is anticipated for several biennia. The bill could result in loss of sales tax revenue beginning 15 years after the date a data center is certified as a large data center project.</p>
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This bill would amend Chapter 151 of the Tax Code, to add new Section 151.3595 to provide for exemption from sales and use taxation of certain tangible personal property related to large data center projects.

"Large data center project" would mean at least 250,000 square feet of space in a building or series of buildings on a single parcel of land or contiguous parcels of land commonly owned or owned by affiliation with the operator, which space: is located in this state; is specifically constructed or refurbished and actually used primarily to house servers and related equipment and support staff for the processing, storage and distribution of data; is used by a single qualifying occupant for the processing, storage, and distribution of data; is not used primarily by a telecommunications provider to place tangible personal property that is used to deliver telecommunications services; and that meets other standards related to power supply, fire suppression, and physical security.

The bill would define a "qualifying operator," "qualifying owner," and "qualifying occupant," and provide that a data center may be certified by the Comptroller as a "qualifying large data center project" if, on or after June 1, 2015, a single qualifying occupant contracts to lease space from a qualifying owner or operator or occupies a space not previously used as a data center and the qualifying owner, operator, and occupant jointly or independently: a) create at least 40 full-time, permanent jobs that pay at least 120 percent of the county average weekly wage in the county in which the job is based; b) makes or agrees to make a capital investment, on or after May 1, 2015, of at least \$500 million in that particular large data center project over a five-year period; and c) will contract for at least 20 megawatts of transmission capacity for operations of the large data center project.

The bill would exempt from tax tangible personal property that is necessary and essential to the operation of a qualifying large data center if the property is purchased for installation at, incorporation into, or in the case of electricity for use in, a qualifying large data center if the tangible personal property is: electricity; an electrical system; a cooling system; an emergency generator; hardware or a distributed mainframe computer or server; a data storage device; network

connectivity equipment; a rack, cabinet, and raised floor system; a peripheral component or system; software; a mechanical, electrical, or plumbing system necessary to operate the foregoing property; any other item of equipment or system necessary to operate any of the foregoing, including a fixture; and a component part of any of the foregoing. Excluded from exemption would be: office equipment or supplies; maintenance or janitorial supplies or equipment; equipment or supplies used primarily in sales activities or in transportation activities; property for which a refund may be received under Section 151.429 (tax refunds for enterprise projects); tangible personal property not otherwise exempted that is incorporated into real estate or an improvement of real estate, tangible personal property that is rented or leased for a term of one year or less; or notwithstanding Section 151.3111, a taxable service that is performed on tangible personal property exempted under Section 151.3595.

The exemption would expire on the twentieth anniversary of the date a large data center was certified as qualifying by the Comptroller.

A registration number would have to be obtained from the Comptroller for each person eligible to claim the exemption and must be stated on the exemption certificate provided by the purchaser to the seller of tangible personal property eligible for the exemption. All registration numbers issued in connection with a qualifying large data center would be revocable by the Comptroller upon determination that the requirements for qualification were not met, and each person whose registration number was revoked would be liable for taxes, including penalty and interest from the date of purchase, on purchases for which the person claimed exemption.

The Comptroller would be granted rulemaking authority to implement the new Section 151.3595.

The bill would have immediate effect if it receives a two-thirds vote of the membership of each house of the Legislature, otherwise it would take effect September 1, 2015.

Inasmuch as a data center meeting the single occupancy, capital investment, and jobs criteria to be a qualifying large data center project under the proposed new Section 151.3595 would surpass the criteria for certification as a qualifying data center under current Section 151.359, there would be no fiscal implication for the state before the fifteenth year after certification as a qualifying large data center project. From the fifteenth through the twentieth year after certification, there would be a reduction in state sales tax revenues due to a certification under 151.3595 relative to a certification under 151.359.

Also, certification under the proposed new Section 151.3595 would allow a qualifying data center to consist of more than one building, versus certification under current law which would require a separate qualifying data center certification for each building; it is probable that the sales tax exempt status of a large data center project that consists of more than one building would expire after 10 years rather than 20 if the capital investment were allocated among more than one certification under current law.

In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would exempt a qualifying data center from local sales and use taxes.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2015.

Local Government Impact

There would be a reduction in sales and use tax revenue to one or more units of local government, but the extent of the reduction cannot be determined.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 13, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2712 by Geren (Relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.), **As Engrossed**

No significant fiscal implication to the State is anticipated for several biennia. The bill could result in loss of sales tax revenue beginning 15 years after the date a data center is certified as a large data center project.

This bill would amend Chapter 151 of the Tax Code, to add new Section 151.3595 to provide for exemption from sales and use taxation of certain tangible personal property related to large data center projects.

"Large data center project" would mean at least 250,000 square feet of space in a building or series of buildings on a single parcel of land or contiguous parcels of land commonly owned or owned by affiliation with the operator, which space: is located in this state; is specifically constructed or refurbished and actually used primarily to house servers and related equipment and support staff for the processing, storage and distribution of data; is used by a single qualifying occupant for the processing, storage, and distribution of data; is not used primarily by a telecommunications provider to place tangible personal property that is used to deliver telecommunications services; and that meets other standards related to power supply, fire suppression, and physical security.

The bill would define a "qualifying operator," "qualifying owner," and "qualifying occupant," and provide that a data center may be certified by the Comptroller as a "qualifying large data center project" if, on or after June 1, 2015, a single qualifying occupant contracts to lease space from a qualifying owner or operator or occupies a space not previously used as a data center and the qualifying owner, operator, and occupant jointly or independently: a) create at least 40 full-time, permanent jobs that pay at least 120 percent of the county average weekly wage in the county in which the job is based; b) makes or agrees to make a capital investment, on or after May 1, 2015, of at least \$500 million in that particular large data center project over a five-year period; and c) will contract for at least 20 megawatts of transmission capacity for operations of the large data center project.

The bill would exempt from tax tangible personal property that is necessary and essential to the operation of a qualifying large data center if the property is purchased for installation at, incorporation into, or in the case of electricity for use in, a qualifying large data center if the tangible personal property is: electricity; an electrical system; a cooling system; an emergency generator; hardware or a distributed mainframe computer or server; a data storage device; network connectivity equipment; a rack, cabinet, and raised floor system; a peripheral component or

system; software; a mechanical, electrical, or plumbing system necessary to operate the foregoing property; any other item of equipment or system necessary to operate any of the foregoing, including a fixture; and a component part of any of the foregoing. Excluded from exemption would be: office equipment or supplies; maintenance or janitorial supplies or equipment; equipment or supplies used primarily in sales activities or in transportation activities; property for which a refund may be received under Section 151.429 (tax refunds for enterprise projects); tangible personal property not otherwise exempted that is incorporated into real estate or an improvement of real estate, tangible personal property that is rented or leased for a term of one year or less; or notwithstanding Section 151.3111, a taxable service that is performed on tangible personal property exempted under Section 151.3595.

The exemption would expire on the twentieth anniversary of the date a large data center was certified as qualifying by the Comptroller.

A registration number would have to be obtained from the Comptroller for each person eligible to claim the exemption and must be stated on the exemption certificate provided by the purchaser to the seller of tangible personal property eligible for the exemption. All registration numbers issued in connection with a qualifying large data center would be revocable by the Comptroller upon determination that the requirements for qualification were not met, and each person whose registration number was revoked would be liable for taxes, including penalty and interest from the date of purchase, on purchases for which the person claimed exemption.

The Comptroller would be granted rulemaking authority to implement the new Section 151.3595.

The bill would have immediate effect if it receives a two-thirds vote of the membership of each house of the Legislature, otherwise it would take effect September 1, 2015.

Inasmuch as a data center meeting the single occupancy, capital investment, and jobs criteria to be a qualifying large data center project under the proposed new Section 151.3595 would surpass the criteria for certification as a qualifying data center under current Section 151.359, there would be no fiscal implication for the state before the fifteenth year after certification as a qualifying large data center project. From the fifteenth through the twentieth year after certification, there would be a reduction in state sales tax revenues due to a certification under 151.3595 relative to a certification under 151.359.

Also, certification under the proposed new Section 151.3595 would allow a qualifying data center to consist of more than one building, versus certification under current law which would require a separate qualifying data center certification for each building; it is probable that the sales tax exempt status of a large data center project that consists of more than one building would expire after 10 years rather than 20 if the capital investment were allocated among more than one certification under current law.

In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would exempt a qualifying data center from local sales and use taxes.

In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would not preclude the data center from entering an agreement to limit the appraised value of property under Chapter 313, Tax Code.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2015.

Local Government Impact

There would be a reduction in sales and use tax revenue to one or more units of local government, but the extent of the reduction cannot be determined.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 11, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2712 by Geren (relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated for several biennia. The bill could result in loss of sales tax revenue beginning 15 years after the date a data center is certified as a large data center project.

This bill would amend Chapter 151 of the Tax Code, to add new Section 151.3595 to provide for exemption from sales and use taxation of certain tangible personal property related to large data center projects.

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The bill would define a "qualifying operator," "qualifying owner," and "qualifying occupant," and provide that a data center may be certified by the Comptroller as a "qualifying large data center project" if, on or after June 1, 2015, a single qualifying occupant contracts to lease space from a qualifying owner or operator or occupies a space not previously used as a data center and the qualifying owner, operator, and occupant jointly or independently: a) create at least 40 full-time, permanent jobs that pay at least 120 percent of the county average weekly wage in the county in which the job is based; b) makes or agrees to make a capital investment, on or after May 1, 2015, of at least \$500 million in that particular large data center project over a five-year period; and c) will contract for at least 20 megawatts of transmission capacity for operations of the large data center project.

The bill would exempt from tax tangible personal property that is necessary and essential to the operation of a qualifying large data center if the property is purchased for installation at, incorporation into, or in the case of electricity for use in, a qualifying large data center if the tangible personal property is: electricity; an electrical system; a cooling system; an emergency generator; hardware or a distributed mainframe computer or server; a data storage device; network

connectivity equipment; a rack, cabinet, and raised floor system; a peripheral component or system; software; a mechanical, electrical, or plumbing system necessary to operate the foregoing property; any other item of equipment or system necessary to operate any of the foregoing, including a fixture; and a component part of any of the foregoing. Excluded from exemption would be: office equipment or supplies; maintenance or janitorial supplies or equipment; equipment or supplies used primarily in sales activities or in transportation activities; property for which a refund may be received under Section 151.429 (tax refunds for enterprise projects); tangible personal property not otherwise exempted that is incorporated into real estate or an improvement of real estate, tangible personal property that is rented or leased for a term of one year or less; or notwithstanding Section 151.3111, a taxable service that is performed on tangible personal property exempted under Section 151.3595.

The exemption would expire on the twentieth anniversary of the date a large data center was certified as qualifying by the Comptroller.

A registration number would have to be obtained from the Comptroller for each person eligible to claim the exemption and must be stated on the exemption certificate provided by the purchaser to the seller of tangible personal property eligible for the exemption. All registration numbers issued in connection with a qualifying large data center would be revocable by the Comptroller upon determination that the requirements for qualification were not met, and each person whose registration number was revoked would be liable for taxes, including penalty and interest from the date of purchase, on purchases for which the person claimed exemption.

The Comptroller would be granted rulemaking authority to implement the new Section 151.3595.

The bill would have immediate effect if it receives a two-thirds vote of the membership of each house of the Legislature, otherwise it would take effect September 1, 2015.

Inasmuch as a data center meeting the single occupancy, capital investment, and jobs criteria to be a qualifying large data center project under the proposed new Section 151.3595 would surpass the criteria for certification as a qualifying data center under current Section 151.359, there would be no fiscal implication for the state before the fifteenth year after certification as a qualifying large data center project. From the fifteenth through the twentieth year after certification, there would be a reduction in state sales tax revenues due to a certification under 151.3595 relative to a certification under 151.359.

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In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would not preclude the data center from entering an agreement to limit the appraised value of property under Chapter 313, Tax Code.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect

September 1, 2015.

Local Government Impact

There would be a reduction in sales and use tax revenue to one or more units of local government, but the extent of the reduction cannot be determined.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 23, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2712 by Geren (Relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.), **As Introduced**

No significant fiscal implication to the State is anticipated for several biennia. The bill could result in loss of sales tax revenue beginning 15 years after the date a data center is certified as a large data center project.

The bill would amend Chapter 151 of the Tax Code, to add new Section 151.3595 to provide for exemption from sales and use taxation of certain tangible personal property related to large data center projects.

"Large data center project" would mean at least 250,000 square feet of space in a building or series of buildings on a single parcel of land or contiguous parcels of land commonly owned or owned by affiliation with the operator, which space: is located in this state; is specifically constructed or refurbished and actually used primarily to house servers and related equipment and support staff for the processing, storage and distribution of data; is used by a single qualifying occupant for the processing, storage, and distribution of data; is not used primarily by a telecommunications provider to place tangible personal property that is used to deliver telecommunications services; and that meets other standards related to power supply, fire suppression, and physical security.

The bill would define a "qualifying operator," "qualifying owner," and "qualifying occupant," and provide that a data center may be certified by the Comptroller as a "qualifying large data center project" if, on or after June 1, 2015, a single qualifying occupant contracts to lease space from a qualifying owner or operator or occupies a space not previously used as a data center and the qualifying owner, operator, and occupant jointly or independently: a) create at least 40 full-time, permanent jobs that pay at least 120 percent of the county average weekly wage in the county in which the job is based; b) makes or agrees to make a capital investment, on or after May 1, 2015, of at least \$500 million in that particular large data center project over a five-year period; and c) will contract for at least 20 megawatts of transmission capacity for operations of the large data center project.

The bill would exempt from tax tangible personal property that is necessary and essential to the operation of a qualifying large data center if the property is purchased for installation at, incorporation into, or in the case of electricity for use in, a qualifying large data center if the tangible personal property is: electricity; an electrical system; a cooling system; an emergency generator; hardware or a distributed mainframe computer or server; a data storage device; network connectivity equipment; a rack, cabinet, and raised floor system; a peripheral component or

system; software; a mechanical, electrical, or plumbing system necessary to operate the foregoing property; any other item of equipment or system necessary to operate any of the foregoing, including a fixture; and a component part of any of the foregoing. Excluded from exemption would be: office equipment or supplies; maintenance or janitorial supplies or equipment; equipment or supplies used primarily in sales activities or in transportation activities; property for which a refund may be received under Section 151.429 (tax refunds for enterprise projects); tangible personal property not otherwise exempted that is incorporated into real estate or an improvement of real estate, tangible personal property that is rented or leased for a term of one year or less; or notwithstanding Section 151.3111, a taxable service that is performed on tangible personal property exempted under Section 151.3595.

The exemption would expire on the twentieth anniversary of the date a large data center was certified as qualifying by the Comptroller.

A registration number would have to be obtained from the Comptroller for each person eligible to claim the exemption and must be stated on the exemption certificate provided by the purchaser to the seller of tangible personal property eligible for the exemption. All registration numbers issued in connection with a qualifying large data center would be revocable by the Comptroller upon determination that the requirements for qualification were not met, and each person whose registration number was revoked would be liable for taxes, including penalty and interest from the date of purchase, on purchases for which the person claimed exemption.

The Comptroller would be granted rulemaking authority to implement the new Section 151.3595.

In as much as a data center meeting the single occupancy, capital investment, and jobs criteria to be a qualifying large data center project under the proposed new Section 151.3595 would surpass the criteria for certification as a qualifying data center under current Section 151.359, there would be no fiscal implication for the state before the fifteenth year after certification as a qualifying large data center project. From the fifteenth through the twentieth year after certification, there would be a reduction in state sales tax revenues due to a certification under 151.3595 relative to a certification under 151.359.

Also, certification under the proposed new Section 151.3595 would allow a qualifying data center to consist of more than one building, versus certification under current law which would require a separate qualifying data center certification for each building; it is probable that the sales tax exempt status of a large data center project that consists of more than one building would expire after 10 years rather than 20 if the capital investment were allocated among more than one certification under current law.

In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would exempt a qualifying data center from local sales and use taxes.

In contrast to a certification under current Section 151.359, certification under proposed new Section 151.3595 would not preclude the data center from entering an agreement to limit the appraised value of property under Chapter 313, Tax Code.

The bill would have immediate effect if it receives a two-thirds vote of the membership of each house of the Legislature, otherwise it would take effect September 1, 2015.

Local Government Impact

Under current law, the sales tax exemption for property used in certain data centers does not apply

to local sales and use taxes. The exemption proposed under the bill would apply to local sales and use taxes, thus there would be a revenue loss to local taxing jurisdictions.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD

LEGISLATIVE BUDGET BOARD
Austin, Texas

TAX/FEE EQUITY NOTE

84TH LEGISLATIVE REGULAR SESSION

April 10, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2712 by Geren (relating to the temporary exemption of certain tangible personal property related to large data center projects from the sales and use tax.), **Committee Report 1st House, Substituted**

No statistically significant impact on the overall distribution of a state tax or fee burden among individuals and businesses is anticipated from the provisions of this bill.

Source Agencies:

LBB Staff: UP, KK

LEGISLATIVE BUDGET BOARD
Austin, Texas

TAX/FEE EQUITY NOTE

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