

STATEMENT OF PURPOSE

RS27112

The purpose of this proposed legislation is to provide an exemption from sales and use tax for eligible server equipment and new plant investment in data centers, in order to encourage the location of such data centers in Idaho and allow the economic growth that is likely to result from such location. This legislation is necessary for Idaho to remain competitive with other states that offer similar exemptions in order to attract these businesses, which would foster growth in the technology sector and other businesses that support large commercial operations. Data centers are businesses that store and transmit electronic data to and from and behalf of users of the internet worldwide. The data centers act as a type of warehouse for computer server equipment, sometimes in very large numbers, which are the storage devices for the data. The servers are expensive, and because they use the latest technology they need to be replaced frequently – every three years according to the current pace of technological change. For this reason, it is impractical to impose a sunset on the legislation for the large data centers (over \$250 million), since the commitment to invest must account for the cost of replacement of the servers over the life of the investment. This proposed legislation does include a sunset for taxpayers owning smaller data centers, since their initial investment does not depend on the availability of the exemption for replacement property.

FISCAL NOTE

The fiscal impact of this bill is estimated at \$600,000 per year, \$531,000 of which would affect the General Fund. The impact assumes that 10 business entities would each invest \$1,000,000 in eligible server equipment per year. There is no fiscal impact for business entities qualifying after January 1, 2019 with investments of at least \$250 million. An investment that large could produce up to \$15 million in sales taxes. But at least 17 other states offer the sales tax exemption for server equipment, and if Idaho does not offer an equivalent exemption, these businesses will very likely locate in states other than Idaho that do provide the exemption. Accordingly, there is no loss of tax revenue from businesses that would not locate in Idaho without the exemption, and there is likely an increase in revenue from taxes related to the growth these businesses would promote.

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DISCLAIMER: This statement of purpose and fiscal note are a mere attachment to this bill and prepared by a proponent of the bill. It is neither intended as an expression of legislative intent nor intended for any use outside of the legislative process, including judicial review (Joint Rule 18).