

2020 Statement of Purpose for HB 521 (Data Sales Tax Break) from Reps Ehlers & Gannon
and Page 2 of Rev and Tax minutes February 26, 2020

STATEMENT OF PURPOSE

RS27371C2 / H0521

The purpose of this legislation is to encourage the construction and location of large-scale data centers in Idaho. The landscape for attracting data centers is extremely competitive across the United States. At least 30 states offer a sales tax exemption for server equipment. It is highly unlikely that a large-scale data center will locate in Idaho – or any state – without a sales tax exemption. This legislation would allow a sales and use tax exemption to data centers that commit to a capital expenditure of not less than two hundred and fifty million dollars (\$250,000,000) within five (5) years of commencement of construction and will create no less than thirty (30) jobs within two (2) years of commencing operations. If a data center fails to meet these two requirements, any sales and use tax exempted shall be repaid. This legislation also clarifies that data center server equipment is not included in the definition of "new construction" for property tax purposes. Data centers significantly add to the property tax base wherever they are built, and create jobs paying above the average local wage.

FISCAL NOTE

Passage of this legislation will have a positive impact on the general fund. Though this bill allows a sales and use tax exemption, this legislation is prospective and is intended to attract business investment not already present in the state of Idaho. Business investment of two hundred and fifty million dollars (\$250,000,000) or more will create new jobs, not only to directly support the data centers, but also in construction jobs and indirect jobs.

Contact:

Representative Greg Chaney
(208) 332-1000
Senator Jim Rice
(208) 332-1315

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).

Those speaking of in support of H 521 were **Lisa Holland**, Economic Development Director, City of Kuna; **Clark Krause**, Executive Director, Boise Valley Economic Partnership; **Alex LaBeau**, President, Idaho Association of Commerce and Industry; **Sean Schupack**, Director, Post Falls Associated General Contractors; and **Carolyn Merritt**, Idaho Chamber Alliance, that is comprised of 22 chambers across Idaho, who said before data centers can qualify, they would need to spend \$250 million and create thirty direct jobs, which would be a lot of jobs for small communities and be an economic benefit; it would be a good opportunity for rural and metro Idaho; it will help the tech sector all over the state; the legislation would foster \$100 million in new construction, which would help many Idaho households and families; data center companies are looking for communities in which to invest, providing local education for children, outfitting school buses with WIFI, wanting to provide grants for more classrooms and providing communication devices for non-verbal students and other benefits.

Rick Smith, Hawley Troxell, representing Facebook, spoke in support of H 521. He stated he would answer questions about the terms of the legislation, and in response to committee questions said data centers will provide a huge increase in the property tax base which will reduce levies for taxpayers; the legislation clarifies that data center equipment is not considered a part of new construction; the new property will not go onto tax rolls for the purpose of increasing local government budgets; local governments can assess impact fees on infrastructure costs and any demand on local services would be provided by local utility companies; everything would go on the tax rolls but none of the sales tax exempted new construction would go on new construction rolls; Facebook is committed to being environmentally responsible; and property tax will be assessed at 100% of the value.

Rep. Chaney closed by saying data centers diversify Idaho's portfolio. The trend is storage of more and more data, including social and political data, such as with iCloud.

Rep. Chaney responded to committee questions by saying the typical investment in a data center that would be exempt from sale tax is \$500 million; any portion of the profits attributable to data center operations in the state would be subject to income tax; and income tax would be paid on employees salaries.

MOTION:

Rep. Anderst made a motion to send H 521 to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Reps. Giddings, Nichols, Kiska and Necochea** requested to be recorded as voting **NAY**. **Rep. Chaney** will sponsor the bill on the floor.

H 553:

Senator Jim Rice stated H 553 deals with forest land taxation problems regarding reclassifying forest land without meeting certain standards for reliability in assessing those lands. He said timber is not like other things because trees take a number of years to harvest. Statutorily a number of changes in forest land classification and treatment were reversed out by a group of owners of forest land, assessors and the Idaho State Tax Commission who agreed on legislation that included changes in statute and a set of rules. However, having rules that deal with tax assessment and changing classifications in assessments can be problematic because changes to rules can have a substantive impact on tax rates and the taxation of the land. An assessment change can have the same impact as a fee rule change. So H 553 rolls the rules into statute, encapsulating all the process within statute.

In response to committee questions, **Senator Rice** replied a legislative group made up of assessors, the ISTC, industry representatives and forest land owners collaborated for the last 15 years on the legislation.