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HOUSE BILL NO. 2685

Offered January 16, 2025

A BILL to amend and reenact § 58.1-609.3 of the Code of Virginia, relating to retail sales and use tax; commercial and industrial exemptions; data centers.

Patron—Lovejoy

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-609.3 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-609.3. Commercial and industrial exemptions.

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Personal property purchased by a contractor which is used solely in another state or in a foreign country, which could be purchased by such contractor for such use free from sales tax in such other state or foreign country, and which is stored temporarily in Virginia pending shipment to such state or country.

2. (i) Industrial materials for future processing, manufacturing, refining, or conversion into articles of tangible personal property for resale where such industrial materials either enter into the production of or become a component part of the finished product; (ii) industrial materials that are coated upon or impregnated into the product at any stage of its being processed, manufactured, refined, or converted for resale; (iii) machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy, or supplies, used directly in processing, manufacturing, refining, mining or converting products for sale or resale; (iv) materials, containers, labels, sacks, cans, boxes, drums or bags for future use for packaging tangible personal property for shipment or sale; or (v) equipment, printing or supplies used directly to produce a publication described in subdivision 3 of § 58.1-609.6 whether it is ultimately sold at retail or for resale or distribution at no cost. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their use is directly in processing, manufacturing, refining, mining or converting products for sale or resale. The provisions of this subsection do not apply to the drilling or extraction of oil, gas, natural gas and coalbed methane gas. In addition, the exemption provided herein shall not be applicable to any machinery, tools, and equipment, or any other tangible personal property used by a public service corporation in the generation of electric power, except for raw materials that are inputs to production of electricity, including fuel, or for machinery, tools, and equipment used to generate energy derived from sunlight or wind. The exemption for machinery, tools, and equipment used to generate energy derived from sunlight or wind shall expire June 30, 2027.

3. Tangible personal property sold or leased to a public service corporation engaged in business as a common carrier of property or passengers by railway, for use or consumption by such common carrier directly in the rendition of its public service.

4. Ships or vessels, or repairs and alterations thereof, used or to be used exclusively or principally in interstate or foreign commerce; fuel and supplies for use or consumption aboard ships or vessels plying the high seas, either in intercoastal trade between ports in the Commonwealth and ports in other states of the United States or its territories or possessions, or in foreign commerce between ports in the Commonwealth and ports in foreign countries, when delivered directly to such ships or vessels; or tangible personal property used directly in the building, conversion or repair of the ships or vessels covered by this subdivision. This exemption shall include dredges, their supporting equipment, attendant vessels, and fuel and supplies for use or consumption aboard such vessels, provided the dredges are used exclusively or principally in interstate or foreign commerce.

5. Tangible personal property purchased for use or consumption directly and exclusively in basic research or research and development in the experimental or laboratory sense.

6. Notwithstanding the provisions of subdivision 20 of § 58.1-609.10, all tangible personal property sold or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing scheduled air service on a continuing basis to one or more Virginia airports at least one day per week, for use or consumption by such airline directly in the rendition of its common carrier service.

7. Meals furnished by restaurants or food service operators to employees as a part of wages.

8. Tangible personal property including machinery and tools, repair parts or replacements thereof, and supplies and materials used directly in maintaining and preparing textile products for rental or leasing by an industrial processor engaged in the commercial leasing or renting of laundered textile products.

9. Certified pollution control equipment and facilities as defined in § 58.1-3660, except for any equipment that has not been certified to the Department of Taxation by a state certifying authority or subdivision.

59 certifying authority pursuant to such section.

60 10. Parts, tires, meters and dispatch radios sold or leased to taxicab operators for use or consumption
61 directly in the rendition of their services.

62 11. High speed electrostatic duplicators or any other duplicators which have a printing capacity of 4,000
63 impressions or more per hour purchased or leased by persons engaged primarily in the printing or
64 photocopying of products for sale or resale.

65 12. From July 1, 1994, and ending July 1, 2024, raw materials, fuel, power, energy, supplies, machinery
66 or tools or repair parts therefor or replacements thereof, used directly in the drilling, extraction, or processing
67 of natural gas or oil and the reclamation of the well area. For the purposes of this section, the term "natural
68 gas" shall mean "gas," "natural gas," and "coalbed methane gas" as defined in § 45.2-1600. For the purposes
69 of this section, "drilling," "extraction," and "processing" shall include production, inspection, testing,
70 dewatering, dehydration, or distillation of raw natural gas into a usable condition consistent with commercial
71 practices, and the gathering and transportation of raw natural gas to a facility wherein the gas is converted
72 into such a usable condition. Machinery, tools and equipment, or repair parts therefor or replacements
73 thereof, shall be exempt if the preponderance of their use is directly in the drilling, extraction, refining, or
74 processing of natural gas or oil for sale or resale, or in well area reclamation activities required by state or
75 federal law.

76 13. Beginning July 1, 1997, (i) the sale, lease, use, storage, consumption, or distribution of an orbital or
77 suborbital space facility, space propulsion system, space vehicle, satellite, or space station of any kind
78 possessing space flight capability, including the components thereof, irrespective of whether such facility,
79 system, vehicle, satellite, or station is returned to this Commonwealth for subsequent use, storage or
80 consumption in any manner when used to conduct spaceport activities; (ii) the sale, lease, use, storage,
81 consumption or distribution of tangible personal property placed on or used aboard any orbital or suborbital
82 space facility, space propulsion system, space vehicle, satellite or space station of any kind, irrespective of
83 whether such tangible personal property is returned to this Commonwealth for subsequent use, storage or
84 consumption in any manner when used to conduct spaceport activities; (iii) fuels of such quality not adapted
85 for use in ordinary vehicles, being produced for, sold and exclusively used for space flight when used to
86 conduct spaceport activities; (iv) the sale, lease, use, storage, consumption or distribution of machinery and
87 equipment purchased, sold, leased, rented or used exclusively for spaceport activities and the sale of goods
88 and services provided to operate and maintain launch facilities, launch equipment, payload processing
89 facilities and payload processing equipment used to conduct spaceport activities.

90 For purposes of this subdivision, "spaceport activities" means activities directed or sponsored at a facility
91 owned, leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority.

92 The exemptions provided by this subdivision shall not be denied by reason of a failure, postponement or
93 cancellation of a launch of any orbital or suborbital space facility, space propulsion system, space vehicle,
94 satellite or space station of any kind or the destruction of any launch vehicle or any components thereof.

95 14. Semiconductor cleanrooms or equipment, fuel, power, energy, supplies, or other tangible personal
96 property used primarily in the integrated process of designing, developing, manufacturing, or testing a
97 semiconductor product, a semiconductor manufacturing process or subprocess, or semiconductor equipment
98 without regard to whether the property is actually contained in or used in a cleanroom environment, touches
99 the product, is used before or after production, or is affixed to or incorporated into real estate.

100 15. Semiconductor wafers for use or consumption by a semiconductor manufacturer.

101 16. Railroad rolling stock when sold or leased by the manufacturer thereof.

102 17. Computer equipment purchased or leased on or before June 30, 2011, used in data centers located in a
103 Virginia locality having an unemployment rate above 4.9 percent for the calendar quarter ending November
104 2007, for the processing, storage, retrieval, or communication of data, including but not limited to servers,
105 routers, connections, and other enabling hardware when part of a new investment of at least \$75 million in
106 such exempt property, when such investment results in the creation of at least 100 new jobs paying at least
107 twice the prevailing average wage in that locality, so long as such investment was made in accordance with a
108 memorandum of understanding with the Virginia Economic Development Partnership Authority entered into
109 or amended between January 1, 2008, and December 31, 2008. The exemption shall also apply to any such
110 computer equipment purchased or leased to upgrade, add to, or replace computer equipment purchased or
111 leased in the initial investment. The exemption shall not apply to any computer software sold separately from
112 the computer equipment, nor shall it apply to general building improvements or fixtures.

113 18. a. Beginning July 1, 2010, and ending June 30, 2035, except as provided in subdivision 19, computer
114 equipment or enabling software purchased or leased for the processing, storage, retrieval, or communication
115 of data, including but not limited to servers, routers, connections, and other enabling hardware, including
116 chillers and backup generators used or to be used in the operation of the equipment exempted in this
117 paragraph, provided that such computer equipment or enabling software is purchased or leased for use in a
118 data center, which includes any data center facilities located in the same locality as the data center that are
119 under common ownership or affiliation of the data center operator, that (i) is located in a Virginia locality; (ii)

120 results in a new capital investment on or after January 1, 2009, of at least \$150 million; and (iii) results in the
 121 creation on or after July 1, 2009, of at least 50 new jobs by the data center operator and the tenants of the data
 122 center, collectively, associated with the operation or maintenance of the data center provided that such jobs
 123 pay at least one and one-half times the prevailing average wage in that locality. The requirement of at least 50
 124 new jobs is reduced to 10 new jobs if the data center is located in a distressed locality at the time of the
 125 execution of a memorandum of understanding with the Virginia Economic Development Partnership
 126 Authority. Additionally, the requirement of a \$150 million capital investment shall be reduced to \$70 million
 127 for data centers that qualify for the reduced jobs requirement.

128 This exemption applies to the data center operator and the tenants of the data center if they collectively
 129 meet the requirements listed in this section. Prior to claiming such exemption, any qualifying person claiming
 130 the exemption, including a data center operator on behalf of itself and its tenants, must enter into a
 131 memorandum of understanding with the Virginia Economic Development Partnership Authority that at a
 132 minimum provides the details for determining the amount of capital investment made and the number of new
 133 jobs created, the timeline for achieving the capital investment and new job goals, the repayment obligations
 134 should those goals not be achieved, and any conditions under which repayment by the qualifying data center
 135 or data center tenant claiming the exemption may be required. In addition, the exemption shall apply to any
 136 such computer equipment or enabling software purchased or leased to upgrade, supplement, or replace
 137 computer equipment or enabling software purchased or leased in the initial investment. The exemption shall
 138 not apply to any other computer software otherwise taxable under Chapter 6 of Title 58.1 that is sold or
 139 leased separately from the computer equipment, nor shall it apply to general building improvements or other
 140 fixtures.

141 b. For purposes of this subdivision 18, "distressed locality" means:

142 (1) From July 1, 2021, until July 1, 2023, any locality that had (i) an annual unemployment rate for
 143 calendar year 2019 that was greater than the final statewide average unemployment rate for that calendar year
 144 and (ii) a poverty rate for calendar year 2019 that exceeded the statewide average poverty rate for that year;
 145 and

146 (2) From and after July 1, 2023, any locality that has (i) an annual unemployment rate for the most recent
 147 calendar year for which such data is available that is greater than the final statewide average unemployment
 148 rate for that calendar year and (ii) a poverty rate for the most recent calendar year for which such data is
 149 available that exceeds the statewide average poverty rate for that year.

150 c. For so long as a data center operator is claiming an exemption pursuant to this subdivision 18, such
 151 operator shall be required to submit an annual report to the Virginia Economic Development Partnership
 152 Authority on behalf of itself and, if applicable, its participating tenants that includes their employment levels,
 153 capital investments, average annual wages, qualifying expenses, and tax benefit, and such other information
 154 as the Virginia Economic Development Partnership Authority determines is relevant, pursuant to procedures
 155 developed by the Virginia Economic Development Partnership Authority. The annual report shall be
 156 submitted by the data center operator in a format prescribed by the Virginia Economic Development
 157 Partnership Authority. The Virginia Economic Development Partnership Authority shall share all information
 158 collected with the Department.

159 The Department, in collaboration with the Virginia Economic Development Partnership Authority, shall
 160 publish a biennial report on the exemption that shall include aggregate information on qualifying expenses
 161 claimed under this exemption, the total value of the tax benefit, a return on investment analysis that includes
 162 direct and indirect jobs created by data center investment, state and local tax revenues generated, and any
 163 other information the Department and the Virginia Economic Development Partnership Authority deem
 164 appropriate to demonstrate the costs and benefits of the exemption. The report shall not include, and the
 165 Department and the Virginia Economic Development Partnership Authority shall not publish or disclose, any
 166 such information if it is unaggregated or if such report or publication could be used to identify a business or
 167 individual. The Department shall submit the report to the Chairmen of the Senate Committee on Finance and
 168 Appropriations and the House Committees on Appropriations and Finance. The Virginia Economic
 169 Development Partnership Authority may publish on its website and distribute annual information indicating
 170 the job creation and ranges of capital investments made by a data center operator and, if applicable, its
 171 participating tenants, in a format to be developed in consultation with data center operators.

172 d. Beginning July 1, 2025, and ending July 1, 2030, the exemption pursuant to this subdivision 18 shall
 173 not apply to computer equipment or enabling software purchased or leased for use in a data center that is
 174 constructed after July 1, 2025, in Planning District 8.

175 19. a. Notwithstanding any provision of subdivision 18 to the contrary, the exemption set forth in
 176 subdivision 18 may be extended for the purchase or lease of computer equipment or enabling software by or
 177 on behalf of data center operators for use in data centers in the Commonwealth that are under common
 178 ownership or affiliation with the data center operator as set forth in this subdivision 19. For purposes of this
 179 subdivision 19, a data center operator shall be considered to own a data center if it is operated on behalf of
 180 the data center operator pursuant to a long-term lease of at least ten years.

181 b. To qualify for an extension pursuant to this subdivision 19, a data center operator shall enter into a

182 memorandum of understanding with the Virginia Economic Development Partnership Authority on or after
183 January 1, 2023, that at a minimum provides the details for determining the amount of capital investment
184 made and the number of new jobs created; the locality or localities in which the capital investment shall be
185 made and new jobs shall be created in order to qualify for the extension; and the timeline for making the
186 capital investment and creating the new jobs in each specified locality. A data center operator shall only be
187 required to enter into one memorandum of understanding pursuant to this subdivision 19 in order to qualify
188 for the extension pursuant to both subdivisions c and d.

189 c. If on or after January 1, 2023, but before July 1, 2035, a data center operator that has entered into a
190 memorandum of understanding pursuant to subdivision b (i) makes or causes to be made a capital investment
191 of at least \$35 billion in data centers in localities identified in a memorandum of understanding and (ii)
192 creates at least 1,000 new full-time jobs, as defined in § 59.1-284.42, at such data centers, of which at least
193 100 of such jobs shall pay at least one and one-half times the prevailing average wage in the Commonwealth,
194 the data center operator shall be eligible to continue to utilize the exemption set forth in subdivision 18
195 through June 30, 2040.

196 d. If on or after January 1, 2023, but before July 1, 2040, a data center operator that has entered into a
197 memorandum of understanding pursuant to subdivision b (i) makes a total capital investment of at least \$100
198 billion, inclusive of any investment made pursuant to subdivision c, in data centers in the localities identified
199 in such memorandum of understanding and (ii) creates a total of at least 2,500 new full-time jobs, as defined
200 in § 59.1-284.42, at such data centers, of which at least 100 of such jobs shall pay at least one and one-half
201 times the prevailing average wage in the Commonwealth, inclusive of any new full-time jobs created
202 pursuant to subdivision c, the data center operator shall be eligible to utilize the exemption set forth in
203 subdivision 18 through June 30, 2050.

204 e. The extension provided in this subdivision 19 shall apply to the computer equipment or enabling
205 software purchased or leased for use in the data centers subject to the capital investment and job requirements
206 set forth herein, as well as to any such computer equipment or enabling software purchased or leased to
207 upgrade, supplement, or replace computer equipment or enabling software purchased or leased in the initial
208 investment. The extension shall also apply to any computer equipment or software purchased or leased in
209 data centers under common ownership or affiliation with the data center operator for which the data center
210 operator entered into a memorandum of understanding with the Virginia Economic Development Partnership
211 Authority to qualify for the exemption set forth in subdivision 18.

212 f. The reporting requirements set forth in subdivision 18 shall continue to apply to a data center operator
213 for the duration of any extension granted pursuant to this subdivision 19.

214 20. If the preponderance of their use is in the manufacture of beer by a brewer licensed pursuant to
215 subdivision 3 or 4 of § 4.1-206.1, (i) machinery, tools, and equipment, or repair parts therefor or replacements
216 thereof, fuel, power, energy, or supplies; (ii) materials for future processing, manufacturing, or conversion
217 into beer where such materials either enter into the production of or become a component part of the beer;
218 and (iii) materials, including containers, labels, sacks, cans, bottles, kegs, boxes, drums, or bags for future
219 use, for packaging the beer for shipment or sale.

220 21. If the preponderance of their use is in advanced recycling, as defined in § 58.1-439.7, (i) machinery,
221 tools, and equipment, or repair parts therefor or replacements thereof, fuel, power, energy, or supplies; (ii)
222 materials for processing, manufacturing, or conversion for resale where such materials either are recycled or
223 recovered; and (iii) materials, including containers, labels, sacks, cans, boxes, drums, or bags used for
224 packaging recycled or recovered material for shipment or resale.