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1 **SENATE BILL NO. 465**

2 Offered January 14, 2026

3 Prefiled January 13, 2026

4 *A BILL to amend and reenact § 58.1-609.3 of the Code of Virginia, relating to sales and use tax exemption;*
5 *data centers.*

6 Patron—Deeds

7 Referred to Committee on Finance and Appropriations

8 **Be it enacted by the General Assembly of Virginia:**9 **1. That § 58.1-609.3 of the Code of Virginia is amended and reenacted as follows:**10 **§ 58.1-609.3. Commercial and industrial exemptions.**11 The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not
12 apply to the following:13 1. Personal property purchased by a contractor which is used solely in another state or in a foreign
14 country, which could be purchased by such contractor for such use free from sales tax in such other state or
15 foreign country, and which is stored temporarily in Virginia pending shipment to such state or country.16 2. (i) Industrial materials for future processing, manufacturing, refining, or conversion into articles of
17 tangible personal property for resale where such industrial materials either enter into the production of or
18 become a component part of the finished product; (ii) industrial materials that are coated upon or impregnated
19 into the product at any stage of its being processed, manufactured, refined, or converted for resale; (iii)
20 machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy, or supplies, used
21 directly in processing, manufacturing, refining, mining or converting products for sale or resale; (iv)
22 materials, containers, labels, sacks, cans, boxes, drums or bags for future use for packaging tangible personal
23 property for shipment or sale; or (v) equipment, printing or supplies used directly to produce a publication
24 described in subdivision 3 of § 58.1-609.6 whether it is ultimately sold at retail or for resale or distribution at
25 no cost. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if
26 the preponderance of their use is directly in processing, manufacturing, refining, mining or converting
27 products for sale or resale. The provisions of this subsection do not apply to the drilling or extraction of oil,
28 gas, natural gas and coalbed methane gas. In addition, the exemption provided herein shall not be applicable
29 to any machinery, tools, and equipment, or any other tangible personal property used by a public service
30 corporation in the generation of electric power, except for raw materials that are inputs to production of
31 electricity, including fuel, or for machinery, tools, and equipment used to generate energy derived from
32 sunlight or wind. The exemption for machinery, tools, and equipment used to generate energy derived from
33 sunlight or wind shall expire June 30, 2027.34 3. Tangible personal property sold or leased to a public service corporation engaged in business as a
35 common carrier of property or passengers by railway, for use or consumption by such common carrier
36 directly in the rendition of its public service.37 4. Ships or vessels, or repairs and alterations thereof, used or to be used exclusively or principally in
38 interstate or foreign commerce; fuel and supplies for use or consumption aboard ships or vessels plying the
39 high seas, either in intercoastal trade between ports in the Commonwealth and ports in other states of the
40 United States or its territories or possessions, or in foreign commerce between ports in the Commonwealth
41 and ports in foreign countries, when delivered directly to such ships or vessels; or tangible personal property
42 used directly in the building, conversion or repair of the ships or vessels covered by this subdivision. This
43 exemption shall include dredges, their supporting equipment, attendant vessels, and fuel and supplies for use
44 or consumption aboard such vessels, provided the dredges are used exclusively or principally in interstate or
45 foreign commerce.46 5. Tangible personal property purchased for use or consumption directly and exclusively in basic research
47 or research and development in the experimental or laboratory sense.48 6. Notwithstanding the provisions of subdivision 20 of § 58.1-609.10, all tangible personal property sold
49 or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing
50 scheduled air service on a continuing basis to one or more Virginia airports at least one day per week, for use
51 or consumption by such airline directly in the rendition of its common carrier service.

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

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

56 9. Certified pollution control equipment and facilities as defined in § 58.1-3660, except for any equipment

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59 that has not been certified to the Department of Taxation by a state certifying authority or subdivision
60 certifying authority pursuant to such section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

152 c. *Beginning July 1, 2026, no purchase or lease shall be exempt pursuant to this subdivision unless the*
 153 *data center operator demonstrates that (i) its facilities either have a power usage effectiveness (PUE) score*
 154 *of no greater than 1.2 or, for data centers co-located in buildings with other commercial uses that make up*
 155 *more than 20 percent of the square footage of the building, achieve an energy efficiency level of no less than*
 156 *the most efficient 15 percent of similar buildings constructed in the previous five years and (ii) by January 1,*
 157 *2028, (a) it will procure carbon-free renewable energy and associated renewable energy certificates from*
 158 *facilities located within the area of the transmission grid serving Virginia that are equal to 90 percent of its*
 159 *electricity requirements, measured on an hourly basis, or (b) its electricity will be otherwise derived from*
 160 *non-carbon-emitting, renewable sources. The Virginia Economic Development Partnership Authority shall*
 161 *establish guidelines for calculating the PUE score and determining analogous buildings for comparison*
 162 *pursuant to clause (i). In no case shall a qualifying data center use diesel fuel for onsite power generation*
 163 *after December 31, 2031.*

164 d. For so long as a data center operator is claiming an exemption pursuant to this subdivision 18, such
 165 operator shall be required to submit an annual report to the Virginia Economic Development Partnership
 166 Authority on behalf of itself and, if applicable, its participating tenants that includes their employment levels,
 167 capital investments, average annual wages, qualifying expenses, and tax benefit; *demonstration of their*
 168 *compliance with energy procurement and use requirements;* and such other information as the Virginia
 169 Economic Development Partnership Authority determines is relevant, pursuant to procedures developed by
 170 the Virginia Economic Development Partnership Authority. The annual report shall be submitted by the data
 171 center operator in a format prescribed by the Virginia Economic Development Partnership Authority. The
 172 Virginia Economic Development Partnership Authority shall share all information collected with the
 173 Department.

174 The Department, in collaboration with the Virginia Economic Development Partnership Authority, shall
 175 publish a biennial report on the exemption that shall include aggregate information on qualifying expenses
 176 claimed under this exemption, the total value of the tax benefit, a return on investment analysis that includes
 177 direct and indirect jobs created by data center investment, state and local tax revenues generated, and any
 178 other information the Department and the Virginia Economic Development Partnership Authority deem
 179 appropriate to demonstrate the costs and benefits of the exemption. The report shall not include, and the
 180 Department and the Virginia Economic Development Partnership Authority shall not publish or disclose, any
 181 such information if it is unaggregated or if such report or publication could be used to identify a business or
 182 individual. The Department shall submit the report to the Chairmen of the Senate Committee on Finance and

183 Appropriations and the House Committees on Appropriations and Finance. The Virginia Economic
184 Development Partnership Authority may publish on its website and distribute annual information indicating
185 the job creation and ranges of capital investments made by a data center operator and, if applicable, its
186 participating tenants, in a format to be developed in consultation with data center operators.

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

193 b. To qualify for an extension pursuant to this subdivision 19, a data center operator shall enter into a
194 memorandum of understanding with the Virginia Economic Development Partnership Authority on or after
195 January 1, 2023, that at a minimum provides the details for determining the amount of capital investment
196 made and the number of new jobs created; the locality or localities in which the capital investment shall be
197 made and new jobs shall be created in order to qualify for the extension; and the timeline for making the
198 capital investment and creating the new jobs in each specified locality. *Such memorandum of understanding*
199 *shall include the data center operator's method of demonstrating compliance with energy procurement and*
200 *use requirements described in subdivision 18.* A data center operator shall only be required to enter into one
201 memorandum of understanding pursuant to this subdivision 19 in order to qualify for the extension pursuant
202 to both subdivisions c and d.

203 c. If on or after January 1, 2023, but before July 1, 2035, a data center operator that has entered into a
204 memorandum of understanding pursuant to subdivision b (i) makes or causes to be made a capital investment
205 of at least \$35 billion in data centers in localities identified in a memorandum of understanding and (ii) creates
206 at least 1,000 new full-time jobs, as defined in § 59.1-284.42, at such data centers, of which at least
207 100 of such jobs shall pay at least one and one-half times the prevailing average wage in the Commonwealth,
208 the data center operator shall be eligible to continue to utilize the exemption set forth in subdivision 18
209 through June 30, 2040.

210 d. If on or after January 1, 2023, but before July 1, 2040, a data center operator that has entered into a
211 memorandum of understanding pursuant to subdivision b (i) makes a total capital investment of at least \$100
212 billion, inclusive of any investment made pursuant to subdivision c, in data centers in the localities identified
213 in such memorandum of understanding and (ii) creates a total of at least 2,500 new full-time jobs, as defined
214 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
215 times the prevailing average wage in the Commonwealth, inclusive of any new full-time jobs created
216 pursuant to subdivision c, the data center operator shall be eligible to utilize the exemption set forth in
217 subdivision 18 through June 30, 2050.

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

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

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

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