

# MINNESOTA • REVENUE

## SALES AND USE TAX Data Center Exemption

May 3, 2011

### *Preliminary Analysis*

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 1531 (Mazorol) As Proposed to be Amended (H1531A1)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>
	(000's)			
General Fund (6.5%)	(\$9,500)	(\$7,600)	(\$6,400)	(\$8,100)
Natural Resources and Arts Funds (.375%)	<u>(\$550)</u>	<u>(\$440)</u>	<u>(\$370)</u>	<u>(\$470)</u>
Total - All Funds	(\$10,050)	(\$8,040)	(\$6,770)	(\$8,570)

Effective for sales and purchases made after June 30, 2011.

### **EXPLANATION OF THE BILL**

This bill **as proposed to be amended** creates two sales tax exemptions that apply to a qualified data center that is constructed or substantially refurbished after June 30, 2011. One exemption would be for materials and supplies used or consumed in, and enterprise information technology equipment and computer software incorporated into, the construction, improvement, or expansion of a qualified data center. The other exemption would be for purchases of computer software and enterprise information technology equipment to replace or upgrade equipment and software in a qualified data center. Electricity used or consumed in the operation of a qualified data center would also be exempted.

A qualified data center means a facility comprised of one or more related buildings, consisting in aggregate of at least 30,000 square feet. If the square footage of the data center is less than 30,000 square feet but greater than 10,000 square feet, the investment in equipment and software must be at least \$10 million within a 24 month period of the first qualifying purchase. For the determining the amount the square footage, the following spaces shall be included if the spaces support the operation of enterprise information technology equipment: office space, meeting space, and mechanical and other support facilities. A qualified data center must be constructed or substantially refurbished after June 30<sup>th</sup>, 2011. Substantially refurbished means that for data centers qualifying with the 30,000 square feet criteria, 30,000 must be rebuilt or modified. If the data center is less than 30,000 square feet, at least 10,000 square feet must be rebuilt or modified.

The facility must also have the following characteristics: uninterruptible power supplies, generator backup power, or both; sophisticated fire suppression and prevention systems; and enhanced security.

Enterprise information technology equipment means computers and equipment supporting computing, networking, or data storage, including servers and routers. It includes, but is not limited to: temperature control systems, power infrastructure, power distribution, backup power systems, cabling, and cable trays.

## **REVENUE ANALYSIS DETAIL**

- The number of qualified data centers is based on information from the Department of Employment and Economic Development (DEED).
- DEED has indicated that there are as many as 18 projects in various stages of site selection, design, and permitting.
- DEED has provided data on the projected costs to build and equip the data centers.
- Construction costs are assumed to be 50% materials and 50% labor.
- This estimate assumes that each qualified data center will have about \$2 million in replacement equipment costs per year.
- The cost of power for data centers is based on 2010 BizCosts from Boyd and Company.
- The annual power cost is inflated using the February 2011 GII forecast.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)