MINNESOTA · REVENUE

SALES AND USE TAX
Data Center Exemption

March 28, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 868 (Schmit) / H.F. 1431 (Mahoney)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund	$0	($4,100)	($6,200)	($6,300)
Natural Resources and Arts Funds	$0	($230)	($360)	($360)
Total – All Funds	$0	($4,330)	($6,560)	($6,660)

Effective for purchases made after June 30, 2013.

EXPLANATION OF THE BILL

Currently, a qualified data center is eligible for a refund of all sales and use tax paid on enterprise information technology equipment and computer software. Also, all electricity used or consumed in the operation of a qualified data center is exempt.

The bill makes several changes to the definition of a qualified data center. The size of the data center is reduced from 30,000 to 25,000 square feet and the investment requirement is reduced from a $50 million investment in 24-months to a $20 million investment in 48 months. The definition of substantially refurbished would be changed to include installation of enterprise information technology equipment, computer software, environmental control and energy efficiency improvements and building improvements. The square footage that must be refurbished is reduced from 30,000 to 25,000 square feet. Computer software includes, but is not limited to, expenditures related to and software utilized or loaded at the qualified data center, including maintenance, licensing, and software customization.

REVENUE ANALYSIS DETAIL

- The Department of Employment and Economic Development (DEED) indicates that there are several data center projects that are in various stages of development in Minnesota that would not meet the current qualification criteria but would be able to meet the proposed requirements.
- These projects average about 84,000 square feet in size and $51 million in total project costs.
- DEED estimates that 60% of the total initial investment in a data center is enterprise information technology equipment. The average amount of sales tax that would be refunded per project is estimated to be about $2.1 million.

REVENUE ANALYSIS DETAIL (Cont.)

- The average data center is assumed to consume about $500,000 in electricity per year.
- This estimate assumes that two data centers will qualify for the equipment refund and power exemption in fiscal year 2015 and three data centers will qualify each year in fiscal years 2016 and 2017.
- The revenue losses from this bill will be ongoing as refurbished data centers meet the qualification requirements and previously qualified centers replace equipment.
- The addition of computer software to activities that count as refurbishment potentially makes it easier for existing data centers to qualify for this provision.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

sf0868(hf1431)_1/pja