



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

January 9, 2014

Exemptions Extended for Certain Purchases by Eligible Data Centers

Eligible data centers that begin construction after March 31, 2012, and before July 1, 2015, may qualify for a sales or use tax exemption on purchases of server equipment, power infrastructure and the labor to install them. The exemption also applies to purchases of eligible replacement server equipment put into regular use before April 1, 2020.

Eligible tenants of these data centers also may qualify for the sales and use tax exemptions.

Originally, these exemptions applied to eligible data centers that began construction between March 31, 2010, and July 1, 2011. For these centers to qualify for the exemption on replacement servers, the servers must be installed and put to use before April 1, 2018. (See RCW 82.08.986 and 82.12.986.)

What is the exemption?

It is a sales or use tax exemption provided to owners or qualifying tenants of an eligible computer data center on purchases of:

- Eligible server equipment installed, without intervening use, in an eligible computer data center, and the labor and services required to install it.
- Eligible power infrastructure and the labor and services required to construct, install, repair, alter, or improve it.

What is an eligible data center?

An eligible data center is one that:

- Is located in a [rural county](#) as defined in RCW 82.14.370;
- Has at least twenty thousand square feet of space newly dedicated to housing working servers;
- Was or will be constructed:
 - After March 31, 2010, and before July 1, 2011; or
 - After March 31, 2012, and before July 1, 2015.

What does it mean to begin construction?

Construction on a data center begins the day that a building permit is issued (under the building code adopted in RCW 19.27.031) for:

- A new computer data center.
- The expansion, renovation, or other improvements of an existing facility, even if the space is leased or rented.

It does not include soil testing, site clearing and grading, site preparation, or related activities that occur before the building permit is issued.

Who is a qualifying tenant?

A qualifying tenant is a business:

- Existing for the primary purpose of engaging in commercial activity for profit, and
- Leasing space from a qualifying business within an eligible computer data center.

The following are not qualifying tenants:

- State or federal government or any of their departments, agencies, and institutions
- Tribal governments
- Political subdivisions of this state
- Municipal, quasi-municipal, public, or other corporation created by the state or federal government, tribal government, municipality, or political subdivision of the state.
- A business leasing space in an eligible computer data center constructed after March 31, 2010, and before July 1, 2011, if the lessee and lessor are affiliated and:
 - That space will be used by the lessee to house server equipment that replaces server equipment previously installed and operated in that eligible computer data center by the lessor or another person affiliated with the lessee; or
 - Prior to May 2, 2012, the primary use of the server equipment installed in that eligible computer data center was to provide electronic data storage and data management services for the business purposes of the lessor, persons affiliated with the lessor, or both.

Being affiliated means that one person (business entity, etc.) has a direct or indirect ownership interest of at least twenty percent in another person.

What is server equipment?

Server equipment is computer hardware located in an eligible computer data center used exclusively to provide electronic data storage and data management services for:

- The owner or lessee of the computer data center.
- For clients of the owner or lessee of the computer data center.

It also includes computer software necessary to operate the computer hardware.

It *does not* include:

- Personal computers.
- The racks upon which the server equipment is installed.
- Computer peripherals such as keyboards, monitors, printers, and mice.

What is *eligible server equipment*?

Eligible server equipment means:

- ***For data centers constructed after March 31, 2010, and before July 1, 2011***

- The original server equipment installed in the eligible computer data center on or after April 1, 2010, and replacement server equipment.

“Replacement server equipment” means server equipment that:

- Replaces existing server equipment, if the sale or use of the existing equipment qualified for an exemption under this section or RCW 82.12.986; and
- Is installed and put into regular use before April 1, 2018.

- ***For data centers constructed after March 31, 2012, and before July 1, 2015***

- The original server equipment installed in an eligible computer data center on or after April 1, 2012, and replacement server equipment.

“Replacement server equipment” means server equipment that:

- Replaces existing server equipment, if the sale or use of the existing equipment qualified for an exemption under this section or RCW 82.12.986; and
- Is installed and put into regular use before April 1, 2020.

What is eligible power infrastructure?

Eligible power infrastructure is the fixtures and equipment owned by a qualifying data center or qualifying tenant necessary to transform, distribute or manage the electricity needed to operate eligible server equipment.

This includes generators, wiring, cogeneration equipment, and associated fixtures; electrical switches and batteries; and distribution, testing, and monitoring equipment.

How do I claim the sales tax exemption?

To claim the exemption a business must submit an [Application for Sales Tax Exemption for Purchases by Data Centers](#) to the Department of Revenue (Department). The Department will issue a *Certificate for Sales Tax Exemption for Purchases by Data Centers* to qualifying businesses.

The qualifying business must present this exemption certificate to the seller who must keep a copy for their files.

What are the reporting requirements?

A business claiming this exemption must electronically file an *Annual Tax Incentive Report* with the Department. The annual report is due by April 30th of the year following the calendar year in which the company claims the sales tax exemption.

If the report is not filed, the Department will consider the tax for the preceding calendar year to be immediately due and payable. For more information, see RCW 82.32.534.

What are the hiring requirements for a business with a tax exempt certificate?

Within six years of the issue date on the Department's *Certificate for Sales Tax Exemption for Purchases by Data Centers*, the qualifying data center must establish that net employment has increased by a minimum of:

- Thirty-five family wage employment positions; or
- Three family wage employment positions for each twenty thousand square feet of space or less that is newly dedicated to housing working servers at the eligible computer data center.

For qualifying tenants, the increase of family wage jobs is based only on the space occupied by the qualifying tenant.

Businesses that do not meet the hiring requirements will immediately owe any exempted sales or use tax.

For more information, regarding family wage positions and calculating the net increase in employment positions, see RCW 82.08.986.

Who does not qualify for this exemption?

A business is not eligible for this exemption if it, or any person affiliated with it, benefits at any time from the deferral program under chapter 82.60 RCW.

Being affiliated means that one person (business entity, etc.) has a direct or indirect ownership interest of at least twenty percent in another person.

If we determine a business is not eligible for exemptions taken under RCW 82.08.986, the business must repay any sales or use tax exempted under this program plus interest.

For more information

You'll find more information under *Rural County Incentives* on our [Tax Incentives](#) web page at <http://dor.wa.gov>.

If you have questions, call our Telephone Information Center at 1-800-647-7706.