

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 31, 2023

BILL NUMBER: HB 1600 STATUS AND DATE OF BILL: Engrossed 03/6/2023

AUTHORS: House: Martinez Senate: Montgomery

TAX TYPE (S): Sales SUBJECT: Exemption

PROPOSAL: Amendatory

The measure amends 68 O.S. § 1359, defines relevant terms and proposes to exempt from the sales tax levy, the sale of machinery and equipment including but not limited to servers and computers, racks, power distribution units, cabling, switchgear, transformers, substations, software, network equipment, and electricity used for commercial mining of digital assets¹ in a colocation facility², beginning on November 1, 2023 and ending December 31, 2038.

EFFECTIVE DATE: November 1, 2023

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 23: Sections 1-3 \$520,000 decrease in state sales tax revenues.

FY 24: Sections 1-3 \$910,000 decrease in state sales tax revenues

Mar. 31, 2023

DATE

Rick Miller

DIVISION DIRECTOR

msm

3/31/2023

DATE

Huan Gong

HUAN GONG, ECONOMIST

3/31/2023

DATE

Joseph P Gappa

FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.

¹ "Commercial mining of digital assets" means the process through which blockchain technology is used to mine digital assets at a colocation facility.

² "Colocation facility" means a facility or facilities, totaling not less than fifty thousand (50,000) square feet, located in this state and utilized in the commercial mining of digital assets or in hosting persons engaged in the commercial mining of digital assets through utilization of the facility's infrastructure, including servers and network hardware powered by internet bandwidth, electricity, and other services generally required for mining operations. Provided, no facility shall qualify as a "colocation facility" unless the facility has entered into a load reduction agreement with its retail electric supplier

ATTACHMENT TO REVENUE IMPACT - HB 1600 - [Engrossed] - Prepared 03/31/2023

The measure amends 68 O.S. § 1359, defines relevant terms and proposes to exempt from the sales tax levy, the sale of machinery and equipment including but not limited to servers and computers, racks, power distribution units, cabling, switchgear, transformers, substations, software, network equipment, and electricity used for commercial mining of digital assets³ in a colocation facility⁴, beginning on November 1, 2023 and ending December 31, 2038.

Presently, sales of machinery and equipment purchased and used by persons and establishments primarily engaged in computer services and data processing as defined under Industrial Group Number 7374⁵ of the SIC Manual⁶, latest version, which derive at least eighty percent (80%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer are exempt from sales tax. 68 O.S. § 1357(21)(b).

The activities of the facilities described in the measure fall within the parameters of the referenced classification number and should they meet the qualification requirements their purchases of machinery and equipment outlined in the measure would be exempt from sales tax pursuant to paragraph 21 of Section 1357.⁷ The only transaction identified in the measure not covered by the existing sales tax exemption would be purchases of electricity. Currently, there are eleven exempt entities that have been granted this exemption and three of these entities are involved in the mining of digital assets.

One identified establishment that could be eligible for the proposed sales tax exemption, has estimated state sales tax attributable to the purchase of electricity used for commercial mining of digital assets of \$210,000 for FY 22. Calculated with an inflation rate adjustment of 3.9% for FY 23, results in an estimated \$218,190 in state sales tax which when multiplied by four yields an estimated \$872,760. The measure proposes an effective date of November 1, 2023. Taking into account the effective date along with application of inflation rate adjustments of 2.2% for FY 24, and 2% for FY 25 results in an estimated decrease of \$520,310 in state sales tax revenues for FY 24⁸, and an estimated decrease of \$909,800 in state sales tax revenues for FY 25.

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⁵ Corresponding North American Industry Classification System code of 518210.

⁶ Computer Processing and Data Preparation and Processing Services - Establishments primarily engaged in providing computer processing and data preparation services. The service may consist of complete processing and preparation of reports from data supplied by the customer or a specialized service, such as data entry or making data processing equipment available on an hourly or time-sharing basis.

⁷ Eligibility for the exemption set out in this paragraph shall be established, subject to review by the Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and such information as required by the Tax Commission. For purposes of determining whether annual gross revenues are derived from sales to out-of-state buyers or consumers, all sales to the federal government shall be considered to be to an out-of-state buyer or consumer.

⁸ Seven months of state sales tax collections.