

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: March 7, 2024

BILL NUMBER: HB 4000 **STATUS AND DATE OF BILL:** Engrossed 3/7/2024

AUTHORS: House: Fetgatter Senate: Coleman

TAX TYPE(S): Sales Tax **SUBJECT:** Exemption

PROPOSAL: Amendatory

HB 4000 amends 68 O.S. § 1359, which 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, 2024, and ending December 31, 2038.

EFFECTIVE DATE: November 1, 2024

REVENUE IMPACT:

This impact was developed through the use of industry expenditure information and data from Oklahoma Tax Commission files and records.

FY 25: An estimated decrease of \$405,000 in state sales tax revenue.

FY 26: An estimated decrease of \$709,000 in state sales tax revenue.

1/29/24

DATE

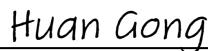


MARIE SCHUBLE, DIVISION DIRECTOR

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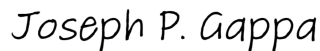
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HUAN GONG, ECONOMIST

1/30/2024

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.

CURRENT LAW:

Under current law, 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 7374³ of the SIC Manual⁴, latest version, which derive at least 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 the purchases of machinery and equipment outlined in the measure would be exempt from sales tax pursuant to paragraph 21 of Section 1357.⁵ The only transaction identified in the measure not covered by the existing sales tax exemption would be purchases of electricity. Currently, there are 11 exempt entities that have been granted this exemption and 3 of these entities are involved in the mining of digital assets.

PROPOSED AMENDMENTS:

HB 4000 amends 68 O.S. § 1359, which 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 assets in a colocation facility, beginning on November 1, 2024, and ending December 31, 2038.

ANTICIPATED IMPACT:

One identified establishment that could be eligible for the proposed sales tax exemption has an estimated state sales tax attributable to the purchase of electricity used for commercial mining of digital assets of \$221,392 for FY 23. Adjustments for inflation⁶ results in an estimated \$231,467 in state sales tax for FY 25 and \$236,327 for FY 26. Assuming the 3 entities currently involved in the mining of digital assets in Oklahoma are allowed to exempt the purchase of electricity as a result of the exemption proposed in this measure, results in an estimated \$694,400 decrease in state sales tax revenue for FY 25 and \$708,982 for FY 26. Calculated with an effective date of November 1, 2024, results in estimated decrease of \$405,067 in state sales tax revenue for FY 25⁷, and an estimated decrease of \$708,982 in state sales tax revenue for FY 26.

³ Corresponding North American Industry Classification System code of 518210.

⁴ 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.

⁵ 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.

⁶ Inflation rates: 2.3% for 2024, 2.2% for 2025 and 2.1% for 2026

⁷ Seven months of sales tax collections in FY 25.