

The Effects of the Sales and Use Tax Exemption For Qualifying Data Processing Services Center’s Purchases and Rentals

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Eighth Edition

**2010, W.S. 39-15-105(a)(viii)(S) and W.S. 39-16-105(a)(viii)(H),
as amended**

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Overview

In the Wyoming Legislature 2010 Session Original House Bill No. 67 (Enrolled Act No. 31) was passed and signed by Governor Freudenthal into law on March 5, 2010. This act relates to taxation and revenue and provides for a sales and use tax exemption for the purchases and rentals of qualifying computer equipment including computers, servers, monitors, keyboards, storage devices and other peripherals, racking systems, cabling and trays that are necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars in any calendar year. The act provides for a reporting requirement and an effective date. This law took effect upon signature.

Subsequently House Bill No. 117 (Enrolled Act No. 17) was passed and signed by Governor Mead on February 18, 2011. This had the effect of amending and expanding the first Act. As it now reads, subject to meeting the applicable provisions of the exemption, the following purchases by a data processing services center (as defined in W.S. 39-15-101(a)(xliv)) are exempt:

(I) The sales price paid for the purchase or rental of qualifying prewritten and other computer software, computer equipment including computers, servers, monitors, keyboards, storage devices, containers used to transport and house such computer equipment and other peripherals, racking systems, cabling and trays that are necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars (\$2,000,000.00) in any calendar year;

(II) The sales price paid for the purchase or rental of qualifying uninterruptable power supplies, back-up power generators, specialized heating and air conditioning equipment and air quality control equipment used for controlling the computer environment necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars (\$2,000,000.00) in any calendar year;

This exemption is located within the “economic incentive” group of sales and use tax exemptions in the Wyoming statutes. [W.S. 39-15-105(a)(viii) and W.S. 39-16-105(a)(viii)] In order to avail themselves of the exemption a qualifying data processing services center must meet certain requirements.

In addition to having a physical location in the state where the qualifying equipment will be maintained and operated (until it is scheduled for replacement or until it has reached the end of its serviceable life) for Subparagraph (I) the qualifying data processing services center must make, or have made within the five years immediately preceding March 5, 2010, an initial capital investment of not less than five million dollars (\$5,000,000) and for Subparagraph (II) the qualifying data processing services center must make, or have made within the five years immediately preceding April 1, 2011, an initial capital investment of not less than fifty million dollars (\$50,000,000). Furthermore the data processing services center must have received certification from the Wyoming Business Council that the business has created or will create a number of jobs in Wyoming that is appropriate to the size and stage of development of the data processing services center as determined by the Wyoming Business Council.

Specific Requirements by Statute

Wyo. Stat. Ann. § 39-15-105(b)

“The Wyoming business council, the department of workforce services and the department of revenue shall jointly report to the joint revenue interim committee on or before December 1 of each year that the exemption is in effect. If requested by the department of revenue, any person utilizing the exemption shall report to the department the amount of sales tax exempted, and the number of jobs created or impacted by the utilization of the exemption.”

This report is to evaluate the cumulative effects of the exemption from initiation of the exemption and shall include:

- (i) A history of employment in terms of the numbers of employees, full-time and part time employees, and rate of turnover classified by the 2007 edition, as amended, of the North American Industry Classification System (NAICS) code manufacturing section 31 – 33 from information collected by the Department of Employment;
- (ii) A history of wages and benefits disaggregated by gender for each job category; and
- (iii) A comprehensive history of taxes paid to the state of Wyoming.

Findings

This year represents the eighth year the Department of Revenue has requested information from companies potentially utilizing the exemption. A cover letter attached to the return instructed the respondents that once completed, the information could be mailed, faxed or emailed back to the Department of Revenue’s Excise Tax Division. All of the respondents replied electronically.

For the calendar year ending December 2019, the Department reached out to eight entities that have been identified as data processing service centers in this State. This is one more than last year. Of those, the Department received responses from three. Of the three companies, two made sufficient purchases to utilize the exemption under part (I) but only one made sufficient purchases to trigger part (II).

Exemption Cost

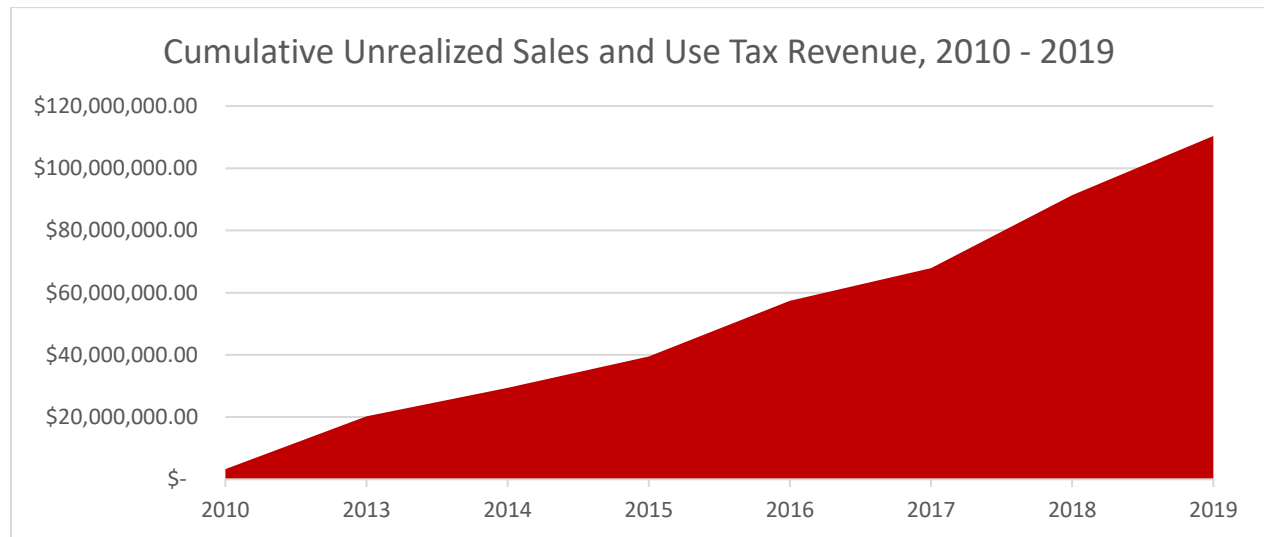
Companies claiming exemption on qualifying prewritten and other computer software, computer equipment including computers, servers, monitors, keyboards, storage devices, containers used to transport and house such computer equipment and other peripherals, racking systems, cabling and trays reported \$194M in exempt purchases in 2019. In addition \$160.4M in qualifying uninterruptable power supplies, back-up power generators, specialized heating and air conditioning equipment and air quality control equipment used for controlling the computer environment necessary for the operation of a data processing services center was made in 2019. Applying the statewide average tax rate for 2019, of 5.37% results in \$19.04M in unrealized sales and use tax in 2019. This amount reflects a decrease in the amount of exempt purchases from 2018

and represents 17.2% of the exemption’s total usage since its inception in 2010. Table 1 describes the total purchases and unrealized tax for each year. Table 2 graphically represents the cumulative effect of the exemption.

Table 1: Exempt Purchases and Unrealized Tax Revenue, 2010 - 2019

	Qualifying Exemption (I)	Qualifying Exemption (II)	Total Exempt Purchases	Unrealized Sales and Use Tax
2Q10 – 2Q13	\$ 22,260,014.00	\$ 40,845,160.00	\$ 63,105,174.00	\$ 3,319,332.15
3Q2013 – Yr End	\$ 277,488,171.00	\$ 38,647,960.00	\$ 316,136,131.00	\$ 16,976,510.23
2014	\$ 162,583,622.00	\$ 6,836,331.00	\$ 169,419,953.00	\$ 9,080,909.48
2015	\$ 181,946,836.00	\$ 5,904,642.00	\$ 187,851,478.00	\$ 10,106,409.52
2016	\$ 319,517,743.00	\$ 12,123,508.00	\$ 331,641,251.00	\$ 17,908,627.55
2017	\$ 195,682,743.00	\$ -	\$ 195,682,743.00	\$ 10,488,595.02
2018	\$ 423,514,743.00	\$ 11,903,520.00	\$ 435,418,263.00	\$ 23,469,044.38
2019	\$ 194,099,133.27	\$ 160,458,586.00	\$ 354,557,719.27	\$ 19,039,749.52
Total	\$1,777,093,005.27	\$ 276,719,707.00	\$2,053,812,712.27	\$ 110,389,177.86

Table 2: Cumulative Unrealized Sales and Use Tax Revenue, 2010 - 2019



Employment

The total reported employee count is 225. This is an additional 5 positions over last year, of which 3 are new supervisor/manager labor positions. By occupational classification, skilled laborers and unskilled laborers make up the largest percentage of the workforce, accounting for 38%, or 86 positions in 2019 for both classifications. Combined skilled and unskilled laborers made up 76% of the workforce in 2019. Since 2013, skilled and unskilled workers have made up between 72 and 83% of the total workforce. Skilled labor shows a decrease of five positions to 86 positions while

unskilled labor showed a slight increase to 86 positions, an increase of 1 position from 2018. The second largest occupational classification is supervisor/manager. In 2019, full and part time supervisor/manager filled 30 positions making up 13% of the workforce. Table 3 details the distribution of the workforce by occupational classification. Table 4 expresses this information as a percentage of the workforce.

Table 3: Workforce Distribution by Occupational Classification 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019
Supervisor / Manager	11	18	20	28	25	27	30
Administrative Svcs	20	4	3	3	2	2	4
Customer Svc	2	2	2	11	13	15	19
Skilled Labor	45	33	55	72	91	91	86
Unskilled Labor	38	49	64	95	66	85	86

Table 4: Workforce Distribution as a Percentage of Workforce, 2013 – 2019

	2013	2014	2015	2016	2017	2018	2019
Supervisor / Manager	9.5%	17.0%	13.9%	13.4%	12.7%	12.3%	13%
Administrative Svcs	17.2%	3.8%	2.1%	1.4%	1.0%	0.9%	2%
Customer Svc	1.7%	1.9%	1.4%	5.3%	6.6%	6.8%	8%
Skilled Labor	38.8%	31.1%	38.2%	34.4%	46.2%	41.4%	38%
Unskilled Labor	32.8%	46.2%	44.4%	45.5%	33.5%	38.6%	38%

In 2015 women occupied 9% of the workforce which has increased slowly overtime where women now occupy 11.6% of the workforce. By occupational classification in 2019 this breaks down to 2 administrative positions, 2 customer service positions, 6 positions as skilled labor and 16 unskilled labor. Historically women have not held any managerial/supervisory positions since 2016. Since 2013, women held between 3 to 7 unskilled labor positions. However, in 2019 the amount of women in unskilled labor positions increased to 16. For the first time since 2014, men filled 2 positions in administrative support in 2019. Table 5 details the workforce distribution by occupational classification and gender from 2013 – 2019.

Table 5: Workforce Distribution by Occupational Classification and Gender, 2013 – 2019

	2013		2014		2015		2016		2017		2018		2019	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Supervisor / Manager	10	1	16	2	17	3	25	3	25	0	27	0	30	0
Administrative Svcs	16	4	0	4	0	3	0	3	0	2	0	2	2	2
Customer Svc	2	0	2	0	2	0	8	3	12	1	12	3	17	2
Skilled Labor	40	5	30	3	53	2	69	3	79	12	75	16	80	6
Unskilled Labor	35	3	44	5	59	5	88	7	63	3	85	0	70	16
Total	103	13	92	14	131	13	190	19	179	18	199	21	199	26
Percentage	88.8%	11.2%	86.8%	13.2%	91.0%	9.0%	90.9%	9.1%	90.9%	9.1%	90.5%	9.5%	88.4%	11.6%

Wage Earnings

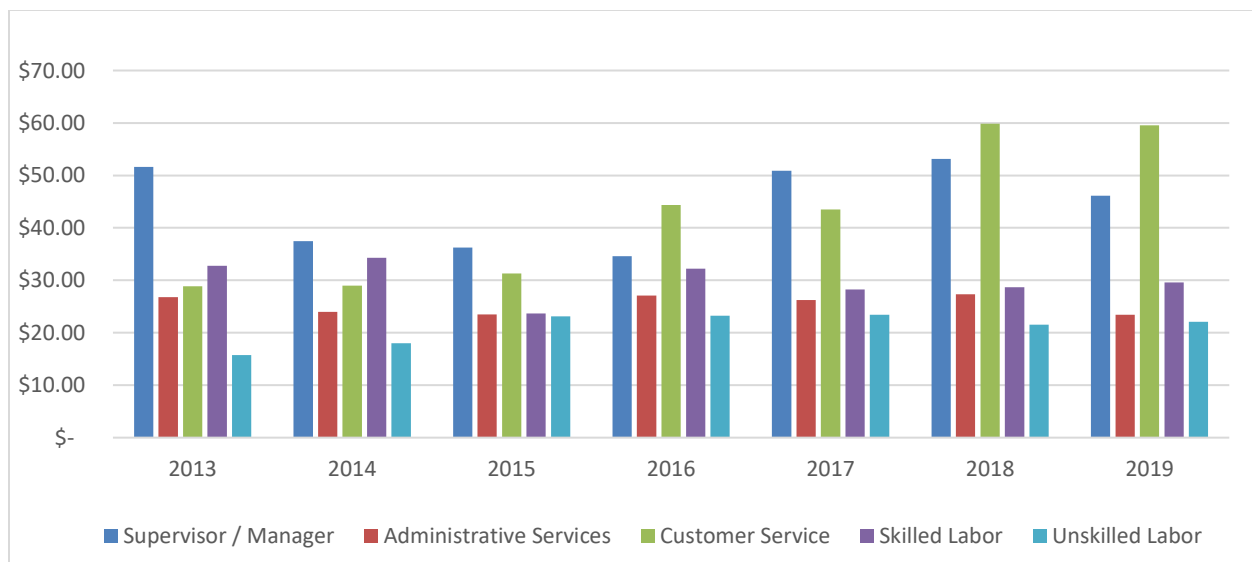
Between 2013 and 2019 wages have been inconsistent. For example supervisor/managers earned an hourly wage of \$51.61 in 2013. This dipped to \$34.60 by 2016. However by 2018 it had recovered to \$53.14, and decreased in 2019 to \$46.11. Similarly administrative positions saw a similar dip, beginning at \$26.81 in 2013, dropping to a low of \$23.41 in 2019. In contrast unskilled labor positions earned an hourly wage of \$15.72 in 2013 and saw a high of \$23.45 in 2017 before dropping back down to \$22.09 in 2019. Customer service positions saw the most change, beginning 2013 at \$28.88/hour and increasing every year, with a small drop to \$59.54 in 2019. Table 6 details the average hourly wage per occupational classification and per year.

Table 6: Average Wage per Occupational Classification, 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019
Supervisor / Manager	\$ 51.61	\$ 37.49	\$ 36.23	\$ 34.60	\$ 50.88	\$ 53.14	\$ 46.11
Administrative Services	\$ 26.81	\$ 23.99	\$ 23.48	\$ 27.10	\$ 26.23	\$ 27.32	\$ 23.41
Customer Service	\$ 28.88	\$ 29.00	\$ 31.30	\$ 44.37	\$ 43.51	\$ 59.87	\$ 59.54
Skilled Labor	\$ 32.74	\$ 34.28	\$ 23.68	\$ 32.20	\$ 28.27	\$ 28.70	\$ 29.62
Unskilled Labor	\$ 15.72	\$ 17.99	\$ 23.13	\$ 23.23	\$ 23.45	\$ 21.53	\$ 22.09

Table 7 graphically represents the average hourly wage per occupational classification, per year. It may be important to note that the average hourly wage earned by customer service positions is higher than that earned by supervisor/managers.

Table 7: Average Wage by Occupational Classification, 2013 - 2019



Looking at gender, men and women frequently do not hold similar positions. Men have exclusively held supervisory or managerial positions since 2017. Similarly women have held a majority of administrative positions since 2014. Customer service positions, originally held only by men, only saw the addition of women starting in 2016. The two employment classifications that have had the most consistent employment by both genders is skilled and unskilled labor. Table 8 depicts the wage difference for skilled labor and Table 9 depicts the same for unskilled labor.

Table 8: Average Wage for Skilled Labor Positions, year over year, by Gender

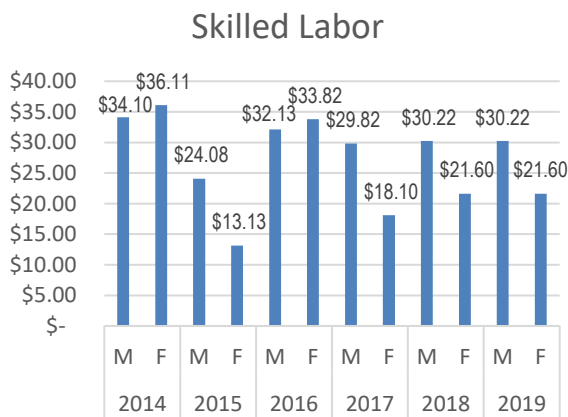
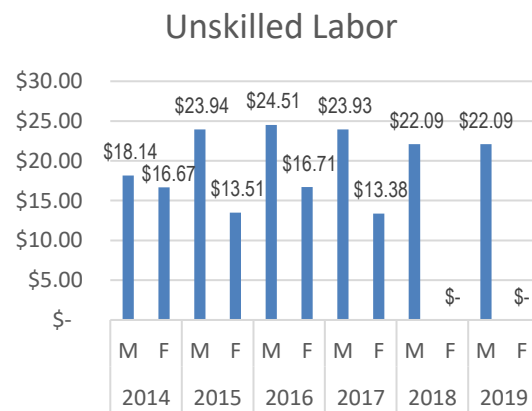


Table 9: Average Wage for Unskilled Labor Positions, year over year, by Gender



Survey respondents report similar if not slightly higher wages than the statewide average. In 2019, the Wyoming Department of Workforce Services (“DWS”) reported persons in managerial positions earned an average of \$46.29/hour while survey responses indicated an average of \$46.11/hour. Similarly DWS reported skilled laborers earned an average wage of \$30.54 whereas survey responses indicated a wage of \$30.22/hour. DWS reported unskilled labor at \$21.53/hour and the survey responses indicated \$22.09 per hour. While this has remained relatively constant throughout the period, we would be remiss if we did not point out the exceptional difference for those in administrative or customer service positions. DWS reported persons in these positions earned an average of \$18.34 and \$16.43 respectively. Survey responses indicates those in administrative positions earned \$19.50/hour and customer service positions earned \$59.54/hour. Unfortunately it is unclear if the occupational classification as reported by DWS and that of survey responses are of similar duties and responsibilities.¹ Table 10, on page 8, demonstrates the average annual wage per responses versus the Wyoming average.

¹ Wyoming Occupational Employment and Wages March 2019 as reported by the Wyoming Department of Workforce Services’, Research and Planning Section (<https://doe.state.wy.us/LMI/LEWISMarch2019ECI/toc000.htm>) retrieved 09/28/2020.

Table 10: Average Annual Wage per Occupational Classification as reported by Survey Responses compared to Average Statewide Wage for Similar Occupational Classification

		2013	2014	2015	2016	2017	2018	2019
Managerial 11-3021	Response	\$ 51.61	\$ 37.49	\$ 36.23	\$ 34.60	\$ 50.88	\$ 53.14	\$ 46.11
	WY Average	\$ 39.83	\$ 40.05	\$ 40.24	\$ 42.52	\$ 42.71	\$ 45.29	\$ 46.29
Administrative 43-3031	Response	\$ 26.81	\$ 23.99	\$ 23.48	\$ 27.10	\$ 26.23	\$ 27.32	\$ 19.50
	WY Average	\$ 16.81	\$ 17.31	\$ 17.37	\$ 17.44	\$ 17.94	\$ 18.34	\$ 18.34
Customer Service 43-4051	Response	\$ 28.88	\$ 29.00	\$ 31.30	\$ 44.37	\$ 43.51	\$ 59.87	\$ 59.54
	WY Average	\$ 13.13	\$ 13.52	\$ 13.80	\$ 14.32	\$ 15.03	\$ 15.73	\$ 16.43
Skilled Labor 15-0000	Response	\$ 32.74	\$ 34.28	\$ 23.68	\$ 32.20	\$ 28.27	\$ 28.70	\$ 30.22
	WY Average	\$ 27.19	\$ 27.34	\$ 27.71	\$ 28.43	\$ 28.52	\$ 29.48	\$ 30.54
Unskilled Labor 49-2011	Response	\$ 15.72	\$ 17.99	\$ 23.13	\$ 23.23	\$ 23.45	\$ 21.53	\$ 22.09
	WY Average	\$ 19.42	\$ 18.96	\$ 18.43	\$ 17.48	\$ 18.53	\$ 20.21	\$ 21.53

Benefits

Consistent with every year surveyed, all companies employing in this field reported a full benefits package including medical and dental insurance, a prescription plan, a vision plan. A retirement savings plans for full time employees was offered by 66.7% of respondents. Part time employees did not receive any benefit package.

Turnover

In 2019, like the year before, respondents reported no turnover in administrative positions. However, customer service positions reported 20% turnover while skilled labor reported a .90% turnover rate and unskilled labor 10.7% turnover rate. Unlike the previous year managerial positions had no turnover reported. The Department of Workforce Services has not published turnover information for 2019 as of the writing of this report, therefore turnover rates for respondents compared to that of Wyoming turnover rates are not available.

Survey Costs

Due to the limited number of businesses contacted for this report, the cost to mail was nominal. As a result, the primary expense associated with this report is the time spent following up with the respondents and reviewing and analyzing the data received as well as the preparation of this report. The Department estimates office personnel expended 40 to 50 hours over the course of several weeks on this endeavor.

Wyoming Business Council Regional Project Assessment System (RPAS) Manufacturing sales tax incentive economic analysis

The Department of Revenue requested this information from the Wyoming Business Council. The following information was received in regard to this request:

“Previous year's reports included results of an additional economic model, RPAS. To simplify and clarify reporting, all outputs including economic and revenue outcomes have been calculated using the REMI model.” - Wyoming Business Council, October 28, 2020

REMI Analyses: Economic Impacts

[Please note the following narrative below references the economic impacts of three separate sales and use tax exemptions. For clarity and ease of reading we have taken the liberty of removing those comments not specifically related to the Sales and Use Tax exemption for qualifying data processing services center's purchases and rentals.]

The analyses of the economic impacts of the sales and use tax exemptions for (1) purchases of machinery and machine tools used directly and predominantly in manufacturing, for (2) purchases and rentals of qualifying computer equipment necessary for the operation of a data processing center, for (3) the sales/purchases of tangible personal property or services performed for the repair, assemble, alteration, or improvement of railroad rolling stock, and for (4) purchases of equipment by a telecommunications service provider, video programming service provider, or provider of internet access used to provide broadband internet service was prepared using the Regional Economic Models, Inc. (REMI) PI+ model. REMI PI+ is the next generation Policy Insight model built exclusively for Wyoming. It is an integrated model that combines the best features of the input-output, general equilibrium, econometric, and economic geography methodologies. PI+ is also a dynamic rather than a static model allowing for year-by-year analysis of the total regional effects of any specific policy.

Table 2: Economic Impact of **Sales & Use Tax Exemption Removal** for Data Centers

Category (Change from Baseline)	2020	2021	2022	2023	2024	Average 2020-2030
Total Employment - Jobs	-39	-47	-53	-56	-58	-56
Information	-5	-7	-8	-9	-10	-9
Finance & Insurance	-2	-3	-3	-3	-4	-3
Retail Trade	-7	-7	-8	-8	-8	-8
Construction	-7	-8	-8	-8	-7	-6
All Other	-19	-23	-26	-28	-30	-29
Population - Individuals	-22	-31	-39	-46	-52	-54
Wages and Salaries	-\$2.2	-\$2.4	-\$2.6	-\$2.7	-\$2.8	-\$2.8
Personal Income	-\$4.1	-\$4.3	-\$4.6	-\$4.9	-\$5.1	-\$5.2
Disposable Personal Income	-\$3.7	-\$4.0	-\$4.2	-\$4.5	-\$4.7	-\$4.7
Gross Domestic Product	-\$4.0	-\$5.1	-\$5.9	-\$6.4	-\$6.8	-\$6.7
Output	-\$6.4	-\$8.1	-\$9.2	-\$10.0	-\$10.6	-\$10.3
Sales & Use Tax Revenue	-\$0.09	-\$0.10	-\$0.11	-\$0.12	-\$0.13	-\$0.13
Property Tax Revenue	-\$0.03	-\$0.03	-\$0.04	-\$0.04	-\$0.05	-\$0.05
<i>Note: All dollar amounts are expressed as millions of fixed (2018) dollars.</i>						

The economic impact of the **removal of the sales tax exemption** for purchases and rentals of qualifying computer equipment necessary for the operation of a data processing center was modeled in REMI as an increase in the production costs for the data center industry of \$15.0 million per year beginning in 2019 (see Table 2). This exemption removal would result in an average annual loss of 56 jobs and a decrease in GDP of \$6.7 million per year over the period of 2020 to 2030 when compared to the baseline scenario.

The information, finance & insurance, retail trade, and construction sectors will incur the majority of the job losses. Direct job losses are attributed to information, finance & insurance, and construction sectors while the retail trade sector will be adversely impacted from the decline in disposable personal income.

KEY DEFINITIONS

Total Employment comprises estimates of the number of non-farm jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Includes direct, indirect, and induced jobs.

Population reflects mid-year estimates of people, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

Wages and Salaries are the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips, and bonuses; voluntary employee contributions to certain deferred compensation plans, such as 401(k) plans; and receipts in kind that represent income. Wages and salaries disbursements are affected by changes in Wage Rate and Employment.

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

Disposable Personal Income equals personal income minus personal taxes.

Gross Domestic Product or **GDP** is the market value of goods and services produced by labor and property. It is often referred to as "value added" and is equal to its gross output (sales or receipts and other operating income, plus inventory change) minus its intermediate inputs (consumption of goods and services purchased from other industries or imported).

Output is the amount of production, including all intermediate goods purchased as well as value-added (compensation and profit). Output can also be thought of as sales or supply or simply price multiplied by quantity ($P \times Q$).

ABOUT THE REMI PI+ MODEL

The REMI PI+ model incorporates aspects of four major modeling approaches: **Input-Output**, **General Equilibrium**, **Econometric**, and **Economic Geography**. Each of these methodologies has distinct advantages as well as limitations when used alone. The REMI integrated modeling approach builds on the strengths of each of these approaches.

The REMI model at its core has the inter-industry relationships found in **Input-Output models**. As a result, the industry structure of a particular region is captured within the model, as well as transactions between industries. Changes that affect industry sectors that are highly interconnected to the rest of the economy will often have a greater economic impact than those for industries that are not closely linked to the regional economy.

General Equilibrium is reached when supply and demand are balanced. This tends to occur in the long run, as prices, production, consumption, imports, exports, and other changes occur to stabilize the economic system. For example, if real wages in a region rise relative to the U.S., this will tend to attract economic migrants to the region until relative real wage rates equalize. The general equilibrium properties are necessary to evaluate changes such as tax policies that may have an effect on regional prices and competitiveness.

REMI is sometimes called an "**Econometric model**," as the underlying equations and responses are estimated using advanced statistical techniques. The estimates are used to quantify the structural relationships in the model. The speed of economic responses is also estimated, since

different adjustment periods will result in different policy recommendations and even different economic outcomes.

The **New Economic Geography** features represent the spatial dimension of the economy. Transportation costs and accessibility are important economic determinants of interregional trade and the productivity benefits that occur due to industry clustering and labor market access. Firms benefit having access to a large, specialized labor pool and from having access to specialized intermediate inputs from supplying firms. The productivity and competitiveness benefits of labor and industry concentrations are called agglomeration economies, and are modeled in the economic geography equations.

The primary national, state, and county data source for REMI PI+ is the Bureau of Economic Analysis (BEA) State Personal Income (SPI) and Local Area Personal Income (LAPI) series (which also include employment and total population at both the state and county level). REMI also relies on numerous other data sources including the Bureau of Labor Statistics, Energy Information Administration, Center for Disease Control and Prevention, National Center for Health Statistics, and the Department of Defense. *Source: remi.com.*

