



# MEMO

Tax Policy and Research Division

Date: February 18, 2023

To: Rick Miller, Director *RGM*  
Tax Policy & Research Division

From: Marc Morrison  
Tax Policy Analyst

Subject: SB 750 PCS

This is in response to your request for a revenue impact for the Proposed Committee Substitute for SB 750 which proposes to amend 68 O.S. 1359 by defining relevant terms and exempting 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<sup>1</sup> in a colocation facility<sup>2</sup>, beginning on November 1, 2023 and ending December 31, 2039.

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 7374<sup>3</sup> of the SIC Manual<sup>4</sup>, 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

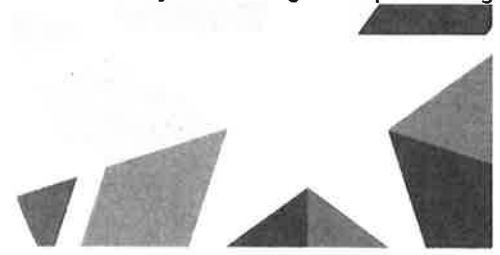
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<sup>1</sup> "Commercial mining of digital assets" means the process through which blockchain technology is used to mine digital assets at a colocation facility.

<sup>2</sup> "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.

<sup>3</sup> Corresponding North American Industry Classification System code of 518210.

<sup>4</sup> 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.



tax pursuant to paragraph 21 of Section 1357.<sup>5</sup> 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 of 3.9% for FY 23, results in an estimated \$218,190 in state sales tax when multiplied by four yields an estimated \$872,760 in state sales tax. 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 24<sup>6</sup>, and an estimated decrease of \$909,800 in state sales tax revenues for FY 25.

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<sup>5</sup> 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.

<sup>6</sup> Seven months of state sales tax collections.