

Property tax confusion pokes Facebook in Oregon

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(AP) -- The promise of lucrative tax breaks helped persuade Facebook to build a data center in one of Oregon's most economically depressed counties. Now, the state and the company are in a dispute over how much Facebook may owe in property taxes, and the social networking giant fears it could be taxed on intangible assets like the value of its powerful brand.

Facebook has said the state's action has the potential to rewrite an economic development deal it cut with Crook County, but not even state tax officials seem to know for sure whether the company is overreacting or it's truly facing a tax surprise.

[Facebook](#) chose Prineville in central Oregon as the site of its first company-owned data center, where a collection of servers stores and transmits photos, links and [status updates](#) for many of the social networking service's 800 million users. The facility employs 55 people and expansion plans are already in the works.

Such "[server farms](#)" are popping up around the world to facilitate a voracious appetite for high-bandwidth applications like streaming video and cloud-based computing.

Facebook chose Prineville based in part on the tax breaks, but also because of the cool and dry high-desert climate that helps reduce the amount of energy needed to cool rows of humming computers.

The company this week announced plans to build its first data center outside the U.S. in Sweden near the Arctic Circle. It's also expanding a facility in North Carolina. [Google](#) Inc. last month opened a data center in Oklahoma, and Microsoft Corp. recently announced it will expand a facility in Iowa.

Many of the projects have benefited from [tax incentives](#) offered by [local governments](#) eager to lure high-paying jobs.

Officials in Crook County, where unemployment reached a high of 18.7 percent in June 2009 and still sits above 15 percent, hoped Facebook's decision to build in Prineville would help incubate a new industry for a region decimated economically by the decline of Oregon's timber industry.

Under its agreement with local officials, Facebook built its data center in a rural enterprise zone, allowing the Palo Alto, Calif., company to pay property taxes only on its land, not on its buildings and other assets, for 15 years.

Confusion arose when the state Department of Revenue asserted that Facebook is a utility company because it's involved in the communications business, and its taxes should therefore be assessed by the state under a different section of the tax code.

Oregon lumps Facebook with 75 other corporations classified as cable and Internet companies. Many of them are television and Internet access providers, but the list includes technology companies including Google, Microsoft, Yahoo Inc. and AOL Inc.

State officials say their decision doesn't change Facebook's tax bill - about \$26,000 this year - and the money still goes to local governments in Crook County. But Facebook is concerned that the state will someday

try to tax the company based on the value of its intangible assets, perhaps including computer files, patents, its labor force and goodwill.

The company says state tax officials sent a letter in August saying, in part, that Oregon law requires the Department of Revenue "to assess any property, real and personal, tangible or intangible."

Investments this year have pegged Facebook's total value at as much as \$50 billion. Tax officials say the company's Oregon property taxes are calculated based only on the share of its business that is tied to the state.

Last week, tax authorities told the Bend Bulletin newspaper that Facebook would be taxed on \$25 million in assets, leading to an annual property tax bill of \$390,000. The next day, authorities said they made a mistake and backtracked, pegging Facebook's taxes at \$26,000 on \$1 million in assets.

After a public kerfuffle last week, Facebook and state officials have tightened their lips. They say they're researching the complicated tax laws involved and won't have more to say until they wade through them.

"We are looking forward to receiving further clarification as to the Department of Revenue's policies, so that the data center industry in Central Oregon can move forward," Facebook said in a statement.

The dispute has concerned Roger Lee, director of Economic Development for Central Oregon, who said murkiness surrounding taxation makes companies nervous.

"Companies want some type of certainty to be able to proceed in whatever they're doing," Lee said. "This provides a great deal of uncertainty and ambiguity."

People involved say it's unclear what a final agreement might look like, but it could involve new legislation next year, a definitive legal opinion from the state Department of Justice, or litigation in [tax](#) court. The dispute has risen to the governor's office, where aides have tried to intervene.

"We are researching the issues to be able to provide clarity to all parties," said Tim Raphael, a spokesman for Gov. John Kitzhaber.

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