Data Center Incentives, Economic Impacts, and Tax Revenues

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Policy Issues

01 How are state and local data center incentives evolving?

02 What are data center fiscal costs and benefits?

03 How much development is attributable to incentives?

Virginia Data Center Incentives

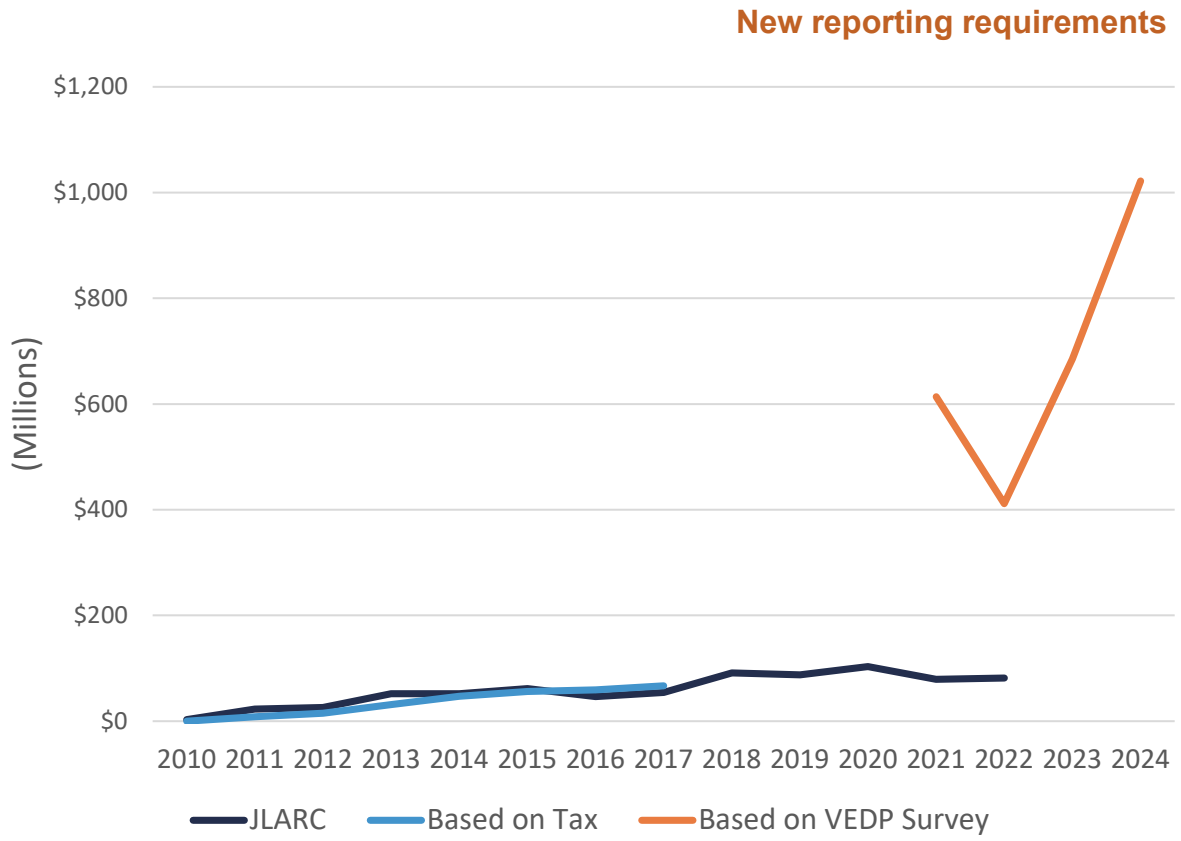
Program	Description
Sales and Use Tax Exemption (2010) (§58.1-609. 3(18))	Exempts qualifying data centers and tenants meeting investment, employment, and wage criteria from sales and use tax on data-processing, storage, retrieval, and communications equipment.
Data Center Single Sales Factor Apportionment (2017) § 58.1-422.2	Allows eligible multistate corporations investing at least $150 million in a data center to use single-sales-factor apportionment to reduce tax liability.
Local Property Tax Abatements (2018) (§ 58.1-3506(A)(43), § 58.1-3506(B)), § 58.1-3295.3)	Allows localities to apply preferential tax rates and valuation methods to computers and peripherals used in data centers.
Data Centers (Cloud Computing) Exemption (2023) (§58.1-609. 3(19)) and Cloud Computing Cluster Infrastructure Grant Fund (Amazon Web Services) (§59.1-284.41 § 58.1-609.3)	Sales and use tax exemption and grants for qualifying data center operators meeting investment, job-creation, and average-pay requirements. Extended exemption to 2040 (from 2023 baseline) for qualifying data centers.
Other Major Economic Incentive Grant and Tax Credits	TROF, COF, site development grants, and tax credits (at least $17M in FY2010–FY2017).

Data Centers Sales and Use Exemption Milestones

Program	Year of Adoption	Major Features
Narrow exemption (§ 58.1-609.3)	2008	Required 100 new jobs at 2× local average wage, at least $75M investment, and local unemployment above 4.9%. Covered specified data-processing, storage, retrieval, and communications purchases through June 30, 2011.
Broad exemption	2010	Expanded eligibility statewide: 50 new jobs at 1.5× local average wage and at least $150M investment; added wiring, generators, chillers, and similar items. Sunset: June 30, 2020.
Co-locating Firms Added	2012	Data center tenants could count toward the employment threshold.
Sunset date changed	2016	Moved sunset to June 30, 2035; allowed transferred employees to count toward job requirements for investments of at least $500M.
Distressed locality thresholds changed and reporting required	2021	Lowered the job threshold to 10 and capital investment threshold to $70M for distressed localities with unemployment and poverty rates above the state average. Required beneficiary reporting and biennial VEDP/TAX reports.

Direct Sales and Use Exemption Tax Revenue Reduction Estimates

- Early TAX and JLARC estimates based on VEDP data center qualification data
- VEDP survey began in FY2021 based on statutory change
  - Estimates were substantially higher by order of 5-10
- Earlier estimates relied on qualification data and substantially understated actual investment activity after firms qualified for the exemption.
  - Qualification data included minimum investment thresholds reached to qualify for the exemption
  - Once data center firm qualified in county, subsequent investments are not captured.



Source: Weldon Cooper Center analysis of TAX and VEDP data along with own estimates

Locality Revenue (Real and Business Personal Property) Impacts and Benefits

Locality	Published Amount
Loudoun	$1.2 billion, FY2026
Fairfax	$110.6 million, TY2026
Prince Wiliam	$465.9 million, TY2025

Henrico. The county says its affordable housing trust will receive $60 million over five years (earmarked allocation) from data center real estate taxes

Mecklenburg. Its FY2025-26 budget describes a “data center dividend” with approximately $1.5 million in resident and business tax reductions.

Selected Locality Data Center Tax Rate Abatements

Virginia localities are increasingly competing for data-center investment by combining:

- preferential equipment tax rates;
- favorable depreciation schedules;
- long-term contractual protections; and
- other project-specific assistance.

Locality	Data Center Equipment Rate ($ per $100)	General Tangible Personal Property Rate ($ per $100)	Comments
Chesterfield	$0.24	$3.25	
Fredericksburg Region	$1.25	$3.25-$5.72	Adopted in FY2020 (Fredericksburg, Caroline, King George, Spotsylvania, and Stafford)—PD 16
Hanover	$0.45	$3.57	
Henrico	$2.60	$3.35	Rate was reduced to $0.40 for Facebook/Meta project in 2017 and raised again to $2.60 in 2025
Lonesome Pines RIFA	$0.24	$1.79 to $2.05	Dickenson, Lee, Norton, Scott, and Wise. Accelerated depreciation schedule too.
Louisa	$1.25	$1.90	

Data Center Location Factors

- Availability and cost of electrical power
- Geography, forces of nature and climate
- Communications infrastructure, including network latency
- Labor availability and quality of life
- Real estate and construction costs
- Taxes, regulations, and incentives
- Location of customers and other data centers

Source: Fogarty and Flucker (2023); Baudry (2021)

Methods and Results for Data Center Incentives

- **General Incentive Literature suggests only a small portion of incentives influence firm location decisions.**
  - Bartik (2018) literature review and analysis. 2-25%
  - JLARC (2017) survey. Approximately 30%
- **Data Center incentive effects are generally found to be higher-30-50%**
  - Tax Foundation's Location Matter. Sales and use exemption is most important incentive. If data center equipment is exposed to sales tax, it dramatically drives up firm's tax costs.

Method	Typical Result from Research Literature
Interviews	100%
Cost/Elasticity Models	~100%
Quasi-experimental statistical analyses	30%-50%

Does the Data Center Exemption Matter?

Rephann, Ferreira, and Scheffel. Forthcoming. Understanding Data Center Location Decisions: Evidence on the Role of State Tax Incentives. *State and Local Government Review*

- Study of U.S. state sales and tax exemptions for data centers
- 2010-2024 period
- Quasi-experimental statistical analysis

Estimated average impact.

- Average increase: 267,716 sq. ft. of data center construction annually.
- Equivalent to approximately one additional 250,000 square foot facility per year.
- Average annual construction in adopting states: 533,578

Approximately 50% of observed square footage development is attributable to the incentive over 2010-2024 period.

Why the effect is relatively large

- Data centers require substantial equipment investment
- Sales-tax exemptions reduce costs on some of the largest project expenditures.

Why Future Effects May be Smaller

Evidence of Diminishing Effects

- **Competitive Dynamics**
  - Early-adopting states appear to have experienced larger effects
  - As incentives became common across states, their competitive advantage declined
- **Infrastructure and Other Constraints.**
  - Electric generation, transmission capacity, and site readiness increasingly influence location decisions
  - Tax incentives alone may be less effective when infrastructure and community acceptance become the binding constraints.

Implications for Revenue and Economic Impact Analysis

- Historical impacts should not automatically be assumed for future projects
- Future economic and fiscal returns may be lower than past returns if incentive effectiveness continues to decline
- Evaluation should consider both the estimated 50% but-for-effect and the possibility of diminishing marginal impacts over time

Economic Impact Results

Results Include:

- Spending and employment associated with data centers and their supply chain (i.e., multiplier) effects.
- Assumption about % of activity incentivized.

Results do not include (evidence limited for time frame):

- Other industrial attraction effects (i.e., firms attracted to state because of data centers).
- Productivity effects.
- Electricity price or capacity limitation effects.

	JLARC Annual Report (2024)	What if 50% of Activity Incentivized?
Year	FY2023	FY2023
Jobs	66,085 (approximately 15% operations-related and 85% construction and equipment-related)	33,042
GDP	$7.7 B	$3.9 B
Tax Revenue	$370M (state only) vs. tax expenditure of $685M	$185M
% Activity incentivized	100%	50%

Source: Weldon Cooper Center analysis of VEDP data center survey data

Conclusions

1. Sales tax exemption costs appear considerably larger than earlier estimates suggested.

2. Data centers generate substantial local tax revenues in several Virginia localities.

3. The best available evidence indicates that incentives have influenced location decisions but likely accounted for roughly half of building footprint development in adopting states rather than nearly all observed development.

4. Future incentive effectiveness may decline if power and infrastructure become the primary constraints on growth.