August 19, 2026

2026 BUDGET LANGUAGE ON DATA CENTERS AND BACKGROUND INFORMATION

Prepared by House Appropriations and Senate Finance and Appropriations Committee Staff

2026 Special Session I Budget Actions

Budget Items Related to Data Centers

- **Jt. Sub. on Tax Policy.** Directs the Jt. Sub. to review the data center sales and use tax exemption and other impacts from data centers and any recommendations.
- **Consumption Tax.** Imposes a data center electricity consumption tax at a rate of $0.011/kWh on all electricity consumed at each data center per month in FY 2027 and FY 2028.
  - Deposits no more than $600.0 million of the revenue to the general fund with excess revenue refunded on a pro rata basis to each payer after the close of the fiscal year.
- **Water Standards.** Requires new data centers in the Eastern Virginia Groundwater Management Area and all data centers in Cooling Water Scarcity Areas to demonstrate to the Department of Environmental Quality's (DEQ) satisfaction the minimized use of any type of water for cooling purposes.
  - Provides that a data center shall only use direct evaporative cooling in conjunction with one of DEQ's approved primary technologies.
- **Noise Standards.** Requires DEQ to adopt regulations to set noise standards for data centers.
- **SCC Reporting.** Directs the State Corporation Commission to collect data on energy, water, and generator usage of data centers.

Data Center Sales and Use Tax Exemption

Data Center Sales and Use Tax Exemption (DCSUT)

- Exempts from sales tax computer equipment and enabling software, including servers, routers, connections, and other enabling hardware, as well as chillers and backup generators used in operating equipment.
  - Requires a data center operator to make at least a $150.0 million capital investment and create 50 news jobs paying at least 1.5x the prevailing local average wage.
    - In a distressed locality, the thresholds are reduced to at least $70.0 million in capital investment and ten new jobs created.
- DCSUT exemption is set to expire July 1, 2035.
  - Extension to 2040 or 2050 for companies creating 1,000 or 2,500 jobs (100 of which must meet above average wage requirements) and making at least $35.0 billion or $100.0 billion capital investment, respectively.

DCSUT Exemption History

2008

Provided a three-year sales tax exemption for a specific economic development project.

($75M investment, 100 jobs at 2x wage)

2009

Exempted data center equipment purchases from ***local*** sales tax.

($150M investment, 50 jobs at 1.5x wage).

2010

Repeals the local exemption and creates the current sales tax exemption with a 2020 sunset.

($150M investment, 50 jobs (25 jobs distressed) at 1.5x wage)

2012

Allows a data center operator and its tenants (i.e. colocation) to collectively achieve the capital investment and job requirements.

2016

Extends the sunset to 2035.

2021

Applies the exemption to purchases by a data center operator, including *for use in any data center facilities located in the same locality as the data center that are under common ownership or affiliation of the data center operator*.

Reduces to $70M investment and 10 jobs in a distressed locality.

Requires a data center operator to file an annual report and report the exemption value.

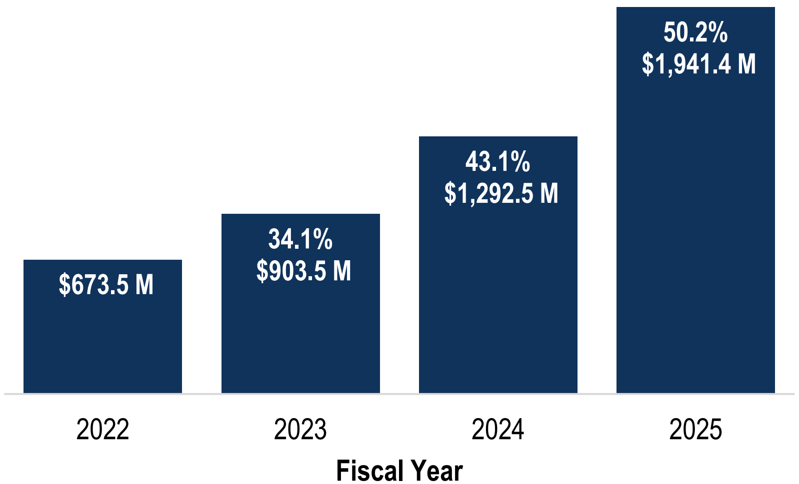
2023

Extension to 2040 and 2050.
(MEI package originally for AWS)

($35/100B investment, 1K/2K jobs)

DCSUT Exemption Benefit

Data Center Sales Tax Exemption Value



Source: Virginia Tax, Reports on Virginia Tax Exemptions for Data Centers. Exemption value includes 1 percent sales tax for localities and the additional amounts collected in some localities, such as Northern Virginia and the Historic Triangle.

- From FY 12-21, the average DCSUT exemption value was estimated at approximately $104M (JLARC Economic Development Incentives 2022 Report).
- The reporting requirements adopted in 2021 provided more information on jobs, investment, and exemption value.
- From FY 22-25, data center operators reported a 188 percent increase in the reported DCSUT exemption benefit.

Appendix

Joint Subcommittee Budget Language

- Budget language charges the Joint Subcommittee on Tax Policy with:
  - Reviewing Virginia's data center sales and use tax exemption;
  - Examining the impact of the existing and any potential future exemption or incentives;
  - Approaches taken in other states related to the data center industry including tax preferences, incentives, environmental standards and mitigation, moratoriums on incentives or location of new facilities, and sustainable development requirements;
  - Reviewing methods related to data center investment in non-urbanized areas of the Commonwealth;
  - Reviewing the recommendations and options in the 2024 JLARC study on Data Centers in Virginia;
  - Reviewing the estimated direct and indirect economic benefits of data center investment in Virginia;
  - Reviewing the direct or indirect impacts on the environment and quality of life related to data center location and siting;
  - Evaluating the impact of Artificial Intelligence on employment;
  - Reviewing the State Corporation Commission reported data on electric service agreements, water usage, permitted generators; and,
  - Recommended mechanisms to provide direct revenue to the state from the data center industry.
- The Joint Subcommittee shall report recommendations to the General Assembly by December 15, 2026.