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INTELLIGENCE UPDATE

End of tax breaks could redraw US data center map

Douglas Donnellan 16 Apr 2026

Tax incentives are a key factor in determining where large US data center operators build or expand. Over the past 15 years, these incentives have strengthened business cases for many facilities and helped shape the US data center landscape. However, as data centers grow larger, consume more power, and face increased public scrutiny, some policymakers are now seeking to reduce or eliminate these incentives.

For example, in Washington state, a bill signed in early April 2026 will end a sales and use tax exemption for replacement server equipment at existing data centers, effective July 2026. In Virginia — the world's largest data center market — legislators are debating whether to end sales tax exemptions for data centers amid concerns about grid impact, land use and lost tax revenue, with a vote expected in late April 2026. These exemptions reached $1.6 billion in Virginia in 2025, representing a 118% annual increase.

Other states are also reassessing their incentive strategies. In February, voters in South Dakota rejected a plan to offer tax breaks for data centers, while in Illinois, Governor JB Pritzker proposed a two-year pause on incentives for new facilities.

Tax incentives for data centers exist in 37 states, and more may review these policies as they reconsider the impacts of the industry's rapid expansion.

Reassessing long-standing incentives

Governments have attracted data center developers by offering sales and use tax exemptions on IT equipment, property tax abatements, infrastructure subsidies and, in some cases, favorable electricity pricing. These incentives reduce both capital and operational costs and have helped drive developments in regions seeking economic growth.

States have also used incentives to compete for data center investment, as facilities can still generate significant tax revenue even at reduced rates. In some cases, policymakers also anticipate a 'network effect,' in which data center investment helps attract related businesses and spur infrastructure development.

Some of the most common tax incentives for data centers include:

- **Sales and use tax exemptions:** Exempt operators from taxes on servers and related equipment, whether purchasing within the state (sales tax) or brought in from outside the

state for operation (use tax).

- **Property tax abatements:** Reduce or eliminate property taxes on land and/or buildings for a set period, often lasting 20 years or more.
- **Infrastructure subsidies:** Governments may partially or fully fund infrastructure improvements, such as grid upgrades, substations, water lines, or road construction to support new data center development.
- **Job creation credits:** Tax credits may be provided if data center developments meet specified employment targets. However, some local and state governments are replacing these employment targets with investment thresholds because modern facilities typically require relatively few staff.

These policies are still widely used, but many were introduced when data centers used less power and water and created more jobs for their size. At the time, incentives were seen as a low-risk way to attract investment and secure long-term tax revenue.

Today, however, the growing scale and resource demands of modern data centers are prompting policymakers to reexamine these incentives, especially since large deployments (including hyperscale and AI-focused facilities) often require new substations, transmission upgrades, or other grid investments, which may increase costs or introduce planning challenges for utilities and other customers.

These concerns have also raised questions about how incentives are structured and reported. In most states that offer tax breaks, including Virginia, the exact amounts awarded to individual companies are not publicly available, leading to concerns over transparency. Twelve states do not disclose the value of tax breaks offered to the sector.

Despite ongoing criticism, tax incentives remain an important factor in data center site selection. Operators prioritize power and land availability, connectivity and permitting timelines when evaluating locations for data center projects. However, when two or more sites are comparable, tax incentives often become the deciding factor — particularly for large, multibillion-dollar projects.

Changing attitudes toward tax incentives may also reflect shifting public perceptions of data center development. As facilities grow larger and more resource-intensive, public awareness and local opposition have increased — especially for large campuses dedicated to AI workloads, given their extreme resource requirements (see *Data center cancellations on the rise as public opposition grows*).

However, these dynamics may vary by market maturity. Established markets such as Virginia, with well-developed infrastructure, may have more flexibility to adjust or remove incentives. Emerging markets, by contrast, may face more difficult trade-offs, as incentives remain an important tool for attracting development.

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