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INTELLIGENCE UPDATE

Virginia's power tax exposes policy trade-offs

Douglas Donnellan 6 Jul 2026

In late June 2026, the US state of Virginia approved a statewide tax on electricity used by data centers as part of a budget agreement that retained the industry's sales-and-use-tax exemption.

From July 2026 through June 2028, facilities will pay an additional $0.011 per kilowatt-hour ($11 per megawatt-hour). The state's take is capped at $600 million per year. Any excess will be refunded to operators (less administrative costs) on a pro rata basis according to the amount each one paid.

This approach is important beyond Virginia. It shows how governments may try to preserve incentives for new investment while collecting more revenue from facilities once they are operating. It also highlights the limitations of treating electricity use as a simple measure of an industry's wider impact.

The tax applies to electricity supplied by utilities or other providers, as well as power generated by the data center itself. This prevents operators from avoiding the charge by moving generation behind the meter. However, all electricity is taxed in the same way. For example, on-site renewable generation is subject to the same tax as utility-supplied power. The rate does not vary by emissions, location, time of use, or contribution to peak demand.

The tax appears to be a revenue-raising measure, rather than a targeted energy or environmental policy. It may encourage facilities to use less energy because lower consumption reduces the gross tax bill, but it does not incentivize operators to use renewable energy, shift loads away from peak periods or invest in infrastructure that reduces strain on the grid. The revenue retained by the state is paid into Virginia's general fund rather than earmarked for new electricity generation capacity, transmission infrastructure or measures to offset local electricity costs.

Reaching the $600 million annual cap would require about 54.5 TWh of taxable electricity use, equivalent to a continuous average load of roughly 6.23 GW. Virginia's budget assumes that the state will retain the full $600 million in each year, although actual collections and refunds remain uncertain. At the facility level, a data center with a maximum load of 100 MW operating at a 90% load factor would initially incur a gross tax bill of about $8.7 million per year. This amount would be paid in full, with a partial refund only if total revenue exceeded the cap.

The additional cost of the electricity-use tax appears unlikely to outweigh Virginia's existing investment incentives for data centers. The Virginia Department of Taxation and the Virginia Economic Development Partnership reported that operators received approximately $1.94 billion

in sales-tax benefits in fiscal year 2025, based on $33.2 billion of exempt equipment and software purchases. The $600 million retained annually would therefore be less than one-third of the reported benefit from these exemptions.

However, the figures should not be compared too directly. The exemption estimate includes state, local, general-fund and other effects. It was also self-reported rather than independently verified. In addition, its value changes from year to year depending on construction activity, expansion and equipment replacement.

Implementation will add complexity

Implementing the new law will add administrative overhead for regulators, electricity suppliers and data center operators. The State Corporation Commission (SCC) will collect the tax and manage any refunds, while operators using self-supplied electricity must remit the tax to the SCC each month and report their electricity consumption quarterly to the Department of Environmental Quality. Administrative expenses will also be deducted before any excess revenue is refunded.

The process could be particularly complicated for colocation and multi-tenant facilities. The company responsible for the utility account is liable for tax on supplied electricity, even if some or all of that cost is subsequently passed on to customers. Operators may therefore need to review contract terms, submetering arrangements and audit rights. For vendors, the tax may strengthen the business case for measurable efficiency improvements. Before any refunds are applied, a sustained 1 MW reduction in facility load would reduce annual gross tax liability by about $96,000.

Taxation is likely to spread

Virginia's governor has described the measure as the first statewide tax on data center energy consumption in the US, but other countries have already increased electricity taxation on the industry. For example, Sweden and Norway have ended a reduced electricity-tax approach for data centers, while Finland is moving data center consumption from a discounted category to the general rate in July 2026.

Other jurisdictions may instead use special utility tariffs, capacity charges, grid infrastructure contributions or new conditions attached to tax incentives (see *US states rethink tax breaks amid rising scrutiny and costs*). Depending on their design, these approaches can be tied more directly to the costs that facilities impose on the electricity system.

Data center-specific taxes and charges are nevertheless likely to become more common. They may also be introduced alongside existing obligations rather than replacing them. In Virginia, a state study of the equipment exemption, the industry's impacts and alternative revenue options is due in December 2026, allowing the issue to return during the 2027 legislative session. As a result, data center operators should treat the electricity tax as an early stage in the policy debate rather than its conclusion.

The following Uptime Institute experts were consulted for this report:
Peter Judge, Senior Research Analyst, Uptime Institute

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Note: The regulatory analysis provided in this Update is the opinion of Uptime Intelligence. Data center operators should validate the interpretations with their legal staff and any relevant regulatory authorities.

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