DataCenterBoom!

An introduction to data center taxes and their controversial exemptions

Nov. 2025

I. Introduction

This document summarizes how and why taxes and significant exemptions are designed for companies behind data centers. To provide an overview, we focus on the experience of the United States and the recent case of Brazil. The former has by far the most experience in this area, in contrast to the latter, which is just implementing an exemption policy. Considering that many central, state, and local governments are evaluating the introduction of such benefits, we have compiled the most important criticisms and challenges to this type of policy. This will better equip communities when proposals are made.

II. Overview

When developing a total cost of occupancy model, one-time and recurring taxes will have a significant impact on the long-term costs of a data center. The capital-intensive nature of a data center will generate relatively high sales and property taxes (Schastok & Lenio, 2014).

Using the case of the United States (Schastok & Lenio, 2014), property taxes are generally paid on both real estate and personal property (or equipment). Sales (or use) taxes are paid once on purchases of building materials, mechanical and electrical equipment, IT equipment, and, in some cases, software. Sales taxes on building materials must be paid based on the location of purchase, while sales taxes on equipment must be paid based on the location of delivery.

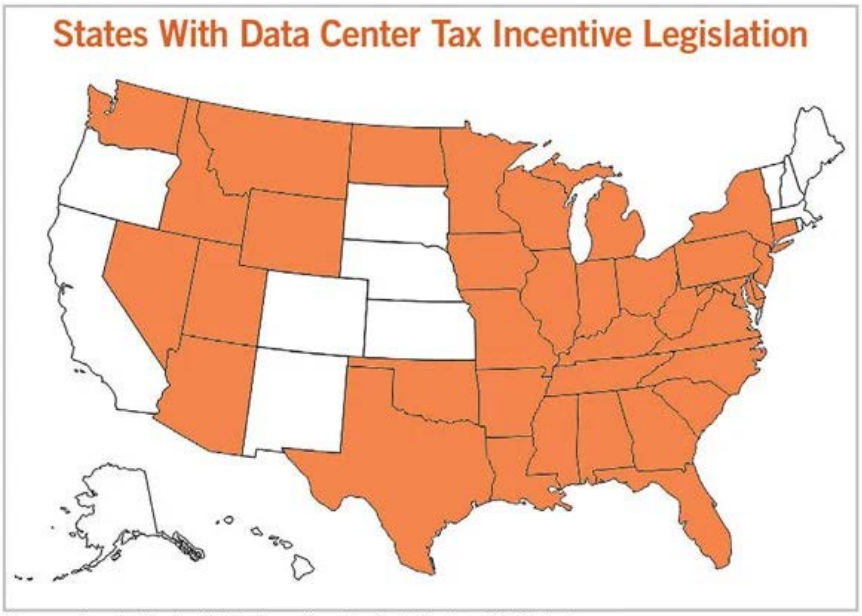
Property taxes are paid annually on the data center structure. These taxes depend on the value of the building and the local effective tax rate. For example, a data center valued at $30 million in a suburb of Kansas City, Kansas, would generate property taxes totaling approximately $4.6 million over 5 years (or $930,000 annually).

Personal property taxes are paid on IT equipment, furniture, or other items that are not permanently attached to the property and can be removed. These taxes are paid annually based on the original purchase price, depreciation, and the local effective tax rate. For example, $200 million worth of IT equipment in a suburb of Dallas, Texas, would generate approximately $17 million over a five-year period. It should be noted that personal property taxes are paid for each equipment purchase cycle. That is, purchases made in 2013 would incur personal property taxes from 2013 to 2017, and purchases in 2017 would have taxes due between 2017 and 2021.

While data centers do not directly create many jobs, they do generate significant employment in the high-end construction sector over a period typically lasting around 24 months. Additionally, once built, these facilities are a key component of a company's overall operations and can lead to long-term investment in a community. Finally, data centers tend to cluster, and once a particular area attracts a well-known user, others often follow—such as in Colorado Springs, Raleigh, Des Moines, and elsewhere.

III. The case of the United States

According to a study by the legal consulting firm Husch Blackwell (2024) on tax incentives for data centers across the 50 states of the United States, **36 states have some form of legislation enabling tax incentives for the development of new data centers**. Some states have been offering these incentives for over a decade, but the trend has accelerated with the rise of AI.



Source: Husch Blackwell, Tax Incentives for Data Centers 50-State Survey

While almost all initiatives address similar concerns, according to the legal consulting firm's analysis (2024), there is no standard model for structuring incentives. These types of state laws are the product of idiosyncratic local conditions and personalities. Tax incentives for data centers defy many conventional political labels, and supporters and detractors can be found across the political spectrum.

According to the legal consulting firm Husch Blackwell (2024), there are significant variations in how states address key issues, including:

- The type of tax exemption offered
- The period of time covered by the incentive
- The facilities eligible for the incentive (e.g., square footage and parcel requirements)
- Investment thresholds
- The types of expenses or items covered by the legislation
- Certain ancillary issues—such as job creation thresholds or safety mandates—seem to be given high priority in some states and not mentioned by others, demonstrating divergent goals and priorities.

A good starting point for analysis is the details of the incentive structure itself: the types of exemptions included and their duration. Some states have been explicit in limiting the duration of incentives, which typically range from 10 to 50 years. In addition, the duration may vary depending on the nature of the investment. Larger investments sometimes have a longer duration, and new facilities sometimes benefit from a longer period than improvements to existing facilities. Several states have not defined an expiration date for incentives.

Just as important as the duration of incentives is what they are intended to cover. Most states have bundled exemptions, and it is important to understand what each package includes and what each state excludes. Even within the same state, different items qualify for various types of exemptions. In Georgia, for example, the purchase and use of high-tech data center equipment for incorporation or use in a high-tech data center are exempt from state and local sales and use taxes. However, these exemptions are subject to different subsections of the law and have different triggers.

Investment thresholds vary by state and provide interesting points of differentiation. Some states have a single threshold that applies to all projects, while others use tiered levels based on different factors, including lower thresholds for rural areas or new construction, and different levels depending on the type of investment.

It should be noted that several states have specific job creation thresholds for eligible projects, and as with other provisions, these vary considerably. Like investment thresholds, job creation requirements are sometimes linked to other provisions. For example, Nevada law requires 10 new jobs to qualify for the 10-year reduction; however, the 20-year reduction requires 50 jobs. In addition, some states require that the jobs created cannot be subject to layoffs for a specific period.

Furthermore, provisions often focus not only on the number of jobs, but also on various other

metrics. These typically include mandatory wage levels (many use county or state averages as a benchmark), mandatory levels of health insurance coverage, and requirements that companies use state residents for project construction.

Other mandates related to tax incentives are implemented selectively by states. For example, Illinois requires data centers to achieve carbon neutrality within two years of becoming operational. Minnesota defines qualifying facilities as those with “sophisticated” fire suppression systems and “enhanced” security.

IV. The case of Brazil

a. Provisional Measure (MP) on Special Taxation Regime for Data Center Services (REDATA)

Since September 2025, the MP Redata has been in the implementation phase in Brazil. Redata is a Brazilian government plan to position Brazil as a global hub for data centers, emphasizing sustainable digital infrastructure. The program seeks to attract massive investment in data centers through a combination of tax incentives, renewable energy use, and integration with export processing zones.

Offering a new tax incentive is complex, while the government itself criticizes benefits such as payroll tax reductions, seeks compensation through the IOF (Financial Operations Fund), and highlights the urgent need to address the fiscal deficit (Bucco, 2025).

Regarding tax incentives, starting January 1, 2026, certain federal taxes will be suspended for domestic or imported capital goods (such as electronic components and ICT products) purchased domestically or imported and incorporated as fixed assets in qualifying entities. The suspended taxes include the PIS/COFINS contribution, IPI on industrialized products, import tax (II) for goods without a domestic equivalent, and PIS/COFINS-Import. This suspension may become a zero rate for goods that meet the requirements and are incorporated into fixed assets.

To qualify for the regime, beneficiaries must comply with the obligations set out in the MP. For example:

- They must allocate at least 10% of their processing, storage, and installed capacity under the regime to the Brazilian domestic market, or invest an equivalent percentage in R&D.
- They must operate or contract for an energy supply that is entirely from clean or renewable sources.
- They must meet a water use efficiency (WUE) index of 0.05 L/kWh or lower, with annual verification.
- They must invest 2% of the value of goods purchased or imported in Brazil in research, development, and innovation projects within the digital chain.
- In addition, there are reductions in these requirements for projects located in the North, Northeast, and Central-West regions (a 20% reduction in some requirements) as an additional incentive.

The target investment volume is high: the plan could mobilize around R$2 trillion in investments over the next decade (Grossmann, 2025). However, the program also presents challenges—for example, ensuring that energy, transmission, and cooling infrastructure are

ready to support hyperscale data centers.

The MP REDATA joins the MP handling Export Free Zones (ZPEs) for data centers (MP 1.307/2025), and Congress will review both in the upcoming months before they become law.

V. Criticism of tax exemptions

a. High fiscal cost

In the race to attract large data centers, states are losing hundreds of millions of dollars in tax revenue, according to an analysis by CNBC (2025). Among the beneficiaries of these exemptions are tech giants such as Amazon, Meta, and Google, whose market capitalizations exceed $1 trillion. According to Good Jobs First (2025), at least 10 states in the US are already losing more than $100 million a year in tax revenue due to tax exemptions granted to data centers and cloud computing facilities, whose proliferation has accelerated with the rise of artificial intelligence.

This latest report details that state exemption programs for data centers typically eliminate sales and use tax on construction materials, servers, racks, cabling, cooling systems, power generators, internal transmission electrical infrastructure, ventilation systems, and operating rooms.

But the eligibility laws were drafted when data centers were smaller in scale, so now almost all new projects qualify with minimal contracting or capital investment requirements. In addition, many of these exemptions are long-term or indefinite, and there is no cap on the revenue that can be foregone: no state limits how much the program can lose per year or how much a single company or facility can avoid.

Among the states experiencing the greatest losses, according to Good Jobs First (2025), is Texas, where the annual loss is estimated at approximately $1 billion for the fiscal year 2025. In Virginia, the state's annual financial report shows that spending on these programs in 2024 was approximately $732.8 million (state sales only). A legislative study estimates total state, local, and regional losses at $928.6 million for fiscal year 2023.

b. Few jobs

Tax exemptions for data centers do not deliver the promised economic benefits, such as well-paying jobs, and they decrease local tax revenues while shifting the financial burden to communities and schools. Moreover, according to a report by the University of Michigan's Science, Technology, and Public Policy Program (Nguyen & Green, 2025), the jobs created locally by data centers tend to be low-paying, short-term positions with no technical requirements, like security, maintenance, and cleaning. These jobs are often held by contractors rather than full-time employees, meaning they lack union protections, benefits, and job security. As a result, these jobs are usually temporary and do not support sustained economic growth or provide long-term career opportunities for residents.

Subsidies intended to encourage job creation often lead to profits for companies without ac-

tually hiring local workers. For instance, tax incentives for data centers in Washington State were aimed at creating jobs in rural regions, but they mainly benefited large corporations like Microsoft. Since these incentives were introduced, over $300 million in tax revenue has been lost, funds that could have been used for public services such as education, emergency response, and infrastructure. In return, data centers have generated few jobs and needed only a small workforce to operate (Nguyen & Green, 2025).

In some cases, the cost to taxpayers for each job created can exceed $1 million. Furthermore, the state has few oversight or enforcement mechanisms to ensure that technology companies deliver on their promised benefits. Despite initial legislative goals to boost local employment and economic vitality, taxpayers are largely subsidizing wealthy companies with minimal transparency and accountability for their actual economic impact. For example, CNBC (2025) found that a Microsoft data center in Illinois received more than $38 million in sales tax exemptions but created only 20 permanent jobs.

c. Lack of transparency

In terms of transparency, a study by Good Jobs First (2025) indicates that of the 32 states with data center incentive programs, 12 do not even disclose aggregate figures for revenue foregone. It also notes that in some states, the responsible agencies do not have access to the data or are prevented by tax privacy laws from publishing revenue losses.

For example, according to CNBC (2025), Virginia has an estimated overall exemption of more than $730 million for fiscal year 2024. Still, the state does not provide a detailed breakdown of how much each company received. It is also not always clear which companies are applying for tax exemptions. In 2023, a limited liability company called Hatchworks applied for an Indiana sales tax exemption. After the exemption was granted, a state document showed that Hatchworks is a Google subsidiary.

In Brazil, Redata is criticized for concentrating massive tax incentives while failing to provide transparency into the concrete benefits to the country. Furthermore, the policy may have been designed without key input from environmental agencies, potentially affecting the socio-environmental impact analysis (Martins, 2025).

d. These benefits are not a priority when choosing a data center location

Data center companies choose their locations based on electricity prices, land availability, and climate conditions. Although tax exemptions are often justified to attract data centers to communities, these policies do not influence data center location decisions. As an executive responsible for Microsoft's data centers in North America stated in 2024: "I can't think of any decision about the selection or location of a center that has been made based on a set of tax incentives" (Nguyen & Green, 2025).

e. The world's wealthiest companies benefit

According to Good Jobs First (2025), cloud computing is a profitable, rapidly growing industry that does not require public financial support. If left unchanged, these tax breaks will continue to enrich mainly the shareholders of some of the most valuable companies on the planet: Amazon, Apple, Alphabet (Google), Microsoft, and Meta (Facebook).

This transfer of power also has a significant aspect in countries outside the United States that, like Brazil, grant tax benefits to Big Tech: digital sovereignty is questioned because, even though the data of people living in Brazil is managed within the country thanks to data centers within its borders, the custodians of the infrastructure remain the most powerful companies in the world (IDEC et al, 2025).

f. The impact on public infrastructure is paid for by ordinary taxpayers and affects the poorest.

In Michigan, data centers are exempt from paying property taxes on personal property, including machines and computers, which are among their most valuable assets. While they may still pay property taxes on land and buildings, the overall tax contribution to schools is significantly reduced. This loss of revenue means fewer funds for educational programs, teacher salaries, and facility improvements, which directly impacts the quality of students' education (Nguyen & Green, 2025).

This is compounded by the fact that when data centers are built, they can increase utility rates for nearby communities. As demand increases, utility companies often pass on the costs of infrastructure upgrades and increased energy procurement to residents and small businesses through higher rates.

Thus, these tax incentives have shifted the financial burden to residents and other businesses, who must compensate for the loss of revenue through higher taxes and reduced public services. The financial pressure caused by data centers most severely affects lower-income households, whose utility bills represent a disproportionate share of their income, exacerbating economic inequality in the region.

While communities face higher bills, data centers often negotiate lower rates through bulk power purchase agreements (PPAs) with investor-owned utilities. These agreements enable data centers to operate at lower costs despite their huge energy use, shifting the financial burden onto local households and businesses.

g. Vague and non-binding sustainability

In Brazil, Redata discusses the sustainability conditions for tax exemptions. In a joint statement (2025) by the Brazilian Institute for Consumer Protection (IDEC), the Laboratory of

Public Policy and the Internet (LAPIN), and the Institute for Research in Law and Technology (IP.rec), Redata is criticized for "lacking explicit socio-environmental and climate safeguards to prevent impacts already observed in international and national experiences." Among these impacts, they mention "the worsening of water stress, increased local energy costs, pollution, territorial conflicts, and the exclusion of local, indigenous, and traditional communities from decision-making processes." In addition, they warn that "references to environmental obligations are vague and lack clear definitions of terms such as 'clean energy' or 'water efficiency.'"

Furthermore, for these organizations, "there is a lack of policy on mineral extractivism, electronic waste disposal, and responsibility for the life cycle of equipment such as GPUs, batteries, and servers." According to the text, Redata "prioritizes tax incentives, special regimes, and exemptions from import taxes and duties, treating the issue as a mere tax and economic competitiveness problem. It reduces sustainability to an optional guideline, without binding mechanisms to ensure environmental protection or social justice."

***