

MEMORANDUM

FROM: Office of the Governor
SUBJECT: Sales & Use Tax Exemptions for Data Centers

Dear Chair Wilson, Chair Hall, and Energy Policy Task Force Members:

In its February 15 interim report, the North Carolina Energy Policy Task Force recommended that relevant state entities “assess the dollar and strategic value of existing sales and use tax exemptions for data centers.” This memo responds to that recommendation. As discussed below, the North Carolina Department of Commerce estimates that data centers in North Carolina currently receive roughly \$50 million per year in state sales and use tax exemptions and, if the current data center pipeline is built, would receive around \$450 million per year, in addition to an estimated \$1.5 billion to \$2.3 billion in construction-period equipment exemptions.

This memo focuses on policy analysis of options for addressing these state tax exemptions in light of that updated information. The list of examples provided here is non-exhaustive.

The memo is organized into five sections: Background, Actions in Other States, Repeal, Modify, and Leave in Place.

Background:

North Carolina provides a sales and use tax exemption for qualifying data centers under G.S. 105-164.13(55a). The exemption applies to two categories of purchases: (1) electricity sold for use at a qualifying data center, and (2) qualifying “datacenter support equipment” that is located and used at a qualifying data center.

Under G.S. 105-164.3(201), a “qualifying data center” must (i) certify that it meets county-tier wage standards, (ii) obtain a written determination from the Secretary of Commerce that at least \$75 million in private investment in real property has been or will be made

within five years of the first qualifying investment, and (iii) certify that it provides health insurance for full-time employees.

Additional background on the history of the exemption and on the methodology used to estimate its value appears in the Department of Commerce memorandum dated April 6, 2026.

Actions in Other States:

States across the country are reassessing data center tax incentives and exemptions as data center size, electricity demand, and public fiscal exposure have grown far beyond what were typically envisioned when these policies were first enacted. The issue of how data centers pay for their electricity and needed infrastructure has also come into sharper focus nationally over the past year. The Trump administration and the major hyperscale data center companies recently signed the Ratepayer Protection Pledge, which calls for “leading United States hyperscalers and AI companies to build, bring, or buy all of the energy needed for building and operating data centers, paying the full cost of their energy and infrastructure, no matter what,” and therefore has implications for these tax exemptions.

National sources vary on the exact count, but a substantial number of states now offer data center-specific tax incentives, and many are revisiting them. According to some data sets, as of 2025, at least 32 states have tax exemptions or incentives for data centers. Of these, 12 do not disclose revenue impacts; this includes North Carolina, which does not track this information. Many of these states have taken recent legislative or executive action that affects these tax exemptions.

Some states have seen momentum toward repeal or phaseout of tax exemptions. For example, the Georgia Senate passed a bill last month to eliminate the state’s sales tax exemption for new data centers and use the revenue to reduce income taxes. In Virginia, the proposed Senate budget phases out all sales tax exemptions starting in 2027 instead of the current 2035 date. In Oklahoma, legislation has been

introduced that would end tax incentives for data centers not operational by 2027. Indiana is considering legislation that would require data centers to send portions of their sales tax exemptions directly to local governments. Legislation was also passed last year in Ohio that would repeal such tax exemptions, but it was vetoed by Ohio's Governor. In Illinois, there was a proposal to suspend data center tax credits for two years.

Many states already have conditioned their tax exemptions or credits on criteria such as investment totals, environmental impacts, and jobs. Some states, including states discussing full repeals of exemptions, have also seen momentum toward modifications of these tax exemptions. A bill introduced this year in Virginia would keep the state's tax exemptions but require data centers to avoid co-location with coal or gas, increase use of renewable energy contracts, phase out diesel backup generators, and invest in energy efficiency and environmental management measures. Another Virginia bill proposes using tax revenue generated from data centers to support a local residential renewable energy incentive program to reduce existing utility bills for residential customers. In Wisconsin, a bill has been introduced to require qualifying data centers to meet sustainability criteria.

Some states are expanding exemptions, but generally with more explicit conditions than North Carolina currently requires. Kansas last year enacted a new 20-year tax exemption for data center investments that exceed \$250 million and meet water and long-term sustainability requirements. Michigan last year extended state tax credits for data centers that obtain 90% of their electricity from renewable sources and satisfy other environmental standards.

Repeal:

One option is full repeal of the exemptions. According to Department of Commerce estimates, repeal could increase state revenue by roughly \$50 million per year, and around \$450 million per year if the full data center pipeline is constructed, in addition to avoiding up to

roughly \$2.3 billion in exemptions during construction. The exact totals are uncertain, but available information strongly suggests that the present-day value of the exemption is much larger than \$4 million per year estimated in 2015 and could grow very significantly in the near future.

Repeal could happen by either an immediate repeal or by adding a sunset date or phase out schedule for the exemptions. Existing facilities could potentially be grandfathered in or given a delayed phaseout date. Approximately 25 states with data center tax exemptions have some sort of phaseout schedule or expiration date for these exemptions, while approximately seven states (including North Carolina) have exemptions with no end dates. As mentioned above, multiple states are currently discussing either immediate or accelerated phaseout of these exemptions, and a few are expanding the exemptions but including phaseout dates.

Repealing or phasing out these tax exemptions could free up revenue for other uses at a time North Carolina is facing significant fiscal constraints. A data center usually brings far fewer jobs than a manufacturing facility that uses a similar amount of electricity or reflects a similarly sized investment. As a result, data center projects in recent years have either not received or not applied for state discretionary incentive programs.

However, repeal could also discourage investment in this sector. Since 2025, a significant fraction of total nationwide GDP growth and corporate investment has come from the AI and data center sector. For some areas of North Carolina unable to support significant numbers of new jobs, data centers may be among the limited options for similarly large investments. On the other hand, almost all data center companies have stated that their number one concern for a project is "speed to power" (i.e., how fast a project can get connected to the grid or otherwise online) rather than any tax treatment. Although numbers do not exist for North Carolina, the Georgia Department of Audits and Accounts commissioned a report that found

that 70% of data centers in Georgia still would have been built without tax exemptions.

Modify:

A second option is to retain the exemption but modify it. Many states have attached or are considering attaching conditions to their tax exemptions for data centers relating to requirements for energy and water use reporting, jobs, clean energy usage, sustainability, and/or other factors. Modifying the tax exemption by adding conditions could result in a relative increase in state revenue and decline in the number of data centers claiming the exemption. This could discourage some data center investments but would provide an incentive for data centers to align their projects with Energy Policy Task Force recommendations or other state priorities.

To align with the first three task force recommendations (options for large load tariffs, bring your own capacity and alternative capacity procurement methods, and load flexibility), the tax exemptions could be conditioned on the data center participating in a large load tariff with bring your own capacity and/or loan flexibility elements. In the absence of a large load tariff or related structure, the exemptions could also be modified to require data centers to submit information to the state that demonstrates that the center is building, bringing, or buying all of its electricity. In both situations, clean energy or efficiency requirements could also be added. Since the major data center companies all have committed to paying for their own electricity and have clean energy commitments, this type of modification should not discourage the predominant data center companies that have made these commitments. The net impact on data center investment and state revenue for these types of modification might therefore be small but still might discourage companies that have not made these commitments.

Additional modification options for the exemptions could relate to reporting. Modifying the exemption to require energy and water use reporting would align with the Task Force's ninth recommendation. The

exemptions could also be modified to require reporting of the total value of the exemption claimed, which would help with further tracking and understanding of the exemptions' net impacts going forward.

Leave in Place:

Leaving the existing exemption in place without modification would have the opposite impact of those described above for the implications of repealing the exemptions and are therefore not extensively elaborated upon here. Relative state tax revenue would decline by around to \$450 million a year on top of up to \$2.3 billion in data center equipment exemptions during construction. As other states change how they treat tax exemptions for data centers, North Carolina might end up attracting additional data center investment, with the opposite implications as those described in the "Repeal" section. Leaving the exemptions as is would also leave North Carolina one of the few states with exemptions that do not eventually expire or phase out or that do not include conditions related to energy use.