NORTH CAROLINA
DEPARTMENT of
COMMERCE

Josh Stein
GOVERNOR

Lee Lilley
SECRETARY

April 6, 2026

To: North Carolina Energy Policy Task Force

From: North Carolina Department of Commerce

Re: Sales & Use Tax Exemptions for Data Centers

CC: NC Office of State Budget & Management, NC Department of Revenue, NC Department of Environmental Quality

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

On February 15, 2026, Governor Josh Stein's Energy Policy Task Force recommended that state agencies assess the current dollar value and strategic value of the sales and use tax exemptions for data centers ("the exemption") and explore whether those incentives could be linked to desired energy policy outcomes. This memo addresses the first part of that directive by estimating the current dollar value of the sales and use tax exemptions for electricity and equipment used at qualifying North Carolina data centers.

Key Findings

- Between 2015 and 2025, the North Carolina Department of Commerce ("Commerce") issued 37 written determinations of eligibility to companies seeking the exemption. However, the statute does not require companies to report the dollar value of their investments beyond the initial proposed investment, or the value of the exemption to state agencies on any regular basis. Exempt companies are only required to prove eligibility if they are audited by the North Carolina Department of Revenue. Because of these data limitations, this analysis is only an estimate of the dollar value of the tax exemption based on national industry reports and other public data. Statutory changes to the reporting requirements would be needed to know the true value of the exemptions.
- Based on these data sources, existing data center operators in North Carolina receive an estimated $20 million per year in electricity-related sales tax exemptions and between $25 and $37 million per year in exemptions on replacement equipment purchases. This assumes that all data centers qualify for the exemption.

- Publicly available industry data from December 2025 indicates a 6,300 megawatt (MW) pipeline of potential data center projects in North Carolina, compared to approximately 800 MW of existing operational capacity. These pipeline estimates include projects in various stages of development, from early proposals to facilities under construction.
- If the full 6,300 MW pipeline were constructed, developers would receive an estimated $1.5 to $2.3 billion in cumulative sales tax exemptions on equipment purchased during construction. Once operational, this cohort of facilities would receive an estimated $160 million annually in electricity-related sales tax exemptions under current rate structures, and between $205 and $308 million in exemptions for equipment replacements.
- Some states (listed in Appendix A) require more detailed reporting from qualifying data centers, which enables more comprehensive evaluation of fiscal impacts and investment outcomes.
- Even with more robust data reporting, the future value of the tax exemptions depends on whether proposed data centers advance from planning to operation. The full buildout of the data center pipeline depends on exogenous variables including private investment decisions, transmission availability, interconnection timelines, local zoning approvals, and broader macroeconomic trends.

Background on sales and use tax exemptions for data centers

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

A "qualifying data center" under G.S. 105-164.3(201) must (i) certify that it meets county-tier wage standards, (ii) obtain 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.

The equipment exemption applies only to "datacenter support equipment," which includes:

- Electrical infrastructure and power-management equipment (e.g., substations, generators, transformers, uninterruptable power supply (UPS) systems, batteries, power distribution units).
- HVAC and mechanical systems (e.g., chillers, cooling towers, air handlers, pumps).
- Computer hardware and software (e.g., servers, storage devices, networking equipment) and certain related research uses.

[1] https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/BySection/Chapter_105/GS_105-164.13.pdf

The exemption is conditional. If required investment thresholds are not met, or if equipment is not actually located and used at the qualifying facility, the exemption is forfeited and the data center becomes liable for the taxes that would otherwise have been due, plus interest.

A 2015 Legislative Fiscal Note estimated the annual value of the tax exemption at $4 million.[2] Data centers are not required to report how much they claim in sales tax exemptions to the State of North Carolina. Furthermore, state agencies have a limited view of the sector's energy use and economic activity, which are needed to produce an accurate estimate of the tax exemption.

When data center owners, or the tenants that occupy data centers, seek a sales tax exemption for equipment and electricity, they submit information to Commerce describing their planned investment. Commerce then issues a written determination if the proposed project meets the statutory criteria. Between 2015 and 2025, Commerce issued 37 written determinations of eligibility.

Commerce does not receive information on the capital investments ultimately made by a data center developer or any other entity claiming the exemption. Under current law, an exempt entity is not required to demonstrate that it met the eligibility criteria unless it is audited by the Department of Revenue.

Similarly, the North Carolina Department of Environmental Quality receives some information on planned energy consumption when it reviews air quality permit applications from data center projects, but it does not receive or require regular data on actual energy use that would allow the state to estimate the value of the tax exemption.

Because of these data limitations, the estimates presented in this analysis rely on the best available industry data and third-party sources.

Estimate of current and future tax exemptions for data centers

North Carolina's existing and future data centers

For this analysis, Commerce used county-level data from Baxtel, a data center research platform, accessed through the National Laboratory of the Rockies.[3]

As of December 2025, North Carolina had approximately 800 MW of data center capacity, and an estimated 6,300 MW either in the planning phase or under construction. As with any private investment, projects can be announced during any phase of the development timeline, whether they have secured site control, utility access (power, water, and/or wastewater) zoning approvals, or reached any number of milestones required for large-scale infrastructure. If a single large-scale project were announced or withdrawn from the pipeline, the estimated value of the exemption could change significantly. Advances in computing density or cooling technology could also affect facility-level energy consumption and, in turn, the value of the exemption.

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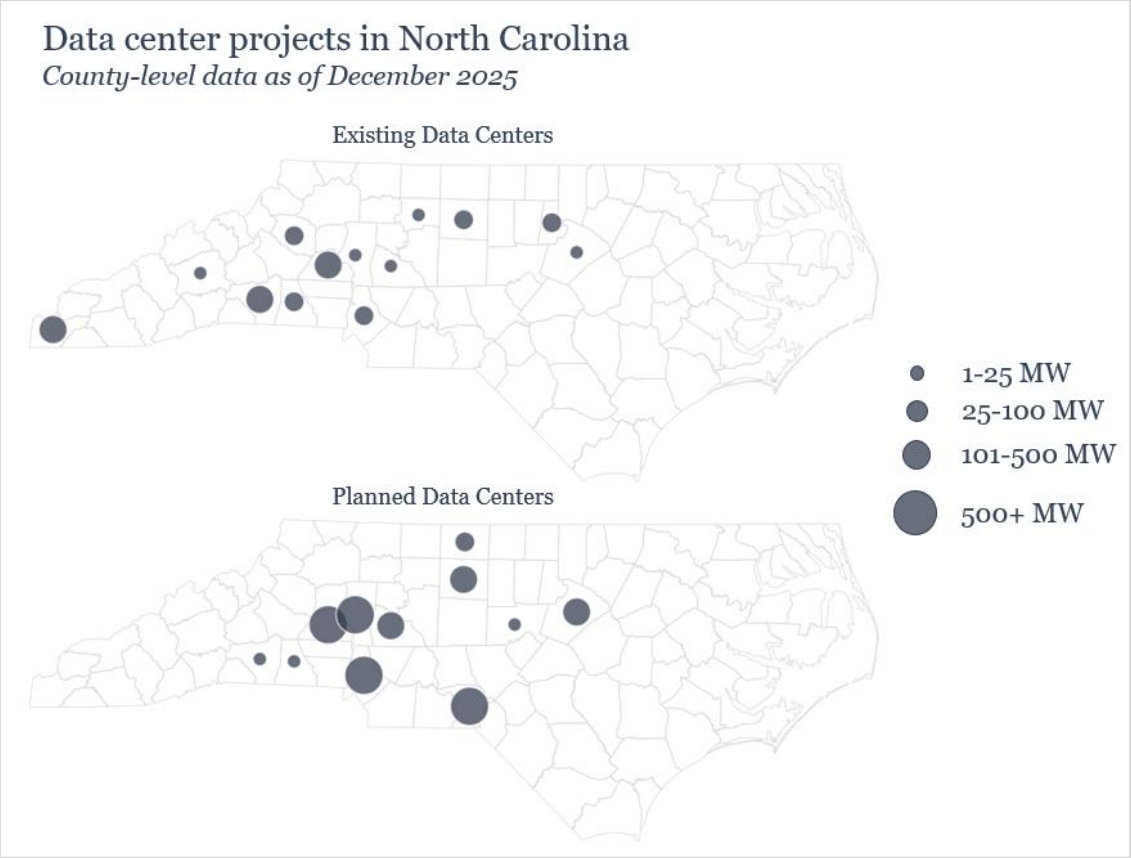
[2] https://www.ncleg.gov/Sessions/2015/FiscalNotes/House/PDF/HFN0117v5.pdf

[3] https://maps.nrel.gov/speed-to-power/data-viewer/data-library



Electricity Exemption

The value of the sales tax exemption is a function of the amount of electricity consumed by data centers, and how that electricity is billed under utility rate schedules.

A data center's load factor measures how consistently it uses electricity relative to its maximum capacity. A load factor near 100% means the facility operates close to full capacity most of the time. Lower load factors indicate greater variation between peak and average demand.

To Commerce's knowledge, there is no publicly available dataset reporting electricity consumption patterns by data centers in North Carolina. However, industry research indicates that data centers tend to operate with high load factors relative to their nameplate capacity.[4]

For this analysis, assumptions are drawn from EPRI's *2026 Powering Intelligence: Updated Scenarios of U.S. Data Center Electricity Use and Power Strategies*.[5] That report differentiates between single-tenant hyperscale facilities and multi-tenant colocation facilities:

[4] Dominion Energy, which has the largest, most mature data center market in the world, estimates that the industry's average load factor is around 90%. Because North Carolina's data center market is smaller and still developing, this analysis uses data on load factors from elsewhere in the country.
[5] https://www.epri.com/research/products/000000003002034696

Data Center Type	Average Load Factor *% of nameplate capacity*	Average Peak Factor *% of nameplate capacity*
Single-Tenant (Hyperscaler)	75%	80%
Multi-Tenant (Colocation)	57%	64%

To estimate the electricity exemption, this analysis models a representative annual electricity bill under Duke Energy's High Load Factor (HLF) schedule.[6] Facilities billed under Schedule HLF are charged for:

- Fixed monthly customer charges
- Energy charges based on total kilowatt-hours consumed
- Demand charges based on the highest 30-minute peak demand during the billing period
- Applicable riders and system adjustments

Assuming a 75% load factor, a 50 MW single-tenant facility would incur approximately $20 million annually in electricity charges (before sales tax). At a 7% sales tax rate, this is approximately $1.4 million in annual forgone sales tax. Because Duke Energy may negotiate project-specific terms with very large customers, actual bills can vary from this example.

Applying this methodology to estimated existing data center capacity yields:

Service Territory	Capacity (MW)	Estimated Annual Sales Tax Exemption	Per MW Annual Exemption
Duke Energy Carolinas	696	$17.7 million	$25,500
Duke Energy Progress	80	$2.3 million	$29,000

Differences in the per MW exemption reflect territory-specific rate structures and makeup of data center types.

If North Carolina's full 6,300 MW data center pipeline were built, this cohort of facilities would receive an estimated $160 million annually in electricity-related sales tax exemptions under current rate structures.

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[6] *Schedule HLF for DEC: https://www.duke-energy.com/-/media/pdfs/for-your-home/rates/electric-nc/nc-schedule-hlf.pdf Schedule HLF for DEP: https://www.duke-energy.com/-/media/pdfs/for-your-home/rates/dep-nc/leaf-no-536-schedule-lgs-hlf.pdf*

Equipment Exemption

The equipment exemption differs depending on whether purchases are for replacements at existing facilities or for initial equipment installation in newly constructed facilities. This analysis treats those as two separate cases.

Existing data centers replace qualified equipment on an ongoing basis. IT and networking equipment typically have shorter useful lives than major power and cooling infrastructure. Based on publicly available company disclosures and manufacturer guidance, this analysis assumes:

- IT and networking equipment is replaced every 5.5 years
- Power infrastructure is replaced every 10 years
- Cooling infrastructure is replaced every 20 years

Weighted across equipment categories, these assumptions imply that roughly 13% of a facility's qualified equipment base is replaced each year.

Industry reports estimate that eligible annual equipment costs between $3.5 million and $5.3 million per MW of installed data center capacity. Applying those industry estimates to North Carolina's existing data centers suggests that between $358 million and $537 million in qualified equipment is replaced annually.

That translates into an estimated $31 million per year in equipment-related sales tax exemptions for the existing 800 MW fleet, or about $40,000 per MW. This estimate reflects only the equipment replacement activity at existing facilities and does not include initial equipment purchases for newly constructed facilities.

New data centers generate much larger one-time equipment purchases during construction. Using the same estimate of $3.5 million to $5.3 million in eligible equipment costs per MW, the value of qualifying equipment would scale with the full amount of planned capacity. If North Carolina's full 6,300 MW data center pipeline were built, cumulative (not annual) equipment-related sales tax exemptions could total between $1.5 billion and $2.3 billion over the construction period. These estimates assume full buildout and do not account for delays, downsizing, cancellations, or changes in equipment prices. After construction, the completed data center pipeline would receive between $205 and $308 million in exemptions for equipment replacements annually.

Appendix A: Reporting requirements for selected states with sales & use tax exemptions for data centers

State	Operational Data Reported	Economic Impact Reported	Tax Benefit Reported	Other Reporting Notes
North Carolina	-	Investment	-	One time, prior to investment
Virginia	-	Investment, jobs, wages, qualifying expenditures	Value of equipment exemption	Annual
Georgia	-	Investment-threshold expenditures, jobs, wages/hours	Value of equipment exemption	Annual, Detailed purchase-level reporting
Iowa	Electricity use, backup fuel use, electricity/fuel cost	-	State sales tax paid on electricity and fuel	Annual
Ohio	-	-	Exempt purchases and estimated tax otherwise due	Annual
Illinois	-	Investment, jobs	Value of tax benefits or exemptions received	Annual

Appendix B: Eligibility criteria for selected states with sales & use tax exemptions for data centers

State	Minimum Investment	Jobs Requirement	Other Requirements	Statute
North Carolina	$75 million	-	Health care for full-time employees	§ 105-164.3(201)
Virginia	$150 million	50 new jobs	Agreement with VEDP	§ 58.1-609.3
Georgia	$25 to $250 million[7]	5 to 25 new jobs		§ 48-8-3(68)
Iowa	$200 million	-	Facility must be 5,000+ sq ft	§ 423.3
Ohio	$100 million	-	Minimum $1.5 million per year in employee pay	§ 122.175
Illinois	$250 million	20 new jobs	Building must be carbon neutral or achieve green-building certification	§ 605-1025

[7] *Based on county population.*