

# Tax Incentive Evaluation: High-Tech Data Center Sales Tax Exemption

DOAA summary of report prepared by University of Georgia's Carl Vinson Institute of Government

## BACKGROUND

In 2018, Georgia adopted a state and local sales tax exemption to attract the construction and operation of high-tech data centers (HTDCs). O.C.G.A. § 48-8-3(68.1) exempts from sales tax certain building materials used for HTDCs and computer equipment used in their operation. To qualify for the exemption, projects must meet minimum investment and quality job requirements that vary based on the population of the county. In 2022, the requirements were lowered for projects in a county with a population below 50,000.

This review was requested by the Senate Finance Committee and performed in accordance with O.C.G.A. § 28-5-41.1. The University of Georgia's Carl Vinson Institute of Government (the Institute) prepared the report.

## ECONOMIC ACTIVITY

The Department of Revenue reported that too few taxpayers have utilized the exemption to permit the public release of information. As a result, the Institute relied on previous studies and interviews of industry officials to estimate the cost of constructing and operating a large HTDC (hyperscale).

The Institute estimated the construction costs of one of these centers at \$800 million. At that amount, approximately 4,200 construction jobs and 7,300 total jobs would be created during an approximate two-year construction phase. The Institute estimated 50 HTDC employees and an additional 217 jobs would be supported by the center's existence each year. The relatively high cost of inputs to HTDCs and the high salaries of their employees leads to the large number of indirect and induced jobs.

The Institute estimated that 90% of HTDCs in Georgia would not be present without the exemption. As a result, the vast majority of the economic activity noted above can be attributed to the incentive.

O.C.G.A. § 28-5-41.1 requires the analysis to include net economic activity, which includes opportunity cost. If the exempted state sales tax had been collected, the Institute estimated the creation of 2,153 jobs.

## REVENUE

As noted above, the Institute could not obtain the amount of forgone state tax revenue from the Department of Revenue. However, using the hypothetical scenario of an \$800 million HTDC, forgone state revenue would total approximately \$80 million.

Economic activity attributable to the exemption would result in approximately \$19.4 million in additional state taxes during construction. HTDC operations would result in another \$250,000 to \$275,000 in state taxes each year.

## COST

The Department of Revenue reported **negligible costs** associated with administration of the exemption.

## PUBLIC BENEFIT

HTDCs may have mixed impacts on the greater public. The facilities are high electricity and water users, which could strain local resources during droughts, heat waves, or cold snaps. However, the construction of HTDCs may lead to needed investment in this infrastructure. In addition, HTDCs prefer sites with renewable energy availability, encouraging diverse energy sources. Finally, HTDCs can lead to improvement in an area's broadband infrastructure.