COMMONWEALTH of VIRGINIA

Department of Taxation

January 2, 2026

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee

The Honorable Luke E. Torian
Chair, House Appropriations Committee

The Honorable Vivian E. Watts
Chair, House Finance Committee

Dear Chair Lucas, Chair Torian, and Chair Watts,

Pursuant to 2021 House Bill 2273 and Senate Bill 1423 (Chapters 367 and 368 of the 2021 *Acts of Assembly*, Special Session I), the Department of Taxation ("the Department"), in collaboration with the Virginia Economic Development Partnership Authority ("VEDP"), is required to publish a biennial report on the Retail Sales and Use Tax exemption for data centers under *Virginia Code* § 58.1-609.3 (18).

This report is required to include aggregate information on qualifying expenses claimed under this exemption, the total value of the tax benefit, a return on investment analysis that includes direct and indirect jobs created by data center investment, state and local tax revenues generated, and any other information the Department and VEDP deem appropriate to demonstrate the costs and benefits of the exemption. In addition, VEDP is authorized to publish on its website and distribute annual information indicating the job creation and ranges of capital investments made by a data center operator and, if applicable, its participating tenants, in a format to be developed in consultation with data center operators.

The enclosed document presents the report for Fiscal Years 2024 and 2025. Please contact me if you have any questions.

Sincerely,

James J. Alex
Tax Commissioner
Commonwealth of Virginia

Enclosure

C: The Honorable Stephen E. Cummings, Secretary of Finance
Mr. Jason El Koubi, President and CEO, Virginia Economic Development Partnership

Data Center Exemption

Virginia Code § 58.1-609.3 (18) provides an exemption for data center operators and their tenants from the Virginia Retail Sales and Use Tax for computer equipment or enabling software purchased or leased for the processing, storage, retrieval, or communication of data, including but not limited to servers, routers, connections, and other enabling hardware, including chillers and backup generators used or to be used in the operation of such exempt equipment, provided that such computer equipment or enabling software is purchased or leased for use in a data center that is located in a Virginia locality, and the data center operator has entered into a memorandum of understanding with the Virginia Economic Development Partnership Authority ("VEDP") setting forth minimum capital investment and new job creation requirements associated with the operation or maintenance of the data center.

This exemption also applies to any such computer equipment or enabling software purchased or leased to upgrade, supplement, or replace computer equipment or enabling software purchased or leased as part of the initial investment. The exemption does not apply to any computer software, otherwise taxable under Chapter 6 of Title 58.1 of the *Virginia Code*, sold separately from the computer equipment, nor does it apply to general building improvements or fixtures.

Biennial Data Center Reporting Requirement

Pursuant to Chapters 367 and 368 of the 2021 Acts of Assembly, Special Session I, all data centers claiming this exemption must report certain information to VEDP annually. Such information includes employment levels, capital investments, average annual wages, qualifying expenses, and tax benefits, and such other information as VEDP determines is relevant. Data center operators must submit the annual report to VEDP regardless of when such operators locate a new data center in the Commonwealth. Accordingly, VEDP received 56 annual reports from data center operators for Fiscal Year 2024, of which 48 reported receiving a tax benefit, and 62 reports for Fiscal Year 2025, of which 56 reported receiving a tax benefit.

Based on this information reported by the data center operators, the Department of Taxation ("the Department"), in collaboration with VEDP, is required to publish a biennial report on the exemption. Such report must include the following:

- Aggregate information on qualifying expenses claimed under this exemption,
- The total value of the tax benefit,
- A return on incentive analysis that includes direct and indirect jobs created by data center investment, state and local tax revenues generated, and
- Any other information the Department and VEDP deem appropriate to demonstrate the costs and benefits of the exemption.

The report cannot include, and the Department and VEDP cannot publish or disclose, any such information if it is unaggregated or if such report or publication could be used to identify a business or individual. The Department is required to publish the report and submit it to the Chairmen of the Senate Committee on Finance and Appropriations and the House Committees on Appropriations and Finance.

Jobs, Investment, and Tax Benefit Information Reported by Data Center Operators

During Fiscal Year 2024, data center operators reported to VEDP 1,197 net new jobs and investment of approximately $32.0 billion, of which approximately $21.7 billion was equipment or software that was exempt from the sales tax. For Fiscal Year 2025, data center operators reported to VEDP 1,610 net new jobs and an investment of approximately $48.6 billion, of which approximately $33.2 billion was exempt from sales tax.

Data center operators reported to VEDP an aggregate exempt equipment and software investment of approximately $21.7 billion in Fiscal Year 2024, for an aggregate reported tax benefit of approximately $1.3 billion. For Fiscal Year 2025, data center operators reported to VEDP an aggregate exempt equipment and software investment of approximately $33.2 billion and an aggregate reported tax benefit of approximately $1.9 billion. The estimated tax benefit reported by data center operators reflects the total tax savings to the data center operators and the corresponding negative revenue impact to the Commonwealth, including the General Fund, non-General Fund, and local revenue impact.

It should be noted that this data was self-reported by data center operators and was not independently validated by VEDP or the Department.

The table below provides the information reported by data center operators regarding the jobs created, investments made, exempt purchases, and tax benefit of the data center exemption during Fiscal Years 2024 and 2025.

Table 1: Summary of Reported Jobs, Investment, and Tax Benefit

	FY 2024	FY 2025
Data Center Operators Reporting Tax Benefit	48	56
Existing Jobs	6,758	7,785
Added Jobs	1,197	1,610
Total Jobs	**7,955**	**9,395**
Land/Building Acquisition	$1,927,553,000	$1,438,433,000
Site Improvements	102,375,000	2,476,478,000
Real Property/ Building Improvements	6,634,455,000	10,429,174,000
Taxable Tangible Property	905,689,000	820,547,000
Exempt Equipment or Software	21,668,251,000	33,177,326,000
Other Investment	761,188,000	226,578,000
Total Investment	**31,999,512,000**	**48,568,536,000**
Reported Tax Benefit	**1,292,457,000**	**1,941,390,000**

Note: Total figures may not sum due to rounding.

Return on Incentive Analysis

Virginia Code § 58.1-609.3 specifies that biennial reporting shall include a return on investment analysis, which includes direct and additional jobs created by data center investment and state and local tax revenues generated. To satisfy this requirement, VEDP developed a return on incentive ("ROI") model to account for the return on the Data Center Retail Sales and Use Tax ("DCRSUT") tax benefits offered to companies based on existing VEDP models used to estimate state and local tax revenues from economic development projects. The model was reviewed by external academic experts in 2022, and subsequent updates to the model for the current report were done in consultation with the same external academic experts.

In any given year, the state and local revenue generated from companies participating in the DCRSUT exemption program is derived from investments made and jobs created over the past several years. At the state level, income and sales taxes from direct and additional workers produce the most revenue. For localities, real estate and business property taxes are the major sources of revenue. To provide the clearest estimate of the revenues generated on investments made and jobs created in Fiscal Year 2024 and Fiscal Year 2025, VEDP has opted to run a five-year ROI analysis for each year (that is two overlapping five-year periods). The five-year timeframe aligns with the average refresh cycle of data center equipment.

For purposes of the ROI analysis conducted by VEDP, the value of the DCRSUT exemption for all reporting data center operators is the incentive or cost. The state and local tax revenue generated by the investments and associated employment are the benefits. The summary table on the following page shows that the estimated cumulative tax revenues generated by data center operators over five years (two overlapping five-year periods covering 2024-2029) are greater than the value of the sales tax exemption by $2.1 billion, with an average annual return on incentive of 11 percent and a revenue-to-cost ratio of 1.7.

Table 2: FY 2024-2025 DCRSUT Exemption Usage and Return-on-Incentive Summary

Program totals:

	FY 2024	FY 2025	FY 2024 & 2025
Eligible Companies[1]	56	62	
Participating Companies[2,3]	48	56	
Non-qualifying data center investment	$10,331,261,000	$15,391,210,000	$25,722,471,000
Qualifying data center investment	21,668,251,000	33,177,326,000	54,845,577,000
DCRSUT benefit reported	1,292,457,000	1,941,390,000	3,233,847,000
Total data center investment	**31,999,512,000**	**48,568,536,000**	**80,568,048,000**

Direct jobs created by data center investment	1,197	1,610	2,807
Direct jobs maintained by data center investment[4]	6,758	7,785	7,785
Total direct jobs	7,955	9,395	-
Additional jobs supported by data center investment[4]	18,753	22,107	22,107
Total direct + additional jobs	**26,708**	**31,502**	**31,502**

5-year return on incentive analysis:	**FY 2024 (2024-2028)**	**FY 2025 (2025-2029)**	**FY 2024 & 2025 (2024-2029)**
State tax revenue estimate	$725,883,000	$993,819,000	$1,719,702,000
Local tax revenue estimate	1,548,962,000	2,076,863,000	3,625,825,000
Total tax revenue estimate *(A)*	**2,274,845,000**	**3,070,682,000**	**5,345,527,000**
DCRSUT benefit reported (B)	1,292,457,000	1,941,390,000	3,233,847,000
Net tax revenue estimate *(A-B)*	**982,388,000**	**1,129,292,000**	**2,111,680,000**

Average Annual Return on Incentive	12%	10%	11%
Revenue-to-Cost Ratio	1.8	1.6	1.7

Note: Total figures may not sum due to rounding.

[1] There were 65 unique eligible companies across FY 2024 and FY 2025. While FY 2024 had 56 eligible companies and FY 2025 had 62, the combined total is not 118 because many companies were eligible in both years.

[2]Not all eligible companies with an agreement reported exempt purchases in 2024 or 2025.

[3]There were 59 unique participating companies across FY 2024 and FY 2025. While FY 2024 had 48 participating companies and FY 2025 had 62, the combined total is not 110 because many companies were eligible in both years.

[4]Jobs data for maintained and supported jobs do not sum because the jobs initially reported in FY 2024 are considered maintained jobs for FY 2025; some data center operators reported maintained jobs in one year but not the other, and other data center operators reported lower employment levels in FY 2025.

The Joint Legislative Audit and Review Commission (JLARC) found in its 2019 review of the DCRSUT exemption that it "has a sizable influence on data center behavior...because interstate competition to attract data centers has increased over the past decade." Specifically, JLARC estimated that 90 percent of the data center investment made by the companies that benefit from the DCRSUT exemption would not have occurred in Virginia without the exemption (known as the "but for" percentage). This "but for" percentage has even been as high as 100 percent in a more recent analysis conducted by JLARC, but the more consistently used 90 percent is retained here.

Another way to state the impact of the DCRSUT exemption is to consider the counterfactual and estimate the revenue that could have been lost had the exemption not been in place. This can be done by retaining just 10 percent of the revenue estimates and assuming 10 percent of the revenue previously foregone under the DCRSUT is collected tax revenue. This serves as the portion of the investment and revenues that would have been generated by operators selecting a Virginia location even without the program.

Applying the 90% reduction to the revenue and cost estimates, Virginia and its localities could have lost out on nearly $1.3 billion in net tax revenues from investments made in Fiscal Year 2024 - Fiscal Year 2025 (through 2029) without the DCRSUT exemption as total revenues go from $2.1 billion to $858 million and the DCRSUT exemption benefit goes from nearly $3.3 billion to $0 (assuming no exemption).

Table 3: FY 2024-2025 Estimated Tax Revenue Loss Without DCRSUT Exemption

	FY 2024 (2024-2028)	**FY 2025** (2025-2029)	**FY 2024 & 2025** (2024-2029)
Counterfactual: Absence of DCRSUT:			
Adjusted total tax revenue estimate (10%) *(A)*[1]	$356,730,200	$501,207,200	$857,937,400
ROI (actual):			
Total tax revenue estimate	2,274,845,000	3,070,682,000	5,345,527,000
DCRSUT benefit reported	(1,292,457,000)	(1,941,390,000)	(3,233,847,000)
Net tax revenue estimate *(B)*	**982,388,000**	**1,129,292,000**	**2,111,680,000**
Difference in net tax revenue without DCRSUT *(A – B)*	**(625,657,800)**	**(628,084,800)**	**(1,253,742,600)**

[1]The adjusted total tax revenue estimate (which assumes 10 percent of data center investment comes to Virginia even without the existence of a DCRSUT exemption) is calculated by taking 10 percent of the total tax revenue estimated with the ROI model and adding to this 10 percent of the reported tax benefit. It is assumed that the 10 percent of operators who choose to locate in Virginia even without the DCRSUT program would pay tax on qualifying investment previously foregone under the program.

Methodology

VEDP combined its Virginia and local Excel-based Return on Incentive (ROI) models into one model to produce the data needed to address the identified items. VEDP's Virginia model has been in use for over 20 years and has twice been reviewed by outside experts. The local model has been in use for over 10 years. VEDP maintains two different models because of Virginia's tax structure. Differences in taxation authority include income tax at the state level, property taxes at the local level, and sales tax at both levels, but for different rates. Combining the models involved adding tabs from the local model to the Virginia model so the same inputs could drive both sets of calculations. A new results tab and a data summary tab were also created. The data summary enables the collection and compilation of necessary data points from each company into aggregate results. The combined model was reviewed by a qualified external expert from the Weldon Cooper Center at the University of Virginia.

Using the data VEDP collected through the annual reporting from the companies taking advantage of the data DCRSUT exemption, ROIs were run for each company. The reported data are then fed into the model's entry form to drive separate calculations for the state and local estimates. The local sales tax estimates included any applicable regional sales taxes and local option sales taxes. The results of the estimates are combined into a summary. The summary data are compiled into a separate tab to produce an aggregate analysis of all the companies.

Assumptions

- The analysis is run for five years to account for the typical "refresh cycle" of data center equipment; VEDP's research determined a five-year replacement cycle is still an industry rule of thumb, although more companies are moving to a longer refresh cycle.
- Tax estimates for the first year of employment are reduced by half because the employment figure is for the end of the year, and the new workers probably did not work a full year.
- When existing jobs are reported, they are entered into the model's Saved Jobs field because it is assumed that the data center could become obsolete and close without the equipment replacement incentivized by the program. The assumption is that even existing jobs would be at some risk without the equipment replacement, and that the program aids in retaining these jobs.
- Any local discretionary incentives that were offered to companies are not included because they are not part of the reporting process or readily available.
- The model does distinguish between the general tangible personal property rates and data center rates for each locality when a locality uses this type of tax policy.
- Additional construction jobs (ones supported elsewhere in the economy due to data center construction jobs created during the construction phase) are estimated using the multiplier for Construction of New Commercial Structures, Including Farm Structures (IMPLAN Code 50).

- The multiplier used is adjusted from the multiplier used in IMPLAN Code 418 (model year 2025), which maps to NAICS 518, the NAICS code for Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services.
    - In the 2023 version of this report, the multiplier was based strictly on the multiplier used in IMPLAN Code 436, which mapped to NAICS 518 (Data Processing, Hosting, and Related Services).
    - In 2025, IMPLAN's multipliers shifted as it regrouped and reclassified industries. In the 2025 model (which is based on 2023 data), IMPLAN Code 418 is the most closely tied to the Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services Industry (NAICS 518). It is hard to compare between the two years, however, because Industry Code 418 includes five other industries aside from NAICS 518 alone, whereas Industry Code 436 used in 2023 was solely tied to NAICS 518.
    - In 2025, in consultation with experts, VEDP used a methodology to adjust the multiplier in IMPLAN similar to an approach used by JLARC in past research. The following adjustments were made:
        - Adjusting the assumed production inputs such that 40% of input for these types of companies is electricity.
        - Inputting the employment and payroll figures reported by companies in aggregate as the employment and labor income in the model.
        - Estimating total output in the model as labor income multiplied by 66.6666, based on the assumption that payroll is 15% of total spending.

Limitations

- For Fiscal Years 2024-2025, all participating companies submitted required reporting. However, in previous years, not all companies have submitted the required reports by the report date. For future reports, this could affect the completeness of the overview the report is intended to provide.
- Data has only been collected in the current format for four years.
    - The full picture of the five-year replacement cycle is still not yet captured.
    - The variation in investment activity could be different than what is currently seen.
- The five-year time frame for the analysis may be too short because the expense of constructing a data center encourages the continued use of the building.

- The cooling equipment, or chillers, for the servers is tax exempt but may have been included in the construction cost category on the reporting template; some companies claimed an exemption larger than would be assumed based solely on the investment reported under the qualifying equipment category, possibly because of this issue.
- The analysis does not include any local incentives that may have been granted because they are not readily available.
- The effective cost of the program would exclude the foregone revenue from the cost total for the data centers, which would not have come to Virginia without the exemption.
- The ROI model used covers the primary tax revenue streams at the state and local level; however, there are some smaller revenue streams that are not captured in the current analysis due to a lack of requisite data. This includes electric utility consumption tax, recordation taxes, etc.
- IMPLAN's modeling is based on data which lags by two years, so the 2025 update to the IMPLAN model and associated multipliers will be based on 2023 data, for example.

December 22, 2025

The Honorable L. Louise Lucas
Chair
Senate Finance and Appropriations Committee
General Assembly Building, Room 1404
201 North 9th Street
Richmond, VA 23219

The Honorable Luke E. Torian
Chair
House Appropriations Committee
General Assembly Building, Room 1223
201 North 9th Street
Richmond, VA 23219

The Honorable Vivian E. Watts
Chair
House Finance Committee
General Assembly Building, Room 907
201 North 9th Street
Richmond, VA 23219

Dear Senator Lucas, Delegate Torian, and Delegate Watts,

In 2021, the General Assembly amended § 58.1-609.3 (18) of the Code of Virginia to expand reporting requirements for companies participating in Virginia's Data Center Retail Sales and Use Tax (DCRSUT) exemption program and to require the Virginia Department of Taxation (TAX) and the Virginia Economic Development Partnership (VEDP) to submit biennial reporting on this information. Pursuant to these changes, new reporting requirements for all participating companies were put in place by VEDP in January 2022.

This legislation has positioned VEDP to collect data on the ongoing investment, employment, and wages from all participating companies, as opposed to only those in the initial performance period. This is important because data centers undergo frequent equipment reinvestments to maintain or increase operational capacity, and the value of these investments was, prior to this reporting requirement, unknown. As the Joint Legislative Audit and Review Commission (JLARC) previously pointed out, the limits on the information available made past evaluations of the full impacts of the program and industry challenging.

TAX and VEDP are pleased to publish this biennial update of aggregate statistics on total capital investment, employment, and wages for participating companies; qualifying expenses claimed under the DCRSUT exemption; and the total value of the tax benefit. VEDP has also produced a return-on-incentives analysis drawing on this information. This report covers Fiscal Years (FY) 2024 and 2025.

Overall, the participating companies invested an unprecedented $80 billion during this two-year period. This represents a significant increase over the $37 billion reported in the inaugural

biennial report in January 2024 (covering FY 2022 and FY 2023). Virginia – and the nation – are experiencing the highest levels of infrastructure-related capital expenditure, as a share of GDP, since the railroad boom of the 1880s. These investments are driving critical economic activity and generating substantial tax revenues across the Commonwealth at a time when federal workforce reductions and spending cuts are exerting temporary pressure on Virginia's economy. These investments are underpinning net employment growth Virginia continues to enjoy in 2025, led by strong gains in construction.

Participating companies also reported over 2,800 net new direct jobs during this period, with an average salary of nearly $120,000, bringing total direct employment by these companies to nearly 9,400 in FY 2025. Estimated cumulative state and local tax revenues generated by investments made in FY 2024 and FY 2025 over five years – aligning with the average refresh cycle of data center equipment – totaled nearly $2.3 billion and $3.1 billion for investments made in each of those years, respectively.

Beyond the direct employment impacts, the analysis in this report estimated that over 22,000 additional jobs were supported by the investments made in FY 2024 and FY 2025. Indeed, Virginia has seen a burgeoning of the data center supplier ecosystem in recent years that spans the entire Commonwealth. Examples of major projects include: Hanley Energy (Loudoun), Tate (Russell), Super Radiator Coils (Chesterfield), and Modine Manufacturing (Rockbridge).

This biennial report comes on the heels of a major study by JLARC on the data center industry published in December 2024. Similar to VEDP's findings, JLARC's independent analysis demonstrated the significant and far-reaching impact of the data center industry. Notably, the analysis estimated that the data center industry supports an impressive 74,000 jobs, $5.5 billion in labor income, and $9.1 billion in Virginia GDP overall to the state economy annually.

JLARC's report also recognized that the DCRSUT exemption is essential for maintaining Virginia's lead in data center development, given the broad adoption of this sort of incentive by competitor states. Specifically, JLARC has estimated that more than 90% of data center investment would not have taken place *but for* the DCRSUT exemption.

Applying this assumption to the latest reported data, VEDP estimates that eliminating the DCRSUT exemption would reduce net revenues by nearly $1.3 billion over five years, based on investments and employment reported in FY 2024 and FY 2025. In other words, the absence of the DCRSUT exemption would cause a reduction of almost $1.3 billion in net, bottom-line state and local revenues over this period compared to the status quo.

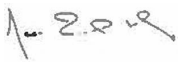
These findings underscore that, if Virginia seeks to maintain its leadership in this sector, we must offer competitive, predictable policies that enable companies to forecast long-term costs with confidence, including the net impact of incentives. Incentive programs should keep pace with emerging trends and remain comparable to offerings in competitor markets.

Sustaining Virginia's leadership in this industry also depends on addressing the same competitive factors that influence other sectors. This includes working with partners to keep site selection and business costs transparent and predictable, while continuing to invest in essential infrastructure and expanding the skilled workforce—construction professionals, technicians, and technology talent—particularly in regions where interest in data centers is growing. Achieving

these objectives typically requires coordination across all levels of government and meaningful engagement with local communities to ensure development aligns with their unique needs.

With competition intensifying, Virginia could risk forfeiting the substantial growth and tax revenues this industry and its supplier ecosystem are projected to deliver unless these considerations remain central to future policy decisions.

Sincerely,



Jason El Koubi
President & CEO