

Tax, Employment, and Economic Impacts

THE ISSUE

Roughly 40 states offer billions of dollars in state and local subsidies to data centers through sales and use tax exemptions, preferential utility rates, and property tax abatements. These subsidies are advertised as a way to attract data centers, boost the state and local economy, and promote job growth. However, the extent of these benefits is **overstated**, and the **negative impacts are difficult to accurately measure**. When states offer subsidies, they forgo vital tax revenue that supports **public services and infrastructure**, such as schools, roads, public transit, and healthcare, undermining their already strapped budgets. With realistic guardrails on data center subsidies, these negative tax, employment, and economic impacts can be greatly improved.

THE TOOLKIT

State legislatures are the most effective point of leverage for minimizing the tax, employment, and economic impacts from data centers. The tools for minimizing such impacts include:

Imposing **moratoria on data center construction** until states can fully **study their economic and fiscal impacts**. Legislators can create commissions or task forces and assign analyses to be completed by specific agencies and committees during the moratorium.

Pausing or sunseting data center subsidies. If a full sunset is not feasible, **incentive evaluations** and **subsidy evaluations** can be used to analyze the full economic impact of these programs. These evaluations can include both fiscal impact and cost benefit analysis.

Establishing key subsidy program reforms, including: 1) imposing **cost controls**; 2) attaching strong **local hiring** and economic targets to programs; 3) Requiring data centers to commit to stringent **bring your**

own clean energy, efficiency, water, financing, and reliability requirements; 4) creating strong **enforcement requirements**; and 5) requiring stringent project approval **disclosures** and strong **community engagement** requirements.

Levying new **taxes** and **fees** on data centers to recoup forgone revenue. New taxes and fees should be directed to state general funds or to offset specific industry impacts, including on frontline communities.

Preserving community choice by enabling engagement in the budgeting process and by setting **key transparency measures and technical support for communities**, which can inform effective **community benefits agreements** and community benefits ordinances.

FOR MORE DETAIL ON THESE POLICIES, see our complete State Policy Toolkit for Data Center Regulation on Tax, Employment, and Economic Impacts. These tools should also be considered in tandem with the **full collection of toolkits**, addressing issues of water, transparency, electricity affordability and reliability, and greenhouse gas emissions. This work does not assess the wider societal and economic impacts of AI. [Learn more about our approach.](#)