

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** R. Creigh Deeds

3. **Committee** Senate Finance and Appropriations

4. **Title** Retail Sales and Use Tax; Data Center Energy Efficiency and Clean Energy Use Requirements

2. **Bill Number** SB 465

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. **Summary/Purpose:**

This bill would add clean energy and energy efficiency requirements for data center operators and their tenants to qualify for the data center sales tax exemption.

If enacted during the regular session of the 2026 General Assembly, this bill will become effective July 1, 2026.

6. **Budget amendment necessary:** Yes.

Item 113: Virginia Economic Development Partnership

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7a. **Expenditure Impact:**

Fiscal Year	Dollars	Positions	Fund
2026-27	\$230,000	2 FTE	GF
2027-28	\$230,000	2 FTE	GF
2028-29	\$230,000	2 FTE	GF
2029-30	\$230,000	2 FTE	GF
2030-31	\$230,000	2 FTE	GF
2031-32	\$230,000	2 FTE	GF

8. **Fiscal implications:**

Administrative Costs

This impact of this bill on the Department of Taxation's costs would be routine. The Virginia Economic Development Partnership ("VEDP") estimates that it would need two additional full time employees at a cost of \$230,000 (including benefits) annually to monitor data centers' compliance with the requirements established by this bill. This bill would have no impact on local administrative costs.

Revenue Impact

This bill would have an unknown positive impact on state and local revenues to the extent that the requirements in the bill result in fewer data centers qualifying for exemption. The Department of Taxation (“the Department”) lacks sufficient information to determine the extent of the impact of this bill on state or local revenues.

9. Specific agency or political subdivisions affected:

Department of Taxation; Virginia Economic Development Partnership

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Currently, a sales tax exemption is available to qualifying data centers. The exemption covers 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 the equipment for use in a data center that: (i) is located in a Virginia locality; (ii) results in a new capital investment on or after January 1, 2009, of at least \$150 million; and (iii) results in the creation on or after July 1, 2009, of at least 50 new jobs by the data center operator and the tenants of the data center, collectively, associated with the operation or maintenance of the data center provided that such jobs pay at least one and one-half times the prevailing average wage in that locality.

If the data center is located in a “distressed locality,” (i) the requirement of at least 50 new jobs is reduced to 10 new jobs and (ii) the requirement of at least a \$150 million new capital investment is reduced to \$70 million. A “distressed locality” is:

- From July 1, 2021, until July 1, 2023, any locality that had (i) an annual unemployment rate for calendar year 2019 that was greater than the final statewide average unemployment rate for that calendar year and (ii) a poverty rate for calendar year 2019 that exceeded the statewide average poverty rate for that year; and
- From and after July 1, 2023, any locality that has (i) an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year and (ii) a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

This exemption applies to the data center operator and the tenants of the data center if they collectively meet these requirements. In order to take advantage of this exemption, data center operators and their tenants must enter into a memorandum of understanding

("MOU") with the Virginia Economic Development Partnership ("VEDP") and obtain an exemption certificate from the Department.

Virginia Tax Exemptions for Data Centers Report

The Department is required to prepare a report, which must 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. On January 2, 2026, the most recent [Virginia Tax Exemptions for Data Centers Report](#) was published, which found that the sales tax exemption resulted in forgone revenues of \$1.3 billion in Fiscal Year 2024 and \$1.9 billion in Fiscal Year 2025.

Proposal

This bill would provide that, beginning July 1, 2026, no purchase or lease of data center equipment or software would be exempt from the sales and use tax pursuant to the data center exemption unless the data center operator demonstrates that its facilities either

- have a power usage effectiveness (PUE) score of no greater than 1.2, or
- for data centers co-located in buildings with other commercial uses that make up more than 20 percent of the square footage of the building, achieve an energy efficiency level of no less than the most efficient 15 percent of similar buildings constructed in the previous five years.

Power usage effectiveness (PUE) is a ratio that describes how efficiently a computer data center uses energy; specifically, how much energy is used by the computing equipment (in contrast to cooling and other overhead that supports the equipment).

Additionally, by January 1, 2028, data centers would be required to:

- Procure carbon-free renewable energy and associated renewable energy certificates from facilities located within the area of the transmission grid serving Virginia that are equal to 90 percent of its electricity requirements, measured on an hourly basis, or
- Derive its electricity from non-carbon-emitting, renewable sources.

In no case would a qualifying data center be allowed to use diesel fuel for onsite power generation after December 31, 2031.

The bill would require that each data center's memorandum of understanding with VEDP include the data center operator's method of demonstrating compliance with these energy

efficiency and clean energy requirements. VEDP would be required to establish guidelines for calculating the PUE score and determining analogous buildings for comparison.

If enacted during the regular session of the 2026 General Assembly, this bill will become effective July 1, 2026.

Similar Legislation

House Bill 641 and **Senate Bill 393** would impose a land conservation tax upon data center operators and dedicate the revenue for land preservation.

House Bill 784 would require the Department to publish an annual report summarizing the usage of the data center sales tax exemption, including the names of data center operators, and (i) the amount of the exemption claimed, (ii) whether the required job creation and capital investments goals have been met, and (iii) the employment levels and average annual wages paid to its employees.

House Bill 897 would impose requirements on operators to qualify for the data center sales tax exemption, including (i) not using co-located generating facilities that emit carbon dioxide, other than backup generators; (ii) contracting for a certain percentage of energy from clean energy resources, (iii) utilizing only non-carbon dioxide-emitting backup power sources; and (iv) demonstrating sufficient investment in environmental management and energy efficiency measures to provide system-wide benefits.

House Bill 961 would limit the data center exemption to purchases or leases of equipment or enabling software that (i) take place prior to the data center's start of operations, or (ii) as part of a refresh cycle of an existing data center improve the energy efficiency of such equipment or software.

House Bill 1101 would require that the local composite index school funding formula be revised to include as a factor in the calculation of required local effort any local revenue generated by data centers.

House Bill 1132 would authorize localities to create local renewable energy incentive program to reduce utility bills for residential customers, to reduce reliance upon fossil fuel power generation facilities, to reduce the need for construction and placement of new transmission lines, and to minimize future electricity costs for residential customers.

cc : Secretary of Finance

Date: 02/05/2026 JEM
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