

**DEPARTMENT OF TAXATION  
2026 Fiscal Impact Statement**

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 961

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax, Data Center  
Exemption

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would, beginning July 1, 2026, limit the sales tax data center exemption to the purchase or lease of equipment or enabling software that (i) takes place prior to the start of operations for such data center, or (ii) that is part of a refresh cycle of an existing data center. "Refresh cycle" would mean "purchases or leases made to replace, repair, or upgrade the equipment or enabling software that improve the energy efficiency of such equipment or software."

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

6. **Budget amendment necessary:** No.

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

**8. Fiscal implications:**

Administrative Costs

The impact of this bill on the Department of Taxation's costs would be routine. 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 purchases by data center operators and tenants 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, Localities

**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, beginning July 1, 2026, limit the sales tax data center exemption to the purchase or lease of equipment or enabling software that (i) takes place prior to the start of operations for such data center, or (ii) that is part of a refresh cycle of an existing data center.

“Refresh cycle” would mean “purchases or leases made to replace, repair, or upgrade the equipment or enabling software that improve the energy efficiency of such equipment or software.”

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 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.

**Senate Bill 93** would provide that if any tenant of a data center is a bank, then the sales tax data center exemption would not apply to the data center operator and its tenants. The

bill would also make computer equipment and peripherals of banks used in a data center subject to personal property taxes.

**Senate Bill 465** would add clean energy and energy efficiency requirements for data center operators and their tenants to qualify for the data center sales tax exemption.

cc : Secretary of Finance

Date: 02/08/2026 JEM  
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