

Utah Tax Policies Related to Data Centers

Introduction

Data centers and related energy demands appear center stage as growth in artificial intelligence (AI) calls for more computing power. Given the enormous amounts of economic and tax value involved, projected rapid growth in data centers leads to complex questions about the interaction of Utah's tax policies and data center construction and operation.

State and local tax policy decisions impact tax revenues generated from data center property, sales, and income entering Utah's tax base. These tax policies (both structural and firm-specific) include local property tax increment financing, state sales tax exemptions, and state income tax credits.

Policy Considerations

As policymakers evaluate tax policy related to data centers, they may wish to consider the following questions:

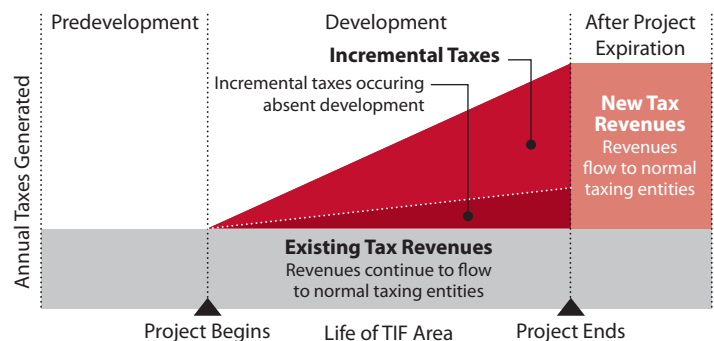
- **Economic Impacts** – What local, state, and national economic impacts do data center development and operation create? What positive or negative externalities would a data center create?
- **Uniform or Targeted Tax Policy** – Should Utah approach data center tax policy with uniformity or with firm-specific or location-specific tax policy?
- **Level of Government** – What are the current and appropriate tax policy options available to state and local governments?
- **Revenues and Costs** – What tax revenues will data centers generate and what public service costs will they generate?
- **Impacts on Current Taxpayers** – What financial impacts will new data centers generate for current taxpayers?
- **Resource Availability** – To what extent are energy, labor, and natural resources like land and water available?

Local Property Taxation of Data Centers

The Utah Constitution requires property taxation at a uniform and equal rate in proportion to fair market value, with certain constitutionally specified exceptions. This “uniform and equal” provision applies to both real property (land and items permanently affixed to land like a house or office building) and tangible personal property (all other tangible property like equipment or furniture).

Utah's “Truth in Taxation” system guarantees taxing entities like school districts, cities, counties, and some special districts the same nominal amount of property tax revenue as generated in the prior year. The system also allows revenue increases for

Figure 1: Basic Tax Increment Financing Model



Source: Kem C. Gardner Policy Institute

“new growth” (newly created property) and also when an entity follows a specified general and parcel-specific notification and hearing process about the increase. A related publication highlights how data center real and personal property interact differently within Utah's Truth in Taxation system.¹

Property tax applies to data centers, similar to other commercial real property. However, in many cases the property tax paid may divert away from standard taxing entities (school districts, cities, counties, and special districts) for public service delivery and into local community reinvestment agencies or other development authorities to revert back into the data center project.

Property Tax Increment Financing

Some local governments utilize firm-specific property tax inducements to encourage businesses to locate in specific places. State law authorizes local governments to create community reinvestment agencies (CRAs), which can engage in tax increment financing (sometimes called “TIF”) to help offset developer costs. Development authorities and development zones (like the Inland Port Authority, Military Installation Development Authority [MIDA], and The Point, among various others) may also utilize tax increment financing to incent development projects, such as data centers.

Tax increment financing uses anticipated future property tax revenue to help finance the development expected to generate those revenue increases. The increased tax revenues from properties within that specific area represent the “tax increment,” or the incremental tax revenue increase above a specified baseline amount (Figure 1).

Tradeoffs Between General Structural and Firm-Specific Tax Policies

In a market economy, prices serve as the resource-rationing mechanism, sending signals to buyers on how much to buy and to sellers on how much to sell.

By altering market prices, tax policies alter market price signals. Policymakers confront policy choices and related tradeoffs between focusing on broad-based structural tax policies that treat all firms the same or providing firm-specific inducements to selected entities. These policy choices can shift the location and amount of economic activity, with an emphasis on structural tax policy allowing fundamental market price signals to predominate in location decisions, while firm-level inducements take a more active role in selecting the specific companies receiving targeted tax treatment and the exact location of projects.

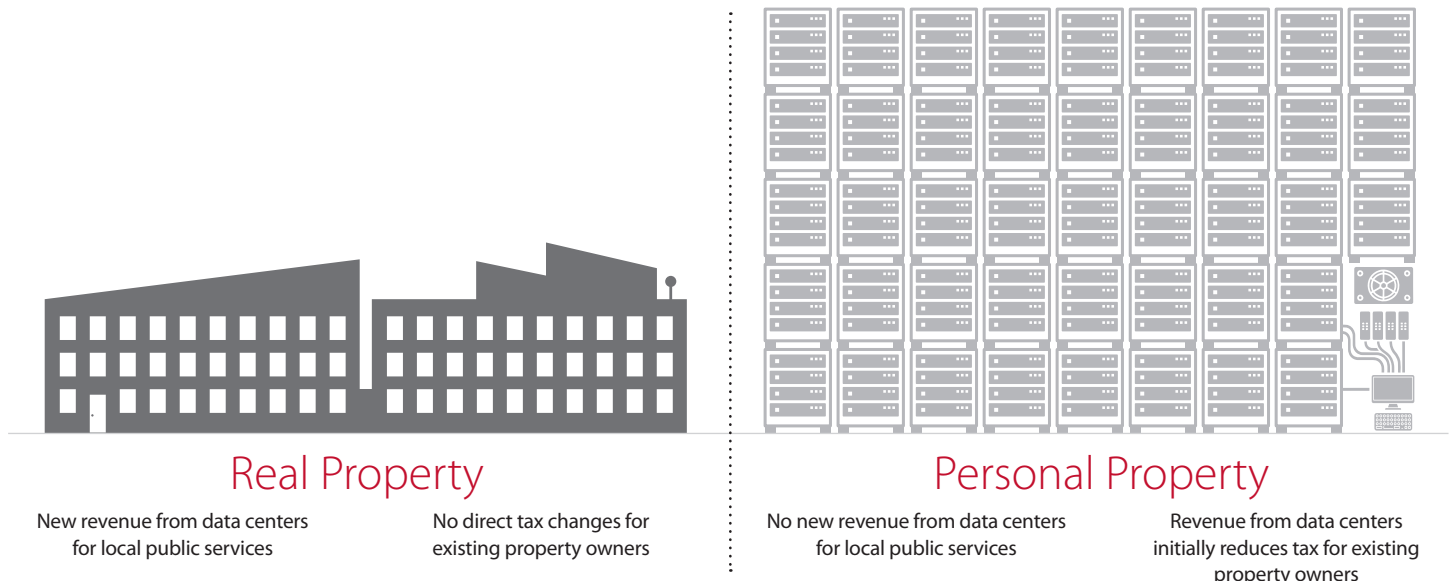
Informed policymakers carefully weigh the advantages and disadvantages of these choices and related tradeoffs.

Advantages and Disadvantages of Firm-Level Inducements

Advantages	Disadvantages
Can target only desired firms	May misallocate economic resources by unequally altering prices, leading to economic inefficiency
Can encourage firms to develop in a specific physical location	May simply relocate economic activity that would otherwise occur, with fewer public revenues for services
Property tax increment may facilitate debt issuance	Requires public services, shifts tax burden for those services onto other taxpayers
May make an otherwise financially infeasible project feasible	May pose societal costs exceeding benefits
	Potentially subject to imperfect selection process

Source: Kem C. Gardner Policy Institute

Figure 2: Real Property vs. Personal Property for Data Centers



Source: Kem C. Gardner Policy Institute and Salt Lake County Assessor's Office

Table 1: Summary of State Tax Policy

	General Structural Policy	Firm-Specific Exceptions
Property Tax	- Uniform and equal rate based on fair market value 100% of market value for business property 0.92% statewide average rate	- Project areas (CRAs, development authorities) - Tax increment financing
Income Tax	- Apportioned net income 4.45% rate	- EDTIF/REDTIF - High Cost Infrastructure Development Tax Credit
Sales and Excise Tax	- Sale/purchase of tangible personal property taxed - Some business inputs exempted, including equipment purchases for large data centers 4.85% state rate 2.65% average local rate	Municipal energy rebate

Source: Kem C. Gardner Policy Institute

Tax revenues typically fund services provided by local governments like school districts, cities, counties, and some special districts. Tax increment financing redirects some or all of the revenue increase within a specified geographic boundary to help finance development projects. This may include issuing debt to pay for project improvements like infrastructure over a certain period of time or until the project generates a certain dollar amount of incremental revenue.

Upon expiration, the increased valuation attributed to real property registers as “new growth” on the taxing entity’s property tax rolls, increasing the amount of property tax generated for that taxing entity, while the value of personal property incorporates into the existing property tax base, resulting in tax shifts for existing taxpayers. While the tax increment financing project remains in effect, some or all of the property taxes from valuation increases flow to benefit the development project. These diverted revenues do not factor into Truth in Taxation calculations and thus do not affect the certified tax rate for existing property taxpayers.

Some CRAs and other project areas exist for decades, effectively preventing most or all increased property valuations within their project areas from adding to affected taxing entities’ rolls. For example, one of the longest-standing and remaining CRAs initiated tax increment financing over 50 years ago.² As these types of entities and areas both remain and expand, cumulatively larger shares of new property tax revenue divert to various project areas rather than funding public services provided by taxing entities. To the extent these projects remain under tax increment provisions after scheduled expiration (due to continuation of expiring projects or enactment of new project areas), the promised ultimate new tax revenue benefit to typical taxing entities does not fully materialize.

Several entities currently utilize tax increment financing to incent data center construction (Table 3). In some cases, the project includes development beyond just the data center. For example, the South Jordan City Redevelopment Agency incented the development of the eBay Data Center, a Rio Tinto Distribution Center, and several other business developments. Thus, the property tax increment paid does not necessarily flow exclusively to data center development.

But For?

Various analysts identify a “but for” analysis as a best practice in the tax incentive realm.^{3,4,5} When deciding whether to offer an economic development incentive, analysts recommend the offering entity consider whether economic development would likely occur “but for” the incentive.

The availability and price of basic economic factors such as natural resources, labor, and physical capital like infrastructure heavily impact firm location decision-making. For example, one meta-analysis (a study summarizing a large number of studies) estimated that firm-level financial inducements tipped the

scales in 2-25% of business location decisions, depending on assumptions made.⁶ In the case of data centers, the availability of vacant land and access to energy and water likely play strong roles in location decisions.

If project development would occur regardless of the incentive (whether or not by that particular firm or for that particular purpose), the incentive simply reduces revenues that would otherwise support public services or keeps taxes on other taxpayers higher than they would otherwise be.

The local government revenue implications for tax increment financing projects vary significantly depending on the data center location. For example, consider a rapidly growing suburban area with close proximity to large employment centers and comparatively affordable housing. Given fundamental market forces, the area will likely continue to experience strong growth and development in the coming years without incenting projects.

However, more rural areas with smaller population and employment bases may less likely experience natural economic growth. In these areas, economies may benefit from incentivized economic development projects that may not occur but for the incentive. If the property tax increment eventually expires, giving up a portion of property tax increment in the near term could result in a longer-term economic and fiscal boon to these communities.

Beyond the “but for” question, local governments may also consider service demands related to the projects themselves and the broader growth pressures they face. Even a well-designed tax incentive for development that may not otherwise take place may shift tax burdens to other taxpayers or impair the local government’s ability to deliver public services.

Property Tax Implications for Local Governments

Utilization of tax increment financing to finance development diverts new property tax revenue away from taxing entities like school districts, counties, cities, and other local taxing entities and toward the developer. Truth in Taxation assumes that newly created property will increase service demands within a taxing entity, thus necessitating additional property tax revenue for that entity.

Data centers will likely increase some public service demands, such as for infrastructure, utilities, police, and fire protection. To the extent data centers locate away from major population centers, they may drive higher-than-average costs to provide basic public services further afield. The initial construction period in particular may generate sizable service impacts if a large number of people stay in the area during construction. However, because data centers do not employ large numbers of permanent workers after construction, other service demands (such as public education) may not increase proportionally.

Depending on the level of tax increment provided, additional service demands that a development in a project area creates could increase local government expenditures without a matching increase in property tax revenue from real property for the duration of the tax increment financing project

agreement. A formal cost benefit analysis can help evaluate the various state and local public service costs relative to benefits for Utah and the nation as whole.

Business personal property, the largest share of data center value, does not generate new tax revenue for taxing entities. Rather, new personal property initially shifts property taxes away from other taxpayers. Consequently, under current law a data center located in a project area will only generate near-term new tax revenue for the share of real property value, if any, not subject to a tax increment financing agreement.⁷

State Income Taxation of Data Centers

Utah imposes individual and corporate income taxes at a statutory single rate of 4.45%. Data centers organized as C-corporations pay tax on apportioned net income at the entity level under the corporate income tax, while pass-through entities like LLCs and S-corporations distribute tax impacts to owners under the individual income tax.

Data center development will likely result in significant initial construction spending. This spending could provide a near-term bump in state income tax collections from worker wages. In addition, multiplier effects may extend these impacts beyond the initial round of construction spending, such as financial benefits to Utah suppliers and workers spending income with local retailers.

Related public service delivery costs may also increase, such as when a data center brings in new workers from out of state, requiring additional public expenses for education, transportation, other infrastructure, public safety, and other services.

However, to the extent a data center purchases business equipment from out of state, that may not provide the same economic impact as the direct construction spending within Utah.

EDTIF Income Tax Credits

The Economic Development Tax Increment Financing (EDTIF) tax credit represents Utah's primary state-level economic development financial inducement program, enacted in 2005 to enhance corporate recruitment and expansion. EDTIF statute allows the Governor's Office of Economic Development (GOED) to create economic development zones under certain circumstances and offer post-performance refundable individual and corporate income tax credits to qualifying businesses of up to 30% of tax revenues. Incented companies must locate and invest within development zones or create remote work opportunities, and create either high-paying jobs, significant capital investment, or significant purchases from Utah-based companies. GOED also operates a similar program specific to rural investment, called the Rural Economic Development Tax Increment Financing (REDTIF) program, with rebates up to 50% of tax revenues.

Conceptually, these programs operate similar to property tax increment financing, except that the program can rebate the individual income tax of a firm's workers, corporate income

taxes, and sales taxes rather than property tax. Note that firms may receive both local property tax incentives as well as state individual income, corporate income, and sales tax rebates.

Data centers often employ relatively few full-time, permanent workers following their construction,⁸ likely resulting in lower long-term EDTIF/REDTIF rebates related to long-term employment than many other types of firms. However, data center project costs may represent significant up-front capital investment for the firm, which may include spending outside of Utah if the firm purchases servers and other equipment from out of state (see Table 4 note).

Additionally, construction of power plants, transmission lines, and other infrastructure to support data centers may qualify for these or other income tax incentives.

High Cost Infrastructure Development Tax Credit

The state also offers nonrefundable individual and corporate income tax credits for development of high-cost infrastructure. Applicants may receive an income tax credit for the lesser of the economic life of the project, 20 years, or the period of time it takes the developer to recover 50% of the cost of infrastructure construction. At an estimated cost of approximately \$2 million per megawatt to construct a natural gas facility to power a 100-megawatt data center, for a total estimated cost of \$200 million, a company claiming the high-cost infrastructure tax credit could result in approximately \$100 million of foregone state income tax revenue.

State and Local Sales and Excise Taxation of Data Centers

The State of Utah imposes a state sales tax and authorizes local governments to impose local option sales taxes, subject to certain rate caps. The current statewide average general sales tax rate totals about 7.50%, made up of a 4.85% state general sales tax rate and a statewide weighted average 2.65% local sales tax rate (actual rate varies by jurisdiction).

Many public finance economists argue that the sales tax should apply uniformly to all final consumption (goods and services) while exempting business production inputs due to economic efficiency concerns about tax pyramiding.⁹ Utah's current sales tax applies to the sale of many goods, some services, and some business production inputs.

Depending on the specifics of a data center's business arrangements, a sales tax may not apply to any of a data center's output, while the state exempts the largest data center business inputs. While a data center may directly generate little sales tax revenue, the state and local governments could see a bump in sales tax collections during the initial construction period as workers earn more income and can increase spending on taxable items. However, this one-time bump would likely fade as construction ends.

Sales Tax Business Input Exemption

In 2016, the Utah Legislature implemented a sales tax exemption for the purchase of qualifying machinery and equipment with at least a one-year life by qualifying data centers (at least 150,000 square feet). Besides the size limitation, this statewide exemption applies uniformly.

Although the bill's fiscal note estimated an initial annual state revenue impact of approximately \$4 million, given the proliferation of data centers over the past decade since the bill's passage, the original fiscal note likely vastly underestimates the magnitude of foregone state sales tax revenue today. The Utah State Tax Commission indicates it lacks sufficient data to estimate the current fiscal impact of the exemption.

However, a theoretical data center with 100 megawatts of capacity, at between \$35 million and \$47 million in equipment costs (including IT equipment, electrical equipment, and building mechanical equipment) per megawatt, could cost between \$3.5 billion and \$4.7 billion to outfit. Consequently, the construction of one standard data center could result in between \$170 million and \$230 million of foregone state sales tax revenue, and additional foregone local sales tax revenue (to the extent taxable under Utah sales and use tax).

Local Energy Sales Tax

Counties and municipalities levying local energy excise taxes may provide a firm-specific rebate of up to 80% of the revenue generated by the tax as an inducement to a large-load data center.

Aggregate Tax Incentives

Depending on the situation, a theoretical data center could receive tax policy benefits related to each of Utah's major taxes (property, income, and sales taxes), with continued benefits depending on project area duration and equipment replacement cycles, representing foregone state and local tax revenue. The benefits in Table 2 assume a 20-year project area.

Table 2: Estimated Potential Amounts for a Theoretical 100-Megawatt Data Center Receiving Tax Benefits

	State	Local
Firm-Specific Inducement		
Property Tax	n/a	\$30 million
Individual and Corporate Income Tax	\$100 million - \$200 million tax credit	n/a
Structural Tax Policy		
Sales Tax	\$170 million - \$230 million business input exemption	\$93 million - \$125 million business input exemption

Note: Income tax estimates assume \$220 million in annual corporate income and a 50% tax credit. It additionally assumes 100 employees earn \$60,000 each per year with a 50% tax credit. Local sales tax estimates assume a 2.65% weighted average effective rate. Property tax estimates assume similar increment payment to a currently incented data center development.
Source: Gardner Policy Institute analysis of data from the Utah State Tax Commission, Tax Foundation, and BofA Global Research

H.B. 507 Definitions

- *Political subdivision*: county, municipality, special district, special service district, public infrastructure district, community reinvestment agency, or regional economic development authority.
- *Large-load data center*: data center that requests electric service under a large-scale service request or enters into a private generation contract with a large-scale generation provider.

Recent Legislation

In 2026, the Utah Legislature enacted various changes affecting tax incentives for data centers through H.B. 507, "State Coordination of Regional and Local Economic Development Project Amendments."

The bill precludes political subdivisions from providing a property tax incentive to a large load data center, except in the following circumstances:

- A municipality, county, or agency created therein may provide an incentive if the large-load data center locates within a regionally significant development zone; or
- A regional economic development authority may provide an incentive if the large-load data center locates within a project area created by the authority and if the project area overlaps with a regionally significant development zone.

Summary

As meeting the demand for more and faster computing power necessitates the construction of large-scale data centers, state and local governments may consider providing financial inducements for data center development within their boundaries.

Property tax incentives through tax increment financing divert some or all new property tax revenue from local governments, while likely increasing demand for services to some extent and potentially reducing taxes for current taxpayers (for amounts not rebated to the project through a tax increment financing arrangement). Targeted financial inducements may encourage economic development in more rural, low-growth areas, whereas higher-growth urban and suburban areas may be more likely to develop without incentives, although not necessarily with data centers.

Under current law, the state may also incent data center development through income tax credits and a business input sales tax exemption, resulting in foregone state and local sales tax and state income tax revenue. Policy decisions related to data center incentives, combined with how quickly data centers materialize, will shape the magnitude of these tax policy effects.

Table 3: Tax Increment Financing for Select Data Center Construction Projects

Data Center Company	Activation Year	Project	Increment Share	Affected Taxing Entities	Scheduled Project Duration	Other Incentives
Aligned Energy/ PayPal	2019	West Jordan City Redevelopment Agency – Fairchild	60% of personal property increment to redevelopment, 40% to original taxing entities	• Salt Lake County • Jordan School District • West Jordan City • South Salt Lake Valley Mosquito Abatement District • Jordan Valley Water Conservancy District • Central Utah Water Conservancy District • Salt Lake County Library	10 years	Rebate of 100% of municipal energy tax for three years (FY2019–FY2021), 50% for remaining seven years (FY2022–FY2028)
eBay	2010	South Jordan City Redevelopment Agency – Commerce Park	100%	• Salt Lake County • Jordan School District • South Jordan City • Jordan Valley Water Conservancy District • South Valley Sewer District • Central Utah Water Conservancy District	20 years	
Meta	2021	Eagle Mountain City Redevelopment Agency – Sweet Water	80% of real and centrally assessed property, 100% of personal property to redevelopment; 20% of real and centrally assessed property to original taxing entities	• Utah County • Alpine School District • Eagle Mountain City • Central Utah Water Conservancy District • Unified Fire Service Area	20 years	
Oracle	2008	West Jordan City Redevelopment Agency – Economic Development Project Area #3 – Data Center	85%	• Salt Lake County • Jordan School District • West Jordan City • South Salt Lake Valley Mosquito Abatement District • Jordan Valley Water Conservancy District • Central Utah Water Conservancy District • Salt Lake County Library	10 years	
QTS	2026	Eagle Mountain – Sweet Water #3	61% of real property and 74% of personal property increments	• Utah County • Alpine School District • Eagle Mountain City • Central Utah Water Conservancy District • Unified Fire Service Area	20 years	

Source: Governor's Office of Economic Development and Utah State Tax Commission

Table 4: State EDTIF/REDTIF Incentives for Data Centers

Year	Entity	Location	Estimated Jobs	Estimated Capital Investment	Percent Rebate	Term (Years)
2008–2020	Oracle	West Jordan, UT (Salt Lake County)	100	\$260,000,000	30%	12
2026–2046	Creekstone Energy, LLC	Delta, UT (Millard County)	106	\$17,082,408,000	50%	20

Note: State statute defines "significant capital investment" for the purposes of EDTIF as an investment in capital or fixed assets, which may include real property, personal property, and other fixtures related to a new commercial project that represents an expansion of existing operations in the state or that increases the business entity's existing workforce in the state. This definition of investment includes the purchase of personal property, such as chips and GPUs for data centers, from outside the state; thus, the total estimated capital investment may not accurately depict dollars directly flowing into Utah, even though they represent firm costs for the project.

Source: Governor's Office of Economic Development

Endnotes

1. See Gardner Institute Public Finance Brief [Data Centers and Utah's Property Tax](#)
2. Previously a redevelopment area (RDA)
3. [Government Finance Officers Association](#)
4. [Utah Office of the Legislative Auditor General](#)
5. [Upjohn Institute](#)
6. See "But For" Percentages for Economic Development Incentives: What Percentage Estimates are Plausible Based on the Research? by Timothy Bartik
7. Effective January 1, 2027
8. Data center permanent employment may range from approximately 20 to 200, depending on the size of the facility.
9. See <https://taxfoundation.org/data/all/state/sales-tax-revenue-reliance-breadth/> and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2218678

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