A Colocation Customer’s Guide to Tax Benefits

Tax savings is one more reason to engage in the data center conversation

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Introduction

Businesses of all sizes choose their data center colocation communities based on factors like reliability, connectivity, security and cost. But some organizations may not realize the savings that can come in the form of tax incentives that are now offered by 20-plus states to data centers and—often—to their data tenants. Businesses who have the luxury of housing their data services wherever they want are wise to factor into their cost assessments the myriad of tax-saving opportunities available through these incentives.

Eager to attract the burgeoning data center industry and even build data center "clusters," more than 20 states now offer incentives in the form of exemptions, reductions and rebates. And oft-times these tax benefits are extended to data center tenants as well, who can realize savings on everything from equipment purchases and power consumption to services and more. Read on for a primer on tax benefits, eligibility requirements and state-specific incentives.

The Shared Benefits of Data Center Tax Incentives

For years, states have been offering data-center-specific tax packages to help build or expand infrastructure for data centers in their jurisdictions. While the data center industry doesn't typically deliver the economic boost of some sectors like manufacturing, don't be fooled. Data center construction is big business. A large data center project can bring a state or local municipality $1 billion-plus in upfront capital investment, along with recurring revenue in the form of taxes on property, sales and utilities.

While tax incentives are now available for data centers in many of the 50 states, the benefits to data centers typically come with strings attached, e.g., required minimums in a data center's capital investment, a minimum number of jobs created, average salary paid, employee benefits offered and more.

In most cases, the tax benefit is shared with the tenant. In some cases, the capital investment made by the data center is aggregated with those of its customers to meet the mandated benchmarks. That said, a data center's eligibility for a tax program does not always entitle the tenant to the same benefits. Of the more than 20 states that offer incentives for data centers, only 10 of them extend the incentives to data center tenants. These states include Arizona, Minnesota, Nevada, North Carolina, Ohio, Pennsylvania, Texas, Virginia, Washington and Wyoming.

Further, companies searching for a prime colocation site should be advised that not all data centers located in the above 10 states are granted tax abatements for both itself *and* its customers, e.g., a customer in a *non-qualified data center* in Minnesota who buys $100,000 worth of equipment will pay state sales tax of 6.875%. That's $6,875 that the customer of a *qualified data center*, also located in Minnesota, will not pay. Incentive programs vary by state, or even by county, so it's important that businesses thoroughly research and understand the state and local tax implications for their colocation provider of choice.

SIDEBAR:

While 10 states extend data center tax incentives to include tenants, not all data centers within these states are granted tax abatements for both itself *and* its customers, e.g., a customer in a *non-qualified data center* in Minnesota who buys $100,000 worth of equipment will pay state sales tax of 6.875%. That's $6,875 that the customer of a *qualified data center*, also located in Minnesota, will not pay.

Sales Tax Exemptions and Abatements

Data center tenants can also benefit from generalized no-sales-tax legislation. Five states—Alaska, Delaware, Montana, New Hampshire and Oregon—charge no sales tax at all, although it should be noted that sales tax in the state of Alaska can be imposed at the local level.

Freedom from sales tax in these states can offer data center tenants significant savings, e.g., a business that opts to house its infrastructure in tax-free Oregon vs. neighboring Washington, with its 6.5% sales tax rate, will save $6,500 on a $100,000 equipment purchase. The bottom line: do your homework regarding state and local tax laws when choosing a colocation site.

SIDEBAR

Alaska, Delaware, Montana, New Hampshire and Oregon charge no sales tax.

Sales Tax on Services

Sales tax may or may not apply to services and—again—this varies by state. Taxable services for data center customers can include installation, migration, consulting, disaster recovery, security services and more. While most states do not tax services, some tax specific service categories. Understanding which states tax what can be complex. Businesses should engage with their data center provider of choice to gain a clear and thorough understanding of tax implications.

Personal Property Tax

In addition to abating sales tax on data-center-related purchases, some states waive or reduce personal property taxes on "movable" tangible items, including equipment and furniture. This tax is paid based on the original purchase price and accounts for lifecycle depreciation. States with no tangible assets tax include Delaware, New York, South Dakota and Pennsylvania, while Minnesota, New Jersey and North Dakota tax all, or some portion of, personal property.

Depending upon the state or local jurisdiction and the facility's ability to meet requisite thresholds, some assets may be exempt from personal property taxes or taxed at a lower rate. Personal property taxes in the state of Virginia, for example, are collected on business-related items, while a lower tangible personal property tax is offered within some Virginia counties based on the operator's investment in the facility.

Enterprise Zone Tax Incentives

An enterprise zone, aka an empowerment zone, is a low-income or "distressed" area within a state that offers tax subsidies designed to bolster the local economy by attracting industry. Enterprise zone status is governed by each state respectively and typically factors in the area's unemployment rate, average income and/or education level, population trends and the percentage of vacant residential and commercial buildings.

While not specifically designed for the data industry, enterprise zones designations are often broad enough to encompass data centers. Like other tax incentives, there are specific eligibility requirements that include factors like minimum capital investment, number of jobs created and minimum salary offered. In some states, including Virginia, thresholds for certain incentives are lowered if the data center is located within a designated enterprise zone.

Tenants of the qualified data center may also benefit from incentives including sales and use tax exemptions or reductions and lower utility rates.

While enterprise zones generally impact a specific area within a state, the entire states of Arkansas, Kansas and South Carolina are designated enterprise zones, offering incentives to eligible businesses throughout.

A State-by-State Guide to Tax Incentives Available to Data Center Customers

Below is an overview of the tax abatements potentially available to data center tenants. As mentioned, not all states offer tax-saving bundles to data centers, and even fewer extend these tax incentives to their respective tenants.

Alaska

Alaska charges no sales tax at the state level. However, local municipalities are authorized to collect taxes ranging from 1%-7%.

Arizona

For a period of 10-20 years, Arizona offers tenants of qualified data centers an exemption on sales tax for qualifying computer equipment, mechanical and electrical equipment and construction materials. Eligibility requirements can be met collectively by the data center and its tenants.

Delaware

Delaware is one of five states that collect no state sales tax. Businesses using data centers in Delaware are exempt from taxes on goods used in their respective colocation environments as well as tangible personal property tax.

Maryland

Although Maryland offers no statewide tax incentive programs, some local governments offer abatements to qualifying data centers and their tenants to promote local economic growth.

Minnesota

Minnesota exempts sales tax for qualifying data centers and their tenants on hardware, software and electricity usage within the data center.

Montana

Montana is one of five states that charge no sales tax, offering savings on purchases made or delivered within the state.

Nevada

Data center tenants are eligible for partial abatements on personal property tax and a reduction in sales and use tax to as little as 2% on qualified capital equipment purchases.

New Hampshire

New Hampshire collects no sales tax.

North Carolina

North Carolina offers a sales and use tax exemption to qualified data centers and their customers on purchases of data support equipment and computer software used within the facility. The program also provides an exemption from the state's 7% tax on electricity consumption.

Ohio

Ohio's data center incentive offers up to 100% abatement of sales taxes on computer equipment, mechanical and electrical equipment, cooling systems and power infrastructure. The state allows the minimum eligibility thresholds to be met collectively by both tenants and owners of colocation facilities.

Oklahoma

Oklahoma offers no tax exemptions specific to data centers but does offer a sales tax exemption to eligible businesses on computer equipment purchases.

Oregon

Oregon collects no sales tax on purchases made by data centers and their tenants.

Pennsylvania

Pennsylvania's Computer Data Center Equipment Incentive Program offers a sales and use tax refund for data centers and their tenants on qualified data center equipment used within an eligible facility.

Texas

For data centers and tenants who meet requirements for available space, capital investment and job development, Texas offers a 100% sales tax exemption on the following: computer, mechanical and electrical equipment; cooling systems; power infrastructure; electricity; backup fuel; and software and electricity.

Virginia

Virginia's incentive program offers a 100% sales tax exemption on computer equipment and mechanical and electrical equipment for data center providers and their tenants. Capital investments made by data centers and their respective tenants can be combined to meet eligibility requirements.

Washington

The state offers tax abatements on the purchase of server equipment and power infrastructure for qualified data centers and their tenants.

Wyoming

Wyoming offers tax abatements on sales and use tax as well as property taxes. Data center tenants are also eligible for these tax breaks, and their respective investments are included within the state's minimum eligibility requirements.

Tax Incentives Available at Flexential Data Centers

Flexential has worked with the state and local governments in which our facilities are located to secure tax credits for both our data center operations and our customers. Specific tax incentives offered through our data center locations in Minnesota, Nevada and Oregon are as follows:

Chaska, MN

Tenants of our 156,000-square-foot Chaska, MN facility are qualified for sales tax exemptions on purchases of IT equipment, computer software and electricity used within the data center. Tenants can also recoup any sales tax paid to a vendor on an exempt purchase.

Lone Mountain, NV

Tenants of our Lone Mountain facility in Nevada qualify for a 75% abatement on personal property taxes and sales and use taxes on eligible investments. This abatement decreases the tax rate from 6.85% to 2%, e.g., taxes paid on a $100,000 equipment purchase decreases from $6,850 to $2,000 for a total cost savings of $4,850.

Brookwood, OR and Hillsboro, OR

Oregon is one of five states that collects no sales tax. Tenants of these facilities pay no tax on purchases of data center equipment.

SIDEBAR

Flexential's Lone Mountain, NV facility offers tenants a 4.85% tax rate reduction.

IN CONCLUSION

When assessing your data center options, consider the potential cost-saving opportunities a specific location and data center can provide. Be diligent to ensure that any and all tax incentives offered to qualified data centers extend to you, the tenant. Your bottom line will thank you for it.

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