

**NetChoice** *Promoting Convenience, Choice, and Commerce on The Net*

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March 15, 2021

Sen. Christian McDaniel, Chair  
Senate Standing Committee on Appropriations & Revenue  
Kentucky General Assembly

Re: **Passage of HB 372 -- data center equipment sales tax exemption**

Chairman McDaniel and members of the committee:

NetChoice is a trade association of online businesses who share the goal of making the internet safe for free enterprise and for free expression.<sup>1</sup> Our members have used their data centers to help Americans cope with COVID lockdowns, as explained in this [2-minute video](#):



***Now more than ever, Americans are depending on the Internet to be informed, stay connected, and get their work done.***

***Whether educating students, connecting with family, working from home, or participating in a virtual medical appointment, it's America's networks and data centers that enable all we're doing online today.<sup>2</sup>***

Because of this, we are eager to inform your deliberations on HB 372's sales tax exemption for data center equipment. For Kentucky to attract capital-intensive large data center, the state must apply the same sales tax treatment on equipment needed for other capital-intensive industries like mining, manufacturing, and agriculture. ***Over the last seven years, no enterprise data center has located in states that impose sales tax burdens on data center server equipment.***

Data centers are recession-proof, with engineering, technician, electrical, and construction jobs at competitive salaries. Where our members have invested in enterprise data centers, they contribute significantly to local taxes and are strong supporters of education and broadband expansion. And those

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<sup>1</sup> NetChoice is a trade association of leading e-Commerce and online businesses, at [www.netchoice.org](http://www.netchoice.org) The views expressed here do not necessarily represent the views of every NetChoice member company.

<sup>2</sup> Data Center video at <http://netchoice.org/datacenters>

investments continue, as our companies add data centers to established campuses such as this Facebook facility near Columbus, Ohio.

Facebook’s initial 970,000 SF center cost \$750 million, making it the largest commercial project in the city.

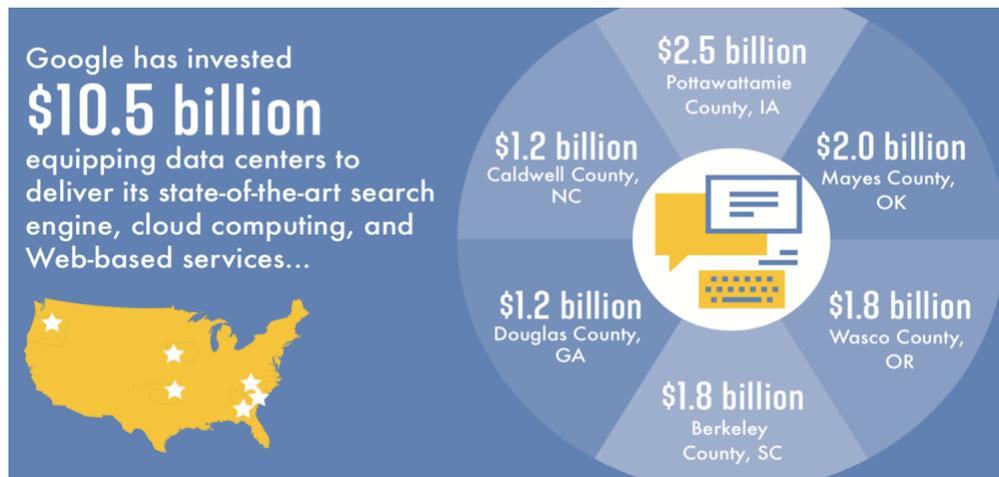
Construction brought \$244 million to the local supply chain and 1,200 construction workers earned \$78 million in wages.

Across the street, Google is planning a \$600 million, 275,000 SF data center on 440 acres, setting the potential for future expansion.<sup>3</sup>



**Enterprise data centers are now in several states that have a data center sales tax exemption**

Oxford Economics prepared this infographic to summarize its study of six Google data centers in rural and suburban counties in Iowa, Oklahoma, Oregon, South Carolina, Georgia, and North Carolina.



Oxford also studied the broader income and economic activity effects of those six Google data centers, finding \$750 million in labor income and \$1.3 billion in activity.



<sup>3</sup> Columbus Business First (Apr-2019) *Facebook's New Albany data center will be much bigger than originally planned*

## Enterprise data centers bring incremental economic benefits and incremental tax revenue

Not only do high wages in the data center industry offer a vital new employment option, but these centers also are a driving force in upgrades to utilities and internet infrastructure as well as the development of renewable energy resources. ***Data centers generate new income and business taxes, sales taxes on non-exempt purchases and electricity, and local property taxes.***

The decision to establish a data center sales tax exemption produces incremental tax revenue—despite the sales tax exemption on data center equipment. The first table lists several economic benefits that accrue if the state is successful in attracting large enterprise data centers:

Incremental economic benefits of data centers	Here	Not here
Income & spending by construction workers & contractors	+	0
Income & spending by data center employees	+	0
Revenue for local suppliers, contractors, lodging, and restaurants	+	0
High-tech training and experience for workforce	+	0
Make the state more attractive for tech business and education	+	0
Diversify local economies	+	0

This second table lists several incremental tax revenue opportunities from data center construction and operation—even after establishing a data center exemption:

Incremental tax revenue from data centers	Here	Not here
Personal income taxes paid by employees and contractors	+	0
Corporate income taxes from data center operators & contractors	+	0
Sales taxes on non-exempt equipment and supplies	+	0
Taxes on electricity used by data centers	+	0
Lodging taxes for visits by contractors and workers	+	0
Sales taxes on business services	+	0
Local real estate & personal property taxes	+	0

At the local level, data centers have generated several hundred million in annual local property taxes. That reduces everyone else’s property taxes while supporting schools and services.

Kentucky won’t incur any cost to attract data centers, and will generate incremental taxes in every category shown above. *But only if Kentucky exempts data center equipment from sales tax.*

Last year, Idaho’s legislature adopted this “Here vs Not here” analysis in the Fiscal Note for HB 521, which created a permanent sales tax exemption for data center equipment, and was signed by the Governor in May, 2020:

*Passage of this legislation will have a positive impact on the general fund.*

*Though this bill allows a sales and use tax exemption, this legislation is prospective and is intended to attract business investment not already present in the state of Idaho.*

*Business investment of two hundred and fifty million dollars (\$250,000,000) or more will create new jobs, not only to directly support the data centers, but also in construction jobs and indirect jobs. <sup>4</sup>*

### Kentucky should get in the game for the next wave of data center investment

Already, tech and data centers are #1 in terms of capital investments in the US. In PPI’s most recent ranking of **Investment Heroes**, our tech industry invested \$70 billion in 2019 – more than energy, telecom, pharma, or manufacturing.<sup>5</sup>

That tech investment trend will almost certainly continue, with increasing American appetites for cloud storage of data related to autonomous vehicles, genomics, AI, and other emerging industries.

Without passage of HB 372, Kentucky risks losing this kind of economic investment to states who have enacted sales tax exemptions. ***Allow me to repeat, over the past seven years, no enterprise data center has located in states that impose sales tax burdens on data center server equipment.*** We would hate for Kentucky to lose a significant opportunity for investment, economic advancement, and industry diversification.

We encourage you to seize upon this opportunity by supporting the tax exemption that is proposed in HB 372. We thank you for your consideration and look forward to your questions.

Sincerely,

Steve DelBianco  
President & CEO  
NetChoice

#### 2019 U.S. CAPITAL EXPENDITURES (Millions USD)

1	Amazon.com	\$19,306
2	AT&T	\$18,520
3	Alphabet	\$18,037
4	Exxon Mobil	\$16,580
5	Verizon Communications	\$16,058
6	Intel	\$13,416
7	Facebook	\$12,457
8	Duke Energy	\$11,122
9	Microsoft	\$11,073
10	Comcast	\$10,467

<sup>4</sup> Feb-2020, Statement of Purpose and Fiscal Note for Idaho House Bill 521, at <https://legislature.idaho.gov/wp-content/uploads/sessioninfo/2020/legislation/H0521SOP.pdf> Signed into law in May 2020.

<sup>5</sup> PPI Investment Heroes 2020, at <https://www.progressivepolicy.org/blogs/investment-heroes-2020/>