

Wisconsin AB 302 - a sales and use tax exemption for data center equipment or software

Supporting Testimony

June 8, 2023

Representative John Macco, Chair
Committee on Ways and Means
Wisconsin State Assembly

Chairman Macco and members of the committee:

NetChoice¹ is a trade association of America’s leading online businesses. We engage in tech policy issues in the states, in Washington, and in international internet governance organizations.

I am joined by the Hon. Barbara Comstock, who served in the Virginia General Assembly and led legislation to update the tax code for data centers. A bipartisan, commonwealth-wide coalition, and the leadership of the Northern Virginia Technology Council, resulted in near unanimous passage.

Comstock’s original legislation and subsequent extensions gained the signatures of Republican Gov. Bob McDonnell and Democrat Gov. Terry McAuliffe. All understood that data centers were the basic infrastructure for innovation and for nurturing high-paying jobs. Virginia thereby opened the door to billions of dollars of investment in high-tech data processing and hosting centers, and Virginia remains the number one data center location—in the world.

We ask for your support of AB 302, in order to open Wisconsin for the large-scale capital investments and job creation that comes from data centers.

Data centers of NetChoice members Amazon, eBay, Apple, Expedia, Google, and Meta Platforms enable individuals and businesses to find information, create and connect, buy and sell, navigate their world, and maintain their memories in stored communications, docs, photos, and videos.

Moreover, data centers help keep us connected, while creating jobs and significant economic impacts in our communities, as explained in this [2-minute video](#):



Americans depend on the internet to be informed, stay connected, and get their work done.

Data centers also create tech jobs in the areas where they’re built, from construction teams and engineers, to technicians and facility managers. These investments boost the local economy, while ensuring a better online experience for Americans everywhere.²

¹ NetChoice is a trade association of leading e-Commerce and online businesses, at www.netchoice.org. The views expressed here do not necessarily represent the views of every NetChoice member company.

² Data Center video at <https://netchoice.org/Wisconsindatacenters/>

Data centers are the essential production equipment to deliver these services, so our members are eager to see Wisconsin join other states trying to attract large enterprise data centers. **However, no enterprise data center has located in states that impose sales tax burdens on data center equipment.**

But why now? Why Wisconsin? Not every state provides the combination of factors that attract data center investment, especially those that already exist in Wisconsin, such as a deep talent pool, availability of affordable land and reliable energy, proximity to airports, and strong community partners. What's missing is the same tax treatment for equipment that Wisconsin already offers for other capital-intensive industries, like manufacturing and agriculture.

Enterprise data centers contribute significantly to local taxes and are strong supporters of education and broadband expansion. The jobs created in fields like engineering, technician, electrical and construction earn competitive salaries.

Tech industry facilities and data centers are #1 in terms of capital investments in the US. [PPI's Investment Heroes of 2022 report](#) shows *Information and Data Processing* as the top growth sector for US capital investment, increasing by 720% from 2007. In fact, 4 of the top 6 capital investment companies build data centers (Amazon, Alphabet, Meta, and Microsoft), investing \$94 billion in 2022 – more than energy, telecom, pharma, or manufacturing.³ This investment trend will continue to take place in states that make long-term data center investment a possibility.

Pictured here is Meta's data center campus outside of Columbus, Ohio. The initial structure was 970,000 square feet and 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 building a \$600 million, 275,000 SF data center on 440 acres, setting the potential for future expansion.

In the nearby states of Iowa, Ohio, Illinois, and Nebraska, data centers have been major drivers of investment. In a January 2022 report from Mangum Economics, *The Impact of Data Centers on the Iowa Economy*, the analysis showed significant results from a growing data center sector, driven by the state's data center incentive programs. Of the more than two dozen data centers, Google, Meta, and Microsoft have large data center campuses in the state.

Data center projects under construction will increase data center investment in Iowa by over 50 percent:

- Apple construction of a \$1.3 billion data center

³ Progressive Policy Institute, Investment Heroes 2022, at <https://www.progressivepolicy.org/publication/investment-heroes-2022-fighting-inflation-with-capital-investment/>

- Meta Platforms doubling of current footprint, making its Altoona campus the company’s largest
- Microsoft doubling of its current footprint with the addition of two new data center campuses

In Iowa, direct economic impact in 2021 for the construction and operation of data centers provided \$934 million in economic output, including 2,400 construction jobs, \$167 million in construction pay and benefits, 1,100 full-time operational jobs, and \$96 million in data center operations pay and benefits.

There are also notable indirect economic ripple effects, estimated in 2021 to be \$3.5 billion, including 14,400 jobs and \$970 million in pay and benefits. Plus, for each operational data center job created, an additional 9.8 jobs were supported by the data center in non-construction businesses.

It was further estimated that in 2021, indirect economic activity led to \$107 million in tax revenue collected by the state and \$113 million collected by local governments.

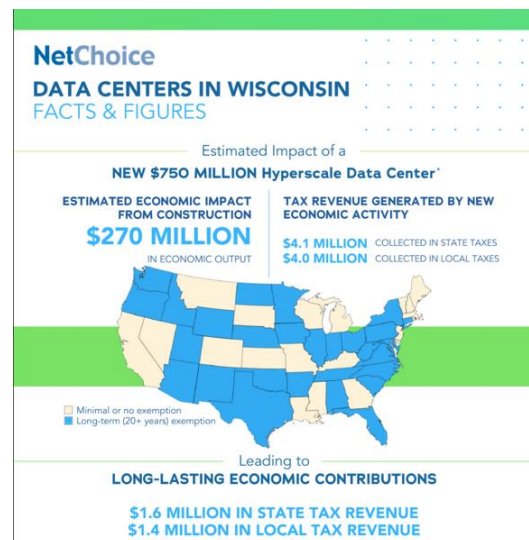
Potential Impact of Hyperscale Data Development in Wisconsin

While Wisconsin has no enterprise data centers to report on at this point, NetChoice and Alliant Energy asked Mangum Economics to estimate the economic and tax benefits *if* the state were able to attract these new investments⁴. In their Nov-2022 report, Mangum estimated:

If just one new hyperscale data center were to locate in Wisconsin, the state could see \$270 million in new economic output during construction, and \$87 million annually.

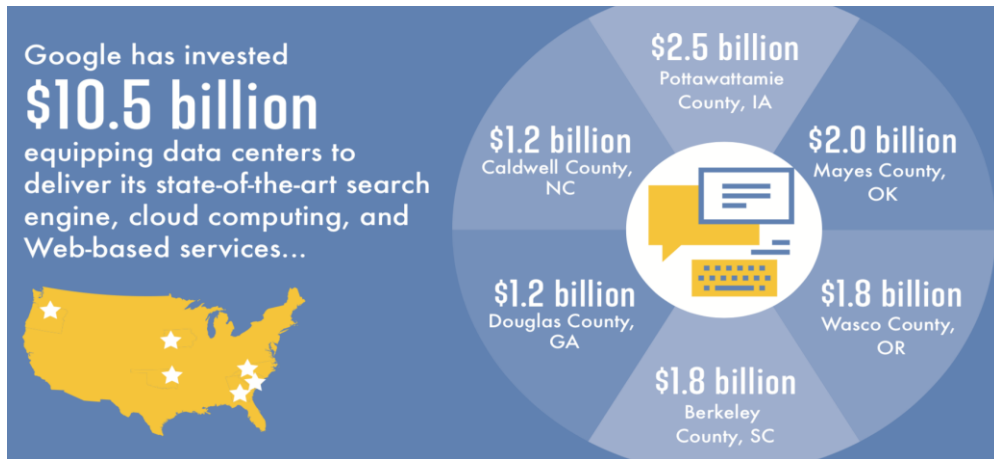
Based on studies of several states with large data center industries, Mangum explains the broader benefits, too:

Research has shown that data centers share the pool for high-tech labor with industries such as architecture, engineering, computer system design, software, telecommunications, scientific research & development, and technical consulting.⁶ The existence of a vibrant data center market helps to attract talent that supports all of these industries.

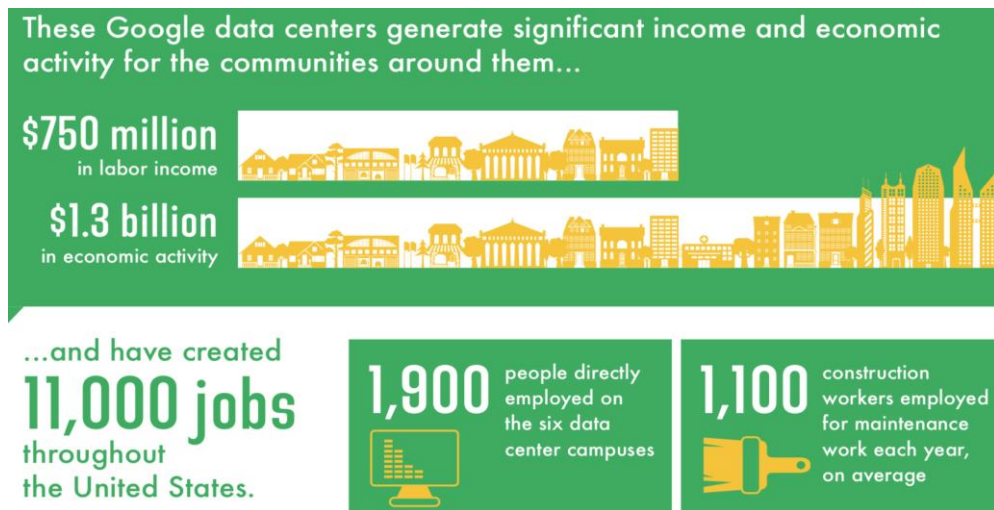


Large-scale enterprise data centers are now in several states that extended their sales tax policies on manufacturing and production equipment. Oxford Economics prepared the following infographic to summarize its study of six Google data centers in rural and suburban counties in Iowa, Oklahoma, Oregon, South Carolina, Georgia, and North Carolina.

⁴ Potential Impact of Hyperscale Data Development in Wisconsin, Nov-2022, by Mangum Economics, <https://drive.google.com/file/d/1ZL-XPVVyalcuMLnvKx4jlfpx-ckI3000/view?usp=sharing>



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.



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 the development of renewable energy resources and upgrades to utilities and internet infrastructure. Moreover, the data centers generate new income and business taxes, sales taxes on non-exempt purchases, and local property taxes.

For that reason, we encourage Wisconsin to adopt a “**Here vs Not here**” analysis of whether to extend its sales tax exemptions for manufacturing, farming, and mining production equipment to also apply to data centers. This analysis recognizes the reality that no enterprise data center has located in states that impose sales tax burdens on data center equipment.

Therefore, the decision to extend sales tax production exemptions still generates 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
Lodging taxes for visits by contractors and workers	+	0
Sales taxes on services related to tangible personal property	+	0
Local real estate & personal property taxes	+	0

In 2019, Virginia’s Joint Legislative Audit and Review Commission (JLARC) published its audit and evaluation of Virginia’s tax incentives for data centers, using confidential tax information from data center taxpayers⁵. JLARC concluded that 90 percent of the investment in data centers eligible for the exemption would *not* have occurred in Virginia were it not for those tax exemptions. Instead, those investments would have been made in other states that give data center equipment the same tax exemptions long given on equipment used in manufacturing and agriculture.

Over a ten-year period, JLARC’s analysis showed that the commonwealth of Virginia recovered 75 cents in state tax revenue for every dollar of sales tax that was exempted for data center equipment.⁶

⁵ Joint Legislative Audit and Review Commission (JLARC), *Data Center and Manufacturing Incentives, Economic Development Incentives Evaluation Series*. 17-Jun-2019.

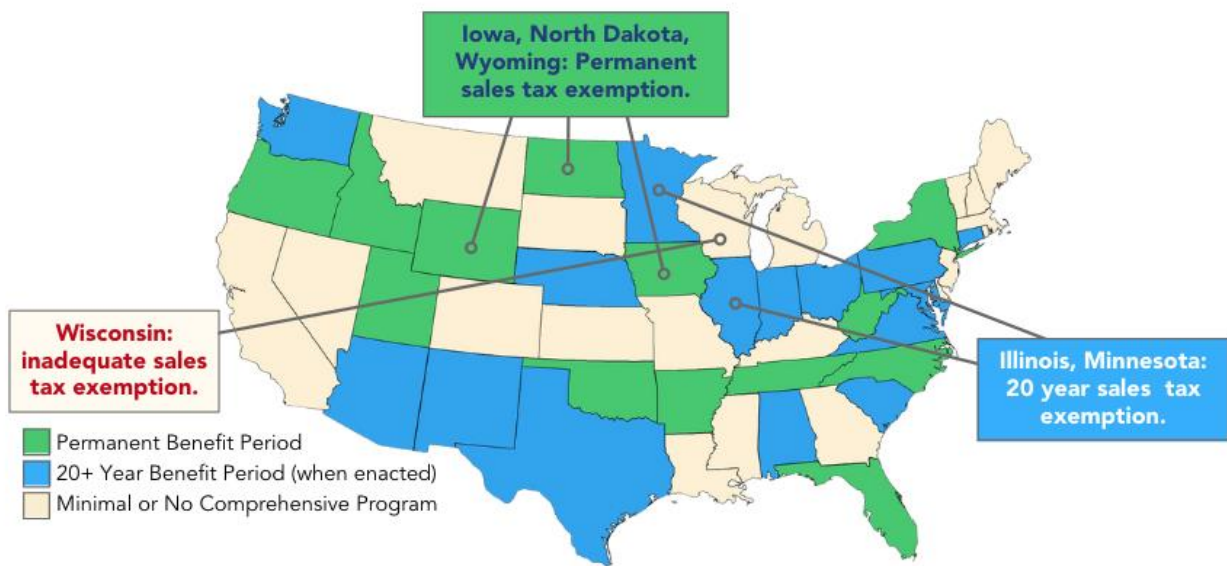
⁶ JLARC Evaluation, Appendix N: Results of economic and revenue impact analysis, at http://jlarc.virginia.gov/pdfs/oversight/ED_initiatives/datacenters_Appendix%20N.pdf

And after considering *local* taxes, Mangum concluded in its 2020 Virginia Study that, “the ‘cost’ of the State data center incentive is only 10 percent of the amount of State sales tax revenue exempted.”⁷ At the local level, data centers generated more than \$300 million in local tax revenue for Loudoun County, Virginia in 2019. That money reduces everyone else’s property taxes while supporting local schools and law enforcement, for example. Now these benefits are spreading to counties across Virginia.

States are competing to attract enterprise data centers

While Virginia adopted policies to become the largest data center market in the nation, it’s clear that the landscape for attracting data centers has changed. Unlike a decade ago when only five states had tax structures that were welcoming to data centers, today there are 32 states with sales tax exemptions, as seen in the map below:

Sales Tax Exemptions for Hyperscale Data Centers



The Wisconsin Legislature should strongly consider adopting AB 302 so the entire state can compete for the hyperscale enterprise data centers that have yet to locate here, and thereby enjoy the jobs and significant economic impacts that come with them.

Sincerely,

Steve DelBianco
President & CEO, NetChoice

Barbara Comstock
Former Congresswoman and Virginia Legislator, and
Advisor to NetChoice

⁷ Jan-2020, Mangum Economics, *THE IMPACT OF DATA CENTERS ON THE STATE AND LOCAL ECONOMIES OF VIRGINIA*, p.24, at https://www.nvtc.org/NVTC/Insights/Resource_Library_Docs/2020_NVTC_Data_Center_Report.aspx?zs=doEs91&zl=5cbX5