



FEBRUARY 12, 2026

Maryland Should End Costly Tax Breaks for Data Centers

Position Statement in Support of House Bill 560

Given before the House Ways and Means Committee

As policymakers have added a growing number of business subsidies to Maryland's tax code over the last several decades, evidence has begun to pile up that the millions of dollars we put into business tax breaks each year do little to support Maryland's economy. Worse, these tax breaks use up resources that could otherwise be invested in assets businesses value, such as great public schools and modern transportation infrastructure. House Bill 560 would repeal a special tax break for data centers that has only been in existence since 2020, and as a result prevent deeper cuts to public services that both businesses and families value. **For these reasons, the Maryland Center on Economic Policy supports House Bill 560.**

Data centers are large warehouses that house computing hardware and systems designed to store, access, and disseminate large amounts of data. They can range in size and scale, but all serve the same function. Prior to the rise in use of artificial intelligence, data centers were not a massive enterprise. The hyperscale growth of the industry around the country over the last few years has raised concerns in communities about environmental impact, electricity demand, and local input where these data centers are housed.ⁱ The rapid growth of the industry is partly due to several states offering generous sales and use tax exemptions on purchased hardware to attract these businesses. These personal property sales and use tax exemptions are offered on a wide range of hardware and infrastructure needed to build and operate data centers. The larger the data center, the more equipment needed to run it. These exemptions also affect the local government revenues, as the exemption applies to both the state and local share of personal propertyⁱⁱ.

Maryland began offering these tax exemptions to data centers after the legislature passed Senate Bill 397 in 2020. The exemption for qualified data centers requires them to meet the a certain investment and job creation threshold. This amounts to at least \$2 million in investments in designated counties and \$5 million in the rest of the state, issued after a three-year report period. It also conditioned the exemption on being a net job creator and offer wages at 150% of the state minimum wage. In general, it is difficult to impossible to determine whether tax subsidies played any causal role in jobs at subsidized projects, or if those jobs would have existed without any subsidy.

These incentives can last up to 10 years and even more in some cases. Given the increasing size and scale of data centers built today, this exemption can be met by many varying types of data centers.ⁱⁱⁱ House Bill 560 seeks to end these tax exemptions while deauthorizing localities from assessing exemptions.

With the explosion of data center construction in full swing, states with generous tax exemptions have begun to realize real fiscal loss from state and local revenues. Around the country, states are now seeing massive revenue losses from sales and use tax. Virginia, for example, has led the nation to attract data centers,^{iv} but not without costly forgone state revenue. Virginia's Fiscal Year 2026 estimated loss of sales and use tax revenue from data centers at \$1.6 billion.^v Other states such as Texas and Illinois have lost \$1 billion in Fiscal Year 25 and \$370 million in Fiscal Year 23 respectively.^{vi} Maryland does not publicly disclose the overall revenue loss to data centers, but

according to state data shared by request, the state has forgone approximately \$22 million in sales and use tax as of 2025.^{vii} As data centers typically employ few people, only 276 jobs were reported by those facilities during that time period. In 2025, Maryland approved four additional designations for data center projects. With the tax break on a three-year report basis, the cost could grow significantly in coming years and put further pressure on the state budgets.

Meanwhile, evidence shows that these special tax breaks do little to support our economy.^{viii} One reason for the disappointing performance of tax subsidies is the relative insignificance of state and local taxes to businesses' bottom lines, as they account for only 2 to 3 percent of most companies' cost structure.^{ix}

While evaluations of the state's data center tax breaks are not available, the Department of Legislative Services has repeatedly found design flaws and limited evidence of effectiveness in business tax subsidies. Since 2022, DLS has recommended terminating, consolidating, or reining in the following business tax breaks: the One Maryland Economic Development Tax Credit,^x the More Jobs for Marylanders Program,^{xi} the Enterprise Zone Tax Credit,^{xii} the Innovation Incentive Tax Credit,^{xiii} the Credit for the Purchase of Cybersecurity Technology or Services,^{xiv} the Research and Development Tax Credit,^{xv} the Film Production Activity Tax Credit,^{xvi} and the Businesses that Create New Jobs Tax Credit.^{xvii}

As forgone tax revenues cost the state more each year, Maryland should end these long-term generous tax breaks for the large, profitable corporations that are leading data center development nationwide.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 560.

Equity Impact Analysis: House Bill 560

Bill summary

House Bill 560 repeals existing state tax exemptions and repeals localities from assessing property tax reductions for data centers in Maryland.

Background

States around the country offer tax exemptions on personal property for qualified data centers. While it varies by state, Maryland offers a tax exemption if a business:

- Invest \$2 million on personal property in certain counties (Tier 1) and \$5 million in the rest of the state.
- Is a net job creator and has an average wage 150% above the state minimum wage.

Maryland's data center tax subsidies were created under Chapter 640 of 2020.

Equity Implications

Data centers can impact local communities in several ways:^{xviii}

- Increased utility rates from high energy demand, often leading to costly infrastructure upgrades.
- Increased resource consumption for heating, cooling, and electricity generation.
- Environmental issues from prolonged fossil fuel use, especially for power generation.

These externalities often impact local communities who often don't get to negotiate as stakeholders.

Furthermore, ineffective business tax subsidies like the one repealed under House Bill 560 use up revenue that could otherwise support investments that build broad-based opportunities, such as public education and child care scholarships.

Impact

House Bill 560 would likely **improve racial and economic equity** in Maryland.

ⁱ Michael Copley, “Data Centers Are Booming. But There Are Big Energy and Environmental Risks,” *NPR*, 2025, <https://www.npr.org/2025/10/14/nx-si-5565147/google-ai-data-centers-growth-environment-electricity>

ⁱⁱ <https://dls.maryland.gov/pubs/prod/RecurRpt/Issue-Papers-2024-Legislative-Session.pdf#page=180>

ⁱⁱⁱ Greg LeRoy and Kasia Tarczynska, “Cloudy with a Loss of Spending Control: How Data Centers Are Endangering State Budgets,” Good Jobs First, 2025, <https://goodjobsfirst.org/wp-content/uploads/2025/04/Cloudy-with-a-Loss-of-Spending-Control-How-Data-Centers-Are-Endangering-State-Budgets.pdf>

^{iv} Kimberly Sarte, Mark Gribbin, Ellen Miller, Sarah Berday-Sacks, Kate Hopkins, and Scarlett Saunders, “Data Centers in Virginia,” Virginia Joint Legislative Audit and Review Commission, 2024, <https://jlarc.virginia.gov/landing-2024-data-centers-in-virginia.asp>

^v Kasia Tarczynska and Greg LeRoy, “Virginia Tax Revenue Losses to Data Centers Soar to \$1.6 Billion for FY25,” Good Jobs First, 2026, <https://goodjobsfirst.org/virginia-tax-revenue-losses-to-data-centers-soar-to-1-6-billion-for-fy25/>

^{vi} LeRoy and Tarczynska, 2025

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^{viii} See for example Nathan Jensen, “The Effect of Economic Development Incentives and Clawback Provisions on Job Creation: A Pre-Registered Evaluation of Maryland and Virginia Programs,” *Research & Politics*, 2017, <https://journals.sagepub.com/doi/abs/10.1177/2053168017713646>

^{ix} Robert Tannenwald, “Testimony of Robert Tannenwald, Senior Fellow, Before the New Hampshire Business Tax Commission,” Center on Budget and Policy Priorities, 2010, <https://www.cbpp.org/testimony-of-robert-tannenwald-senior-fellow-before-the-new-hampshire-business-tax-commission>

^x Katylee Cannon, Heather MacDonagh, Robert Rehrmann, and Charity Scott, “Evaluation of the One Maryland Economic Development Tax Credit,” Department of Legislative Services, 2022, https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_One_Maryland_Economic_Development_Tax_Credit.pdf

^{xi} George Butler, Emily Haskel, Brett Ogden, Robert Rehrmann, and Erika Schissler, “Evaluation of the More Jobs for Marylanders Program,” Department of Legislative Services, 2022, https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_More_Jobs_for_Marylanders_Program.pdf

^{xii} Mindy McConville, Brett Ogden, and Robert Rehrmann, “Evaluation of the Enterprise Zone Tax Credit,” Department of Legislative Services, 2022, https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_Enterprise_Zone_Tax_Credit.pdf

^{xiii} Victoria Gruber and Ryan Bishop, “Innovation Investment Incentive Tax Credit Evaluation Letter,” Department of Legislative Services, 2023, <https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Review-of-the-Innovation-Investment-Incentive-Tax-Credit.pdf>

^{xiv} Tatiana Hill, Heather MacDonagh, Brett Ogden, and Charity Scott, “Evaluation of the Credit for the Purchase of Cybersecurity Technology or Services,” Department of Legislative Services, 2023, https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_Credit_for_Purchase_of_Cybersecurity_Technology_or_Services.pdf

^{xv} Elizabeth Allison, Harry Hall, Heather MacDonagh, Brett Ogden, and Charity Scott, “Evaluation of the Research and Development Tax Credit,” Department of Legislative Services, 2024, <https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation-of-the-Research-and-Development-Tax-Credit-2024.pdf>

^{xvi} Elizabeth Allison, Kerry Michael, and Elizabeth Waibel, “Evaluation of the Film Production Activity Tax Credit Program,” Department of Legislative Services, 2025, <https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation-of-the-Film-Production-Activity-Tax-Credit-Program-2025.pdf>

^{xvii} Daneen Banks, Heather MacDonagh, Charity Scott, and Andrew Stover, “Evaluation of the Businesses that Create New Jobs Tax Credit Program,” Department of Legislative Services, 2025, <https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation-of-the-Businesses-That-Create-New-Jobs-Tax-Credit-Program-2025.pdf>

^{xviii} Terry Nguyen and Ben Green, “What Happens when Data Centers Come to Town,” University of Michigan Ford School of Science, Technology, and Public Policy, 2025, <https://stpp.fordschool.umich.edu/sites/stpp/files/2025-07/stpp-data-centers-2025.pdf>