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Testimony - HB 560

Sales and Use Tax and Property Tax – Exemptions for Data Centers – Repeal

In 2020, Maryland enacted two tax breaks to incentivize data center development. The first exempted qualified data centers from state sales tax and the second authorized local governments to give personal property tax exemptions. HB 560 would repeal these tax exemptions and end taxpayer subsidies for an industry that is causing consumer electricity bills to increase.

Impact on State Revenues

Data centers require large capital investments in servers and related equipment. Under current state law, these purchases are entirely exempt from sales and use tax. A small data center serving a university or hospital system typically purchases between \$35-\$100 million in servers and stands to save \$2-6 million in sales tax. Large hyperscale data centers, designed to serve the giant tech companies, purchase between \$600 million and \$1 billion in server equipment for a single facility.¹ A large data center could save up to \$60 million because of this tax break.

These are not one time losses for the state. Server equipment is typically replaced every 3-5 years.² Because the state sales tax exemption applies for a 10 or 20 year period, depending on the size of the data center, it is a recurring subsidy that results in substantial revenue losses over the exemption period.

Maryland has lost more than \$22.2 million to date from the state sales tax exemption.³ Notably, the annual cost has increased ten-fold since its inception in 2020, from \$916K to more than \$11.3 million in 2024. These tax breaks were accrued by just four companies, including Amazon and Microsoft. Four additional facilities will soon be eligible for state tax breaks; this will double the number of tax exempt data centers and will accelerate state losses dramatically.

¹ [What is a Hyperscale Data Center?](#) IBM

² [The Environmental Cost of Data Center](#), Net Zero Insights

³ Data provided by the Maryland Department of Commerce

Unfortunately, this pattern of rapidly escalating subsidies is mirrored in other states:^{4,5}

- Virginia: The nation's leading data center market lost \$1.6 billion in combined state and local tax revenue in FY 2025 from data center incentives. This is *double* the price tag from just a year earlier.
- Illinois: Experienced a 3,600 percent increase in revenue losses from 2020 to 2024 (\$10 million to \$370 million)
- Arizona: Saw a 1,200 percent increase from 2020-2024 (\$1.4 million to \$19 million)
- Texas: Initial estimated cost for FY 2025 was \$130 million; actual losses were more than \$1 billion
- Georgia: \$474 million in forgone revenue in FY 2025 and nearly \$1.5 billion since the inception of the tax breaks

Based on the experiences of other states, there is real reason to fear the trajectory of Maryland's tax breaks for data centers.

Rising Energy Costs

Maryland is in the midst of an energy affordability crisis. Wholesale electricity costs are up by 267 percent nationwide over a five year period of time and those rising costs are being passed on to consumers.⁶ In Baltimore, the price per megawatt was \$17 in April 2020—on par with the nationwide average of \$16. By April 2025, the energy prices in Baltimore had more than doubled to \$38 per megawatt.

Lack of Job Creation

Corporate tax breaks are often enacted with a promise of compelling economic benefits. Maryland's experience and national evidence demonstrate that data centers generate far fewer permanent jobs than promised and the cost per job created is extraordinarily high. Our \$22 million in state tax exemptions have created just 276 permanent jobs.³ That equals a state subsidy of \$80,000 per job, even though the jobs only have to pay roughly \$47,000 a year to count towards subsidy eligibility.

No Long Term Commitments

The technology companies receiving the sales tax benefits normally don't make long-term commitments to a facility. Instead, they temporarily lease buildings for three to five years,² while some other entity owns the land and facilitates the development of the site. Technology

⁴ "Cloudy with a Loss of Spending Control: How Data Centers Are Endangering State Budgets." 2025, Good Jobs First

⁵ "Tax Incentive Evaluation: Georgia Data Center Sales & Use Tax Exemption." 2025, Georgia Department of Audits and Accounts

⁶ "AI Data Centers are Sending Power Bills Soaring." 2025, Bloomberg

improvements are predicted to eventually reduce demand for data centers, which will likely result in contraction of the industry and facilities sitting vacant.

Environmental Burden

Data centers impose substantial demands on public infrastructure and natural resources, resulting in additional costs to Marylanders.⁷ Data centers consume millions of gallons of water for cooling, creating extra strain on water supplies and wastewater treatment capacity. These infrastructure costs are also borne by Maryland's taxpayers through higher utility bills.

Tax Breaks are Unnecessary

Maryland is already an attractive location for data centers.⁸ We have a strategic geographic location, with proximity to multiple major population centers and to federal government facilities. Maryland has an extensive fiber-optic network infrastructure. And we rank as one of the most highly educated states in the U.S. These are organic competitive advantages that allow Maryland to compete for technology-sector employees without special tax benefits.

Notably, the vast majority of data centers operating in Maryland are operating without tax breaks (35 out of 45 data centers). Moreover, only three counties have enacted the local tax break: Anne Arundel, Howard, Prince George's Counties. Data centers are coming to Maryland even when they aren't eligible for tax breaks.

Conclusion

Other states, including Arizona, Georgia, Michigan, Virginia, and Washington, are actively considering legislation this year to repeal tax cuts for data centers.⁹ Many of these efforts are bipartisan.

We simply cannot afford to continue footing the bill for billion dollar tech corporations. Repealing the tax breaks for data centers will protect state revenues at a critical budget moment, prevent looming losses, and ensure that Marylanders don't continue to subsidize an industry that is driving up their electricity bills.

⁷ "A.I. Is on the Rise, and So Is the Environmental Impact of the Data Centers That Drive It." 2025, [Smithsonian Magazine](#)

⁸ "Maryland Data Center Summit Panel Highlights State's Strategic Position and Industry Growth." 2024, [Data Center Post](#)

⁹ "States Go After Tax Breaks for Data Centers: States of Play." 2026, [Bloomberg Government](#)