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DATA CENTERS IN TEXAS

Texas is giving data centers more than \$1 billion in tax breaks each year

The tax break is one of the state's costliest incentive programs and soon to be the most expensive of its kind in the nation.

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Construction continues on the Meta Platforms data center complex on a 1,000-acre site in far Northeast El Paso, near the Texas-New Mexico state line, as seen March 12, 2026. Omar Ornelas/El Paso Times/USA TODAY Network via REUTERS



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Texas will lose out on \$3.2 billion in sales tax revenue over the next two years thanks to an exemption for the state's booming data center industry, according to the comptroller's office.

That figure is likely a vast underestimate given the explosion of new facilities being built, but already makes the tax break one of the state's costliest incentive programs and soon to be the most expensive of its kind in the nation.

Lawmakers, who will meet in January for the next legislative session, say they are considering proposals to either limit the scope of the tax break or get rid of it altogether.

"These new numbers are extremely concerning and I will say they're unsustainable," said state Sen. [Joan Huffman](#), chair of the Senate Committee on Finance in an interview with The Texas Tribune. "I plan to look at filing legislation to either repeal the exemption or take a very close look at it and see."

Lawmakers approved the tax break more than a decade ago, when data centers were smaller and required fewer resources. From 2014 to 2022, the exemption amounted to between \$5 million and \$30 million in lost state revenue per year. By 2023, that skyrocketed to more than \$150 million, and this year Texas is forgoing at least \$1.3 billion — a number that is rapidly increasing every year, based on state projections.

Data center tax exemptions are ballooning

A 2025 report from the comptroller's office shows sales tax exemptions for data centers are expected to reach \$1.6 billion by 2027.

2014	\$5.4M
2015	\$9.2M
2016	\$11M
2017	\$15M
2018	\$13.4M
2019	\$15.4M
2020	\$13.7M
2021	\$30.4M
2022	\$28.7M
2023	\$157M
2024	\$148.8M
2025	\$1.02B
2026	\$1.31B
2027	\$1.6B
2028	\$1.6B
2029	\$1.69B
2030	\$1.75B

Exemptions are projected to increase 33% in the next five years.



Note: Exemptions are based on projections from previous years.

Source: Texas Comptroller of Public Accounts

Credit: Apurva Mahajan

The money Texas is poised to lose from the tax break on a yearly basis could pay for the entirety of the state's new school voucher program, or it could double the size of a state disaster fund to help local communities like Kerr County prevent flooding. It's also quickly outpacing the cost of Texas' highly controversial Chapter 313 tax abatement program, which allowed manufacturing companies to avoid paying local school property taxes, drawing the ire of lawmakers who eventually shut down the program last year at its height of more than a billion dollars a year.

The growth in data centers was unforeseen just three years ago, when the comptroller's office projected the tax break would be valued at about \$180 million in the 2027-2028 biennial budget. In 2025, the projection was revised upward to more than \$3 billion — a reflection of the artificial intelligence boom that took off after 2023 and requires massive amounts of computing power.

Texas already has more than 300 operating data centers, with more than 100 additional projects planned or under development.

At least 142 more are currently under construction, leading the nation and beating out Virginia, which has 141 under construction, according to an analysis by data firm Aterio.

By fiscal year 2030, the comptroller's office forecasts the annual value of the tax break will be nearly \$1.8 billion — a \$500 million increase from the current fiscal year — according to the 2025 report.

Data center industry leaders warn that shrinking or ending the tax break could spell an end to Texas' rising status as the nation's No. 1 destination for data centers, a status the industry argues comes with new jobs and billions of dollars in local investment.

“I think the hostile message that sends would ... give a lot of different companies pause about what the state of being able to invest in Texas for the long term is,” said Dan Diorio, vice president of state policy with the Data Center Coalition, a trade group that represents major tech companies.

Meanwhile, data centers are becoming increasingly unpopular among locals.

Cities like San Marcos, Amarillo, College Station, Waco and Harlingen have seen grassroots movements pressuring local officials to block data center projects. A recent Quinnipiac poll found 65% of Americans oppose the construction of a data center in their community.

Texas is one of 37 states offering tax exemptions for data centers, most of which are sales tax exemptions tied to local economic growth requirements. States like Virginia, Illinois, Michigan, Arizona and Georgia also are debating whether to curtail or significantly alter those tax breaks.

The tech industry argues that tax breaks are crucial to maintain the industry's investment in the state, which creates jobs and generates local tax revenue. Critics say the industry is choosing Texas for its abundance of cheap land and electricity as much as any tax break.

Dick Lavine, a former fiscal analyst for left-leaning policy group Every Texan, said there are many reasons why a company decides to build in a particular area, “and taxes is far from the most important.”

“Somebody’s giving out money; [the companies] want to be in line. But it’s not really how decisions are made, especially when there’s bedrock things like land and energy that are much more important than their tax rate,” Lavine added.

There are currently 121 data centers receiving the sales tax break, according to a [comptroller’s office database](#). A records request seeking individual tax break data for the facilities was rejected by the comptroller’s office, citing state law that shields that competitive business information.

Qualifying data centers are exempted from paying the state’s 6.25% sales taxes on purchases related to building and maintaining the facility — including servers and other data storage hardware, software, office equipment, the cooling system, emergency generators and plumbing.

Data centers are also exempted from paying state sales taxes on the cost of electricity, which is notable given the enormous energy demand of the facilities. By 2030, one in five data centers are expected to exceed 1 gigawatt in maximum energy demand, equivalent to the amount needed to power roughly 700,000 homes for a year.

To qualify for the tax break, owners of data centers larger than 100,000 square feet must agree to create at least 20 jobs paying at least 120% of the area’s median salary and invest \$200 million in the project over five years. A 2015 addition to the tax break added a category for owners of data centers larger than 250,000 square feet, who must agree to create 40 of those jobs, invest \$500 million and pay the energy grid operator to reserve 20 megawatts of transmission capacity, according to state tax code. The exemption expires after up to 15 years for smaller data centers and up to 20 for larger ones, depending on if the company meets the capital investment benchmarks.

In 2013, when then-state Rep. Harvey Hilderbran authored the original bill that created the sales tax exemption, data centers were focused on cloud storage, and were smaller and less resource intensive.

Hilderbran joked that the bill has turned out to be his most successful law ever, but he never could have guessed what the industry would have turned into and suggested that the tax break should be reviewed by lawmakers.

“If I was on the committee still, I would certainly be looking at it to get a balanced perspective of what the benefit has been, and how it compares to other costs of the state for other benefits we’ve had,” said Hilderbran, who retired from office in 2015.

States re-think their tax breaks

States routinely hand out sales tax breaks to manufacturing companies to spur further investment that will hopefully create jobs and tax revenue. And data centers should be thought of like any other manufacturer, Diorio said.

“The final product of the data center is the 21st Century economy,” Diorio said. “It’s the online purchases, it’s the banking and financial transactions, it’s the telehealth appointments I mean, it is basically the entire lifeblood of our daily lives.”

The coalition has been making this case across the country as states consider getting rid of their tax breaks for data centers amid debates over their consumption of electricity, water and land.

In Virginia, lawmakers have called a special session to weigh whether to phase out the state’s annual \$1.6 billion sales tax break for data centers — supporters of repealing it argue the giveaway of tax revenue is unnecessary to keep the industry invested in the state and the tax revenue is needed to balance the budget.

In Illinois, where the value of the state’s sales tax break for data centers recently reached \$1 billion, Gov. JB Pritzker in February announced a two-year suspension of the state’s sales tax break amid concerns that data centers are causing energy costs to rise for residents.

Virginia, Illinois and Texas make up the three most generous states toward the data center industry in terms of the annual value of their tax break. Along with Texas, both states have seen the value of that tax break grow rapidly since the AI boom began.

Diorio argued that repealing a sales tax break isn’t a good way to fill a budget hole because states will lose revenue if the industry invests less in a state. He pointed to a [study commissioned by his association](#) that found data centers in 2024 generated \$3.2 billion from other local and state taxes, including local sales and property taxes, the state franchise tax and sales taxes imposed on data centers that have not qualified for the state sales and use tax break. Data centers, however, often engage in local agreements to waive property tax burdens.

“Texas is poised to be the [data center] leader and to be the leader in the country, and most likely to be the leader in the world,” he said. “And . . . getting rid of the sales tax exemption that would dramatically imperil that.”

Nathan Jensen, a professor at the University of Texas at Austin who studies state and local economic development, said the argument that an industry could pull out of a state is common in debates over economic incentives. He said states should seek the right balance of incentives that attract and grow industries without sacrificing too much in tax collections.

“The whole point is to get some sales tax revenue,” Jensen said. “So even if you lost half the investment, but you taxed it at full value, from a taxpayer perspective, that’s a win, right?”

Texas to hold hearings on data center incentives

The Legislature will begin debating its tax break for data centers in July, when Huffman’s Senate Committee on Finance meets for an interim hearing ahead of the 2027 legislative session.

Huffman said she intends to use the committee hearing to cast a skeptical eye on the industry ahead of possibly filing legislation to repeal the tax break altogether, arguing the broad list of exempt purchases is too generous.

Lt. Gov. **Dan Patrick**, a Republican, last week highlighted the ballooning cost of the tax break and directed the Senate to study and make recommendations “providing safeguards to ensure that Texans benefit from data center investment.”

State Rep. **Trey Martinez Fischer**, D-San Antonio, and vice chair of the House Ways and Means Committee, said the ballooning forecasts for the value of the tax break had also raised red flags for him.

“We have one of the largest economies in the world,” Martinez Fischer said. “We’re looking for business partners, and that requires a two-way relationship of give and take. If you want the benefits, you’ve got to carry some of the burden.”

Lawmakers could take a range of approaches, including repealing the tax break, reducing it, further limiting the number of years it remains in effect, or tying the tax break to stronger economic development requirements.

Diorio said the industry plans to make its case to lawmakers in the hearings, “to help illustrate the good work that data centers are doing to be good stewards of resources in the state and

really put the data out there to show that and demonstrate the broad economic value that we're bringing to the state of Texas.”

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