OLA Data Center Sales Tax Incentive

Topic Selection Background Information **March 2019**

Program Overview	The data center sales tax incentive provides tax breaks to companies that construct or refurbish data centers in Minnesota. The statutory purpose of the program is to create jobs in the construction and data center industries. To be eligible for the incentive, companies must either (1) build data centers of at least 25,000 square feet and invest at least $30 million in the first four years, or (2) refurbish data centers of at least 25,000 square feet and invest at least $50 million in the first two years. Eligible companies may receive sales tax exemptions for 20 years on computers, servers, cooling and energy equipment, energy, software, and other items.
Possible Evaluation Issues	What financial and economic impacts have occurred as a result of the data center sales tax incentives? To what extent has the program met its goals? How well does the Department of Employment and Economic Development (DEED) administer it?
State Resources *Medium-High*	According to February 2018 estimates from the Department of Revenue, the state is expected to forego $70.3 million in sales taxes in Fiscal Year 2018 as a result of the data center sales tax incentive.
State Control *High*	State statutes authorize the incentive. DEED certifies whether companies are eligible for the incentive, while the Department of Revenue issues the tax refunds.
Impact *Unclear*	The program's impact on the state's tax revenues thus far are significant. Without further research, we do not know how many businesses the incentive attracted, how many jobs it created, or other indirect economic effects of the incentive on the state. According to one industry website, Minnesota currently houses 33 data centers, most of which are located in the Twin Cities.
Timeliness *High*	OLA has not evaluated the incentive since the Legislature authorized it in 2011. In its 2016 tax expenditure budget, the Department of Revenue projected that the incentive would cost the state $4.6 million in Fiscal Year 2018. Only two years later, the department revised its estimate to $70.3 million, an increase of 1,428 percent. Since the incentive has been in operation for several years now, and given the increase in the department's estimates, this is an opportune time to evaluate the incentive.
Feasibility *Medium*	OLA would conduct this evaluation using standard research techniques. We may not be able to disclose some protected tax data in our final report. As with other economic development evaluations, it would be challenging to isolate the economic effects of the program from what would have occurred in its absence.
Balance *Medium*	OLA has never evaluated this program. However, OLA has evaluated other programs involving DEED or the Department of Revenue in recent years, including the *Minnesota Investment Fund* in 2018, the *Minnesota Research Tax Credit* in 2017, and *Mineral Taxation* in 2015.
Discussion *Worth investigating*	An evaluation of this topic could investigate why the incentive's costs have grown so precipitously in recent years.