The Challenge with Data Center Tax Incentives

Businesses involved in the build or use of data centers have access to tax benefits that are tremendously rewarding, yet rarely fully realized. These benefits are available at all jurisdictional levels—international, federal, state, even municipal—and apply to both ‘collocation’ and ‘enterprise’ operations. The language defining these incentives is deceptively simple. Many potential pitfalls can be encountered in obtaining, implementing, and optimizing these benefits. This is why most businesses leave valuable data center tax savings—to which they are entitled—on the table.

The Changing Data Center Environment

Ryan is continuously looking at tax planning, management, and mitigation opportunities related to the changing nature and use of data centers. Areas in flux demand a real-time grasp of the qualifiers surrounding the issues, such as:

- Privacy issues that drive the location of data storage outside of the US
- Re-defining the term “data center” to include aggregate data storage within large multi-tenant office buildings
- Green energy and carbon reduction initiatives benefiting new-builds and improvements
- Imposition of state and federal fees and taxes on interconnect charges and data vs. communication services

Understanding the Issues

Ryan is uniquely equipped to navigate data center tax issues. We offer expertise in every area of tax related to this evolving industry: property, sales and use, telecommunications, transaction, credits and incentives, and more. We know where to look, what to ask, and how to advise our clients to take advantage of every possible opportunity. We add significant value through our proven approach:

- Coordination of tenants, owners, and operators to meet incentive qualification hurdles
- Double taxation of the same asset for real and personal taxes
- Exemption of portions of the utility cost from taxes
- Traffic studies quantifying actual cost of safe harbor reporting methodologies
- Analysis of statutory sales tax exemptions versus economic development packages
- Taking on the administrative and regulatory burden to maintain and prove exemption
- Compliance administration with contractors and subcontractors
- Negotiation of favorable compliance terms with the taxing jurisdiction
- Legislative advocacy for favorable legislative changes
- Outsourcing of compliance procedures

Ryan's Data Center Services Team

- Ryan’s Regulatory Affairs Experts
- Ryan’s Recovery Experts
- Ryan’s Compliance and Prospective Service Experts
Client Success Stories

Negotiation of Memorandum of Understanding for Sales and Use Tax Exemption

Client Issue: The client sought to take advantage of the state's statutory sales tax exemption for purchases of computer equipment but was unsure of the best approach to negotiate the Memorandum of Understanding.

Approach and Solution: Ryan successfully negotiated a Memorandum of Understanding with the revenue department that included favorable target goals and dates. In addition, Ryan negotiated the right for the client to pursue historical recovery through the proper administrative channels.

The Result: The client now has a secured prospective tax benefit and historical recovery opportunity in the tens of millions.

Compliance Review and Recovery

Client Issue: After the client built a “state-of-the-art” data center, they were faced with a significant compliance burden.

Approach and Solution: The Ryan team analyzed the client’s accounts payable data, worked with the contractors and subcontractors, prepared administrative filings, and worked with the state to recover taxes paid in error by the client.

The Result: The client received a transaction tax refund totaling eight figures.

Legislative Fix

Client Issue: The state legislature was considering a statutory exemption bill that would adversely affect the client.

Approach and Solution: The Ryan team prepared a legislative strategy, worked with local industry groups, and advocated the client position before the state legislature.

The Result: The state legislature gave up the legislative change and is considering a bill that will benefit the client in the next legislative session.