

Economically Dissecting Kentucky's Data Center (QDC) Sales Tax Incentive

Nov 23, 2026

Categories:

Data Centers
Publications
Tax Law Defined™ Blog

Authors:

Mark F. Sommer

In prior blog posts, we have discussed the very beneficial sales and use tax exemption (QDC incentive) for Kentucky-based data centers, particularly those with large capital expenditure (Capex) costs. To state the obvious, the QDC incentive is worth pursuing for new data centers given its benefit in mitigating certain build-out and start-up costs, at a time when large Capex costs are being incurred.

Given the staggeringly large up-front cost of computer servers and all of the associated equipment necessary to outfit a hyperscale data center, mitigating Kentucky's sales tax on such purchases can be a material savings. At 6% of installed cost, this can be tens of millions of dollars in sales tax on even a smaller-scale data center, much more if hyperscale.

Some media articles of late have challenged the need for the QDC incentive and its potential cost to the state. But is Kentucky really "giving up" this foregone sales tax revenue?

The benefit only accrues after stringent conditions are met — specifically large-scale investments are made or committed to, and the project is formally and publicly approved by the Kentucky Economic Development Finance Authority (KEDFA). But more importantly, this incentive is making Kentucky more competitive and attempting to level the playing field with many of its seven border states as to data center attraction and investment. Why? Because many of Kentucky's border states either don't subject to sales tax the computer server or equipment purchases at all, *or* they don't tax the energy consumed or do at a nominal rate, *or* both. Simply look to Ohio, Indiana, West Virginia, Missouri, Illinois, and Tennessee for comparison.

Kentucky's QDC incentive, when broken down and studied, is really nothing more than an upfront exemption, a cash flow type incentive,

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

FBT Gibbons

recovered over time by the state by taxing power users for data center operations through its sales tax on energy usage, and not accounting for other benefits tracing to the project.

A basic example readily demonstrates this:

Assume you have a $5 billion Capex data center being considered, with $4 billion of that Capex set for server and other necessary equipment purchases. And the data center is scoped out at 1100 MW contract capacity, operating at around 80% consistent capacity and purchasing power at current market rates. And assume the data center would need to replace or replenish all of its servers and equipment every six years (like most data centers) due to equipment failure or obsolescence. At Kentucky's 6% sales tax, the sales tax on the servers and equipment in question is $240 million total. This is the foregone sales tax revenue in return for the $5 billion of investment being made and would be the maximum up-front QDC incentive. And the replacement of the servers for the same data center project every 72 months would be exempted as well under the QDC program.

In Kentucky, however, unlike many of its border states, the electrical power consumed at this level of a data center is taxed monthly, which would approximate $44.5 million annually or $3.8 million monthly in sales/use tax on the power. And then factor in that nearly all Kentucky school districts levy a separate utility gross receipts license tax (UGRLT) on electricity at a tax rate of 3% — this would generate an additional monthly tax of $1.8 million just for local schools (which do not impose a sales tax on the build-out equipment cost and so do not forego revenue from the QDC incentive).

Looking only at the state-level sales tax on energy, a total of $273 million in sales tax would be paid in by the data center over the six-year window prior to necessary equipment replacement. Comparing this amount to the upfront $240 million foregone sales tax on the equipment purchases, the QDC exemption is actually recovered by the state after 63

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

months; over the six-year/72-month window, a total of $273 million in state sales tax would be paid in — putting the state ahead by $33 million dollars against the QDC incentive cost when the servers first need replacing. And keep in mind the school UGRLT of $131 million over this period is separate, making it new income for the school system independent of this analysis.

And so, after six years, the data center equipment is replaced, again with no sales tax thereon thanks to the QDC program, and the data center continues paying the 6% sales tax (and the 3% school tax) on the power. And this scenario continues every six years over the roughly 40-year life of the data center, with the state still ending up ahead in revenue by the end of six years.

From the simple example above, one can see that the upfront waiver of initial sales tax is recovered by the state over the continued operations of the data center in Kentucky, which cycle repeats itself every 6 years or so — hence the above characterization as a type of cash flow incentive. All of this is in return for the local and regional economic impact of the data center itself, the full-time operational jobs, the thousands of construction-related jobs, all the state and local taxes generated by all, and the significant tax revenue earned by the local schools under the UGRLT. At $1.8 million monthly under the above example, it would approximate $864 billion in UGRLT over 40 years.

Critically, no tax revenue or economic impact exists without the project. If the data center locates in Ohio or Indiana instead, Kentucky does not collect the $480 million in equipment sales tax, the $547 million in energy sales tax, or the $274 million in UGRLT — it collects nothing. The relevant economic comparison is not QDC versus full sales tax; it is QDC versus no project at all. The incentive is affordable, and it decides where the project goes.

The QDC is not a grand giveaway as some have characterized it but a very smart and safe way by legislators to entice data centers into Kentucky and away from Ohio, Tennessee, Indiana, and West Virginia , among other states. While inherently there is some risk to the state in that, in the above example, the net benefit to the state is

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

dependent on the continued operation of the data center, this risk is very similar to any other economic development project: the state makes an initial investment in a project (without any direct cash payment incentives or loan to the company) for the hope that the project continues, with additional investment in the state as time passes, and reaps the economic impact as a result.

Kentucky needs to be, and stay, competitive with its border state competitors, at a minimum, and the QDC is a very strong and critical tool necessary to compete with these other states in this burgeoning industry.

Please contact the author if you have questions or comments on this series. You can also visit FBT Gibbons' Tax Law Defined® Blog for more insight into the latest developments in federal, state, and local tax planning and tax administration.

Bluegrass, Big Data Series

- **Part 1 — Kentucky and Data Centers: The Next Frontier?**
- **Part 2 — Power, Water, and Tax Breaks: Why Kentucky Is Ripe for a Data Center Boom**
- **Part 3 — Do AI Data Centers Make a Product? Kentucky Tax Law May Say Yes**
- **Part 4 — Why Data Centers May Qualify for Kentucky's Manufacturing Tax Relief**
- **Part 5 — Kentucky's Data Center Tax Incentive: What Hyperscalers Need to Know**
- **Part 6 — Kentucky-Based AI Data Centers: Let's Talk Incentives**
- **Part 7 — So Why Are Some Kentucky Cities Starting to Oppose Data Centers? (Part 7)**
- **Part 8 — Kentucky's New Policies on Data Center Incentives Released**
- **Part 9 — Economically Dissecting Kentucky's Data Center (QDC) Sales Tax Incentive**

© 2026 FBT Gibbons LLP. May be considered attorney advertising in some jurisdictions.

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

FBT Gibbons