International Property Tax Institute

PRESIDENT'S MESSAGE

February 2026

Data centres are an increasingly important part of the real property world and a recent article from the Tax Foundation provides some interesting information about data centres in the USA and, inter alia, the way they are treated for various tax purposes. Here are some selected extracts from the article that I hope will be of interest.

The key findings of the research are:

- Data centers' state and local tax burdens are heavily dependent upon policy choices surrounding sales and property taxation of data center equipment.
- Servers and other data center equipment are exempt from sales tax in most states, consistent with the principle of avoiding the taxation of business inputs, but the exemption is often contingent upon meeting economic development targets.
- Many states impose tangible personal property taxes on data centers' machinery and equipment, accounting for more than 20 percent of the total federal, state, and local tax burden on data centers across 12 jurisdictions examined in this publication.
- Data centers face high tax burdens and are particularly substantial contributors to local coffers, but poor tax structure can drive these operations to other locations and deprive local governments of a major revenue stream.
- Tax liability calculations for a model $1 billion data center in 12 representative jurisdictions across the country demonstrate how important tax considerations can be in location decision-making.

In his introduction, the author of the paper states: "The AI breakout is supercharging an already booming data center industry, with estimates that US data center investments will exceed $1 trillion over the next five years. Even this may not be enough: one industry estimate suggests that the largest players in the industry – the so-called "hyperscalers" – will need to deploy an additional $1.8 trillion in capital by 2030 to keep up with demand.

These investments are coming. The only question is where they are located, and state tax policy choices can play a meaningful role in that decision.

Data centers represent sizable investments, with larger campuses costing billions of dollars. Investments of that size are serious business, and decisions about where to locate these facilities are not made lightly. Companies consider a variety of factors, including electricity costs and grid reliability, climate and cooling costs, land availability, colocation with or proximity to users, regulatory environments, and, of course, taxes.

None of these factors is sufficient on its own, but scoring poorly on one or more can take a region out of the running for major data center expansion. A cooler climate reduces equipment cooling costs, but if electricity is unreliable or unduly expensive, even at reduced loads due to favorable weather, an area will be unattractive for new data centers.

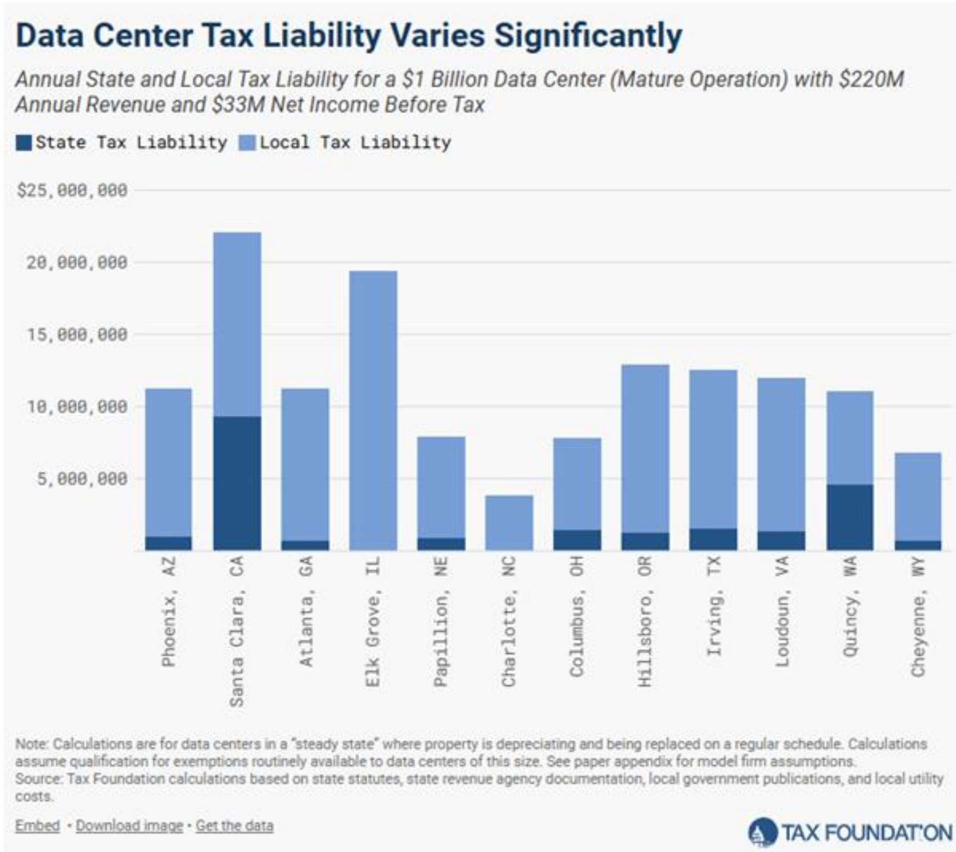
Restrictive land use regulations can make it difficult to locate new facilities in some areas, even if utility costs and taxes are attractive. And aggressive taxation of data centers can harm a state's prospects of attracting data center investment even if other conditions are favorable.

States can't legislate their climate, and some regions lack the available open land for data center scalability. Lower electricity costs or greater grid resilience may flow from choices made by policymakers, but they can't just flip a switch to accomplish this. Tax structures, by contrast, are the policy lever most within reach of state lawmakers.

If lawmakers want data center investment in their states, they do need to ensure that the tax code does not uniquely penalize these operations, as is often the case. Decisions on whether to tax data centers' machinery equipment purchases or ongoing use, the degree to which capital investment costs can be expensed under corporate income tax regimes, whether and how to tax business utilities, and whether to impose taxes on data processing all influence businesses' decisions about where to locate new projects.

This paper examines how states competing for data centers approach these different tax choices and how tax policy influences data center investment. It outlines the proper tax treatment of the industry, then offers a 12-state comparison of state and local data center taxation."

The paper contains the following graphic showing the variation in the tax treatment of data centres across various states in the USA.

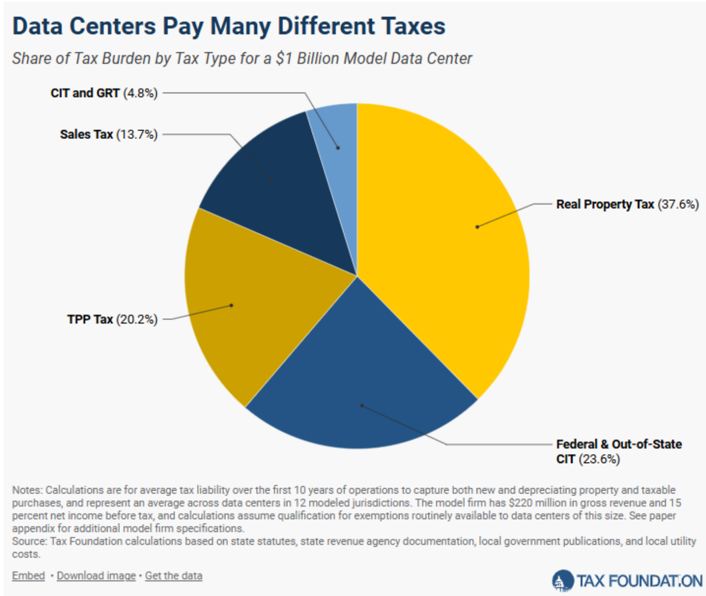


In relation to property taxes, the author states: "Data centers, like all businesses, owe property taxes on their land and structures. These costs are not inconsiderable, since large data centers can sometimes require hundreds of acres - potentially in areas with high land values - and the facility (shell) itself is quite expensive.

Some places offer property tax abatements to qualifying data centers to defray these costs, though such targeted incentives are difficult to justify. Real property taxation, moreover, reflects the neutral application of a broad-based local tax to data centers, whereas other taxes discussed can represent discriminatory treatment.

However, jurisdictions with so-called split roll taxation, where commercial and industrial property faces higher rates or assessment ratios than other classes of property, render themselves less attractive to data centers and other businesses with substantial property values."

The paper contains another graphic which is of interest, particularly in relation to the amount of property tax payable in respect of the data centres included in the study.



The full report is available via the link below:

https://taxfoundation.org/research/all/state/data-centers-taxation/

Time now to move on to IPTI matters. At the end of January, we presented a two-day virtual symposium in partnership with the Institute of Municipal Assessors (IMA). This IMA-IPTI symposium was entitled "Embracing Global Innovation – Impact on Valuation Professionals" and had a theme of "A Time of Change – And Opportunity". We had a great line up of speakers from around the world sharing their expert knowledge about a wide range of topics including "Advancements in Property Valuations", "Innovation in Technology and Practice", "Enhancing Property Valuations with AI", "Data Quality and Privacy" and a final panel session which looked at the issue of "Can AI Replace Property Valuers?". The large global audience who attended found the symposium very interesting and highly informative.

Also in January we delivered another webinar which we considered valuation organisations would find helpful. This IPTI webinar focussed on how assessing agencies can build in appropriate quality standards – and measure their effectiveness – to ensure that all aspects of their activities meet their stakeholders' expectations. As we made clear, it is essential that property taxpayers – along with governments that bill and collect property taxes – have confidence in the accuracy and fairness of the valuations that assessing agencies produce and maintain. To assist valuation agencies, IPTI has developed a "Quality Audit Framework" (QAF) which enables them to objectively review the extent to which they meet the relevant statutory requirements. This webinar explained what the QAF is and how it can be applied. We are planning to follow up this webinar with another providing examples of how some assessing jurisdictions have applied IPTI's QAF.

Information about other forthcoming IPTI events - including conferences, symposiums, webinars, workshops, training, etc. - is available on our website: www.ipti.org.

Now it's time for a quick look at what is making headlines concerning property taxes in selected jurisdictions and countries around the world. For more information, and links to the original news articles, please refer to IPTI Xtracts which can be found on our website: https://www.ipti.org/ipti-xtracts

In Germany, it has been reported that the country's highest fiscal court has confirmed new property tax rules. A major property tax reform brought at the beginning of this year raised the amount owed by many landlords in Germany. Now the Federal Fiscal Court has rejected challenges against the rule change, meaning that property owners are still on the hook. Germany's property tax (*Grundsteuer*) rules were updated at the start of 2025, changing the way that property taxes are calculated. As a result, new property tax bills were drafted and delivered to homeowners across Germany around the turn of the year, with many home and property owners upset to learn that the amount of tax they owed had increased significantly. The homeowners association Haus & Grund, as well as millions of individual homeowners, then brought legal challenges against the change in tax law. Now the Federal Fiscal Court in Munich (BFH), which is Germany's highest authority for fiscal disputes, has ruled that the change to the property tax code is legal and does not violate the Basic Law. In doing so the court has rejected lawsuits brought by property owners from Cologne, Berlin and Saxony. The ruling also suggests that the updated property tax calculation is likely here to stay. However, further legal challenges can be expected. In this case, the plaintiffs argued that the law violated the principle of equality, because it allows tax offices to calculate property taxes based on flat-rate average values for net rents and land value. So instead of looking at how much rent a landlord actually collects, or at the value of their land based on a recent assessment, property tax rates are based on average values in a given region. The Federal Fiscal Court has now ruled that doing so does not violate the principle of equality, and that calculating taxes based on these figures is "constitutionally justifiable". The cases from Cologne, Berlin and Saxony concerned the federal model for property taxes, which applies in eleven federal states. Meanwhile the states of Baden-Württemberg, Bavaria, Hamburg, Hesse and Lower Saxony have adopted their own regulations, and other legal challenges are also being brought against those.

In France, the government has suspended a planned property tax increase until next spring to reconsider the calculation method after strong political pushback. The pause is intended to give authorities time to design a revised, more locally based method of calculating the tax, with the possibility of tailoring the system at departmental or even municipal level. The proposed update to the tax base, drafted by the Ministry of the Economy, would have affected 7.4 million homes across the country and had already triggered significant political backlash. For households concerned, the average bill was expected to increase by around €63. Cities and housing minister Vincent Jeanbrun indicated that the proposal was likely to be shelved, saying it was "not the time" to introduce such a measure in the middle of budget discussions. He also noted that any deeper structural reform of the property tax system would require "new logic", which he said was not currently achievable. Property tax in France has risen by 37.3% over the past decade, a trend partly driven by the indexation of rental values to inflation. The now-delayed 2026 update would have applied higher valuations based on so-called "comfort" features, such as running water, electricity and indoor sanitation. These amenities increase the assessable floor area of a property and therefore the total amount of tax owed.

In Canada, it is reported that the value of properties across Nova Scotia has broken the $200-billion mark for the first time. The Property Valuation Services Corporation (PVSC) says property values across the province have climbed to a record $206.3 billion, up eight per cent from last year's $190.5 billion. Residential properties are up eight per cent to $125.6 billion, while commercial properties are up about six per cent to $32.2 billion. Properties in and around Halifax are driving the growth, with properties in the municipality now worth $113.8 billion, more than half the provincial total. PVSC says condos, apartments and duplexes are seeing strong growth with construction expanding outside Halifax. It says commercial land values in the city are up significantly, especially in areas like the expanding Burnside Industrial Park in Dartmouth.

In Brazil, a new system of market value assessment is to be introduced. Starting in 2026, the tax basis for IPTU (urban property tax) and ITCMD (inheritance tax) will shift from outdated, generic, or historical values to real market values. This will be facilitated by the new Brazilian Real Estate Registry (CIB) and CTER system, which integrate notary offices with the Federal Revenue Service.

And finally, as regular readers will be well aware, property taxes can be an extremely political issue. In addition to the pressure for abolition of property taxes in various parts of the USA, in the UK the forthcoming revaluation of properties for business rates (the annual property tax for non-residential properties) has created considerable controversy. It even featured in discussions with the UK Chancellor of the Exchequer at the recent World Economic Forum in Davos where she was forced to agree that pubs would receive additional relief from revised business rates due to be introduced in April 2026. This may be related to the fact that many UK pubs had introduced a ban on Members of Parliament entering their local hostelries!

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