

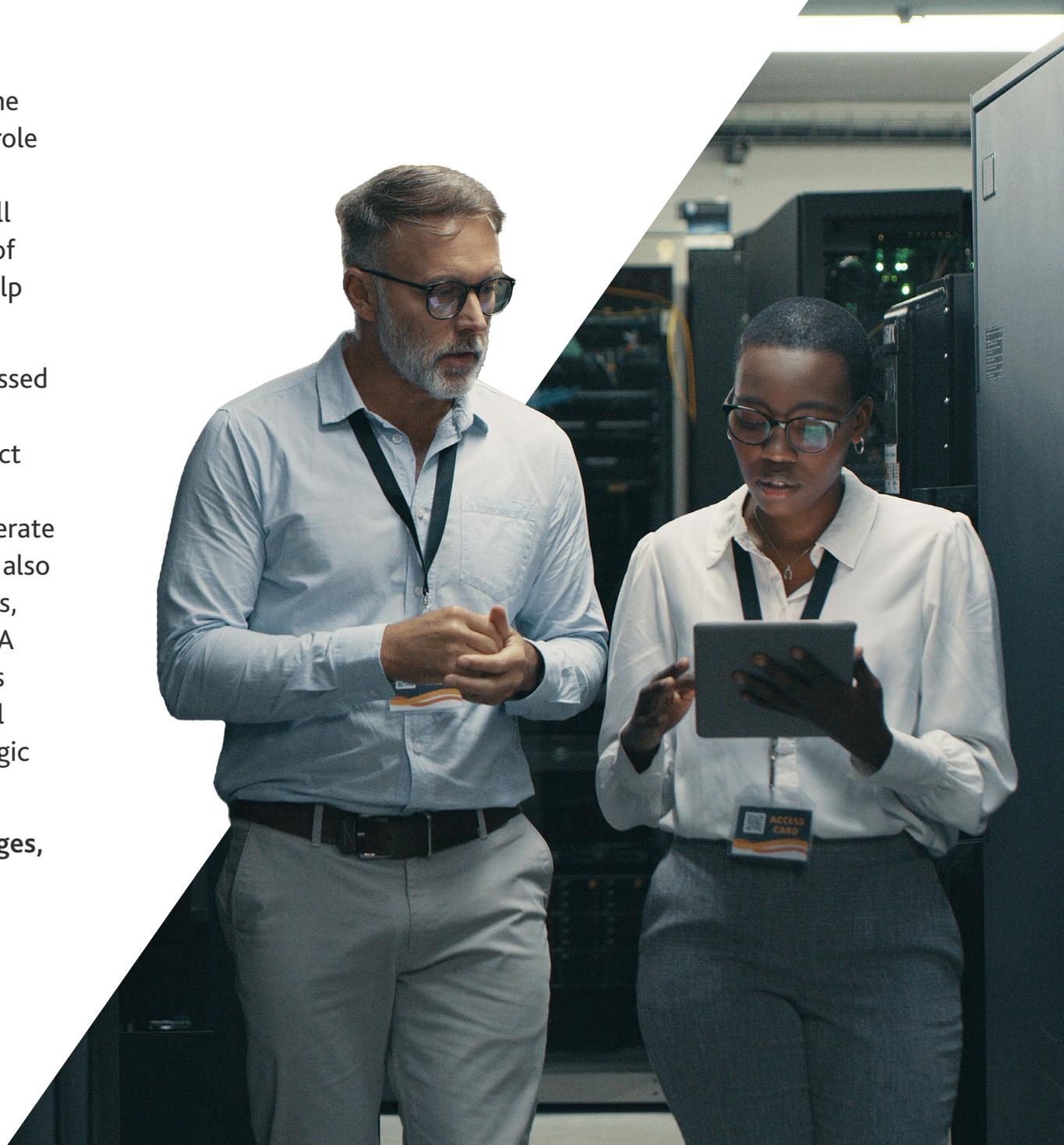
4 Key OBBBA Provisions Data Centers Need to Know



As [data center projects](#) proliferate across the U.S., proper tax planning will play a pivotal role in the success of new and updated facilities. Companies will want to take advantage of all available opportunities to recoup a portion of their [substantial construction costs](#) and help reduce their total tax liabilities.

The [One Big Beautiful Bill Act](#) (OBBBA), passed in 2025, made key changes to the U.S. tax code, with several provisions that could affect data centers' tax strategies and obligations. Because data center companies typically operate facilities in multiple states, those provisions also intersect with state and local tax (SALT) laws, many of which do not conform to the OBBBA and contain their own nuances. Data centers must understand both layers, adhering to all applicable tax regulations, to support strategic tax planning and compliance.

This article explores four key OBBBA changes, and ways in which they interact with SALT laws, that data centers should know.



Bonus Depreciation – Section 168(k)

The OBCCA [restored 100% bonus depreciation](#) for property placed in service after January 19, 2025, allowing taxpayers to immediately deduct many specialized and redundant components of data centers — which could include HVAC systems, electrical systems, and hardware to support artificial intelligence (AI) workloads. To take advantage of this benefit, data center owners should break out project costs during construction to determine exactly which expenses qualify. Companies can use a [cost segregation analysis](#), which itemizes project expenditures, to support granular financial planning, track spending, and determine whether to make a depreciation election.

SALT CONSIDERATIONS

Complying with federal depreciation reporting standards is just the first step in the tax return filing process. Several states, including California, Massachusetts, and New York, have decoupled from federal bonus depreciation. Data centers operating in those locations will need to maintain separate state and federal depreciation schedules. Keeping different schedules makes precise cost tracking even more important because a lack of per-item visibility can lead to reporting mistakes or misstatements, potentially resulting in penalties and the loss of benefits.



Energy Credit Phaseouts and Updated Foreign Entity of Concern Rules

The OBBBA repealed and will phase out several clean energy credits and incentives previously introduced by the Inflation Reduction Act and other legislation. Credits applying to, for example, solar panels, batteries, clean vehicles, charging infrastructure, and commercial buildings will sunset on various effective dates based on project completion or the start of construction. Taxpayers that factored the savings from those credits into their financial plans should consider whether to [accelerate project development](#) to remain eligible for them. A short-term development and construction sprint could lead to labor and resource constraints stemming from increased competition. Data centers should proactively verify that their workforce and supply chains can accommodate expedited timelines.

The OBBBA also instituted new foreign entity of concern (FEOC) rules meant to encourage companies to prioritize domestic manufacturers and reduce their reliance on international ones. Companies with suppliers in countries that fall under the updated rules will not be eligible for clean energy credits if they do not change partners. But some foreign manufacturers now affected by the FEOC rules are seen as reliable sources for components essential to data center operations — including the battery modules and solar panels that feature prominently in distributed energy projects.

Given the potential costs and risks of switching manufacturers, many developers are electing to preserve their existing suppliers and forgo some credits and incentives. Companies still in the site selection or funding phases of their projects should closely compare the FEOC rules against their supplier bases and construction timelines, weighing their eligibility for credits — and the value of those credits — against the value of business relationships affected by the rules.

SALT CONSIDERATIONS

Many states offer clean energy credits independent of the expiring federal incentives, and data center companies should not overlook those options when making decisions regarding potential development sites. Some states, including Nevada, Texas, and Virginia are even piloting [tax credits specific to data centers](#). Those offerings typically come in the form of property or sales tax abatements and some might also incorporate special energy rates from utility providers. But state-level credits for clean energy and data centers are likely to be mutually exclusive, meaning companies will need to assess which incentives best align with their needs. When possible, they should also seek out opportunities to negotiate incentives that are not otherwise offered via statute.

Further, select states, including Nebraska, have their own FEOC rules that mirror those in the OBBBA. Data centers operating in those locations will need to factor the potential loss of state credits and incentives into their supplier evaluations. In other states without FEOC rules, pursuing state or local innovation, clean energy, or data center credits could provide a way to blunt the potential loss of federal credits. In either case, companies should be sure to consider all available options and applicable restrictions before making decisions.



Business Interest Deduction Calculation – Section 163(j)

Section 163(j) generally limits the interest deduction to 30% of adjusted taxable income (ATI), and the OBBBA permanently removed amortization, depreciation, and depletion from ATI calculations for tax years beginning after 2024. That shift carries big implications for data center owners that have taken on substantial debt to finance their projects because it gives them the ability to deduct more interest from their tax obligations. Future project owners might be more willing to take on debt, given that they will be able to recover expenses that otherwise would have gone toward interest payments.

SALT CONSIDERATIONS

Some states have started to decouple from the OBBBA's Section 163(j) changes to preserve tax revenue, and others might follow suit. Because divergence from the OBBBA could materially impact state taxable income and cash flow, data centers should track state-level developments closely to determine the impact on their state filing positions.



Deduction for Domestic Research and Experimental Expenditures – Section 174

The OBBBA restored immediate and full expensing for domestic research and experimental (R&E) costs for tax years beginning after December 31, 2024. Data center operators can now recoup some costs related to the development and adoption of new tools, systems, and processes. Eligible R&E expenses common to data centers include researcher compensation, supplies, and potentially some energy costs associated with qualifying projects.

As with bonus depreciation, diligent cost segregation and spend tracking will be vital because companies will need to know how much they are spending in each eligible category to benefit from the change.

SALT CONSIDERATIONS

Many states, such as California, West Virginia, and Wisconsin, do not conform to the OBBBA's changes for R&E costs. Notably, some states still adhere to the previous provision from the Tax Cuts and Jobs Act of 2017, which required companies to capitalize and amortize some R&E expenses over five years rather than receive an immediate deduction. That means some companies might need to maintain separate books for federal and state purposes, requiring diligence to verify they are satisfying all relevant state and federal compliance requirements.

SALT Best Practices for Data Centers

In addition to tracking SALT credits and incentives for all states where they operate, data centers should keep the following best practices in mind when pursuing federal and state-level opportunities:

▶ **Prioritize SALT Planning in Site Selection**

SALT considerations should be as central to [data center site selection](#) as variables such as climate conditions and energy or water availability. Identifying and securing incentives before committing to a site will also enable companies to formalize reporting processes and start collecting relevant data immediately at project start.

▶ **Verify Ongoing Compliance**

Data center companies, particularly those operating in multiple jurisdictions, should produce an annual compliance report that covers all tax obligations and credit requirements. Such a report can help prove the company has not fallen out of step in the event of an audit or additional scrutiny.

▶ **Take Advantage of Co-Location Allowances**

Many data centers serve multiple tenants. Some incentives allow for aggregate reporting, whereby investments from each tenant can be pooled rather than evaluated one by one. This path might help some businesses qualify for incentives they might otherwise not have.

How BDO Can Help

Data centers are expensive to build and operate — and costs are likely to keep rising. Strategic tax planning will be critical for companies to secure all possible savings and maintain compliance. But tracking the various federal, state, and local tax rules can be challenging for internal tax teams, especially considering the changes made by the OBBBA and the breadth of state-level variations that exist. That task can prove even more challenging for individual data center tenants, which are often smaller and lack the resources of the larger property owner.

BDO's tax professionals have deep knowledge of federal, state, and local tax codes and help businesses realize value with a total tax approach. Our teams can help you understand the OBBBA's changes, assess their potential impacts, and chart a strategic path forward. We can also help you assess state and local tax codes, which some tax teams might be less familiar with, to support forward-looking compliance. Our teams can work alongside yours to identify applicable credits and incentives, determine what expenses are eligible, and build a tax reporting architecture to help claim them.

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