

BILL ANALYSIS

C.S.H.B. 2825
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that Texas' rebate program to promote broadband deployment by refunding a fraction of state sales taxes paid on communications network equipment purchases has boosted network investment by an estimated \$1 billion. C.S.H.B. 2825 seeks to expand this successful program to increase state economic growth, create jobs, generate tax revenue from new economic activity, and ultimately further accelerate broadband deployment by exempting network equipment purchases from the state sales tax.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Comptroller of Public Accounts in SECTION 1 of this bill.

ANALYSIS

C.S.H.B. 2825 amends the Tax Code to set the rate of the sales and use tax imposed on the sale, lease, or rental or storage, use, or other consumption of tangible personal property at four percent, effective January 1, 2028, if the following conditions apply:

- the property is sold, leased, or rented to or stored, used, or consumed by a provider of cable television service, Internet access service, or telecommunications services or a subsidiary of such a provider; and
- the property is directly used or consumed by the provider or subsidiary in or during the distribution of cable television service, the provision of Internet access service, or the transmission, conveyance, routing, or reception of telecommunications services.

These provisions expressly do not apply to local sales and use taxes or the sale, lease, or rental or storage, use, or other consumption of tangible personal property directly used or consumed in or during the provision, creation, or production of a data processing service or information service. The bill requires the comptroller of public accounts to adopt rules to implement these provisions, including rules providing for a partial refund of any amount of tax imposed at the rate set by the bill's provisions but collected at the standard sales tax rate.

C.S.H.B. 2825 repeals Section 151.3186, Tax Code, which entitles such a provider to a refund of the sales and use tax on the sale, lease, or rental or storage, use, or other consumption of tangible personal property under certain conditions. The repeal of this provision does not affect a refund to which a taxpayer became entitled before the bill's effective date and for which a taxpayer timely filed a claim for the refund with the comptroller on or before March 31, 2027.

C.S.H.B. 2825, except as otherwise provided, does not affect tax liability accruing before the bill's effective date. That liability continues in effect as if the bill had not been enacted, and the former law is continued in effect for the collection of taxes due and for civil and criminal enforcement of the liability for those taxes.

EFFECTIVE DATE

Except as otherwise provided, January 1, 2027.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 2825 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

Whereas the introduced exempted from the sales and use tax the sale, lease, or rental or storage, use, or other consumption of tangible personal property upon certain conditions specified by the bill, the substitute instead sets the rate of the sales and use tax imposed for those purposes at four percent, effective January 1, 2028, if those conditions apply. Accordingly, while the introduced established that the exemption did not apply to local sales and use taxes or to the sale, lease, or rental or storage, use, or other consumption of tangible personal property directly used or consumed in or during the provision, creation, or production of a data processing service or information service, the substitute establishes that its provisions do not apply for those purposes.

The substitute includes a provision absent from the introduced requiring the comptroller to adopt rules to implement its provisions, including rules providing for a partial refund of any amount of tax imposed at the rate set by the bill's provisions but collected at the standard sales tax rate.

Both the introduced and the substitute repeal Section 151.3186, Tax Code. However, while the introduced establishes that the repeal does not affect a refund for which a taxpayer timely filed a claim with the comptroller on or before March 31, 2026, the substitute changes that date to March 31, 2027.

The substitute changes the bill's effective date from January 1, 2026, as in the introduced, to January 1, 2027, except as otherwise provided.