BILL ANALYSIS

Senate Research Center
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S.B. 2020
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Finance
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Texas currently imposes a real property repair and remodeling tax, commonly known as the rehab tax, which applies a tax similar to a sales tax on non-residential building renovations and rehabilitations. Unlike new construction projects, which are not subject to this tax, renovation and remodeling projects face an additional financial burden.

This tax disproportionately affects property owners, developers, and the construction industry, particularly in cities where older commercial buildings require upgrades to meet modern safety, energy efficiency, and accessibility standards. The added cost discourages property improvements, slows down revitalization efforts, and makes Texas less competitive for investment in commercial redevelopment projects.

The rehab tax increases costs for businesses and property owners looking to invest in existing buildings, making it more expensive to modernize and improve commercial properties. Unlike new construction, which is exempt from this tax, renovation projects are unfairly penalized, creating an uneven playing field in the construction industry.

By discouraging renovations, the tax also slows down urban revitalization efforts in Texas cities. Many aging commercial buildings require updates to comply with current building codes, environmental standards, and tenant demands, yet the additional tax adds unnecessary costs that deter investment. Small businesses and property owners looking to improve their buildings are particularly burdened by this tax, which increases overall project expenses and reduces available capital for other improvements.

Texas' current tax structure incentivizes demolition and new construction over rehabilitation, even when renovation may be the more cost-effective and sustainable option. Removing the rehab tax would align Texas with best practices in economic development and construction while making it easier for businesses to reinvest in their properties.

S.B. 2020 eliminates the rehab tax, ensuring that non-residential building renovations and remodeling projects are treated equally to new construction in terms of tax policy. By removing this tax, the bill encourages economic growth, incentivizes property improvements, and supports job creation in the construction industry.

Eliminating the tax would level the playing field between new construction and renovation projects, giving businesses the flexibility to choose the most cost-effective and practical solution for their needs. Without the added tax burden, commercial property owners can more easily modernize buildings, enhance safety and energy efficiency, and contribute to the economic revitalization of communities across Texas.

S.B. 2020 also promotes local investment by ensuring that small businesses and property owners are not penalized for choosing to rehabilitate existing structures instead of building new ones. By making it more affordable to update aging commercial properties, S.B. 2020 would encourage reinvestment in Texas' business districts, reduce vacancies, and support long-term economic stability.

As proposed, S.B. 2020 amends current law relating to the exclusion of real property repair and remodeling services from sales and use taxes.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 151.0101(a), Tax Code, to redefine "taxable services."

SECTION 2. Amends Sections 151.350(a) and (d), Tax Code, as follows:

> (a) Provides that labor to restore tangible, rather than real or tangible, personal property is exempted from the taxes imposed by Chapter 151 (Limited Sales, Excise, and Use Tax) if certain criteria are met.
>
> (d) Redefines "restore."

SECTION 3. Amends Section 321.203(e-1), Tax Code, to delete existing text creating an exception under Subsection (n) (relating to providing that a sale of a certain service for nonresidential real property is consummated at the location of the job site).

SECTION 4. Amends Section 323.203(e-1), Tax Code, to delete existing text creating an exception under Subsection (m) (relating to providing that a sale is consummated at the place of business of the retailer from whom certain entities purchased the taxable item if certain criteria are met).

SECTION 5. Repealers: Sections 151.0047 ("Real Property Repair and Remodeling") and 151.3501 (Labor to Restore, Repair, or Remodel Historical Sites), Tax Code.

> Repealers: Section 321.203 (n) (relating to providing that a sale of a certain service for nonresidential real property is consummated at the location of the job site) and 323.203(m) (relating to providing that a sale of certain services relating to nonresidential real property is consummated at the location of the job site), Tax Code.

SECTION 6. Provides that the changes in law made by this Act do not affect tax liability accruing before the effective date of this Act. Provides that that liability continues in effect as if this Act 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.

SECTION 7. Effective date: September 1, 2025.