LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 23, 2025

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **SB1405** by Nichols (Relating to increasing access to and reducing taxation of Internet services.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1405, As Passed 2nd House: a negative impact of ($324,000) through the biennium ending August 31, 2027.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2026	($324,000)
2027	$0
2028	$6,780,000
2029	($24,040,000)
2030	($26,420,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *General Revenue Fund* 1
2026	($324,000)
2027	$0
2028	$6,780,000
2029	($24,040,000)
2030	($26,420,000)

Fiscal Analysis

This bill would amend several provisions of the Government and Tax Codes related to broadband development and funding, and taxation of internet service and broadband grants.

The bill would amend Section 403.553 (Texas Broadband Pole Replacement Program) of the Government Code to define “qualifying broadband service” to mean broadband services as defined in Section 490I.0101 and to modify the definition of “unserved area” by replacing “Internet service” with “qualifying broadband service.”

The bill would amend Section 403.553 (o) to change the deadline for the Comptroller to publish statistics related to the pole replacement program from the 60th day after receiving funds to November 1 of each year.

The bill would define “broadband service” as service having a download speed of at least 100 megabits per second (versus the current 25 megabits per second) and an upload speed of at least 20 megabits per second (versus the current three megabits per second).

The bill would modify the definition of "unserved area" for purposes of Chapter 490I. Public schools and community anchor institutions would be included in the "unserved" category if they lack symmetrical gigabit service.

The bill would allow the Broadband Development Office (office) to award broadband-related contracts, in addition to the currently allowable grants, low-interest loans, and other financial incentives. The bill would prohibit the office from awarding a contract, grant, loan, or incentive for the deployment of last-mile broadband service to certain providers. The office would be required to publish on the Comptroller's Internet website certain information related to each grant awarded.

The bill would amend Chapter 151 (Limited Sales, Excise, and Use Tax) to exclude "Internet access service" from being classified as a taxable service, and as a conforming change Section 151.325, exempting the first $25 of monthly internet access charges from sales tax, would be repealed.

The bill would repeal certain provisions related to broadband funding and clarify, by amending Chapter 171 (Franchise Tax) of the Tax Code, that grants received under specific federal programs would be considered qualifying broadband grants.

The bill would repeal Chapter 490H (Governor's Broadband Development Council) and Sections 490I.0105(g)-(l), (n)-(p) of the Government Code and Section 151.325 of the Tax Code.

The bill provisions amending Section 171.10132 of the Tax Code would apply only to a franchise tax report originally due on or after January 1, 2026.

The bill would take effect July 1, 2025, if it received two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2025.

This bill would amend Subchapter H (Exemptions), Chapter 151, Tax Code, by reducing the sales and use tax rate on the sale, lease, rental, storage, use, or other consumption of certain tangible personal property (TPP) used in cable television, internet access, or telecommunications services from the sales and use tax.

The bill would provide, effective January 1, 2028, a tax rate of 4 percent on the TPP described in the bill. Under current law, the sales tax rate for such TPP is 6.25 percent.

The bill would repeal Section 151.3186 (Property Used in Cable Television, Internet Access, or Telecommunications Services), Tax Code, effective January 1, 2027.

Methodology

State and local sales taxation of internet access ceased after June 30, 2020, as required by federal law, and this bill would amend the statute to accord with that fact. Consequently, the amendments concerning Internet access service, Sections 151.00394(b) and (c) and Section 151.0101(a) of Chapter 151, Tax Code, would have no fiscal implications. The amendment of Section 171.10132, Tax Code, would be a clarification regarding exclusion of broadband grants from revenue for purposes of franchise tax and would have no fiscal implications.

The repeal of Section 151.3186, Tax Code, would eliminate the current refund of state sales and use tax, paid on TPP purchased for use in cable television, internet access, or telecommunications services. The refund is capped by statute at $50 million per year. The repeal would take place on the effective date of the bill, January 1, 2027.

The bill would reduce the sales and use tax rate paid on TPP purchased for use in cable television, internet access, or telecommunications services from 6.25 percent to 4 percent.

Comptroller records regarding the total amount of Sec. 151.3186 refund requests made under current law were used to project taxable purchases that would be subject to the reduced tax rate after 2027, multiplied by the difference in that tax rate and the current law rate, and the result net against the elimination of the $50 million annual refund available under current law.

Technology

The Comptroller's administrative cost estimate includes a one-time technology cost of $324,000 in fiscal 2026 allowing for 2,160 contractor programming hours for programming changes to assist current staff in updates to the grant websites and reporting revisions.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, SD, KK