



MULTISTATE INDIRECT TAX

Texas enacts law amending definition of “data processing service” for sales and use tax purposes

Tax Alert

Overview

Texas Governor Greg Abbott signed into law on June 14, 2021 [Senate Bill 153](#) (“SB 153”), which amends the definition of “data processing service” under Tex. Tax Code § 151.0035 to exclude certain payment processing services as taxable services for sales and use tax purposes.

This Tax Alert provides a summary of the modifications to what constitutes a “data processing service” under SB 153.

Summary of provisions impacting definition of a taxable “data processing service”

SB 153 excludes from the definition of “data processing services” certain payment processing services. Specifically, “[s]ervices exclusively to encrypt electronic payment information for acceptance onto a payment card network” no longer constitute a “data processing service.”

The bill also excludes from the definition of a “data processing service” the “settling of an electronic payment transaction” if settling is performed by: federally insured financial institutions, certain persons engaged in the business of money transmission, certain payment card networks, and downstream payment processors or point of sale payment processors that route electronic payment information to federally insured financial institutions or payment card networks.

The provisions outlined above become effective on October 1, 2021.

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