TAXABLE SERVICES

JULY 2015

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Texas Comptroller of Public Accounts

The term "taxable services" is defined in Tax Code Section 151.0101 to include 17 broad categories of services. Each category encompasses a variety of specific services. Listed below are the types of services that are taxable, including examples and references to additional information.

AMUSEMENT SERVICES

Amusement services and places that offer amusement services include, but are not limited to: live and recorded performances such as movie theaters, circuses and concerts; exhibitions and displays, including antique shows, auto shows and museums; sporting events such as automobile races, horse races, rodeos, football and baseball games, including skybox rentals; participatory sports and games like bowling alleys, skating rinks, paintball fields, go-cart raceways, mudding pits, swimming pools, golf courses, health clubs and fitness centers; as well as carnivals, country clubs, amusement parks and other similar events and venues. Taxable amusement services include skydiving, sightseeing tours, online games, fortune telling and similar activities.

See Comptroller Rule *3.298, Amusement Services*, and Publication *94-186, Skydiving*.

CABLE AND SATELLITE TELEVISION SERVICES

Cable television service is the distribution of video programming, with or without the use of wires, to subscribing or paying customers. The term includes direct broadcast satellite service (DBS), subscription television service (STV), satellite master antenna television service (SMATV), master antenna television service (MATV), multipoint distribution service (MDS), and multichannel multipoint distribution service (MMDS), and any audio portion of a video program.

Satellite television service provided directly to residential property is exempt from local sales and use tax under the federal telecommunications reform legislation of 1996. The exclusion from local tax does not apply to cable television or satellite television service provided to nonresidential property.

See Comptroller Rule *3.313, Cable Television Service*.

CREDIT REPORTING SERVICES

Creation or delivery of a credit report (or any part of a credit report) for a fee or any other consideration.

Tax is due on credit reporting services if the address of the credit applicant is in Texas at the time of the request for a report, and the person

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who requested the credit report is in Texas or is doing business in Texas.

See Comptroller Rule *3.343, Credit Reporting Services*, and Publication 94-106, *Credit Reporting Services*.

DATA PROCESSING SERVICES

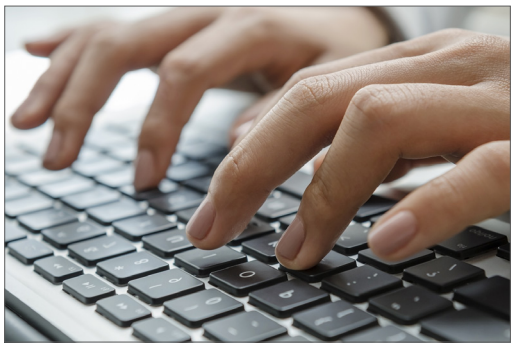
Using a computer for word processing; data entry, production, compilation, storage or manipulation is a taxable data processing service.

Twenty percent of the charge for data processing services is exempt from tax.

Examples of data processing include check preparation; accounts payable or receivable preparation; web hosting, web site creation and maintenance; data storage, including offsite backup of electronic files; conversion of data from one type of medium to another (i.e. converting paper documents or videotapes to digital files); and the performance of a totalisator service with the use of computational equipment required by the Texas Racing Act. Data processing services providers include sellers of software as a service and application service providers.

Merely using a computer as a tool to help perform a professional service is not a data processing service. For example, the use of a computer and computer aided design software by an architect during preparation of original building plans is not data processing. Similarly, a bookkeeper or accountant is not performing taxable data processing services when applying knowledge of accounting principles to produce financial reports such as income statements, balance sheets, or profit or loss statements, or to prepare federal income tax, state franchise or sales tax returns, even if such work is performed on a computer.

Data processing also does not include the transcription of medical dictation by a medical transcriptionist, most medical billing services, or Internet advertising provided through a classified advertisement, banner advertisement, vertical advertisement, or link when the item is displayed on an Internet website owned by another person.



See Comptroller Rule *3.330, Data Processing Services,* and Publication *94-127, Data Processing Services are Taxable.*

DEBT COLLECTION SERVICES

A debt collection service is any activity to collect or adjust a delinquent debt, to collect or adjust a claim, or to repossess property subject to a claim. For example, charges to perform any of the following services are subject to tax:

- collect overdue bills or returned checks for a retailer or service provider;
- send letters or make telephone calls related to delinquent accounts;
- receive incoming calls related to delinquent accounts;
- repossess property; and
- file liens.

Tax is due on the total charge for debt collection activities when the last known address of the debtor in the creditor's records, at the time the account is placed for collection, is in Texas; and the creditor for whom the debt is collected is located in Texas, or is engaged in business in Texas, at the time the debt is referred for collection.

The term "debt collection service" does not include the collection of court-ordered child support or medical child support, or the collection of current credit and real estate accounts, including mortgage payments and rental payments. Charges for these services are not taxable.

Twenty percent of the charge for data processing services is exempt from tax.

See Comptroller Rule *3.354, Debt Collection Services*, and *Publication 94-107, Debt Collection Services*.

INFORMATION SERVICES

Gathering and furnishing general or specialized news or other current information to others, including electronic data research or retrieval and providing access to databases of such information are information services.

Twenty percent of the charge for information services is exempt from tax.

Examples of taxable information services include:

- subscriptions to genealogical, financial, geological or similar databases;
- newsletters;
- scouting reports and surveys;
- financial market reports;
- data retrieval and/or research (for example, stock reports and quotations, court cases or administrative hearings);
- news clipping services, wire reports;
- multiple listing services;
- mailing lists;
- global positioning system information including driving directions;
- sports, news and similar information provided through satellite audio programming services.

News syndicates, financial reporters and investment researchers must collect tax on their services. These services are not taxable, however, when provided to Federal Communications Commission (FCC)-licensed radio or television stations or to newspapers published daily, weekly or at other short intervals.

See Comptroller Rule *3.342, Information Services*, and Publication *94-109, Information Services.*

INSURANCE SERVICES

Damage and loss appraisal, inspection, investigation, claims adjustment or processing, actuarial analysis or research and insurance loss prevention.

See Comptroller Rule *3.355, Insurance Services*, and Publication *94-110, Insurance Services*.

INTERNET ACCESS SERVICES

A service that enables users to connect to the Internet in order to access content, information, electronic mail or other services offered over the Internet access.

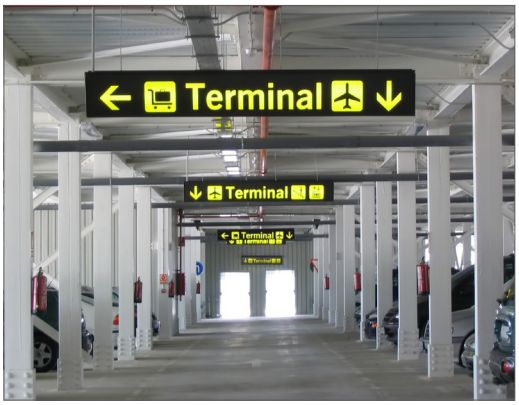
The first $25 of a charge for Internet access, per account, per month, is exempt from sales tax. Tax is due on any amount over $25 charged for Internet.

See Comptroller Rule *3.366, Internet Access Services*.

MOTOR VEHICLE PARKING AND STORAGE SERVICES

Parking and storage fees for a motor vehicle (including private or municipally-owned parking meters); parking fees, decals and permits; and impound fees.

See Comptroller Rule *3.315, Motor Vehicle Parking and Storage*.



The first **$25** of a charge for Internet access, per account, per month, is exempt from sales tax. **Tax is due on any amount over $25** charged for Internet.

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TAXABLE SERVICES

All charges for labor and materials to rebuild, replace, alter, modify or upgrade existing **nonresidential realty** are taxable.

NONRESIDENTIAL REAL PROPERTY REPAIR, RESTORATION OR REMODELING SERVICES

All charges for labor and materials to rebuild, replace, alter, modify or upgrade existing nonresidential realty.

"Nonresidential real property" includes commercial establishments such as manufacturing facilities, restaurants, offices, farms, ranches and hospitals, as well as parking lots, retention ponds and similar improvements, but does not include property used as a family dwelling such as apartment complexes, nursing homes and retirement homes.

The repair, restoration or remodeling of nonresidential real property does not include the addition of new usable square footage or scheduled and periodic maintenance.

See Comptroller Rule *3.357, Nonresidential Real Property Repair, Remodeling, and Restoration*; *Real Property Maintenance* and Publication *94-116, Real Property Repair and Remodeling.*

PERSONAL PROPERTY MAINTENANCE, REMODELING OR REPAIR SERVICES

Services such as shoe shining or repair, appliance repair, furniture refurbishing or upholstering, jewelry repair or cleaning and dog grooming.

See Comptroller Rule 3.292, *Repair, Remodeling, Maintenance, and Restoration of Tangible Personal Property.*

PERSONAL SERVICES

Services such as laundering, dry cleaning, carpet cleaning, massage services performed by massage parlors, Turkish baths and escort services are taxable personal services.

The term "massage services" does not include massages provided by licensed massage therapists.

Manicures, pedicures, tanning, piercing, tattooing and similar services are not taxable.

See Comptroller Rules *3.310, Laundry, Cleaning, and Garment Services* and *3.317, Massage Parlors, Escort Services, and Turkish Baths* and Publication *98-709, Carpet Cleaning and Related Services.*

REAL PROPERTY SERVICES

Pest control and extermination, garbage and other waste collection or removal, janitorial and custodial services (including parking lot sweeping or cleaning), landscaping and lawn maintenance (including tree surgery and plant leasing) and surveying.

See Comptroller Rule *3.356, Real Property Service and Publications 94-111, Cleaning and Janitorial Services*, *94-112 Landscaping and Lawn Care Services*, *94-114, Pest Control Services* and *94-157, Homebuilders and Real Property Services*.

SECURITY SERVICES

Any service for which a license is required by the Private Security Bureau of the Texas Department of Public Safety under sections 1702.101 or 1702.102 of the Texas Occupations Code.

Examples include locksmith services, private investigation, armored car service, armed courier service, burglar alarm system installation and/or monitoring, guard dog service, vehicle location and tracking and unclaimed property services.

Taxable security services include computer forensic services that constitute the analysis of computer-based data, particularly hidden, temporary, deleted, protected or encrypted files, for the purpose of discovering information related (generally) to the causes of events or the conduct of persons; as well as computer repair and support services that include reviewing computer data for the purpose of investigating potential criminal or civil matters.

See Comptroller Rule *3.333, Security Services*, and Publication *94-119, Security Service Companies*.

TELECOMMUNICATIONS SERVICES

The electronic or electrical transmission, conveyance, routing or reception of sounds, signals, data or information using wires, cable, radio waves, microwaves, satellites, fiber optics or any other method now in existence or that may be devised.

Examples of telecommunications services include long-distance and local telephone service, including mobile or satellite phone service and Voice over Internet Protocol (VoIP), fax service, pager services, texting services and electronic mail (unless sold bundled with Internet access).

See Comptroller Rule *3.344, Telecommunications Services* and Publication 94-132, *Sales Tax on Telecommunication Services*.

TELEPHONE ANSWERING SERVICES

Receiving and relaying of telephone messages by a human operator, but does not include call center operations such as handling customer complaints and receiving orders.

UTILITY TRANSMISSION AND DISTRIBUTION SERVICES

Sales of transmission or distribution of electricity to an end-use customer by a transmission and distribution utility, if the customer's consumption of electricity is subject to sales tax.

See Comptroller Rule *3.295, Natural Gas and Electricity*.

TAXABLE LABOR – PHOTOGRAPHERS, DRAFTSMEN, ARTISTS, TAILORS, ETC.

In addition to the taxable services noted above, other types of sales that may commonly be considered "services" are taxable as the sale, processing or remodeling of tangible personal property.

For example, tax is due on charges for manufacturing, assembling, fabricating or processing products, even when the customer provides the raw materials, tools or equipment.

Examples of labor that result in the sale of a taxable item include photography and videography; producing artwork; printing; calligraphy; embroidering, custom sewing or tailoring; woodworking; welding; catering; and assembling products such as computer systems, toys, furniture or equipment.

See Comptroller Rules *3.300, Manufacturing; Custom Manufacturing; Fabricating; Processing, 3.293, Food; Food Products; Meals; Food Service* and 3.312, *Graphic Arts or Related Occupations*; *Miscellaneous Activities*, and publications 94-143, *Draftsmen and Designers*, *94-187, Mold Remediation Services*, *94-176, Photographers and Texas Sales Tax*, and *94-115*, *Ready to Eat Food*.

REPORTING AND COLLECTING TAX

A company engaged in business in Texas that provides a taxable service in this state is required to obtain a sales tax permit and to collect state and local sales and use tax.

Generally, tax is due on the entire amount charged for a taxable service, including items such as labor, materials and mileage charges, even if separately stated.

See Comptroller Rule 3.286, *Seller's and Purchaser's Responsibilities, including Nexus, Permits, Returns and Reporting Periods, Collection and Exemption Rules, and Criminal Penalties*.

Tax is due on charges for manufacturing, assembling, fabricating or processing products, **even when** the customer provides the raw materials, tools or equipment.

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Publication #96-259 · Revised JULY 2015