

## **Alert** | State & Local Tax (SALT)



June 2025

### **Texas Extends R&D Credit and Implements Other Tax Changes in 89th Legislative Session**

The 89th Texas legislative session—which ran from Jan. 14 through June 2—resulted in significant tax changes. One of the most important changes was the extension of Texas’ Research and Development Credit (R&D Credit). In addition, the session resulted in property tax relief for Texas homeowners and changes to the administrative deference provided by Texas courts.

#### **Texas R&D Credit**

Senate Bill 2206, which the governor signed on June 1, extends the R&D credit. The final bill that passed largely mirrors earlier proposals, providing for an extended credit that: (1) keeps the credit alive by extending its current expiration date; (2) repeals the sales tax exemption portions of the R&D Credit (the sales tax and franchise tax R&D Credits were previously mutually exclusive, and taxpayers had to choose one or the other); (3) follows the federal R&D credit more closely; and (4) increases the taxpayer’s allowable research and development expenditures from 5% to 8.722% for franchise tax credit purposes (See prior [GT Alert on Texas R&D legislation](#)).

#### **Property Tax Relief**

The legislature also approved a property relief package that increases the state’s homestead exemption from \$100,000 to \$140,000 (and \$200,000 for individuals over 65 years of age). In addition, the

legislature approved House Bill 9, which provides for an increase in the state’s business personal property tax exemption from \$2,500 to \$125,000.

### **Data Processing Changes**

Efforts to update Texas’s data processing statutory provisions were stalled. Instead, the Texas comptroller formally amended the data processing regulation (the latest amendments became effective on April 2, 2025).

The amended rule expands the definition of data processing by incorporating an exhaustive list of examples regarding what constitutes “data processing.” The amended rule also replaces the longstanding “essence of the transaction test” with a broader ancillary requirement, which will result in additional taxable activities under the data processing umbrella. It is unclear how Texas courts—who have given their stamp of approval by applying the essence of the transaction test—will view these changes.

### **Agency Deference**

One final bill of note is Senate Bill 14, which eliminates the requirement that Texas courts “give deference to a state agency’s legal determination regarding the construction, validity, or applicability of the law or a rule adopted by the state agency responsible for the rule’s administration, implementation, or other enforcement.” The Texas comptroller is subject to the changes in Senate Bill 14, which will take effect Sept. 1, 2025. Considering the comptroller’s changes to the data processing regulation regarding the essence of the transaction test, Senate Bill 14 may be front and center sooner rather than later.

### **GT Insights**

These changes may bring new developments and incentivize business in the state. While the property tax and franchise tax regimes might see some relief, the comptroller’s updated data processing rule is an expansion of the sales tax base. It remains to be seen how these developments are incorporated.

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