



# This Week in State Tax (TWIST)

May 5, 2025



## Texas: Preparing Reports to Meet Federal Obligations Considered Data Processing Services

The Texas Comptroller of Public Accounts (Comptroller) ruled that a taxpayer's services to assist health care plan sponsors fulfill their annual prescription drug data collection (RxDC) reporting obligations to the Centers for Medicare and Medicaid Services qualify as taxable data processing services. The taxpayer offers three tiers of service. Level 1 allows employers to upload their RxDC reports into the taxpayer's system. The taxpayer tests and converts the files into the necessary format to upload to the federal system. Level 2 offers a guided process for data collection and submission, assisting employers in gathering the correct information and reformatting documents as needed. Level 3 (White Glove) minimizes manual data entry by employers, with the taxpayer generating the required Data Files from uploaded documents. Although the taxpayer's compliance team, which includes attorneys and CPAs, analyzes and extrapolates data and performs certain calculations, the service agreement explicitly states that the taxpayer did not serve the customer in a legal capacity.

Under Texas law, sales tax is imposed on all sales of taxable items, including tangible personal property and taxable services. Taxable services encompass data processing, which includes data entry, retrieval, search, information compilation, and other computerized data manipulation. The Comptroller clarified that the taxpayer's first two service tiers involve testing, compiling, storing, and converting employer data, which are activities that fall within the definition of data processing and are therefore taxable. For the third service tier, the Comptroller noted that the taxpayer's activities involve compiling, storing, and extrapolating information from employer documents to generate the required reports. Despite the involvement of attorneys and CPAs, they do not act in their professional capacities and merely assist employers with compiling information for RxDC reporting. The Comptroller concluded that the taxpayer's services were akin to data processing activities such as filing payroll tax returns or preparing W-2 forms, thus classifying the taxpayer's third service as taxable data processing services. Contact [Karey Barton](#) for more information on [Private Letter Ruling No. 20250318L](#).

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