**BILL ANALYSIS**

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| Senate Research Center | H.B. 423 |
| 85R17800 TJB-D | By: Wray (Birdwell) |
|  | Finance |
|  | 5/18/2017 |
|  | Engrossed |

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Ready-mixed concrete is created as the result of a continuous chemical manufacturing process, whereby the underlying properties of the final product are chemically different than those of the individual components. The entire mixer truck is both a critical and highly specialized piece of equipment in the manufacture of concrete and it must be carefully maintained throughout the manufacturing process. To produce the concrete, cement, pozzolanic material, aggregates, water and admixtures are added to the drum of the mixer truck in accordance with specific weight and volume measurements using a batching system. After this occurs, the mixer truck immediately begins and continues to rotate the drum throughout the entire manufacturing process, which begins at the plant and continues as the truck travels to the delivery address and back to the plant, to properly mix the raw components and to begin the chemical reaction that will create the finished product at the point of intended application. This is a time-sensitive and complex manufacturing process that, once started, cannot be stopped, and continues from the plant, to the delivery address, and back to the plant, completing the manufacturing cycle. Without this step in the manufacturing process the mixed materials could harden prematurely, or damage the concrete or truck.

The purpose of H.B. 423 is to reflect the unique nature of the concrete manufacturing process and to clarify that the equipment used in producing this commodity, the ready-mixed concrete truck, is included in the cost of goods sold calculation for purposes of determining the margins tax.

H.B. 423 amends current law to include production costs of a good manufactured in transit to the list of items included in the costs of goods sold calculation.

H.B. 423 amends current law relating to the computation of cost of goods sold for purposes of the franchise tax by taxable entities that transport ready-mixed concrete.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 171.1012, Tax Code, by adding Subsection (r), to authorize a taxable entity that transports ready-mixed concrete, notwithstanding Subsection (e)(3) (relating to providing that the cost of goods sold does not include distribution costs, including outbound transportation costs, in relation to the taxable entity's goods) or (6) (relating to providing that the cost of goods sold does not include rehandling costs in relation to the taxable entity's goods), to subtract as cost of goods sold distribution and rehandling costs regardless of whether the taxable entity owns the ready-mixed concrete.

SECTION 2. Provides that this Act applies only to a report originally due on or after the effective date of this Act.

SECTION 3. Effective date: January 1, 2020.