

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 24, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB423** by Wray (relating to the computation of cost of goods sold for purposes of the franchise tax by taxable entities that transport ready-mixed concrete.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB423, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2019.

However, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$2,160,000) for the 2020-21 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five-Year Impact:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|--------------------|---|
| 2018 | \$0 |
| 2019 | \$0 |
| 2020 | \$0 |
| 2021 | \$0 |
| 2022 | \$0 |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Revenue (Loss) from Property Tax Relief Fund 304 |
|--------------------|--|
| 2018 | \$0 |
| 2019 | \$0 |
| 2020 | (\$1,067,000) |
| 2021 | (\$1,093,000) |
| 2022 | (\$1,120,000) |

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add a provision

for determining cost of goods sold for taxable entities that transport ready-mixed concrete. The added provision would allow such taxable entities to subtract as a cost of good sold distribution costs regardless of whether the taxable entities own the ready-mixed concrete. Current law in Section 171.1012(e)(3) excludes distribution costs from cost of goods sold. This bill would provide an exception to that provision for taxable entities that transport ready-mixed concrete.

The bill would tax effect on January 1, 2020 and apply to reports due on or after that date.

Methodology

The estimated tax revenue loss is based on information from the Texas Aggregates & Concrete Association and on the Comptroller's franchise tax data bases.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD