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February 10, 2026

VIA EMAIL

Sen. R. Brad von Gillern, Chairperson
Sen. Mike Jacobson, Vice Chairperson
Members of the Revenue Committee
Nebraska Legislature

Re: Testimony in Opposition to Provisions in L.B. 1257

Dear Chairperson von Gillern, Vice Chairperson Jacobson, and Members of the Revenue Committee:

On behalf of the Council On State Taxation (COST), I respectfully submit this letter in opposition to portions of L.B. 1257 that would significantly expand Nebraska's sales and use tax base to include a wide range of business inputs (business-to-business transactions) that represents bad tax policy and would make Nebraska less competitive to retain and attract new businesses, harming the State's overall economy.

About COST

COST is a non-profit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 500 major corporations engaged in interstate and international business, many of which are incorporated and do business in Nebraska. COST's objective is to preserve and promote the equitable and non-discriminatory state and local taxation of multijurisdictional business entities.

COST Opposes Sales Taxes on Business Inputs

L.B. 1257 sunsets dozens of long-standing exemptions, many of which exempt core business operating inputs rather than sales to end-user consumers. The bill inserts "Until January 1, 2027" across more than 60 exemption statutes—including those for manufacturing machinery and equipment, agricultural production inputs, energy used in manufacturing or farming, transportation equipment, telecommunications infrastructure, nonprofit and governmental purchases, industrial containers, data-center inputs, and many others.

The COST Board of Directors has adopted a formal policy position opposing the imposition of sales taxation on business inputs.¹ That policy position provides:

¹ See <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf>

Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.

Imposing sales tax on business inputs specifically violates the tax policy principles of neutrality, equity, simplicity, and transparency, and causes economic distortion. This distortion results primarily from tax pyramiding. Pyramiding occurs when a tax is imposed at multiple levels and thereby imposes a hidden effective tax rate that exceeds the retail sales tax rate. The hidden rate creates a lack of transparency for both the consumer and the legislature. The economic burden of taxes on business inputs inevitably shifts to consumers through higher prices or to labor in the State through lower wages and fewer jobs. To put it simply, although this tax is a direct tax on businesses, the vast majority of the tax will be passed along to Nebraska citizens through higher prices and/or stagnating wages.

L.B. 1257 Introduces Significant Administrative Complexity

L.B. 1257 would require businesses to implement major changes to compliance systems, procurement practices, contracting, and accounting.

The COST Board of Directors has adopted a formal policy statement urging states to impose fair, efficient, and customer-focused tax administration. COST's policy position is as follows:

Fair, efficient and customer-focused tax administration is critical to the effectiveness of our voluntary system of tax compliance. A burdensome, unfair, or otherwise biased administrative system negatively impacts tax compliance and hinders economic competitiveness.²

The administrative burden is especially heavy for small and mid-sized Nebraska businesses that lack in-house tax automation resources.

Conclusion

COST respectfully urges the Revenue Committee to reject the expansion of the sales tax base proposed in L.B. 1257 and amend the bill to remove or clearly prevent the taxation of business inputs by exempting transactions that are business-to-business transactions. A well-structured sales tax system should avoid taxing intermediate production inputs, maintain economic neutrality, and promote competitiveness. Expanding the sales tax to essential business services fails all three principles.

Sincerely,



Mark B. Holmes

cc: COST Board of Directors
Patrick J. Reynolds, COST President & Executive Director

² See <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/fair-efficient-and-customer-focused-tax-administration---revised-feb-2024---final.pdf>.