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February 19, 2020

Representative Mark Willadsen, Chair  
House Taxation Committee  
South Dakota Legislature

**Re: Opposition to Repeal of Sales Tax Exemption for Advertising Services**

Dear Chair Willadsen and Members of the Committee:

On behalf of the Council On State Taxation (COST), I submit testimony in opposition to the removal of the advertising services exemption in H.B. 1284. This would inappropriately subject advertising services to South Dakota's sales tax because the expansion of the State's sales tax base to advertising services would fall primarily on businesses, would put South Dakota at a competitive disadvantage for taxpayers forced to comply, and would discourage businesses seeking to maintain or expand operations in the State. Expanding the sales tax to advertising services represents unsound tax policy and violates several core tax policy principles— economic growth, equality, simplicity and efficiency.

**About COST**

COST is a nonprofit 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 550 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

**COST's Position on the Taxation of Business Inputs**

The COST Board of Directors has adopted the following formal policy position on the sales taxation of business inputs:

*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.<sup>1</sup>*

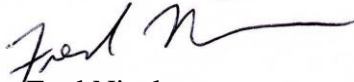
<sup>1</sup> <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf>

As noted in COST's policy position, the imposition of sales tax on business inputs violates important tax policy principles, including economic growth, equality, simplicity and efficiency. In addition, imposing sales tax on business inputs causes economic distortions that result from pyramiding. Pyramiding occurs when a tax is imposed on multiple intermediate levels, such that the effective (hidden) tax rate on final consumption exceeds the statutory sales tax rate. As a result, companies must either pass these cost increases to consumers or reduce their economic activity in the State to remain competitive with other producers not subject to the same compliance and economic burdens. The result of these choices is that the imposition of taxes on business inputs is inevitably shifted to labor through lower wages and employment, or to consumers through higher prices.

### **Conclusion**

For the foregoing reasons, COST strongly urges members of the Committee to reject the removal of the advertising services exemption in H.B. 1284.

Respectfully,



Fred Nicely

cc: COST Board of Directors  
Douglas L. Lindholm, COST President & Executive Director