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March 17, 2026

Via Online Submission

Representative Aisha Gomez, Co-Chair  
Representative Greg Davids, Co-Chair  
Minnesota House Taxes Committee

**Re: COST Opposes Imposing Sales Tax On Digital Advertising Services – H.F. 4343**

Dear Co-Chair Gomez, Co-Chair Davids, and Committee members:

On behalf of the Council On State Taxation (COST), I respectfully submit this letter in opposition to H.F. 4343 which would extend the State's sales tax to digital advertising services that are mostly, if not exclusively, purchased by businesses. This likely violates the Permanent Internet Tax Freedom Act<sup>1</sup> and this base expansion to business-to-business transactions (business inputs) violates several principles of sound tax policy. A fair, efficient, and well-designed sales tax should be levied only on final consumption by the ultimate consumer. H.F. 4343 is in direct contravention of an ideal sales tax system as it applies to business inputs, which creates tax pyramiding and a lack of transparency to both consumers and policy makers.

**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. COST's objective is to preserve and promote the equitable and non-discriminatory state and local taxation of multijurisdictional business entities. Enactment of such a proposal will significantly impact Minnesota's economic competitiveness and growth as it will place Minnesota's businesses at a competitive disadvantage.

**COST Opposes the Taxation of Business Inputs**

The COST Board of Directors has adopted the following formal policy positions in opposition to 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*

<sup>1</sup> 47 U.S.C. § 151. See also <https://www.congress.gov/crs-product/IF11947?hl=IF11947&s=1&r=1>.

*disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.<sup>2</sup>*

*[These] ... taxes are widely acknowledged to violate the tax policy principles of transparency, fairness, economic neutrality and competitiveness; generally, such taxes should not be imposed on business.<sup>3</sup>*

The concerns with the imposition of sales tax on business inputs apply equally to this proposed sales tax on advertising services. The proposed tax in H.F. 4343 is a tax on business inputs that violates key tax policy principles, including transparency, fairness, economic neutrality, and competitiveness. Imposing this type of tax on business inputs causes a lack of transparency resulting from pyramiding. Pyramiding of tax occurs when a tax is imposed on multiple levels of a related series of transactions, such that the sales tax applies to both an intermediate sale to business and a final sale to a consumer. As a result, companies must either pass these cost increases on to consumers or reduce their economic activity in Minnesota to remain competitive with other producers not subject to the same compliance and economic burdens. For example, the tax on advertising services will only increase the cost of products sold in the State because of the need to recover the costs associated with that tax. Many of those products are already subject to the State's sales/use tax. Besides higher prices, some of the cost will inevitably be shifted to labor through lower wages and employment.

### **Administratively Burdensome**

The COST Board of Directors has also adopted a formal policy statement urging states to impose fair, efficient, and customer-focused tax administration. COST's policy 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.<sup>4</sup>*

The proposed sales tax expansion to advertising services violates this tax policy principle because it is a burdensome tax that will require most taxpayers to undertake extensive system changes to collect and remit the proposed tax. It is impossible to have 100% accuracy with the collection of the tax which will lead to troublesome audits and litigation. Additionally, this proposed legislation will have the greatest impact on business located in Minnesota because there is a high risk that the sourcing of advertising services sales will default to the location of every Minnesota business buying the advertising services.

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<sup>2</sup> This policy position is available at: <http://www.cost.org/globalassets/cost/state-tax-resources-pdfpages/cost-policy-positions/sales-taxation-of-business-inputs.pdf>.

<sup>3</sup> This policy position is available at: <http://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/costpolicy-positions/grossreceiptstaxes.pdf>.

<sup>4</sup> This policy position is available at: <http://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/costpolicy-positions/fair-efficient-and-customer-focused-tax-administration---revised-feb-2024---final.pdf>.

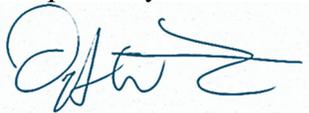
### **Suspect Constitutionality and Protracted Litigation**

Finally, this legislation will become embroiled in expensive and protracted litigation, potentially putting at risk all the revenue raised by the tax. Minnesota will find itself in the same position as Maryland and Washington because the imposition of taxes on advertising services that excludes most “tangible” advertising services violates the Permanent Internet Tax Freedom Act (ITFA). This proposal attempts to capture all advertising services in Section 2, with a definition that encompasses “all digital and nondigital advertising services...,” but then excludes “services rendered in respect to printing, publishing, radio, and television including, but not limited to, services directly related to the creation, preparation, production, or dissemination of advertisements.” This bifurcation discriminates against digital advertising in violation of ITFA and raises serious Due Process and Commerce Clause concerns under the U.S. Constitution.

### **Conclusion**

For the foregoing reasons, COST strongly urges members of the Committee to reject the expansion of sales tax to digital advertising services in this bill.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Dylan Waits', is written over a light blue rectangular background.

Dylan Waits

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