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March 20, 2026

Via Email

The Honorable Jason Petrie, Chair
House Appropriations and Revenue Committee
Kentucky General Assembly

The Honorable Chris McDaniel, Chair
Senate Appropriations and Revenue Committee
Kentucky General Assembly

Re: COST Opposes Certain Provisions Within H.B. 757

Dear Chair Petrie and Chair McDaniel:

On behalf of the Council On State Taxation (COST), I am writing in opposition to three provisions within H.B. 757: (1) the sales/use tax expansion to “data brokering services,” which would violate fundamental principles of sound tax policy; (2) decoupling from federal treatment of domestic research and experimental (R&E) expenditures under IRC §174A; and (3) selective decoupling from federal changes to §163(j). All these provisions would create unwarranted tax burdens for Kentucky taxpayers and would not encourage economic development in the State.

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 500 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. Many COST members have operations in Kentucky that these proposals would negatively impact.

COST Opposes Sales Taxation of Business Inputs

The COST Board of Directors adopted a formal policy statement opposing the sales taxation of business inputs.¹ The COST policy states:

¹ The policy statement is available at: <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.

Data Brokering Services

H.B. 757 would add “data brokering services” to the State’s taxable services list for sales/use tax and defines the term broadly to include collecting, aggregating, or analyzing personal data for sale or use by a third party while maintaining possession. The language is unclear and risks capturing many services purchased primarily by businesses. These business-to-business transactions represent business inputs and not final consumption. Taxing these services would result in tax pyramiding, which results in a lack of transparency to both the consumer and legislators. The bill compounds the problem by not defining “personal data” or specify sourcing methods, raising the risk of multiple taxation across states. This results in uncertainty for taxpayers and the Department alike. We recommend removing “data brokering services” from this bill.

Domestic R&E (IRC §174A): HB 757 Eliminates Kentucky Cost Recovery

As drafted, H.B. 757 requires taxpayers—both individuals and corporations—to not conform with the current federal deduction taken under IRC §174A for R&E. This nonconformity would require taxpayers to create Kentucky-only R&E tracking that diverges from the current federal treatment of R&E, increasing administrative burdens and the potential for controversy. We recommend removing this decoupling provision to allow Kentucky taxpayers to use the current IRC §174A R&E deduction.

§163(j) Business-Interest Limitation: Selective Decoupling From Post-2024 Federal Relief

H.B. 757 blocks any current federal relief to IRC §163(j) from flowing into Kentucky by preserving a more restrictive interest deduction. This would also create new burdens by requiring taxpayers to create a separate Kentucky-only §163(j) computations. We recommend removing this decoupling provision to allow Kentucky taxpayers to use the current IRC §163(j).

Conclusion

COST respectfully urges the General Assembly to amend H.B. 757 to: 1) remove the proposed expansion of the sales/use tax base to include “data brokering services”; 2) restore the state-level R&E deduction by conforming to the current IRC §174A provision; and 3) remove the provision de-coupling from IRC §163(j).

These adjustments would preserve the bill's modernization goals while preventing unintended harm to the Commonwealth's competitiveness and administrative simplicity.

Respectfully,

A handwritten signature in blue ink, appearing to read "Patrick J. Reynolds".

Patrick J. Reynolds

cc: COST Board of Directors

