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March 11, 2026

Sent Via E-mail

Senator Curtis Trent
Missouri Senate

Representative Bishop Davidson
Missouri House of Representatives

Re: COST Requests Business Input Protections in Missouri HCS HJR Nos. 173 & 174

Dear Senator Trent and Representative Davidson:

On behalf of the Council On State Taxation (COST), I provide these comments to request an amendment to the proposed constitutional amendment in HCS HJR Nos. 173 & 174 to ensure that any extension of the sales tax base, or similar tax, would exempt business inputs. A sales tax on business inputs violates several tax policy principles and causes several economic distortions, including pyramiding of the tax and making Missouri a less competitive state for businesses to retain their presence or expand/relocate their business operation to 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 nearly 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 doing business in Missouri.

Sales Taxes on Business Inputs

The COST Board of Directors has adopted a formal policy statement¹ regarding the imposition of sales taxes on business inputs. COST's policy position is:

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 taxes on business inputs violates the tax policy principles of equity, simplicity, and efficiency, and it causes a number of economic distortions. Notably, these distortions result from "pyramiding," where a tax is imposed at multiple levels,

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

such that the effective tax rate exceeds the retail sales tax rate. Businesses are forced to either pass these increased costs on to consumers or reduce their economic activity in the state to remain competitive with other producers who do not bear the burden of such taxes.

All states that impose sales tax currently tax business inputs to some extent. Proposals to eliminate existing sales tax exemptions for business inputs or to extend the sales tax to business inputs, like that potentially proposed by HCS HJR Nos. 173 and 174 further exacerbate the adverse economic distortions from the current taxation of business inputs. For example:

- Taxing business inputs encourages companies to self-provide business services to avoid the tax rather than purchasing them from more efficient providers and paying tax (thus the proposal inordinately impacts small businesses, which lack the resources to provide such services in-house);
- Taxing business inputs places companies selling in international, national, and regional markets at a competitive disadvantage to many of their competitors, which may lead to a reduction in investment and employment in the state;
- Taxing business inputs unfairly and inefficiently taxes some products and services more than others by imposing varying degrees of tax on inputs in addition to a general tax rate on final sales; and
- Taxing business inputs unfairly hides the true cost of government services by embedding a portion of the sales tax in the final price of goods and services.

Suggested Amendment Language

To ensure clarity and preserve Missouri's long-standing commitment to sound tax policy, COST recommends inserting a provision that would expressly exempt business inputs from any expanded sales or use tax base, or similar tax, at the end of the sentence on line 9 of page 3 of HCS HJR Nos. 173 and 174:

“However, any expansion of the state and local sales taxes, or a similar transaction-based tax, may only be imposed on final end-consumer consumption transactions and not sales of goods and service transactions between businesses.”

COST would be pleased to assist with integrating this provision/concept into the existing HJR language in a manner consistent with Missouri's drafting conventions.

Conclusion

Including a clear and comprehensive B2B exemption within the constitutional framework would help guarantee that any transitions to a broader transactional tax base remain economically efficient, nondiscriminatory, and aligned with the principles of sound tax administration.

Respectfully,

Mark B Holmes

Mark B. Holmes

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