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Via Electronic Submission

The Honorable Scott Cupps, Chair
The Honorable Don Mayhew, Vice Chair
The Honorable LaKeySha Bosley, Ranking Minority Member
and Members of the Missouri House Rules – Legislative Committee
Missouri House of Representatives

Re: COST Opposes H.B. 2243 – Local Sales/Use Taxation of Business Inputs

Dear Chair Cupps, Vice Chair Mayhew, Ranking Member Bosley, and Members of the Committee:

The Council On State Taxation (COST) respectfully opposes H.B. 2243 because it represents a significant departure from long-standing principles of sound sales tax policy. The bill would amend Missouri law to provide that key exemptions for machinery, equipment, utilities, and other inputs used in manufacturing and processing no longer apply to local sales taxes, while remaining in place at the state level. As a result, a broad range of essential business inputs, including energy, production equipment, raw materials, and research and development expenses, would become subject to local sales tax. This change would materially expand the local sales tax base to include intermediate business purchases that have historically been excluded in recognition of their role in the production process and are a direct tax on business inputs.

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, of which many do 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

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

disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.

A fundamental principle of sales taxation is that the tax should apply only once, at the point of final consumption (end-user consumption). By imposing local sales tax on business inputs, H.B. 2243 would expand already existing tax pyramiding, whereby taxes are embedded at multiple stages of production and distribution. These embedded taxes are not transparent to consumers but will ultimately increase the cost of goods and services to end-user purchasers. The burden of this pyramiding of the tax is particularly acute for capital-intensive and energy-intensive industries, many of which are represented by COST's membership, and it can distort economic decision-making by penalizing investment in equipment and production infrastructure in the State.

H.B. 2243 would also exacerbate the non-uniform sales/use tax base between the state and local levels. Under the proposal, the same transaction could be exempt from state sales tax while remaining subject to local tax, requiring taxpayers to apply different tax treatments depending on the level of government imposing the tax. This divergence introduces unnecessary complexity into tax compliance, increasing administrative burdens for both taxpayers and tax administrators. Multistate businesses rely on consistent and uniform tax bases to efficiently administer their sales and use tax obligations. The lack of conformity contemplated by this bill would complicate their compliance systems, increasing the likelihood of audit disputes and reducing overall compliance.

From an economic perspective, the bill risks undermining Missouri's competitiveness. Most sales/use tax states maintain broad exemptions for manufacturing and production inputs precisely to avoid discouraging capital investment and economic development. By subjecting such inputs to local sales/use taxation, Missouri would increase the cost of doing business within the State, which would influence decisions about where companies choose to locate, expand, or maintain operations. These effects may be especially pronounced in jurisdictions with higher local sales tax rates, creating uneven impacts across the State.

Finally, H.B. 2243 raises concerns about tax neutrality. While the bill broadly removes local sales tax exemptions for certain manufacturing inputs, it retains full state and local exemptions for targeted industries and activities, such as defense contracting, broadcasting, and specific development projects. This selective approach results in differing tax treatment among similarly situated taxpayers and undermines the principle that tax policy should apply evenly and without distortion across industries.

Conclusion

H.B. 2243 represents a fundamental shift in Missouri's sales tax structure by extending local sales taxes to business inputs while maintaining state-level exemptions. This approach is problematic because it would negatively enhance tax pyramiding, create non-uniform tax bases, increase compliance burdens, and risk diminishing the State's economic competitiveness. For these reasons, COST respectfully urges the Committee to reject this bill.

Respectfully submitted,

Mark B Holmes

Mark B. Holmes

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