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**Leonore F. Heavey**  
Senior Tax Counsel  
(202) 484-5221  
[lheavey@cost.org](mailto:lheavey@cost.org)

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*Via E-mail*

Speaker Phillip R. DeVillier  
Louisiana House of Representatives  
[dvillierp@legis.la.gov](mailto:dvillierp@legis.la.gov)

Re: Opposition to Inclusion of Business Inputs in Sales Tax Base Expansion

Dear Speaker DeVillier:

On behalf of the Council On State Taxation (COST), I respectfully suggest that any sales tax base expansion in the upcoming extraordinary session be limited to business-to-consumer transactions and provide for a broad exemption for business-to-business transactions (B-to-B) or “business inputs.” You are about to begin a comprehensive tax reform debate with the goal of simplifying Louisiana’s tax structure and enhancing the competitiveness of the State’s tax code. One of the components of this reform effort is an expansion of the State’s sales tax base. Initial drafts suggest the expansion will include several digital products and services that primarily fall on B-to-B transactions without a broad exemption for business inputs. This is a step in the wrong direction. Additionally, none of the initial drafts address the critically important need for Louisiana to centralize administration of the state and local sales tax.

COST does not generally oppose legislation that adds additional items to the sales tax base for business-to-consumer transactions. However, we do oppose legislation that expands the sales tax base to business-to-business transactions because a fair, efficient, and well-designed sales and use tax should be levied only on final consumption by the ultimate consumer. The current bill drafts fail to provide broad exemptions for B-to-B transactions and some of the broadening will primarily target business purchases.

### 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, many of which directly do business in Louisiana. COST’s objective is to preserve and promote the equitable and non-discriminatory state and local taxation of multijurisdictional business entities.

### **COST Opposes Sales Taxes on Business Inputs**

The COST Board of Directors has adopted a formal policy position opposing the imposition of sales taxation on business inputs.<sup>1</sup> That policy position provides:

*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 tax on business inputs specifically violates the tax policy principles of neutrality, equity, simplicity, and transparency, and it causes economic distortion. This distortion results primarily from pyramiding, which occurs when a tax is imposed at multiple levels and results in a hidden effective tax rate that exceeds the retail sales tax rate. That pyramiding results in a lack of transparency for both the consumer and the legislature and forces companies to either pass these increased costs to consumers or reduce their economic activity in the State to remain competitive with other producers that do not bear the burden of such increased taxes. Therefore, the economic burden of taxes on business inputs inevitably shifts to consumers through higher prices or to labor in the State through lower wages and fewer jobs.

### **Louisiana Should Not Impose Sales Tax on Business Inputs**

With the rapid growth of the services sector in recent decades, it is understandable that a state would want to expand its sales tax base to include more service categories. However, if that expansion includes additional business inputs it will significantly undermine Louisiana's economic competitiveness with its neighboring states<sup>2</sup> and foreign countries whose inputs are exempt from such taxation.<sup>3</sup> Currently, Louisiana derives approximately 41% of its sales tax revenue from the taxation of business inputs<sup>4</sup>, and that should not be increased. Sound tax policy principles dictate that an optimal sales tax system should tax only end-user consumption and avoid sales tax pyramiding by exempting business inputs. As Louisiana expands its sales tax base to adapt to the digital economy, exemptions for digital business inputs should be implemented. The best time to exempt business-to-business purchases of a newly taxable good or

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

<sup>2</sup> Several of Louisiana's neighbors derive much less of their sales tax from business inputs; Alabama – 35%, Mississippi – 36%, and Arkansas – 38%. The COST Sales Tax Scorecard, "The Best and Worst of State Sales Tax Systems" is available at [https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articlesreports/270677\\_cost\\_salestaxbk\\_2022\\_final.pdf](https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articlesreports/270677_cost_salestaxbk_2022_final.pdf)

<sup>3</sup> Almost all other countries impose a value added tax (VAT) rather than a retail sales tax. A VAT essentially has a business input exemption built into the design of the tax to avoid pyramiding of the tax. Under a VAT, all business inputs are taxed, but a refund or credit is allowed if the next stage of the supply chain is subject to VAT. This method generally ensures that the tax is applied at only one level.

<sup>4</sup> The COST Sales Tax Scorecard, "The Best and Worst of State Sales Tax Systems" is available at [https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articlesreports/270677\\_cost\\_salestaxbk\\_2022\\_final.pdf](https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articlesreports/270677_cost_salestaxbk_2022_final.pdf)

service is at the time the state expands its sales tax base to include new goods and services.<sup>5</sup> Otherwise, any subsequent exemption put into place has a negative fiscal cost. Taxing B-to-B transactions will thus harm the State by discouraging business activity in the State, which will negatively impact investment and jobs.

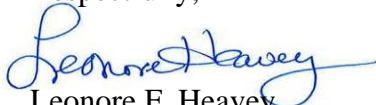
### **Centralized Sales Tax Administration Should Be Part of Tax Reform Debate**

Notably absent from the initial bill drafts is a proposal to centralize the administration of the state and local sales tax. We have long advocated for simplification and uniformity of state and local sales and use tax systems, including state-wide administration of those taxes. COST's Board of Directors has adopted a policy position regarding simplification of sales and use tax systems, which specifically promotes single, state-wide administration to alleviate burdens of multiple returns, payments, and audits.<sup>6</sup> The lack of centralized administration is a major factor in Louisiana's current grade of "F" on our sales tax scorecard.<sup>7</sup> The proposed sales tax base expansion will impact many businesses that do not currently collect sales tax. Centralization would facilitate overall compliance for these taxpayers rather than requiring them to register with each parish in which they do business and will improve the overall administration of the tax in the State.

### **Conclusion**

Approximately 41% of Louisiana's current sales tax base consists of business inputs, and taxing more business inputs would increase that share, thereby directly increasing the costs to conduct business in Louisiana, which is direct contravention to the stated policy goals of the reform effort. We respectfully encourage you to broadly exempt business inputs from any sales tax base expansion that is considered during the upcoming extraordinary session and urge you to consider legislation to centralize administration of state and local sales taxes as part of your reform efforts. Please let us know if we can provide any assistance.

Respectfully,

  
Leonore F. Heavey

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

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<sup>5</sup> See Karl A. Frieden and Fredrick J. Nicely, "Digital Business Input Exemptions: Lessons from Sales Tax History," Tax Notes State, January 29, 2024, especially Part 6.

<sup>6</sup> <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/simplification-of-the-sales-and-use-and-similar-transaction-tax-system---final-revised-june-2021.pdf>

<sup>7</sup> See footnote 4.