



Alex Propes

Sr. Director, Public Policy & International
Interactive Advertising Bureau
(202) 800-0770
alex@iab.com

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Senate Budget and Taxation Committee
Maryland General Assembly

Re: In Opposition to Senate Bill 2, Digital Advertising Tax

Dear Chair Guzzone and Members of the Committee,

The Interactive Advertising Bureau (IAB) represents over 650 leading media and technology companies that are responsible for selling, delivering, and optimizing digital advertising or marketing campaigns. Together, our members account for the vast majority of online advertising in the United States. Working with our member companies, the IAB develops technical standards and best practices, conducts critical research on interactive advertising, and educates brands, agencies, and the wider business community on the importance of online marketing to digital trade.¹

Advertising is the stimulus for economic activity in every sector. Research by IHS Global Insight Inc., based on economic models by the late Nobel Laureate Dr. Lawrence Klein, shows that advertising generates around 16 percent of all U.S. sales, or approximately \$5.6 trillion. In other words, every \$1 spent on advertising supports \$19 of U.S. economic output.² Digital advertising in particular has helped reinvigorate growth in a myriad of industries by helping small businesses better understand their customers and compete with larger incumbents -- despite their limited advertising budgets.

Research by Harvard Business School professor John Deighton shows the ad-supported internet contributes \$21 billion to Maryland's annual GDP and supports 62,000 full-time jobs across the state.³

¹ www.iab.com

² IHS Global Insight Inc. *The Economic Impact of Advertising Expenditures in the United States*, <http://images.politico.com/global/2014/01/13/economicimpact.pdf>

³ Deighton, John. *The Economic Value of the Advertising-Supported Internet Ecosystem* <https://www.iab.com/insights/economic-value-advertising-supported-internet-ecosystem/>



Digital advertising is not only the product of an innovative industry and the driver of economic growth; it is also chiefly responsible for the diverse, and free, internet content and services available to consumers today. News, business information, maps, weather, email, social networking, online safety software, and shopping comparison tools are just several examples of the services available to consumers at no cost.

Considering the importance of the digital advertising industry in Maryland, we are concerned about the negative economic consequences of this law, which would hinder Maryland companies from competing and would create new costs for Maryland citizens. To make digital advertising more expensive through a gross receipts tax would only cause a decline in the ad spending that affords consumers a free and diverse Internet experience – all at the cost of job creation.

We believe that the law would have significant negative impacts on all businesses, not only those that meet the minimum thresholds. In 2019, a study by Deloitte Taj on a controversial French digital advertising tax proposal found that the costs of the proposal would mostly be borne by consumers and advertisers, not technology companies. The research found that 55 percent of the tax burden would be passed on to end consumers, who would pay higher prices for every good and service they use -- online or offline.⁴

With these concerns in mind, the Interactive Advertising Bureau recommends an unfavorable report on Senate Bill 2.

⁴ Pellefigue, Julien. *The French Digital Service Tax: An Economic Impact Assessment*
https://www.linformaticien.com/Portals/0/2019/03_mars/taj_190320.pdf