

February 28, 2020

Testimony of the American Advertising Federation re House Bill 695
before the Maryland Senate Budget and Taxation Committee

On behalf of the Board of Directors and members of the American Advertising Federation, we urge you to oppose House Bill 695, the proposed tax on digital advertising.

The American Advertising Federation is the unifying voice for advertising, representing all facets of the industry. Membership includes major global advertisers, advertising agencies and the media, including print, broadcasting, outdoor and online. AAF membership also includes advertising professionals in nearly 200 local advertising associations across the country, including AAF-Baltimore and AAF-Greater Frederick.

First and foremost, AAF rejects the premise that interest-based digital advertising is negative or should be discouraged. The free flow of responsibly used data online fuels the economic engine of the Internet. For decades, online data-driven advertising has powered the growth of the Internet by delivering innovative tools and services for consumers and businesses to connect and communicate. Online advertising supports and subsidizes the content and services consumers expect and rely on, including video, news, music, and more.

Data-driven digital advertising allows consumers to access these resources at little or no cost to them. The notion that digital advertising should be discouraged and websites should transition of a subscription model would increase the cost to consumers. The increase would be felt the most by lower income consumers who could not afford to pay for multiple sources of news and information that are currently available for no cost because of digital advertising.

Interest-based digital advertising allows countless Maryland small businesses to efficiently and inexpensively market their goods and services far beyond their geographic borders to consumers most likely to be interested in their wares.

While House Bill 695 may target large global businesses, it's negative impact will fall hardest on local Maryland businesses and consumers.

It is important that the committee understands the importance of advertising – including digital advertising – to the economy of Maryland. Advertising is an important driver of economic growth and jobs in the state.

According to a study designed by a Dr. Lawrence Klein, winner of the 1980 Nobel Prize in Economics:

- Advertising helps generate \$101.5 billion or 14.6% of economic activity in Maryland,
- Advertising helps produce over 393,000 or almost 15% of Maryland jobs,
- Every \$1 million spent on advertising supports 82 Maryland jobs

Increasing the cost of advertising, as House Bill 695 would, would inevitably cause those numbers to fall. Since most advertising budgets are fixed, increasing the cost of advertising would mean less advertising leading to a number of negative consequences.

Advertising is the main and often only source of revenue for the media – including online media. Countless Maryland based websites are dependent on advertising revenue to survive. Less advertising could threaten the viability of many of those websites, or force them to consider other sources of revenue, such as a paywall which as noted previously would hurt Maryland consumers.

The negative effect would also be felt by other Maryland businesses such as the advertising agencies, web designers and other service providers used by the online publishers. Advertising services are very portable. Clients can easily contract with out-of- state services providers to avoid the tax, or the potential of a tax.

Consumers would suffer also as less advertising means less information about available goods and services. Advertising fosters competition which spurs innovation and often leads to lower prices.

House Bill 695 would create a legal and administrative nightmare. If enacted, the new law would likely be subject to numerous and expensive legal challenges based on its violations of the Permanent Internet Tax Freedom Act, and discrimination against interstate and foreign commerce among other legal concerns.

If enacted, the tax will be virtually impossible to collect accurately and fairly. Digital advertising is extremely complex involving millions of ads and transactions. One ad could conceivably be for a company in state A, created by an agency in state B, served by a third-party provider in state C, on a website based in state D and viewed by a consumer in Maryland. To add a further layer of complexity, how would the tax be applied if viewed on the laptop of a consumer who lived in Maryland but worked in an adjacent jurisdiction such as the District of Columbia?

The American Advertising Federation respectfully urges you to reject House Bill 695.

ADVERTISING

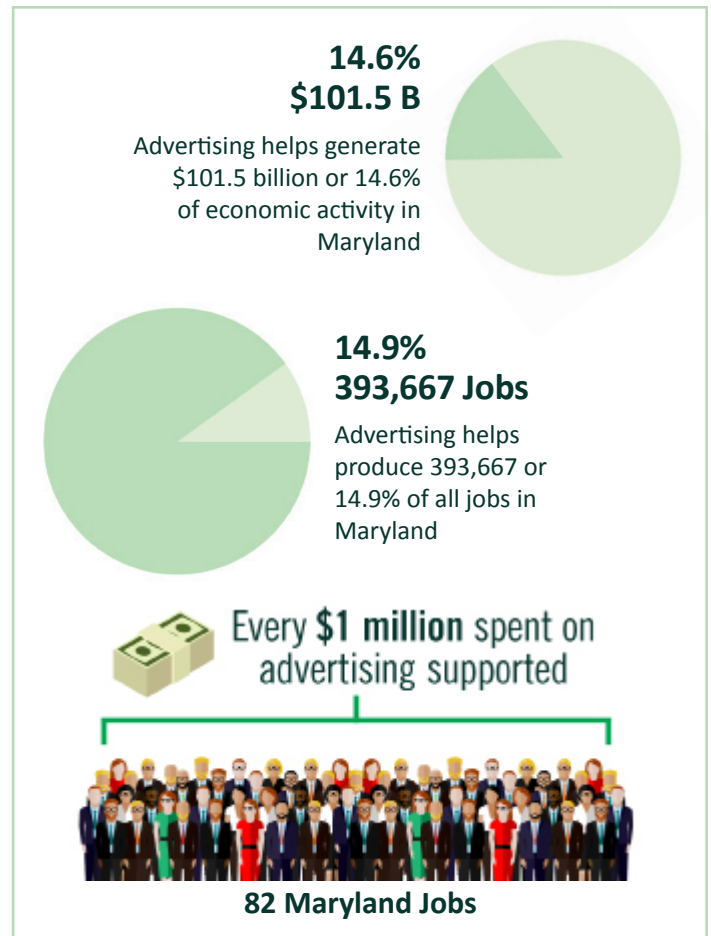
Generates Sales & Jobs in Maryland

Advertising is a powerful engine that helps drive the economy of Maryland. Advertising expenditures account for \$101.5 billion of economic output or sales in Maryland – that is 14.6% of the \$693.1 billion in total economic output in the State. Sales of products and services that are driven by advertising help support 393,667 jobs, representing 14.9% of the 2.6 million jobs in Maryland.

Every million dollars spent on advertising in Maryland supports 82 jobs across industries throughout the state. Every direct advertising job also supported 33 other jobs across all industries. Each form of advertising, from print media and radio and television to the Internet, helps businesses efficiently communicate the benefits of their products and services to target audiences.

This profile illustrates the importance of advertising to the economy of Maryland. It is drawn from the latest research in a landmark series of studies prepared for The Advertising Coalition by IHS Economics and Country Risk. IHS uses methodologies developed by Dr. Lawrence R. Klein, recipient of the 1980 Nobel Prize for Economics, as the foundation for this research.

The IHS research measures the impact of advertising spending by quantifying how much the spending stimulates sales, employment, value-added (contribution to GDP), taxes, and labor income. For example, while



the agriculture and mining industries may have few direct advertising jobs, their combined economic sectors support many industries that do advertise heavily.

Maryland's economy and the U.S. economy are heavily affected by the health of the consumer sector. The consumer sector represents 68% of the U.S. economy and it continues to expand. For example, while the agriculture industry does little advertising, the food, manufacturing, and retail industries advertise heavily across the country. This creates consumer demand for a chain of products and services from sales of farm machinery to the shipment of agricultural products.

U.S. advertisers in 2014 spent \$297 billion on advertising to stimulate consumer demand, and that spending launched a "multiplier effect" throughout the economy. Total advertising expenditures drove \$5.8 trillion in total sales. This represents 16% of the \$36.7 trillion in total U.S. sales attributable to advertising and means that every dollar of ad spending stimulates almost \$19 in sales activity. Just as significant, the total impact of advertising on the U.S. economy represents 19% of U.S. GDP. Every million dollars that is spent on advertising supports 67 American jobs across a range of industries, and every advertising job supports 34 jobs across other industries. Labor income supported by advertising represents 17% of all personal and proprietor income in the U.S.