

March 2, 2020

Testimony of the American Advertising Federation re House Bill 1628
before the Maryland House Ways and Means Committee

On behalf of the Board of Directors and members of the American Advertising Federation, we urge you to oppose the provisions in House Bill 1628 that would extend state sales and use tax to advertising and advertising services.

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.

Tax advertising, as House Bill 1628 would do, is taxing speech. An ad tax would harm not just media companies that sell advertising, but every Maryland company that uses advertising to communicate with consumers, as well as the advertising agencies, production houses, photographers and countless other suppliers that create that advertising.

It is important that the committee understands the importance of 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 1628 would, would inevitably cause those numbers to fall. Since most advertising budgets are fixed, increasing the cost of advertising would result in less advertising leading to a number of negative consequences.

Advertising is the main and often only source of revenue for the media. Less advertising could lead to a reduction in jobs as well as a decreased ability to provide quality content and programming. Online media may have to resort to putting up a paywall which would have a disproportionate impact on low-income consumers. Since a large proportion of

Marylanders can be reach by out-of-state media, many advertising dollars will leave the state altogether as marketers will choose advertising venues that do not charge a premium.

The negative affect would also be felt by other Maryland businesses such as the advertising agencies, production houses, web designers and other service providers used by clients. Advertising services are very portable. Clients can easily contract with out-of- state agencies and services providers to avoid the tax, thereby putting their Maryland competitors at a disadvantage.

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.

Advertising is the engine that fuels the economy. Less advertising means fewer sales. Fewer sales means reduced revenue and fewer jobs. Fewer sales also result in less sales tax revenue for the state.

Finally, fairly or unfairly, Maryland has a reputation of a state that is unfriendly to business. Passage of House Bill 1628 would only serve to further that reputation.

The American Advertising Federation respectfully urges you to reject the taxes on advertising and advertising services in House Bill 1628.