Policy Brief – Ad Tax

Congress should oppose legislation to eliminate the full deductibility of advertising as an ordinary and necessary business expense.

Background**
Advertising has been under attack on Capitol Hill for more than a decade, and never more than in recent years. Opponents of advertising want to restrict its content, give the Federal Trade Commission increased power to regulate it, and – in these difficult economic times – many want to tax advertising for the revenues it could generate to fund government programs. Today, the attention has been directed at the potential revenue from taxing advertising, as well as proposed moratoriums and limits on advertising for prescription medicines, over-the-counter medicines, and children’s foods. Support for taxing advertising by limiting its deductibility has been bipartisan. In the past 15 years, there have been major efforts to tax advertising from Republican and Democratic Administrations, as well as legislative proposals originating from both sides of the political aisle. **Source: www.theadvertisingcoalition.com

Industry Position
A multi-functional industry, the current distribution of overall print in the “Market/Promote” category is nearly 44 percent; the logistics function (including packaging, labels and wrappers that may be considered advertising) accounts for nearly 20 percent of print activity. The highest relative growth areas expected in print include direct marketing and packaging. Taxing advertising would have a drastic, negative impact on the industry. Advertising is an ordinary and necessary business expense, just like salaries, rent, utilities and office supplies. Eliminating the deductibility of advertising would have the net effect of increasing a company’s taxable income for every year in which new advertising is purchased. Additionally, the portion of ad spending that is not immediately deductible would be counted as income for tax purposes. Proponents of the “Ad Tax” also do not consider that companies buy new advertising each year and would feel the brunt of this tax annually. As such, print customers would have less money to spend on advertising year after year – a devastating economic trend faced by printers and their suppliers.

113th Congress
On 2/26/14, House Ways & Means Committee Chairman Camp (MI) released draft legislation, the Tax Reform Act of 2014, aimed at overhauling the nation’s tax code to lower rates and simplifying the system to encourage economic growth. A substantively and politically ambitious goal, Camp’s draft addresses multiple facets of the tax code and has drawn both cheers and ire from the business community (and other Members of Congress). The Senate Finance Committee previously released its proposal in November 2013. If enacted, both the House and Senate plans would allow businesses to deduct only half of their advertising costs in the year advertising is purchased and require the balance to be amortized over a five-year period (Senate plan) or a ten-year period (House plan). Currently, advertisers may expense 100 percent of their advertising costs immediately. The House plan calls for a small business-type exemption; it would permit taxpayers to expense the first $1M of advertising expenditures. However, the $1,000,000 would be reduced to the extent a taxpayer’s advertising costs exceed $1.5M and would be completely phased out once advertising costs exceed $2M. No legislative action on either proposal is expected in 2014; however, both will be considered starting points for tax reform policy debate and votes in future Congresses.

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• Business advertising is essential to the health and continued recovery of America’s printing industry. Print is a multi-functional industry that can be defined by three major intended roles: 1) to inform/communicate; 2) to market/promote; and 3) to support packaging/logistics. The current distribution of overall print in the “Market/Promote” category is nearly 44 percent; the logistics function (including packaging, labels and wrappers that may be considered advertising) accounts for nearly 20 percent of print activity. Printing Industries of America’s economists predict the highest relative growth areas expected in print will include direct marketing and packaging. A so-called “Ad Tax” would tremendously stunt this necessary industry growth.

• Eliminating the deductibility of advertising would have the net effect of increasing a company’s taxable income for every year in which new advertising is purchased. Additionally, the portion of ad spending that is not immediately deductible would be counted as income for tax purposes. Proponents of the so-called “Ad Tax” do not consider that companies buy new advertising each year and would feel the brunt of this tax annually. As such, print customers would have less money to spend on advertising year after year – which would create a devastating economic trend for printing companies.

• The printing industry is just one sector of the economy that would take a hit if advertising was taxed. Massive economic effects would likely be felt due to the multiplier effect that advertising spending creates, which generates far more revenue than the cost involved in preparing and communicating the advertising.

• According to The Advertising Coalition’s policy brief submitted to the House Ways & Means Committee, “advertising is a major driver of economic activity” that accounts for $4.1 trillion of the total $34.3 trillion in US output and represents 15.4 million jobs. The Coalition estimates that over 11 percent of the country’s employment is related to advertising, sales generated from advertising, and its overall ripple effects throughout the economy.

• Nobel Prize economists Dr. Kenneth Arrow and Dr. George Stigler have stated that advertising creates opportunities for new products and service providers to compete for customers – and benefits consumers who enjoy the lower prices and higher quality generated by competition. Therefore, they have concluded that there is no economic evidence to support changing the tax treatment of advertising.

• Congress should maintain the current deduction for all business advertising costs in future tax reform legislation.

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