



February 26, 2013

Governor Mark Dayton  
Office of the Governor  
130 State Capitol  
75 Rev. Dr. Martin Luther King, Jr. Blvd.  
St. Paul, Minnesota 55155

Chairwoman Ann Lenczewski  
House Taxes Committee  
Minnesota Legislature  
509 State Office Building  
100 Rev. Dr. Martin Luther King, Jr. Blvd.  
St. Paul, Minnesota 55155

Dear Governor Dayton and Chairwoman Lenczewski:

**I am writing on behalf of the Association of National Advertisers (ANA) to express our strong opposition to the provision in the tax reform bill (HF 677) to expand the state sales tax base to include advertising and a broad range of other business-to-business services.**

**Any tax on the advertising process would be harmful to businesses, media and consumers in the State of Minnesota. As discussed below, a landmark study conducted by IHS Global Insight found that advertising helps generate significant economic activity and jobs in Minnesota – more than \$109 billion in total economic activity and over 412,000 jobs in the state on an annual basis. The advertising industry, compared to most other service industries, is relatively mobile and a new tax would encourage firms to locate in neighboring states. Particularly with today's challenging economy, it would be counterproductive to make it more expensive for businesses to communicate with consumers. We urge you to oppose any effort to impose a new tax on advertising or advertising services.**

ANA is the advertising industry's oldest trade association, founded in 1910. We lead the marketing community by providing our members insights, collaboration and advocacy. Our membership includes more than 500 companies with 10,000 brands that collectively spend more than \$250 billion in marketing communications and advertising. A number of ANA members have headquarters or conduct substantial business operations in Minnesota. For more information, visit [www.ana.net](http://www.ana.net)

An advertising tax is not a new idea, just a bad one. Arizona, Iowa and Florida each passed broad advertising taxes. Each state later repealed the tax because it hurt their local economy and was impossible to administer. Since 1987, when the Florida services tax was repealed, broad advertising taxes have been considered in more than 40 states and rejected in each case.

### **Advertising Generates Sales and Jobs in Minnesota**

A landmark study released in 2010 by the consulting firm IHS Global Insight, under the auspices of Laurence R. Klein, Nobel Laureate in Economics, shows that advertising stimulates sales and jobs throughout our economy. Each form of advertising helps businesses build brand awareness and communicate with consumers. In turn, this triggers a cascade of economic activity and stimulates job creation.

**Global Insight found that advertising expenditures account for \$109 billion in economic output in Minnesota – just over 20% of the total economic output in the state. Advertising driven sales of products and services help support over 412,000 jobs in Minnesota, approximately 15% of the jobs in the state. Advertising is a powerful force for stimulating economic activity and job growth in Minnesota, so it would be counterproductive to impose a new tax on this industry. A description of the IHS Global Insight analysis is attached.**

As corporate citizens, the advertising industry contributes to the state's tax base through business operations, employees and shareholders. We expect to pay our fair share to support government. We only ask to be taxed in ways that are economically sound and easy to administer.

### **An Advertising Tax is Economically Unsound**

Advertising is a powerful catalyst for competition. In a 1990 study (The Lexecon Study), Nobel Laureates Dr. Kenneth Arrow and the late Dr. George Stigler found that advertising is the most economically efficient means of marketing a product or service to a mass society. By providing information in a cost-effective manner, it helps the economy function smoothly and helps promote lower prices. Advertising also promotes the entry of new firms and products in the marketplace.

Advertising taxes slow economic growth. Studies by the Wharton Econometrics Forecasting Associates show that a tax on advertising reduces local employment and personal income by substantial amounts. When the cost of advertising goes up, there is less advertising, which leads to less consumer demand. This slows the economy in general, reducing its usefulness to the government as a source of revenue.

A tax on advertising would create a new layer of hidden taxes because of the problems of pyramiding and multiple taxation. Pyramiding occurs when the sales tax is imposed on business services at the intermediate level, rather than being imposed only on final purchase of the product by consumers. Advertising is not an end product, such as a bar of soap. Rather, advertising is a communications process, which helps produce the final sale of the bar of soap, which is already subject to the state sales tax. Since a portion of any tax on the intermediate advertising process is likely to be passed along to consumers, there would be at least double taxation for most products or services purchased in the state.

### **An Advertising Tax is Too Complex and Expensive to Administer Effectively**

A broad advertising tax would create a huge collection and administration burden for both businesses and state government. Advertising is a very complex field, involving millions of ads placed with television, radio, magazines, and newspapers; even matchbooks and blimps provide advertising messages. State government and businesses would both need an army of accountants and lawyers to administer the rules. Those substantial costs could be better invested in productive jobs with real value to the economy and the public.

The short-lived Florida ad tax provides examples of administrative costs and burdens. According to industry estimates, there were over 6,600 magazines with potential tax liability under the Florida law. Assuming only 100 ads per issue, the state of Florida faced more than 12 million magazine ads to process and audit. This, of course, was in addition to the millions of ads that appeared each year in Florida newspapers and shopping guides or on billboards, radio and television stations in the state.

Revenue officials in Florida even seriously proposed taxing the Goodyear blimp, based on an estimate of the number of people who happened to see it as it flew above them. During the six months the tax was in effect in Florida, the state revenue department was never able to develop final regulations to implement the law, because the issues were so complex.

### **An Advertising Tax is an Anti-Business Signal**

A tax on advertising would send a very strong anti-business signal to firms that are considering business operations in Minnesota.

Advertising dollars that are currently spent in Minnesota would be shifted to media outlets outside the state. The Florida advertising tax demonstrated that advertisers are unwilling to pay a premium (represented by the sales tax) in one state when they can obtain 100% for their ad revenues in other states. Many national advertisers either

eliminated or reduced spot buys in Florida at a cost of \$12 million to local broadcasters in just the first six months of the tax.

States are unable to protect local media from the loss of business to out-of-state media competing on the state's borders. The Florida Department of Revenue promised it would collect a tax on media for Florida ads placed outside the state. It was unable to do so and Pensacola broadcasters suffered revenue losses of up to 45% of their previous billings.

An advertising tax would also hurt small businesses in Minnesota. Many engage in cooperative advertising, where national manufacturers and local retailers share advertising costs. For many businesses, from drug stores to supermarkets and franchise restaurants to automobile dealers, cooperative advertising is a cornerstone of their marketing efforts. A state sales tax on advertising could seriously threaten these cooperative agreements. National firms, in an attempt to use their limited cooperative advertising budgets in the most effective manner, would likely shift these dollars to states that do not diminish their selling impact through advertising taxes.

An advertising tax would also hurt consumers in Minnesota. For businesses that continue to advertise, the tax would increase their cost of doing business and informing consumers about their products and services. These costs are likely to be passed on to the public.

**A tax on advertising would hurt businesses, local media and consumers in the state. We strongly urge you to oppose any tax on advertising.**

Thank you for your consideration of our views. Please contact me at (202) 296-1883 if you have any questions.

Sincerely,



Keith A. Scarborough  
Senior Vice President, Government Relations  
Association of National Advertisers, Inc.  
2020 K Street, NW, Suite 660  
Washington, D.C. 20006

C:

Members of the Minnesota House of Representatives Taxes Committee

# ADvertising

## Generates Sales and Jobs in Minnesota

**Advertising expenditures account for \$109 billion in economic output in Minnesota – that is 20.4% of the \$534 billion in total economic output in the state. Advertising driven sales of products and services help support 412,838 jobs, or 15.1%, of the 2.7 million jobs in Minnesota. Every dollar of ad spending generates just under \$20 of economic output, and every million dollars of ad spending supports 69 American jobs.**

A landmark study by the world-recognized economic consulting firm IHS Global Insight highlights the sales activity and the jobs created in the U. S. economy that are stimulated by advertising. Each form of advertising, ranging from direct mail to print to broadcast to Internet, helps businesses build brand awareness and communicate the benefits of their products and services to target audiences. In turn, this triggers a cascade of economic activity and stimulates job creation and retention throughout the U.S. economy.

The economic model developed by IHS Global Insight and Dr. Lawrence R. Klein (recipient of the 1980 Nobel Prize in Economics) estimates and predicts the impact of advertising on sales and jobs as distinguished from the impacts of other market factors such as consumer buying power, life stage buying behaviors, technological advances, and simply the need to replace obsolete or depleted items. The sales and jobs that are stimulated by advertising occur at three levels in the economy:

**Retail and Manufacturing** – This tier includes sales of products and services by manufacturers, retailers and their sales people and employees. It includes the preparation of advertising that businesses use to communicate with consumers. It includes the work of advertising agencies as well as the purchase of advertising time and space on radio and television stations, cable operators and networks, in newspapers, magazines, and other outlets.

**Suppliers to Retail and Manufacturing** – Advertising generated sales set off chain reactions throughout the economy. They create additional jobs and sales as a second tier of vendors and wholesalers supply and support the first

tier manufacturers, retailers, and service businesses. When advertising encourages consumers to purchase automobiles or trucks, for example, those retail and manufacturing level sales generate demand from suppliers of steel, electrical wiring, semiconductors, fabric and leather for upholstery, plastic, rubber for tires and parts, radio and GPS receivers and other products and services that are used to produce the vehicle.

**Interindustry Activity** – Advertising helps drive sales and create a substantial number of jobs at the third interindustry level. In the automobile industry example, the manufacturing, retail and supplier level sales help generate economic activity and create jobs in a host of related industries such as rail and truck transportation, gasoline and oil, insurance, and after market sales of automobile products. Without the initial consumer purchases of the cars and trucks, there would be no demand for these third tier products and services and no added sales and jobs at the interindustry tier. The sales and jobs at all three levels of impact illustrate the powerful energy that advertising injects into Minnesota's economy.

