



January 17, 2014

The Honorable Max Baucus  
Chairman, Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, DC 20510

**RE: Comments on Discussion Draft on Cost Recovery and Accounting Rules**

Dear Chairman Baucus:

I am writing on behalf of the ANA (Association of National Advertisers) to express our strong opposition to the proposal in the Discussion Draft on Cost Recovery and Accounting Rules that would allow marketers to deduct only 50 percent of their advertising expenses each year and require that the remaining 50 percent be amortized over the next five years.

**Advertising is a driving force in the U.S. economy and such a restriction on the full deductibility of all advertising costs would be extremely counterproductive and bad tax policy.**

Founded in 1910, ANA's membership includes more than 565 companies with 10,000 brands that collectively spend over \$250 billion annually in marketing and advertising. More information is available at [www.ana.net](http://www.ana.net)

We are not adverse to comprehensive tax reform. Indeed, lowering the overall corporate tax rate would be something that many of our members would support. However, the current tax deductibility of advertising costs is a very healthy and productive part of the tax code and should not be sacrificed or unnecessarily burdened to pay for corporate tax reform.

Several days ago, ANA and The Advertising Coalition (TAC) released a new study which provides a comprehensive assessment of the total economic impact of advertising expenditures across the country. The study, conducted by IHS Global Insight, Inc., is based on an econometric model of the U.S. economy that was originally created by the late Dr. Lawrence R. Klein, a Nobel Laureate in Economics.

The IHS Global Insight study found the following:

- **In 2012, advertising drove \$5.8 trillion in U.S. economic output and supported 21.1 million jobs**
- **Each dollar spent on advertising expenses generates nearly \$22 of economic output**
- **Every \$1 million spent annually on advertising supports 81 American jobs**

- **The amortization proposal in the Discussion Draft would place at risk 1.7 million U.S. jobs and \$456 billion in sales**

More information about the new IHS Global Insight report is available at:

[www.ana.net/content/show/id/adtax](http://www.ana.net/content/show/id/adtax)

Advertising has been recognized and treated as an essential part of business operations since the Tax Code was adopted. The deduction for advertising costs promotes tax fairness because it is central to allowing a business to properly calculate its net income and ultimately the amount of tax it must pay, just the same as the deduction for employee salaries, rent, utilities and the other ongoing costs of a business. Advertising is an important part of the full range of costs of production and distribution of a product, including raw materials, packaging, labor, manufacturing and transportation. Changing the tax deduction for advertising costs is completely arbitrary when all of these costs contribute equally to the success of a business.

In addition to driving economic growth and promoting tax fairness, advertising helps the economy work more efficiently. According to Nobel Laureates in Economics, Dr. Kenneth Arrow and Dr. George Stigler, advertising provides valuable information to consumers about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly; it keeps prices low and facilitates the entry of new products and new companies into the market. Advertising benefits all levels of our economy, from national marketers to local businesses, and is the most efficient way to communicate with consumers.

The deduction for advertising costs is not a tax preference or special loophole that benefits a particular industry or area of the country. Rather, the deduction provides an opportunity for any company in any category to communicate with consumers about their products and services. Restricting the ad deduction would significantly and adversely impact every state and congressional district in the country. It would undermine the media, hurt competition and lessen support for the vast array of content that consumers now enjoy for free.

The amortization proposal would have the net effect of increasing a company's taxable income for every year in which new advertising is purchased. The portion of ad spending that is not immediately deductible would be counted as income for tax purposes. This would cost the advertising community multi-billions of dollars in increased taxes.

Some have argued that the amortization proposal is not really a tax because it supposedly merely delays the tax deduction and marketers can eventually get caught up. This argument ignores the time value of money and lost investment opportunity costs. Every economist will tell you that money available today is worth more than the exact same amount in the future due to the money's immediate earning power. So a company can never really catch up and will be paying far more in taxes if required to amortize half of their ad spending over five years. These losses can be significantly exacerbated in periods of rapid inflation.

Further, there is no guarantee that companies will continue to spend the same amount of money on advertising if only half of those costs are immediately deductible. Even large multinational companies have finite budgets and may not be willing to shift money from one part of the business (such as salaries which are fully deductible) to pay the additional cost of their marketing budget when those costs are only 50% deductible.

The amortization proposal could stifle creativity and innovation. Most new products are introduced to the market with a relatively high advertising spend often with failure rates as high as 70% in the first couple of years of introduction. Also, even eventually successful products can face potential delays before these new products become profitable. No company will want to be required to amortize advertising costs over five years when there is no corresponding revenue flow during that period.

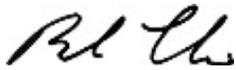
**The amortization proposal is not based on any accepted economic or tax policy theory – just on the need for more tax revenue to pay for reducing the tax rates.**

Nobel prize-winning economists, Dr. Kenneth Arrow and Dr. George Stigler, have looked at the advertising deduction and concluded that “nothing in the economic literature” justifies a change in tax policy to amortize advertising. They have argued that it makes no economic or common sense to make businesses pay more for advertising. Making advertising more expensive would only cause a decline in ad spending and cost jobs.

**It would be counterproductive for Congress to impose an increased tax burden on advertising, particularly during a period in which the nation is still struggling to recover from the great recession. Because of the immense value it brings to both consumers and the marketplace throughout the country, advertising should remain a fully deductible business expense.**

Thank you for your consideration.

Sincerely,



Robert D. Liodice  
President and CEO

C: Members of the Senate Finance Committee