Leading the Marketing Community

February 12, 2009

Representative Ryan Olson
Chairman, House Taxation Committee
South Dakota House of Representatives
500 East Capitol Avenue
Pierre, South Dakota 57501

Dear Chairman Olson:

I am writing on behalf of the Association of National Advertisers (ANA) to express our strong opposition to House Bill 1266, which would impose a four percent gross receipts tax on all advertising services in the state.

Any tax on the advertising process would be harmful to businesses, media and consumers in the State of South Dakota. As discussed below, a landmark study conducted by Global Insight found that advertising helps generate significant economic activity and jobs in South Dakota – more than $14 billion in total economic activity and almost 54,000 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 HB 1266 and any new tax on advertising or advertising services.

The Association of National Advertisers leads the marketing community by providing its members insights, collaboration and advocacy. ANA's membership includes 360 companies with 9,000 brands that collectively spend more than $200 billion in marketing communications and advertising. A number of ANA members conduct substantial business operations in South Dakota. The ANA strives to communicate marketing best practices, lead industry initiatives, influence industry practices, manage industry affairs and advance, promote and protect all advertisers and marketers. For more information, visit 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 Each state later repealed the tax because it hurt their local economy and was impossible to administer. Since 1987, when the Florida services tax was repealed, broad advertising taxes have been considered in more than 40 states and rejected in each case. In 2003, the Connecticut General Assembly repealed an even more limited tax on certain advertising agency services after just a few months, when it became clear that the tax was counterproductive.

1120 20th Street, NW, Suite 520 South Washington, DC 20036
202.296.1883 tel 202.296.1430 fax www.ana.net

A landmark study released in 2005 by the consulting firm Global Insight, under the auspices of Laurence R. Klein, Nobel Laureate in Economics, showed that advertising expenditures will help generate more than $5.2 trillion in sales and economic activity throughout the U.S. economy. This represents 20% of the nation's total economic activity. This economic stimulus will provide support throughout the economy for more than 15% of the American workforce.

Global Insight has also prepared a study to estimate the adverse effects on the state that would result from imposing the gross receipts tax on the sale of advertising. They found that applying the 4% tax to advertising in South Dakota would decrease sales by $596 million, resulting in a loss of 2,273 jobs. A description of the 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 South Dakota.

Advertising dollars that are currently spent in South Dakota 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 South Dakota. 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 gross receipts 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 South Dakota. 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.

While we certainly appreciate the fiscal challenges facing the state, an advertising tax is not the solution. Such a tax would hurt businesses, local media and consumers in the state. We urge you to oppose HB 1266 and 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,

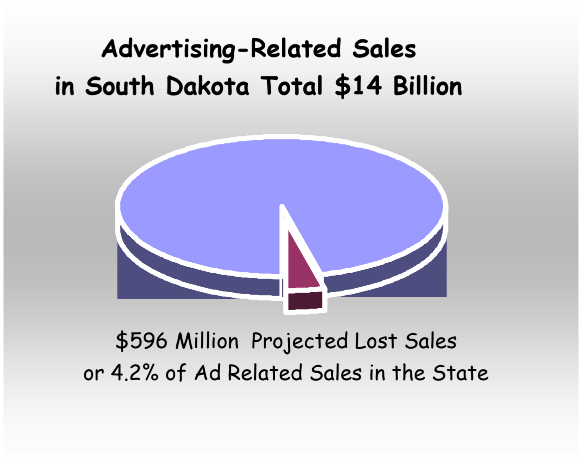
Keith A. Scarborough
Senior Vice President, Government Relations
Association of National Advertisers, Inc.
1120 20th Street, N.W., Suite 520-South
Washington, D.C. 20036

C: Bob Liodice, ANA

SALES TAX ON ADVERTISING WOULD DECREASE SALES IN SOUTH DAKOTA BY $596 MILLION RESULTING IN A LOSS OF 2,273 JOBS

The world recognized economic consulting firm Global Insight has prepared a study to estimate the adverse effects on the state that would result from imposing the state sales tax on the sale of advertising. The results of the Global Insight study are based on an economic model that can track the total amount of economic activity in South Dakota that is linked to advertising, the total number of jobs that are related to that activity, and the comprehensive impact of imposing a sales tax on advertising expenditures.

Advertising stimulates demand for products and services in each industry in South Dakota. Imposing a tax on advertising will have an adverse impact on the advertising industry itself, but also South Dakota businesses that use advertising, and a range of industries that obtain business from advertisers and their suppliers.

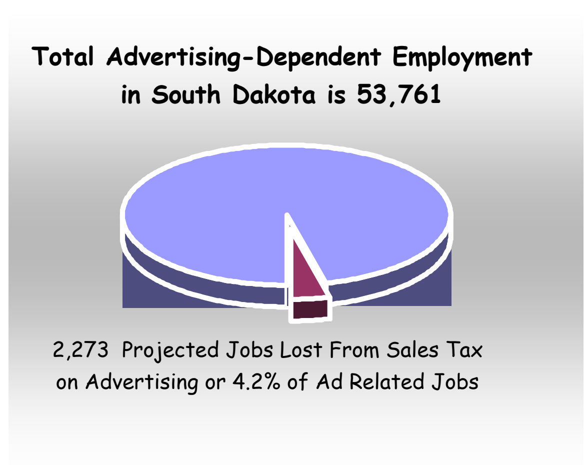


Global Insight found that applying the 4% South Dakota tax to sales of advertising would increase the cost of advertising and cause a decrease in ad spending. In fact, for every 1% increase in added tax costs on advertising, Global Insight estimates that advertisers will reduce their spending on advertising by 1.38%. But this is just the tip of the iceberg.

The lower spending will have negative impact that will ripple through the economy. The higher costs will result in fewer ads – that means fewer people will see the advertised products and services. This will cause a decrease in sales for those businesses that advertise as well as reduced sales for suppliers to those advertisers. It also will lead to lower sales and related employment in a range of industries that obtain business from advertisers and their suppliers.

Total advertising-related sales in the state are estimated to be $14 billion in 2006. Global Insight projects that the added cost to business of a 4% sales tax on advertising would lower sales in the state by 4.2%, or a total reduction of $596 million.

The Global Insight study also estimates that total advertising-related jobs in the state at 53,761 for 2006. They project that as a result of lost sales and economic activity 2,273 South Dakota workers would be out of jobs as a result of the tax, or a 4.2% decline in advertising-dependent employment. A very small percentage of the lost jobs are actually involved in advertising activities of businesses that advertise. More than 95% of the lost jobs would be in production processes and support functions through all industries in the economy.

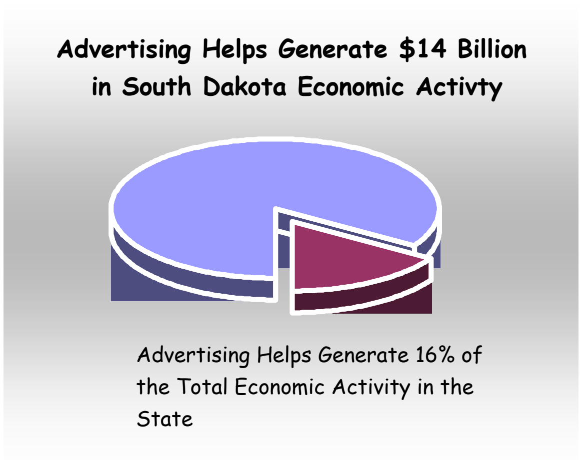


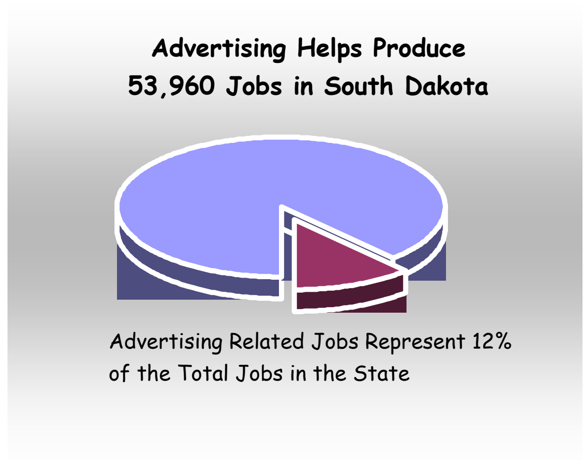
The Advertising Coalition

ADVERTISING HELPS GENERATE ECONOMIC ACTIVITY AND JOBS IN SOUTH DAKOTA

Advertising is an economic force that helps generate total economic activity in South Dakota of $14 billion – that is 16% of the $87 billion in total economic activity in the state. Sales of products and services that are generated by advertising help support 53,960 jobs, and that represents 12% of the 436,000 jobs in the state.

A landmark study by the world recognized economic consulting firm Global Insight highlights the sales activity and the jobs created in the state's economy that are stimulated by advertising. The study was completed under the direction of Dr. Lawrence R. Klein, who was awarded the Nobel Prize in Economics in 1980.





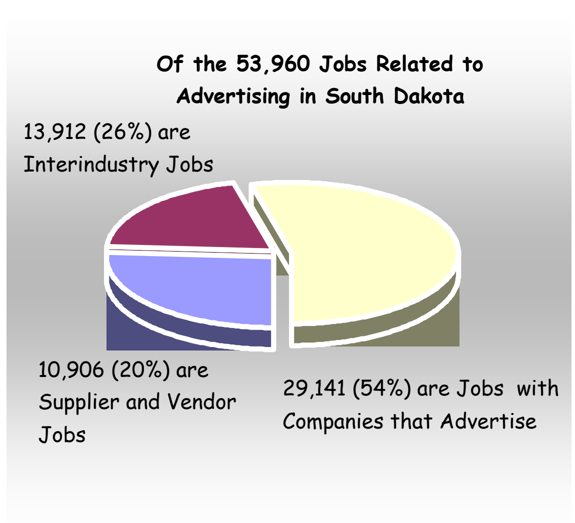
The economic model developed by Global Insight and Dr. Klein estimates and predicts the impact of advertising on sales and jobs as distinguished from the impacts of other market factors such as consumer buying power, life stage buying behaviors, technological advances, and simply the need to replace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

Retail and Manufacturing – The first and broadest includes sales of products and services by manufacturers, retailers and their sales people and employees. This first tier of economic activity also 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 – As the advertising generates sales, it sets off chain reactions throughout the economy that create additional jobs and sales as a second tier of vendors and wholesalers provide supplies and support to 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 make the advertised product.

Interindustry Activity – Finally, advertising helps drive a substantial amount of sales and create jobs at a third level (called the 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 combination of these sales and jobs at all three levels of impact illustrates the powerful energy that advertising injects into the South Dakota economy.



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