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D.C. City Council votes to devastate local news and advertising agencies

With less than 24 hours' notice and no opportunity for the public – including those businesses most affected – to share their opinions, D.C.'s City Council on Tuesday granted preliminary approval of a new, devastating 3% sales tax on advertising and sales of personal information, supposedly to help balance a budget ravaged by COVID-19. Part of the proposed 2020-21 budget, this new tax would be levied on the planning, creation, placement, and display of advertising in print, broadcast, and digital media. The Council released the new $18 million tax less than 18 hours before unanimously voting in favor of it. Where does this new repressive tax leave District residents and businesses?

They'll be left footing the bill for these additional taxes, at the worst possible time. Small business owners across the District are facing multiple unprecedented challenges just to survive during the COVID-19 pandemic. Affordable advertising is vital right now for businesses as they begin to re-open, so they can carry their message to potential customers. Advertising connects consumers to products and enables businesses to grow. Adding a short-sighted, 3% tax will mean they have even fewer dollars to spend on advertising, which in turn will lead to further declines in revenues, and rising unemployment.

And the District's consumers will suffer, too. It is fanciful to imagine that businesses can singlehandedly absorb substantial new taxes, on top of the devastation brought about by the COVID-19 pandemic, without passing along those costs to already hard-hit consumers. When the cost of advertising goes up, there is less advertising, which leads to less consumer demand. Lower consumer demand reduces revenue, creates fewer jobs, slows the economy, and reduces the tax's usefulness as a revenue source for the D.C. government. **Taxing advertising and advertising services will choke economic growth and delay recovery for businesses that have already been crushed in the last several months.**

What happens when advertising is taxed? **The effects are sobering.** Arizona, Iowa, and Florida each passed broad advertising taxes years ago, and each state later repealed the tax. Since 1987, when Florida repealed its advertising sales tax, 40 states have considered and rejected the idea. Florida's experience is instructive. There, dollars spent on advertising fell by 12% after the ad tax went into effect and the tax was extremely difficult to administer. The tax was an abject failure; it was repealed in a special session just five months after it took effect. Experience closer to home also provides a cautionary tale. Maryland legislators this year passed a tax on digital advertising. The Governor ultimately vetoed that tax, calling it "unconscionable" during the COVID-19 pandemic and economic crisis.

In addition to everyday consumers, businesses and jobs will be dramatically affected by this legislation. Before the COVID-19 pandemic, advertising expenditures accounted for $30.4 billion in economic activity in the District of Columbia. That represents 12.5% percent of the $244.2 billion in total economic output for the District, according to economic research for the media and advertising industries that applied an economic model developed by the 1980 Nobel Laureate for Economic Science, Dr. Lawrence R. Klein. The research further shows that sales of products and services driven by advertising help support 149,579 jobs – nearly 20 percent of the 751,369 jobs in the District.

The proposed ad tax would also have a crippling effect on D.C.'s local media organizations – newspapers, radio and television stations – whose businesses depend on the sale of advertising. Newspapers, broadcasters and other news media serve an extraordinarily important, essential public service role, especially at a crucial time like this. To that end, Washington D.C.'s newspapers and television and radio stations continue during the COVID-19 pandemic emergency to work tirelessly, along with government officials and other public and private entities and community members, to keep the public accurately informed.

But local media, like so many businesses, are facing remarkable challenges at this time. Advertisers provide almost all revenue for radio stations, the majority of revenue for television stations, and a significant part of revenue for newspapers. While the public is constantly reading and watching and listening to their local and national news for the latest information, the companies that advertise in our papers and on our stations have had to make tough business decisions and are pulling their advertising dollars in droves. This is creating a domino effect as local media companies' revenue streams are drastically impacted, which puts great stress on newspapers' and broadcasters' ability to serve as "first informers," all at the same time their newsrooms are serving the public virtually nonstop.

Increasing the cost of advertising at this time would only make an already bad situation much, much worse. The sales and use tax is supposed to be a consumption tax imposed on an end product, not on an intermediate service such as advertising. Advertising is a communications process that helps produce the final sale of a product, which is most like already subject to the state sales tax, thus layering tax upon tax. Ironically, less advertising – leading to fewer sales – could actually lead to reduced sales tax revenue.

Taxing advertising and advertising services doesn't make good business or economic sense. It will hurt consumers and businesses and slow the District's economic growth.

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