AMERICAN ADVERTISING FEDERATION®
THE UNIFYING VOICE FOR ADVERTISING®

Advertising is essential to the U.S. economy. It should remain a currently deductible business cost

In the past three decades, two Treasury Secretaries and the chairmen of the House Ways and Means and Senate Finance Committees have offered proposals to tax advertising. The proposals departed from the 104-year precedent established by the IRS to apply the ordinary and necessary business expense deduction to the cost of advertising. The alternatives would have limited the amount of advertising costs that could be deducted by amortizing all advertising costs over 5 or 10years. Some tax proposals have been driven by the need for revenues to pay for other tax reforms. Others would have taxed speech about pharmaceutical, tobacco, and alcohol beverage products.

Advertising is essential to future economic growth. A study prepared by IHS Economics and Country Risk Solutions shows that every dollar spent on advertising stimulates nearly $19 in sales activity. It demonstrates how much our country's economic welfare depends on the health of the consumer sector, which represents 68 percent of the U.S. economy. Advertising also represents 19 percent of U.S. GDP. Every $1 million spent on advertising in the U.S. supports 67 jobs across industries nationally. Each job in advertising supports 34 jobs across other sectors.

Proposals to tax advertising would undermine U.S. economic growth. U.S. advertisers spent $297billion on advertising in 2014. Total U.S. ad spending is projected to increase to $349 billion by 2019. A tax on advertising would reduce the $5.8 trillion (16 percent) that advertising contributes to the $36.7trillion in total U.S. economic output. It also would cost the U.S. a significant percentage of the 20million jobs that advertising supports. Those 20 million advertising-supported jobs represent 14percent of the 142 million total jobs in the United States.

Since the adoption of the tax code in 1913, advertising has been treated as a fully deductible cost of doing business. Advertising is a routine part of business operations and essential to the life of most businesses. It is an ordinary and necessary business expense, just like salaries, rent, utilities, and office supplies. The tax treatment of advertising costs has been upheld in the U.S. Tax Court, supported by a major Revenue Ruling from the IRS, and endorsed by two Nobel Laureates in economics. A drastic change in the way advertising costs are treated would force advertisers to pay much more in taxes and would endanger other essential costs of doing business.

No economic rationale has been offered to justify a change in the deduction for advertising costs. Recent tax reform proposals have highlighted the need to reduce or eliminate special interest preferences and subsidies in the tax code. The deduction for advertising has never been characterized as a special interest provision, yet some economists have contended that advertising creates intangible value in a business. However, unlike a single-time asset purchase, ad spending must be sustained or increased each year. Nobel Economists George Stigler and Kenneth Arrow –both recognized for their study of advertising in the economy – wrote, ". . . proposals to change the tax treatment of advertising are not supported by the economic evidence." They emphasized, "Congress should be particularly cautious about imposing taxes that would raise the cost of advertising and therefore lower its quantity and quality. Such taxes would reduce the overall flow of economic information available to consumers."

The Advertising Coalition

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