PENNSYLVANIA NEWSPAPER ASSOCIATION

Senate Bill 1400, Printer's No. 2123
Senate of Pennsylvania, Finance Committee
Hon. Mike Brubaker, Chairman

July 26, 2012
Harrisburg, Pennsylvania

The Pennsylvania Newspaper Association (PNA) is a non-profit, dues-supported association with 310 newspaper and affiliate members who employ more than 15,000 people in the Commonwealth. Its mission is to protect freedom of the press and promote members' business interests and professional development. Our members believe that their role as participants in the free-market economy and advocates for our Constitutional protections both complement and support each other.

Senate Bill 1400 would impose the state sales and use tax at the rate of 7% on numerous goods and services not currently taxed in Pennsylvania by means of repealing exemptions in the Tax Code. The bill would impose the tax on newspaper sales, production, and advertising. Most states do not charge the sales tax when consumers buy a daily or weekly newspaper, nor do they tax newspapers on their circulation revenue. PNA believes that such taxes are bad for business and bad for democracy.

Sales and circulation taxes stifle the free flow of information. Newspapers report on events of state and national interest, government activities, and events in their communities and around the world. Imposing a sales tax on newspapers amounts to taxing information and free speech. Ideas should not be taxed.

The cost of administering and collecting a tax on newspapers would be high, for a limited return. The tax would create an administrative hardship on thousands of newspaper carriers, including retirees who deliver newspapers to supplement their income, and boys and girls ages 11 through 18. As independent contractors for their local papers, they purchase the papers they deliver at wholesale for delivery and sale to their customers.

These contractors would doubtless lose customers if forced to collect a new tax, and would face the choice of absorbing the tax and losing income, or serving as a tax collector for the state.

Many daily newspapers derive a significant amount of circulation revenue from news rack sales. Coin boxes cannot be adjusted to collect the sales tax, particularly with local county tax options in place. This would force newspapers to raise prices or absorb the cost of the tax. Declining sales and revenue would be the result here as well.

Retailers lose a vital resource when newspaper circulation declines. Adding 7% or more to the cost of a newspaper, regardless of whether it is sold in a store, from a news rack or by subscription, would reduce circulation, automatically reducing the distribution of advertising by retailers who rely on newspapers to reach local customers.

Singling out newspapers for a sales tax without imposing that tax on other methods of delivering news and information would be inappropriate and unfair. Newspapers already pay their fair share of taxes, including property tax, corporate net income tax, and the capital stock and franchise tax.

- Because the bill would curtail many regulations under the current Tax Code, it would <u>also</u> tax the cost of our raw materials, paper and ink. This would leverage the unfair advantage created in the bill for our media competitors.

A tax on "advertising" would have a significant adverse impact on newspapers and on society. The Advertising Coalition (TAC) has studied this issue for the past decade. TAC consists of many national trade associations representing newspapers, advertisers, advertising agencies, broadcasting companies, cable operators and networks. TAC, of which the Newspaper Association of America is a member, commissioned IHS Global Insight, Inc, to conduct a comprehensive assessment of the total economic impact of advertising expenditures.

- Advertising is not an end product or tangible personal property, such as electronic equipment, which is already subject to the state sales tax. Advertising is a communications process which helps produce the final sale of the product, fostering competition and lower prices as well as promoting the entry of new firms and products in the marketplace.

- When the cost of advertising goes up; reduced advertising leads to a reduction in consumer demand, slowing economic growth. At the same time, a tax on advertising trickles down throughout the economy – if it costs the car dealer 7% more to advertise a special, those cost increases will be passed along to the consumer. Since many taxes on a business are passed on to the consumer, families would end up paying a "double sales tax" for most products and services.

- The IHS Global Insight study, initially released in 2005, determined that advertising helped produce over 888,000 jobs in Pennsylvania at that time, generating $218 billion in economic activity in our state. Enclosures attached to this statement provide further narrative and data from that study, and summarize the findings for Pennsylvania of an update released in 2011, quantifying the level of sales and employment attributable to advertising's stimulative effect.

Other states have learned that it is impossible to define "advertising" for tax purposes. State government and businesses would need an army of accountants and lawyers to administer the tax, the experience of Arizona, Iowa and Florida, which all passed a tax on advertising and repealed it because it hurt their economies and cost more to administer than the revenue it generated.

- Although the bill is drafted to exempt "business to business" advertising, it does not define the term. Is the advertising circulated with a newspaper exempt, because the advertiser has chosen to deal with another business- the newspaper? Or is it taxed, since it is distributed to the general public? What about advertisements on Internet websites, or classified ads? The bill leaves it up to the Department of Revenue to decide these issues by regulation, and it stands to reason that the exception would be drawn narrowly indeed.

Since 1987, advertising taxes have been considered in 39 states and rejected in all of them. None of the states bordering Pennsylvania impose a tax on advertising, and nearly all of Pennsylvania's major dailies (50,000 + circulation) compete for advertising with news distributors based in other states. If Pennsylvania were to impose an advertising tax, advertising dollars would flow out of Pennsylvania to our neighbors, as national firms would place ads with untaxed out-of-state media that would reach Pennsylvania consumers at a lower cost.

The negative effect of a tax on advertising is felt not only by advertisers and newspapers, but by the entire advertising industry -- advertising agencies, broadcasters, print media, outdoor media, direct mail, commercial photographers, duplicating services, video production, commercial artists and graphic design, and commercial printers. In 2005, the IHS Global Insight study projected a loss of 64,000 jobs in Pennsylvania resulting from a sales tax on advertising.

Newspapers report on government activity and events of state and national interest in their communities and around the world. In recognition of the time-honored status of our free press as the only form of business specifically identified in the United States Constitution, PNA believes that a tax on newspapers and the advertising we disseminate would be a counterproductive measure that would harm our industry and damage the state's economy.

We consider any tax imposed on the sale of newspapers to be a tax on the free flow of information in our society, and contrary to the public interest, and we therefore oppose Senate Bill 1400. We appreciate your interest in our concerns, and hope you will contact us if you need further information.

Contact:
Deborah Musselman,
Director of Government Affairs
(717) 703-3077
deborahm@pa-news.org

Enclosures