

April 20, 2021

The Honorable John W. Fonfara
Co-Chair
Finance, Revenue and Bonding Committee

The Honorable Sean Scanlon
Co-Chair
Finance, Revenue and Bonding Committee

The Honorable Henri Martin
Ranking Member
Finance, Revenue and Bonding Committee

The Honorable Holly H. Cheeseman
Ranking Member
Finance, Revenue and Bonding Committee

Delivered via email to fintestimony@cga.ct.gov

Re: Inclusion of a Digital Advertising Tax in SB 1106 – An Act Establishing the Connecticut Equitable Investment Fund (Oppose)

Dear Senator Fonfara, Representative Scanlon, Senator Martin and Representative Cheeseman:

MPA – the Association of Magazine Media respectfully opposes the inclusion of the proposed tax on digital advertising included in SB 1106. We urge you to strike the measure as it would cause economic harm to media and journalism entities, increase costs for Connecticut’s businesses and non-profits as they recover from the pandemic, and present constitutional concerns.

MPA’s membership includes more than 500 magazine media brands that span a vast range of genres across print, digital, mobile and video media. Our members provide trusted, edited and curated content that informs, inspires and entertains more than 90 percent of all U.S. adults. Connecticut’s residents receive nearly 2.5 million magazine subscriptions, representing an average of 2 subscriptions per household. Our readers depend on our publications for reliable news and information – needed by society now more than ever. Further, magazines are an important part of the Connecticut economy, and are part of the arts, sports and media industry that employs more than 20,900 people in Connecticut. In addition, the magazine industry supports thousands of indirect and induced jobs in Connecticut.

The Tax Would Harm News Media and Journalism. While the provisions in the respective acts to establish a ten percent tax on the annual gross revenues derived from digital advertising services are meant to apply to businesses with worldwide gross revenues exceeding ten billion dollars, the impact of the tax would not be limited to large companies, but rather cause economic harm across the advertising ecosystem. In this time of great public health concern, trusted media sources play an essential role in providing valuable information to the communities they serve. Digital advertising, including services sourced through large technology platforms, is an important revenue source that allows magazine publishers to provide trusted, vital information to their readers. Digital advertising revenue is particularly important at a time when many news and media outlets – including magazine publishers – have temporarily suspended paywalls to allow people access to information on breaking news events, including the current public health emergency.

The Tax Would Create an Obstacle for Connecticut’s Economic Recovery. Proponents of the tax have focused their discussions on the financial impact to large advertising platforms. In reality, the financial impact of the tax would be felt by all entities in the advertising ecosystem, including an expected increase in costs to Connecticut’s businesses and non-profits. Particularly in a time of extreme economic uncertainty, digital advertising is an affordable awareness, audience generation, commerce, and revenue tool for brick and mortar businesses and non-profit organizations. Imposing additional costs on local businesses, even if passed through from larger advertising entities, could jeopardize the viability of media and journalism entities, harm local businesses and nonprofits, and prolong the economic recovery for the state in normal times. In the current political, public health and economic environment, such a measure is all the more concerning.

By increasing the overall cost of digital advertising, the impact of the tax would be felt by both Connecticut’s industries and by the media and journalism outlets that serve its residents.

The Tax Raises Constitutional and Other Legal Concerns. The tax raises First Amendment concerns because it singles out one form of speech – digital commercial speech – for taxation. The tax also likely violates the U.S. Constitution’s commerce clause and the federal Permanent Internet Tax Freedom Act (PITFA). In the event of a legal challenge on these matters, such as the suit already raised in Maryland, Connecticut taxpayers would incur the cost of the state defending the troubling tax, with a low likelihood of the state receiving the revenue it intends to collect.

If enacted, the proposed tax measure will harm the magazine media industry and other news sources serving Connecticut, Connecticut businesses and non-profits that rely on digital advertising across all sectors, and Connecticut’s taxpayers.

On behalf of the magazine media industry, MPA respectfully urges the committee to strike the proposed digital advertising tax in SB 1106.

If you have any questions or comments, please contact Emily Emery, Director of Digital Policy at emery@magazine.org or (646) 530-4568 or Rita Cohen, Senior Vice President at rcohen@magazine.org or (202) 369-1237.

Respectfully submitted,

Rita Cohen
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Emily Emery
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