Prevent Harmful Changes to Advertising Tax Treatment

Issue

As Congress considers corporate tax reform, local television and radio broadcasters ask that the current tax treatment of business advertising be preserved. Currently, under the U.S. Tax Code, advertising that you see on local stations is treated as an ordinary and necessary business expense and is deductible in the year the expense is incurred. This tax treatment benefits businesses, advertising mediums and the broader economy.

History

The tax treatment of advertising costs is governed by the same principles that apply to all other ordinary and necessary business expenses. If an expense recurs each year in approximately the same amount, it is expensed in the current year. Ordinary and necessary expenses include salaries, rent, utilities, office supplies and vehicle maintenance repair. There is no public policy justification for singling out advertising for less preferential tax treatment.

Modifications to the tax treatment of advertising would have a disastrous impact on local television and radio stations, their audiences and those businesses that rely on broadcast advertising to survive. Changes that will make advertising more expensive cannot be justified as a matter of tax or economic policy and should not be put into law. Imposing new costs on advertising would threaten the ability of businesses that rely on advertising as a revenue source to create jobs. For local broadcasters in particular, the harm is even more far reaching, since it would impede the ability of stations to offer the high-quality news, information and entertainment on which the public relies.

NAB Position

For many local TV and radio stations, advertising is the only real source of revenue. Approximately 91 percent of broadcast television and 90 percent of broadcast radio revenues are directly attributable to advertising. This revenue enables stations to reinvest in their newsrooms and local communities. By 2017, advertising is projected to support 22.1 million U.S. jobs and $6.5 trillion in U.S. output.[1]

Local broadcasters are a significant piece of this puzzle. Broadcasters directly employ more than 319,000 people across the country. One study estimated that the local commercial television and radio industry annually contributes $1.19 trillion of gross domestic product and 2.49 million jobs to the American economy across all sectors, including automobile, manufacturing, banking and retail, just to name a few.[2] For many local retailers, the best way to reach their target audience to grow their businesses is through local television and radio. A change in the tax code that would make promotional advertising more expensive would only hamper the growth of these local businesses.

Any legislation that would disincentivize advertising would be detrimental to the U.S. economy and would hurt broadcasters' ability to serve their local communities. For these reasons, advertising should remain fully deductible as an ordinary and necessary business expense in the year the expense occurred.

Action Needed

Congress should not enact legislation that would restrict advertising and impose unnecessary burdens on advertiser-supported, free, local broadcasting.

[1] Source: IHS Global Insight, Inc, "The Economic Impact of Advertising Expenditures in the United States: 2012-2017"

[2] Source: Woods and Poole Economics, "Local Broadcasting: An Engine for Economic Growth, 2015"

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